

MONEY AND BANKING

MONEY SUPPLY

Overall Trends

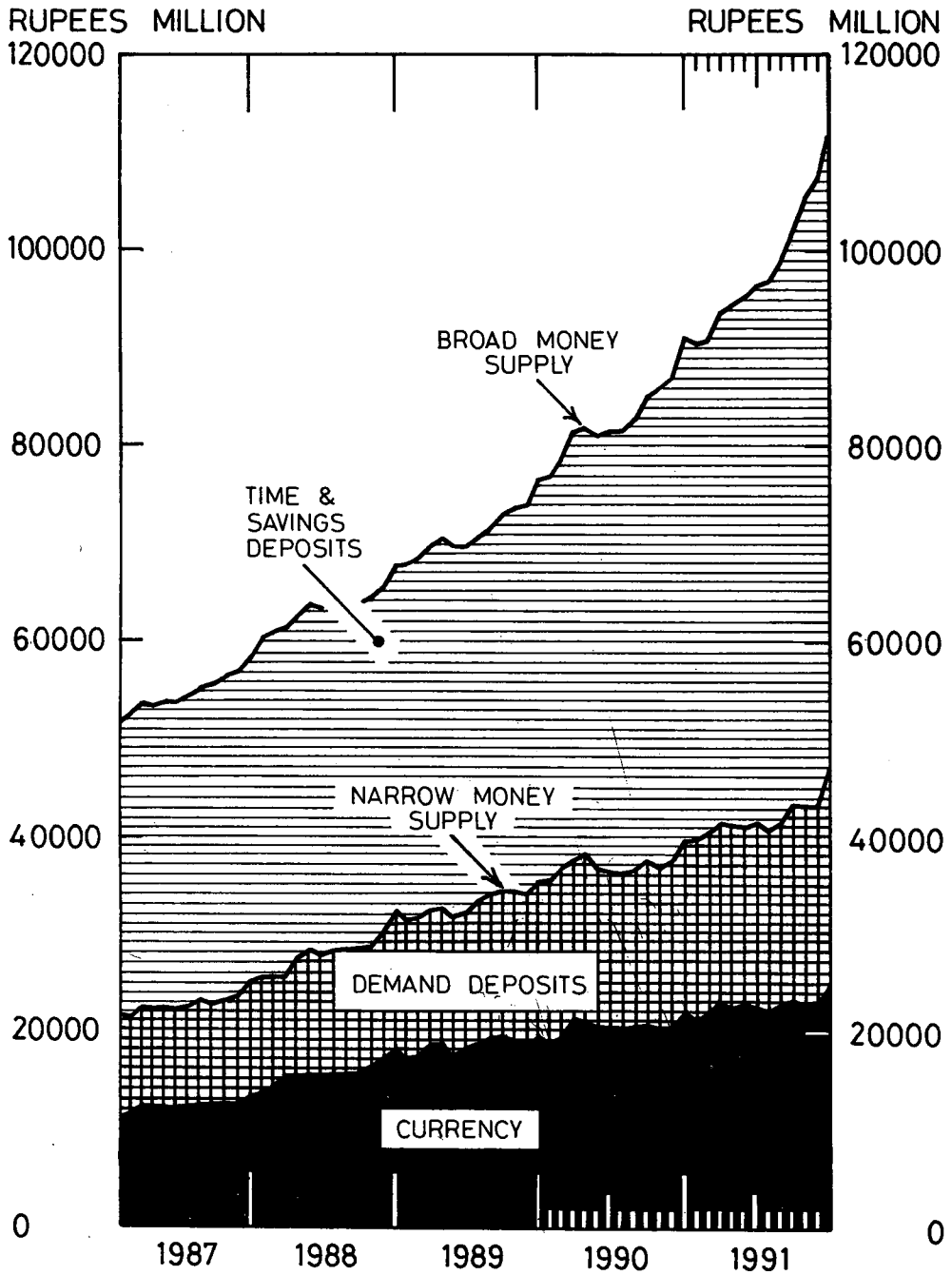
Despite a continuing tight monetary policy stance, the rate of monetary expansion further accelerated in 1991. This was mainly due to a significant improvement in the external assets (net) of the banking system and continued high growth in domestic credit. The narrow money supply (M_1), consisting of currency and demand deposits held by the public, registered an annual increase of 18 per cent at the end of 1991 compared with 13 per cent at the end of 1990. Similarly, the annual increase of broad money supply (M_2), comprising M_1 plus time and savings deposits held by the public with the commercial banks, rose from 19 per cent to 23 per cent over the two periods. The expansion in monetary aggregates recorded a marginal deceleration during the first four months of 1991 but accelerated thereafter with marginal fluctuations. The annual growth of M_1 which declined from 13 per cent at the end of 1990 to 9 per cent in April, 1991 accelerated thereafter reaching 18 per cent at the end of the year. Following a similar trend, the growth of broad money supply decelerated from 19 per cent at the end of 1990 to 15 per cent in April, 1991 but reversed thereafter reaching 25 per cent in November before declining to 23 per cent in December, 1991. In view of the continued high expansion in money and credit during the year, the Central Bank was obliged to further strengthen the contractionary monetary policy stance that was in place by the end of 1990 in order to arrest the expansion of monetary and credit aggregates.

The monetary base (reserve money or high-powered money) recorded a substantial increase of Rs.8,476 million or 26.8 per cent in 1991, compared with Rs.4,789 million or 17.9 per cent in the previous year. On the source side, a large increase of Rs.8,811 million in net foreign assets of the Central Bank was responsible for the expansion in the monetary base. In contrast, the net domestic assets (NDA) of the Central Bank declined by Rs.334 million during the year. Despite an increase of Rs.2,351 million in net credit to the government, the NDA of the Central Bank declined in 1991 due to a significant reduction of Rs.1,986 million in refinance facilities from the Bank and a net increase of other items by Rs.699 million. On the use side, the expansion was reflected in increases in both the currency issue of the Bank (Rs.3,622 million) and the deposits (Rs.4,854 million).

Money Supply and Causal Factors

In 1991, the narrow money supply (M_1) rose by Rs.7,176 million or 18 per cent compared with an increase of Rs.4,540 million or 13 per cent in 1990. The growth in M_1 during the year was largely reflected in the demand deposit component which expanded by Rs.4,444 million or 25 per cent, as compared with an increase of Rs.2,070 million or 13 per cent in the previous year. Meanwhile, the currency component in M_1 rose by Rs.2,732 million or 12 per cent in 1991 compared with an increase of Rs.2,470 million or 13 per cent in 1990. Accordingly, the share of currency in M_1 declined from 55 per cent in 1990 to 53 per cent in 1991. Meanwhile, quasi-money recorded a substantial increase of Rs.13,904 million or 27 per cent in 1991, in comparison to a growth of Rs. 10,044 million or 24 per cent in 1990. Consequently, the broad money supply (M_2) which increased by Rs.14,584 million or 19 per cent in the previous year recorded an expansion of

MONEY SUPPLY
MONTHLY



Central Bank of Sri Lanka.

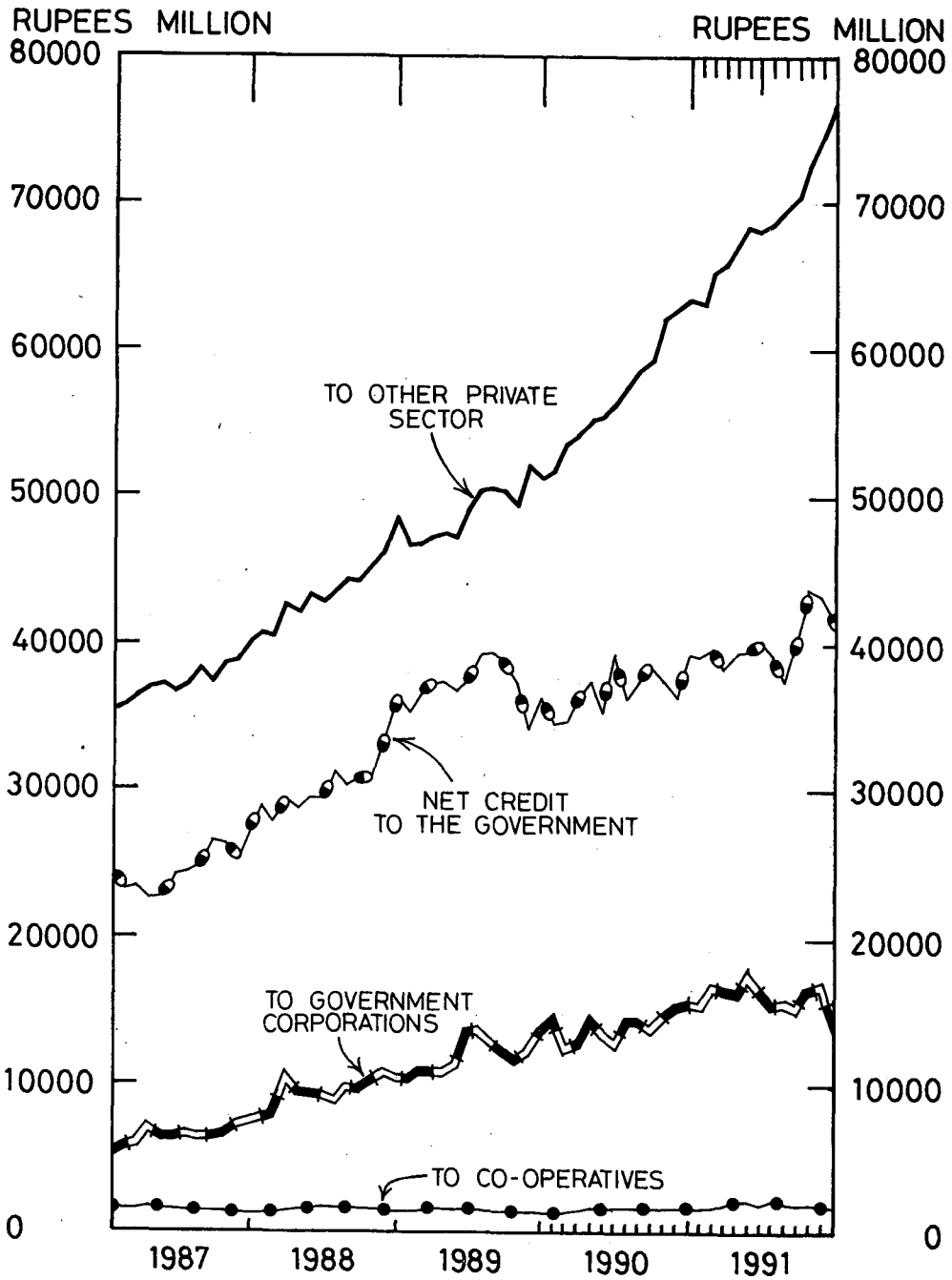
TABLE 1.56
Monetary Aggregates 1989 - 1991

(Amount in Rs. Million)

End of Period	Narrow Money Supply (M ₁)						Broad Money Supply (M ₂)					
	1989	1990	1991	% Change 1989 over 1988	% Change 1990 over 1989	% Change 1991 over 1990	1989	1990	1991	% Change 1989 over 1988	% Change 1990 over 1989	% Change 1991 over 1990
January	31,237	35,442	39,913	+23.3	+13.5	+12.6	67,980	76,879	90,161	+13.2	+13.1	+17.3
February	31,754	36,750	40,416	+23.7	+15.7	+10.0	68,143	78,590	90,867	+12.0	+15.3	+15.6
March	32,615	37,402	41,876	+22.4	+14.7	+12.0	69,841	81,169	93,814	+14.3	+16.2	+15.6
April	32,718	38,122	41,411	+19.1	+16.5	+ 8.6	70,503	81,876	94,292	+12.9	+16.1	+15.2
May	31,862	36,767	41,190	+13.1	+15.4	+12.0	69,750	80,771	95,317	+ 9.5	+15.8	+18.0
June	32,037	36,386	41,602	+15.3	+13.6	+14.3	69,717	81,407	96,162	+10.5	+16.8	+18.1
July	33,447	36,206	40,801	+19.2	+ 8.2	+12.7	70,867	81,469	96,456	+11.3	+15.0	+18.4
August	34,016	36,496	41,821	+20.5	+ 7.3	+14.6	71,345	82,956	98,941	+11.3	+16.3	+19.3
September	34,527	37,429	43,274	+21.3	+ 8.4	+15.6	72,964	85,057	101,896	+14.1	+16.6	+19.8
October	34,533	36,811	43,187	+20.4	+ 6.6	+17.3	73,375	85,973	105,366	+14.0	+17.2	+22.6
November	34,103	37,490	43,157	+12.3	+ 9.9	+15.1	73,942	86,659	107,976	+11.9	+17.2	+24.6
December	35,338	39,878	47,055	+ 9.1	+12.8	+18.0	76,434	91,017	112,097	+12.5	+19.1	+23.2
Monthly Average	33,182	37,098	42,142	+18.1	+11.8	+13.6	71,238	82,819	98,612	+12.3	+16.2	+19.0

Source: Central Bank of Sri Lanka

DOMESTIC CREDIT MONTHLY



Central Bank of Sri Lanka.

TABLE 1.57

Monetary Aggregates and Underlying Factors 1989 - 1991

(Amount in Rs. Million)

Item	Dec. 1989	Dec. 1990	Dec. 1991	Change 1989/1990		Change 1990/1991	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
1. Currency held by the public	19,650	22,120	24,852	+ 2,470	+ 12.6	+ 2,732	+ 12.4
2. Demand deposits held by the public	15,688	17,758	22,202	+ 2,070	+ 13.2	+ 4,444	+ 25.0
Narrow Money Supply (M1)	35,338	39,878	47,055	+ 4,540	+ 12.8	+ 7,177	+ 18.0
3. Time and Savings Deposits of the private sector held with commercial banks	41,095	51,139	65,043	+10,044	+ 24.4	+13,904	+ 27.2
3.1 Co-operative Institutions	895	927	1,743	+ 32	+ 3.6	+ 816	+ 87.9
3.2 Government Corporations	4,230	4,664	7,509	+ 434	+ 10.3	+ 2,845	+ 61.0
3.3 Other Private Sector Constituents (a)	35,970	45,548	55,791	+ 9,578	+ 26.6	+10,243	+ 22.5
Broad Money Supply (M2)	76,433	91,017	112,097	+14,584	+ 19.1	+21,080	+ 23.2
Underlying Factors							
1. Domestic Credit	102,321	119,864	134,226	+17,543	+ 17.1	+14,362	+ 12.0
1.1 Net Credit to Government	36,119	39,197	41,792	+ 3,078	+ 8.5	+ 2,595	+ 6.6
1.1.1 Gross Credit to Government by Central Bank	44,740	52,524	59,458	+ 7,784	+ 17.4	+ 6,934	+ 13.2
by Commercial Banks	36,741	38,206	45,981	+ 1,465	+ 4.0	+ 7,775	+ 20.3
1.1.2 Government deposits and cash balances	7,999	14,318	13,477	+ 6,319	+ 79.0	- 841	- 5.9
1.2 Gross Credit to Private Sector	-8,621	-13,327	-17,666	- 4,706	+ 54.6	- 4,339	+ 32.5
1.2.1 Co-operative Institutions	66,202	80,667	92,434	+14,465	+ 21.8	+11,767	+ 14.6
1.2.2 Government Corporations	1,178	1,596	1,757	+ 418	+ 35.5	+ 161	+ 10.0
1.2.3 Other Private Sector Constituents	13,862	15,636	14,077	+ 1,774	+ 12.8	- 1,559	- 10.0
2. External Banking Assets (net)	51,162	63,435	76,599	+12,273	+ 24.0	+13,164	+ 20.7
2.1 Central Bank (net)	4,732	10,206	17,305	+ 5,474	+115.7	+ 7,099	+ 69.6
2.2 Commercial Banks (net)	1,678	4,675	13,486	+ 2,997	+178.6	+ 8,811	+188.5
3. Other Items (net)	3,054	5,531	3,819	+ 2,477	+ 81.1	- 1,712	- 31.0
3.1 Other Liabilities (net) of Central Bank	-30,620	-39,053	-39,434	- 8,433	+ 27.5	- 381	- 1.0
3.2 Other Liabilities (net) of Commercial Banks	-13,176	-15,039	-15,739	- 1,863	-	- 700	- 4.6
3.3 Adjustments for items in transit	-19,043	-24,968	-23,651	- 5,925	-	+ 1,317	+ 5.3
Broad Money Supply (M2)	1,599	954	-44	- 645	-	- 998	-104.6
	76,433	91,017	112,097	+14,584	+ 19.1	+21,080	+ 23.2

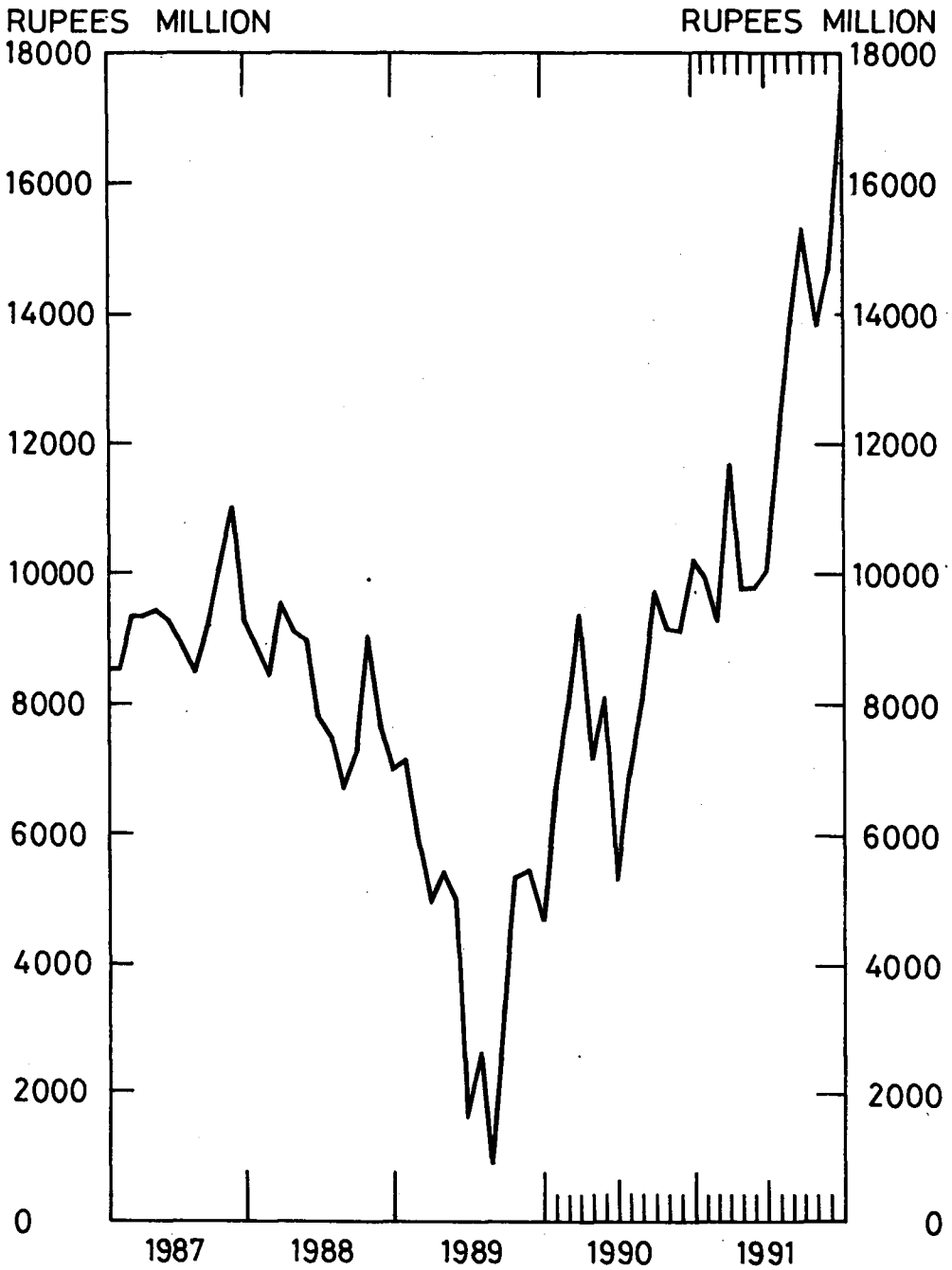
Note: Signs indicate the effect on M2

(a) Excludes Non-Resident Foreign Currency Deposits

Source: Central Bank of Sri Lanka

EXTERNAL BANKING ASSETS (NET)

MONTHLY



Central Bank of Sri Lanka.

Insurance

The two insurance corporations and three private insurance companies expanded their insurance business in 1991. In the field of life insurance, all these institutions introduced new types of policies during the year. Accordingly, the number of life policies and the premium income recorded considerable increases in 1991. The total annual premium income increased from Rs.634 million in 1990 to Rs.785 million in 1991 while the number of active policies increased from 285,400 to 292,600. Similarly, the general insurance business, in particular the fire and accident insurance, also expanded during the year. The annual premium income in these two categories increased by Rs.44 million and Rs.30 million, respectively, between the two years. However, the annual premium income from motor insurance declined from Rs.723 million to Rs.696 million between the two years.

CENTRAL BANKING

The total assets/liabilities of the Central Bank at the end 1991 amounted to Rs.95,835 million, recording an increase of Rs.18,373 million or 24 per cent during the year as compared with an expansion of Rs.14,692 million or 23 per cent in 1990.

On the assets side, the international reserve (gross) of the Central Bank increased substantially by Rs.12,557 million or 77 per cent in 1991. This was the second consecutive year in which the international reserve rose. The increase was a composite outcome of a rise in cash and balances abroad by Rs.12,765 million and decreases in holdings of foreign securities and Treasury bills, and Special Drawing Rights by Rs.202 million and Rs.6 million, respectively.

The domestic assets of the Bank (excluding other assets and accounts) recorded a growth of Rs.5,789 million or 13 per cent in 1991 compared with a rise of Rs.4,483 million or 11 per cent in 1990. Loans and advances to government increased by Rs.4,955 million (44 per cent) mainly due to a special loan given to the Government under IMF No.1 account amounting to Rs.2,949 million to cover revaluation and quota valuation adjustments. Meanwhile, Bank's holdings of government and government guaranteed securities increased by Rs.2,820 million (10 per cent). On the other hand, advances to commercial banks and other financial institutions decreased by Rs.1,986 million (27 per cent) in 1991 mainly due to a reduction in short-term refinance facilities which declined to Rs.1,394 million at the end of year from Rs.4,785 million at the end of 1990. Other assets and accounts reflected a marginal rise of Rs.27 million when compared with an increase of Rs.3,773 million (32 per cent) in 1990.

On the liabilities side, monetary liabilities consisting currency in circulation and deposits increased by Rs.17,682 million in 1991. Currency in circulation increased by Rs.3,622 million and deposits with the Central Bank by Rs.14,060 million. The deposits of foreign governments and foreign banking institutions, commercial banks, government and others increased by Rs.3,747 million, Rs.4,969 million, Rs.5,424 million, and Rs.34 million, respectively, while the deposits of government agencies and institutions decreased by Rs.114 million. The large increase in government deposits was mainly due to a receipt of a foreign loan by the government at the end of year, while the upward revision of the cash reserve ratio implemented in January, 1991 was the major reason for the increase in commercial bank deposits. During the year under review, other liabilities and accounts of the Central Bank increased by Rs.443 million as against an increase of Rs.5,161 million in the previous year.

INTEREST RATES

In the context of continuing high monetary expansion and the consequent tight monetary policy stance, the general level of short-term interest rates tended to remain high in 1991 although a slight downward trend was observed in some markets compared with the previous year. Meanwhile, the long-term interest rates remained stable in most of the market segments. Bank rate was raised from 15 to 17 per cent per annum in January, 1991 as a step in further tightening monetary policy.

Short-term Rates

In line with the deceleration in inflationary pressure, interest rates in the Treasury bill market declined marginally until September, 1991 but progressively increased thereafter mainly due to enhanced demand for funds by the government. Accordingly, the weighted average yield rate for Treasury bills with the maturity periods varying from 3 to 12 months decreased from a range of 17.41-18.36 per cent per annum at the end of December, 1990 to a range of 15.79-16.87 per cent per annum at the end of September, 1991 but increased to a range of 16.33-17.43 per cent per annum at the end of the year. Meanwhile, the discount and re-discount rates in the secondary Treasury bill market were also adjusted to take account of the variations in yield in the primary market. Further, in November, 1991 the difference between the discount and re-discount rates was reduced from 5 percentage points to 2 percentage points by reducing the re-discount rate in order to activate the secondary market. Accordingly, the discount rate declined from 15.50 per cent per annum at the end of 1990 to 14.75 per cent per annum with some marginal fluctuations in between while the re-discount rate declined from 20.5 per cent per annum to 16.75 per cent over the same period.

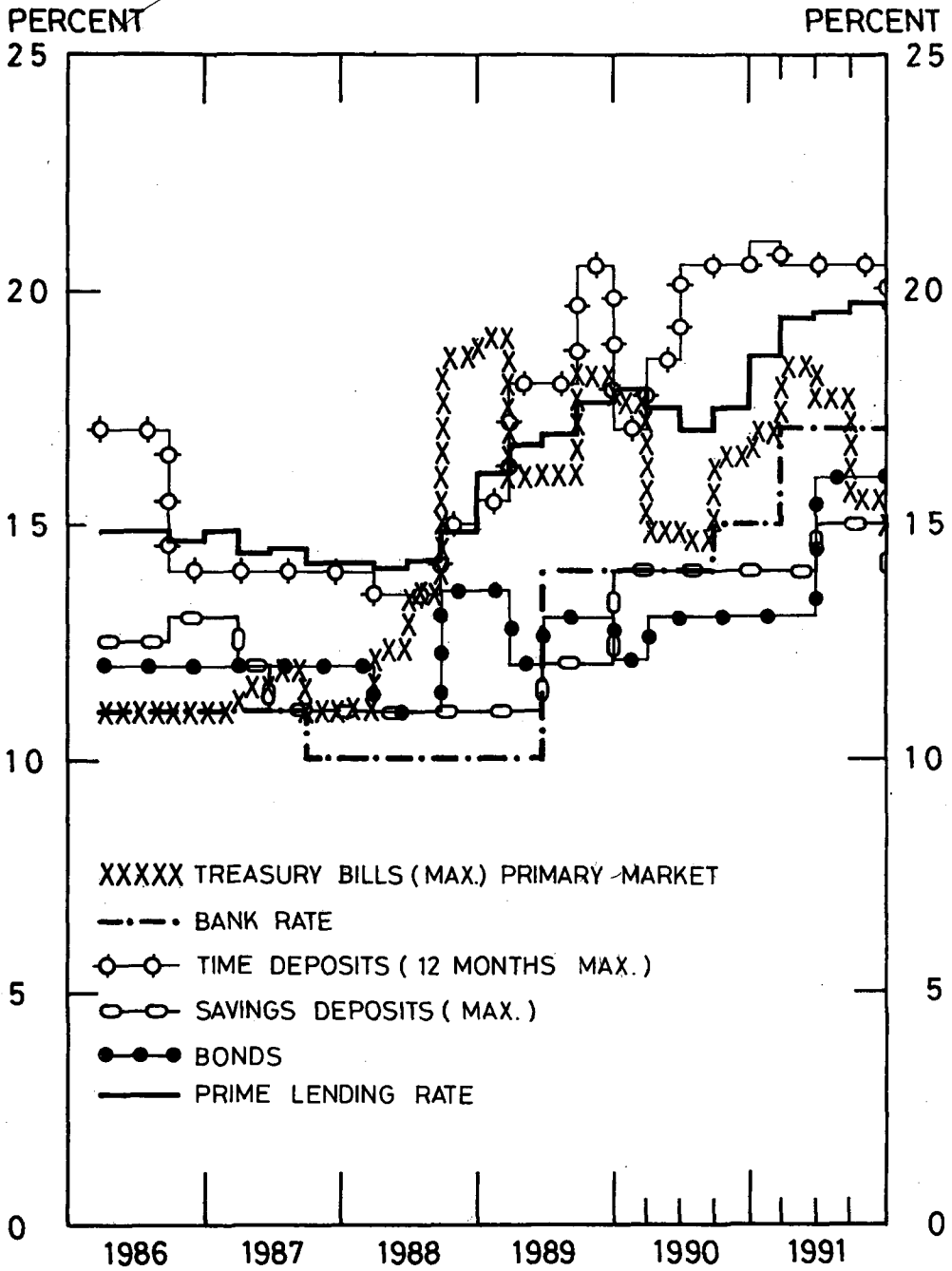
Interest rates in the call money market fluctuated significantly during 1991. However, the inter-bank call money rates stabilized towards the end of the year reaching to a range of 13-27 per cent per annum at the end of December, 1991. In line with the deceleration in inflationary pressures and also reflecting the marginal drop in Treasury bills rates, deposit rates with respect to fixed deposits with short maturities tended to decline. The maximum interest rates on 3-months and 6-months deposits in commercial banks declined from 22.5 and 21.0 per cent per annum to 18.5 and 18.0 per cent per annum, respectively. However, the maximum rates on 12-months and 24-months deposits reached 20 and 21 per cent per annum, respectively.

The National Savings Bank (NSB) also revised its saving deposits rate downward by 2.2 percentage points to 14.0 per cent per annum in July, 1991. However, the interest rates offered on 12 and 24 months deposits by the NSB remained unchanged at 17 and 18.5 per cent per annum, respectively. Meanwhile, the ceilings on deposits rates of finance companies remained unchanged at 21 and 24 per cent per annum for deposits with maturities of less than 24-months and over 24-months, respectively.

The interest rates offered by commercial banks on Certificates of Deposits increased marginally to a range of 9.0-22.5 per cent per annum at the end of 1991 from a range of 7-21.7 per cent per annum at the end of 1990. Reflecting a similar trend, interest rates offered by finance companies on CDs varied within a range of 12-22 per cent at the end of 1990 compared to a range of 12-24 per cent per annum at the end of 1991.

In order to reduce the distortions in the interest rate structure by bringing it more in line with market rates, the Central Bank revised upwards its refinance rates applicable to

INTEREST RATES END QUARTERLY FIGURES



Central Bank of Sri Lanka.

short-term refinance facilities. The Bank continued to publish the weighted average prime lending rate (WAPR) of commercial banks on a weekly basis. The WAPR fluctuated within a range of 18.7-19.8 per cent per annum during 1991 compared with a range of 17.0-18.6 per cent per annum in the previous year.

Long-term Rates

During 1991, 15 series of government securities were issued with one, two and four year maturity periods. The one year securities carried an interest rate of 18 per cent per annum while two-year and four-year securities carried interest rates of 16 and 14 per cent per annum, respectively during the first half of the year. These rates moved upto 17 per cent per annum and 16 per cent per annum during the second half of the year. A special rupee security with a maturity period of 10 years and carrying an interest rate of 10 per cent was also issued. Meanwhile, the SMIB issued debentures redeemable in three years carrying an interest rate of 17.5 per cent per annum. In addition, the NHDA issued debentures redeemable after 1 year, 2 years and 6 years carrying 18 per cent, 16 per cent and 15 per cent interest per annum. Interest rates on short maturity securities were kept higher considering the movements of short term rates, while the medium-term inflationary expectations were taken into account in fixing the rates on longer-term securities. During the year, medium and long-term refinance rates were revised upward by 4 percentage points reducing the difference between the market interest rates and refinance rates.

The National Development Bank (NDB) continued to link its lending rates to market rates of interest. Accordingly, the refinance rates under the Small and Medium Industries (SMI) Project-IV were to be fixed on the basis of the average weighted deposit rates (AWDR) of commercial banks. Meanwhile, the Participating Credit Institutions (PCI's) were allowed to add their own margins based on operational costs and project risk. The NDB charged 19.0 per cent per annum in respect of term loans granted as at the end 1991 in respect of their direct lending. Meanwhile, the on-lending rate of the Development Finance Corporation of Ceylon (DFCC) to SMI customers rose to 19.5 per cent per annum from 17.5 per cent per annum in 1990. The lending rates charged by the DFCC in respect of term loans such as for equipment financing and construction of commercial buildings ranged between 20 and 21 per cent per annum in 1991. The National Savings Bank continued to provide housing loans at rates ranging between 18 and 22 per cent per annum. The State Mortgage and Investment Bank (SMIB) revised its lending rates in December, 1991 unifying the rate at 20.5 per cent per annum irrespective of the purpose and the amount, whereas rates before the revision were in a range of 19 to 20 per cent per annum depending on the size and type of loan.

MONETARY POLICY

In the context of continuing high rates of monetary expansion, caused primarily by excessive domestic credit growth and an increase in net external assets, the authorities were obliged to further intensify the restrictive monetary policy stance during 1991. Although there were favourable developments in the inflationary front, the sustained high rates of monetary and credit expansion called for additional contractionary policy action. The policy measures introduced in 1991 included an upward revision of Bank rate, rationalization of refinance schemes, increase in the cash reserve ratio of commercial banks and further intensification of Open Market Operation (OMO) activities

Rs.21,080 million or 23 per cent during 1991. In the composition of M_2 the relative share of quasi-money rose from 56 per cent to 58 per cent over the same period reflecting increased preference of the public to hold interest bearing liquid assets.

As in the previous year, the increase in time and savings deposits in 1991 was largely reflected in the deposits of other private sector constituents (private sector proper) which rose by Rs.10,243 million or 22 per cent. Meanwhile, time and savings deposits of government corporations and co-operative institutions also recorded increases of Rs.2,845 million or 61 per cent and Rs.815 million or 88 per cent, respectively during the year. The positive impact of competitive interest rates offered on deposits by commercial banks and the considerable expansion in liquidity due to the increase in net foreign assets were largely responsible for the sharp increase in time and savings deposits with commercial banks.

During the year under review, both domestic credit and net external assets of the banking system exerted considerable expansionary pressure on the monetary aggregates. Despite the lower rate of growth than in the previous year, domestic credit exerted a greater expansionary influence on the monetary aggregates than the net external assets during the year. The growth in domestic credit was mainly reflected in credit utilized by the private sector. In comparison, net credit to government (NCG) recorded only a moderate growth during the year. On the other hand, credit utilized by government corporations registered a slight decline during the year.

Despite a deposit build up of Rs.4,339 million at the end of 1991, net credit to government from the Central Bank rose by Rs.2,351 million during 1991 due to a large increase of Rs.7,775 million in gross credit. Increased Central Bank credit to government took the form of loans and advances, Rs.4,955 million and a higher level of holdings of government securities and Treasury bills, Rs.2,820 million. However, loans and advances to government from the Central Bank included a special loan of Rs.2,949 million arising from a revaluation adjustment of the liabilities to the IMF effected during the year. Meanwhile, net credit to government from the commercial banking system increased by Rs.243 million or 5 per cent in 1991 as a composite outcome of a decrease in gross credit by Rs.841 million and a decrease in government deposits by Rs.1,084 million. In the event, net credit to government from the banking sector as a whole increased by Rs.2,595 million or 7 per cent in 1991, exerting an expansionary impact on the monetary aggregates.

Despite continuing high interest rates charged by commercial banks, gross credit to private sector (GCPS) expanded by Rs.11,767 million or 15 per cent during 1991 compared with an increase of Rs.14,465 million or 22 per cent in 1990. Within the overall private sector, credit utilized by other private sector constituents (the private sector proper) expanded by Rs.13,164 million or 21 per cent during the year reflecting high credit demand in that sector on account of increased economic activity. In comparison, bank credit to the co-operative sector rose by only Rs.161 million, while credit to government corporations declined significantly.

Credit utilization by government corporations showed an increasing trend during the first eleven months of 1991 but recorded a sharp drop in December. Overall, bank credit to government corporations declined by Rs.1,559 million or 10 per cent during the year. However, the decline in credit to government corporations was mainly a technical drop and was the outcome of a transfer of commercial bank loans given to two plantation corporations under the Medium Term Investment Programme (MTIP) and the Tea Reha-

bilitation and Diversification (TRAD) project as equity participation by the Government. The total amount so transferred in December, 1991 was Rs.3,238 million, consisting Rs.1,482 million to the Janatha Estate Development Board (JEDB) and Rs.1,756 million to the Sri Lanka State Plantations Corporation (SLSPC). Consequently, the credit utilized by the JEDB declined marginally by Rs.135 million or 6 per cent while that of the SLSPC dropped by Rs.1,425 million or 53 per cent by the end of the year, although the two corporations made heavy recourse to bank credit throughout the year under the impact of non-remunerative tea prices. Meanwhile, bank credit to the Co-operative Wholesale Establishment (CWE) declined from Rs.3,856 million at the end of 1990 to Rs.2,836 million at the end of 1991. This was made possible by the disposal of certain investments (sale of shares) and economizing on administrative costs. However, credit requirements of the Ceylon Petroleum Corporation increased substantially by Rs.2,663 million during the year due to continuing losses, high prices for several imported materials and high interest costs. Bank credit to the co-operative sector which expanded by Rs.419 million in 1990 registered a marginal increase of Rs.161 million in 1991.

The net foreign assets (NFA) position of the banking system continued to show strength in 1991 recording a substantial increase of Rs.7,099 million or 70 per cent. The growth in NFA was a combined outcome of an increase in such assets of the Central Bank by Rs.8,811 million and a drop of Rs.1,713 million in those of the commercial banks. The expansion in the NFA of the Central Bank was wholly reflected in an increase of Rs.12,765 million in cash balances abroad including Treasury bills. This was, partially offset by an increase in deposits of international organizations by Rs.3,746 million during the year. The drop in net external assets of the commercial banks is mainly attributable to an increase in Non-Resident Foreign Currency (NRFC) and Resident Non-National Foreign Currency (RNNFC) deposit liabilities amounting to Rs.3,220 million during the year. A favourable overall balance of payments outturn made possible by increased utilization of concessional lines of credit enabled the accumulation of foreign assets by the banking system during the year.

COMMERCIAL BANKING

Overall Trends

Commercial Banking activities further expanded during 1991. This was reflected in deposits mobilization, credit expansion, service facilities and the branch expansion programme.

The overall liquidity position of the commercial banking system remained at a satisfactory level during 1991. The ratio of liquid assets to demand deposits increased from 149 per cent at the end 1990 to 160 per cent at the end of 1991 with slight fluctuations in between. During the year, liquid assets expanded by Rs.8,563 million as against an increase of Rs.3,426 million in demand deposits. The expansion in liquid assets was mainly reflected in increases in cash due from the Central Bank, foreign balances and bills discounted.

Although the overall liquidity position of the banking system remained at a satisfactory level, the volume of transactions in the call money market remained high, specially during the first three-quarters of the year. This was largely due to an enhanced demand for short-term funds from some deficit banks at infrequent intervals. Consequently, the call money market rates increased from a range of 14-19 per cent in December, 1990 to a

TABLE 1.58**Selected Items of Assets and Liabilities of Commercial Banks 1990 - 1991**

(Amount in Rs. Million)

Item	Average of Monthly Figures		End of Period	
	1990	1991	1990	1991
Cash on hand and deposits at Central Bank (Inclusive of Statutory Reserve Requirements)	7,649	12,263	9,406	15,421
Foreign Balances	9,201	15,299	12,077	13,833
Treasury Bills	8,893	8,569	11,237	9,899
Bills Discounted	6,579	8,175	7,368	9,499
Total Liquid Assets	32,289	40,780	40,089	48,652
Total Investments (a)	2,012	1,892	2,040	2,081
Total Loans and Overdrafts	67,165	80,617	74,274	84,752
Demand Deposits (b)	22,529	25,787	268,80	30,310
Time and Savings Deposits (c)	56,295	70,670	63,664	81,281
Total Deposits	78,824	96,457	90,544	111,591
Ratio of:	%	%	%	%
Cash to Demand Deposits	34.0	47.5	35.0	50.9
Cash to Total Deposits	9.7	12.7	10.4	13.8
Foreign Balances to Total Deposits	11.7	15.9	13.3	12.4
Treasury Bills to Total Deposits	11.3	8.9	12.4	8.9
Commercial Bills Discounted to Total Deposits	8.3	8.5	8.1	8.5
Liquid Assets to Demand Deposits	143.3	158.1	149.1	160.5
Liquid Assets to Total Deposits	41.0	42.3	44.3	43.6
Investments to Total Deposits	2.6	2.0	2.3	1.9
Loans and Overdrafts to Total Deposits	85.2	83.6	82.0	75.9

Source: Central Bank of Sri Lanka

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

(b) Excludes domestic inter-bank deposits.

(c) Includes sum of Rs.1,964 million and Rs.2,321 million being long term deposits mobilised by the two state banks under the special savings schemes in 1990 and 1991 respectively

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

TABLE 1.58
Commercial Banks Advances* Classified by Purpose and
According to Maturity 1990-1991

(Amount in Rs. Million)

Category		Short Term (below 1 year)		Medium Term (1 to 5 years)		Long Term (Over 5 years)		Total	
		(1)	(2) (1) as % of (7)	(3)	(4) (3) as % of (7)	(5)	(6) (5) as % of (7)	(7)	(8) (7) as % of Grand Total
A. Commercial									
December	1990	30,108.7	80.8	4,732.7	12.7	2,443.4	6.6	37,284.8	46.4
March	1991	30,059.9	78.7	5,587.1	14.6	2,535.4	6.6	38,182.4	45.3
June	1991	31,417.4	78.5	6,103.3	15.3	2,493.3	6.2	40,014.0	46.5
September	1991	30,444.5	75.8	6,510.8	16.2	3,210.5	8.0	40,165.8	45.8
B. Financial									
December	1990	1,298.6	58.5	589.3	26.5	332.2	15.0	2,220.1	2.8
March	1991	1,560.0	60.2	663.5	25.6	367.7	14.2	2,591.2	3.1
June	1991	1,357.0	55.6	729.0	29.9	355.1	14.5	2,441.1	2.8
September	1991	1,617.9	56.9	832.0	29.3	393.7	13.8	2,843.6	3.2
C. Agricultural									
December	1990	4,979.4	51.7	1,465.3	15.2	3,194.5	33.1	9,639.2	12.0
March	1991	4,780.5	46.3	2,027.3	19.6	3,522.7	34.1	10,330.5	12.3
June	1991	4,959.1	47.7	2,182.3	21.0	3,264.5	31.4	10,405.9	12.1
September	1991	5,265.8	47.7	2,402.9	21.8	3,363.7	30.5	11,032.4	12.6
D. Industrial**									
December	1990	13,008.6	73.9	2,433.5	13.8	2,166.6	12.3	17,608.7	21.9
March	1991	13,645.4	74.5	2,543.5	13.9	2,137.7	11.7	18,326.6	21.7
June	1991	12,738.3	74.6	2,260.8	13.2	2,086.3	12.2	17,085.4	19.9
September	1991	12,452.0	72.8	2,381.5	13.9	2,280.5	13.3	17,114.0	19.5
E. Tourism									
December	1990	345.0	42.9	85.6	10.6	373.7	46.5	804.3	1.0
March	1991	353.4	42.3	99.0	11.8	383.6	45.9	836.0	1.0
June	1991	344.3	38.2	118.3	13.1	439.4	48.7	902.0	1.0
September	1990	400.0	43.3	115.1	12.5	408.8	44.2	923.9	1.1
F. Housing									
December	1990	1,506.7	18.2	1,923.5	23.2	4,865.8	58.7	8,296.0	10.3
March	1991	1,685.3	18.7	2,062.0	22.8	5,282.2	58.5	9,029.5	10.7
June	1991	1,798.0	18.7	2,167.3	22.6	5,642.7	58.7	9,608.0	11.2
September	1991	1,850.8	18.7	2,302.3	23.2	5,757.0	58.1	9,910.1	11.3
G. Consumption									
December	1990	1,331.3	61.8	644.1	29.9	179.7	8.3	2,155.1	2.7
March	1991	1,595.5	68.2	553.6	23.7	190.0	8.1	2,339.1	2.8
June	1991	1,686.2	62.2	812.6	30.0	210.7	7.8	2,709.5	3.2
September	1991	1,629.4	60.6	830.0	30.9	228.6	8.5	2,688.0	3.1
H. Other Loans									
December	1990	1,346.2	43.4	895.4	43.4	857.7	43.4	3,099.3	3.9
March	1991	1,409.3	40.4	1,056.6	40.4	1,021.9	40.4	3,487.8	4.1
June	1991	1,535.9	41.1	1,185.9	41.1	1,019.5	41.1	3,741.3	4.4
September	1991	1,728.3	44.8	1,130.7	29.3	1,002.0	26.0	3,861.0	4.4
I. Total									
December	1990	53,924.5	66.7	12,769.4	15.8	14,413.6	17.5	81,107.5	100.0
March	1991	55,089.3	64.9	14,592.6	17.2	15,441.2	17.9	85,123.1	100.0
June	1991	55,836.2	64.5	15,559.5	18.0	15,511.5	17.5	86,907.2	100.0
September	1991	55,388.7	62.8	16,505.3	18.7	16,644.8	18.5	88,538.8	100.0

* Advances include Loans, Overdrafts and Bills discounted and exclude cash items in process of collection.

Source: Central Bank of Sri Lanka

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

range of 13-27 per cent in December, 1991 with peak ranges of 16-35 per cent in February, and 16-39 per cent in May, 1991

Meanwhile, credit to the private sector rose significantly mainly due to increased economic activity in both domestic and GCEC enterprises. During 1991, total credit granted to the other private sector rose by Rs.13,164 million or 20.8 per cent. Nearly half of this increase occurred during the last quarter of the year.

Structure of Bank Assets and Liabilities and Advances to Private Sector

Total assets/liabilities of commercial banks, net of contra items, expanded by Rs.22,997 million (17 per cent) in 1991 as compared to an increase of Rs.26,012 million (25 per cent) in the previous year. On the liabilities side, a large portion of the increase in 1991 amounting to Rs.20,685 million was on account of deposits. This consisted of both time and savings deposits (Rs.17,260 million or 28 per cent) and demand deposits (Rs.3,425 million or 13 per cent). During the year, foreign borrowings rose marginally by Rs.68 million or 5 per cent, while the other liabilities of commercial banks recorded an increase of Rs.1,238 million or 5 per cent.

On the assets side, loans and advances rose by Rs.12,609 million (15 per cent) accounting for the major share (55 per cent) of the increase. Of the total, overdrafts increased by Rs.5,866 million (26 per cent) while loans and advances for imports rose by Rs.2,231 million (99 per cent). Meanwhile, total liquid assets consisting of cash on hand, deposits with the Central Bank, foreign balances, investments in Treasury bills and bills discounted rose by Rs.8,563 million (21 per cent) during the year. Of these, deposits with the Central Bank, bills discounted and foreign balances increased by Rs.5,123 million (67 per cent), Rs.2,131 million (28 per cent) and Rs.1,756 million (15 per cent), respectively, while investments in Treasury bills decreased by Rs.1,338 million or 12 per cent.

Meanwhile, the share of short-term advances in total advances decreased from 67 per cent at the end 1990 to 63 per cent at the end of the third quarter of 1991, while the share of medium term (1 to 5 years) and long-term (over 5 years) advances rose from 16 per cent and 18 per cent, respectively to 19 per cent each over the same period.

In the distribution of credit, the share of advances granted for commercial purposes consisting of exports, imports and wholesale and retail trading declined from 46 per cent at the end of 1990 to 45 per cent at the end of the third quarter of 1991. On the other hand, the share of advances granted for agricultural purposes consisting of rubber, coconut, paddy, livestock and dairy farming and fishing increased from 12 per cent to 13 per cent over the same period. Continuing the trend observed in the previous year, the relative share of credit to the industrial sector further decreased from 22 per cent at the end 1990 to 20 per cent at the end of the third quarter of 1991. This decline was mainly reflected in advances for the processing of tea, rubber and coconut.

Sources and Uses of Funds

Providing a sum of Rs.1,088 million on a net basis, the other domestic private sector emerged as a major source of funds for commercial banks in 1991. In the previous year, this sector was a major user of commercial bank funds. This turnaround was mainly due to the large increase in the deposits of this sector. Meanwhile, the government corporations sector also became a source of funds for the commercial banks providing a sum of

TABLE 1.60

Sources and Uses of Resources of Commercial Banks 1990 - 1991

(Rs. Million)

Category	End 1989/1990		End 1990/1991	
	Sources	Uses	Sources	Uses
1. Government Sector	-	2,447.6	-	242.3
Holdings of Govt. Securities	-	5,255.0	1,403.3	-
Deposits	3,871.4	-	-	1,083.6
Import Bills	-	87.5	-	1,011.2
Short-Term Credit	-	976.5	449.2	-
Overdrafts	-	-	-	-
2. Central Bank	879.6	-	-	7,121.2
Borrowings	2,675.3	-	-	1,106.6
Reserves	-	1,496.7	-	5,123.3
Investment in Central Bank Securities	-	-	-	-
Till Cash	-	299.0	-	891.3
3. Government Corporations	-	483.9	4,964.8	-
Deposits	1,290.2	-	3,405.7	-
Advances	-	1,774.1	1,559.1	-
4. Co-operatives	-	359.7	998.9	-
Deposits	58.8	-	1,159.9	-
Advances	-	418.5	-	161.0
5. Other Domestic Private Sector	-	1,402.9	1,088.3	-
Deposits*	10,869.2	-	14,253.0	-
Local Bills	-	454.8	125.3	-
Import Bills	-	63.7	-	1,138.5
Overdrafts	-	3,316.7	-	3,872.6
Loans	-	8,488.8	-	8,172.4
Investments in Securities and Bonds	51.9	-	-	106.5
6. Inter-Bank Transactions	622.5	-	273.5	-
Balance with Domestic Banks	40.5	-	434.4	-
Deposits and Borrowings with Domestic Banks	582.0	-	-	160.9
7. Foreign Sector	-	2477.7	1,712.5	-
Borrowings	-	24.1	68.3	-
Deposits	2,760.3	-	3,310.8	-
Foreign Balances Including Export Bills	-	5,213.9	-	1,666.6
8. Other Assets and Other Liabilities	5,669.7	-	-	1,674.5
Capital and Reserves	1,295.8	-	2,269.3	-
Fixed and Other Assets	1,740.7	-	-	4,824.7
Other Liabilities	2,633.2	-	880.9	-
Total Net Sources/Uses	7,171.8		9,038.0	

Source: Central Bank of Sri Lanka

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

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

TABLE 1.61
Savings Mobilisation 1987 - 1991

(Rs. Million)

Year	Commercial Banks				RRDBs		Non-Commercial Banking Sector					
	Domestic		Foreign				Rural Banks		National Savings Bank		Agricultural Service Centres	
	Savings	Fixed	Savings	Fixed	Savings	Fixed	Savings	Fixed	Savings	Fixed (a)	Savings	Fixed
1987	13,179	15,606	1,325	8,382	44	9	1,371	189	5,172	11,229	133	36
1988	16,240	15,476	1,731	8,371	90	14	1,713	195	6,381	11,684	146	34
1989	20,572	17,109	1,942	8,925	145	31	2,023	189	7,931	12,020	152	35
1990	25,347	25,099	1,965	9,289	277	37	2,279	218	9,527	13,577	173	23
1991	31,066	34,572	2,443	10,878	388	50	2,958(c)	282(c)	10,287(b)	16,158(b)	194	26

(a) Includes other deposits

(b) Provisional

(c) Position as at 30th September 1991

Source: Central Bank of Sri Lanka

Rs.4,965 million on a net basis. Meanwhile, the foreign sector contributed a net resource build-up of Rs.1,713 million to the commercial banking system.

During the year under review, the Central Bank was a major absorber of commercial bank funds amounting to Rs.7,121 million on a net basis. This was mainly due to a considerable increase in deposits by commercial banks under the statutory reserve requirement. Similarly, the other assets (net) became a user of commercial bank funds to the tune of Rs.1,675 million. This was a combined outcome of an increase of Rs.4,825 million in fixed and other assets partly offset by increases in capital and reserves by Rs.2,269 million and in other liabilities by Rs.881 million.

Deposit Mobilization

At the end of 1991, total deposit mobilization by the banking system and other savings institutions stood at Rs.109,302 million as compared with Rs.87,811 million at the end of 1990 reflecting an increase of 25 per cent. The deposits mobilized by the domestic commercial banks accounted for 60 per cent of total deposits while the share of the National Savings Bank was 24 per cent. The growth of fixed deposits surpassed the growth of savings deposits during the year under consideration showing the depositors' preference to hold higher interest bearing fixed deposits rather than savings deposits with low interest rates.

EXPANSION OF BANKING FACILITIES

Branch Expansion

The ABN Bank and Amro Bank merged as ABN-AMRO Bank with effect from September 24, 1991. Accordingly, the number of commercial banks (excluding RRDBs) operating in the country declined to 23 and the number of foreign banks to 17. However, the number of banking institutions and bank branches increased considerably in 1991. The number of RRDBs rose from 12 in 1990 to 15 in 1991. Following the collapse of the operations of the BCCI world-wide, its branch in Sri Lanka suspended operations with effect from 7th July, 1991. However, under the management of the Seylan Bank Ltd., it resumed normal domestic banking operations on 29th July, 1991. Increasing the total number of bank branches to 968 by the end of 1991, 50 branches were established during the year. This included 19 domestic and 3 foreign commercial bank branches, 23 RRDB branches and 5 National Savings Bank (NSB) branches.

Among the domestic banks, the Bank of Ceylon (BOC) established 3 main branches at Walapane, Rajagiriya and Karainager and amalgamated its Nildandahinna and Mulhelkelle ASC branches with the Walapane main branch. The BOC also opened a new extension office at Kollupitiya. Consequently, the total number of main branches of the BOC increased from 247 at the end of 1990 to 250 at the end of 1991, while the number of its extension offices increased from 12 to 13 during the same period. Meanwhile, the number of ASC branches declined from 39 to 36 during the year. The People's Bank opened two main branches at Waduramba and Seeduwa raising its branch net work from 306 in 1990 to 308 in 1991.

During the year, the Seylan Bank Ltd. opened 9 branches at Kurunagala, Nuwara-Eliya, Balangoda, Grandpass, Anuradhapura, Horana, Gampola, Badulla and Ambalangoda increasing its total number of branches to 26. Meanwhile, Hatton National

Bank (HNB) Ltd. opened 3 new branches at Kotte, Matara and Kegalle. The Commercial Bank of Ceylon Ltd. (CBC) opened 2 branches at Katunayake and Narahenpita. As a result of these changes the total number of branches of the HNB and CBC expanded to 42 and 21, respectively by the end of 1991. Meanwhile, the Habib Bank AG Zurich Ltd. opened 2 new branches at Wellawatta and the Colombo Air-port increasing its total number of branches to 4 and the Grindlays Bank Ltd. opened a branch at Bambalapitiya raising its total number of branches to 3. Consequently, the total number of foreign bank branches rose to 25 at the end of 1991.

During the year under review, the National Savings Bank opened 5 new branches at Talawakelle, Mirigama, Kandy, Battaramulla and Dikwella thus raising its total number of branches to 81 at the end of 1991. Meanwhile, raising the total number of RRDBs to 15, three RRDBs were established in the districts of Matale, Ratnapura and Polonnaruwa. During the year, 23 branches were opened by RRDBs raising the RRDB branch net-work to 124.

TABLE 1.62
Distribution of Bank Branches 1989-1991

Category	1989	1990	1991
1. No. of Institutions	35	36	38
1.1 No. of Commercial Banks	24	24	23
1.1.1 No. of Domestic Banks	6	6	6
1.1.2 No. of Foreign Banks	18	18	17
1.2 No. of RRDBs ^(a)	11	12	15
2. No. of Branches ^(b)	870	919	968
2.1 No. of Commercial Bank Branches	712	742	763
2.1.1 No. of Domestic Bank Branches ^(c)	691	719	738
2.1.1.1 No. of A.S.C Branches	45	38	36
2.1.2 No. of Foreign Bank Branches	21	23	25
2.2 No. of RRDB Branches	89	101 ^(d)	124
2.3 No. of NSB Branches	69	76	81

Source : Central Bank of Sri Lanka.

(a) Regional Rural Development Banks established under RRDB Act. No.15 of 1985.

(b) Includes Head Offices.

(c) Includes extension offices, Kachcheri Branches, Pay Offices and Overseas branches but excludes ASC branches functioning as extension offices of main branches.

(d) Including the RRDB branch opened on 29th December 1990.

Agency Banking

The Bank of Ceylon and the People's Bank further expanded the Praja Naya Niyamaka (PNN) Scheme during the year. Accordingly, the Bank of Ceylon appointed 470 Praja Naya Niyamakas (PNNs) in 1991 thus raising the total number of its PNNs to 3,631 at the end of 1991. The total amount of loans granted during the year under this scheme by the bank was Rs.57 million and total loans outstanding increased to Rs.291 million at the end of 1991. Meanwhile, the People's Bank recruited 122 PNNs raising the total number of its PNNs to 6,823 by the end of 1991. During the year under review, the bank granted Rs.44 million in loans, thus raising the total loans outstanding to Rs.194 million at the end of the year.

The Sampath Bank Ltd. appointed 6 Sampath Seva Sanyojakas (SSSs) increasing the total number of SSSs to 72 by the end of 1991. Total loans granted by the Sampath Bank Limited under the SSS scheme was Rs.16 million during the year, while the total loans outstanding by the end of 1991 was Rs.16 million.

Service Facilities

During the year, the banking services and savings facilities further expanded with the introduction of group lending schemes, new savings schemes, secret numbered accounts, leasing facilities and foreign exchange banking facilities. The People's Bank introduced a new lending scheme under the name "Janasaviya Entitlement Certificate Holders Group Lending Scheme" for Janasaviya entitlement certificate holders.

The People's Bank and Commercial Bank of Ceylon Ltd. commenced two savings schemes for children named "Children's Savings Scheme" and "Isuru", respectively. The Children's Savings Scheme functions through specially printed savings certificates of six denominations with a minimum of Rs.100 and a maximum of Rs.1,000. As a further step towards developing Colombo as an international financial center, the commercial banks were allowed to operate secret numbered accounts. Under this facility non-resident Sri Lankans and foreign nationals are eligible to open current, savings or time deposits in specified foreign currencies. So far 14 banks have been granted permission to operate secret numbered accounts.

The Hatton National Bank Ltd. initiated action to provide leasing facilities through its branch network to small and large entrepreneurs who have already used credit facilities from the bank but need further financial assistance. Meanwhile, the Bank of Ceylon improved forward exchange booking facilities for the benefit of importers and exporters. Accordingly, customers could hedge any of the 16 foreign currencies listed by the Bank against US Dollars, to soften the adverse implications of fluctuations in cross rates of foreign currencies on their transactions. In addition, the bank extended its computer network by linking its mainframe computer to selected corporate customers such as Air Lanka Ltd., Ceylon Tobacco Co. Ltd., and Merchant Bank of Sri Lanka Ltd.

Resident individuals were permitted to open and operate Resident Foreign Currency (RFC) accounts with a minimum balance of US \$ 500 or its equivalent in designated foreign currencies. Meanwhile, exporters were also allowed to credit 5 per cent of their annual incremental to export earnings to RFC accounts. In the context of reduced availability of concessionary refinance from the Central Bank and high interest rates in the domestic market, exporters were allowed to use foreign currency borrowing facilities through the FCBUs with a view to improving their export competitiveness.

Credit Information Bureau of Sri Lanka (CRIB)

The Credit Information Bureau of Sri Lanka which was officially inaugurated on August 1, 1990 continued to expand the coverage of the data-base and improved its service package during 1991. The Bureau expanded the data-base on irregular loan account holders (defined to cover those borrowers of lending institutions with six or more instalments in arrears or those considered as irregular borrowers by the reporting banks) exceeding Rs.100,000/- with commercial banks, development banks and registered finance companies. The data-base was updated to reflect the position as at June 30, 1991. At the same time, the Bureau initiated action to build a data-base on the regular loan

account holders of commercial banks and development banks so as to provide a more comprehensive coverage of borrowers when reporting to member lending institutions. As at the end of 1991, the Bureau's data-base contained information on about 32,000 different borrowers.

During 1991, the membership of the Bureau was expanded by admitting finance companies that had been registered with the Central Bank as shareholders. In all, 24 finance companies joined the Bureau under this scheme.

During the year, the Bureau supplied credit information to shareholder member institutions on an ever-increasing scale. These reports covered information such as outstanding borrowings of an individual or a company and those of other institutions related to the borrowers. Credit reports prepared by the Bureau were speedily delivered to lending institutions through a facsimile system or by messenger. The following table gives the number of credit reports prepared by the Bureau on a monthly basis during 1991 in response to requests made by commercial banks, development banks and registered finance companies.

TABLE 1.63
Number of Credit Reports Prepared By the
Credit Information Bureau - 1991

Month	Number of Reports
January	124
February	275
March	338
April	285
May	311
June	818
July	943
August	2001
September	2254
October	3942
November	3429
December	3270
Total	17,990

RURAL BANKING AND CREDIT

The flow of credit to the rural sector through the institutional credit schemes continued to increase with the improvement of economic activities in the country. The expansion in lending was seen mainly in the disbursement of credit under the New Comprehensive Rural Credit Scheme (NCRCS) which grants loans for the cultivation of paddy and 29 other subsidiary food crops and under the All Island Self Employment Scheme which provides medium and long term credit for individuals to undertake agriculture and allied activities, in areas such as livestock, small scale industries and services. The loan schemes are supported by refinance facilities from the Central Bank. These refinance rates and the on-lending rates under both schemes, however, had to be revised upward during the year in keeping with the demands of monetary policy.

New Comprehensive Rural Credit Scheme

A noteworthy feature of the NCRCS under which loans are granted for the cultivation of paddy and other subsidiary food crops was the high level of credit extended under the scheme during 1991. The total value of credit extended under the NCRCS in 1991 amounted to Rs.1,052 million registering an increase of 81 per cent over its level in the previous year. This expansion was due to a rise in the number of loans by 41 per cent covering a correspondingly higher acreage, as well as an upward revision in the scales of finance facilities which came into effect during Maha 1990/91. Another contributory factor for the significant increase in the value of credit during the year was the greater involvement of RRDBs in the scheme. Loans for paddy comprised the greater share of loans granted under the Scheme.

The Central Bank continued to provide a 50 per cent guarantee in respect of losses incurred by banks on loans granted under the NCRCS. As at end 1991, the total quantum paid by the Central Bank as indemnity under the Credit Guarantee Scheme amounted to Rs.52 million.

Agriculture Insurance Board (AIB)

Continuing the trend observed in 1990, the total area insured by the AIB increased from 40,000 hectares in 1990 to 54,000 hectares in 1991, recording an increase of 35 per cent. Premia collected for the area insured increased from Rs.10.9 million in 1990 to Rs.14.8 million in 1991. The value of indemnity paid by the AIB during 1991 was Rs.9.0 million as against Rs.8.8 million paid during 1990.

Medium and Long Term Credit Fund (MLCF) Category-I

Refinance granted under the MLCF during 1991 amounted to Rs.840 million, as compared with Rs.162 million granted during the previous year recording an increase of 416 per cent. Refinance was granted to participating lending institutions in respect of medium and long term loans for agricultural and allied rural based activities under 17 schemes in operation during the year.

The sharp increase in MLCF refinance in 1991 was due to a rapid draw-off of funds under the All Island Self Employment Credit Scheme. Under this Scheme, a sum of Rs.732 million was utilized during 1991 for financing projects in the fields of cottage and small scale industries, agriculture, livestock and allied activities as well as services. A total of 88,000 borrowers received financing facilities under this scheme.

Credit Facilities of Co-operative Rural Banks (CRB)

The value of loans granted by the CRBs during 1991 at Rs.584 million registered an increase of 34 percent over the previous year. The highest quantum of loans granted by the CRBs in 1991 had been for the provision of housing, electrification and water supply. Loans granted for projects and commercial purposes also recorded a considerable increase as compared to the previous year.

Mobilization of Rural Savings

The total outstanding value of rural savings and fixed deposits mobilized by the Bank of Ceylon sub-offices at the Agrarian Service Centres, Regional Rural Develop-

TABLE 1.64

**Cultivation Loans Granted Under the New Comprehensive Rural Credit Scheme
(Position as at 31. 12. 1991)**

(Rs. Million)

Season	People's Bank			Bank of Ceylon			Hatton National Bank			Reg. Rural Dev. Banks			Commercial Bank of Ceylon Ltd.			D F C C			Total Loans		Total loans under NCRCS
	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	
1989/90 Maha	76.4	17.5	93.9	92.2	59.5	151.7	13.7	2.9	16.6	23.2	13.9	37.1	-	-	-	-	-	-	205.5	93.8	299.3
1990 Yala	54.1	47.9	102.0	71.4	41.1	112.5	1.5	8.2	9.7	28.1	29.1	57.2	-	0.1	0.1	-	0.1	0.1	155.1	127.4	282.5
Cultivation Year 1990	130.5	65.4	195.9	163.6	100.6	264.2	15.2	11.1	26.3	51.3	43.0	94.3	-	0.1	0.1	-	0.1	0.1	360.6	221.2	581.8
1990/91 Maha	165.3	20.4	185.7	228.4	52.2	280.6	13.0	3.9	16.9	105.0	27.6	132.6	0.2	0.1	0.3	-	-	-	511.9	104.2	616.1
1991 Yala	66.3	88.8	155.1	103.9	57.4	161.3	3.1	12.9	16.0	49.1	53.9	103.0	-	0.5	0.5	-	-	-	222.4	213.5	435.9
Cultivation Year 1991	231.6	109.2	340.8	332.3	109.6	441.9	16.1	16.8	32.9	154.1	81.5	235.6	0.2	0.6	0.8	-	-	-	734.3	317.7	1052.0

Sources: People's Bank
Bank of Ceylon
Hatton National Bank
Regional Rural Development Banks
Commercial Bank of Ceylon Ltd.
Development Finance Corporation of Ceylon

TABLE 1.65

Deposits and Advances - Rural Sector*

(Amount Rs. '000)

	Co-operative Rural Banks		Bank of Ceylon sub-offices at Agrarian Services Centres		Regional Rural Development Banks		Thrift and Credit Co-operative Societies	
	1990	1991	1990	1991	1990	1991	1990	1991
1. Total Savings	2497322	3,448,488	196496	220120	313871	437533	514253	588012
1.1 Savings	2279067	3,133,556	160162	181219	277258	387806	422133	469570
1.2 Special Savings	—	—	12690	12434	—	—	71052	78264
1.3 Fixed Deposits	218255	314,932	23644	26467	36613	49727	21068	40178
2. Total loans granted **	434718	583730	24589	208822	429780	595399	485341	608601
2.1 Agriculture	41124	64489	19509	n.a.	281381	340615	131254	175123
2.2 Animal Husbandry	26475	45946	45	n.a.	18594	24336	20523	64026
2.3 Fisheries	—	—	—	—	5348	7967	—	—
2.4 Small Industries	30780	39310	865	n.a.	42381	58987	69734	92937
2.5 Housing, Electrification and Water Supply	215005	236920	312	n.a.	—	—	152753	152753
2.6 Projects/commerce	16406	111055	—	n.a.	49290	80010	14699	62482
2.7 Others	104928	86010	3858	n.a.	32786	83484	96378	61280

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

** Total value of loans granted during the year.

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

ment Banks, Co-operative Rural Banks and the Thrift and Credit Co-operative Societies (TCCS) stood at Rs.4,694 million in 1991 recording an increase of 33 percent when compared with the previous year. Of the total savings, ASC branches of the Bank of Ceylon, RRDBs, Co-operative Rural Banks and Thrift and Credit Co-operative Societies (TCCSs) accounted for 5, 9, 73 and 13 per cent, respectively.

OTHER FINANCIAL INSTITUTIONS

Savings Institutions

While the volume of deposits mobilized by the National Savings Bank (NSB) recorded an increase during the year, its rate of growth declined. In all, the total deposits of the NSB rose by Rs.3,341 million or 14 per cent in 1991 as compared with an increase of Rs.3,153 million or 16 per cent in the previous year. The reduced rate of growth in deposits can be partly attributed to the reduction in the interest rate offered on its savings deposits from 16.2 per cent to 14 per cent in July and the withdrawal of the tax exemption on one-third interest income. In the composition of deposits, a shift from savings deposits to fixed deposits was observed during the year in view of the comparatively more attractive rates offered for the latter category of deposits. Accordingly, savings deposits registered a moderate growth of 8 per cent in 1991 compared to a 20 per cent growth recorded in 1990, while fixed deposits rose by 19 per cent as against 13 per cent in 1990.

Gross investments by the NSB during the year mainly consisted of Treasury bills, government securities and National Defence Bonds. Investments in Treasury bills amounted to Rs.6,143 million or 57 per cent of total investments, while that in government securities accounted for Rs.2,959 million or 28 per cent. This reflected a movement towards longer investments in Treasury bills in view of the more attractive rates offered on Treasury bills than on government securities. Meanwhile, a sum of Rs.966 million was approved as loans in 1991, 76 per cent of which was against fixed deposits.

The activities of the Employees Trust Fund (ETF) continued to grow in 1991 with increased contributions amounting to Rs.105 million. The total contributions received in 1991 were Rs.787 million as compared with Rs.682 million in 1990. Meanwhile, the outstanding members' balance grew by Rs.1,033 million or 21 per cent to Rs.5,868 million by the end of the year.

Investments in Treasury bills by the Fund rose by Rs.682 million during the first half of 1991 but thereafter recorded a decline. Holdings of Treasury bills at Rs.2,160 million and government securities at Rs.1,297 million as at the end of the year were the major forms of investments by the Fund.

Long-term Lending Institutions

A salient feature in the operations of the Development Finance Corporation of Ceylon (DFCC) in 1991 was the substantial increase in its resource utilization and, consequently, the volume of loans approved. During the year, in addition to the resources made available by the International Development Association (IDA), the Asian Development Bank (ADB) and the National Development Bank (NDB) under the SMI scheme, new capital contributions to the tune of Rs.183 million were effected through a

TABLE 1.66

Purpose-wise Classification of Loans Approved and Granted by Long-Term Credit Institutions

(Amount Rs. Million)

Purpose	DFCC		NSB		SMIB		HDFC		NDB (2)		NHDA		ICSL		Total		% of Total Loans Approved	
	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991
1. Agriculture	25	41	59	166	-	-	-	-	45	72	-	-	-	-	129	278	2.7	4.0
(i) Plantation	25	41	-	-	-	-	-	-	-	-	-	-	-	-	25	41	0.5	0.6
(ii) Domestic	-	-	59	166	-	-	-	-	45	72	-	-	-	-	104	237	2.2	3.4
(iii) Livestock & Dairies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iv) Fishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(v) Purchase of land for agricultural purposes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Industry	1,096	1,767	-	-	-	-	-	-	1,413	1,775	-	-	-	-	2,509	3,542	53.3	50.9
(i) Mechanical processing of plantation crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(ii) Mechanical processing of agricultural crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Engineering & Building Trade	19	11	-	-	-	-	-	-	-	-	-	-	-	-	19	11	0.4	0.1
(iv) Mining	3	19	-	-	-	-	-	-	-	-	-	-	-	-	3	19	0.1	0.3
(v) Food, Beverage & Tobacco	412	571	-	-	-	-	-	-	-	538	-	-	-	-	412	1,109	8.8	15.9
(vi) Textile & Wearing Apparel	189	264	-	-	-	-	-	-	-	340	-	-	-	-	189	604	4.0	8.7
(vii) Rubber & Leather Products	128	272	-	-	-	-	-	-	-	248	-	-	-	-	128	520	2.7	7.5
(viii) Metals Chemicals and Engineering	150	355	-	-	-	-	-	-	-	443	-	-	-	-	150	798	3.2	11.5
(ix) Other Manufacturing	195	275	-	-	-	-	-	-	-	206	-	-	-	-	195	481	4.1	6.9
3. Tourism	70	144	-	-	-	-	-	-	68	135	-	-	-	-	138	279	2.9	4.0
4. Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Financial	62	137	134	-	-	-	-	-	219	33	-	-	-	-	415	170	8.8	2.4
(i) Loans to Financial Institutions	62	137	134	-	-	-	-	-	150	25	-	-	-	-	346	162	7.3	2.3
(ii) Investment Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-	-	-	69	8	-	-	-	-	69	8	1.5	0.1
6. Housing	-	-	70	68	232	252	14	52	-	-	314	617	21	26	651	1,013	13.8	14.6
(i) Purchase of houses	-	-	70	68	38	59	3	15	-	-	-	-	9	12	118	152	2.5	2.2
(ii) Construction	-	-	-	-	196	193	11	37	-	-	314	617	12	14	533	861	11.3	12.4
7. Redemption of Debt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8. Other Loans	104	126	443	734	-	-	-	-	319	819	-	-	-	-	866	1,679	18.4	24.1
Total (Approved)	1,357	2,215	706	966	232	252	14	52	2,063	2,834	314	617	21	26	4,708	6,962	100.0	100.0
Loans granted (1)	985	1,261	705	965	234	196	10	26	-	1,300	356	555	20	25	2,310	4,328	49.1	62.1
Loans granted as a % of Total loans approved	73	57	100	100	101	78	71	50	-	46	113	90	95	96	49	62	-	-

Note: (1) Includes loans approved in the previous years and disbursed during the period under review.

(2) Including refinance loans and equity investments.

Source: Development Finance Corporation of Ceylon (DFCC)
National Savings Bank (NSB)
State Mortgage & Investment Bank (SMIB)
Housing Development Finance Corporation (HDFC)

National Development Bank (NDB)
National Housing Development Authority (NHDA)
Insurance Corporation of Sri Lanka (ICSL)

new share issue while a further sum of Rs.314 million was raised through the issue of debentures. Meanwhile, it made minimum recourse to the domestic banking system for resources. As in the past, advances for the development of the industrial sector figured prominently in the advances portfolio. New loans approved to the industrial sector increased by Rs.671 million during the year. A notable shift in the term structure of loans was observed in 1991, where a substantial increase of Rs.1,318 million or 148 per cent was recorded in long-term loans, while a drop of Rs.712 million or 37 per cent was registered in medium-term loans.

The State Mortgage and Investment Bank (SMIB) continued to extend an increasing volume of loans for housing and purchase of building sites in 1991. Such loans approved increased from Rs.232 million in 1990 to Rs.282 million in 1991. Almost all the loans granted by the SMIB were for periods exceeding 10 years, with a rate of interest of 19 per cent or above, the majority being at 19 per cent. Loans approved by the SMIB during 1991 numbering 2,055 concentrated mostly within the range of Rs.70,000 to Rs.500,000, while loans exceeding Rs.500,000 accounted for 12 per cent of the total loans approved during the year. Resource mobilization by the SMIB in 1991 consisted of government's contribution to capital amounting to Rs.100 million, issue of debentures of Rs.500 million and loan repayments and term deposits totaling Rs.170 million and Rs.69 million, respectively.

The volume of loans approved by the National Development Bank (NDB) expanded from Rs.1,936 million in 1990 to Rs.2,771 million in 1991, while the number of loans approved increased from 157 to 213. Accordingly, the average size of loans approved during the year increased from Rs.12 million in 1990 to Rs.13 million. Emphasis on the development of the industrial sector continued in 1991 with 62 per cent of the new loans extended during the year. Major industrial categories which received NDB financing in 1991 were food, beverages and tobacco (Rs.531 million), chemical, petroleum and metal products (Rs.428 million), textiles, wearing apparel and leather industries (Rs.330 million), rubber and plastic products (Rs.243 million) and other manufacturing (Rs.187 million).

The major share of loans approved in 1991 by the NDB totalling Rs.1,555 million or 56 per cent consisted of medium-term while the balance Rs.1,216 million or 44 per cent was long-term. Loans below Rs.100 million accounted for 90 per cent of the total. Most of the loans were at rates of interest ranging between 18 and 19.5 per cent. The resource mobilization of the NDB in 1991 consisted of repayment of loans (Rs.1,158 million), borrowings (Rs.933 million) and loans from the Government of Sri Lanka (Rs.381 million).

Finance Companies

The finance company rationalisation programme implemented in 1990 was aimed at limiting the operations in this sector only to viable finance companies. Accordingly, measures were taken to suspend the operations of finance companies that were deemed non-viable and to further strengthen viable finance companies. With the expiration on 18th December, 1990 of the transitional period of 2 years granted to finance companies to fulfil the requirements for registration under the Finance Companies Act of 1988, conduct of finance business by unregistered financial institutions was made illegal. By the end of 1990, the Central Bank had granted registration only to 20 finance companies. The financial institutions which had not been registered by 18th December, 1990 were

TABLE 1.67**Sources and Uses of Resources of Registered Finance Companies**

(Amount in Rs. Million)

Item	As at 31st December 1990	As at 31st March 1991	As at 30th June 1991	As at 30th September 1991	As at 31st December 1991
Sources					
1. Capital Account	960.5	1,149.6	1,100.6	1,124.5	1,152.9
2. Deposits	5,382.8	5,667.9	5,713.1	5,708.5	5,659.8
3. Borrowings	1,434.7	1,945.5	1,704.6	1,920.1	2,109.1
4. Other Liabilities	822.1	789.3	897.9	948.5	940.3
Total	8,600.1	9,552.3	9,416.2	9,701.6	9,862.1
Uses					
1. Hire Purchase Business	3,342.4	3,409.9	3,454.6	3,496.9	3,440.8
2. Loans Outstanding	2,451.1	2,696.9	2,553.7	2,711.5	2,883.8
3. Investments	755.7	954.4	1,031.1	953.1	1,023.8
4. Other Assets	2,050.9	2,491.1	2,376.8	2,540.1	2,513.7
Total	8,600.1	9,552.3	9,416.2	9,701.6	9,862.1
Number of Finance Companies reported to the Central Bank	36	36	34	33	33

Source : Central Bank of Sri Lanka.

Note : Only the registered finance companies with the Central Bank are allowed to undertake finance business and other existing finance companies were directed to initiate their winding up operations.

directed to divest their finance business and to commence settling liabilities to depositors. Four more finance companies were registered during 1991 raising the total number of registered finance companies to 24.

The total number of finance companies which provided information under the quarterly survey on finance company activities declined from 36 for the first quarter of 1991 to 33 for the last quarter due to the winding up of unregistered companies. The total assets/liabilities of reported companies stood at Rs.9,862 million at the end of 1991 recording an increase of Rs.1,262 million or 15 per cent over the previous year. Reversing the declining trend observed during the closing years of the 1980s due to the failure of some companies and the resulting deterioration in depositors confidence, the total deposit liabilities of finance companies increased for the second consecutive year reaching Rs.5,660 million by end 1991 compared to Rs.5,383 million at the end of 1990, registering a growth of 5 per cent. Meanwhile, borrowings from commercial banks, shareholders, directors, etc. increased by Rs.674 million or 47 per cent during the year. Other liabilities, including sundry creditors, unclaimed dividends, accrued interest and provisions for taxation, etc. rose by Rs.209 million or 25 per cent.

The outstanding value of hire purchase transactions continued to grow during the first three quarters of 1991 but dropped marginally during the fourth quarter. Accordingly, outstanding value of hire purchase loans recorded only a marginal increase of 3 per cent during the year. Leasing, accounting for 38 per cent of loans outstanding recorded a marginal increase of less than 1 per cent. Meanwhile, loans outstanding expanded by Rs.433 million or 18 per cent and investments by Rs.268 million or 35 per cent. Of the investments amounting to Rs.1,024 million, Treasury bills accounted for 36 per cent.

The overall liquidity position of finance companies deteriorated, and the rate of liquid assets to deposit liabilities declined from 18.4 per cent at the end of 1990 to 15.9 per cent at the end of 1991. The ratio of investments in government paper holdings to total deposit liabilities dropped from 7.1 per cent in 1990 to 6.7 per cent in 1991.

Under the provisions of Section 20 of the Finance Companies Act No.78 of 1988, the Central Bank took over the administration and management of a further two finance companies each during 1990 and 1991 raising the number of companies vested with the Central Bank to 10 by the end of the year under review.

The Central Bank continued to provide refinance facilities under the Depositor Relief Scheme from the Medium and Long-term Credit Fund. During the year, such refinance credit extended to 8 finance companies in distress amounted to Rs.155 million, raising the total volume of such refinance to Rs.378 million by the end of the year.

Meanwhile, the Central Bank improved the close monitoring and supervision process over the finance companies. The amendments made under the Finance companies (Amendment) Act No.23 of 1991 contained provisions to treat any failure on the part of a finance company to pay deposits on maturity as an offence and provided for penalties in respect of such offences.

SPECIALIZED FINANCIAL INSTITUTIONS

Merchant Banking

The number of merchant banks registered remained unchanged at three in 1991. Those registered previously are the Merchant Bank of Sri Lanka Limited (MBSL), People's Merchant Bank Limited (PMB) and the Mercantile Merchant Bank Limited (MMB). The MBSL and the PMB actively participated in merchant banking activities during the year. However MMB has not reported its operations since it ceased to conduct some of its activities. During 1991, the activities of the merchant banks increased significantly with the total turnover almost doubling during the year as compared with the previous year. Discounting trade bills and leasing (both are fund based activities) were the major functions of these banks. Activities relating to quoted investments and money market operations also became some of their major functions during the year.

TABLE 1.68
Progress of Activities of MBSL and PMB (1990-1991)

	1990 (Rs.Mn.)	1991 (Rs.Mn.)
1. Earned Income on Leasing	26.4	50.8
2. Interest on discounting trade bills	58.6	108.1
3. Income from computer assignments	0.8	0.9
4. Financial and marketing consultancy	1.3	1.0
5. Underwriting commission	0.5	0.8
6. Insurance commission	1.1	1.5
7. Other income	16.9	48.8
Total	105.6	211.9

Sources: Merchant Bank of Sri Lanka Ltd.
People's Merchant Bank Ltd.

Leasing Companies

In addition to the three registered leasing companies, namely the Commercial Leasing Company (Pvt.) Ltd., Lanka Orix Leasing Company Limited and Mercantile Leasing Limited, a number of other financial institutions continued to engage in leasing business in 1991. The total value of leases executed by the three leasing companies declined from Rs.765 million in 1990 to Rs.703 million in 1991. The decline was mainly reflected in leasing facilities for industrial purposes which decreased by Rs.61 million.

According to a sector-wise classification, trading was the largest beneficiary sector receiving Rs.267 million or 38 per cent of the total leasing facilities provided in 1991. According to an equipment-wise classification, a large portion of the leasing facilities was in respect of commercial vehicles which received Rs.358 million or 51 per cent of total facilities provided during the year. The comparable value in 1990 was Rs.306 million or 40 per cent.

through the Treasury bill market. Accordingly, Bank rate was raised from 15 per cent to 17 per cent per annum with effect from 4th January, 1991. In addition, with a view to arresting the excessive growth of commercial bank credit, the cash reserve ratio of commercial banks was raised from 10 per cent to 13 per cent on all types of deposit liabilities with effect from 11th January, 1991. Simultaneously, the facility of holding a part of the reserve requirement in the form of Sri Lanka Government Treasury bills was withdrawn with a view to improving the effectiveness of the reserve requirement as a policy instrument. Meanwhile, credit control measures introduced in mid 1989 with a view to moderating the expansion of credit, continued to remain in force during the year under review.

Continuing with a market oriented policy stance launched in the recent past, greater emphasis was placed on OMO in monetary management during the year. Taking further action in this direction, a Monetary Operations Unit (MOU) was established in the Banking Department in May, 1991 with a view to promoting orderly management of financial sector liquidity and improve the efficiency of monetary policy measures. The Central Bank continued its weekly auctions of Treasury bills in the primary market where the yields were allowed to reflect market conditions with minimum intervention by the authorities. In order to promote further market orientation of the activities in the Treasury bill market, the captive sources were excluded from bidding at the primary auction and the "Tap System" was restricted to individuals. Accordingly, beginning August, 1991 captive sources were allocated Treasury bills on the basis of the weighted average Treasury bill rates at the public auction.

In the context of a continuously declining inflation rate, the yield on Treasury bills decreased for most parts of the year but reflected an upward trend since October. Thus, the yield of 3-months Treasury bills declined from 17.4 per cent per annum of the end of 1990 to 15.8 per cent in October, 1991 but increased thereafter to reach 16.3 per cent per annum in December. A similar rate trend was evident in the Treasury bills of longer maturities. During the year, considerable progress was made in marketing Treasury bills to the non-bank private sector in the primary Treasury bill market.

In the Secondary Treasury bill market, the Central Bank offered attractive discount rates with a view to reducing its holdings of Treasury bills. In order to create a more active secondary market, the difference between discount and re-discount rates was reduced by 3 percentage points to 2 per cent. Discount rates varied in a range of 13.25-14.75 per cent per annum while rediscount rates varied in a range of 16.75-18.25 per cent per annum during the year. Gross sales in the secondary Treasury bill market rose by 19 per cent during the year while the gross purchases increased by 74 per cent reflecting an expansion in secondary market activities.

Reflecting a favourable response to the conditions in the Treasury bill market, the holdings of Treasury bills by the non-bank sector increased from Rs.22,904 million at the end of 1990 to Rs.25,122 million in December, 1991 raising its relative share in the total outstanding from 37.4 per cent to 38.7 per cent. However, the holdings of Treasury bills by the Central Bank increased from Rs.27,034 million at the end of December, 1990 to Rs.29,854 million mainly due to a reduction of holdings by the commercial banks amounting to Rs.1,338 million and the new issues totalling Rs.2,500 million made in the last quarter of the year.

With a view to minimizing the adverse implications of refinance facilities on monetary stability and the interest rates, the Central Bank initiated several steps to rationalize its refinance facilities. These rationalization measures included a progressive reduction of

export credit refinance facilities for well established traditional exports, withdrawal of special refinance schemes, restriction of refinance facilities under Category-II of the Export Credit Refinance Scheme (ECRS) to high value added and pioneering exports and a ceiling on per exporter in respect of each export product in order to distribute the limited facilities available among a greater number of borrowers. Measures were also taken to adjust refinance interest rates towards market rates with a view to reducing the distortions in the interest rate structure. Accordingly, refinance rates under all schemes were adjusted upward by 2 percentage points in January, 1991, a further by 2 percentage points in respect of all refinance facilities in August, 1991 and another 2 percentage points in respect of Category-I and II of the ECRS and Guaranteed Price Scheme in December, 1991.

Following these rationalisation measures, the total outstanding amount of refinance declined from Rs.7,330 million at the end of 1990 to Rs.5,344 million at the end of December, 1991 recording a 27 per cent decrease. This marked reduction was reflected mainly in refinance credit granted under short-term facilities. Within the short-term refinance facilities, outstanding amounts under the Category-I and II of the ECRS declined from Rs.1,576 million and Rs.1,062 million in December, 1990 to Rs.390 million and Rs.383 million, respectively in December, 1991. However, refinance facilities provided for agricultural purposes increased and a new facility was made open to RRDBs in respect of purchase/storage of paddy and other crops.

In order to accommodate the growing demand for medium and long-term credit, a transfer of Rs.750 million was effected to the Medium and Long term Credit Fund (MLCF) of the Bank increasing the available resources in the Fund to Rs.4,000 million. The utilization of refinance under MLCF rose from Rs.2,545 million at the end of 1990 to Rs.3,950 million at the end of 1991. Meanwhile, refinance utilized by finance companies in distress increased from Rs.684 million to Rs.900 million during the same period. Considering the large expansion in refinance facilities under the MLCF in the recent past and their implications on monetary management, some rationalization measures had to be taken during the year. Accordingly, it was decided to suspend refinance facilities to sick industries and cancel all the approvals which were not utilized within a one year period of their approval.

Money Market

During 1991, all sub-markets in the money market, in particular the internal foreign exchange market, recorded considerable progress. Enhanced foreign receipts, expansion in deposits under the Non-Resident Foreign Currency (NRFC) accounts, introduction of Resident Foreign Currency (RFC) accounts, permission for foreign currency borrowings to exporters and increased remittances on account of share market activities were the major underlying reasons for the growth in the internal foreign exchange market. Meanwhile, the expansion in the activities of FCBU's due to enhanced demand for credit by GCEC enterprises and 'other approved categories' was also a noteworthy feature in the money market.

Inter-Bank Call Money Market

During 1991, the activities in the inter-bank call money market expanded, the turnover increasing by 4 per cent over the previous year. As in the past, the major market participants were the commercial banks, of which the domestic commercial banks were

the major suppliers of funds. Meanwhile, the call money rates fluctuated sharply during the year mainly due to the enhanced demand for funds by some deficit banks at irregular intervals. Continuing the previous seasonal pattern, total lending/borrowing increased upto September, 1991 and declined thereafter. Meanwhile, the end month call money rates rose from a range of 14-19 per cent at the end of 1990 to 16-39 per cent in May, 1991 declined to a range of 13-27 per cent by the end of the year with some fluctuations in between.

The Treasury Bill Market

(a) Primary Treasury Bill Market

The issue of Treasury bills (TBs) in the primary market increased moderately in 1991 compared with the previous year. The value of TBs offered in the primary market was Rs.131.6 billion during the year as compared with Rs.119.8 billion in the previous year. Meanwhile, the total outstanding level of TBs increased by Rs.5,000 million or 7 per cent reaching Rs. 72.9 billion at the end of 1991.

The non-bank sector's investments in Treasury bills grew further during the year due to attractive real rates that prevailed in the market even though the nominal rates declined somewhat during the first three quarters of the year. The non-bank sector investments increased from Rs. 26.7 billion at the end of 1990 to Rs.28.8 billion at the end of 1991 recording an 8 per cent growth. In this category, the major investors were the approved provident funds (Rs.9.8 billion), government corporations (Rs.7.7 billion) and the NSB (Rs.7.3 billion). Meanwhile, the holdings of Treasury bills by commercial banks declined from Rs.10.6 billion at the end of 1990 to Rs.9.2 billion at the end of 1991. On the other hand, the Central Bank's holdings of Treasury bills increased to Rs.35.0 billion at the end of 1991 from Rs.30.7 billion at the end of the previous year.

In order to make the Treasury bill rate more market determined, captive sources were not allowed to bid at the primary auction and the "Tap System" was restricted to individuals. The auction weighted average rate was offered to the captive sources in respect of their investments in Treasury bills. Meanwhile, the cumulative value of Treasury bill sales through the "Tap System" declined from Rs.8.1 billion in 1990 to Rs.6.1 billion in 1991.

(b) Secondary Treasury Bill Market

The operations of the secondary Treasury bill market (STBM) further expanded during the year indicating a more intensive use of the market by the investors as an outlet for the placement of temporary surplus funds. Total annual sales from the Central Bank which amounted to Rs.67.7 billion in 1990 increased to Rs.80.4 billion in 1991 while total purchases by the Central Bank rose from Rs.21.1 billion to Rs.36.7 billion. In order to activate secondary market activities, the Central Bank reduced the difference between discount and re-discount rates from 5 percentage points to 2 percentage points by adjusting the re-discount rate downwards. A net sale position was witnessed during most months of the year. The secondary market rates were continuously adjusted to reflect the variations in the primary market rates. Accordingly, the discount rate declined from 15.50 per cent at the end of 1990 to 14.75 per cent at the end of 1991 with some marginal fluctuations in between, while the re-discount rate declined from 20.5 per cent to 16.75 per cent over the same period.

Internal Foreign Exchange Market

The Central Bank continued its participation in the spot buying and selling of US.Dollars against Sri Lanka Rupees at rates pre-determined by the Central Bank for transactions with commercial banks. Under the new system introduced on 10th December, 1991, of fixing the daily exchange rate for the U.S. Dollar, with a view to activating the local foreign exchange market, buying and selling rates of the Central Bank are based on the market conditions and other relevant factors and Central Bank would change its buying and selling rates for the US.Dollar which are announced in the morning. At the end of 1991 the spot buying and selling rates per US. Dollar were Rs.42.5650 and Rs.42.5950, respectively while the spot middle rate was Rs.42.58 per US.Dollar.

The Central Bank intervened in the US.Dollar forward market with a forward cover up to six-months. As at the end of the year, the Central Bank purchased US.Dollar one-month forward (with option) at a discount of 50 cents below the spot middle rate per US.Dollar, and three months forward (with last month option) at a discount of Rs.1 below the spot middle rate per US.Dollar. Spot purchases of the Central Bank amounting to US\$. 554 million in 1991 recorded an increase of US\$.93 million or 20 per cent, while spot sales amounting to US\$.293 million registered an increase of US\$.110 million or 60 per cent during the year.

The Off-shore Market

The Off-shore banking activities of the Foreign Currency Banking Units (FCBUs) of commercial banks continued to expand during 1991, both in terms of size and coverage. Total assets/liabilities of 22 FCBUs that were in operation increased by Rs.4,026 million or 11 per cent to Rs.39,365 million (US\$ 924.5 million) by the end 1991. With the facility to grant foreign currency loans to exporters from FCBUs, the credit facilities granted by these units to the domestic other approved category increased in 1991. By the end of the year, 7 FCBUs had extended these facilities to exporters. Accordingly, the loans and advances to GCEC enterprises and other approved categories increased by 62 per cent and 46 per cent, respectively. On the liabilities side, deposits and borrowings of 'non-residents banks' category continued to hold the major share of total resources amounting to 41 per cent of total liabilities as at end 1991.

Money Market Instruments

As in the past, Certificates of Deposits (CDs) and Treasury bills continued to be the major money market instruments used in 1991. The outstanding value of CDs issued by commercial banks and finance companies increased to Rs.3,051 million at the end of 1991 from Rs.2,413 million at the end of the previous year. In 1991, the interest rates offered by the commercial banks on CDs fluctuated in a range on 9-22.5 per cent per annum compared with a range of 8-22.5 per cent in 1990. The rate of interest offered by finance companies on CDs varied within a higher range of 12-24 per cent per annum at the end of 1991 compared to 12-22 per cent per annum in 1990.

TABLE 1.69

Money Market Operations (1989 - 1991)

(Amount Rs. Mn.)

Period	Call Money Market		Primary Treasury Bill Market						Secondary Treasury Bill Market		
	Total Lending/ Borrowings	Outstanding as at end of period (a)	Total Out standing	Amount Issued	Amount Accepted (Purchases)				Total Sales	Total Purchases	Outstanding position as at end of period
					Central Bank	Commercial Banks	Others	Total			
1989											
1st Quarter	34,087	885	47,700.0	47,700.0	33,668.1	4,814.8	9,217.1	47,700.0	27,355	6,405	472
2nd Quarter	38,885	1,178	50,322.4	25,164.7	15,255.9	2,499.0	7,409.8	25,164.7	12,258	6,507	698
3rd Quarter	54,085	908	54,745.8	25,211.8	17,088.1	2,989.0	5,134.7	25,211.8	15,582	5,346	717
4th Quarter	37,051	790	57,245.8	19,234.5	11,490.6	3,554.2	4,189.7	19,234.5	15,960	4,991	713
1990											
1st Quarter	41,170	877	58,967.7	31,332.7	17,964.1	4,915.9	8,452.6	31,332.7	20,290	5,006	1,175
2nd Quarter	49,012	1,188	61,967.7	30,451.9	15,109.6	5,569.4	9,772.6	30,451.7	15,296	5,184	425
3rd Quarter	60,273	1,201	62,967.7	28,431.9	11,227.5	7,714.4	9,490.0	28,431.9	17,306	4,556	1,126
4th Quarter	64,856	1,988	67,967.7	29,621.4	16,686.0	7,300.6	5,634.9	29,621.4	14,817	6,351	1,964
1991											
1st Quarter	50,194	1,304	68,967.7	36,953.2	20,370.4	7,834.1	8,748.6	36,953.2	25,472	8,716	2,073
2nd Quarter	54,114	2,167	70,467.7	34,137.2	14,953.8	4,625.5	14,557.9	34,137.2	16,768	8,584	1,674
3rd Quarter	65,612	798	70,467.7	28,968.6	14,965.3	4,265.3	9,738.0	28,968.6	20,069	8,489	3,040
4th Quarter	54,940	1,592	72,967.7	31,509.1	18,150.4	5,237.5	8,121.2	31,509.1	18,078	10,898	1,453

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

Source : Central Bank of Sri Lanka

CAPITAL MARKET

Overall Developments

In respect of the developments and activities in the share market, the year 1991 was a remarkable one. All indicators show a significant development in share market transactions during the year. The continued buoyancy in economic activity and the facilities provided and action taken by the authorities to promote an active share market were the major contributory factors for this favourable development.

Reflecting a sharp upsurge in trading activities in the share market, the total turnover of shares traded increased from Rs.1,563 million in 1990 to Rs.4,944 million in 1991 while the total number of shares traded increased from 42 million to 95 million over the same period. Following a similar trend, the CSE All Share Price Index (1985=100) increased from 384 at the end of 1990 to 838 at the end of 1991, while the sensitive Price Index (1985=100) rose from 680 to 1,199 during the same period, recording growth rates of 118 per cent and 76 per cent, respectively.

In 1991, five new companies obtained quotations from the Colombo Stock Exchange (CSE). These new listed companies belonged to bank and finance, footwear and textile, hotel and travel, manufacturing, and trading categories. Continuing the trend observed in the recent past, the market capitalization value of the CSE more than doubled in 1991, increasing from Rs.36,880 million in 1990 to Rs.82,700 million in 1991.

In the context of intensified share market activities, the CSE introduced a computerized system with a new set of rules and procedures to improve the efficiency of share transactions in September, 1991. The new system is equipped with a fully integrated automated system for the clearing and settling of listed securities transactions. In order to facilitate the revised procedures under the new system, a company called the Central Depository System (Pvt.) Limited was established in 1991 as a wholly owned subsidiary of the CSE. As at the end of December, 1991, 33 companies were registered under the Central Depository System (CDS).

Another noteworthy development in the share market during 1991 was the establishment of Unit Trusts providing prudent share investment facilities to investors, specially the small savers. With the amendments to the Securities Council Act, No. 36 of 1987 by the Securities Council (Amendment) Act, No. 26 of 1991 the Securities & Exchange Commission has been empowered to grant licences to Unit Trusts. By end December, 1991, two Unit Trusts had been registered namely, the National Equity Fund and the Pyramid Unit Trust which are managed by National Assets Management (Pvt.) Ltd. and the CKN Fund Management (Pvt.) Ltd., respectively. Both these Unit Trusts were established by two groups of domestic financial institutions in collaboration with foreign financial institutions. Meanwhile, a number of Country and Regional Funds had obtained approval in 1991 to operate in the stock market, increasing the total number of such approved funds to 68.

Primary Share Market

The primary share market continued to be active in terms of both the number and value of new shares offered during 1991. There were 5 new issues in 1991 compared with 2 and 1 of such issues in 1989 and 1990, respectively. The number of new shares offered to the market in 1991 was 12.1 million, with a value of Rs.121.5 million. Of

TABLE 1.70
Share Market Indicators 1986 - 1991

	1986	1987	1988	1989	1990	1991
1. Market Capitalization (Rs.Mn.)	11,812	18,460	15,694	17,087	36,880	82,700
2. Number of New Issues (No.)	5	5	10	2	1	5
3. Total Number of Shares Issued (Mn.)	779	819	919	1,048	1,099	1,209
4. Value of Shares Issues (Rs.Mn.)	7,790	8,196	9,190	10,404	10,908	11,640
5. Number of Shares Traded (Mn.)	6	17	13	12	42	95
6. Value of Shares Traded (Rs.Mn.)	142	334	379	255	1,563	4,944
7. Price Indices - CSE All as at 31st Dec	141.38	217.97	172.44	179.49	384.39	837.79
CSE Sensitive "	218.19	384.12	309.56	341.74	680.30	1,198.60

Source : Colombo Stock Exchange.

TABLE 1.71
Number of New Share Issues During 1986-1991 by Type of Investment

Type of Investments	1986	1987	1988	1989	1990	1991
Bank, Finance & Insurance	-	2	4	1	-	1
Beverages Food & Tobacco	1	-	-	-	-	-
Chemicals & Pharmaceuticals	-	-	-	-	-	-
Constructions & Engineering	-	-	-	-	-	-
Footwear & Textile	-	-	-	-	-	1
Hotels & Travels	-	-	-	-	-	1
Investment Trusts	2	-	-	-	-	-
Land & Property	1	1	5	-	-	-
Manufacturing	1	2	1	-	1	1
Motors	-	-	-	1	-	-
Oil Palm	-	-	-	-	-	-
Services	-	-	-	-	-	-
Store & Supplies	-	-	-	-	-	-
Trading	1	-	-	-	-	1
Total	5	5	10	2	1	5
Number of share offers (Mn.)	10.75	20.59	20.15	14.0	7.0	12.1
Value of share offers (in Rs.Mn.)	130.5	205.9	201.5	140.0	70.0	121.5

Source : Colombo Stock Exchange.

these issues, two were by the privatized public enterprises; Ceylon Oxygen Limited and Pugoda Textile Lanka Limited. The two companies issued 1.8 million and 3 million shares, respectively. A salient feature of all these 5 issues was a substantial over-subscription, reflecting a strong demand for shares in the market.

TABLE 1.72
New Share Issues of Companies During 1991

Name of Companies	No. of Shares	Par Value	Value of Shares	No. of Subscribers
Carson Marketing Ltd.	1,200,000	10/=	12,000,000	34,035
Pugoda Textiles Ltd.	3,000,000	10/=	30,000,000	30,973
Merchant Bank of Sri Lanka	3,100,000	10/=	31,000,000	9,044
International Tourists & Hoteliers Ltd.	3,047,310	10/=	30,473,100	816
Ceylon Oxygen Ltd.	1,800,000	10/=	18,000,000	15,049

Source: Colombo Stock Exchange

TABLE 1.73
Category-wise Distribution of Shares Traded
in the Secondary Share Market in 1991

Category of Investment	No. of Transactions	No. of Shares	Value
Banks, Finance & Insurance	26,057	21,971,015	1,007,168,676.25
Beverages, Food & Tobacco	8,019	24,098,156	947,667,385.65
Chemicals & Pharmaceuticals	3,571	1,987,291	143,989,428.25
Construction & Engineering	2,340	2,020,515	52,801,362.00
Footwear & Textiles	11,308	4,374,347	222,379,711.00
Hotels & Travels	7,650	9,828,580	280,114,459.50
Investment Trusts	2,859	2,471,325	516,106,672.50
Land & Property	4,674	6,836,257	256,793,134.25
Manufacturing	16,573	14,556,224	555,623,713.00
Motors	3,302	4,161,176	205,187,528.00
Oil Palms	60	65,425	35,834,110.00
Services	1,307	1,285,883	413,993,034.50
Stores & Supplies	422	364,786	45,234,285.50
Trading	3,427	1,115,286	259,424,877.00

Source: Colombo Stock Exchange.

Secondary Share Market

As in the primary market, the secondary share market too recorded significant progress during the year under review. The number of shares traded in the secondary market during the year more than doubled increasing from 41 million in 1990 to 95 million in 1991 while the value of such shares rose from Rs.1,563 million to Rs.4,944 million.

A category-wise analysis indicates that the bank, finance and insurance sub-group recorded both the largest volume and number of transactions in trading during the year. However, in terms of the number of traded shares, the sub-category of beverages, food and tobacco was in first place. Sub-groups of manufacturing and footwear were the other categories which recorded high levels of transactions during the year.