

PART II

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

ACCOUNTS AND BANKING OPERATIONS

The Balance Sheet of the Central Bank as at December 28, 1990, and the Profit and Loss Account of the Bank for the year ended December 28, 1990 are presented in Table 2.1. Total assets/liabilities of the Central Bank as at the end of 1990, stood at Rs.77,462 million registering an increase of 23.4 per cent over the previous year. On the assets side, International Reserves of the Bank increased by 60.8 per cent, other Assets and Accounts by 34.7 per cent and Domestic Assets by 11.2 per cent. Among Domestic Assets, short term advances recorded the highest increase of 74.6 per cent. Contributions to financial institutions rose by 69.4 per cent, refinance loans under the Medium and Long Term Credit Scheme by 61.9 per cent and loans and advances to the Government by 46.9 per cent. However, the Central Bank's investments in Treasury bills recorded a decrease of 7.2 per cent over the previous year.

On the liabilities side, capital accounts showed an increase of 467.3 per cent due to the transfer of Rs.500 million to the surplus account from profits of the previous year. Currency in circulation, which was the single largest liability item, showed an increase of 13.1 per cent over the previous year. The deposits with the Central Bank showed an increase of 46.8 per cent, of which the deposits of the Government rose by 30.0 per cent, government agencies and institutions by 220.8 per cent, commercial banks by 33.3 per cent and international organisations, foreign governments and foreign banking institutions by 73.5 per cent. The Medium and Long Term Credit Fund recorded an increase of 73.3 per cent. (A comparison of the major components of assets and liabilities of the Bank is shown in Table 2.2).

The income of the Bank for the year 1990, at Rs.7,727 million showed an increase of 11.3 per cent over the preceding year. After making allowances for expenditure and allocations to Reserve Accounts and provisions for depreciation and other charges, the net profit of the Bank amounted to Rs.750 million during the year under review. A sum of Rs.250 million was transferred to the surplus of the Bank in terms of Section 39 (b) of the Monetary Law Act. The balance sum of Rs.500 million was earmarked to be paid to the Government in terms of Section 39 (c) of the Monetary Law Act.

Foreign Exchange Operations

The Central Bank continued to determine daily spot buying and selling rates for the US Dollar against Sri Lanka rupees for its transactions with commercial banks. The Bank introduced a new system of fixing the daily exchange rate for the US Dollar with effect from August 20, 1990. Under the new system which is a further improvement of the exchange liberalisation policy, the Central Bank when announcing the daily exchange rate for the US Dollar, takes into consideration the current demand and supply conditions for foreign currencies in the local foreign exchange market, the overall liquidity position in the banking system, the movement of foreign exchange cross rates and other relevant factors. The spread between the spot buying and selling rates for the US Dollar was Rs.3.00 per US Dollars 100/-.

The Bank intervened when necessary in the forward market by selling US Dollars forward in order to maintain stability in the forward exchange rate. The Bank was

THE CENTRAL BANK
Balance Sheet as at

29th December 1989		LIABILITIES	28th December 1990	
Rs.	Rs.		RS.	RS.
15,000,000	107,000,000	Capital Accounts	15,000,000	607,000,000
92,000,000		Capital Surplus	592,000,000	
20,207,421,450	21,125,987,792	Currency in Circulation	22,869,022,916	23,900,533,812
918,566,342		Notes	1,031,510,896	
		Coins		
2,764,709,352		Deposits	3,593,301,872	
68,834,706		Government	220,749,507	
5,596,634,032		Government Agencies and Institutions	7,457,546,661	
		Commercial Banks		
		International Organisations,		
		Foreign Government and		
5,463,706,571		Foreign Banking Institutions	9,481,396,781	
		Compulsory Savings Fund excluding		
174,878	14,589,137,304	Rs. 16,787,750/-	133,632	21,423,375,571
695,077,765		invested in Treasury Bills	670,247,118	
		Others		
	2,631,958,214	Borrowings Abroad		999,397
	1,875,000,000	Medium and Long Term Credit Fund		3,250,000,000
	220,000,000	Capital Contribution Account		372,750,000
	22,221,401,356	Other Liabilities and Accounts		27,907,282,093
	62,770,484,666			77,461,940,873

Profit and Loss Account for the

29th December 1989			28th December 1990	
Rs.	Rs.		RS.	RS.
	5,939,397,126	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act.		6,976,653,959
		Net Profit for the Year ended 30th December, 1990		
505,371		To Monetary Adjustment Account in Liquidation of Balance in terms of Section 39(a) of the Monetary Law Act.		
500,000,000		Carried to Surplus in terms of Section 39(b) of the Monetary Law Act.	250,000,000	
500,000,000	1,000,505,371	To Part Liquidation Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.	500,000,000	750,000,000
	6,939,902,497			7,726,653,959

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 28th December, 1990 were audited under my direction in pursuance of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 42(1) of the Monetary Law Act, (Chapter 422).

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

W. Gamini Epa
Auditor-General

Auditor-General's Department,
Colombo 7.
15th April, 1991.

OF SRI LANKA
28th December 1990

29th December 1989		ASSETS	28th December 1990	
Rs.	Rs.		RS.	RS.
4,828,392,377	9,958,554,383	International Reserves		
4,678,005,347		Cash and Balance Abroad	8,460,710,058	
		Foreign Securities & Treasury Bills	7,533,610,210	
452,156,659		Holdings of Special Drawing Rights	16,337,923	16,010,658,191
	41,273,478,582	Domestic Assets		
7,599,551,611		Loans and Advances to Government	11,161,696,884	
1,572,145,018		Others – Medium & Long Term	2,545,258,079	
2,740,395,432		Short Term	4,785,005,960	
		Government and Government Guaranteed Securities	27,044,307,233	
29,141,386,521	11,538,451,701	Contributions to Financial and other Institutions	372,750,000	45,909,018,156
220,000,000		Other Assets and Accounts		15,542,264,526
		* Including Securities acquired from Government Institutions on 01st February, 1964, at a face value of Rs. 5,527,675/- and on 24th May, 1965, at a face value of Rs. 57,450/- (the estimated market value of these Securities were Rs. 2,933,697/- and Rs. 34,340/- respectively as on these dates).		
	62,770,484,666			77,461,940,873

year ended 28th December, 1990

29th December 1989			28th December 1990	
Rs.	Rs.		RS.	RS.
	6,939,902,497	By Interest, etc., Earned		7,726,653,959
	6,939,902,497			7,726,653,959

H.N.S. Karunatilake
Governor

M. B. Dissanayake
Chief Accountant

TABLE 2.2

**Comparison of Major Components of Assets and
Liabilities of the Central Bank as at the end of 1989 and 1990**

LIABILITIES					ASSETS				
ITEM	1989		1990			1989		1990	
	Rs. Mn.	%	Rs. Mn.	%		Rs. Mn.	%	Rs. Mn.	%
Capital Account	107.0	0.2	607.0	0.8	International Reserve	9,958.6	15.9	16,010.6	20.7
Currency in Circulation	21,126.0	33.7	23,900.5	30.9					
Deposits	14,589.1	23.2	21,423.3	27.6	Domestic Assets	41,273.5	65.7	45,909.0	59.2
Borrowings Abroad	2,632.0	4.2	1.0	—					
Medium and Long Term Credit	1,875.0	3.0	3,250.0	4.2	Other Assets	11,538.4	18.4	15,542.3	20.1
Capital Contribution A/c	220.0	0.3	372.8	0.5					
Other Liabilities	22,221.4	35.4	27,907.3	36.0					
Total	62,770.5	100.0	77,461.9	100.0	Total	62,770.5	100.0	77,461.9	100.0

Source : Central Bank of Sri Lanka.

regularly in the market for US Dollar forward purchases from commercial banks. The period of such cover was upto six months.

As in the past, the Central Bank invested its foreign exchange reserves in international money and capital markets.

Sale of Gold at Colombo International Airport

The Central Bank of Sri Lanka opened two gold sales outlets at the Colombo International Airport during the year under review. The first was opened in June at the Departure/Transit Lounge for departing and transit passengers to purchase their gold requirements. Gold purchased at this outlet cannot be brought back to Sri Lanka. The second gold outlet was opened in October, 1990 at the Arrivals Lounge at the Airport. Sri Lankan Passport holders are entitled to a special Duty Free Allowance of US Dollars 1000/- per person per annum exclusively for the purchase of gold at this outlet. Purchases at these outlets would be made only in convertible currencies designated by the Central Bank.

Asian Clearing Union

The total value of transactions routed through the Asian Clearing Union (ACU) facility in 1990 amounted to Rs.11,442 million as compared with Rs.16,209 million during the previous year.

The rupee value of net settlements made in foreign currency in 1990 amounted to Rs.4,401 million as compared with Rs.393 million in 1989.

The Swap facility that was introduced in 1989 continued to be operative during the year. The Bank availed of a net facility of Rs.754 million through this facility.

Bank Rate

The Central Bank's rate of interest (Bank Rate) on short-term advances to commercial banks secured by the pledge of Government Guaranteed Securities and against the pledge of Usance Promissory Notes relating to commercial and production loans was increased from 14 per cent per annum to 15 per cent per annum as from July 06, 1990.

Short Term Credit

The Central Bank's accommodation to commercial banks under Export Credit Refinance Schemes continued to be in operation throughout the year. The period of refinance for both Category I (traditional) and Category II (non-traditional) exports remained at 90 days. However, extensions by a further 30-day period were provided on a case by case basis upto a total of 120 days for both categories. The rate of interest in respect of refinance for Export Credit under Category I remained at 11 per cent per annum with an on-lending rate of 14 per cent per annum; for Category II exports, the corresponding rates were 6 per cent per annum and 9.8 per cent per annum, respectively. The Bank continued to refund 4 percentage points per annum of the interest charged on the export credit refinance so that the lending banks could pass the benefit on to the customers on export transactions, provided the export proceeds are received in Sri Lanka within the time limits stipulated by the Controller of Exchange. A special refinance facility of Rs.1,500 million for 180 days at an interest rate of 15 per cent per annum was provided to the People's Bank and Bank of Ceylon for the import of rice and wheat flour/

grain and holding of buffer stocks by the Co-operative Wholesale Establishment on behalf of the Government.

The rate of interest on Central Bank advances against the pledge of Usance Promissory Notes of Co-operative Societies or of individuals relating to the production of paddy, vegetables and other specified crops was increased from 1.5 per cent per annum to 4.5 per cent per annum as from April 01, 1990. These advances were disbursed under the New Comprehensive Rural Credit Scheme. The rate of interest on Central Bank's advances to commercial banks against the pledge of Usance Promissory Notes, in respect of advances granted to Co-operative Societies, Agrarian Service Centres and authorized persons, to finance the purchase of paddy and for the purchase and storage of other specified crops grown locally, remained unchanged at 3 per cent per annum.

Medium and Long Term Credit Fund

The Medium and Long Term Credit Fund which stood at Rs.1,875 million as at end 1989, increased to Rs.3,250 million as at end 1990. As commitments increased considerably, amounts totalling Rs.1,375 million were transferred to the Fund from the General Reserve Account of the Bank during the year.

In 1990, the Central Bank revised the rate of interest applicable to loans granted under Category I of the MLCF from 12.5 per cent per annum to 14 per cent per annum and the Central Bank's refinance rate was fixed at 7 per cent per annum, thereby allowing an on-lending margin of 7 per cent per annum for the lending institutions. Under Category II of the Scheme, the margin allowed for the participating credit institutions was raised by 2 per centage points to 4 per cent in 1990 but the corresponding Central Bank refinance rates were reduced by the same percentage points with a view to maintaining the on-lending rates at the previous levels. The interest rates on Categories III to IV of the Scheme remained unchanged.

Accommodation to Finance Companies

The Central Bank continued to grant financial accommodation to commercial banks in terms of Section 20 (4) (a) and 21 (1) of the Finance Companies Act No.78 of 1988, in respect of their lending operations with non-bank financial institutions facing temporary liquidity problems and/or whose administration and management have been taken over by the Monetary Board. The total amount disbursed on this account upto end 1990 amounted to Rs.684 million.

Reserve Requirements

The statutory reserve ratio on demand, and time and savings deposits liabilities of commercial banks remained at 15 per cent while the quantum of Treasury bills that could be held for reserve requirement purposes also remained unchanged at 5 percentage points during the year.

Commercial Bank Credit

(a) Credit Ceiling

In 1990, the Central Bank continued with the credit ceiling restrictions enforced in the previous year, when the Central Bank directed commercial banks that with effect from June 15, 1989 the total amount of advances granted and outstanding to the private sector should not exceed their total advances granted and outstanding as at May 31, 1989.

(b) Margin Requirements on Letters of Credit

The Central Bank also continued with the directive given to commercial banks to obtain from their customers a 100 per cent cash margin on Letters of Credit issued as from June 15, 1989, for specified imports considered non-essential.

Imports made on completely knocked down (CKD) basis, wherever applicable, of items considered as non-essential also were subject to 100 per cent cash margin with effect from March 30, 1990. Import of goods sold at the Duty Free Shopping Complex at the Colombo International Airport, Katunayake, were exempted from the requirement of the 100 per cent cash margin as from July 30, 1990.

Secondary Market Operations in Treasury Bills

The sales turnover of Treasury bills in the Secondary market decreased from Rs.72,810 million in 1989 to Rs.67,907 million in 1990. The purchase turnover also decreased marginally from Rs.21,428 million to Rs.21,355 million during the year. The net sales turnover to the non-banking sector decreased from Rs.15,399 million in 1989 to Rs.8,132 million in 1990.

The discount rates applicable to Secondary Market Operations in Treasury bills varied between 13.25 per cent and 20.5 per cent during the year.

Subsidy and Ex-gratia Payment to Indian Repatriates

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

Import Duty Rebate to Exporters

The Bank continued to reimburse on behalf of the Government, claims made by commercial banks in respect of import duty rebates paid to exporters. A total sum of Rs.668.4 million was reimbursed during 1990.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies collected in terms of the Compulsory Savings Act No.6 of 1971 and the Ceiling on Income and Compulsory Savings Law No.15 of 1972 and administered the Compulsory Savings Fund on behalf of the Government. During the year, the Bank paid out to contributors Rs.0.2 million (inclusive of interest) on 54 applications received.

Government Accounts

As banker to the Government, the Central Bank continued to maintain accounts of Government Departments, Government Agencies and Institutions and certain statutory bodies. The number of operational accounts at the end of December, 1990 was 189.

CURRENCY ISSUE

Currency in circulation continued to rise in 1990 to meet the demand for currency from the public. The total currency in circulation as at end of 1990 stood at Rs.23,900 million which is an increase of 13.1 per cent over the previous year.

The value of notes in circulation in 1990 rose to Rs.22,868 million, a 13.2 per cent increase over the previous year. Notes in circulation comprised 95.6 per cent of the total currency in circulation at end of 1990. In terms of value, the Rs.1,000/- note represented 52.1 per cent of total notes in circulation, followed by Rs.500/- (23.0), Rs.100/- (16.9), Rs.50/- (3.8), Rs.10/- (2.4), Rs.20/- (1.4). In terms of volume, the Rs.10/- note had the highest circulation followed by the Rs.100/-, Rs.50/-, Rs.20/-Rs.1,000/- and Rs.500/-. The Bank continued with the progressive withdrawal from circulation of notes of the denomination of Re.1/-, Rs.2/- and Rs.5/-.

In 1990, Rs.108 million of unserviceable notes were withdrawn from circulation. These notes with a face value of Rs.9,112 million were cancelled and destroyed.

The value of coins in circulation amounted to Rs.1,031 million as at the end of 1990, showing an increase of 12.3 per cent over the previous year. (This includes commemorative coins to the value of Rs.134 million).

In terms of value, the coins in circulation comprised 4.4 per cent of total currency in circulation. As at 31st December 1990, the denomination with the highest value in circulation was Rs.5/- followed by Re.1/-, Rs.2/-, cts.-/50, -/25, -/10, -/5, Rs.10/-, -/02 and -/01. In terms of volume, the largest number of coins in circulation was cts. -/05 followed by cts. -/10, cts. -/01, cts. -/02, -/25, -/50, Re.1/-, Rs.2/-, Rs.5/-, Rs.10/- and Rs.500/-.

A commemorative silver coin valued at Rs.500/- was issued by the Central Bank on 28th August, 1990 as a part of the celebrations of its 40th Anniversary.

Cash operations in the Regional Offices of Anuradhapura and Matara commenced on 1st June 1990 and 1st July 1990, respectively, expanding the regional currency services of the Central Bank.

Bradbury Wilkinson (Pvt.) Ltd., Biyagama, the Joint Venture Security Printing Plant set up in collaboration with the Government of Sri Lanka supplied all the requirements of printed currency notes in 1990. With effect from 10th December, 1990 the Company changed its name to Thomas De La Rue Lanka (Private) Ltd., by which name they will be known in future following the changes in the ownership of the parent company.

BANKING DEVELOPMENT

The number of commercial banks operating in the country remained at 24 as at December, 1990 comprising 6 indigenous banks and 18 foreign banks. The indigenous banks consisted of the 2 state banks and 4 private banks.

In expanding banking services, the number of bank branches was increased by 30 during 1990 to reach a total of 740 at the end of the year. Of the two state banks, the Bank of Ceylon played the lead role in expanding the branch network in 1990. Five new branches were opened at Piliyandala, Hanwella, Digana, Imaduwa and Dickwella while the ASC branches at Galaha, Kuruwita, Ayagama and Maturata were upgraded to 'C' grade status. Maturata ASC branch was renamed "Padiyapalella" after the upgrading. During 1990, the ASC branches of Kibissa and Wilgamuwa were amalgamated with the main branches of Dambulla and Hasalaka, respectively, while 2 main branches at Mankulam and Kinniya and the ASC branch at Kobeigane were re-opened. Further, the closure of the main branch at Walasgala and two ASC branches at Pambahinna and Kodagoda were also effected during 1990. As a result of these, the number of main

branches of the Bank of Ceylon stood at 247 while the ASC branches numbered 38 at the end of 1990. The number of overseas branches of the Bank of Ceylon, remained unchanged at 2.

The People's Bank, opened two outstation branches at Marawila and Panadura in March and April 1990, respectively. A Corporate branch was also opened at the Head Office building in November, 1990. Meanwhile, the branches at Kinniya and Mahaoya were also re-opened during the year. Consequent to these changes, the number of People's Bank branches operating in the country increased to 306 as at the end of 1990.

During 1990, the Hatton National Bank Ltd., opened 3 new branches at Piliyandala, Chilaw and Bambalapitiya. In addition, a counter was opened at the pre-custom area at the International Airport, Katunayake, posting a total of 39 branches. The Commercial Bank of Ceylon Ltd., also established 3 new branches at Borella, Kegalle and Nugegoda increasing the number of bank branches to 19. With the opening of 2 new branches at Wattala and Matara, the Sampath Bank expanded its branch network to 13. In addition, an ATM was installed at the Liberty Plaza, Kollupitiya. Meanwhile, the Seylan Bank Ltd., established 11 new branches in 1990 bringing the total number of its branches to 17. These were at Galle, Ratnapura, Kollupitiya, Kegalle, Moratuwa, Nugegoda, Gampaha, Negombo, Dehiwela, Chilaw and Kandy.

In the case of foreign banks, the Habib Bank and the Standard Chartered Bank opened a branch each at Navam Mawatha and Bambalapitiya, respectively. With the addition of these two branches, the total number of branches of foreign banks stood at 23, by the end of 1990.

In October 1990, a Regional Rural Development Bank (RRDB) was opened in the administrative district of Badulla and it had opened four branches at Badulla, Welimada, Diyatalawa and Passara during the year. The RRDBs of Kurunegala, Hambantota, Kandy and Moneragala too expanded their branch network by opening a branch each in their respective districts. The RRDBs in the Puttalam and Nuwara-Eliya districts opened 2 branches each. The RRDB Kegalle amalgamated its Panwala branch with its Ruwanwella branch, reducing the number of its branches to 10. Consequent to these changes, the total number of operative RRDB branches rose to 100 at the end of 1990. The National Savings Bank opened 7 new branches increasing its total number of branches to 76 by the end 1990.

The trend in development of banking services by adopting sophisticated and innovative banking techniques and instruments continued in 1990 with the thrust being on modifications and improvements to the existing banking infrastructure. Yet another private sector bank, Standard Chartered Bank, introduced ATM facilities for current & savings account customers. The cheque drawing facility allowed on savings accounts was withdrawn on a decision by the Central Bank with effect from 23rd April, 1990, in order to regularise withdrawals from savings accounts. The commercial banks also continued to launch special schemes to fund self employment projects by small scale entrepreneurs and unemployed youth in response to Government policy guidelines, the emphasis of which was on project/development oriented lending as against collateral based lending.

Small Farmers & Landless Credit Project

The Central Bank is the executing agency for the Small Farmers & Landless Credit (SFLC) Project funded by the International Fund for Agricultural Development (IFAD)

and Canadian International Development Agency (CIDA). The project aims at alleviating rural poverty of approximately 32,870 households and assisting in the regional development of the districts of Puttalam, Kandy, Galle and Matara. The project objectives are to build up a suitable cost effective system of extending, with little or no collateral, institutional credit to the rural poor to meet their short and medium term credit requirements. The Project also seeks to encourage greater involvement of women in rural based income generating activities and bring about greater mobilization of rural savings for re-investment at the regional level.

Although the Project took off the ground in 1989, due to the unsettled conditions, the opening of the Project District Offices was delayed. Accordingly, the Puttalam and Kandy offices were opened in May, 1990 and Galle and Matara offices in December, 1990. The credit schemes were also inaugurated in the four districts in May and December, 1990 respectively.

The estimated number of beneficiaries in the Puttalam and Kandy districts was in the region of 18,770 and Galle and Matara districts 14,100. The Project provides for a total fund of Rs. 517.9 million of which the Government's contribution amounts to 23 per cent.

The Government, non-government organizations and foreign agencies are participating in the implementation of the Project. The RRDBs in the four Project Districts have been assigned a key role in the implementation of this Project as financial institutions for the Project. The participating agencies are being given an important role in the group credit delivery mechanism.

BANK SUPERVISION

In 1990, examinations in respect of 13 commercial banks, including one Regional Rural Development Bank, were undertaken by the Bank Supervision Department, of which nine examinations were concluded before the end of the year. The Department also concluded the examinations of three commercial banks which were not finalised in 1989.

In pursuing its off-site surveillance over commercial banks, the Department continued to monitor the financial condition of commercial banks on the basis of monthly statements of assets and liabilities. The continuous supervision of commercial banks was further strengthened by an analysis of periodical returns on advances portfolios of commercial banks and other statements that are expected to be furnished pursuant to directions issued in terms of the Banking Act No.30 of 1988. In addition, action was initiated in respect of violations of applicable laws, rules, regulations and directions by commercial banks that were elicited during the on-site and off-site document-based examinations.

Aside from the continuous supervision of commercial banks, the Department continued to monitor the adherence by commercial banks to the directions issued under the Banking Act, which specify minimum capital and liquidity ratios, limits on lendings to a single borrower, lendings to directors' interests and restrictions on share holdings. Further, as a measure to strengthen its supervisory role, the Department also monitored the compliance by commercial banks with the credit ceilings imposed in June, 1989 on bank credit to non-priority sectors and on cash margin requirements on Letters of Credit

for specified imports considered non-essential. The Department also monitored the commercial banks' adherence to the working balance limits imposed on them by recourse to the Daily Returns of Positions of foreign currencies. Recognising the importance of having a uniform system of publishing financial statements, the Department initiated action to implement Part V of the Banking Act by means of a notification published in the Government Gazette No.628/10 dated 18th September, 1990. Consequent upon the implementation of part V of the Banking Act, the Department introduced "Accounts Formats for Banks" thereby establishing minimum standards on disclosure in the presentation of Annual Financial Statements by commercial banks. The Department also initiated action to introduce a set of guidelines for compliance by commercial banks in respect of suspension of interest on non-performing advances and provisioning against bad and doubtful advances.

The Department continued to monitor the transactions of Foreign Currency Banking Units established by commercial banks under the "Foreign Currency Banking Scheme" on the basis of monthly returns furnished by them. The profitability of both domestic banks and Foreign Currency Banking Units was analysed on the basis of returns furnished to the Department.

During 1990, the Department continued to administer the Deposit Insurance Scheme which came into operation with the promulgation in April, 1987 of the Regulations under Section 32E of the Monetary Law Act. This Scheme extends its coverage to commercial banks, Regional Rural Development Banks and co-operative rural banks of the Multi-purpose Co-operative Societies on an optional basis.

During 1990, 16 Multi-Purpose Co-operative Societies with a network of 116 co-operative rural banks were examined by the Department prior to their applications being considered for registration under this Scheme.

As at end of December, 1990, two commercial banks, three Regional Rural Development Banks and eight Multi-Purpose Co-operative Societies with a total of sixty five co-operative rural banks had been registered as insured societies and insured banks.

SUPERVISION OF FINANCE COMPANIES

The total deposits with finance companies increased from Rs.6,527 million as at the end of 1989 to Rs.6,707 million as at end of 1990. This increase needs to be viewed in the context of the restructuring that was in progress in the finance companies sub-sector of the financial sector which contributed to reducing the number of active finance companies from about 60 as at end of 1989 to about 40 at the end of 1990. By the end of 1990 the Monetary Board of the Central Bank had granted registration and licence to 20 finance companies to conduct finance business. The total deposits of these registered companies amounted to Rs.5,423 million as at the end of 1990. While the overall increase in deposits with finance companies in 1990 was 2.7 per cent, the increase in the deposits of the 20 companies registered was 12.2 per cent.

The Department of Supervision of Non-Bank Financial Institutions continued to monitor and supervise the finance companies registered with the Central Bank by conducting regular on-site examinations and surveillance of such companies on the basis of statistical data furnished by them. In order to further strengthen the supervisory and regulatory functions of the Central Bank over finance companies, amendments to the

Finance Companies Act No.78 of 1988 were promulgated as Emergency Regulations under Section 5 of the Public Security Ordinance (Chapter 40). Comprehensive on-site examinations were conducted in respect of finance companies as in the previous year. As a preliminary to the registration of finance companies, the business activities of the companies which were eligible for registration were examined in depth. The off-site surveillance through the Early Warning System (EWS) which was introduced in February 1989 continued during 1990.

One finance company which gave clear indications of mismanagement was subject to an investigative audit through a firm of independent auditors appointed by the Central Bank under Section 12 (d) of the Finance Companies Act No.78 of 1988. Subsequently, the business of the Company was suspended in terms of Section 18 (1) of the same Act and on the expiry of the suspension period the Company was directed to divest finance business and submit a programme to settle deposit liabilities.

Registration of Companies

In terms of Section 2 of the Finance Companies Act No.78 of 1988, only public companies registered under the Companies Act No.17 of 1982 with a minimum issued and paid up capital of not less than Rs.5 million and registered by the Central Bank are permitted to carry on finance business. However, the institutions that were carrying on finance business on the day preceding the enactment of the Finance Companies Act were permitted to carry on finance business for a transitional period of 2 years notwithstanding the fact that they were not registered in terms of the Act. Through the notices published in the Press the public was informed that it is illegal to conduct finance business by unregistered financial institutions after the expiry of the transitional period on 18th December, 1990.

During the second half of 1990, the Central Bank initiated action to register finance companies under the provisions of the 1988 Finance Companies Act. Subsequent to the announcement of rules and prescribed forms of application relating to registration and licensing of finance companies under the Act in June, 1990, 30 finance companies applied for registration in 1990. By the end of 1990, 20 of these companies which satisfied the requirements for registration were granted licences to carry on finance business for a period of 12 months.

The financial institutions which had not registered by 18th December, 1990 were directed to divest their finance businesses and to commence settling their liabilities to depositors within 30 days of the issue of Direction No.2 of 1990 given by the Monetary Board on 17th December, 1990. In terms of Direction No.2, the financial institutions not registered were required to pay their deposit liabilities in the following manner:-

- i. Those financial institutions which had deposit liabilities exceeding Rs.40.0 million as at 19th December, 1990 shall pay up their deposits by not less than 5 per cent per month; and
- ii. Those financial institutions which had deposits not exceeding Rs.40.0 million shall pay up by not less than 8.5 per cent per month.

During the year 1990, investigation reports on five finance companies, the administration and management of which have been vested in the Monetary Board, were

TABLE 2.3
Prosecutions Instituted for Offences under the Finance Companies Act
No.78 of 1988 during the year ending 31.12.1990

Nature of Offences	No. of Companies	No. of Directors Prosecuted**	No. of Cases	Remarks	
				Convictions	Pending
1. Failure to invest 6% of average month end deposit liabilities in approved securities	05	22	27		27
2. Failure to maintain 15% of deposit liabilities in the form of liquid assets	01	05	05		05
3. Unauthorised change of place of business	01	07	07	06	01
4. Failure to submit audited annual statements	05	21	21	08	10*
5. Failure to submit monthly statements on assets and liabilities	01	05	15		15

Notes: * 3 cases compounded

** Some directors were prosecuted more than once for different offences.

forwarded to the Attorney General for his examination as to the criminal action which could be instituted against the directors of these companies. Two of these reports were subsequently forwarded to the Criminal Investigations Department to gather further evidence and to carry out prosecutions.

Officials of the Department of Supervision of Non-Bank Financial Institutions instituted 75 prosecutions against 46 Directors of nine finance companies in the Magistrates' Courts of Colombo Fort, Gampaha and Panadura in respect of several offences under the Finance Companies Act No.78 of 1988. Details of action taken regarding the offences are given in Table 2.3. In addition, 69 actions for recovery of debts owing to companies vested in the Monetary Board were filed in Courts; seven of these cases have been filed against Directors.

The following amendments were promulgated by the President under Section 5 of the Public Security Ordinance (Chapter 40) as amendments to the Finance Companies Act.

- (a) In terms of Emergency (Finance Companies) Regulation No.1 of 1990, Section 25 of the Finance Companies Act No.78 of 1988 was amended by repeal of sub-section (1) thereof and substitution by a new sub-section, the purpose of which was to strengthen the special procedure embodied in Section 25 to take legal action against the Directors, Chief Executive, Manager, employee or an agent of a finance company who has fraudulently, wrongfully and unlawfully enriched himself or any other person or persons by misapplication or any other improper utilisation of any money or property belonging to the company or has by an act of omission enabled any other person to do so.

TABLE 2.4**Progress of Relief Payments to Depositors As at December, 1990**

Name to Finance Company	Total No. of Deposits	No. of Deposits paid	No. of Deposits paid as a percentage of total Deposits	Amount paid (Rs. '000)
	(1)	(2)	(3)	(4)
Union Trust & Investments Ltd.	18,331	13,245	72.2	144,080
Hideki Finance & Investments Ltd.	4,487	4,131	92.1	44,238
Home Finance Ltd.	12,585	2,972	23.6	26,685
Sarabhoomi Investments Co.(Pvt.)Ltd.	401	358	89.3	3,678
The Finance & Guarantee Co.Ltd.	3,198	401	12.5	1,151
Castle Finance Ltd.	2,756	2,479	89.9	30,814
Total	41,758	23,586	56.5	250,646

- (b) In terms of Emergency (Finance Companies) Regulations No.2 of 1990 a new Section 12B was inserted to the Act. The purpose of this amendment was to enable the Monetary Board to appoint representatives to registered finance companies to monitor their affairs.

The Depositor Relief Scheme, which became operational in 1989, continued to be implemented in 1990. The progress of relief payments to depositors of the distressed finance companies is shown in Table 2.4. The payments under the relief scheme were financed mainly by refinance loans granted to these companies from the Medium and Long Term Credit Fund of the Central Bank. The total of refinance loans granted to these companies amounted to Rs.214 million.

A seminar on the Restructuring of the Non-Bank Financial Sector was held on 28th July, 1990 sponsored by the Central Bank, along with a non-governmental organisation. The Seminar was attended by senior managers of finance companies, audit and legal firms and the general public. A wide range of topics relating to the restructuring of the finance company sub-sector were discussed at the Seminar. Dr.H.N.S.Karunatilake, Governor of the Central Bank, addressed the participants on the subject, "Financial Sector Restructuring for the Nineties" and Dr.N.L.Sirisena, Director of the Department of Supervision of Non-Bank Financial Institutions, presented a discussion paper on "Upgrading Management Systems in Finance Companies".

The Department of Supervision of Non-Bank Financial Institutions, in collaboration with the SEACEN Research and Training Centre in Kuala Lumpur, Malaysia, organised the 15th South-East Asian Central Bank (SEACEN) Training Course on Inspection and Supervision of Financial Institutions which was held in Colombo during January 29 to March 2, 1990 hosted by the Central Bank of Sri Lanka. The Training Course had the participation of 27 officials of Central Banks of Indonesia, Malaysia, Nepal, the Philippines, Thailand and Sri Lanka.

DEVELOPMENT FINANCE

During 1990, the administration of the Medium and Long-Term Credit Fund and the operation of the Credit Guarantee Schemes for Small and Medium Scale Industries continued to be the responsibility of the Development Finance Department.

Medium and Long-Term Credit Fund

The approvals for refinance by the Central Bank under Categories II, III, IV and Special Refinance Facilities for Sick Industries under Medium and Long-Term Credit Fund amounted to Rs.908 million in 1990 compared to Rs.440 million in 1989. Refinance approvals for export projects under Category II were granted to 7 projects in 1990 including garments, prawn culture and handicraft amounting to Rs.23 million, which was a 29 per cent decrease over the previous year. No refinance was granted by the Central Bank in respect of capitalisation of accumulated interest on loans granted to tourist hotels and for agriculture during the year under review. Refinance for industries amounting to Rs.72 million included loans granted for the setting up of a circular knitted fabric unit and a textile processing unit. Refinance loans granted for other purposes amounted to Rs.26 million which included construction of two private hospitals and a commercial building. The largest amount of refinance approved during 1990 was by way of assistance to sick industries totalling Rs.787 million. A breakdown of the Medium and Long-Term refinance approvals is given in Table 2.5.

TABLE 2.5
Medium and Long-Term Credit Fund
(Approvals of Refinance under Categories II, III & IV)
1988 - 1990

(Rs.Mn.)

Category	1988		1989		1990	
	Loan amount	Amount Refinanced	Loan amount	Amount Refinanced	Loan amount	Amount Refinanced
II Export Sector	27.2	19.0	46.2	32.3	32.7	22.9
III & IV						
i. Agriculture	72.0	43.2(a)	14.7	8.8(a)	-	-
ii. Industry	2.8	1.7	35.4	21.2	72.6	71.6
iii. Hotels					-	-
iv. Other	15.0	15.0	80.0	80.0	43.5	26.1
Assistance to Sick Industries	272.6	175.8(b)	463.1	298.2(c)	787.4	787.4
Total	389.6	254.7	639.4	440.5	936.2	908.0

Source: Central Bank of Sri Lanka

- (a) Comprises four loans granted in 1988 and one loan granted in 1989 to Bank of Ceylon for Tree Crop Projects under the Medium Term Investment Programme.
- (b) Includes two loans granted for refurbishing of 2 hotels and capitalisation of interest in arrears on loans granted to 13 tourist hotel projects.
- (c) Includes refinance granted in respect of capitalisation of interest in arrears on loans granted to 27 tourist hotel projects.

On representations made by the Ministry of Tourism and Rural Industrial Development and the Tourist Hotels Association of Sri Lanka, the Monetary Board approved as of 6th December 1990, a refinance scheme in respect of the following:

- (1) Refurbishing/replacement of assets of existing tourist hotels approved by the Ceylon Tourist Board. Refinance approved for this purpose was Rs.200 million.
- (2) Import of buses/coaches with a seating capacity of 30 or more for the transport of tourists. Refinance approved for this purpose was Rs.100 million.

Refinance in respect of the above purposes was granted under Category IV of the Medium and Long Term Credit Fund and the Operating Instructions governing the schemes were issued on 14th December 1990 to all credit institutions. However, no application for refinance was received during the year 1990.

Credit Guarantee Operations

A summary of credit guarantee operations under the four credit guarantee schemes administered by the Central Bank as at 31st December, 1990 is given in Table 2.6

Small Scale Industries (SSI) Scheme

The issue of credit guarantees under the SSI Scheme which commenced in 1978 was completed in 1981. Out of a total of 767 loans guaranteed during this period, 593 loans amounting to Rs.23 million were fully repaid while 71 guarantees amounting to Rs.4 million were either withdrawn or lapsed as at end of 1990 due to noncompliance with the Central Bank's operating instructions by the Participating Credit Institutions (PCI). Meanwhile, 88 claims with a liability of Rs.2.4 million were received as at end of 1990, of which 63 claims amounting to Rs.1.7 million were settled while an interim payment not exceeding 50 per cent of the Central Bank's liability amounting to Rs.400,000 was made in respect of one claim. Seven claims amounting to Rs.0.22 million were rejected on account of non-compliance with the Central Bank's operating instructions. Loans relating to 16 claims with a Central Bank's liability of Rs.0.24 million were fully repaid by the borrowers after submission of claim applications, while one claim amounting to Rs.0.27 million was deferred owing to rescheduling of the loan by the PCI. The total premium collected from the PCIs under the scheme as at the end of 1990 amounted to Rs.0.92 million while post claim recoveries by the Central Bank amounted to Rs.0.36 million as at the same date.

Small and Medium Scale Industries - I (SMI - I) Scheme

The SMI - I Scheme which commenced operations in 1979 was completed in 1982. Under this scheme, 1,670 guarantees were issued to cover loans amounting to Rs.286 million. Out of these guaranteed loans, 1,189 were fully repaid and 85 guarantees amounting to Rs.24.5 million were either withdrawn or lapsed as at end of 1990 due to non-compliance with the Central Bank's operating instructions by the PCIs. At the end of 1990, 327 claims with a liability amounting to Rs.31.7 million were received, of which 220 claims amounting to Rs.17.6 million were settled while interim payments not exceeding 50 per cent of the Central Bank's liability amounting to Rs.2.1 million were made in respect of 28 claims, in terms of a decision to settle claims submitted by PCIs in the Northern and Eastern Provinces of the country without a project inspection, 26 claims amounting to Rs.4.7 million were rejected on account of non-compliance with operating

TABLE 2.6
Summary of Central Bank Credit Guarantee Schemes as at 31.12.1990

(Value Rs. Mn.)

Schemes and Years Items	Small Scale Industries (SSI)				SMALL AND MEDIUM SCALE INDUSTRIES											
					SMI - I				SMI - II				SMI - III			
	1989		1990		1989		1990		1989		1990		1989		1990	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans granted	767	31.20	767	31.20	1,670	286.10	1,670	286.10	2,531	1,392.54	2,531	1,392.54	1,047(e)	636.96	2,340(f)	1,383.23
1.2 Loans guaranteed	767	23.40(a)	767	23.40(a)	1,670	157.50(b)	1,670	157.50(b)	2,531	713.63(c)	2,531	713.63(c)	1,047	440.07(d)	2,340	955.88(d)
2.1 Loans fully repaid	584	22.54	593	22.90	1,142	148.59	1,189	168.69	230	51.97	487	149.90	3	4.41	12	7.81
2.2 Guarantees withdrawn or lapsed	64	3.94	71	4.04	78	23.18	86	24.51	180	105.65	238	129.95	14	4.56	97	74.91
Claims																
3.1 Total claims received	83	4.29(g)	88	4.32(g)	320	72.22(g)	327	73.30(g)	110	62.51(g)	144	66.25(g)	-	-	03	1.35(g)
3.2 Central Bank Liability		2.41		2.42		31.58		31.73		27.31		36.17	-	-		0.89
3.3 Settlement of Claims																
3.3.1 Fully settled	57	1.86	63	1.68	216	17.32	220	17.62	48	8.26	76	18.73	-	-	01	0.01
3.3.2 Partly settled (50%)	-	-	01	0.004	27	1.95	28	2.11	09	0.87	08	0.82	-	-	-	-
3.3.3 Claims rejected	06	0.22	07	0.22	25	5.31	26	4.72	19	3.59	32	7.61	01	0.56	01	0.56
3.3.4 Loans fully paid after submission of claims (h)	16	0.24	16	0.24	36	1.52	37	2.03	02	0.58	02	0.58	-	-	-	-
3.3.5 Claims deferred(i)	-	-	01	0.27	11	2.34	12	3.04	16	5.34	22	6.54	-	-	01	0.32
3.3.6 Claims pending(i)	04	0.29	-	-	06	1.19	04	0.09	16	7.80	04	1.07	-	-	-	-
4.1 Loans outstanding (1.1 - 2.1 - 2.2 - 3.3.1 - 3.3.2 - 3.3.3)	56	1.43(j)	32	1.14(j)	182	25.77(j)	122	17.76(j)	2,045	812.38(j)	1,690	604.61(j)	739	347.12(j)	1,883	975.58(j)
4.2 (of which in arrears)	56	1.43(j)	32	1.14(j)	154	22.14(j)	117	17.02(j)	548	267.62(j)	739	192.51(j)	48	1.52(j)	181	18.02(j)
4.3 Central Bank liability on guarantees outstanding	56	1.07(a)	32	0.86(a)	182	15.01(b)	122	10.32(b)	2,045	445.06(c)	1,690	337.69(c)	739	198.73(d)	1,883	604.70(d)
5. Premia Collection		0.91		0.92		11.63		11.84		18.43		22.69		2.14		8.32
6. Post Claim Recoveries		0.16		0.36		1.15		2.75		0.04		0.67		-		-

(a) 75% of loans outstanding.

(b) 60% of loans outstanding subject to maximum of Rs. 0.4 mn. per project.

(c) 60% of loans outstanding subject to maximum of Rs. 0.8 mn. in respect of loans upto Rs. 2.0 mn. and Rs. 1.2 mn. for loans between Rs. 2.0 mn. to Rs. 4.0 mn.

(d) 80%, 60% and 40% respectively for loans upto Rs. 2.0 mn., Rs. 2.0 mn. to Rs. 3.0 mn. and Rs. 3.0 mn. to Rs. 4.0 mn. subject to maximum of Rs. 1.6 mn. per project.

(e) Inclusive of 290 loans amounting to Rs. 259.4 mn. which are not reported as having been disbursed as at end of 1989.

(f) Inclusive of 346 loans amounting to Rs. 220.8 mn. which are not reported as having been disbursed as at end of 1990.

(g) Amount in default including interest accrued thereon.

(h) Included under 2.1

(i) Included under 4.1

(j) Excluding instalments recovered.

Source: Central Bank of Sri Lanka.

instructions by PCIs, while loans relating to 37 claims amounting to Rs.2 million were repaid by the borrowers after submission of the claims. Consideration of 12 claims amounting to Rs.3 million was deferred on account of either rehabilitation programmes undertaken by the PCI or recommencement of repayment of the loan by the borrowers. The total premium collected under the scheme as at the end of 1990 was Rs.11.8 million while post claim recoveries by the Central Bank amounted to Rs.2.8 million as at the same date.

Small & Medium Scale Industries - II (SMI - II) Scheme

The issue of credit guarantees under the SMI - II Scheme which commenced operations in 1982 was completed in 1989. Out of 2,531 loans guaranteed during this period, 487 loans to the value of Rs.150 million were fully repaid while 238 guarantees amounting to Rs.130 million were either withdrawn or lapsed due to non-compliance with the Central Bank's operating instructions by the PCIs. Meanwhile, 144 claims with a liability amounting to Rs.36 million were received as at end of 1990 of which 76 claims to the value of Rs.18.7 million were settled while interim payments not exceeding 50 per cent of the total liability of the Central Bank amounting to Rs.0.8 million were made in respect of 8 claims from the Northern and Eastern provinces in terms of a decision referred to earlier. Thirty two claims amounting to Rs.7.6 million were rejected on account of non-compliance with operating instructions by the PCIs. Loans relating to 2 claims were repaid by the borrowers after submission of claims to the Central Bank. Consideration of 22 claims amounting to Rs.6.5 million was deferred on account of either rehabilitation programmes undertaken by PCIs or recommencement of repayment of the loans by the borrowers. The total premium collection under the scheme amounted to Rs.22 million as at 31st December, 1990 while the post claim recoveries by the Central Bank amounted to Rs.0.67 million as at the same date.

Small and Medium Scale Industries - III (SMI - III) Scheme

The SMI - III Scheme which commenced operations in July, 1988 has guaranteed 2,340 loans amounting to Rs.1,383 million as at the end of 1990. Out of these, 12 loans, amounting to Rs.7.8 million were fully repaid while guarantees relating to 97 loans amounting to Rs.74.9 million were either withdrawn or lapsed due to non-compliance with the Central Bank's operating instructions by the PCIs. Three claims with a Central Bank liability amounting to Rs.0.89 million were received as at end of 1990, of which one claim amounting to Rs.0.01 million was settled while another claim amounting to Rs.0.56 million was rejected. The total premium collected under this scheme was Rs.8.3 million as at 31st December, 1990.

During the year, the Kurunegala and Kegalle Regional Rural Development Banks and Seylan Bank Ltd. concluded participation agreements with the National Development Bank (NDB) and were eligible to grant SMI loans under the Central Bank's credit guarantee scheme in addition to the existing PCIs, namely the Development Finance Corporation of Ceylon (DFCC), Bank of Ceylon, People's Bank, Hatton National Bank Ltd., Commercial Bank of Ceylon Ltd., and the Sampath Bank Ltd.

An industry-wise classification of projects financed under SMI - II and III schemes is given in Table 2.7.

TABLE 2.7

SMI-II and III Credit Guarantee Schemes – Industry-wise Classification as at 31st December 1990

Rs. '000

Scheme	SMI - II & III - 1982 - 1990						SMI - III - 1988 - 1990						SMI - III - 1990					
Industry	Loans		Loan Amount		Guaranteed Amount		Loans Granted		Loan Amount		Guaranteed Amount		Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Amount	%	Amount	%	No.	%	Amount	%	Amount	%	No.	%	Amount	%	Amount	%
1. Food Processing	1,329	27.3	774,351	27.9	437,021	26.2	491	21.0	321,214	23.2	205,788	21.5	277	21.4	170,125	22.8	110,608	21.4
2. Other Agro Industries	120	2.5	56,362	2.0	36,092	2.1	71	3.0	33,339	2.3	24,359	2.6	47	3.6	24,818	3.3	18,175	3.5
3. Rubber Products	135	2.8	121,492	4.4	68,899	4.1	62	2.7	66,421	4.8	41,637	4.4	20	1.6	23,255	3.1	14,374	2.8
4. Metal Products	454	9.3	213,202	7.7	128,315	7.7	211	9.0	96,547	7.0	69,573	7.3	120	9.3	50,092	6.7	37,674	7.3
5. Construction Materials	410	8.4	209,130	7.5	142,090	8.5	249	10.6	119,130	8.6	92,585	9.7	148	11.5	68,783	9.2	54,526	10.6
6. Construction Contracting	59	1.2	46,110	1.7	26,988	1.6	31	1.3	11,910	0.9	9,528	1.0	19	1.5	5,849	0.8	4,679	0.9
7. Wood Products	340	7.0	128,931	4.6	85,201	5.1	173	7.4	71,256	5.2	53,151	5.6	99	7.6	34,846	4.7	25,717	5.0
8. Garments	349	7.2	252,703	9.1	158,180	9.5	218	9.3	179,494	13.0	121,792	12.7	143	11.1	128,531	17.2	87,182	16.9
9. Textiles	109	2.2	91,103	3.3	51,205	3.1	54	2.3	45,329	3.3	28,083	2.9	31	2.4	27,863	3.7	16,630	3.2
10. Repair Workshop	189	3.9	76,574	2.7	49,899	3.0	87	3.7	36,097	2.6	27,240	2.8	42	3.2	19,919	2.7	14,698	2.8
11. Miscellaneous	1,377	28.2	805,815	29.1	485,618	29.1	693	29.7	402,496	29.1	282,142	29.5	347	26.8	192,244	25.8	132,041	25.6
Total	4,871	100.0	2,775,773	100.0	1,669,508	100.0	2,340	100.0	1,383,233	100.0	955,878	100.0	1,293	100.0	746,325	100.0	516,304	100.0

Source: Central Bank of Sri Lanka

The outstanding value of investments of the SMI guarantee fund in Treasury bills was Rs.189.8 million at the end of 1990 while the total interest income received during the year amounted to Rs.28 million.

Follow-up and Inspection of Projects

The follow-up and inspection of projects financed under the SMI loan schemes were intensified during the year with a view to taking corrective action where necessary and to settling claims lodged by PCIs. During 1990, 168 projects located in Colombo, Gampaha, Puttalam, Ratnapura, Badulla and Kurunegala districts were inspected.

Bus Purchase Loan Credit Guarantee Scheme

The Monetary Board approved on 22nd November, 1990 a credit guarantee scheme for loans granted by PCIs to private bus operators for the purchase of buses. These loans were refinanced by the National Development Bank (NDB) upto 75 per cent of the value of the bus from the proceeds of the Economic Restructuring Credit line of the World Bank granted to the Government of Sri Lanka. The terms and conditions of the guarantee scheme were similar to those for the SMI scheme, excepting the following:

- (a) The premium for the guarantee is payable annually at the beginning of each year at the rate of 1 per cent of the amount guaranteed and outstanding in the loan account at the end of each immediately preceding year.
- (b) Currency of the guarantee cover is conditional to the PCIs submitting within 90 days from the date of disbursement of the loan a certificate confirming the execution of the mortgage bond and the Certificate of Registration of the vehicle with an entry that the mortgage bond is duly registered. The PCIs are also required to submit an undertaking that they will retain the Certificate of Registration until the loan is fully repaid.
- (c) Unlike in the case of SMI Schemes, the Central Bank will pay the PCIs on submission of a claim application a sum not exceeding 50 per cent of the Central Bank's liability under the guarantee on condition that the PCIs repay such payments in the event they fail to take recovery action as specified by the Central Bank.
- (d) The Central Bank's liability on a guarantee will lapse if the ownership of the bus is transferred without the approval of both the PCI and the Central Bank.

These additional conditions were imposed as a safeguard against the high risk exposure to be borne by the Central Bank under the Credit Guarantee Scheme. A transfer of Rs.22 million from the General Reserve of the Central Bank was approved by the Monetary Board to meet the Central Bank's liability under the scheme.

Entrepreneur Development Programme

The Entrepreneur Development Programme which had been suspended during 1989 owing to unsettled conditions in the country recommenced in 1990. Accordingly, three programmes were conducted during the year. Two programmes aimed at creating awareness in self-employment opportunities among school leavers and Janasaviya recipients were held in the districts of Nuwara Eliya and Matale. The first programme in Nuwara Eliya district held in July 1990 was attended by 100 participants while the

second programme held in Galewela in October 1990 was attended by 125 participants. The third programme devoted to Management and Technological Upgrading of existing garment manufacturing industries was held in the Kandy district in December 1990 and was attended by 30 garment manufacturing industrialists. All these programmes were conducted with the assistance of the Sri Lanka Industrial Development Board.

RURAL CREDIT

In 1990, the Bank continued its role as a credit executing agency for the implementation of the following credit schemes funded by foreign agencies.

1. Asian Development Bank (ADB) funded Kirindi Oya Irrigation and Settlement Project - Phase II
2. International Fund for Agricultural Development (IFAD) funded Badulla District Integrated Rural Development Project
3. IFAD funded Kegalle District Integrated Rural Development Project
4. IDA funded Matale-Puttalam Districts Integrated Rural Development Project
5. ADB funded Perennial Crop Development Project
6. ADB funded Small Holder Tea Development Project
7. ADB funded Agriculture Rehabilitation Project

The operation of the Badulla Integrated Rural Development Project was extended for the third time for a further period of two years upto 31st July, 1992 in order to use the project funds which remained unutilised out of the original allocation made for implementation of the project during the project period 1983 - 1987.

The operation of the Matale-Puttalam Districts Integrated Rural Development Project Credit Scheme was terminated on 30th June 1990 at the end of a nine year project period which commenced on 29th June, 1981.

The Bank continued to inspect the agricultural loan portfolio of selected branches of commercial banks and the general working of Co-operative Rural Banks in order to obtain an assessment of the operations in the sphere of rural credit and to assist these institutions in formulating appropriate policies and procedures.

During 1990, the Central Bank approved nineteen acceptance credit limits amounting to Rs.26 million under the Central Bank's Inland Bill Scheme. Of the approved limits, three Bought Leaf Factories (BLFs) utilized this facility and issued Inland Bills amounting to Rs.6 million to finance the processing of 693,538 kgs. of green leaf.

The Bank together with the three member institutions of the Asian Pacific Regional Agricultural Credit Association (APRACA) in Sri Lanka hosted the 23rd APRACA Executive Committee Meeting held in August, 1990.

REGIONAL RURAL DEVELOPMENT BANKS (RRDBs)

The Regional Rural Development Banks (RRDBs) established under the Regional Rural Development Banks Act, No.15 of 1985, with a view to developing the rural economy by providing financial assistance for the development of agriculture, cottage

and small scale industry, fishing industry, commerce and other development activities in the rural areas, further expanded their activities in 1990.

Expansion of the RRDB Network

The twelfth Regional Rural Development Bank was established on 13th October, 1990 in the administrative district of Badulla increasing the number of RRDBs to 12. In addition, 12 branches were opened during 1990 by the RRDBs of Badulla, (Badulla, Welimada, Diyatalawa and Passara), Kurunegala (Ibbagamuwa), Hambantota (Suriyawewa), Puttalam (Mundalama and Nawagaththegama), Kandy (Katugastota), Nuwara-Eliya (Nildandahinna and Agarapathana) and Moneragala (Thanamalwila). The Panawala branch of the RRDB Kegalle was amalgamated with its Ruwanwella Branch for security reasons in 1990. Accordingly, the total number of RRDB branches which stood at 89 at the end of 1989 rose to 100 by the end of 1990. Data on expansion of RRDBs and their branches since 1985, are given in Table 2.8.

TABLE 2.8

BRANCH NET WORK OF RRDBs

Name of the RRDB	Date of Establishment of RRDB	Head Office	No. of Branches Opened						Total End 1990
			1985	1986	1987	1988	1989	1990	
1. Kalutara	85.07.13	Bulathsinghala	4	3	4	1	—	—	12
2. Matara	85.07.28	Matara	5	2	—	1	—	—	8
3. Kurunegala	85.08.10	Kuliyapitiya	6	4	2	1	1	1	15
4. Anuradhapura	85.08.12	Mihintale	2	4	1	—	—	—	7
5. Hambantota	86.12.13	Ambalantota		2	2	2	—	1	7
6. Kegalle	87.02.08	Kegalle			8	1	2	—	10*
7. Puttalam	87.07.11	Chilaw			5	1	—	2	8
8. Galle	87.08.17	Elpitiya			1	7	1	—	9
9. Mahanuwara	87.10.03	Gampola			6	3	—	1	10
10. Nuwara-Eliya	88.10.10	Nuwara-Eliya				1	3	2	6
11. Moneragala	88.10.11	Buttala				1	2	1	4
12. Badulla	90.10.13	Badulla						4	4
Total	—	—	17	15	29	19	9	12	100

Source: Central Bank of Sri Lanka

* The amalgamation of the Panawala & Ruwanwella branches of the RRDB Kegalle during 1990 reduced the No. of branches by one.

Deposit Mobilization

Significant progress was made by the RRDBs in the mobilization of deposits during 1990. Total deposits which amounted to Rs.176 million in 199,559 accounts as at the end of 1989 increased to Rs.314 million in 309,616 accounts by the end of 1990. This reflected a growth in deposit mobilization of 78 per cent as compared to an increase of 55 per cent in the previous year. The increase in the number of deposit accounts in the RRDBs reflected the attempts made by each bank in promoting the savings habit among the rural people in the respective areas of operation which were mostly unbanked or underbanked previously and the expansion of RRDB facilities with the opening of new

branches. Continuing the general trend that existed during the recent past, approximately 86 per cent of the total deposits of RRDBs comprised savings deposits, while the balance 14 per cent comprised fixed and other deposits. The average value of deposit per account rose from Rs.882/- in 1989 to Rs.1,014/- in 1990 reflecting an increasing propensity to save among rural people. The comparatively lower average value of deposit per account, both savings and fixed deposits of RRDBs, further indicate their outreach to the poorer segments of the rural sector. The average deposits per RRDB branch increased from Rs.2 million in 1989 to Rs.3.1 million in 1990 confirming this favourable trend.

Delivery of Credit

With relatively settled conditions prevailing in the country, the year 1990 witnessed a considerable expansion in loan operations of the RRDBs. The number of loans granted increased from 20,640 to 47,616 and the value of loans granted rose from Rs.155 million to Rs.430 million during the year 1990. The significant increase in the number of loans granted in 1990 can be mainly attributed to the large number of loans disbursed to Janasaviya beneficiaries, especially to start new self-employment projects. This revealed the continuing and increasing participation of RRDBs in the process of credit delivery to the rural sector. The average size of loans rose to Rs.9,026/- in 1990 from Rs.7,493/- in 1989, while the average credit per branch has been stepped up from Rs.1.7 million in 1989 to Rs.4.3 million in 1990. In addition, a total of Rs.94 million was granted as loans against the pledge of gold articles (pawning) during 1990 compared to Rs.35 million in 1989, showing an increase of 166 per cent. However, some RRDBs did not engage in pawning activities primarily due to security reasons.

As in the past years, the RRDBs continued to provide loans to a wide spectrum of economic activities including agriculture, fisheries, livestock, small industries and trade. During 1990, the highest proportion of loans (65 per cent) was disbursed to the agriculture sector, while 11 per cent and 10 per cent of total loans were disbursed to the trade and commerce and small industries sectors, respectively.

Other Activities

During the period under review, RRDBs expanded their activities to areas such as the promotion of self employment schemes through funding, conducting of farmer training programmes, assisting farmers in the marketing of their products, collecting data on resource availability, etc. In addition, the RRDBs performed an important role in delivering credit to the under-privileged in the rural sector under several state sponsored and foreign funded credit programmes. The Janasaviya programme, the Small Farmers and Landless Credit Project (SFLC) funded by the International Fund for Agricultural Development (IFAD) and the Canadian International Development Agency (CIDA) and UNICEF funded programmes are some of them. The Kurunegala RRDB was selected as a participatory credit institution under the Small and Medium Industry (SMI) III credit scheme in February 1990. It was the first RRDB to gain entry into the SMI Scheme. During 1990, 67 loans amounting to Rs.4.2 million were granted by the RRDB Kurunegala to agriculture, industry, livestock and trade sectors under this credit scheme.

Other innovative banking practices introduced by the RRDBs such as the Group Lending Scheme, Minor/School Children's Deposit Scheme, Development Deposit Scheme and the concept of 'Janahamuwa' continued to be popular among the rural people as reflected in the substantial increase in the number of customers of these banks during 1990.

During the period under review, RRDBs were able to create approximately 43,000 new employment opportunities through their loan operations and the aggregate of new employment generated from the inception of RRDBs upto the end of 1990 stood at around 425,000 thus highlighting the contributions of RRDBs in creating employment opportunities in the rural sector.

Continuing efforts were made by the Central Bank during 1990 to direct the RRDBs towards the objective of promoting rural banking. Apart from its advisory role and directions issued to these banks from time to time, the Central Bank officials made visits to almost all the RRDBs to review the work programme and also to motivate the staff and the large number of beneficiaries of these banks. During these project and field visits, the Central Bank officers also attended credit meetings 'Janahamuwas' and borrowers' training programmes organised by some RRDBs. These meetings have provided a useful forum to discuss problems being encountered by the rural people in obtaining banking services, especially, credit for production activities. In the follow up process that is set in motion by these credit meetings, Janahamuwa, etc. substantial headway has been made in overcoming the major obstacles in delivering credit to the rural sector.

RURAL BANKING AND STAFF TRAINING COLLEGE

The Rural Banking and Staff Training College (RB & STC) continued to expand its training activities in 1990. During the year, the RB & STC conducted 51 training courses for 1,608 persons, which is a significant increase over the 39 courses conducted for 853 persons in 1989. Out of the 51 training courses conducted in 1990, 30 were conducted in outstations to help 902 small scale entrepreneurs and self-employed persons to develop their entrepreneurial and managerial skills. Among these persons, 810 were beneficiaries of Regional Rural Development Banks. The balance 21 training courses were intended to train the officials of the banking and allied sectors which were targetted to a total of 706 persons consisting of 96 Central Bank officers, 428 commercial bankers, 43 regional rural development bankers and 139 officers from other financial institutions and agencies such as finance companies, the National Savings Bank and the 'Small Farmers and Landless Credit Project'.

Rural banking, project-oriented development, commercial banking, international trade, exchange operations, hire-purchase and lease financing, management, training of trainers, monitoring and evaluation of projects, communication and small-scale entrepreneur development were the main areas of training provided in 1990. The latter 4 areas of training were entirely new additions to the RB & STC Training Programme. In addition to the courses scheduled for 1990, the College conducted several special training courses on request. These included training courses for the beneficiaries of the National Savings Bank's Rural Credit Pilot Project in the Matara District; training courses for officers attached to the Small Farmers and Landless Credit Project; training courses on the Sri Lanka Automated Clearing House and the seminar on Foreign Exchange, Money Market and Capital Market Derivatives and Instruments. The latter was conducted on the request of an organizing body consisting of the Association of Professional Bankers - Sri Lanka and the Sri Lanka FOREX Club.

During the year, the RB & STC responded to the rising demand for training by publishing a training calendar with definite objectives of training courses and their course content well elaborated and several training reports on selected training courses conducted by the College. These reports provide necessary guidance to the trainers of

others agencies to conduct similar training courses, notably at district and village levels. The College also conducted its 9th Anniversary Lecture on 30th August, 1990, on 'Re-orienting the Banking Policy to Meet the Needs of the People' and it was delivered by Dr.H.N.S.Karunatilake, Governor of the Central Bank of Sri Lanka.

EMPLOYEES' PROVIDENT FUND

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

Contributions

The contributions received by the Fund during the year 1990 amounted to Rs. 3,909.5 million as against Rs. 3,021.7 million in 1989. This represents an increase of Rs. 887.8 million or 29.4 per cent over the volume of contributions received during the previous year.

Members' Balances

Members' balances as at 31st December 1990, before allocation of interest for the year under review stood at Rs.36,297.7 million which is an increase of Rs.5,940.1 million or 19.6 per cent over that of 1989.

Investments

During the year under review, the Fund invested a sum of Rs.11,044.7 million in Government Securities, National Defence Bonds, Treasury bills and State Mortgage and Investment Bank Debentures as against a sum of Rs.8,897 million invested in 1989. This is an increase of Rs.2,147.5 million over the level of investments in 1989. The total investments held by the Fund as at 31st December 1990 amounted to Rs. 38,466.7 million which is an increase of Rs. 6,192.7 million over the level of 1989. This increase includes a sum of Rs.100 million invested in State Mortgage and Investment Bank Debentures.

Income Received from Investments

In 1990, the income received from investments amounted to Rs. 4,187.7 million as against Rs.3,425.8 million in 1989 recording an increase of Rs. 761.9 million. The total withholding tax deducted from the investment income for the year 1990 was Rs.418.0

Refunds

The total sum paid out by way of refunds of EPF benefits to members during the year 1990 amounted to Rs. 1,209.4 million as against Rs. 632.7 million in 1989. This records an increase of Rs. 576.7 million or 91.2 per cent. During the year under review, 44,813 claims for refund of benefits were paid out, as against 26,287 claims disposed of in 1989.

Interest on Members' Balances

The Employees' Provident Fund is required to pay interest on members' balances as at the end of each year out of the income from investment of monies of the Fund. The rate of interest payable on members' balances as at the end of 1990 was 11.5 per cent per annum.

Recording of Balances in EPF Account Books

Recording of balances in EPF Account Books issued by the Department of Labour continued during the year under review until it was suspended in October 1990, by the Commissioner of Labour. Statements of Accounts for 1989 indicating the name of the member were issued during 1990 in place of recording such balances in Account Books.

EPF Housing Loan Scheme

Consequent to the amendment of the EPF Act in 1988, housing loans of upto 75 per cent of the balance standing to the credit of members have been granted by lending institutions. For this purpose, 35,798 certificates confirming the balance standing to the members credit have been issued during the year under review as against 29,156 issued in 1989.

A comparative statement of the operations of the Fund on the basis of data presently available is given in Table 2.9.

TABLE 2.9
EPF Statistics - 1989-1990 (Rs.Million)

	1989	1990
1) Contributions received	3,021.7	3,909.5 (a)
2) Investments	8,897.2	11,044.7 (b)
3) Income received from investments	3,425.8	4,187.7
4) Refund payments	632.7	1,209.4
5) Number of refunds	26,287	44,813
6) Rate of Interest (percent)	11	11.5
7) Interest provision on members' balances	3,339.3	4,174.2

(a) Excludes contributions credited to Suspense Accounts

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

EXCHANGE CONTROL

The following changes were effected by the Central Bank in exchange control procedures during 1990:

1. Imports

(a) Import of Raw Materials under the Manufacture-in-Bond Scheme:

A Scheme was implemented on a trial basis to enable the export oriented garment manufacturers to import their raw materials on 120 days deferred payment terms (D/A) and documents on payment terms (D/P) without establishing Letters of Credits (Operating Instructions bearing No.EC/4/90(B) of 23.01.90). This was later extended to the import of rough gem stones excluding diamonds by the export oriented calibrated gem stone industry with a reduced tenure of 90 days (Operating Instructions bearing No.EC/5/90(B) of 26-01-1990).

(b) Second Hand Motor Cycles:

A condition was imposed on the import of used motor cycles prohibiting the importation of motor cycles which are more than 3 years old from the date of first registration (Operating Instructions bearing No.EC/17/90(B) of 07-03-1990). Importation of used motor cycles was totally banned on 11-07-1990 but was allowed again on 19-07-90 (Operating Instructions bearing No.EC/42/90(B)) with a new condition requiring the importers to submit a Load Port Survey report covering road worthiness with a guarantee for a minimum period of service of 3 years. However, this requirement of Load Port Survey report was also removed (Operating Instructions bearing No.EC/69/90(B) of 14-11-1990) in November, 1990.

(c) Motor Buses

Import of reconditioned buses was permitted without a licence from the Controller of Imports and Exports subject to a condition being incorporated in the Letters of Credit that the buses should be with 30-40 passengers capacity at a price around Rs.250,000/- and not be more than 10 years old from the date of first registration (Operating Instructions bearing No.EC/37/90(B) of 10-07-1990). This price ceiling of Rs.250,000/- was removed on 31.08.1990.

(d) Food Cargo

Authorised Dealers were informed to include a clause in all Letters of Credit for the import of all food items requiring a Load Port Survey Report certifying that the cargo loaded is fit for direct human consumption (Operating Instruction bearing No.EC/01/90(B) of 08-01-1990).

(e) Tractors

The condition requiring that the tractors imported 'should not be more than 5 years old' was removed for a period of one year (Operating Instruction bearing No.EC/73/90(B) of 30.11.1990).

2. Exports

(a) Payment Terms

Purchase and sale of tea, rubber and coir products to the Soviet Union on deferred payment terms upto 360 days from the date of exportation were permitted on 06-07-1990 and 12-07-1990, respectively.

(b) Payment of Commission on Export Earnings

Where the commission upto 5 per cent of the FOB value is payable to an agent who is also the buyer of goods there is no objection to the deduction of the commission before receipt of proceeds of such exports (Operating Instruction bearing No.EC/28/90(HPC) of 23-4-1990).

3. Travel

All airlines were permitted to issue business class air tickets against rupee payments made by Sri Lankan residents (Operating Instruction bearing No.EC/62/90(K) of 16-10-

1990). Authorized Dealers were also permitted to approve such "P" forms (Operating Instruction bearing No.EC/63/90(K) of 16-10-1990). They were also permitted to approve passage against NRFC funds.

The amount of Sri Lanka rupees that could be exported or imported by persons travelling abroad was increased to Rs.1,000/- from Rs.250/-. (Operating Instruction bearing No.EC/77/90(K) of 17.12.90).

The percentage of foreign currency notes to be issued in respect of FCBU withdrawals for travel purposes has been increased from 20 per cent to 50 per cent (Operating Instruction bearing No.EC/78/90(D) of 07-12-1990).

The Director General of Customs has been informed that foreign passport holders who carry foreign currency of less than US\$5,000/- need not make a declaration to Customs.

4. Education

Living allowances to students proceeding to U.K. have been increased with effect from 21.08.1990 from £3,120/- p.a. to £4,500/- p.a. in respect of undergraduate, professional and technical studies, and from £3,840/- p.a. to £4,800/- p.a. in respect of postgraduate studies. (Operating Instruction bearing No.EC/54/90(E) of 13-09-1990).

5. Freezing of Iraqi and Kuwaiti Bank Accounts

Authorised Dealers were instructed to freeze all bank accounts, both domestic and RNNFC, (Operating Instruction bearing No.EC/50/90(D) of 31-08-1990 of the Government of Iraq and its agencies and of all Kuwaiti state agencies. This was extended to private enterprises and accounts of individuals other than accredited diplomatic personnel approved by the Ministry of Foreign Affairs (Operating Instruction bearing No.EC/51/90(D) of 05-09-1990).

6. Non-Resident Foreign Currency Accounts (NRFC)

The facility was extended to local employment agencies who are engaged in recruiting personnel for employment abroad to enable them to credit their fees and commissions earned on their services (Operating Instruction bearing No.EC/22/90(D) of 30-03-1990).

7. Investments

General permission has been granted under Sections 10,11 and 15 of the Exchange Control Act to invest in shares in listed companies upto 40 per cent of the issued capital, by approved country funds, regional funds and non-resident individuals (inclusive of Sri Lankans residing abroad).

With this general permission, a scheme of Share Investment External Rupee Accounts was introduced through Authorised Dealers to facilitate and monitor such investments. It has also been decided to permit the repatriation of the entire sale

proceeds net of tax in respect of these investments without the prior approval of the Controller of Exchange.

PUBLIC DEBT

The Central Bank continued to manage Public Debt on behalf of the Government in terms of Section 113 of the Monetary Law Act. The major functions handled in this respect were floating of Government Securities/Loans, issue of Treasury Bills, Debentures and Treasury Certificates of Deposit and the management and servicing of foreign debt of the Government. Further, the maintenance of a data base on the Public Debt and formulation of policies in respect of the Public Debt were also undertaken.

The total outstanding gross Government Debt as at end of 1990 stood at Rs.315,533 million indicating an increase of Rs.40,110 million. Of this increase, Rs.8,508 million or 21 per cent was on account of exchange rate depreciation. The outstanding foreign debt accounted for 56 per cent of the total, while the share of the domestic debt was 44 per cent.

In order to meet the budgetary requirements, Rs.12,847 million worth of government Rupee Securities were floated during the year. The total repayment of rupee loans and the interest paid during 1990 amounted to Rs.7,854 million and Rs.6,857 million, respectively. The amount outstanding as at the end of the year was Rs.59,209, million of which Rs.4,532 million comprised of Defence Bonds. As in the past, the Employees' Provident Fund continued to be the major subscriber to the Rupee Loan Programme in 1990, accounting for 64 per cent of the total. The National Savings Bank contributed heavily by providing Rs.3,392 million or 26 per cent of the total in 1990 compared with zero contributions in 1989.

The authorized limit on Treasury bills was increased from Rs.65,000 million to Rs.90,000 million on 29th October, 1990 and remained unchanged during the rest of the year. The Bank continued to issue Treasury bills to the public with maturity periods of 3, 6 and 12 months. In the months of April, September and December 1990, Treasury bills with maturity periods shorter than 3-months were also issued to the Central Bank along with the issues of 3, 6 and 12 months Treasury bills. In addition to the Regional Offices, the Central Bank continued the sale of Treasury bills to the public under the tap issue in Colombo through authorised commercial banks and money brokers. The popularization of Treasury bills among the public was continued during the year under review and the share held by the Central Bank in the primary market decreased from 60 per cent at the end of 1989 to 45 per cent at the end of 1990. The amount of Treasury bills outstanding as at the end of the year was Rs.67,968 million. The total interest paid during the year amounted to Rs.9,563 million. The new issues purchased by the Central Bank and public during 1990 stood at Rs.11,000 million.

From 23rd May, 1990, the Central Bank commenced the issue of government Treasury Certificates of Deposit with maturity periods of 6, 12 and 24 months. The amount outstanding as at the end of 1990 was Rs.109 million.

Total disbursement on medium and long term external public debt during 1990 amounted to Rs.16,945 million and repayments amounted to Rs.4,862 million. The project loans component of the foreign debt was 74.8 per cent while the balance amount represented non-project loans. Total interest payments and other charges on external public debt in 1990 amounted to Rs.3,678 million.

REGIONAL OFFICES - MATARA, ANURADHAPURA & MATALE

In pursuance of the Central Bank's role in rural development, the three Regional Offices of the Bank at Matara, Anuradhapura and Matale continued their development activities at an accelerated pace in 1990 facilitated by the relatively stable civil conditions that prevailed in the country as compared with 1989.

During the period under review, the attention of the Regional Offices was directed mainly towards project identification, appraisal and recommendation of viable projects for bank financing under the various refinance schemes, post supervision of such projects in order to ensure successful completion and repayment of loans on schedule, conducting of training programmes for entrepreneur development and educating the public regarding various rural credit schemes in order to ensure optimum utilisation of credit. Among the various refinance schemes implemented by the Central Bank, the main emphasis of the Regional Offices was on the implementation of the Self-Employment and Village Adoption Scheme which was replaced in August, 1990 by the All Island Self-Employment Loan Scheme. Grant of credit under this scheme expanded substantially during 1990, largely due to the resumption of field visits which was made possible by the cessation of civil disturbances in the respective regions.

Under this Scheme, the Matara Regional Office recommended 1,179 project loans valued at Rs.8.4 million for bank financing in 1990. This reflects an appreciable improvement as compared with the previous year's 179 projects totalling only Rs.2.2 million. As for the other refinance schemes, such as Tea Small Holder Development Project, Mid-Country Perennial Crop Development Project and Inland Bills Scheme, the Matara Regional Office also conducted several seminars and workshops in order to increase the awareness of bankers, the public and other related agencies for ensuring the smooth implementation of these new schemes in the period ahead.

The Anuradhapura Regional Office recommended to the commercial banks for financing a total of 756 small scale development projects valued at Rs.13.6 million under the Self-Employment and Village Adoption Credit Scheme during the year 1990, as against a total of 297 loans totalling Rs.4.3 million recommended in 1989. Of the total number, 612 projects or 80 per cent was in respect of agriculture related activities and 84 projects or 11 per cent was for animal husbandry. The Anuradhapura Regional Office also implemented a special project to promote Big Onion cultivation on an experimental basis in the 1990 Yala season.

The Matale Regional Office sponsored 542 Self-Employment Project Loans valued at Rs.8.5 million to the banks for financing during the year 1990 as against 259 loans totalling Rs.2.9 million in the previous year, which was an increase of 109 per cent in the number of loans recommended. A Special Animal Husbandry Project was undertaken by the Matale Regional Office to develop the economy of three villages in the Kandy and Matale districts. During the year 1990, a total of 143 animal husbandry project loans to the value of Rs.2 million were recommended to the banks by the Matale Regional Office as against 61 projects valued at Rs.0.8 million recommended in 1989. Under the All Island Farm Machinery Loan Scheme, 65 projects valued at Rs.1.1 million were recommended to banks by the Regional Office. The bulk of these loans was for the purchase of water pumps by the Janasaviya recipients which helped them to engage in productive agricultural projects. The Matale Regional Office also paid special attention to providing credit facilities for Big Onion cultivation during the Yala Season and also

for the marketing of this product at a reasonable price. This Office also carried out 68 field inspections in respect of Tea Small Holder Development Project Credit Scheme and recommended 38 applications to the banks for funding.

As in the past, the Regional Offices continued to hold credit camps for the distribution of agricultural loans. The Anuradhapura and the Matale Regional Offices conducted 2 and 10 such camps, respectively, in their regions during the year 1990.

In addition to the activities involving the expansion of credit facilities to priority sectors, the three Regional Offices organised and conducted beneficiary training programmes, seminars and workshops with the assistance of the Department of Agriculture for the purpose of upgrading the knowledge and technical skills of the rural farming community and on the effective use of agricultural practices to ensure optimum production.

During the year under review, 30 "Janahamuwas" and 24 Agricultural Training Classes were conducted by the Anuradhapura Regional Office. The Matale Regional Office conducted 11 seminars and training programmes, of which 8 were mainly for the benefit of Janasaviya recipients. Further, 17 village level meetings were held by them to identify problems relating to the paucity of credit for self-employment projects at the grassroots level.

During the year 1990, all three Regional Offices organised credit meetings in their respective regions with the participation of the concerned Central Bank officials and representatives of commercial banks in the area to focus on constraints in the credit delivery mechanism. As a result of these meetings, it has been possible, with the co-operation of the commercial banks, to bring about a more conducive environment for the extension of credit in rural areas. The Regional Offices also participated in several Mobile Presidential and Ministerial Services held during the year in their respective regions and have rendered numerous services that were needed from the Bank.

With the implementation of the first phase of the Janasaviya Programme, the attention of the Bank has been focused towards generating self-employment opportunities for Janasaviya beneficiaries. The Regional Offices have been encouraged to contribute towards this effort by organising village level meetings/workshops to educate and motivate beneficiaries and also to identify credit related problems faced by them. The Anuradhapura Regional Office conducted 7 such meetings while the Matara & Matale Regional Offices also conducted several training programmes for Janasaviya beneficiaries in their regions. Further, the Anuradhapura and Matale Regional Offices recommended to lending banks, 97 and 371 projects, respectively for Janasaviya beneficiaries.

The Anuradhapura and Matara Regional Offices commenced currency operations on 1st June and 2nd July 1990, respectively, with a view to facilitating the currency needs of the people of the area and the commercial bank branches located in the regions. The exchange counters set up at these offices especially for the provision of new notes, have become increasingly popular with the trading community as well as among the general public. It also provides a useful service to banks and other credit institutions in the area not only by serving the growing currency requirements but also by providing safe deposit facilities for surplus cash.

The Regional Offices continued the sale of Treasury bills during 1990. The Matara Regional Office marketed Treasury bills to the value of Rs.127 million in 1990, showing an increase of 22 per cent compared with the previous year. Treasury bills to the value of Rs.1,585 million and Rs.1,723 million were sold by Anuradhapura and Matale Regional Offices, respectively, reflecting decreases of 36 per cent and 44 per cent over the previous year.

The Regional Cheque Clearing for commercial banks by the Central Bank Regional Offices expanded during the year 1990. In all, 100,508 cheques to the value of Rs.1,390 million had been cleared in the Regional Clearing House at Matara, while Anuradhapura Clearing House cleared 69,615 cheques valued at Rs.1,192 million. The two Clearing Houses at Kandy and Matale attached to the Matale Regional Office cleared a total of 312,247 cheques valued at Rs.6,612 million in 1990.

INFORMATION AND PUBLICATIONS

The Central Bank continued to provide data and information on Sri Lanka's socio-economic trends, development strategies and the Bank's assistance program in its role as collector, storer and disseminator of information. Books and periodicals published regularly by the Bank contributed immensely towards imparting this knowledge to the public and media. Enhancing its stock, the Library of the Bank added 970 books and pamphlets and subscribed to 502 periodicals during 1990. The following publications were put out by the Bank in 1990.

1. Annual Report for the year 1989 was published and presented to the Minister of Finance in terms of Section 35 (1) of the Monetary Law Act. This was published in Sinhala, Tamil and English.
2. 40th Anniversary Commemorative Volume. This publication contained a number of articles in the areas of central banking, commercial banking and institutional development in general over the past 40 years.
3. Economic Survey - first half 1990.
4. Socio Economic Data Folder - 1990.
5. Staff Studies Vol 17 Nos. 1 & 2 and Vol. 18 Nos.1 & 2
6. Monthly Bulletin of the Bank in Sinhala, Tamil and English
7. Bi-monthly Economic Bulletin which gives information on economic issues of topical interest.
8. Monthly "Satahana" and "News Survey"
9. Socio-Economic Achievements in Sri Lanka - 1990
10. Economics and Social Statistics of Sri Lanka - 1988/89
11. Regional Rural Development Banks' Information
12. Occasional Paper No.20 - "Re-orienting Banking Policy to Meet the Needs of the People".
13. 'Banku Puvath'

The Bank continued to maintain its close rapport with the media with an increasing number of Press Conferences and Press Releases in connection with the various new projects introduced by the Bank. The network of sales outlets has also been increased by using popular book-shops and the RRDB offices for the sale of Central Bank publications, enabling the Bank to reach a wider sphere of readership.

RESEARCH ACTIVITIES

The following research studies were completed by the officers of the Bank in 1990.

1. Implications of Monetary and Financial Reforms for Adjustment and Growth: Sri Lanka Experience.
2. The Impact of a Single European Market on Sri Lanka.
3. Financial Reforms in Sri Lanka, 1977 - 1987.
4. The Relationship Between Exports and Economic Growth in Sri Lanka: An Empirical Investigation.
5. Error Correction Approach to the Demand for Money in Sri Lanka.
6. An Assessment of Personal Income Tax Evasion in Sri Lanka.
7. Economics of Fertilizer Use in Major Crop Sectors of Sri Lanka.
8. Forecasting Models for Short-Run Rice Prices.
9. International Capital Movements: The Case of Sri Lanka.
10. Exchange Rate Changes and Their Impact on Inflation.
11. Potential for Employment Generation in Computer Related Activities.
12. Foreign Loans and Terms of Trade Changes - The Effect of Sri Lanka.
13. The Impact of Liberalised Trade Policy on Export Growth in Sri Lanka.
14. Bottlenecks in the Colombo Transport System.
15. A Monitorist Model of Output and Price Determination in a Developing Economy - The Case of Sri Lanka.
16. Nature of Unemployment and Aspirations of Unemployed in Sri Lanka.
17. The Effects of the Terms of Trade on Real National Income in Sri Lanka.
18. Monetary Policy Update - Sri Lanka Country Paper.

SRI LANKA AUTOMATED CLEARING HOUSE

The Sri Lanka Automated Clearing House (SLACH) which is under the purview of the Data Processing Department of the Central Bank continued its operations in 1990. A major development observed during the year was the achievement of faster clearing. All cheques received by the Clearing House upto 5 p.m. each day were processed and returned by 10 p.m. on the same day to enable the commercial banks to despatch same to outstations. While some banks collected their items on the same night, others were able to collect them only at 6 a.m. the following morning. A total of 48 more branches was brought into the one day clearing schedule, bringing the cumulative total number of banks/branches on the one day clearing schedule to 193. Galle District has been brought into a 3 day clearing schedule and all other outstation branches except the branches in the North and East are now on a five day clearing schedule. The total number of cheques and drafts cleared by the SLACH increased from 12 million (Rs.367 billion) in 1989 to 14 million (Rs.528 billion) in 1990.

MANAGEMENT AUDIT

During the year 1990, the Management Audit Department of the Bank audited various departments of the Bank, particularly the Secretariat, Premises, Welfare, Banking, Currency, Rural Banking & Staff Training College and the Regional Rural Development Bank at Kalutara and its branches. In the course of audit, emphasis was paid to highlight short-comings relating to compliance with the procedures laid down in the Bank's Rules and Regulations.

A Manpower Planning Unit set up in the Bank prepared reports on some aspects of manpower planning in the Bank.

SURVEYS AND DATA COLLECTION

National Accounts

In 1990 the Bank took steps to further improve the quality of national accounts estimates. In line with this objective, an attempt was made to estimate GDP/GNP using the Sector Approach. The estimates for the household, government and foreign sectors for 1988 and 1989 were completed in 1990 using the Sector Approach.

Steps were also taken to collect data more from primary sources than from secondary sources for national accounts estimates. Data on a quarterly basis were collected where possible with a view to improving the data base of national accounts estimates.

Country-wide Data Collection System

The Country-wide Data Collection System which was inaugurated in 1978 was continued in 1990. Under this scheme, retail prices of consumer items, producer prices of a wide range of commodities, daily wages in the unorganised sector agricultural activities and small scale construction activities were collected on a regular basis from selected centres spread throughout the country.

Consumer Finances and Socio-Economic Survey 1986/87

Part II of the Report of the Consumer Finances and Socio Economic Survey 1986/87 was in the final stages of printing by the end of 1990. The Report is expected to be released in early 1991. Part I of the Report was also finalised in 1990.

Survey of Income Generating Activities and the Praja Naya Niyamaka Scheme

The Central Bank conducted this survey in the districts of Matale, Kandy, Nuwara-Eliya and Kegalle from 3rd October, 1990 to 22nd October, 1990. An Interim Report of the Survey of the Praja Naya Niyamaka Scheme was compiled and presented in 1990.

Monitoring of Imports

The Statistics Department continued to monitor imports through the data collected on Letters of Credit and Bills received against Letters of Credit. Improvements were effected to this programme in 1990 in order to provide timely data to users.

TRAINING

Training of Central Bank's Officers in Sri Lanka and abroad both in academic and non-academic fields was continued during the year 1990. Academic training which was mainly confined to post-graduate studies in Economics and related fields was arranged at recognised universities abroad. It also included Diploma courses in Sri Lanka. Two officers proceeded abroad on post-graduate studies to follow Masters' Degree courses in

1990. During the year, 11 officers were following Masters' Degree courses abroad while 4 were following Ph.D. courses. In the year under review, 4 officers returned after completing the Masters' Degree and one officer returned after completing the Ph.D.

Non-academic training which was in the form of long-term and short-term training courses, seminars, workshops, study tours, visits, etc. in the fields useful to the Bank were also arranged at institutions abroad. Two officers followed long-term training courses in the field of Statistics. In all, 70 officers proceeded abroad on short-term training during the year 1990. Apart from officers sent abroad on short-term training, a total of 193 officers participated in training programmes conducted at various institutions in Sri Lanka, while 93 officers participated in the courses conducted at the Rural Banking and Staff Training College of the Central Bank.

A course on "English for Studies Abroad" conducted by the University of Colombo which commenced in the latter part of 1989 was continued in 1990 with a follow-up course for those officers whose performance in the first course was considered to be of a high standard. A total of 28 officers attended this follow-up course.

A series of seminars was also organized for officers aspiring to proceed on post-graduate studies abroad at a future date. These seminars were given by senior officers of the Bank on topics considered beneficial for post-graduate students.

PERSONNEL

The Governor, Dr.H.N.S.Karunatilake, attended the following Conferences and Meetings during the year, 1990.

1. Interim Committee Meetings of the Board of Governors of the International Monetary Fund and the World Bank held in U.S.A.
2. The Eighteenth Meeting of the Board of Governors of the Asian Clearing Union held in Tehran.
3. Annual Meetings of the Central Bank Governors' of Commonwealth Countries held in London.
4. The Commonwealth Finance Ministers' Meeting and IMF/World Bank Annual Meetings held in USA.
5. A visit to the SEACEN Centre in Malaysia and the SID South Asian Regional Conference held in Kuala Lumpur and Dhaka.
6. SEANZA Governors Meeting and Symposium held in India.

Dr.S.T.G. Fernando, Deputy Governor was designated as Senior Deputy Governor and acted as the Chief Executive Officer of the Bank and the Chairman of the Monetary Board in the absence from Sri Lanka of the Governor.

Mr.H.B.Dissanayake, Deputy Secretary to the Treasury attended meetings of the Monetary Board as the Alternate of the Secretary to the Ministry of Finance in the absence of the latter.

Appointments

Mr. K.G. Dharmasena, Deputy Director of Establishments was appointed Acting Additional Director of Development Finance with effect from 1st January, 1990 and was appointed Acting Director of Establishments with effect from 8th October, 1990.

Mr. K. C. M. Gunasekara, Deputy Chief Accountant was appointed Acting Additional Superintendent of Employees' Provident Fund with effect from 1st January, 1990.

Mr. D. L. Jayamanne, Deputy Controller of Exchange was appointed Acting Additional Controller of Exchange with effect from 1st January, 1990.

Officers on Release (as at 31st December, 1990)

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

Mr. A. S. Jayewardena to the Ministry of Industries as Secretary.

Dr. N. E. H. Sandaratne to the Ministry of Finance.

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

Mr. P. Nagahawatte to the Ministry of Housing and Construction to function as Director, Policy and Planning – Ministry of Housing & Construction.

Mr. K. B. Dodangollagama to the Ministry of Industries, Science and Technology to function as Chairman of Plywoods Corporation.

Messrs. D. S. I. A. Ariyadasa, C. Liyanage W. A. D. E. Weerasinghe, N. M. Dayaratne and Miss. K. Sarawanamuttu to the Ministry of Finance.

Mr. S. M. A. Siriwardena to the Small Farmers and Landless Credit Project, Puttalam District to function as Project District Co-ordinator.

Messrs. W. A. Wijewardena, N. M. Jayasekera and Mrs. A. L. Premachandra to the Credit Information Bureau of Sri Lanka.

Retirement / Resignation

Dr. K. S. E. Jayetillake, Deputy Governor, retired from the Central Bank service with effect from 4th January, 1990.

Mr. U. A. de Silva, Executive Director retired from the Central Bank Service with effect from 19th April, 1990.

Mr. D. K. Jayewardena, Executive Director retired from the Central Bank service with effect from 14th February, 1990.

Mr. G. D. B. Munidasa, Superintendent of Currency retired from the Central Bank Service with effect from 14th February, 1990.

Mr. E. W. E. Wijetunge, Additional Superintendent of Currency retired from the Central Bank Service with effect from 14th February 6th February, 1990.

Dr. G. M. Abayaratne, Staff Class grade 4 resigned from the Central bank Service with effect from 1st September, 1990.