

MONEY AND BANKING

MONEY SUPPLY

Overall Trends

A significant deceleration in the rate of growth of money supply mainly resulting from a substantial moderation in the expansion of domestic credit was the notable feature of monetary developments in 1989. The annual rate of growth of narrow money supply (M_1), comprising currency and demand deposits held by the public, which was 29 per cent at the end of 1988, decreased to 9 per cent by the end of 1989. Following a similar trend, the annual rate of growth of broad money supply (M_2), consisting of M_1 plus time and savings deposits held by the public with commercial banks, declined from 16 per cent to 12 per cent over the same period.

These developments were commendable, when viewed in the context of the stabilisation programme implemented during the year, following serious macro-economic de-stabilisation that occurred in 1988. The year 1988 ended with a sharp acceleration in the rate of monetary expansion. After a slight moderation during the first two months of 1989, this trend re-appeared once again after March. This monetary expansion resulted solely from a sharp expansion of domestic credit in favour of both the Government and private sectors since external assets of the banking system were on a declining trend with some minor fluctuations. Consequently, to cope with the situation, the Central Bank had to strengthen the contractionary monetary policy stance after May, 1989 with some additional policy measures. This stringent monetary policy was supported by significant improvements in fiscal performance through improved cash management by the Treasury and rationalisation of expenditure. These policy stances were augmented by an aggressive open market operation policy aimed at diverting Central Bank's holdings of Treasury bills into the non-bank sector. The policy changes had very favourable results and the rate of monetary expansion decelerated substantially by the end of year. Consequently, the growth rates in monetary and credit aggregates in 1989 were broadly in line with the targets set for the year under the stabilization programme.

Money Supply and Causal Factors

In 1989, the narrow money supply (M_1) rose by only Rs. 2,959 million compared with an increase of Rs. 7,296 million in 1988. The growth in M_1 in 1989 was mainly reflected in the demand deposit component which rose by Rs. 1,796 million or 13 per cent. In comparison, the currency holdings of the public rose by only Rs. 1,163 million or 6 per cent, thereby reducing its share in M_1 from 57.1 per cent in December 1988 to 55.6 per cent in December 1989. Meanwhile, quasi-money which recorded a slower growth of Rs. 2,315 million or 7 per cent in 1988 increased by a substantial margin of Rs. 5,528 million or 16 per cent in 1989. This was fully reflected in time and savings deposits of other private sector constituents which grew by Rs. 6,249 million or 21 per cent. Similarly, the time and savings deposits of co-operative institutions too rose by Rs. 152 million, in contrast to a decrease of Rs. 27 million recorded during 1988. Meanwhile, deposits of government corporations dropped by Rs. 873 million or 17 per cent. Consequent to the increase in time and savings deposits, the broad money supply (M_2) expanded by Rs. 8,487 million or 12 per cent in 1989 compared with a rise of Rs. 9,611 million or 16 per cent in 1988. The decline in the relative position of currency component in monetary aggregates together with increases in demand deposits and quasi-money reflected a reduction in the preference of the public to hold liquid assets following the improved security conditions in the country, particularly during the last quarter of 1989.

MONEY SUPPLY

MONTHLY

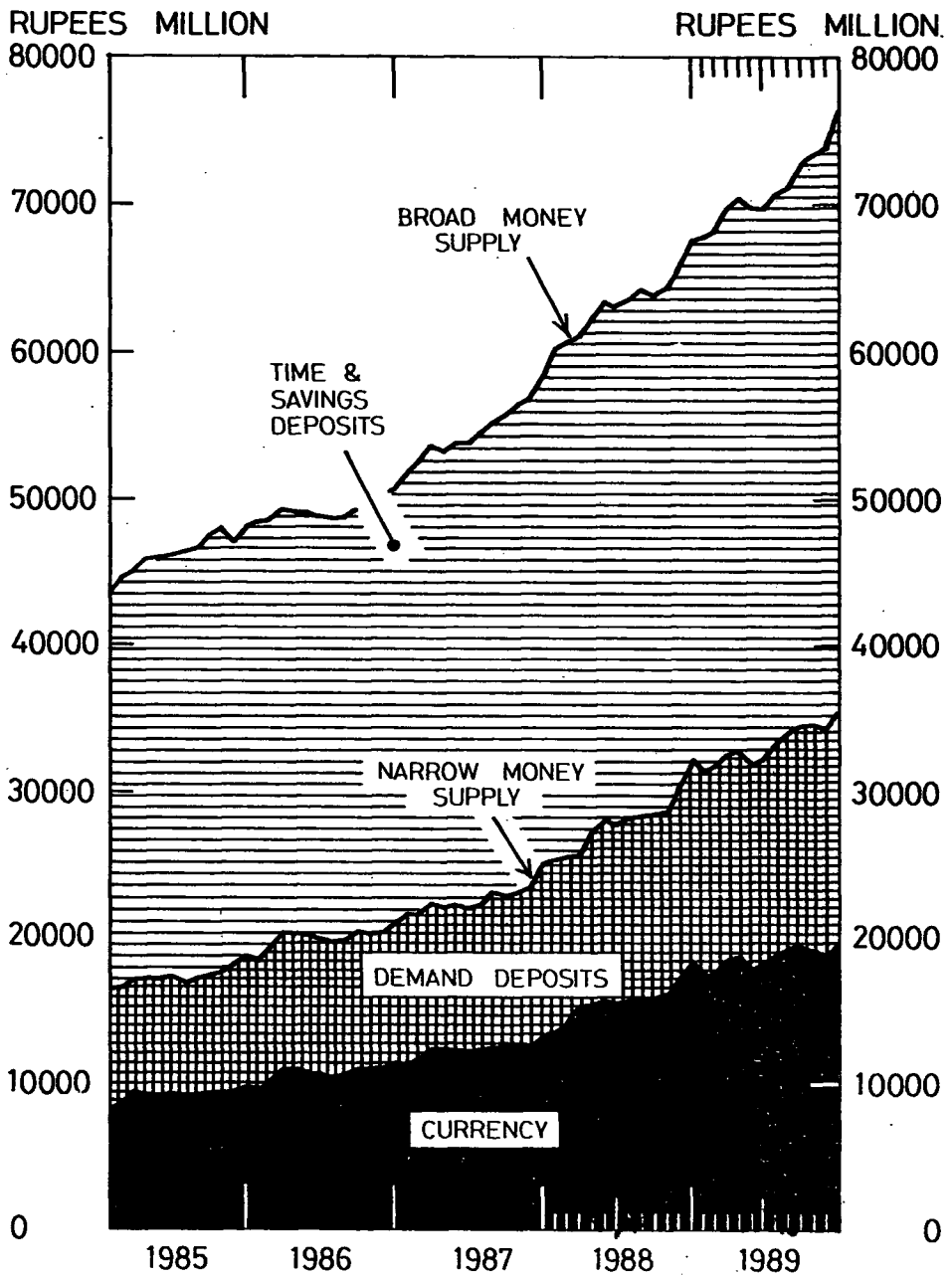


Table 1.58

Monetary Aggregates 1987 - 1989

Amount in Rs. Million

End of Period	Narrow Money Supply (M ₁)						Broad Money Supply (M ₂)					
	1987	1988	1989	% Change 1987 over 1988	% Change 1988 over 1987	% Change 1989 over 1988	1987	1988	1989	% Change 1987 over 1988	% Change 1988 over 1987	% Change 1989 over 1988
January	21,845	25,336	31,237	+18.4	+16.0	+23.3	51,887	60,060	67,980	+7.0	+15.8	+13.2
February	21,738	25,672	31,754	+14.0	+18.1	+23.7	52,799	60,848	68,143	+8.7	+15.2	+12.0
March	22,556	26,640	32,615	+10.3	+18.1	+22.4	53,855	61,081	69,841	+9.0	+13.4	+14.3
April	22,121	27,467	32,718	+9.0	+24.2	+19.1	53,278	62,465	70,503	+8.0	+17.2	+12.9
May	22,305	28,178	31,862	+11.3	+26.3	+13.1	53,972	63,687	69,750	+9.9	+18.0	+9.5
June	22,075	27,792	32,037	+10.7	+25.9	+15.3	53,942	63,118	69,717	+10.2	+17.0	+10.5
July	22,574	28,053	33,447	+15.1	+24.3	+19.2	54,624	63,645	70,867	+11.7	+16.5	+11.3
August	23,160	28,234	34,016	+17.4	+21.9	+20.5	55,236	64,116	71,345	+13.3	+16.1	+11.3
September	22,973	28,453	34,527	+12.6	+23.8	+21.3	55,927	63,932	72,964	+13.1	+14.3	+14.1
October	23,143	28,684	34,533	+14.5	+23.9	+20.4	56,560	64,371	73,375	+13.4	+13.8	+14.0
November	23,551	30,379	34,103	+16.1	+29.0	+12.3	56,916	66,088	73,942	+13.7	+16.1	+11.9
December	25,083	32,379	35,338	+18.4	+29.1	+9.1	58,335	67,946	76,434	+14.7	+16.4	+12.5
Monthly Average	22,760	28,106	33,182	+14.0	+23.4	+18.1	54,778	63,446	71,238	+11.1	+15.8	+12.3

Source : Central Bank of Sri Lanka.

DOMESTIC CREDIT MONTHLY

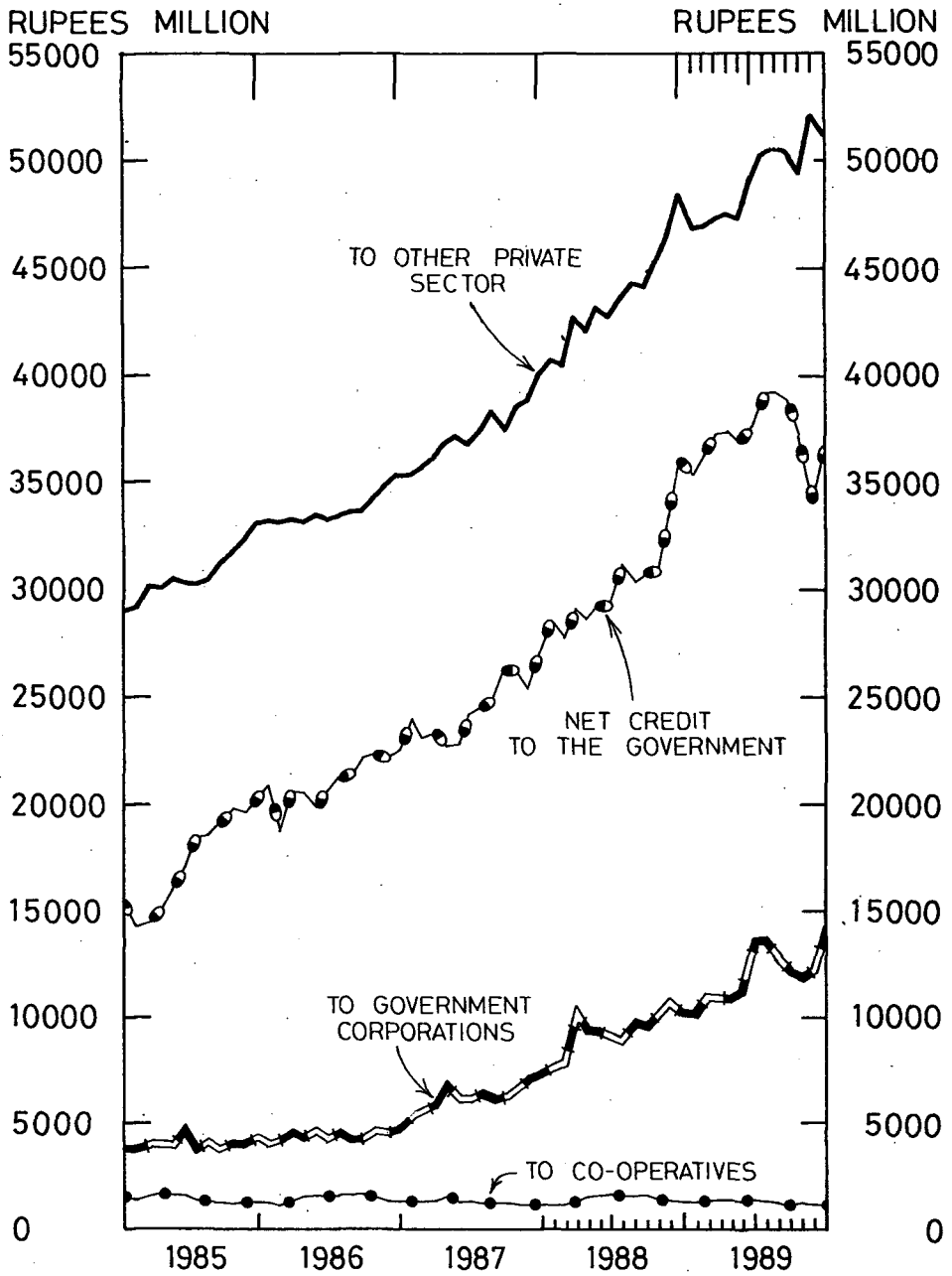


TABLE 1.59

**Monetary Aggregates and Underlying Factors
1987/1989**

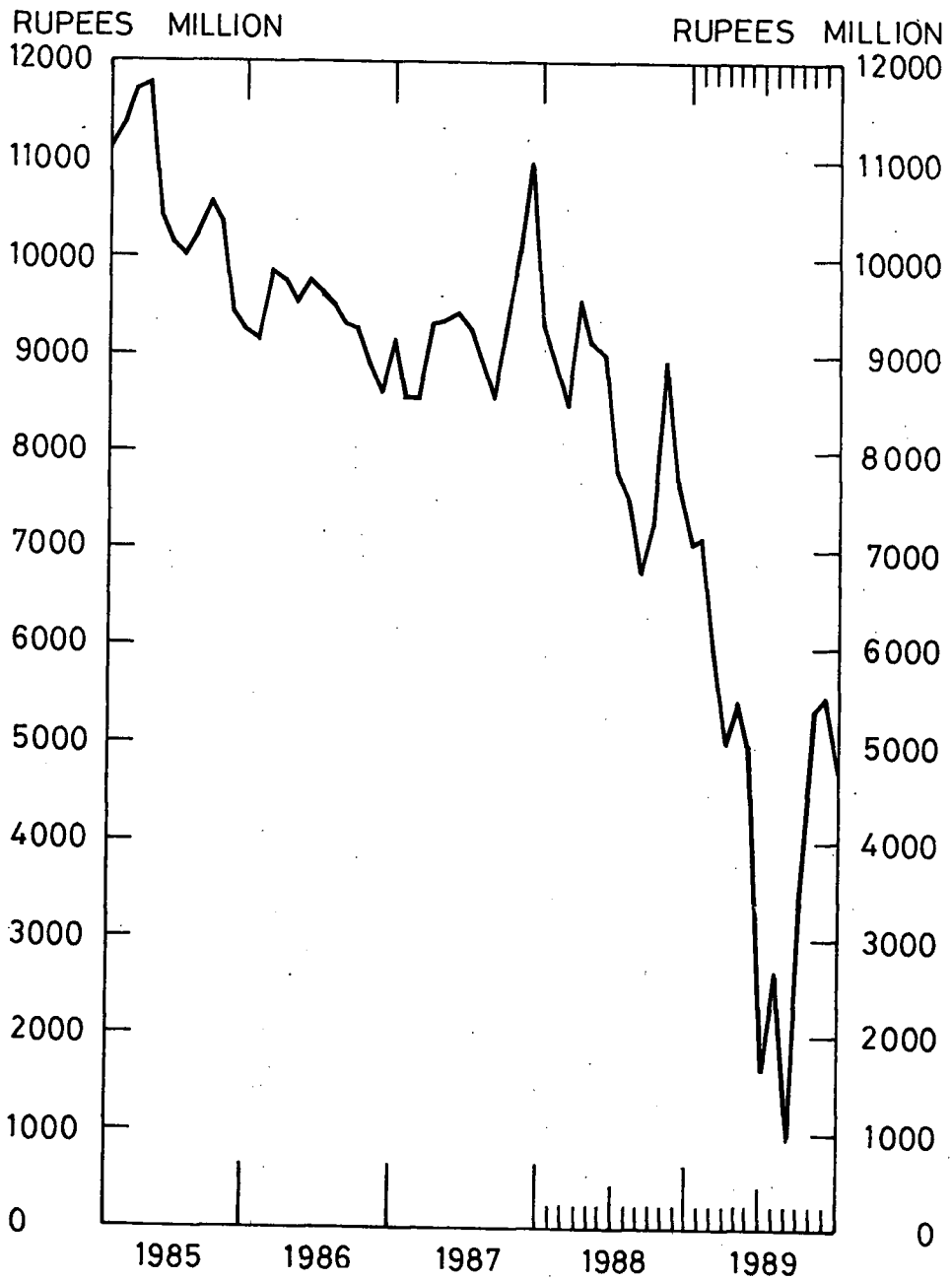
Item	Dec.1987	Dec.1988	Dec.1989	Amount in Rs.Million			
				Change 1987/1988		Change 1988/1989	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
1. Currency held by the public	13,495	18,487	19,650	+4,992	+37.0	+1,163	+6.3
2. Demand deposits held by the public	11,588	13,892	15,688	+2,304	+19.9	+1,796	+12.9
Narrow Money Supply (M ₁)	25,083	32,379	35,338	+7,296	+29.1	+2,959	+9.1
3. Time and Savings Deposits of the private sector held with commercial banks	33,252	35,567	41,095	+2,315	+7.0	+5,528	+15.5
3.1 Co-operative Institutions	771	743	895	-27	-3.6	+152	+20.5
3.2 Government Corporations	4,861	5,103	4,230	+242	+5.0	-873	-17.1
3.3 Other Private Sector Constituents (a)	27,620	29,721	35,970	+2,100	+7.6	+6,249	+21.0
Broad Money Supply (M ₂)	58,335	67,946	76,433	+9,611	+16.4	+8,487	+12.4
Underlying Factors							
1. Domestic Credit	75,566	96,867	102,321	+21,302	+28.2	+5,454	+5.6
1.1 Net Credit to Government	27,048	36,065	36,119	+9,017	+33.3	+54	+0.1
1.1.1 Gross credit to Government	31,519	44,311	44,740	+12,792	+40.6	+429	+1.0
by Central Bank	26,157	36,439	36,741	+10,282	+39.3	+302	+0.8
by Commercial Banks	5,362	7,872	7,999	+2,510	+46.8	+127	+1.6
1.1.2 Government deposits and cash balances	-4,471	-8,246	-8,621	-3,775	-84.4	-375	-4.6
1.2 Gross Credit to Private Sector	48,518	60,802	66,202	+12,285	+25.3	+5,400	+8.9
1.2.1 Co-operative Institutions	1,123	1,318	1,178	+195	+17.4	-140	-10.6
1.2.2 Government Corporations	7,366	10,787	13,862	+3,421	+46.4	+3,075	+28.5
1.2.3 Other Private Sector Constituents	40,029	48,697	51,162	+8,669	+21.7	+2,465	+5.1
2. External Banking Assets (net)	9,291	7,058	4,732	-2,233	-24.0	-2,326	-32.9
2.1 Central Bank (net)	6,227	4,326	1,678	-1,901	-30.5	-2,647	-61.2
2.2 Commercial Banks (net)	3,064	2,732	3,054	-332	-10.8	+321	+11.7
3. Other items (net)	-26,522	-35,979	-30,620	-9,457	-35.7	+5,359	+14.9
3.1 Other liabilities (net) of Central Bank	-15,054	-15,541	-13,176	-487	-	+2,365	-
3.2 Other liabilities (net) of Commercial Banks	-11,516	-20,038	-19,043	-8,522	-	+995	-
3.3 Adjustments for items in transit	48	-400	+1,599	-448	-	+1,999	-
Broad Money Supply (M ₂)	58,335	67,946	76,433	+9,611	+16.4	+8,487	+12.4

Note : Signs indicate the effect on M₂.

(a) Excludes Non-Resident Foreign Currency Deposits.

Source : Central Bank of Sri Lanka.

EXTERNAL BANKING ASSETS (NET)
MONTHLY



A significant deceleration in the rate of growth of domestic credit was the major underlying factor for the slow growth in monetary aggregates in 1989. During the year, domestic credit expanded by Rs. 5,454 million or 6 per cent. Comparable growth in the previous year was Rs. 21,302 million or 28 per cent. Both the government sector and the private sector recorded lower increases in credit utilization as compared with the last year. In sharp contrast to the experience in the previous year when net credit to Government (NCG) from the banking system increased by Rs. 9,017 million or 33 per cent, during 1989 such credit expanded by a mere Rs. 54 million. Meanwhile, gross credit to the private sector (GCPS) also grew by only Rs. 5,400 million or 9 per cent during 1989, compared with an increase of Rs. 12,285 million or 25 per cent in the previous year.

The government's recourse to bank credit dropped precipitately during the year. Although the borrowing requirement of the government was high, the aggressive open market operations by the Central Bank were successful in diverting a significant proportion of the Treasury bills held by the banking system to the non-banking sector. Accordingly, gross credit to government from the banking system rose only by Rs. 429 million during 1989, as compared with an increase of Rs. 12,792 million in 1988. This, together with a deposit build-up of Rs. 375 million, depressed the net recourse to the banking system on the part of the government to a mere Rs. 54 million. This was a salutary development from the point of view of achieving stabilisation objectives and containing inflationary pressures in the economy.

In a parallel development, the growth of credit to private sector too recorded a significant deceleration during the year. The credit utilised by 'other private sector constituents' from the banking system increased only by Rs. 2,465 million or 5 per cent in 1989, as compared with an increase of Rs. 8,669 million or 22 per cent in 1988. This was the combined effect of credit ceilings put into operation by the Central Bank on credit for non-priority purposes during the year and the lack of demand for credit in the context of unsettled conditions in the country.

Meanwhile, commercial bank credit to government corporations expanded by Rs. 3,075 million or 29 per cent in 1989. This increase was largely due to a higher demand for credit for meeting working capital requirements of some corporations where the cash flows had been disrupted by insurgent activities, and the enhanced role of the C.W.E. as an importer of essential foodstuffs following the transfer of food import responsibilities from the Food Commissioner to the C.W.E. During 1989, advances to the C.W.E. rose by Rs. 1,269 million, while those to the two state plantation corporations increased by Rs. 1,189 million. Meanwhile, credit to co-operative institutions dropped by Rs. 140 million during 1989, in contrast to an increase of Rs. 195 million in the previous year.

As in the previous year, the operations of the external sector exerted a contractionary impact of Rs. 2,326 million on M₂ in 1989. This was the combined outcome of a decrease in net external assets of the Central Bank by Rs. 2,647 million and an increase in those of commercial banks by Rs. 321 million. However, during 1989 the net foreign assets (NFA) position showed marked fluctuations. The NFA of the banking system declined drastically from Rs. 7,058 million in December, 1988 to Rs. 976 million in August, 1989, but turned around thereafter rising to Rs. 4,732 million by the end of 1989.

COMMERCIAL BANKING

Overall Trends

Despite the unsettled business environment in the second and third quarters of 1989 due to intensified civil disturbances and the restrictive monetary policy stance of the Central Bank to curb excessive credit creation, most commercial banks ended the year on a

Table 1.60
Selected Items of Assets and Liabilities of Commercial Banks 1988 - 1989

Amount in Rs. Million

Item	Average of Monthly Figures		End of Period	
	1988	1989	1988	1989
Cash on hand and deposits at Central Bank (inclusive of Statutory Reserve Requirements)	6,234	6,826	6,659	7,611
Foreign Balances	6,402	7,994	7,697	7,607
Treasury Bills	4,084	5,289	4,857	6,113
Bills Discounted	5,648	6,112	5,267	6,703
Total Liquid Assets	22,289	26,205	24,476	28,010
Total Investments (a)	2,080	1,823	1,865	1,961
Total Loans and Overdrafts	48,454	56,083	52,442	60,128
Demand Deposits (b)	14,662	18,343	18,182	21,439
Time and Savings Deposits (c)	42,385	46,115	43,357	50,256
Total Deposits	57,047	64,458	61,539	71,695
Ratio of :	%	%	%	%
Cash to Demand Deposits	42.5	37.2	36.6	35.5
Cash to Total Deposits	10.9	10.6	10.8	10.6
Foreign Balances to Total Deposits	11.2	12.4	12.5	10.6
Treasury Bills to Total Deposits	7.2	8.2	7.9	8.5
Commercial Bills Discounted to Total Deposits	9.9	9.5	8.5	9.3
Liquid Assets to Demand Deposits	152.0	142.9	134.6	130.6
Liquid Assets to Total Deposits	39.0	40.7	39.7	39.1
Investments to Total Deposits	3.6	2.8	3.0	2.7
Loans and Overdrafts to Total Deposits	84.9	87.0	85.2	83.9

Source : Central Bank of Sri Lanka.

(a) Government and Government Guaranteed Securities and Private Securities.

(b) Excludes domestic inter-bank deposits.

(c) Includes sum of Rs.1,539 million and Rs.1,708 million being long term deposits mobilised by the two state banks under the special savings schemes in 1988 and 1989 respectively.

Note : The discrepancies between the figures given here and similar figures given elsewhere in this report are due to differences in definition.

TABLE 1.61

**Commercial Banks Advances* Classified by Purpose and
According to Maturity 1988-1989**

		Amount in Rs. Million						
Category		Short Term (below 1 year)		Medium Term (1 to 5 years)		Long Term (over 5 years)		Total
		(1)	(2) (1) as % of (7)	(3)	(4) (3) as % of (7)	(5)	(6) (5) as % of (7)	(7) (7) as % of Grand Total
A. Commercial								
December 1988		23,148.2	81.2	4,187.3	14.7	1,176.3	4.1	28,511.8
March 1989		24,207.0	81.8	3,783.5	12.8	1,587.0	5.4	29,577.4
June 1989		26,648.3	83.2	3,788.3	11.8	1,596.7	5.0	32,033.3
September 1989		29,480.2	85.8	3,249.7	9.5	1,639.1	4.8	34,369.1
B. Financial								
December 1988		727.8	60.2	448.5	37.1	32.2	2.7	1,208.5
March 1989		618.9	50.8	566.4	46.5	33.1	2.7	1,218.4
June 1989		605.8	51.8	483.2	41.4	79.4	6.8	1,168.5
September 1989		575.5	48.7	353.6	29.9	252.4	21.4	1,181.5
C. Agricultural								
December 1988		2,766.0	47.4	903.6	15.5	2,161.3	37.1	5,830.9
March 1989		2,978.8	50.1	889.8	14.9	2,019.5	35.0	5,948.1
June 1989		3,057.3	50.2	875.7	14.4	2,161.4	35.4	6,094.3
September 1989		2,832.5	47.5	892.1	15.0	2,237.9	37.5	5,962.5
D. Industrial**								
December 1988		9,213.1	69.0	2,697.6	20.2	1,442.7	10.8	13,352.8
March 1989		9,077.4	69.5	2,675.8	20.5	1,307.0	10.0	13,060.5
June 1989		9,193.2	65.6	3,332.3	23.8	1,478.2	10.6	14,003.7
September 1989		9,202.4	73.4	1,797.7	14.3	1,535.6	12.2	12,535.7
E. Tourism								
December 1988		460.6	51.7	134.7	15.1	295.1	33.2	890.4
March 1989		458.3	49.1	102.3	11.0	372.7	39.9	933.2
June 1989		468.0	52.7	88.2	9.9	348.1	39.2	887.5
September 1989		448.2	52.6	74.9	8.8	328.8	38.6	851.9
F. Housing								
December 1988		845.6	17.7	1,220.7	25.5	2,716.3	56.8	4,782.6
March 1989		865.8	17.2	1,281.3	25.5	2,877.6	57.2	5,024.7
June 1989		904.4	17.3	1,165.8	22.3	3,140.9	60.1	5,225.5
September 1989		929.3	17.3	1,185.1	22.1	3,250.9	60.6	5,365.3
G. Consumption								
December 1988		761.4	65.3	302.6	25.9	102.1	8.8	1,166.1
March 1989		914.6	68.3	325.1	24.3	99.3	7.4	1,339.1
June 1989		822.6	64.7	338.5	26.6	108.7	8.5	1,272.0
September 1989		787.9	61.1	371.5	28.8	129.5	10.0	1,268.8
H. Other Loans								
December 1988		827.1	45.3	543.8	29.8	453.3	24.9	1,824.2
March 1989		780.5	38.7	775.0	38.4	463.5	22.9	2,018.9
June 1989		890.7	42.5	725.2	34.6	480.8	22.9	2,096.7
September 1989		986.2	41.2	748.7	31.3	659.8	27.5	2,394.8
I. Total								
December 1988		38,749.8	67.3	10,438.8	18.1	8,378.7	14.6	57,567.3
March 1989		39,901.3	67.5	10,350.2	17.6	8,819.7	14.9	59,120.3
June 1989		42,590.3	67.8	10,797.1	17.2	9,394.0	15.0	62,781.6
September 1989		45,242.3	70.7	8,673.3	13.6	10,034.0	15.7	63,949.6

Source : Central Bank of Sri Lanka.

* Advances include loans, overdrafts and bills discounted
and exclude cash items in process of collection.

** Includes advances granted for Engineering and Building Trade, Mining and Fishing.

satisfactory note in respect of liquidity and profitability.

The continuing high rates of interest available on Government Treasury bills throughout 1989 meant that the commercial banks faced stiff competition in mobilising deposits. The raising of the Bank Rate to 14 per cent, the imposition of a 100 per cent margin requirement against Letters of Credit in respect of luxury items and the ceiling on credit facilities to non-priority sectors were among the new measures introduced by the Central Bank to restrain credit expansion and to conserve foreign exchange reserves. These measures resulted in tight liquidity within the banking system as evidenced by the marked increase in domestic inter-bank borrowings during the third quarter of 1989. The situation may have been exacerbated by the delayed repatriation of export proceeds by the exporters seeking to benefit from a progressively depreciating exchange rate at that time and the practice on the part of some commercial banks to hold unduly large working balances abroad, against to gain from exchange rate depreciation, and because of the unsettled condition.

The pressure on commercial banks liquidity was somewhat abated during the closing months of the year, once deposit growth regained its momentum. However, the pressure for short-term funds from deficit banks, as well as the continuing high interest rates in other sub-markets, caused the interest rates in the inter-bank call money market to remain high. Because of the encouragement of competition, commercial banks continued to improve the quality of customer services through the introduction of new instruments, computerisation of banking operations, extension of banking hours and intensification of manpower development programmes.

Structure of Bank Assets and Liabilities and Advances to Private Sector

Total assets/liabilities of commercial banks, net of contra items, rose by 11 per cent (Rs. 10,537 million) in 1989, in comparison to an increase of 25 per cent (Rs. 18,990 million) in the previous year. On the liabilities side, the item "other liabilities" continued at the high level it had reached in 1988, primarily on account of recording delays arising from disruption to banking services in some areas of the country. This was reflected in a continuing high level in the suspense accounts on account of cheques sent for collection, in the two state sector banks. Meanwhile, deposits rose by 16 per cent (Rs. 9,855 million) consisting of an increase of 16 per cent (Rs. 6,729 million) in time and savings deposits and 17 per cent (Rs. 3,126 million) in demand deposits. Borrowings comprising inter-bank borrowings (including those from the Central Bank) and foreign borrowings recorded a decrease of 9 per cent (Rs. 683 million).

On the assets side, loans and overdrafts rose by 15 per cent (Rs. 7,686 million). Meanwhile, total liquid assets consisting of cash on hand, deposits with the Central Bank, foreign balances, Treasury bills and bills discounted, rose by Rs. 3,534 million or 14 per cent. Of this increase, Treasury bill holdings accounted for Rs. 1,256 million or 36 per cent.

The total commercial bank advances to the private sector rose by Rs. 5,400 million or 9 per cent in 1989, compared with an increase of Rs. 12,285 million or 25 per cent in 1988. This reduced rate of growth in credit was a result of the credit ceiling imposed by the Central Bank on commercial bank advances to non-priority sectors. Compared with the previous year, the share of short-term advances in total advances increased from 67 per cent at the end of 1988 to 71 per cent by the third quarter of 1989. This was at the expense of the share of medium-term (1 to 5 years) advances which fell from 18 per cent to 14 per cent of total advances over the two periods.

Advances for commercial purposes consisting of exports, imports and wholesale and retail trading continued to be the single largest category of advances. The slight decline in

Table 1.62

Sources and Uses of Resources of Commercial Banks 1988 - 1989

(Rs.Million)

	End 1987/1988		End 1988/1989	
	Sources	Uses	Sources	Uses
1. Government Sector	-	700.4	999.5	-
Holdings of Govt. Securities	-	765.4	-	1,332.6
Deposits	1,809.4	-	1,127.1	-
Import Bills	84.1	-	170.1	-
Short-term Credit	-	1,819.3	1,031.9	-
Overdrafts	-	9.2	3.0	-
2. Central Bank	-	647.2	-	668.9
Borrowings	427.1	-	139.4	-
Reserves	-	679.9	-	1,357.4
Investment in Central Bank Securities	-	83.7	143.7	-
Till Cash	-	310.7	405.4	-
3. Government Corporations	-	3,183.3	-	3,621.9
Deposits	237.5	-	-	546.2
Advances	-	3,420.8	-	3,075.7
4. Co-operatives	-	130.2	233.7	-
Deposits	65.0	-	92.8	-
Advances	-	195.2	140.9	-
5. Other Domestic Private Sector	-	4,198.3	5,570.9	-
Deposits*	4,470.5	-	8,036.1	-
Local Bills	-	1,857.1	1,169.7	-
Import Bills	-	711.1	561.7	-
Overdrafts	-	2,759.5	-	576.5
Loans	-	3,347.0	-	3,601.2
Investment in Securities and Bonds	5.9	-	-	18.9
6. Inter-Bank Transactions	72.2	-	-	885.3
Balance with Domestic Banks	379.2	-	-	1,384.7
Deposits and Borrowings with Domestic Banks	-	307.0	499.4	-
7. Foreign Sector	332.0	-	-	321.6
Borrowings	-	345.3	112.9	-
Deposits	1,287.5	-	1,443.3	-
Foreign Balances including Export Bills	-	610.2	-	1,877.8
8. Other Assets and Other Liabilities	8,455.2	-	-	1,306.4
Capital and Reserves	819.5	-	620.7	-
Fixed and Other Assets	-	2,889.8	-	939.0
Other Liabilities	10,525.5	-	-	988.1
Total Net Sources/Uses	8,859.4		6,804.1	

* Includes long-term deposits mobilised by the two state banks under the special savings scheme.

Source : Central Bank of Sri Lanka.

Note : The bold figures indicate whether a net source or net use, as the case may be, for each sector.

TABLE 1.63
Savings Mobilisation 1985 - 1989

Rs.Million

Year	Commercial Banks						Non - Commercial Banking Sector					
	Domestic		Foreign				Rural Banks		National Savings Bank		Agricultural Service Centres	
	Savings	Fixed	Savings	Fixed	Savings	Fixed	Savings	Fixed	Savings	Fixed(a)	Savings	Fixed
1985	10,281	14,704	874	7,155	3	...	928	161	3,701	9,527	94	42
1986	11,127	14,341	1,084	7,322	16	5	1,122	174	4,326	9,875	111	38
1987	13,179	15,606	1,325	8,382	44	9	1,371	189	5,172	11,229	133	36
1988	16,240	15,476	1,731	8,371	90	14	1,713	195	6,381	11,684	146	34
1989	20,572	17,109	1,942	8,925	140(b)	19(b)	1930(c)	191(c)	7,931(b)	12,020(b)	152	35

(a) Includes other deposits

(b) Provisional

(c) Position as at 30th September 1989.

Source: Central Bank of Sri Lanka

this category's share to 49.5 per cent at the end of 1988 was reversed in 1989, with its share in total advances rising to 53.7 per cent.

Credit demand for industrial purposes (including engineering and building trade, mining and fishing), declined by Rs. 817 million or 6.1 per cent during the first 3 quarters of 1989, compared with an increase of Rs. 3,076 million or 29.9 per cent in 1988. Thus, the share of industrial advances in total advances decreased to 19.6 per cent in the third quarter of 1989 from 23.2 per cent at the end of 1988. Advances granted for agricultural purposes declined as a share of total advances from 10.1 per cent at the end 1988 to 9.3 per cent by the third quarter of 1989. However, total agricultural advances grew in absolute value by Rs. 132 million or 2.3 per cent.

Sources and Uses of Funds

As in the past the other domestic private sector was the major source of commercial banks' funds on a net basis. The total net resources from this sector amounted to Rs. 5,571 million. This was the combined outcome of an increase in deposits of Rs. 9,768 million, including Rs. 1,731 million comprising margins against letters of credit (both local and foreign), offset by increases in advances of Rs. 4,197 million, which included an increase in investments in private securities of Rs. 19 million. Meanwhile the net utilisation of commercial banks' resources by government corporations amounted to Rs. 3,622 million. During the year under review, the government sector was a net source of resources to commercial banks to the tune of Rs. 1,000 million, compared with net utilisations of commercial bank resources in the immediately preceding two years. The build-up of government deposits by Rs. 1,297 million and the repayment of short-term credits amounting to Rs. 1,035 million were primarily responsible for the resources surplus generated by the government sector to commercial banks.

At the end of 1989, total deposit mobilization of the banking system and other savings institutions stood at Rs. 70,966 million, as compared with Rs. 62,075 million in 1988. The indigenous commercial banks mobilised more than half of the total deposits, while 28 per cent was mobilised by the National Savings Bank. In spite of the higher interest rates offered in the Treasury bills market, the quantum of deposit mobilisation by most of these institutions was appreciable.

The savings mobilisation during the last 5 years is given in Table 1.63

EXPANSION OF BANKING FACILITIES

Branch Expansion

The Emirates Bank of the Middle East wound up its operations in Sri Lanka and its business was taken over by the Hatton National Bank Ltd. with effect from September, 1989. Accordingly, the number of commercial banks operating in the country decreased to 24 and the number of foreign banks to 18.

During 1989, the bank of Ceylon opened an Extension Office at Biyagama International Free Trade Zone while a foreign employment service centre was opened at Rakshana Mandiraya, Colombo. The branch at Mankulam which was closed due to security reasons was re-opened. It also continued the branch rationalisation programme initiated in the previous year. Accordingly, the branch at Kumaranratnam Road was relocated at Sir James Peris Mawatha and named as Lake View Branch. Meanwhile, Hakmana and Pitigala branches of the Bank of Ceylon temporarily shifted to Matara Super Grade branch and Elpitiya branch, respectively due to security reasons. The branch at Agalawatte was

temporarily shifted to Matugama branch premises and the City Office shifted to the Bristol Street Building. The branch at Peradeniya Campus premises was shifted to Peradeniya and the Campus branch continued to function as a pay office. During the year, thirteen ASC branches were relocated at various other branches. In addition, an extension office was also relocated. The Matale Second City branch was amalgamated with the Matale main branch. It also amalgamated ASC branches at Digana and Wahakotte with branches at Madawala and Galewela. The Tissamaharama branch was upgraded to 'B' grade branch while Weeraketiya ASC branch was upgraded to 'C' grade branch. As a result of these changes, the number of main branches of the Bank of Ceylon stood at 238, while the number of ASC branches declined to 45 as at the end of 1989.

TABLE 1.64
Distribution of Bank Branches (1987-89)

Category	1987	1988	1989
(1) No. of Institutions	33	36	35
(1.1) No. of Commercial Banks	24	25	24
(1.1.1) No. of Domestic Banks	05	06	06
(1.1.2) No. of Foreign Banks	19	19	18
(1.2) No. of R.R.D.B.'s (a)	09	11	11
(2) No. of Branches*	822	844	869
(2.1) No. of Commercial Bank Branches	699	700	711
(2.1.1) No. of Domestic Bank Branches (b)	677	678	690
(2.1.1.1) No. of A.S.C. Branches	49	47	45
(2.1.2) No. of Foreign Bank Branches	22	22	21
(2.2) No. of R.R.D.B.'s Branches	61	80	89
(2.3) No. of N.S.B Branches	62	64	69

Source: Central Bank of Sri Lanka

- (a) Regional Rural Development Bank's established under the R.R.D.B. Act No. 15 of 1985.
- (b) Includes Extension Offices, Kachcheri Branches, Pay Offices and Overseas Branches but excludes A.S.C. Branches functioning as extension offices of Main Branches.
- * Includes Head Offices.

During the period under review, the People's Bank opened 3 new branches at Pamunugama, Kirulapane and Borella Cotta Road. Meanwhile, the Borella Pawning Centre and Malwatta Road branch of the People's Bank were upgraded into main branches. As a result of these changes the number of its operating branches increased to 301 by the end of 1989. In addition an extension office was also opened in the head office building of the Insurance Corporation of Sri Lanka.

The Hatton National Bank Ltd. opened a new branch at Wattala and took-over the business of Emirates Bank in September, 1989 bringing the total number of its branches to 35. The Sampath Bank Ltd. also expanded its branch network by opening 7 new branches at Kiribathgoda, Colombo, Fort, Bambalapitiya, Katunayake Airport, Kurunegala, Nawam Mawatha and Kandy. Accordingly, the number of branches of the Sampath Bank Ltd. was increased to 11 by the end of 1989. Meanwhile, the Seylan Trust Bank Ltd. increased its number of branches by opening 4 new branches at Mt. Lavinia, Panadura, Maharagama and

Kiribathgoda and by taking over the Indian Overseas Bank branch at Matara.

The Habib Bank savings unit at Fort was upgraded to a fully pledged branch. Following the termination of services of the Emirates Bank in Sri Lanka in September, 1989, the total number of foreign bank branches stood at 21.

As a result of these changes the number of commercial bank branches, including the ASC branches, stood at 711 at the end of 1989. Meanwhile, with the opening of five branches at Colombo West, Weligama, Kiribathgoda, Mt. Lavinia and Marawila, the National Savings Bank increased its branch network in the country to 69 by the end of the year.

During the year, no new Rural Regional Development Banks (RRDBs) were opened. However, 5 of the existing RRDBs expanded their branch network. The RRDBs at Kegalle and Nuwara Eliya opened 3 branches each, while the RRDB at Moneragala opened two branches and at Galle one. Consequently, at the end of 1989 the total number of operative branches of the RRDBs stood at 89.

Agency Banking

The bank of Ceylon and the People's Bank continued their activities under the Praja Naya Niyamaka Scheme introduced in October, 1988 as a forerunner to the promotion of Agency Banking in Sri Lanka. Meanwhile, the Sampath Bank Ltd, also launched a new scheme on pilot basis, known as Sampath Seva Sanyojaka Scheme (SSS) in January, 1989. The main objectives of this scheme were the identification of viable development projects, delivery of credit at the grassroot level, mobilisation of savings in the same strata of society and playing the role of a catalyst through the intermediary termed "Sampath Seva Sanyojaka". The SSS was different from the scheme launched by the two state banks, since it introduced saving certificates to the public.

Under the SSS Scheme, savings certificates (SC) are sold at Rs. 50/-, Rs. 100/-, Rs. 500/- and Rs. 1,000/-. Interest on the savings certificates is paid up-front during the first year and interest accumulates with compound interest for the ensuing years until encashed. It is readily encashable in the village itself with the SSS who sold the SC. This new concept has enabled savings certificates to develop a secondary market too, in the sense that the holder whenever he needs short-term credit pledges the SC and borrows from the SSS at a lending rate of 3.5 per cent per month.

Under the Praja Naya Niyamaka Scheme, the total loans outstanding given by the Bank of Ceylon and People's Bank amounted to Rs. 30 million and Rs. 12 million, respectively, at the end of 1989. Meanwhile, the total loans outstanding under the Sampath Seva Sanyojaka Scheme, stood at Rs. 4 million at the end of 1989. By the end of 1989, 2706 agents had been appointed by the Bank of Ceylon and 4,328 by the People's Bank, while 55 agents had been appointed by the Sampath Bank.

Service Facilities

Service facilities provided by the commercial banks improved further during 1989. The Bank of Ceylon in a pioneering effort to bring about a "cashless society" launched a credit card scheme under the trade name "Ceybank" in association with Visa International of USA, in January 1989. The Ceybank cards issued by the BOC falls into five sub-categories, namely, Domestic Gold Card, Domestic Classic Cards - both valid for use in Sri Lanka - the International Classic and International Gold - valid for use in 162 countries and the Business Card for corporate entities.

These cards permit the purchase of goods and services on credit from any participating retail outlet in the credit card scheme, thereby obviating the necessity for carrying cash for transaction purposes. Payments by customers are readily accepted under this scheme, with an underlying guarantee by the bank that payment will be made on a claim made by an authorised dealer. The scheme is open to every credit-worthy person not necessarily the bank's own customers.

The Sampath Bank Ltd. became the second Sri Lankan Bank to introduce a credit card in Sri Lanka with the issue of the Sampath Bank Master Card in collaboration with the world renowned Master Card Scheme of U.S.A. and they are given access to the Automated Teller Machine facility installed at the Sampath Bank. Under the Sampath Credit Card system, the holders receive credit, free of interest, if the full amount is settled within 15 days of the receipt of the purchase statement from the bank. The other option of the settlement is the payment of at least 5 per cent of the amount in the purchase statement subject to a minimum amount of Rs. 250/- which then entitles the card holder to an extended credit facility for the balance usually on terms similar to those applicable to an overdraft.

RURAL BANKING AND CREDIT

Amidst the continuing civil disturbances the institutional sector continued to supply credit to the rural sector through several credit schemes. Under the New Comprehensive Rural Credit Scheme (NCRCS), participating credit institutions continued to provide short-term cultivation loans at concessionary rates of interest for paddy and 26 subsidiary food crops with support from the Central Bank of 100 per cent refinance and 50 per cent credit guarantee. The grant of financial facilities for medium and long term investment covering a wide range of rural based economic activities in agriculture and allied fields, were supported through 25 credit schemes in operation during 1989. In addition, 3 new special projects, including a project directed towards alleviating rural poverty, came into operation during the year under review. With a view to improving the institutional arrangements for meeting the credit needs of the rural sector, the Central Bank extended the period of operation of several credit schemes which were scheduled to terminate during the year and also increased the number of participating institutions under several other credit schemes.

New Comprehensive Rural Credit Scheme (NCRCS)

In 1989, 3 new RRDBs participated in the NCRCS bringing the number of participating credit institutions under the scheme to 14. The number of credit granting branches under the scheme recorded a two-fold increase during the year 1989.

The total volume of credit extended under the NCRCS was Rs. 217 million in 1989, a decline of 33 per cent from the previous year. Loans granted during Maha 1988/89 dropped by 44 per cent and were in Yala 1989 by 8 per cent, compared with the corresponding figures of the previous year. This was due to the drought that prevailed during the first quarter of 1989 and the continuing adverse security situation in the country.

In keeping with the trend observed in the past, the two state sector banks disbursed 87.1 per cent of the total credit extended under the scheme during the year. A noteworthy feature of the operations of the NCRCS during 1989 was that the total volume of loans granted by all other participating banks decreased while those granted by the RRDBs increased from Rs. 17.4 million in 1988 to Rs. 21.2 million in 1989. Higher volume of loans granted by a majority of RRDBs and an increase in the number of RRDBs participating under the scheme were the contributing factors for this expansion. The Central Bank sanctioned Rs. 4 million to the Co-operative Rural Banks (CRBs), a junior partner participating under the scheme in 1989.

TABLE 1.65

**Cultivation Loans Granted Under the
New Comprehensive Rural Credit Scheme
(Position as at 31.12.1989)**

(Rs.Million)

Season	People's Bank			Bank of Ceylon			Hatton National Bank			Regional Rural Dev. Banks			Total Loans		Total loans under NCRCS
	Paddy	Sub sidiary food crops	Total	Paddy	Sub sidiary food crops	Total	Paddy	Sub sidiary food crops	Total	Paddy	Sub sidiary food crops	Total	Paddy	Sub sidiary food crops	
1987/88 Maha	92.4*	13.9*	106.3	74.3	26.0	100.3	12.9	-	12.9	10.1	0.3	10.4	189.7	40.2	229.9
1988 Yala	21.1	18.7	39.8	27.7	17.8	45.5	0.1	2.7	2.8	6.3	0.7	7.0	55.2	39.9	95.1
Cultivation Year '88	113.5	32.6	146.1	102.0	43.8	145.8	13.0	2.7	15.7	16.4	1.0	17.4	244.9	80.1	325.0
1988/89 Maha	37.3	8.3	45.6	38.9	28.1	67.0	6.2	-	6.2	8.7	1.3	10.0	91.1	37.7	128.8
1989 Yala	16.3	8.8	25.1	31.2	20.0	51.2	-	0.5	0.5	9.1	2.1	11.2	56.6	31.4	88.0
Cultivation Year '89	53.6	17.1	70.7	70.1	48.1	118.2	6.2	0.5	6.7	17.8	3.4	21.2	147.7	69.1	216.8

* Include Meda Season.

Sources : People's Bank;
Bank of Ceylon;
Hatton National Bank Ltd;
Regional Rural Dev. Banks.

The number of borrowers to whom facilities were sanctioned under the NCRCS in 1989 totalled 37,177 reflecting a sharp decrease of 37 per cent from the previous year. As observed in the total quantum of loans granted, the number of borrowers from RRDBs increased by 13 per cent over the previous year, while that of other lending institutions sharply declined.

The total value of loans granted for cultivation of paddy under the NCRCS declined by 40 per cent, from a total of Rs. 245 million in 1988 to Rs. 148 million in 1989. However, paddy loans continued to constitute the major share (68 per cent) of the total loans granted for cultivation purposes under the scheme. The recovery rate of loans granted for paddy under the scheme by participating banks, excluding RRDBs, during Maha 1988/89 was 64 per cent. This was an improvement on the comparable recovery rate during Maha 1987/88 which was 54 per cent.

Meanwhile, a total of Rs. 69 million had been granted for the cultivation of a wide range of subsidiary food crops including coarse grains, pulses, oil seeds and vegetables under the NCRCS during 1989. This was a reduction of 14 per cent when compared with the corresponding value in the previous year. As in the case of loans granted for paddy cultivation, RRDBs collectively emerged as the institutional category which granted loans for the cultivation of subsidiary food crops in 1989, registering an increase of 240 per cent over the previous year.

The Central Bank encouraged and supported banks to reschedule loans granted to farmers affected by natural calamities. Borrowers under the scheme whose harvest was reduced to less than 50 per cent due to natural calamity were granted the rescheduling facility, extending the repayment period to 32 months. During Maha 1988/89, a total of 249 loans with a value of Rs. 1.1 million was rescheduled. The number of loans rescheduled amounted to 1 per cent of the total loans sanctioned, while the value of such loans constituted a negligible percentage. The total number of loans and the value of loans rescheduled during Maha 1988/89 reflected a sharp drop from Maha 1987/88, which recorded the highest number of loans rescheduled under the scheme.

With a view to encouraging the banks to increase the volume of credit granted for cultivation purposes, the Central Bank continued the credit guarantee to cover loans granted under the NCRCS. The guarantee cover is restricted to 50 per cent of the loss incurred by lending institutions. To qualify for guarantee under the scheme, the lending banks are required to pay a premium of 1/2 per cent per annum to the Credit Guarantee Fund on the quantum of loans granted. Total value of premia collected by the Central bank in respect of the guarantees provided under the scheme stood at Rs. 9 million as at the end of 1989. However, the total value of payments under the scheme as at the end of Maha 87/88 amounted to Rs. 29.7 million.

Medium and Long-term Credit Fund (MLCF)

During the year, the Central Bank continued to provide funds to meet the medium and long term investment requirements of agriculture and allied projects at concessionary rates of interest through its medium and long term credit fund (MLCF). A total of 28 of these credit schemes were in operation in 1989 with a total allocation of Rs.2,517 million for on lending purposes. These credit schemes are broadly categorised as schemes operated with funds provided by the MLCF (Category - 1) of the Central Bank and schemes for which funds have been obtained from international organisations. The Aquaculture Development Project Scheme introduced during the latter half of 1989 provide credit facilities with funds provided by the MLCF (Category - 3) and also the Asian Development Bank. With a view to enhancing the institutional coverage in meeting the medium and long term financial requirements in the

agriculture sector, the Central Bank expanded the coverage of participating banks under several medium and long term credit schemes during the year. The Seylan Bank Ltd, and the Hatton National Bank Ltd. joined as participating institutions under the Credit Scheme on Youth, Self-employment and Village Adoption Schemes in the district of Matara, and the Sampath Bank Ltd. joined the Credit Scheme for the cultivation of Chinese Ginger, Pineapple and Passion fruit in the districts of Kurunegala, Colombo and Gampaha. Three credit schemes which completed the project period in 1989 and scheduled to be terminated were extended for a further period to enable the banks to continue the grant of credit under these schemes.

There were 19 medium and long term credit schemes in operation, including a new scheme which became operational during 1989, with a total allocation of Rs.777 million from the MLCF. When compared with the total amount of Rs. 113 million utilised under these projects in the previous year, the amount utilised during 1989 at Rs. 62.5 million indicated a drop of 45 per cent. The unsettled conditions in several parts of the country were primarily responsible for this decline. The highest quantum of refinance amounting to Rs. 20 million had been utilised under the credit scheme developed to assist small farmers for the cultivation of sugarcane in Sevanagala, Hingurana and Kantalai Sugar Projects.

There were 9 schemes in operation in 1989 which provided medium and long term credit with funds obtained from international organizations. Of these, the Small Holder Tea Development Project, Mid-Country Perennial Crops Development Project and the Small Farmers and Landless Credit Project commenced operations during the last quarter of 1989. Under the 9 schemes, the total allocation of funds and available for lending at the beginning of the year amounted to Rs. 1,740 million. Only a total sum of Rs. 11.11 million or 0.6 per cent of the total allocation was utilised under these schemes during 1989.

The Small Farmers & Landless Credit Project for which the Central Bank has been appointed the executing agency began its operations during the year under review. The project aims at alleviating rural poverty of approximately 32,870 beneficiary households in the four selected districts, namely Kandy, Puttalam, Galle and Matara. The projects objectives are to build up a cost effective system of extending credit to the rural poor to meet short term and medium term credit requirements of beneficiary groups with little or no collateral to support their borrowings. The project also seeks to encourage greater involvement of women in rural based income generating activities and bring about a greater mobilisation of rural savings for reinvestment at the local level. Under this project, the district office in puttalam commenced preliminary work in December 1989.

Credit Facilities of Co-operative Rural Banks (CRBs) *

Since, 1987, the number of CRBs in operation had remained unchanged at 282 after declining from its peak of 345 in 1976. To compensate for this decline, the total number of special branches of CRBs had steadily increased since 1976 to a total of 702 as at end of 1989. The number of new special branches which became operational during 1989 totalled 14.

The total amount of loans granted by the CRBs during 1989 at Rs. 239 million reflected an impressive increase of 73 per cent over the previous year. This was a reversal of the trend witnessed in 1988. As in the previous year, the highest quantum of loans granted by the CRBs had been for housing, electrification and water supply, which together accounted for

* Rural Banks are known as Co-operative Rural Banks since 1971.

TABLE 1.66
Deposits and Advances - Rural Sector *

(Rs. '000)

	Co-operative Rural Banks		Bank of Ceylon sub-offices at Agrarian Services Centres		Regional Rural Development Banks		Thrift and Credit Co-operative Societies	
	1988	1989	1988	1989	1988	1989(a)	1988	1989
1. Total Savings	1,908,360	2,211,886	180,411	203,861	103,452	159,560	388,000	418,000
1.1 Savings	1,713,158	2,022,767	146,398	162,859	89,521	140,238	n.a.	n.a.
1.2 Special Savings	—	—	14,429	15,561	—	—	n.a.	n.a.
1.3 Fixed Deposits	195,202	189,119	19,584	25,441	13,931	19,322	n.a.	n.a.
2. Total loans granted* *	138,300	238,726	11,128	22,512	112,753	135,027	413,300	416,000
2.1 Agriculture	10,000	25,785	8,613	14,140	47,273	66,852	n.a.	n.a.
2.2 Animal Husbandry	6,400	7,112	05	87	5,995	12,330	n.a.	n.a.
2.3 Fisheries	—	—	—	—	3,727	3,871	n.a.	n.a.
2.4 Small Industries	4,400	10,746	350	38	23,846	17,613	n.a.	n.a.
2.5 Housing, Electrification & Water supply	84,100	136,697	173	598	—	—	n.a.	n.a.
2.6 Others	33,400	58,386	1,987	7,649	31,912	34,361	n.a.	n.a.

* Excluding the position on the branches of the People's Bank and the Bank of Ceylon in rural areas.

** Total value of loans granted during the year.

(a) Included estimated data for the 4th quarter in respect of Kalutara, Matara, A'pura, Hambantota, Puttalam, Galle and Nuwara Eliya.

n.a. Not available.

Sources: People's Bank;
Bank of Ceylon;
Regional Rural Dev. Banks;
Thrift & Credit Co-operative Societies.

57 per cent of the total quantum granted. The total amount granted for agriculture amounted to Rs. 26 million in 1989, recording a substantial increase of 157 per cent over the comparative figure in the previous year. As the total quantum of refinance sanctioned by the Central Bank as cultivation loans under the NCRCS for CRBs amounted to Rs. 3.7 million, the bulk of the loans granted by the CRBs for agriculture purposes had been out of their own funds.

With the implementation of Janasaviya Programme, there were several special credit schemes with special emphasis placed on alleviating poverty in rural areas introduced by commercial banks under which financial facilities for a wide variety of activities were provided. Among them, the highest quantum of loans had been granted in 1989 by the two state sector banks under the Praja Naya Niyamaka Scheme (PNNS).

Agriculture Insurance Board (AIB)

Following the decreased trend observed in the previous year, the total area insured by the AIB dropped further to a total of 35,000 hectares from a total of 53,000 hectares in the previous year. This drop needs to be viewed against the increased total area under cultivation during the year by 56,000 hectares. The decline in the area under insurance during 1989 was mainly due to the decline in the area financed by the banking system. The performance of the AIB closely follow the performance of the banking system in regard to agricultural lending. Meanwhile, keeping in line with the reduced area insured, the total value of premia collected amounted to Rs. 9.3 million in 1989 a decline of 40 per cent over the previous year. The value of indemnity paid by the AIB during 1989 was Rs. 9.9 million, the lowest amount recorded since 1983. However, for the first time after 6 years the value of premia exceeded the value of indemnities paid during Yala 1989 by Rs.0.9 million.

Mobilisation of Rural Savings

The total outstanding value of rural savings mobilised by the CRBs, the Bank of Ceylon Sub-Offices at Agrarian Service Centres, RRDBs and the TCCSs amounted to Rs. 2993 million in 1989 recording an increase of Rs. 413 million or 16 per cent over the previous year. Attractive rates of interest on savings, expansion of banking institutions in rural areas, introduction of new savings schemes and the upsurge witnessed in rural based activities during the year had been the contributory factors for this favourable developments. Of these total savings, Rs. 2,212 million or 74 per cent was held by the CRBs. The RRDBs had recorded an impressive increase of 54 per cent over the level in the previous year reaching Rs. 159 million at the end of 1989.

OTHER FINANCIAL INSTITUTIONS

Savings Institutions

Total volume of deposits mobilised by the National Savings Bank (NSB) stood at Rs. 19,955 million at the end of 1989. This reflected an increase of 11 per cent as compared with an increase of 10 per cent in the previous year. This growth in deposits was achieved despite the substitution effect that arose from the popularised Treasury bills market.

The Bank's investments were mainly in government securities (Rs. 16,604 million) and Treasury bills (Rs. 2,124 million), which together accounted for 96 per cent of total assets. When compared with outstanding levels in the previous year, investments in government securities showed a decline of Rs. 719 million, while investments in Treasury bills recorded an increase of Rs. 1,853 million, in 1989. Meanwhile, the volume of loans granted to the private sector by the NSB increased from Rs. 197 million in 1988 to Rs. 342 million in 1989. A major share of other loans (81 per cent) was secured by fixed deposits.

Purpose-wise Classification of Loans Approved and

Purpose	DFCC		NSB		SMIB	
	1988	1989	1988	1989	1988	1989
1. Agriculture	25.9	67.3	2.9	6.5	14.2	6.4
(i) Plantation	25.9	60.3	1.3	1.1	0.6	0.9
(ii) Domestic	-	-	1.2	-	-	-
(iii) Livestock & Dairies	-	-	0.4	5.4	-	-
(iv) Fishing	-	7.0	-	-	-	-
(v) Purchase of Land for Agricultural purposes	-	-	-	-	13.6	5.5
2. Industry	659.4	995.0	4.3	-	-	-
(i) Mechanical Processing of Plantation Crops	-	-	-	-	-	-
(ii) Mechanical Processing of Agricultural Crops	-	-	-	-	-	-
(iii) Engineering and Building Trade	15.0	14.0	-	-	-	-
(iv) Mining	26.0	21.8	-	-	-	-
(v) Food, Beverage & Tobacco	124.2	-	-	-	-	-
(vi) Textile & Wearing Apparel	41.8	-	-	-	-	-
(vii) Rubber & Leather Products	60.0	-	-	-	-	-
(viii) Metals, Chemicals and Engineering	335.2	959.2	-	-	-	-
(ix) Other Manufacturing	57.2	-	4.3	-	-	-
3. Tourism	14.0	5.0	-	-	-	-
4. Commercial	-	-	4.5	3.0	0.3	-
5. Financial	31.0	28.0	30.0	105.0	2.9	-
(i) Loans to Financial Institutions	31.0	28.0	30.0	105.0	-	-
(ii) Investment Loans	-	-	-	-	-	-
(iii) Others	-	-	-	-	2.9	-
6. Housing	-	-	48.1	51.9	562.4	334.2
(i) Purchase of Houses	-	-	8.9	10.1	154.4	77.8
(ii) Construction	-	-	39.2	41.8	408.0	256.4
7. Redemption of Debt	-	-	1.0	0.7	12.7	5.4
8. Other Loans	154.7	61.7	115.3	283.7	49.3	32.5
Total (Approved)	835.0	1157.0	206.1	450.9	642.3	378.5
Loans granted (1)	599.5	788.0	196.6	447.0	496.0	444.9
Loans granted as a % of total loans approved	57%	68%	95%	99%	77%	117%
Amount Outstanding	1,745.3	2,088.7	1,349.5	576.9	2,077.2	2,344.0

Note : (1) Includes loans approved in the previous years and disbursed during the period under review.
(2) Including refinance loans and equity investments.

Table 1.67

Granted by Long-Term Credit Institutions

(Amount in Rs.Million)

HDFC		NDB (2)		NHDA		ICSL		Total		% of Total Loans Approved	
1988	1989	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989
-	-	-	39.2	-	-	-	-	43.0	119.4	1.3	3.1
-	-	-	24.2	-	-	-	-	27.8	86.5	0.8	2.2
-	-	-	-	-	-	-	-	1.2	-	-	-
-	-	-	8.0	-	-	-	-	0.4	13.4	-	0.3
-	-	-	7.0	-	-	-	-	-	14.0	-	0.4
-	-	-	-	-	-	-	-	13.6	5.5	0.4	0.1
-	-	808.2	1,051.3	-	-	-	-	1,471.9	2,046.3	42.9	52.7
-	-	278.2	-	-	-	-	-	278.2	-	8.1	-
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	15.0	14.0	0.4	0.4
-	-	2.2	-	-	-	-	-	28.2	21.8	0.8	0.6
-	-	151.6	178.7	-	-	-	-	275.8	178.7	8.0	4.6
-	-	90.2	110.2	-	-	-	-	132.0	110.2	3.8	2.8
-	-	79.7	132.1	-	-	-	-	139.7	132.1	4.1	3.4
-	-	206.3	458.2	-	-	-	-	541.5	1,417.4	15.8	36.5
-	-	-	172.1	-	-	-	-	61.5	172.1	1.8	4.4
-	-	-	21.4	-	-	129.9	20.5	143.9	46.9	4.2	1.2
-	-	-	-	-	-	-	-	4.8	3.0	0.1	0.1
-	-	-	165.4	-	-	-	-	83.9	298.4	2.4	7.7
-	-	-	-	-	-	-	-	61.0	133.0	1.8	3.4
-	-	-	165.4	-	-	-	-	-	165.4	-	4.3
-	-	20.0	-	-	-	-	-	22.9	-	0.6	-
30.0	-	346.1	-	310.8	472.0	10.5	75.5	1,051.0	933.6	30.6	24.0
3.3	-	-	-	-	360.0	10.5	75.5	177.1	523.4	5.2	13.5
26.7	-	346.1	-	310.8	112.0	-	-	873.9	410.2	25.4	10.5
-	-	0.3	-	-	-	-	-	14.5	6.1	0.4	0.1
-	-	249.4	53.4	-	-	52.3	-	621.5	431.3	18.1	11.1
30.0	-	1,078.4	1,330.7	310.8	472.0	192.7	95.5	3,434.5	3,885.0	100.0	100.0
29.8	-	478.9	457.9	277.9	380.0	192.7	95.5	2,281.8	2,213.3	-	-
99%	-	44%	34%	89%	80%	100%	100%	66%	57%	-	-
1,155.8	-	2,076.1	1,984.8	221.7	265.7	1,141.7	1,236.2	7,738.7	8,496.1	-	-

Source : Central Bank of Sri Lanka

The activities of the Insurance Corporation of Sri Lanka (ICSL) were adversely affected by the unsettled conditions prevailing in the country during 1989. Total loans granted by the ICSL recorded a considerable decline of Rs. 97 million in 1989 as against an increase of Rs. 40 million in 1988. Of the loans granted, Rs. 76 million was for housing purposes while a sum of Rs. 21 million was granted for the development of hotel projects. Meanwhile, total loans outstanding increased by Rs. 94 million during 1989 and stood at Rs. 1,236 million at the end of the year.

As in the previous year, the activities of the Employees' Trust Fund (ETF) continued to grow in 1989. Total contributions received by the Fund during the year amounted to Rs. 585 million, while the outstanding member's balances including interest and dividends stood at Rs. 3,609 million. The corresponding figures for 1988 were Rs. 491 million and Rs. 3,146 million, respectively. The total investments of the Fund rose by 24 per cent to Rs. 3,594 million in 1989. The major form of investment was Treasury bills (Rs. 1,646 million) which recorded a substantial increase of Rs. 1,578 million in 1989. Meanwhile, investments in the form of deposits with commercial banks declined from Rs. 1,053 million in 1988 to Rs. 196 million in 1989. The changes in the investment portfolio of the ETF largely reflects the attractive interest rates in the Treasury bill market.

Long-term Lending Institutions

A noticeable feature of the lending operations of the Development Finance Corporation of Ceylon (DFCC) in 1989 was the considerable increase in the medium-term loan portfolio. Total loans granted by the DFCC rose substantially by Rs. 188 million or 31 per cent in 1989. The inflow of resources to the DFCC was Rs. 893 million in 1989, and the major source was foreign borrowing. Of the total loans approved in 1989, 86 per cent was for the development of the industrial sector. The majority of the loans granted was in respect of amounts exceeding Rs. 1 million. Meanwhile, total loans outstanding increased to Rs. 2,089 million at the end of 1989. The lending rates of the DFCC varied between 14 and 19 per cent per annum in 1989.

The State Mortgage and Investment Bank (SMIB) which is popularly identified as the institution providing finances for housing purposes was adversely affected by the unsettled conditions that prevailed in the country during 1989. Although, its lending operations are still designed to promote housing development, the loans approved for housing purposes declined from Rs. 562 million in 1988 to Rs. 334 million in 1989. The total loans outstanding of the SMIB as at the end of 1989, increased by Rs. 267 million to Rs. 2,344 million. The majority of the loans granted by the SMIB was in the range of Rs. 50,000 to Rs. 400,000 and the interest rates were in the range of 10-20 per cent per annum. The resource mobilisation of the SMIB was by way of fixed deposits from institutional sources and the issue of debentures. The amount of deposits mobilised from institutional sources was Rs. 168 million, while debentures were issued to the value of Rs. 300 million. Recoveries of loans declined during the year which was partly due to the civil disturbances that prevailed in the country.

In 1989, the National Development Bank (NDB) approved 165 loans amounting to Rs. 1,331 million. As in the previous year, the majority of loans (79 per cent) approved by the NDB was for industrial purposes. Most of the projects financed directly by the NDB were below Rs. 10 million and interest rates were at a range between 15 and 20 per cent per annum. Under the Small and Medium Scale Industry (SMI) Scheme III, the NDB approved refinance facilities amounting to Rs. 424 million to six participating credit institutions at an interest rate range between 15 and 16.5 per cent per annum. The major industrial categories which have been provided with credit by the NDB in 1989 were Metals Chemicals and Engineering (Rs. 458 million) Food, Beverages and Tobacco (Rs. 179 million), Other Manufacturing (Rs. 172

million), Textile Wearing apparel (Rs. 110 million) and Rubber and Leather Products (Rs. 132 million). The NDB also under took leasing financing for the first time with outstanding leasing amounting to Rs. 17 million by the end of the year. The major source of funds of the NDB was foreign borrowing.

FINANCE COMPANIES

A total of 52 Finance Companies covering approximately 72 per cent of the total registered finance companies furnished information on their operations for the first three quarters of 1989. According to data received, the total assets and liabilities of these finance companies stood at Rs. 8,213 million at the end of September, 1989 compared with Rs. 8,846 million as at the end of 1988. Following the trend observed in the previous year, the total deposits of the finance companies declined further by 7 per cent to Rs. 5,057 million at the end of third quarter, 1989. This may have been due to attractive interest rates offered in the Treasury bills market and the lack of confidence on the part of the public in finance companies in general. Meanwhile, the borrowings from commercial banks, shareholders, directors, etc. dropped by 31 per cent. Other liabilities including sundry creditors, unclaimed dividends, accrued interest and provisions for taxation, ect. dropped from Rs. 1,699 million in 1988 to Rs. 666 million in the second quarter, 1989 but increased sharply to Rs. 1,585 million at the end of the third quarter. This was largely due to increased unsettled dues in the context of intensified civil disturbances and disruption of transport activities in the third quarter.

TABLE 1.68
Sources and Uses of Resources of Finance Companies

(Amount in Rs. Million)

Item	As at 31st December 1988	As at 31st March 1989	As at 30th June 1989	As at 30th September 1989
SOURCES				
1. Capital Account	884.6	815.7	822.4	846.9
2. Deposits	5,219.4	4,890.2	5,092.1	5,057.3
3. Borrowings	1,043.9	807.9	933.1	724.3
4. Other Liabilities	1,698.5	1,452.2	665.8	1,584.8
Total	8,846.4	7,966.0	7,513.4	8,213.3
USES				
1. Hire Purchase Business	2,939.4	2,869.6	2,951.4	3,008.8
2. Loans Outstanding (of which Leasing)	2,863.1 (993.4)	1,845.9 (915.7)	1,918.8 (932.3)	1,901.2 (909.4)
3. Investments	676.2	751.0	649.4	603.2
4. Other Assets	2,367.7	2,499.5	1,993.8	2,700.1
Total	8,846.4	7,966.0	7,513.4	8,213.3
Number of Finance Companies that reported data to the Bank	54	52	52	52

Source: Central Bank of Sri Lanka

The outstanding value of the hire-purchases lending recorded an increase of Rs. 69 million in 1989 and stood at Rs. 3,009 million as at the end of the third quarter. Although, leasing emerged as the fastest growing business activity in finance companies in the recent past, outstanding loans on leasing declined by 8 per cent to Rs. 909 million at the end of the third quarter. In spite of the tax advantages involved, the decline in leasing may be due to lower demand for leasing on account of accelerated civil disturbances during the first 9-months of the year.

In terms of the revised liquidity requirements imposed with effect from April, 1989 the finance companies should hold government Treasury bills up to at least 6 per cent of their deposits liabilities. In addition, Treasury bills emerged as an important mode of investment for finance companies due to the attractive yields. Accordingly, the total outstanding investments in government paper by the finance companies increased from Rs. 202 million as at the end of December, 1988 to Rs. 320 million as at the end of September, 1989.

The liquid assets position of the finance companies improved further during the year. The ratio of liquid assets to total deposits which was 18 per cent at the end of 1988 rose to 19 per cent at the end of September, 1989. The latter ratio was higher than the Central Bank's stipulation of 15 per cent. The ratio of capital reserves and undistributed profits as a percentage of total deposits amounted to 17 per cent at the end of September, 1989 which was about the same ratio that prevailed at the end of December, 1988.

During the year, the Central Bank provided refinance facilities to 7 finance companies which were faced with liquidity problems. In addition, the Monetary Board vested in itself one finance company that was in difficulties with the objective of providing relief to depositors and eventually rehabilitating it. Two other companies have been handed over to management teams which operate under the direction of the Monetary Board, while one company was assigned to another finance company for rehabilitation. Meanwhile, the implementation of the scheme providing partial relief to depositors of finance companies in distress continued to be in operation.

CENTRAL BANKING

The total assets/liabilities of the Central Bank rose by Rs. 7,439 million or 13 per cent during 1989 and stood at Rs. 62,770 million at the end of the year. This compared with an increase of Rs. 9,888 million or 22 per cent in the previous year.

On the assets side, the International Reserve (gross) of the Central Bank showed an increase of Rs. 2,343 million (31 per cent), thus reversing the trend observed during the last few years. This was primarily reflected in cash and balances abroad and SDR holdings which rose by Rs. 2,145 million and Rs. 449 million, respectively.

In sharp contrast to substantial increases recorded in the previous three years, domestic assets of the Central Bank(excluding other assets and accounts) showed only a marginal growth of 2 per cent or Rs. 761 million during 1989. Loans and Advances to the Government and investments in government and government guaranteed securities rose only by Rs. 302 million in 1989, as compared with an increase of Rs. 10,282 million in 1988. At the same time, the Central Bank's short-term loans to commercial banks rose by only Rs. 34 million as compared with an increase of Rs. 216 million in 1988. Together with these, the new refinance facilities provided during the year amounted to Rs. 459 million - a level higher than the Rs. 357 million provided in the previous year. Meanwhile, other assets and accounts of the Central Bank increased by Rs. 4,334 million during the year as compared with an increase of Rs. 451 million in 1988.

On the liabilities side, monetary liabilities grew by Rs. 2,344 million during 1989. Currency in circulation increased by Rs. 755 million, while deposit liabilities rose by Rs. 1,590 million. The latter was the outcome of increases in the deposits of commercial banks (Rs. 564 million), foreign government and foreign banking institutions (Rs. 1,559 million) and other institutions (Rs. 308 million). Meanwhile, deposits of the government and government agencies and institutions dropped by Rs. 840 million. During 1989, Central Bank's short-term borrowings from abroad increased substantially by Rs. 2,401 million, while other liabilities of the Central Bank also rose by Rs. 2,703 million.

INTEREST RATES

In the context of continuing inflationary pressures, the general level of interest rates continued to remain high throughout 1989. Interest rates in markets more responsive to market forces, displayed heavy fluctuations, ending the year at a slightly higher level than at the beginning. The Bank Rate was raised from 10 to 14 per cent in June 1989 as a part of the contractionary monetary policy established for stabilisation purposes.

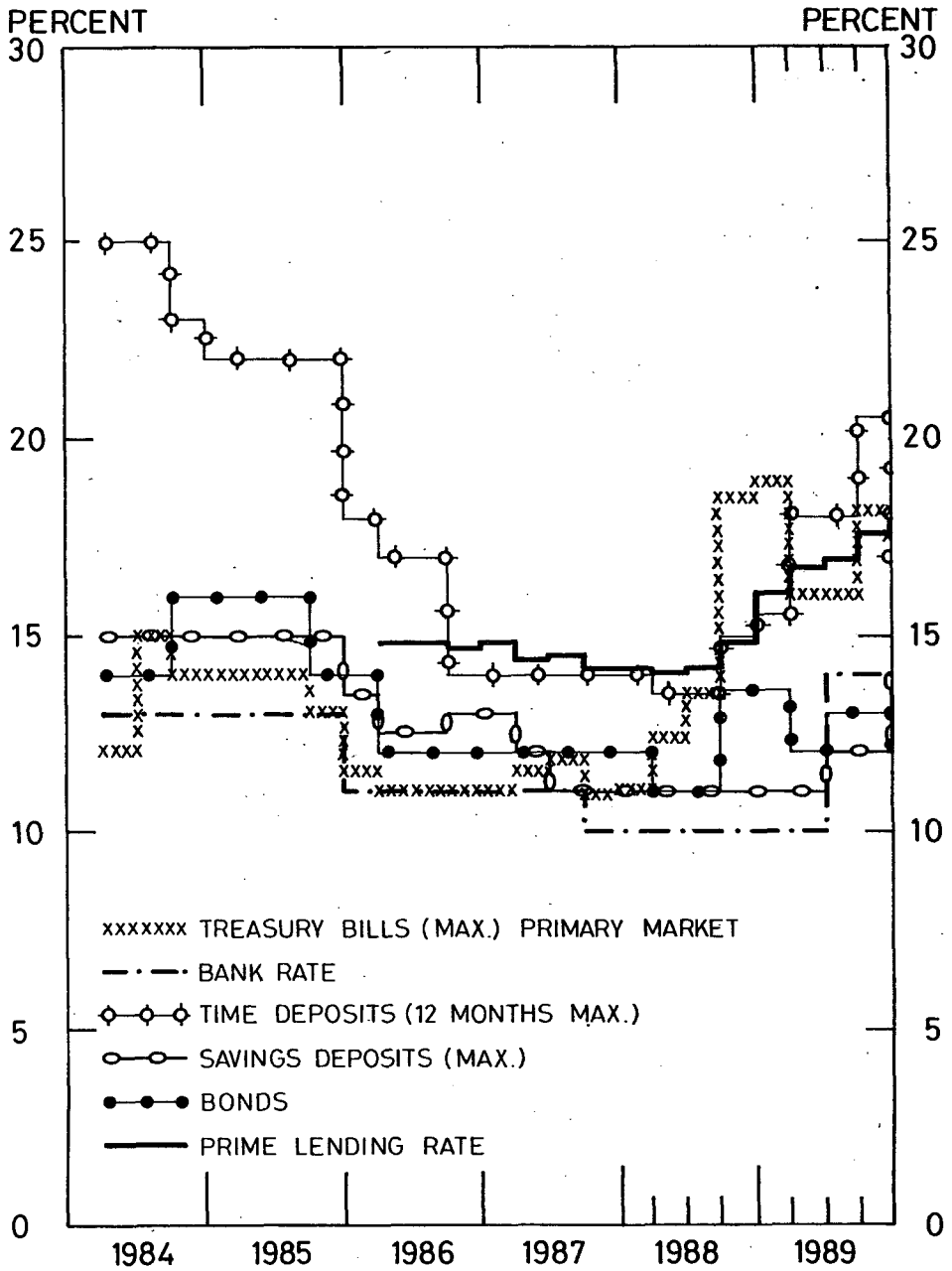
Short-term Rates

In the primary Treasury bill market, the interest rates remained largely market-determined with only minor interventions by the authorities. Continuing inflationary pressures and the high demand for funds by the government for budgetary purposes, led these rates to remain relatively high though there was a tendency for a downward movement between the first and second quarters of 1989. The weighted average yield on 12-months Treasury bills rose from 18.8 per cent per annum at the end of June, 1989 to 19.1 per cent by the end of the year, while the weighted average yield on 3-months bills declined from 19.8 per cent per annum to 18.1 per cent over the same period. The interest rates in the secondary market for Treasury bills responded to variations in rates in the primary market, though the end-year rates in this market were slightly lower than that at the end of 1988. Whereas the discount and rediscount rates at the end of 1988 were 18 and 23 per cent per annum, respectively, by the end of 1989, they were 15.5 and 20.5 per cent per annum.

The interest rates in the inter-bank call money market in 1989, fluctuated around the high levels reached at the end of 1988, peaking in the third quarter of 1989 following the introduction of contractionary monetary policy measures. In the final quarter of 1989, call money rates stabilised at levels lower than those at the beginning of the year, ending the year at a range between 13 and 25 per cent per annum. Under the impact of the increase in the Bank Rate by 4 percentage points to 14 per cent per annum in June 1989 and the high yields available in the Treasury bill market, the commercial banks' deposit rates tended to rise in 1989. The minimum and maximum rates on twelve-month deposits increased from a range of 9 to 15.5 per cent per annum at the end of 1988 to a range of 11 to 20.5 per cent per annum by the end of December, 1989.

The NSB revised its rates upwards on both classes of deposits by two percentage points per annum in April 1989 to maintain its competitiveness with commercial banks. Meanwhile, interest rates offered by banks on Certificates of Deposits (CDs) rose from a range of 8 to 14.9 per cent per annum at the end of 1988 to a range between 8 and 21.7 per cent per annum by the end of 1989. Finance companies effected a marginal increase offered on CDs from a range between 10 and 18 per cent per annum to a range between 10 and 22 per cent per annum during 1989. Ceilings on deposit rates of Finance companies were continued in 1989 at 21 and 24 per cent per annum for deposits with a maturity of less than 24 months and over 24 months, respectively.

INTEREST RATES END QUARTERLY FIGURES



The Central Bank continued to publish the weighted average prime lending rate of commercial banks on a weekly basis. Similar to the trends in other interest rates, the weighted averages prime lending rate was on a rising trend, reflecting the increased cost of funds for commercial banks, as well as the tightened market for short-term funds. The weighted average prime lending rate fluctuated within a range of 16.5 to 18.1 per cent per annum during 1989, compared with a range between 13.6 and 16.9 per cent per annum during the preceding year.

Long-term Rates

During the year, changes were observed in the medium and long-term interest rates as well. In the Rupee Securities market, 9 series of government securities were issued in two maturity ranges of 3 years and 5-6 years. These issues were made between January and September at coupon rates of 11-12 per cent per annum for 5-6 year instruments and 13 per cent per annum for the 3 year instruments. A shorter maturity period was fixed for securities carrying a higher rate of interest, since it was felt that medium-term inflationary expectations were lower than those in the short-term.

The National Development Bank (NDB) continued to link its lending rates to market rates of interest. Refinance rates under the Small and Medium Industries (SMI) Project III were calculated for a 6-month period by subtracting 6 percentage points from the average weighted prime lending rate (AWPR) of commercial banks over the preceding 6-month period. Lending institutions were allowed to add their own margins, based on operational costs and project risks. By the end of 1989, the on-lending rate of Development Finance Corporation of Ceylon (DFCC) to SMI customers was 16.5 per cent per annum compared to 14.5 per annum in 1988. In the case of direct lending for projects, rates were also fixed to the AWPR by the NDB and the DFCC at 4 percentage points below the average AWPR levels in the preceding 6-months. Lending rates applicable to equipment financing, loans for construction of commercial buildings and working capital and bridging finance ranged between 15 and 18 per cent per annum in 1989 which was about the same level that prevailed in 1988. The National Savings Bank and the State Mortgage and Investment Bank continued to provide long-term housing loans at rates of between 13 and 20 per cent per annum.

MONETARY POLICY

In order to curb the inflationary pressures that existed in 1988, the authorities were obliged to pursue an increasingly restrictive monetary policy in 1989. The main policy measures implemented during 1989, included further intensification of activities in the Treasury bill market, upward revision of Bank Rates and partial controls on commercial bank credit to private sector.

As regards open market operations, weekly auctions in the primary Treasury bill market were continued thereby providing a regular investment outlet for liquid funds of commercial banks and other investors. Market forces were permitted to be reflected in the determination of interest rate on Treasury bills. Consequently, the weighted average yield on 3-months Treasury bills decreased from 19.8 per cent at the end of 1988 to 15.38 per cent in June, 1989 but increased there after with some fluctuations to 18.1 per cent by end of the year. The yield on 6-months and 12-months Treasury bills rose from 16.5 per cent and 18.8 per cent in June to 18.2 per cent and 19.1 per cent in December, 1989 respectively. During the year, the non-Central Bank sources were encouraged to increase their participation in the primary Treasury bill market through newspaper advertisements. In February 1989, in addition to usual 3-months Treasury bills, bills with maturity periods of 6 and 12-months were introduced to the market. The availability of Treasury bills with differing maturities

was expected to provide a better portfolio option to investors, thereby facilitating further development of the money market. In addition, sale of Treasury bills under "Tap System", introduced in 1986 and limited to Regional Offices of the Central Bank, was expanded during the year to cover 8 commercial banks and 3 money brokers. This provided an easy access to the Treasury bill market, especially for investors in outer regions, and the buyers can purchase Treasury bills in advance from the forthcoming issue of the primary market at the weighted average rate prevailing in the preceding week in respect of each class of Treasury bills.

In the secondary Treasury bill market, the Central Bank endeavoured to reduce its holdings through intensified sales. Discount and re-discount rates in this market were adjusted to reflect the movement of yields in the primary Treasury bill market. Discount rates varied in a range of 11.5 - 18.0 per cent, while re-discount rates varied in a range of 16.5 - 23.0 per cent, during the year. A lower discount rate in this market than the primary market rate was maintained to improve the biddings in the primary Treasury bill market, while a higher re-discount rate was used to discourage sales by non-Central Bank holders to the Central Bank in this market. The gross sales in the secondary Treasury bill market rose by 15.4 per cent during the year as compared with the previous year. As a consequence of these changes, the holdings of Treasury bills by the non-bank sector more than doubled, from Rs. 6.6 billion at the end of 1988 to Rs. 15.5 billion at the end of 1989. This improvement helped to restrict the value of fresh Treasury bills that had to be held by the banking sector. Meanwhile, the share of holdings of Treasury bills by the Central bank reduced from 73 per cent at the end of 1988 to 57 per cent at the end of 1989.

In the context of deteriorating external payments position in mid-1989, monetary policy had to take a further restrictive stance by adopting three new policy measures. These included upward revision of Bank Rate, a partial ceiling on commercial bank credit to the private sector and a 100 per cent margin requirement against Letter of Credit on non-essential imports.

The bank rate was raised from 10 to 14 per cent with effect from June 1989, in order to provide a signal to commercial banks as to the direction in which the interest rate should move in the immediate future so as to dampen the demand for credit.

With a view to moderating the expansion of credit, a partial credit ceiling was imposed on commercial bank credit to non-priority sectors in mid-1989. Accordingly, commercial banks were instructed that their outstanding advances which include loans, overdrafts, import bills and local bills financed should not exceed the level as at May 31, 1989. However, credit facilities to priority sectors, including agriculture (cultivation and marketing loans) industry, export trade, pre-shipment export bill financing, were not restricted. In addition, advances granted under specific credit schemes for productive purposes (SMI Schemes, Praja Naya Niyamaka Scheme, Village Adoption Scheme, Self-Employment Scheme etc.) loans to long-term lending institutions and to Co-operative Wholesale Establishment (CWE) for essential food imports were also exempted from the ceiling.

In addition to these measures, a 100 per cent deposit margin requirement against Letters of Credit for specified luxury and semi-luxury items was imposed with effect from 15th June, 1989. This helps to arrest the worsening balance of payments position of the country by discouraging less essential types of imports.

Although the balance of payments and monetary conditions demanded the pursuance of a restrictive monetary policy, the Central Bank continued to provide refinance facilities to productive sectors through commercial banks and development financing institutions for the promotion of short-term and medium-term lending to priority sectors of the economy. The total outstanding refinance provided by the Bank under different scheme expanded by Rs.

458 million in 1989 to reach Rs. 4,312 million by the end of the year. The increases recorded were Rs. 206 million under export credit refinance scheme, Rs. 59 million under agriculture credit, Rs. 253 million under finance companies and Rs. 89 million under the MLCF. Meanwhile, refinance provided under the Guaranteed Price Scheme (GPS) decreased by Rs. 121 million. At the end of 1989, the ceiling on export credit refinance was Rs. 1,663 million excluding special refinance facility of Rs. 400 million for tea-exporters, while the available amount of funds under the MLCF remained unchanged at Rs. 1,875 million.

MONEY MARKET

Against the background of unsettled conditions, the activities of the money market grew somewhat moderately during 1989. The Treasury bill market played the leading role in determining the interest rates and availability of funds in the money market. As a result of the higher yields available in the Treasury bill market, the volume of funds in the inter-bank call money market was significantly reduced leading to a sharp rise in the call market interest rate. Meanwhile, stringent monetary controls which were operative throughout the year contributed towards maintaining pressure on short-term interest rates in the market.

Inter-Bank Call Money Market

As in the previous year, in 1989 the commercial banks dominated the activities in the inter-bank call money market. The bank of Ceylon, People's Bank, Commercial Bank of Ceylon and Hatton National Bank were the major lenders in the market. During 1989, the total turnover in the market showed only a marginal increase as compared with a growth of 25 per cent in the previous year. However, on a quarterly basis financial operations showed marked fluctuations thereby contributing to widen the range of minimum and maximum interest rates from 2 to 40 per cent in 1989, as compared with the range of 5 to 36 per cent in the previous year.

The operations in the call market increased sharply during the third quarter when compared with the first half of the year. The higher demand for funds increased the maximum interest rates in call money market from 24 per cent in the first quarter to 40 per cent in the third quarter. This was indicative of a shift in liquidity constraints faced by some banks on account of work disruptions and intensified civil disturbances in that quarter.

The Treasury Bill Market

(a) Primary Treasury Bill Market

In 1989, the value of Treasury bills offered in the primary market was Rs. 117 billion as compared with Rs. 142 billion in 1988. The reduction was due to the introduction of bills with long maturities in February, 1989. However, the total value of outstanding Treasury bills increased by 31 per cent to Rs. 57 billion in 1989.

A salient feature of the primary Treasury bill market in 1989, was the marked increase in value of Treasury bills purchased by the non-bank sector. The increased demand for Treasury bills in the primary market was due to several factors. First, the interest rate offered in the market was highly attractive compared to interest rates prevailing in the banking sector. Secondly, the introduction of Treasury bills with 6-months and 12-months maturity period provided a better portfolio option to investors. Thirdly, the sale of Treasury bills under the 'tap system' which further expanded its coverage in 1989, provided an easy access to the Treasury bill market for investors in outer-regions, as well as in Colombo. The non-bank sector investments increased by Rs. 9,959 million or 144 per cent to reach Rs. 16,865 million (face value) by the end of the year. In this category, the major investors were approved

TABLE 1.69

Money Market Operations (1987 - 1989)

(Amount Rs.Mn.)

Period		Call Money Market			Primary Treasury Bill Market				Secondary Treasury Bill Market			
		Total Lendings Borrowings	Outstanding as at end of period (a)	Total Bills Outstanding	Amount Issued	Amount Accepted (Purchases)				Total Sales	Total Purchases	Outstanding position as at end of period
						Central Bank	Commercial Banks	Others	Total			
1987												
1st	Quarter	31,499	796	26,750.0	26,827.4	19,299.0	2,361.7	5,089.3	26,750.0	17,561	7,680	280
2nd	Quarter	31,137	913	27,050.0	27,050.0	17,664.5	4,036.3	5,349.2	27,050.0	8,863	2,300	168
3rd	Quarter	32,365	562	28,600.0	28,600.0	19,973.7	4,507.6	4,118.7	28,600.0	11,476	5,321	1,308
4th	Quarter	37,336	1,076	29,850.0	29,850.0	22,288.1	3,334.6	4,227.3	29,850.0	11,257	7,880	312
1988												
1st	Quarter	50,035	1,837	28,700.0	30,200.0	22,131.0	3,659.0	4,410.0	30,200.0	16,413	5,733	233
2nd	Quarter	33,592	847	31,700.0	30,200.0	22,138.1	3,584.3	4,477.6	30,200.0	13,575	6,703	179
3rd	Quarter	48,120	917	36,200.0	38,700.0	26,751.9	4,730.1	7,218.0	38,700.0	13,486	7,029	326
4th	Quarter	33,482	726	43,700.0	42,700.0	32,269.7	3,524.7	6,905.6	42,700.0	17,865	5,868	1,516
1989												
1st	Quarter	34,087	885	47,700.0	47,700.0	33,668.1	4,814.8	9,217.1	47,700.0	27,355	6,405	472
2nd	Quarter	38,885	1,178	50,322.4	25,164.7	15,255.9	2,499.0	7,409.8	25,164.7	12,258	6,507	698
3rd	Quarter	54,085	908	54,745.8	25,211.8	17,088.1	2,989.0	5,134.7	25,211.8	15,582	5,346	717
4th	Quarter	37,051	790	57,245.8	19,234.5	11,490.6	3,554.2	4,189.7	19,234.5	15,960	4,991	713

Source: Central Bank of Sri Lanka.

(a) The outstanding amount as at the end of last week for each quarter

provident funds (Rs. 6,611 million), government corporations (Rs. 4,491 million), the National Savings Bank (Rs. 2,301 million) individuals, clubs and other companies (Rs. 1,901 million) and the National Development Bank (Rs. 265 million).

During 1989, commercial bank investments in the primary Treasury bill market grew by Rs. 2,757 million or 78 per cent. Meanwhile, the Central Bank's investments increased by only 2 per cent and stood at Rs. 34,098 million in 1989 thereby reducing its share in the total drastically from 76 per cent to 60 per cent.

With effect from 6th November, 1989 the Central Bank extended the sale of Treasury bills to the public under the 'Tap System' through authorized commercial banks and money brokers. This was in addition to the sale of Treasury bills under the 'Tap System' by regional offices of the Central Bank. The main purpose of extending the 'Tap System' was to enhance facilities available to investors in Treasury bills. The total Treasury bills sold by the regional offices under the 'Tap System' during 1989 rose significantly to Rs. 5,720 million, compared with Rs. 1,179 million recorded in 1988.

The weighted average rate in the primary Treasury bill market ranged between 12 and 19.4 per cent per annum in respect of the purchases by non-Central Bank investors. Meanwhile, the Central Bank continued to purchase Treasury bills at an average rate decided by the Central Bank, during the year under review.

(b) Secondary Treasury Bill Market

The operations of the secondary Treasury bill market (STBM) underwent a significant change in 1989, in that while purchases contracted, sales increased thereby contributing to a larger net-outflow of bills during the year. Total annual sales which amounted to Rs. 61,339 million in 1988, increased to Rs. 71,155 in 1989, while the total purchases decreased from Rs. 25,333 million to Rs. 23,249 million. This was indicative of a more intensified use of the market by the investors as an outlet for the placement of temporary liquid balances.

As in the previous year, commercial banks were the major purchasers in the STBM. The other major participants were the National Development Bank, the National Savings Bank, Development Finance Corporation of Ceylon and The Employees' Provident Fund.

The buying rate of Treasury bills (rediscount rate) in the fourth quarter of 1989 was in a range of 18.0-20.75 per cent per annum compared with the 22.5-23.0 per cent per annum range in the last quarter of 1988. Meanwhile, the selling rate (discount rate) of Treasury bills which ranged between 16.5 and 18.00 per cent per annum in the last quarter of 1988 decreased to a range of 13.0-15.75 per cent per annum during the last quarter of 1989. A significant difference between discount and rediscount rates in the STBM was maintained in order to discourage sales to the Central Bank.

Internal Foreign Exchange Market

The Central Bank continued to intervene in the internal foreign exchange market by selling US Dollars against Sri Lanka Rupees at rates pre-determined by the Central Bank for transactions with commercial banks. When the Central Bank transacted with commercial banks, a maximum spread of 3 Sri Lanka cents per US Dollar between spot buying and selling rates was maintained. At the end of 1989, the spot buying and selling rates per US Dollar were Rs. 39.9850 and Rs. 40.0150 respectively.

The Central Bank intervened in the forward market, depending on market conditions, by selling US Dollars with a forward cover upto six-months in order to maintain market stability for forward exchange rates. As at the end of the year, the Central Bank purchased

US Dollars one-month forward (with option) at a discount of 50 cts. below spot middle-rate per US Dollar, and three-months forward (with last month option) at a discount of Rs. 1 below the spot middle-rate per US Dollar.

The Off-shore Market

The off-shore banking activities of the foreign Currency Banking Units (FCBUs) of commercial banks increased in 1989. The total assets/liabilities of FCBUs as at the end of 1989 stood at Rs. 29,244 million (US\$ 731 million), compared to Rs. 21,617 million (US\$ 654 million) at the end of previous year. During the year, the category of 'non-resident banks' continued to possess the major share of total resources of FCBUs. However, the total resources held by the non-resident sector declined further to 55 per cent in 1989, from 57 per cent in 1988. As in the previous year, the commercial banking sector was the main category which increased its resources within the resident category. This was largely due to the increase in non-resident and resident non-national foreign currency (NRFC and RNNFC) deposits invested with FCBUs by commercial banks. The major borrowers of the FCBUs were the non-resident banks and the GCEC enterprises, whose loans and advances rose by 57 per cent and 32 per cent respectively during the year.

Money Market Instruments

Certificates of Deposits (CDs) and Treasury bills were the major money market instruments used in 1989. CDs were most popular among non-institutional investors due to its character of free negotiability and anonymity of ownership. The outstanding value of CDs issued by commercial banks and finance companies was Rs. 2,333 million at the end of 1989, as compared with Rs. 2,496 million at the end of the previous year. The decline may be partly due to the imposition of 3 per cent stamp duty on all certificate of deposits with effect from November, 1989. The rate of interest on CDs fluctuated within a range of 8-22 per cent per annum in respect of commercial banks and 10-22 per cent per annum in respect of finance companies. The corresponding ranges in the previous year were 8-15 and 8-18 per cent per annum.

CAPITAL MARKET

The capital market suffered a severe set-back during the first three quarters of 1989 but recovered slightly during the last quarter of the year. With the intensification of civil disturbances and work stoppages during the third quarter of the year, investors shunned the share market and tended to build liquid assets readily encashable. Accordingly, the total turnover in the market during 1989, dropped by a third compared with previous year. Similarly, reflecting the lower trading activities, the total number of shares traded in the market decreased from 13 million in 1988 to 12 million in 1989.

In 1989, the United Motors and Seylan Trust Bank Ltd. obtained quotations of the Colombo Stock Exchange (CSE), while two companies, viz. Multi Stretch and Rajarata Food Grain delisted themselves from the CSE thus bringing the total number of listed companies to 176, at the end of the year. Accordingly, the value of investments in the CSE as measured by the level of market capitalisation rose by Rs. 1.5 billion at the end of 1989.

Table 1.70
Share Market Indicators (1986-1989)

	1986	1987	1988	1989
Market Capitalization as at 31st December (Rs.Mn.)	12,026	18,728	15,571	17,087
Total Number of Shares issued as at 31st December (million)	779	819	919	1,048
Value of shares issued as at 31st December (Rs. Mn.)	7,790	8,196	9,190	10,404
Number of Shares Traded (million)	6	17	13	12
Value of Shares Traded (Rs. Mn.)	142	334	379	255
CSE All Share Price Index Annual Average (1985=100)	136.82	177.9	170.8	176.8
CSE Sensitive Price Index Annual Average (1985=100)	257.21	305.2	269.9	325.7
Percentage of the Total Issued Capital/Traded	0.82	2.1	1.43	1.17
Percentage of the value of Shares issued to GDP	4.34	4.17	4.12	4.12
Percentage of the Value of Shares Traded to GDP	0.08	0.17	0.17	0.10

Source: Colombo Securities Exchange (GTE) Ltd
Central Bank of Sri Lanka.

Primary Share Market

As a result of the adverse effects of the unsettled conditions, the activities of the primary share market recorded a substantial decline in 1989. This was reflected in terms of both the number and the value of new shares offered in to the market. In 1989, there were only two new issues (United Motors and Seylan Trust Bank Ltd.) compared with 9 new issues in 1988. The value of new shares offered by the United Motors and Seylan Trust Bank Ltd. , were at Rs. 90 million and Rs. 50 million, respectively. During 1989, Colombo Securities Exchange re-categorised the type of investment by including four new categories, viz Chemicals and Pharmaceuticals, Construction and Engineering, Footwear and Textiles and Motors.

Secondary Share Market

The activities of the secondary share market dropped significantly during the first three quarters of the year but moved-up somewhat during the last quarter. Although the total number of transactions increased from 13,009 in 1988 to 16,740 in 1989, the number and the value of shares sold dropped. The unsettled conditions in the country were primarily responsible for the poor performance of this market.

Despite civil disturbances, the annual average value of CSE all share price index and sensitive price index recorded increases in 1989 in contrast to the downward trend observed in 1988. All item share price index increased from 170.8 in 1988 to 176.8 in 1989 while the sensitive share price index rose from 269.9 to 325.7 . The category-wise distribution of shares traded in the secondary market during 1989 is shown in Table 1.71. The category of Banks, Finance and Insurance recorded the largest volume of trading in terms of both the number and value of shares traded during the year. However, compared with 1988, the average share price of this sector dropped from Rs. 36.67 to Rs. 23.31 per share. The categories of Beverages, Food and Tobacco, Investment Trusts, Land and Property, Chemi-

TABLE 1.71

**New Share Issues in the Primary Market and
Shares Traded in the Secondary Market**

Type of Investment	Secondary Share market				Primary Market					
	1989				1987		1988		1989	
	Number of Transactions	Number of Shares	Value (Rs. Mn.)	Average Prices (Rs.)	Number	Value (Rs. Mn.)	Number	Value (Rs. Mn.)	Number	Value (Rs. Mn.)
Banks Finance Insurance	3,930	2,375,889	55.4	23.31	2	174.0	3	55.0	1	50.0
Beverages Food & Tobacco	2,275	1,051,737	37.1	35.26	-	-	-	-	-	-
Chemicals & Pharmaceuticals	2,187	517,680	24.3	46.98	-	-	-	-	-	-
Constructions & Engineering	238	253,738	1.9	7.54	-	-	-	-	-	-
Footwear & Textiles	630	381,218	4.3	11.40	-	-	-	-	-	-
Hotels & Travels	1,414	2,174,846	12.3	5.65	-	-	-	-	-	-
Investments Trusts	1,310	1,536,911	30.9	20.10	-	-	-	-	-	-
Land & Property	1,157	2,037,130	24.6	12.08	1	10.0	5	93.5	-	-
Manufacturing	1,455	909,596	19.3	21.24	2	21.9	1	3.0	-	-
Motors	165	99,811	20.0	20.53	-	-	-	-	1	90.0
Oil Palms	7	727	0.2	255.24	-	-	-	-	-	-
Services	514	294,482	8.9	30.37	-	-	-	-	-	-
Stores & Suppliers	166	180,962	1.5	8.38	-	-	-	-	-	-
Trading	1,292	410,385	33.1	80.72	-	-	-	-	-	-
Total	16,740	12,225,112	273.8	22.38	5	205.9	9	151.5	2	140

Sources: Colombo Securities Exchange (GTE) Ltd.
Colombo Stock Exchange (G.S.E.) Ltd
Central Bank of Sri Lanka.

cals and Pharmaceuticals also recorded higher level of transactions during the year.

In terms of the market appreciation of share prices, Oil Palms category recorded the highest, followed by the categories of Chemicals and Pharmaceuticals and Beverages , Food and Tobacco. Shares of all the major categories of investments, except Construction and Engineering, Hotels and Travels and Stores and Supplies, performed on average, above their par value in 1989.