

MONEY AND BANKING

MONEY SUPPLY

Overall Trends

A moderate deceleration in the rate of growth of monetary aggregates was a significant feature in monetary developments in 1992. In contrast to the high levels that prevailed since mid-1990, the annual rate of growth of Narrow Money Supply (M_1) registered a declining trend since July, 1992 reaching 7.3 per cent at the end of the year. This compared to an 18 per cent growth at the end of 1991. Underscoring this slowing down, the monthly average increase in M_1 also declined from 13.6 per cent in 1991 to 12.1 per cent in 1992. Reflecting a similar trend, the annual increase in the Broad Money Supply (M_2) declined to 16.6 per cent as at end-1992 from 23.2 per cent an year ago. However, in spite of this deceleration, the monthly average growth in M_2 rose to 21.3 per cent in 1992 from 19 per cent in 1991.

The deceleration in monetary growth was more pronounced during the second half of the year. The annual growth of M_1 which declined marginally from 18 per cent at the end of 1991 to 17 per cent in April, 1992 marked a sharper deceleration during subsequent months, reaching 7.3 per cent in December, 1992. Meanwhile, the annual growth of M_2 which rose from 23.2 per cent at the end of 1991 to 25.9 per cent in April, 1992 decelerated thereafter approaching 16.6 per cent in December, 1992.

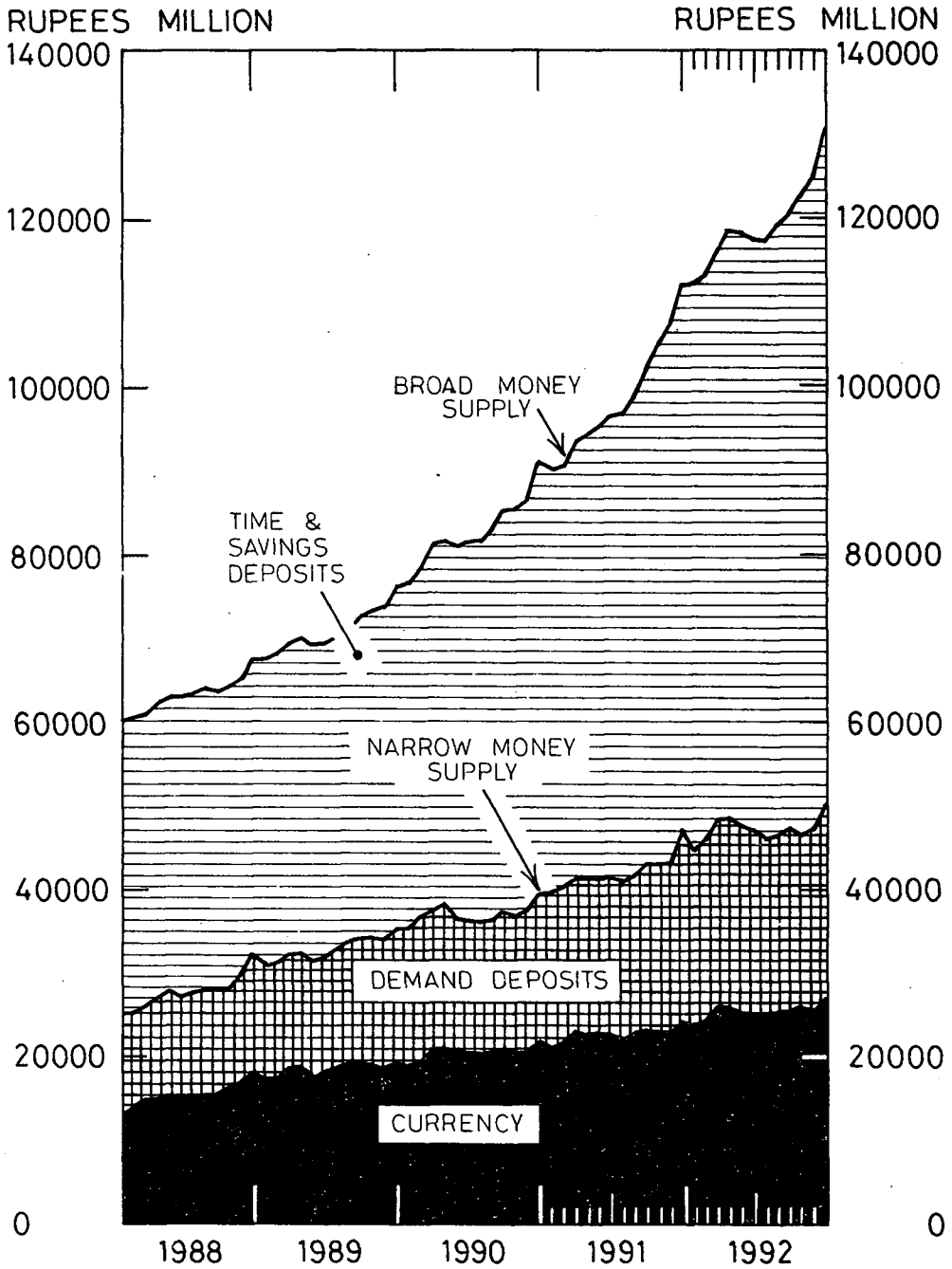
Despite these favourable developments, the growth of money supply remained high during the year under the impact of further improvements in net foreign assets and continued high growth of domestic credit to the private sector. In all, net external assets of the banking system rose by 37.3 per cent reaching Rs. 23,758 million at the end of the year, while the rate of growth of credit to the private sector which registered 20.7 per cent in 1991 accelerated to 23 per cent at the end of 1992.

The monetary base (high powered money or reserve money) totalled Rs. 44,858 million at the end of 1992, registering an increase of Rs. 4,802 million or 12 per cent. This was around half the quantum witnessed in the previous year. On the source side, this expansion was entirely accounted for by a build-up of net foreign assets (NFA) of the Central Bank amounting to Rs. 7,563 million. However, a reduction in the net domestic assets (NDA) of the Central Bank by Rs. 2,760 million largely due to open market operations, moderated the rate of growth of reserve money during the year. The money multiplier - the ratio between money supply and the monetary base - stood at 2.91 in December, 1992 as against 2.80 an year ago. This shift is partly a reflection of a reduction in the currency deposit ratio from 28 per cent in 1991 to 26 per cent in 1992.

The high levels of monetary and credit expansion compelled the Central Bank to continue with a tight monetary policy stance during 1992. Accordingly, while maintaining Bank Rate at 17 per cent the Central Bank refinance rates were revised upward on several occasions to bring them in line with market rates of interest. Monetary policy was also directed at siphoning-off excess liquidity in the economy through active open market operations. Meanwhile, the thrust of monetary policy was more on indirect controls and the reliance on direct controls was reduced by removing deposit margins on Letters of Credit which had been in place since June, 1989. This policy stance in the context of continuing high demand for credit was conducive to maintaining short term interest rates at relatively high levels throughout 1992.

MONEY SUPPLY

MONTHLY



Central Bank of Sri Lanka.

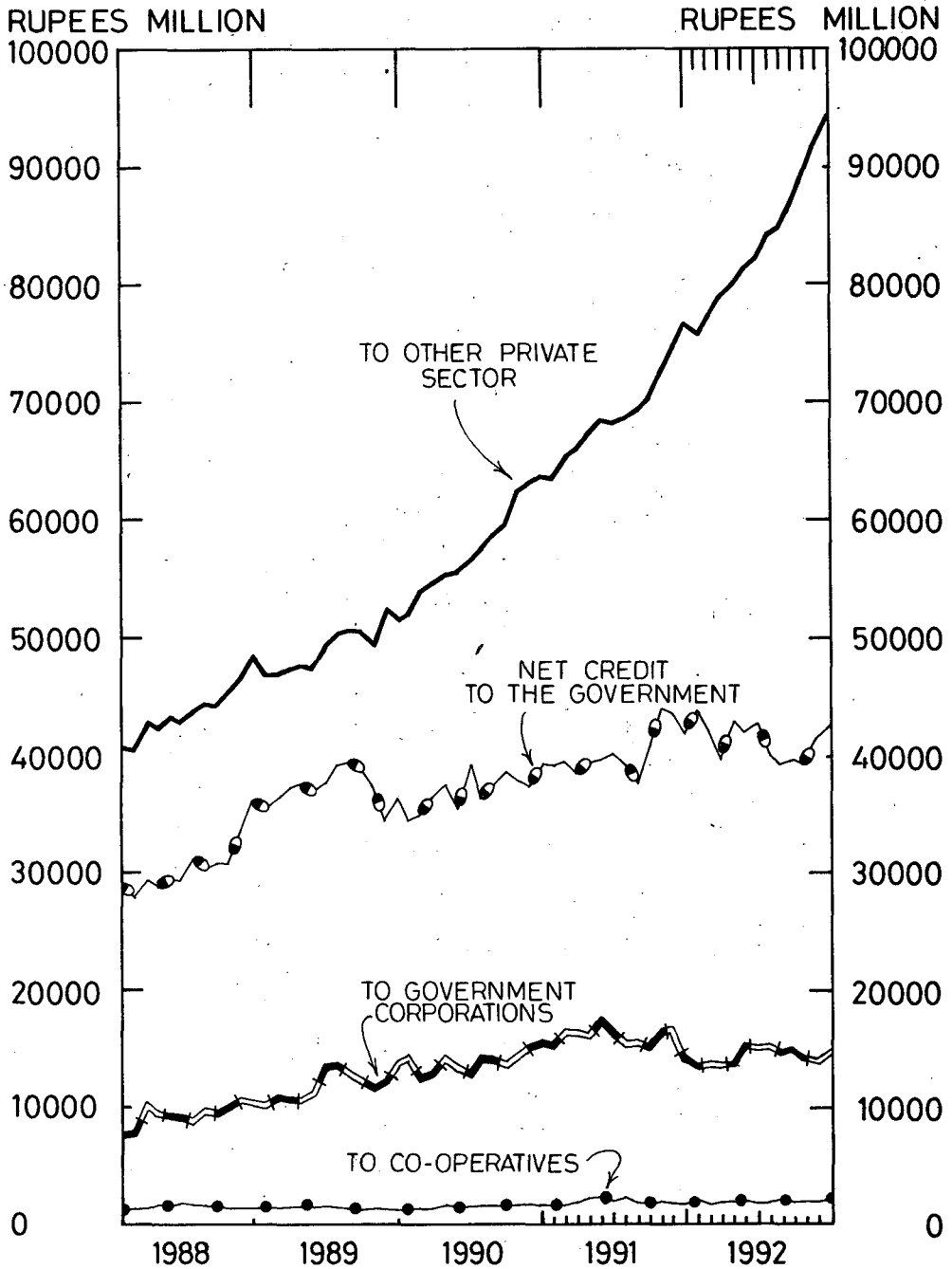
TABLE 1.57
Monetary Aggregates 1990 – 1992

(Rs. Million)

End of Period	Narrow Money Supply (M ₁)						Broad Money Supply (M ₂)					
	1990	1991	1992	% Change 1990 over 1989	% Change 1991 over 1990	% Change 1992 over 1991	1990	1991	1992	% Change 1990 over 1989	% Change 1991 over 1990	% Change 1992 over 1991
January	35,442	39,913	44,833	+13.5	+12.6	+12.3	76,879	90,161	112,867	+13.1	+17.3	+24.6
February	36,750	40,416	46,128	+15.7	+10.0	+14.1	78,590	90,867	113,572	+15.3	+15.6	+25.0
March	37,402	41,876	48,312	+14.7	+12.0	+15.4	81,169	93,814	116,193	+16.2	+15.6	+23.8
April	38,122	41,411	48,492	+16.5	+ 8.6	+17.0	81,876	94,292	118,710	+16.1	+15.2	+25.9
May	36,767	41,190	47,304	+15.4	+12.0	+14.8	80,771	95,317	118,398	+15.8	+18.0	+24.2
June	36,386	41,602	47,007	+13.6	+14.3	+13.0	81,407	96,162	117,627	+16.8	+18.1	+22.3
July	36,206	40,801	46,208	+ 8.2	+12.7	+13.3	81,469	96,456	117,513	+15.0	+18.4	+21.8
August	36,496	41,821	46,687	+ 7.3	+14.6	+11.6	82,956	98,941	119,144	+16.3	+19.3	+20.4
September	37,429	43,274	47,285	+ 8.4	+15.6	+ 9.3	85,057	101,896	120,447	+16.6	+19.8	+18.2
October	36,811	43,187	46,758	+ 6.6	+17.3	+ 8.3	85,973	105,366	122,975	+17.2	+22.6	+16.7
November	37,490	43,157	47,107	+ 9.9	+15.1	+ 9.2	86,659	107,976	125,090	+17.2	+24.6	+15.8
December	39,878	47,055	50,490	+12.8	+18.0	+ 7.3	91,017	112,097	130,701	+19.1	+23.2	+16.6
Monthly Average	37,098	42,142	47,218	+11.8	+13.6	+12.1	82,819	98,612	119,395	+16.2	+19.0	+21.3

Source : Central Bank of Sri Lanka

DOMESTIC CREDIT
MONTHLY



Central Bank of Sri Lanka.

TABLE 1.58
Monetary Aggregates and Underlying Factors 1990 – 1992

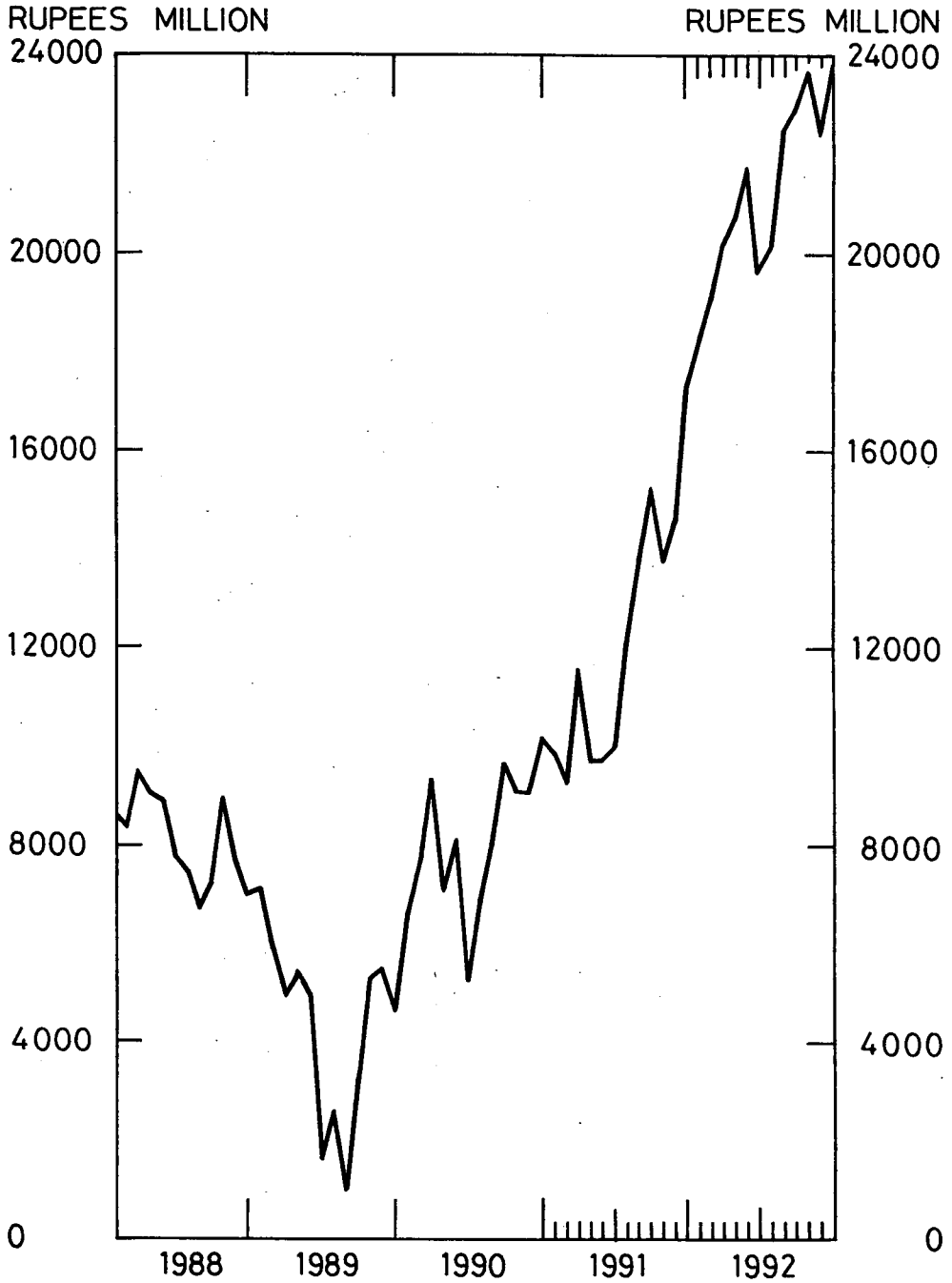
(Rs. Million)

Item	Dec. 1990	Dec. 1991	Dec. 1992	Change 1990 / 91		Change 1991 / 1992	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
1. Currency held by the public	22,120	24,852	27,280	+ 2,732	+ 12.4	+ 2,428	+ 9.8
2. Demand deposits held by the public	17,758	22,202	23,210	+ 4,444	+ 25.0	+ 1,008	+ 4.5
Narrow Money Supply (M ₁)	39,878	47,055	50,490	+ 7,177	+ 18.0	+ 3,435	+ 7.3
3. Time and Savings Deposits of the private sector held with commercial banks	51,139	65,043	80,211	+13,904	+ 27.2	+15,168	+ 23.3
3.1 Co-operative Institutions	927	1,743	2,714	+ 816	+ 87.9	+ 971	+ 55.7
3.2 Government Corporations	4,664	7,509	7,391	+ 2,845	+ 61.0	- 118	- 1.6
3.3 Other Private Sector Constituents (a)	45,548	55,791	70,106	+10,243	+ 22.5	+14,315	+ 25.7
Broad Money Supply (M ₂)	91,017	112,097	130,701	+21,080	+ 23.2	+18,604	+ 16.6
Underlying Factors							
1. Domestic Credit	119,864	134,226	153,347	+14,362	+ 12.0	+19,121	+ 14.2
1.1 Net Credit to Government	39,197	41,792	42,350	+ 2,595	+ 6.6	+ 558	+ 1.3
1.1.1 Gross Credit to Government	52,524	59,458	54,090	+ 6,934	+ 13.2	- 5,368	- 9.0
by Central Bank	38,206	45,981	40,604	+ 7,775	+ 20.3	- 5,377	- 11.7
by Commercial Banks	14,318	13,477	13,486	- 841	- 5.9	+ 9	+ 0.1
1.1.2 Government deposits and cash balances	-13,327	-17,666	-11,740	- 4,339	+ 32.5	+ 5,926	- 33.5
1.2 Gross Credit to Private Sector	80,667	92,434	110,997	+11,767	+ 14.6	+18,563	+ 20.1
1.2.1 Co-operative Institutions	1,596	1,757	2,021	+ 161	+ 10.0	+ 264	+ 15.0
1.2.2 Government Corporations	15,636	14,077	14,750	- 1,559	- 10.0	+ 673	+ 4.8
1.2.3 Other Private Sector Constituents	63,435	76,599	94,226	+13,164	+ 20.7	+17,627	+ 23.0
2. External Banking Assets (net)	10,206	17,305	23,758	+ 7,099	+ 69.6	+ 6,453	+ 37.3
2.1 Central Bank (net)	4,675	13,486	21,049	+ 8,811	+188.5	+ 7,563	+ 56.1
2.2 Commercial Banks (net)	5,531	3,819	2,709	- 1,712	- 31.0	- 1,110	- 29.1
3. Other Items (net)	-39,053	-39,434	-46,403	- 381	- 1.0	- 6,969	- 17.7
3.1 Other Liabilities (net) of Central Bank	-15,039	-15,739	-19,903	- 700	- 4.6	- 4,164	- 26.5
3.2 Other Liabilities (net) of Commercial Banks	-24,968	-23,651	-25,317	+ 1,317	+ 5.3	- 1,666	- 7.0
3.3 Adjustments for items in transit	954	-44	- 1,184	- 998	-104.6	- 1,140	-2,590.9
Broad Money Supply (M ₂)	91,017	112,097	130,701	+21,080	+ 23.2	+18,604	+ 16.5

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.

Money Supply and Causal Factors

In 1992, the Narrow Money Supply (M_1), comprising currency and demand deposits held by the public, rose by 7.3 per cent (Rs. 3,435 million) compared with a much higher increase of 18 per cent (Rs. 7,177 million) in the previous year. The growth in M_1 during the year was reflected mainly in the currency component which rose by 10 per cent (Rs. 2,428 million) as compared with 12 per cent (Rs. 2,732 million) in 1991. On the other hand, the demand deposit component rose marginally by 5 per cent (Rs. 1,008 million) during the year in comparison to a much sharper increase of 25 per cent (Rs. 4,444 million) in the previous year. Consequently, the share of currency in M_1 rose marginally from 53 per cent in 1991 to 54 per cent in 1992.

Meanwhile, quasi-money, consisting of time and savings deposits held by the public with commercial banks, grew by 23 per cent (Rs. 15,168 million) in 1992 compared with an equally high growth of 27 per cent (Rs. 13,904 million) in 1991. The increase in quasi-money was due to a build-up of time and savings deposits of private sector constituents by 26 per cent (Rs. 14,315 million) during the year. In the previous year, such deposits rose by 22 per cent (Rs. 10,243 million). At the same time, time and savings deposits held by co-operative institutions grew by 56 per cent (Rs. 971 million) during the same period. However, such deposits of government corporations declined marginally by 2 per cent (Rs. 118 million) during 1992 in contrast to a sharp rise of 61 per cent (Rs. 2,845 million) in the previous year. The considerable liquidity creation through the build up of external banking assets and the high positive real interest rates offered were conducive for the continued high growth of time and savings deposits with commercial banks during the year. Reflecting these developments, the Broad Money Supply (M_2), consisting of M_1 plus time and savings deposits held by the public, expanded by 16.6 per cent (Rs. 18,604 million) in 1992, in comparison to a growth of 23 per cent (Rs. 21,080 million) in the previous year. Moreover, the share of quasi-money in M_2 rose from 58 per cent to 61 per cent between the two years. The improvement in the relative share of quasi-money in monetary aggregates reflected the public's preference to hold interest bearing assets in their investment portfolios.

Continued expansion in domestic credit and a further accumulation of net external banking assets exerted considerable expansionary pressure on monetary aggregates in 1992. Domestic credit which recorded a growth of 12 per cent (Rs. 14,362 million) in 1991 rose by 14 per cent (Rs. 19,121 million) during 1992, while net foreign assets (NFA) of the banking system registered a further increase of 37 per cent (Rs. 6,453 million). Thus, as in the previous year, the expansionary impact of domestic credit on monetary aggregates remained high in 1992.

The increased utilization of credit by the other private sector (private sector proper) was responsible for the growth in domestic credit in 1992. In spite of high interest rates charged by commercial banks, credit to this sector from the banking system increased by 23 per cent (Rs. 17,627 million) as compared to 21 per cent (Rs. 13,164 million) in the previous year. The substantial rise in credit to the private sector is partly due to the enhanced demand for credit by the newly established garment industries and plantation management companies. Total credit from the banking system to co-operative societies rose from Rs. 1,757 million in 1991 to Rs. 2,021 million in 1992 reflecting an increase of 15 per cent.

Bank credit to government corporations rose by 5 per cent (Rs. 673 million) and was heavily influenced by the Ceylon Electricity Board (CEB) which placed heavy reliance on bank credit due to the operation of thermal plants to overcome the shortfall in hydro electricity generation during 1992. Altogether, commercial bank credit to CEB rose by Rs. 2,145 million during the year. Meanwhile, in contrast to a substantial increase of Rs. 2,663 million in 1991, bank credit to the Ceylon Petroleum Corporation (CPC) declined by Rs. 1,183 million in 1992 mainly due to enhanced revenue resulting from price revisions of selected petroleum products. The credit requirements of the Co-operative Wholesale Establishment (CWE) also showed a decline of Rs. 784 million during the year due to improved cash position brought about by the grant of a duty waiver on wheat grain imports. Meanwhile, during the first six months of the year, bank credit to the Janatha Estates Development Board (JEDB) and the Sri Lanka State Plantations Corporation (SLSPC) expanded by Rs. 865 million and Rs. 605 million, respectively. Bank credit to these two corporations was frozen at levels prevailing at end-July, 1992 when the management of the state plantations was handed over to private companies.

With continued fiscal adjustments towards a lower budget deficit, the use of bank credit by the government for budgetary operations remained low during 1992. In spite of a reduction of Rs. 6,362 million in government deposit balances held with the Central Bank, net credit to government (NCG) increased only by Rs. 984 million due to decreases in Central Bank's holdings of Treasury bills by Rs. 8,059 million. However, NCG from the Central Bank exclusive of IMF liabilities arising from the quota increase effected during the year and inclusive of changes in cash items in the process of collection declined by Rs. 1,896 million - a favourable development for reserve money management. Meanwhile, NCG from commercial banks also dropped by Rs. 426 million due to the build up of government deposits to the tune of Rs. 437 million as well as a reduction in cash item in the process of collection and in the holdings of import bills.

External banking assets (net) continued to rise throughout the year due to a sustained improvement in the overall balance of payments position. In all, net foreign assets of the banking system improved by 37 per cent (Rs. 6,453 million) in 1992 the combined outcome of an increase in such assets of the Central Bank by Rs. 7,563 million and a drop in those of the commercial banks by Rs. 1,110 million. Although the Central Bank's holdings of foreign government and non-government securities rose by Rs. 22,098 million during the year, the Central Bank's foreign assets on a net basis improved only by Rs. 7,563 million as there was a drop of Rs. 10,658 million in cash balances abroad including Treasury bills and an increase of Rs. 3,871 million in deposits of international organizations.

Meanwhile, foreign assets of commercial banks rose from Rs. 18,633 million at the end of 1991 to Rs. 23,161 million at the end of the year registering an increase of 24 per cent (Rs. 4,528 million) largely due to the accumulation of deposit balances abroad and in foreign currency banking units. On the other hand, foreign currency deposit liabilities of commercial banks rose to Rs. 20,452 million recording an increase of Rs. 5,638 million. This was the outcome of a large inflow of foreign currency deposits through Non-Resident Foreign Currency Accounts (NRFC) which rose by 37 per cent (Rs. 4,902 million) in 1992. These developments were conducive to sustaining a favourable overall position in the balance of payments in 1992.

COMMERCIAL BANKING

Overall Trends

The commercial banking system continued to display improved liquidity in 1992. The liquid assets of commercial banks which rose by Rs. 8,563 million in 1991 further increased by Rs. 4,749 million in 1992. Meanwhile, demand deposits rose by only Rs. 1,781 million during the year. Accordingly, the ratio of liquid assets to demand deposits moved up further from 160 per cent in 1991 to 166.6 per cent in 1992 indicating an improved liquidity position in commercial banks. The increase in liquid assets was more pronounced in foreign balances which rose by Rs. 4,280 million. However, the ratio of liquid assets to total deposits which dropped marginally from 44.3 per cent in 1990 to 43.6 per cent in 1991 continued to decline to reach 40 per cent in 1992.

Structure of Assets and Liabilities

Conforming to the developments experienced in recent years, the resource base of commercial banks marked a significant improvement in 1992. The total assets/liabilities of commercial banks (excluding contra items) rose by 19 per cent (Rs. 29,147 million) in 1992 in comparison to an increase of 17 per cent (Rs. 22,997 million) in the preceding year. On the liabilities side, changes in all major categories contributed to enlarge the resource base of commercial banks during the year. However, a 20 per cent (Rs. 21,597 million) growth in deposits continued to provide the main impetus to the resource build-up accounting for 75 per cent of the total resources of commercial banks during the year. This was reflected in both time and savings deposits as well as demand deposits but the larger increase of 25 per cent (Rs. 19,817 million) in the former accounted for the overwhelmingly large share. This reflected the positive impact of high interest rates on savings mobilization and a continuous influx of liquidity through enhanced foreign inflows. Meanwhile, other liabilities moved up by 19 per cent (Rs. 5,506 million) while total borrowings consisting of inter-bank borrowings (including the Central Bank) and foreign borrowings registered an increase of 13 per cent (Rs. 1,135 million) in 1992.

The enhanced resource base of commercial banks was, in turn, utilized for expanding domestic credit during the year. As evident in the assets portfolio of commercial banks, loans and advances recorded an increase of 19 per cent (Rs. 18,383 million), in comparison to a 15 per cent (Rs. 12,609 million) rise in 1991. Moreover, total credit provided under overdraft facilities increased by 36 per cent (Rs. 10,429 million). However, cash items in the process of collection declined by 24 per cent (Rs. 1,084 million). Meanwhile, despite a decrease in import bills purchased and discounted by 32 per cent (Rs. 1,431 million), total liquid assets comprising cash on hand, deposits with the Central Bank, foreign balances, Treasury bills and bills discounted expanded by 10 per cent (Rs. 4,749 million) during 1992. Of this increase, Treasury bill holdings accounted for Rs. 754 million and foreign balances for Rs. 4,280 million. In line with increased deposit liabilities of commercial banks, statutory reserves held with the Central Bank also rose by Rs. 1,899 million.

Sources and Uses of Funds

In 1992, the use of resources by the domestic private sector by way of loans, overdrafts and other means exceeded the deposits held by this sector with commercial banks by Rs. 1,897 million. Hence, reflecting high demand for credit, the domestic private

TABLE 1.59

Selected Items of Assets and Liabilities of Commercial Banks 1991 – 1992

(Amount in Rs. Million)

Item	Average of Monthly Figures		End of Period	
	1991	1992	1991	1992
Cash on hand and deposits at Central Bank (inclusive of Statutory Reserve Requirements)	12,263	15,457	15,421	16,289
Foreign Balances	15,299	16,095	13,833	18,113
Treasury Bills	8,569	10,206	9,899	10,653
Bills Discounted	8,175	9,424	9,499	8,346
Total Liquid Assets	40,780	50,897	48,652	53,401
Total Investments (a)	1,892	2,554	2,081	2,848
Total Loans and Overdrafts	80,617	91,333	84,752	104,288
Demand Deposits (b)	25,787	28,647	30,310	32,063
Time and Savings Deposits (c)	70,670	88,734	81,281	101,499
Total Deposits	96,457	117,381	111,591	133,562
Ratio of:	%	%	%	%
Cash to Demand Deposits	47.5	53.9	50.9	50.8
Cash to Total Deposits	12.7	13.2	13.8	12.2
Foreign Balances to Total Deposits	15.9	13.7	12.4	13.6
Treasury Bills to Total Deposits	8.9	8.7	8.9	8.0
Commercial Bills Discounted to Total Deposits	8.5	8.0	8.5	6.2
Liquid Assets to Demand Deposits	158.1	177.7	160.5	166.6
Liquid Assets to Total Deposits	42.3	43.4	43.6	40.0
Investments to Total Deposits	2.0	2.2	1.9	2.1
Loans and Overdrafts to Total Deposits	83.6	77.8	75.9	78.1

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. 2,321 million and Rs. 2,722 million being long term deposits mobilised by the two state banks under the special savings schemes in 1991 and 1992, respectively.

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

TABLE 1.60

Sources and Uses of Resources of Commercial Banks 1990 - 1992

(Rs. Million)

Category	End 1990 / 1991		End 1991 / 1992	
	Sources	Uses	Sources	Uses
1. Government Sector	-	242.3	426.0	-
Holdings of Govt. Securities	1,403.3	-	-	922.4
Deposits	-	1,083.6	435.5	-
Import Bills	-	1,011.2	380.0	-
Short-Term Credit	449.2	-	774.3	-
Overdrafts	-	-	-	241.4
2. Central Bank	-	7,121.2	-	880.2
Borrowings	-	1,106.6	-	11.9
Reserves	-	5,123.3	-	324.0
Investment in Central Bank Securities	-	-	-	-
Till Cash	-	891.3	-	544.3
3. Government Corporations	4,964.8	-	-	881.6
Deposits	3,405.7	-	-	209.1
Advances	1,559.1	-	-	672.5
4. Co-operatives	998.9	-	863.4	-
Deposits	1,159.9	-	1,127.4	-
Advances	-	161.0	-	264.0
5. Other Domestic Private Sector	1,088.3	-	-	1,896.5
Deposits*	14,253.0	-	15,729.8	-
Local Bills	125.3	-	-	162.1
Import Bills	-	1,138.5	999.3	-
Overdrafts	-	3,872.6	-	7,914.2
Loans	-	8,172.4	-	9,951.0
Investments in Securities and Bonds	-	106.5	-	598.3
6. Inter-Bank Transactions	273.5	-	-	5.8
Balance with Domestic Banks	434.4	-	-	429.7
Deposits and Borrowings with Domestic Banks	-	160.9	423.9	-
7. Foreign Sector	1,712.5	-	1,109.6	-
Borrowings	68.3	-	749.3	-
Deposits	3,310.8	-	4,888.4	-
Foreign Balances Including Export Bills	-	1,666.6	-	4,528.1
8. Other Assets and Other Liabilities	-	1,674.5	1,265.1	-
Capital and Reserves	2,269.3	-	908.2	-
Fixed and Other Assets	-	4,824.7	-	4,748.6
Other Liabilities	880.9	-	5,105.5	-
Total Net Sources / Uses		9,038.0	3,664.1	

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.

sector emerged as the major user of commercial banks' funds in 1992. In contrast, this sector was a major source of commercial banks' funds providing Rs. 1,088 million in 1991. Meanwhile, with the run down of deposit balances (Rs. 209 million) and the use of advances (Rs. 673 million), the government corporations utilized Rs. 882 million of banks' resources during 1992. This was again in contrast to the developments in the previous year when the government corporations were a source of funds to commercial banks contributing Rs. 4,965 million on a net basis. Meanwhile, the resource outflow to the Central Bank on a net basis totalled Rs. 880 million in 1992 mainly on account of increases in the holdings of till cash and statutory reserves.

While inter-bank transactions had a neutral impact on resource flows, the generation of resources within the banking system through an increase in other liabilities amounted to Rs. 1,265 million in 1992, largely on account of an enhancement of fixed and other assets. As in the previous year, the foreign sector also injected Rs. 1,110 million to the resource base of commercial banks in 1992 reflecting a rise in commercial banks' deposits with the foreign sector. During the period under review, both the co-operative sector and the government sector provided resources to the banking system through a deposit build-up and reductions in loans and advances. The resources so released to commercial banks in 1992 by these two sectors amounted to Rs. 863 million and Rs. 426 million, respectively.

Meanwhile, credit extended by way of loans and overdrafts to various sectors in the economy grew by 23 per cent (Rs. 19,536 million) during the year, a considerable acceleration from the previous year's growth of 14 per cent (Rs. 10,478 million). The growth in loans and overdrafts in 1992 exceeded the increase in total deposits amounting to 19.7 per cent (Rs. 21,597 million) thus raising the ratio of loans and overdrafts to total deposits from 77.6 per cent in 1991 to 79.6 per cent in 1992. Meanwhile, commercial bank credit to the other private sector witnessed a rapid escalation in 1992 recording an increase of 23 per cent (Rs. 17,627 million) in comparison to a 20.7 per cent (Rs. 13,164 million) rise in the previous year.

Commercial Bank Advances to the Private Sector¹

Total loans and advances of commercial banks to the private sector recorded an increase of 20 per cent (Rs. 17,677 million) in 1992 as compared with a 9 per cent rise (Rs. 7,431 million) in the previous year. Short term advances accounted for 63 per cent (Rs. 67,020 million) of total advances, while the relative shares of medium term (1-5 years) and long term (over 5 years) advances remained at around 20 per cent and 17 per cent, respectively.

In terms of a purpose-wise classification, 44 per cent of total advances at the end of September, 1992 was in respect of trading activities consisting of exports, imports and domestic trade. In this category, loans and advances rose by 24 per cent (Rs. 9,035 million) in comparison with an increase of 8 per cent (Rs. 2,881 million) during the previous year. Meanwhile, credit granted for agricultural purposes (including tea, rubber, coconut, paddy, livestock, dairy farming and fishing) declined by 4 per cent (Rs. 500 million) during the first three quarters of 1992. Consequently, the share of agricultural advances in the total dropped from 13 per cent in 1991 to 11 per cent in 1992.

¹ The analysis in this section is based on data for the first three quarters.

TABLE 1.61

**Commercial Banks Advances* Classified by Purpose and
According to Maturity 1991 - 1992**

(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 1991	29,225.8	77.1	6,240.4	16.5	2,459.1	6.5	37,925.3	42.5
March 1992	30,508.6	74.4	8,063.8	19.7	2,432.4	5.9	41,004.8	42.4
June 1992	31,942.8	77.5	6,904.2	16.7	2,379.4	5.8	41,226.4	41.0
September 1992	36,792.7	78.3	8,130.9	17.3	2,037.2	4.3	46,960.8	44.0
B. Financial								
December 1991	1,777.9	61.5	798.5	27.6	314.9	10.9	2,891.3	3.2
March 1992	3,481.3	71.4	791.7	16.2	604.3	12.4	4,877.3	5.0
June 1992	2,944.0	64.9	985.7	21.7	808.3	13.4	4,538.0	4.5
September 1992	2,839.9	63.3	1,049.7	23.4	595.9	13.3	4,485.5	4.2
C. Agricultural								
December 1991	5,809.3	48.4	2,851.1	23.7	3,351.4	27.9	12,011.8	13.5
March 1992	5,924.4	57.5	2,068.0	20.1	2,319.8	22.5	10,312.2	10.7
June 1992	6,128.6	56.4	2,224.4	20.5	2,522.4	23.2	10,875.4	10.8
September 1992	6,033.0	52.4	2,642.2	23.0	2,836.6	24.6	11,511.8	10.8
D. Industrial**								
December 1991	13,248.0	73.3	2,536.4	14.0	2,295.7	12.7	18,080.1	20.3
March 1992	13,304.8	72.7	2,570.8	14.0	2,428.7	13.3	18,304.3	18.9
June 1992	12,947.3	67.1	4,209.1	21.8	2,140.2	11.1	19,296.6	19.2
September 1992	13,095.5	70.0	3,159.9	16.9	2,444.4	13.1	18,699.8	17.5
E. Tourism								
December 1991	435.4	45.2	127.0	13.2	400.5	41.6	962.9	1.1
March 1992	534.4	20.7	257.7	10.0	1,794.0	69.4	2,586.1	2.7
June 1992	598.4	33.9	248.8	14.1	916.9	52.0	1,764.1	1.8
September 1992	627.4	28.5	264.8	12.0	1,309.8	59.5	2,202.0	2.1
F. Housing								
December 1991	2,071.8	19.9	2,481.4	23.9	5,839.9	56.2	10,393.1	11.7
March 1992	2,120.4	19.4	2,636.4	24.1	6,192.0	56.6	10,948.8	11.3
June 1992	2,320.9	17.8	2,881.0	22.1	7,856.4	60.2	13,058.3	13.0
September 1992	2,360.3	18.6	3,188.6	25.1	7,151.1	56.3	12,700.0	11.9
G. Consumption								
December 1991	1,674.6	57.0	1,018.2	34.6	245.9	8.4	2,938.7	3.3
March 1992	2,239.2	59.2	1,227.7	32.5	315.7	8.3	3,782.6	3.9
June 1992	2,196.4	52.4	1,652.5	39.4	341.5	8.1	4,190.4	4.2
September 1992	2,637.1	60.0	1,369.7	31.2	388.8	8.8	4,395.6	4.1
H. Other Loans								
December 1991	1,653.8	41.7	1,103.2	27.8	1,207.7	30.5	3,964.7	4.4
March 1992	2,073.9	43.0	1,460.4	30.3	1,290.0	26.7	4,824.3	5.0
June 1992	2,517.3	45.0	1,561.9	27.9	1,519.3	27.1	5,598.5	5.6
September 1992	2,634.0	44.7	1,629.0	27.7	1,626.6	27.6	5,889.6	5.5
I. Total								
December 1991	55,896.6	62.7	17,156.2	19.2	16,115.1	18.1	89,167.9	100.0
March 1992	60,187.0	62.3	19,076.5	19.7	17,376.9	18.0	96,640.4	100.0
June 1992	61,595.7	61.3	20,667.6	20.6	18,284.4	18.2	100,547.7	100.0
September 1992	67,019.9	62.7	21,434.8	20.1	18,390.4	17.2	106,845.1	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.

TABLE 1.62

Advances* by Type of Security – December, 1991 - September, 1992

Item	31st December 1991		31st March 1992		30th June 1992		30th Sept. 1992	
	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total
1. Documentary Bills	5,187.4	5.8	7,271.3	7.5	6,036.5	6.0	7,041.6	6.6
2. Government Securities	1,719.5	1.9	1,841.1	1.9	2,004.7	2.0	1,984.2	1.9
3. Shares Joint Stock Companies, Bonds, Debentures Sundries including Cash Value of Life Policies	1,389.2	1.6	3,994.8	4.1	4,874.7	4.8	4,640.9	4.3
4. Fixed, Saving & Other Cash Deposits and CDs	11,650.7	13.1	10,105.7	10.5	12,153.9	12.1	12,011.6	11.2
5. Stocks in Trade	9,581.3	10.7	10,381.3	10.7	10,715.6	10.7	10,495.0	9.8
6. Immovable Property, Plant & Machinery	16,509.1	18.5	19,730.4	20.4	20,301.2	20.2	21,900.3	20.5
7. Personal Guarantees and Pro Notes	16,273.3	18.3	12,776.6	13.2	13,199.7	13.1	14,343.4	13.4
8. Trust Receipts	5,333.8	6.0	7,360.0	7.6	6,842.7	6.8	7,865.4	7.4
9. Hire Purchase Agreements	2,355.7	2.6	2,273.3	2.4	2,891.4	2.9	1,994.0	1.9
10. Tractor & Motor Vehicles	1,615.9	1.8	1,987.3	2.1	1,756.4	1.7	1,632.1	1.5
11. Other Securities	10,058.5	11.3	11,984.6	12.4	12,391.7	12.3	13,179.5	12.3
12. Unsecured	7,493.6	8.4	6,934.2	7.2	7,379.2	7.3	9,756.6	9.1
T O T A L	89,168.0	100.0	96,640.6	100.0	100,547.7	100.0	106,844.6	100.0

* Excludes cash items in process of collection and advances granted for financing purposes under the guaranteed price scheme.

Source : Central Bank of Sri Lanka.

Credit utilization for industrial purposes (including engineering and building trade) rose by 3 per cent (Rs. 620 million) accounting for 17 per cent of the total advances. As in the previous year, the majority of advances granted for industrial purposes fell into the short-term category. However, the share of short term industrial advances in total industrial loans declined from 73 per cent to 70 per cent. Advances granted to government corporations for other industrial purposes declined by Rs. 1,651 million in 1992 in comparison to a decrease of Rs. 773 million in the previous year. This was mainly reflected in chemicals, petroleum and coal, wearing apparels and leather industries and basic metal products sub-sectors. However, industrial advances granted to the private sector rose by Rs. 1,831 million to Rs. 11,931 million, in comparison to an increase of Rs. 1,813 million in the preceding year. The other categories which recorded increases during the period under review were food, beverages and tobacco (Rs. 583 million), non-metallic mineral products (Rs. 63 million), chemicals, petroleum and coal (Rs. 176 million), textiles (Rs. 282 million) and fabricated metal products (Rs. 144 million).

The highest concentration of advances remained unchanged at the interest rate of 20 per cent as in the previous year. However, the share of advances at the 20 per cent rate rose from 9 per cent to 11 per cent. Meanwhile, the weighted average lending rate increased from 19.2 per cent in 1991 to 19.5 per cent in 1992. According to a security-wise classification of advances during the first three quarters of 1992, significant increases were recorded in advances granted against immovable property (Rs. 5,391 million), shares of joint stock companies (Rs. 3,252 million), other securities (Rs. 3,121 million), trust receipts (Rs. 2,532 million), documentary bills (Rs. 1,854 million) and stock in trade (Rs. 914 million) while advances granted against personal guarantees and pro-notes, and hire purchase agreements declined by Rs. 1,930 million and Rs. 362 million, respectively.

CENTRAL BANKING

Overall Trends

In the context of a sustained surplus in the overall balance of payments position, the net international reserves of the Central Bank rose by Rs. 7,562 million to reach Rs. 21,048 million at the end of 1992. On the other hand, the Central Bank reduced its net domestic assets from Rs. 26,570 million at the end of 1991 to Rs. 23,810 million at the end of 1992 in order to neutralize the excess liquidity impact of enhanced international reserves. On the liabilities side, the liquidity growth was seen both in currency in circulation, as well as in commercial banks' deposits with the Central Bank. Reflecting an increase of 11 per cent (Rs. 2,973 million) in currency in circulation and a 15 per cent growth (Rs. 1,900 million) in commercial bank deposits, the monetary base (reserve money or high powered money) at Rs. 44,858 million recorded a growth of 12 per cent during the year.

Structure of Assets and Liabilities

The total assets/liabilities of the Central Bank at the end of 1992 at Rs. 101,254 million registered an increase of 6 per cent (Rs. 5,419 million) in comparison to a rise of

24 per cent (Rs. 18,373 million) in the previous year. The increase was wholly reflected in the external assets of the Bank which rose by 40 per cent (Rs. 11,433 million) in 1992. In contrast, domestic assets declined by 9 per cent (Rs. 6,014 million). The growth in external assets was entirely reflected in Bank's holdings of foreign government Treasury bills and securities which rose to the tune of Rs. 22,098 million during the year. With the transfer of funds to purchase foreign government Treasury bills and securities, the cash balances abroad declined by Rs. 10,658 million in 1992. Interest earned on foreign investments during the year amounted to Rs. 7,151 million as compared to Rs. 3,163 million in the previous year.

In 1992, the domestic assets of the Central Bank declined by 9 per cent (Rs. 6,014 million) in contrast to an increase of 10 per cent (Rs. 5,816 million) in the previous year. The major underlying factors for the decline in domestic assets were the decreases in the holdings of government and government guaranteed securities by Rs. 8,062 million and in other assets and accounts by Rs. 1,056 million. Although loans and advances to the government rose by Rs. 2,685 million, this was entirely due to obligations arising from the quota increase in the IMF effected during the year. In spite of a significant reduction in short term refinance, loans and advances to commercial banks and other financial institutions rose by Rs. 419 million owing to a continued flow of refinance credit to finance companies in 1992.

On the liabilities side, the domestic liabilities of the Central Bank rose by Rs. 1,548 million while foreign liabilities increased by Rs. 3,871 million in 1992. The expansion in domestic liabilities was largely reflected in currency in circulation which rose by Rs. 2,974 million. The domestic liabilities of the Bank were also augmented by the rise in deposits of commercial banks following the decision to include foreign currency deposit liabilities for the purpose of the reserve requirement. Meanwhile, government deposit balances which accentuated at the end of last year due to the disbursement of programme loans by the Government of Japan in support of the on-going adjustment programme, declined by Rs. 6,362 million during 1992. Meanwhile, since there had been no Bank borrowings abroad during the year, the growth in external liabilities was wholly reflected in a further build-up of deposits of international organizations amounting to Rs. 3,871 million. The deposit build-up of such organizations during the previous year was Rs. 3,747 million.

MONETARY POLICY

In the wake of continued high growth in monetary aggregates caused by high domestic credit expansion and a further improvement in net external assets, the Central Bank further tightened its monetary policy stance during 1992. However, unlike in the past, the Bank relied entirely on market based indirect policy instruments for monetary management. During the year, the direct credit control measures that were in place since May, 1989 were eliminated. Accordingly, the major thrust of monetary policy in 1992 was on Open Market Operations (OMO) and the Statutory Reserve Requirement (SRR).

The sustained expansion in liquidity arising from the growth in external assets called for intensive policy action including the rationalisation of the statutory reserve requirement to improve its effectiveness. During the year, OMO were further intensified consolidating the recent experience gained in reserve money management through the Monetary Operations Unit (MOU). Accordingly, the weekly auction of Treasury bills was deter-

mined taking into account government's cash requirements, level of refinance credit, changes in foreign assets and developments in other components of the monetary base. The Central Bank used both primary and secondary markets to sell the required volume of Treasury bills to the public in order to maintain its reserve targets. Hence, yields on Treasury bills reflected the need for controlling liquidity conditions in the economy.

Meanwhile, several steps were taken to strengthen the market for Treasury bills. First, primary dealers consisting of commercial banks and selected financial institutions were appointed in June, 1992 to broaden the market outlets for Treasury bills. Second, with a view to providing a broader spectrum of maturities, Treasury bills with longer maturities were issued during the year. Third, in order to provide necessary information to the public, the amount maturing and the amount available to the public at each auction were advertised. Fourth, the wedge between discount and re-discount rates was further narrowed from two percentage points to one percentage point with a view to improving the secondary market for Treasury bills.

The year 1992 witnessed increased participation of the non-banking sector in the Treasury bill market. Thus, the Treasury bill holdings of the non-banking sector rose by Rs. 18,496 million to Rs. 43,618 million during the year. On the other hand, despite the fresh issues of Treasury bills to the tune of Rs. 14,128 million, the holdings of Treasury bills by the Central Bank declined from Rs. 29,854 million at the end of 1991 to Rs. 21,795 million at the end of 1992 - a decline of Rs. 8,059 million. The share of Treasury bills held by the non-banking sector rose from 38.7 per cent of the total outstanding at the end of 1991 to 57.3 per cent at the end of 1992. This reflected an increased public preference for Treasury bills in their asset portfolios.

The use of the Statutory Reserve Requirement was rationalized and strengthened during the year. Thus, vault cash holdings of commercial banks over and above 2 per cent of total deposit liabilities were allowed to be counted as required reserves with effect from January, 1992. This concession was extended with a view to reducing the burden on banks having to carry excessive till cash on account of their branch networks and special public responsibilities. However, in order to offset the possible credit expansion by commercial banks due to this concession, the reserve ratio was revised upward by one percentage point to 14 per cent. Nevertheless, the exclusion of foreign currency deposit liabilities of commercial banks from the reserve requirement continued to weaken the effectiveness of the SRR as a monetary policy instrument in a context when such deposits had risen considerably in recent years. Accordingly, with effect from September 4, 1992, the reserve requirement was extended to cover all deposit liabilities of commercial banks including foreign currency deposits thus strengthening the effectiveness of the SRR as a policy instrument.

The Central Bank also introduced further rationalisation measures to curtail refinance credit which had been a major source of liquidity growth in recent years. These included sharp cut-backs on short-term refinance facilities, suspension of MLCF refinance and raising interest rates on several refinance facilities in order to bring them closer to market rates thereby reducing distortions in the interest rate structure. Thus, refinance rates under short-term refinance facilities as well as under the MLCF were adjusted upward by one to three percentage points during the year.

The outstanding level of refinance at Rs. 5,663 million at the end of 1992 showed a moderate increase of 8 per cent (Rs. 419 million). However, there was a substantial

decline in short-term refinance credit, from Rs. 1,394 million at the end of 1991 to Rs. 923 million at the end of 1992. Within short-term facilities, outstanding levels under almost all standard categories recorded decreases. Meanwhile, with the suspension of the refinance facilities under the MLCF, the outstanding balances under Categories I-III continued to decline during the year. However, as the Central Bank continued to accommodate requests for refinance from finance companies in distress, the outstanding balance under Category IV of the MLCF rose from Rs. 2,186 million to Rs. 3,036 million. The increase in refinance credit on account of finance companies during the year totalled Rs. 946 million. In order to accommodate these requests, the MLCF was enhanced by Rs. 925 million raising the available resources in the fund to Rs. 4,925 million.

With a view to moving away from direct to indirect instruments of monetary control and allowing market forces to guide monetary policy, the Central Bank removed the 100 per cent deposit margin on Letters of Credit against selected non-essential imports which had been in place since 1989. Similarly, credit ceilings that had been in operation on commercial bank lending to selected non-priority sectors were also removed. Consequently, monetary policy was placed entirely on a market oriented framework in 1992.

INTEREST RATES

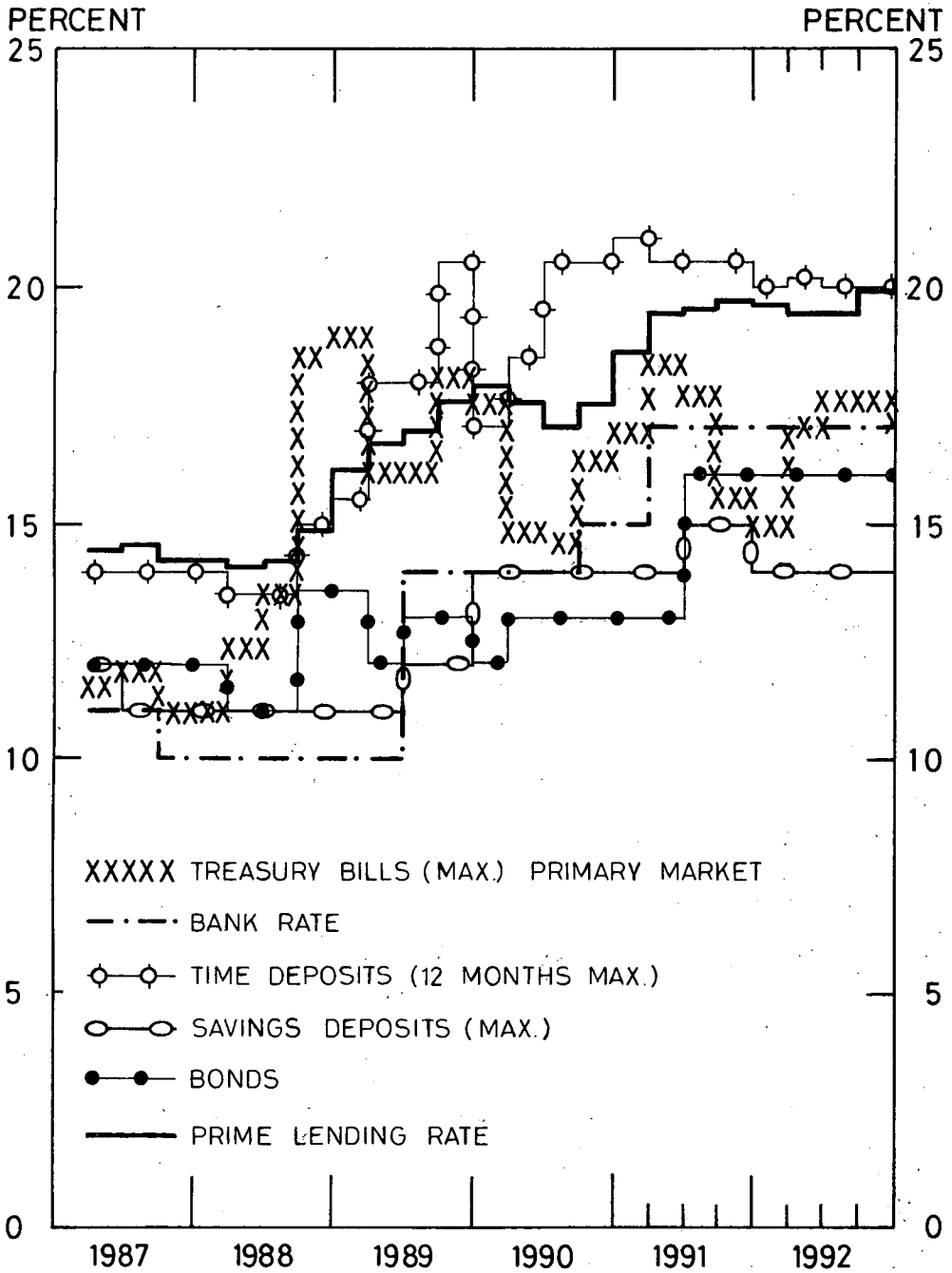
In the context of sustained high demand for credit and the need for active open market operations to siphon-off excess liquidity caused by the accumulation of foreign assets, the short term interest rates remained high during 1992. Pursuing a tight monetary policy stance, the Central Bank also raised refinance rates towards the Bank Rate which was maintained at 17 per cent. The extension of the Statutory Reserve Requirement to cover all deposit liabilities of banks was also conducive to sustaining short term interest rates high. Meanwhile, under the impact of high short term interest rates, the medium and long term rates also tended to remain high during the year.

Short-Term Rates

In view of continued efforts of the Central Bank to sterilize excess liquidity arising from rising external assets and heavy government borrowings through Treasury bills, interest rates in the Treasury bill market moved upward particularly during the first three quarters of 1992. Accordingly, the weighted average yield on Treasury bills with 3 months maturity increased from 16.33 per cent per annum at the end of 1991 to 18.33 per cent per annum in October, 1992 before declining to 17.70 per cent at the end of the year. Similarly, the yield on Treasury bills with maturity periods of 6 months and 12 months also increased from a range of 16.38 - 17.43 per cent per annum at the end of 1991 to 18.05 - 19.00 per cent per annum at the end of 1992. Reflecting these developments, the discount and the re-discount yield in the secondary market also increased during 1992. Thus, the discount yield increased from a range of 15.05 - 17.30 per cent per annum at the end of 1991 to 17.26 - 18.06 per cent per annum at the end of 1992 while the rediscount yield varied from a range of 17.21 - 20.12 per cent per annum to 18.85 - 21.95 per cent per annum during the same period.

Interest rates in the call money market continued to fluctuate in a wide range except for a short period in August, 1992. Thus, call money rates which varied within a range of 13-27 per cent per annum at the end of 1991 narrowed to a range of 15-19 per cent per annum in August 1992 before widening to a range of 10-32 per cent per annum towards

INTEREST RATES
END QUARTERLY FIGURES



Central Bank of Sri Lanka.

the end of the year. In line with high Treasury bill rates, maximum deposit rates offered by commercial banks for deposits with maturities of 12-24 months tended to remain in a range of 20-21 per cent per annum. Meanwhile, maximum rates on short term deposits varied between 18.0 - 18.5 per cent per annum during 1992.

The National Savings Bank (NSB) maintained its deposits rates at the previous year's level. Thus, the rate offered on savings deposits was maintained at 14 per cent during the year, while the rates offered for 12 and 24 months deposits too remained unchanged at 17.0 per cent and 18.5 per cent, respectively. There was hardly any change in interest rates offered by commercial banks and finance companies on Certificates of Deposit. The rates offered by commercial banks varied within a range of 9.0 - 22.0 per cent. With the continuation of the ceiling on deposit rates of finance companies at 24 per cent, interest rates offered by finance companies varied within a range of 12.0 - 22.0 per cent per annum. With a view to reducing distortions in the interest rate structure, the Central Bank refinance rates applicable to short-term and MLCF facilities were also revised upward in line with market rates to reflect high overall interest rates in the economy. Meanwhile, the average weighted prime lending rate (AWPR) of commercial banks increased to 20.2 per cent per annum at the end of 1992 compared with 19.6 per cent per annum in the previous year.

Long Term Rates

Long-term rates continued to remain high with government securities of 2 and 4 year maturity carrying interest rates of 17-15 per cent per annum in 1992. During the year under review, seven series of government securities were issued with 2 and 4 year maturities. Two year and four year securities issued in January and February carried interest rates of 16 per cent and 15 per cent, respectively. However, in March these rates were raised by 1 percentage point to 17 and 16 per cent, respectively with a view to reflecting market conditions for medium and long term funds. Since October, 1992, the Central Bank also commenced auctioning of Treasury bills with a 2 -year maturity. The yield on these Treasury bills varied in a range of 19.75 - 20.18 per cent per annum.

Meanwhile, the National Housing Development Authority (NHDA) issued debentures redeemable after 1 year at an 18 per cent annual interest. The medium and long-term refinance rates were revised upward by 2 percentage points to reduce the disparity in the interest rate structure. As in the previous year, the lending rates of NDB continued to reflect market conditions. Thus, the refinance rates under the Small and Medium Term Industries (SMI-IV) were fixed on the basis of the Average Weighted Deposit Rate (AWDR) of commercial banks, which declined from 14.1 per cent in 1991 to 13.7 per cent in 1992. Meanwhile, the on-lending rate of the DFCC was in a range of 17.5 - 23.5 per cent per annum. The lending rates of the NDB in respect of term loans such as loans for equipment financing and construction of commercial buildings ranged between 19 - 20.5 per cent per annum.

The State Mortgage and Investment Bank (SMIB) which unified its rates in December, 1991 to 20.5 per cent continued to charge the same rate during 1992. Meanwhile, the NSB continued to provide loans for housing and property development projects at rates ranging between 18 - 23 per cent per annum.

BANKING DEVELOPMENT

Branch Expansion

The total number of commercial banks operating in the country stood at 23 at the end of 1992. Although a new Malaysian Bank - the Public Bank Berhad - established a branch in Colombo in March, 1992, the total number of foreign banks in Sri Lanka remained unchanged at 17 as the Bank of Credit and Commerce International (BCCI) Limited was absorbed into the Seylan Bank Limited in January, 1992.

Meanwhile, the banking network continued to expand throughout the country during the year under review. Domestic commercial banks established 41 new branches in 1992 as compared to 19 branches opened in the preceding year. The number of branches opened by foreign commercial banks totalled 7. Thus, the total number of commercial bank branches rose to 810 by the end of 1992 from 762 at the end of 1991. With the increase in the branch network of the National Savings Bank (NSB) by 3 and Regional Rural Development Banks (RRDBs) by 32, the total number of bank branches rose to 1,050. Hence, the banking density - total number of bank branches for each 10,000 population - increased from 0.5622 in 1991 to 0.6034 in 1992.

The Bank of Ceylon (BOC) - the leading commercial bank in the country - opened a branch at Koggala and also upgraded the Wellawaya Agrarian Service Centre (ASC) branch to a full fledged branch. The BOC also established four extension offices at the World Trade Centre in Colombo, Sri Lanka Customs Trico Extension Office in Colombo 13, Customs extension office at Laksiriseva Private Limited at Wellampitiya and Pambahinne affiliated University College in the Sabaragamuwa Province. Following these developments, the total number of main branches of the BOC rose from 250 to 252,

TABLE 1.63
Distribution of Bank Branches 1990-1992

Category	1990	1991	1992
1. No. of Institutions	36	38	39
1.1 No. of Commercial Banks	24	23	23
1.1.1 No. of Domestic Banks	6	6	6
1.1.2 No. of Foreign Banks	18	17	17
1.2 No. of RRDBs ^(a)	12	15	16
2. No. of Branches ^(b)	918	967	1,050
2.1 No. of Commercial Bank Branches	741	762	810
2.1.1 No. of Domestic Bank Branches ^(c)	718	737	781
2.1.1.1 No. of A.S.C Branches	38	36	35
2.1.2 No. of Foreign Bank Branches	23	25	29
2.2 No. of RRDB Branches	101	124	156
2.3 No. of NSB Branches	76	81	84

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.

while the total number of extension offices increased from 13 at the end of 1991 to 17 at the end of 1992. However, the number of ASC branches declined from 36 to 35 during the period under review. The People's Bank (PB) opened 5 branches at Kesbewa, Kottawa, Colombo 11, Koggala and Lucky Plaza (Colombo 3) during 1992, expanding its branch network to 313 at the end of the year.

Domestic private commercial banks also expanded their branch network especially in the rural areas. The Seylan Bank Limited opened 9 new branches at Ja-Ela, Kadawatha, Dehiattakandiya, Kalutara, Tissamaharama, Colombo 7, Hatton, Matale and Homagama while upgrading 6 mobile branches situated at Yakkala, Kottawa, Sarikkamulla, Boralesgamuwa, Attidiya and Kalubowila to full fledged branches. Hence, the total number of branches of the Seylan Bank Limited stood at 44 at the end of the year. Meanwhile, the Seylan Bank Limited also opened 4 mobile branches at Manampitiya, Weliveriya, Bogawantalawa and Kotagala. The Commercial Bank of Ceylon Limited (CBC) widening its branch network established 7 new branches at Pettah, Wennappuwa, Galle City, Koggala, Battaramulla, Mutwal and Embilipitiya. Accordingly, the number of CBC branches rose to 28 by the end of the year. The Hatton National Bank Limited (HNB) established 6 branches at Kirullapone, Polonnaruwa, Ambalantota, Air Cargo Village - Katunayake, Embilipitiya and Biyagama Free Trade Zone and operated 47 branches at the end of the year. In addition, it also opened 3 mobile branches at the International Irrigation Management Institute (IIMI) - Battaramulla, Sri Jayawardenapura Hospital Complex - Nugegoda and Bogawantalawa. Meanwhile, the Sampath Bank Limited increased its branch network to 16 by establishing 3 new branches at Maharagama, Deniyaya and Morawaka.

During 1992, foreign banks also played an active role in broadening their branch network in the country. The Hongkong and Shanghai Banking Corporation Limited (Hongkong Bank) established its first outstation branch at Kandy and two sub-branches at Wellawatte and Nugegoda bringing its total number of branches to 4. Meanwhile, the Standard Chartered Bank opened two branches at Wellawatte and Kiribathgoda and the ANZ Grindlays Bank a new branch at Kirullapone.

During the period under review, the National Savings Bank (NSB) - the premier savings institution in the country - opened three new branches at Mahabage, Pilimatalawa and Wattala. Accordingly, its operational branches numbered 84 by the end of 1992.

Keeping pace with the developments in the banking sector, the rural banking network also continued to widen during the year under review. With the establishment of a new RRDB in the Ampara District in February, 1992 the total number of RRDBs rose to 16. The RRDBs also expanded their branch network with the opening of 32 branches in the districts of Ampara, Badulla, Galle, Nuwara-Eliya, Polonnaruwa, Kandy, Kalutara, Ratnapura, Kurunegala, Puttalam, Kegalle, Anuradhapura, Matale and Hambantota. Accordingly, the RRDB branch network totalled 156 by the end of 1992.

Agency Banking

The BOC and the PB continued their activities under the Praja Naya Niyamaka (PNN) Scheme introduced in October, 1988. Accordingly, the BOC appointed 154 PNNs thus raising its total number of PNNs to 3,589 by the end of 1992. The PB also recruited 82 PNNs bringing its number of PNNs to 6,905 by the end of 1992. Under the PNN

scheme, total loans granted by the BOC and the PB amounted to Rs. 15.6 million and Rs. 15.0 million, respectively while the total loans outstanding stood at Rs. 300.5 million and Rs. 216.4 million, respectively at the end of 1992.

With a view to improving facilities further in the rural sector, the second stage of the PNN scheme was launched by the BOC. Under this scheme, the PNNs can obtain an overdraft facility from the BOC upto Rs. 10,000 at an interest rate of 21 per cent per annum which in turn can be re-lent to small borrowers at an interest rate of 36 per cent per annum. The amount may be enhanced upto Rs. 50,000 based on satisfactory performance of PNNs.

Meanwhile, the Sampath Bank Limited approved overdrafts under the Sampath Seva Sanyojakas (SSS) scheme amounting to Rs. 1.9 million while the outstanding amount by the end of 1992 was Rs. 12.9 million. Meanwhile, the total number of SSS appointed by the Sampath Bank Limited was 76 as at the end of December, 1992.

Service Facilities

During the year under review, commercial banks expanded their service facilities through new savings schemes, thrift and loans schemes, credit cards, Automated Teller Machines (ATMs), foreign exchange banking facilities and primary dealer facilities for Treasury bills.

The Bank of Ceylon initiated a new thrift scheme titled "Kantha Ran Ginum" with a view to promoting banking among working women professionals, Janasaviya recipients, estate workers, etc. The People's Bank launched new special loan schemes to assist Sri Lankans leaving for employment in the Middle East and for Sri Lankan returnees who have lost their employment overseas. In addition, the PB commenced loan schemes for the purchase of furniture and equipment for Sri Lanka Navy personnel and also undertook the task of issuing television permits on behalf of the Sri Lanka Rupavahini Corporation.

The HNB Limited established two outlets for selling duty free gold against foreign currencies in the arrival and departure lounges of the Colombo International Airport. It also introduced a new loan scheme named "Home Care" to facilitate the payment of electricity and other utility bills by the Bank's customers. In June, 1992, the Seylan Bank Limited commenced a new loan scheme "Low Income Group Housing Loan Scheme" under High Interest Savings (HIS) accounts for the customers. Under this scheme, customers who maintain a "HIS" account for a period of 12 months will qualify for a housing loan to a maximum of Rs. 100,000. The Seylan Bank Limited also introduced two new deposit schemes titled "Seylan Savings Certificate" and "Children's Savings Account" - "Tikiri". The Commercial Bank of Ceylon Limited (CBC) launched a credit card called "Combank Master Card" and savings certificates in denominations of Rs. 500, Rs. 1,000, Rs. 5,000 and Rs. 10,000 where interest is paid up front.

During the period under review, the Middle East Bank Limited introduced a fully computerized service for opening Letters of Credit (LCs) for its customers. The Standard Chartered Bank launched a new savings promotion scheme - "Savings Accounts Prize Draw" for savings account holders who maintain an average balance of Rs. 5,000 and over for a period of one year. Furthermore, in 1992, Citibank N.A. Colombo was approved as a member of Citicorp's World Wide Securities Services net-work. Fund

managers operating in the global market can now avail themselves for custodial services in Colombo through this network. Meanwhile, the Hongkong and Shanghai Banking Corporation Limited (Hongkong Bank) offered a facility called "Hexagon" which is a global electronic financial service delivery system for its corporate clients. The Habib Bank Limited introduced a savings counter at the Liberty Plaza and money changing counters in selected locations.

Automated Teller Machine (ATM) facilities provided by commercial banks expanded further during 1992. With 16 new ATMs installed by commercial banks during the year, the total number of ATMs operating in the country at the end of 1992 stood at 66. The Hongkong Bank launched a Global Access facility for its Electronic Teller Card (ETC) holders which link the ETC machines of the Sri Lankan branches of the Hongkong Bank to a network of over 150,000 machines located in 55 countries.

Credit Information Bureau of Sri Lanka (CRIB)

The Credit Information Bureau of Sri Lanka continued its service of supplying credit information to shareholder lending institutions during the year 1992. While the coverage of the data-base on irregular loan accounts (defined as loan accounts of which six or more instalments are in arrears or classified as irregular loan accounts for other reasons by the lending institutions) remained unchanged at the previous year's level, *i.e.* Rs. 100,000 and above, the data-base on regular loan accounts was expanded by widening the coverage from Rs. 1,000,000 and over to Rs. 500,000 and over. Although the updating interval remained as each half year, with faster inflow of data from the lending institutions the Bureau was able to complete each updating more expeditiously. As at the end of 1992, the Bureau's data-base contained information on approximately 44,200 borrowers.

The share allotment to the 24 registered finance companies that were admitted to membership in 1991 was finalized in 1992. In the course of 1992, the shareholding membership increased by the admission of two additional finance companies and one new commercial bank. As at the end of 1992, there were 54 shareholders which included Central Bank of Sri Lanka, 23 licenced commercial banks, 26 registered finance companies, the National Development Bank, Development Finance Corporation of Ceylon, State Mortgage & Investment Bank and the National Savings Bank.

The trend for increased patronage of the Bureau's information service by the shareholder lending institutions gathered strength during the year 1992. The credit reports supplied covered a comprehensive range of information including not only the direct borrowings of the individuals, companies and partnerships but also other relevant information in the nature of indirect or contingent liabilities such as guarantees and acceptances and related information such as borrowings of Directors and Associate Companies. The lending institutions confirmed that the additional information was useful for their credit evaluations.

RURAL BANKING AND CREDIT

With the continued emphasis placed on rural development, loan disbursements for various economic activities in the rural sector increased considerably in 1992. The flow of credit to the rural sector was mainly under the New Comprehensive Rural Credit Scheme (NCRCS), Medium and Long-term Credit Fund (MLCF), Kirindioya Irrigation and Settlement Project, Perennial Crop Development Project, Small Holder Tea Develop-

ment Project and the Agriculture Rehabilitation Project. The enhanced credit disbursements under these schemes was mainly due to the refinance facilities provided by the Central Bank of Sri Lanka.

New Comprehensive Rural Credit Scheme (NCRCS)

The year 1992 witnessed a decrease in the value of loans granted under the above scheme. Loans granted under NCRCS in 1992 amounted to Rs. 865 million, which reflected a decrease of 18 per cent over the previous year's figure of Rs. 1,052 million. The main reason for the decrease in the value of loans disbursed in 1992 was the adverse effect of the drought that prevailed in major cultivation areas. The decrease in the value of loans granted was reflected in a corresponding drop in the number of loans granted, from 83,001 in 1991 to 62,355 in 1992. This was a decrease of 25 per cent. The major share of loans granted under NCRCS was for the cultivation of paddy which accounted for around 71 per cent of the total. The rest was granted for the cultivation of subsidiary crops.

The indemnity paid by the Central Bank in respect of loan defaults under the NCRCS in 1992 amounted to approximately Rs. 11 million bringing the total indemnity paid as at 31st December, 1992 to Rs. 63 million. Such indemnity paid by CBSL accounted for 50 per cent of the losses incurred by banks on loans granted under this scheme.

Agriculture Insurance Board (AIB)

The area of paddy cultivation insured by the AIB in 1992 was 45,651 hectares showing a decline of 13 per cent in the area insured as compared with the previous year. The premia collected in respect of the area insured decreased from Rs. 15 million in 1991 to Rs. 13 million in 1992.

Indemnity paid during 1992 amounted to Rs. 7.8 million as compared to Rs. 9 million in 1991 showing a decrease of 13 per cent.

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

The Credit Schemes under the MLCF were not in operation during the year 1992 since the provision of refinance under the MLCF was suspended by the Central Bank with effect from 23rd December, 1991 as a part of the Bank's restrictive monetary policy to curb inflation.

However, refinance in limited amounts was made available to Regional Rural Development Banks (RRDBs) for small scale self-employment projects such as agriculture, purchase of agricultural equipment, livestock, cottage industries, small scale industries and services during the year under the All Island Self-employment Credit Scheme, the All Island Farm Machinery Loan Scheme, the All Island Dairy Development Credit Scheme and Sri Lanka/ADB Livestock Development Project Credit Scheme. The total amount of refinance granted during 1992 under these credit schemes amounted to Rs. 57 million.

The rate of interest charged on refinance loans under the MLCF was revised upwards from 11 per cent to 13 per cent per annum, to reflect market interest rates, with effect

TABLE 1.64

**Cultivation Loans Granted Under the New Comprehensive Rural Credit Scheme
(Position as at 31. 12. 1992)**

(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			Mul. Purpose Co-op. Societies			Total Loans		Total loans under NCRCS
	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	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	1,052.0
1991/92 Maha	185.4	28.7	214.1	179.7	65.0	244.7	18.0	5.4	23.4	100.3	49.3	149.6	-	-	-	-	-	-	0.4	0.1	0.5	483.8	148.5	632.2
1992 Yala	38.6	31.8	70.4	57.0	24.8	81.7	0.9	3.9	4.8	37.6	37.7	75.3	-	0.3	0.3	-	-	-	-	-	-	134.0	98.5	232.5
Cultivation Year 1992	224.0	60.5	284.5	236.7	89.8	326.4	18.9	9.4	28.2	137.9	87.0	224.9	-	0.3	0.3	-	-	-	0.4	0.1	0.5	617.8	246.9	864.7

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	
	1991	1992	1991	1992	1991	1992	1991	1992
1. Total Savings	3,448,488	4,333,051	220,120	287,255	437,533	666,561	588,012	696,829
1.1 Savings	3,133,556	3,930,578	181,219	222,747	387,806	586,943	469,570	553,437
1.2 Special Savings	–	–	12,434	21,590	–	–	78,264	90,458
1.3 Fixed Deposits	314,932	402,473	26,467	42,917	49,727	79,618	40,178	52,934
2. Total loans granted **	583,730	595,579	208,822	134,216	595,399	703,235	608,601	715,120
2.1 Agriculture	64,489	77,769	n.a.	50,793	340,615	321,054	175,123	188,465
2.2 Animal Husbandry	45,946	38,764	n.a.	1,106	24,336	32,800	64,026	45,972
2.3 Fisheries	–	–	–	6	7,967	12,925	–	–
2.4 Small Industries	39,310	34,916	n.a.	1,178	58,987	81,517	92,937	91,986
2.5 Housing, Electrification and Water Supply	236,920	256,360	n.a.	6,243	–	–	152,753	249,210
2.6 Projects/commerce	111,055	102,551	n.a.	49,638	80,010	113,023	62,482	34,326
2.7 Others	86,010	85,219	n.a.	25,250	83,484	141,916	61,280	105,161

* 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

from December 15, 1992. Simultaneously, the margin permitted to Participating Credit Institutions was reduced to 5 per cent per annum fixing the on-lending rate at 18 per cent per annum.

Credit Facilities of Co-operative Rural Banks (CRBs)

During 1992, loans amounting to Rs. 596 million was granted by CRBs which reflected a 2 per cent increase over the previous year's figure of Rs. 584 million. The major share of loans granted had been for housing purposes. This was followed by loans granted for businesses, projects and livestock.

Mobilization of Rural Savings

Savings of the rural sector is mainly mobilized by the Bank of Ceylon sub offices at the Agrarian Service Centres (ASCs), Co-operative Rural Banks (CRBs), Regional Rural Development Banks (RRDBs) and Thrift and Credit Co-operative Societies (TCCS). The total savings mobilized in 1992 in the rural sector amounted to Rs. 5,984 million as compared to Rs. 4,694 million in 1991 recording an increase of 27 per cent. The contribution by the CRBs (Rs. 4,333 million) followed by TCCSs (Rs. 697 million), RRDBs (Rs. 667 million), and ASCs (Rs. 287 million).

OTHER FINANCIAL INSTITUTIONS

Savings Institutions

The National Savings Bank (NSB) raised its total deposits from Rs. 27,815 million at the end of 1991 to Rs. 32,877 million at the end of 1992. This was an increase of 18.2 per cent (Rs. 5,062 million) as compared to a 20 per cent (Rs. 4,711 million) rise in the previous year. In response to high interest rates on fixed deposits, the increase in deposits was largely confined to fixed deposits which rose by 28.6 per cent (Rs. 4,448 million) during the year under review. Meanwhile, total savings mobilized through the Pass Book Savings Scheme which offered 14 per cent annual interest rose by 5 per cent (Rs. 586 million) as compared to an increase of 22 per cent (Rs. 2,110 million) in the previous year.

The total investment by the NSB during 1992 amounted to Rs. 10,358 million. The investments in Treasury bills at Rs. 7,877 million accounted for nearly 75 per cent of the total investment in 1992. Thus, at the end of 1992 total Treasury bill holdings of the NSB stood at Rs. 16,645 million. Meanwhile, the total investment in rupee securities at the end of the year at Rs. 12,854 million showed a decline of Rs. 5,134 million. The NSB did not subscribe to the Rupee Loan Programme during 1992. However, government borrowings from the NSB through administrative arrangements in 1992 amounted to Rs. 1,845 million.

The activities of the Employees' Trust Fund (ETF) continued to expand during 1992. While total contributions received by the Fund rose by Rs. 75 million in 1992 the outstanding member balances (including interest and dividends) increased to Rs. 6,278 million.

The investments of the ETF during the year increased by Rs. 1,181 million and the total stood at Rs. 6,691 million at the end of 1992. These investments were mainly in the

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		NHDA		Total		% of Total Loans Approved	
	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992
1. Agriculture	41	54	166	-	-	-	-	-	72	269	-	-	279	323	4.1	3.4
(i) Plantation	41	54	-	-	-	-	-	-	-	-	-	-	41	54	0.6	0.6
(ii) Domestic	-	-	166	-	-	-	-	-	72	269	-	-	238	269	3.5	2.8
(iii) Livestock & Dairies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iv) Fishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(v) Purchase of land for agricultural purposes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Industry	1,767	2,506	-	-	-	-	-	-	1,574	2,455	-	-	3,341	4,961	48.6	52.5
(i) Mechanical processing of plantation crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(ii) Mechanical processing of agricultural crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Engineering & Building Trade	11	36	-	-	-	-	-	-	-	-	-	-	11	36	0.2	0.4
(iv) Mining	19	14	-	-	-	-	-	-	-	-	-	-	19	14	0.3	0.1
(v) Food, Beverage & Tobacco	571	492	-	-	-	-	-	-	538	417	-	-	1,109	909	16.1	9.6
(vi) Textile, Wearing Apparel & Leather Products	264	1,095	-	-	-	-	-	-	377	1,183	-	-	641	2,278	9.3	24.1
(vii) Rubber & Plastic Products	272	156	-	-	-	-	-	-	193	184	-	-	465	340	6.8	3.6
(viii) Metals Chemicals and Engineering	355	241	-	-	-	-	-	-	443	607	-	-	798	848	11.6	9.0
(ix) Other Manufacturing	275	472	-	-	-	-	-	-	23	64	-	-	298	536	4.3	5.7
3. Tourism	144	123	-	-	-	-	-	-	135	433	-	-	279	556	4.1	5.9
4. Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Financial	137	39	2	550	-	-	-	-	33	-	-	-	172	589	2.5	6.2
(i) Loans to Financial Institutions	137	39	2	550	-	-	-	-	25	-	-	-	164	589	2.4	6.2
(ii) Investment Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-	-	-	8	-	-	-	8	-	0.1	-
6. Housing	-	-	66	105	252	322	52	108	-	-	617	391	987	926	14.4	9.8
(i) Purchase of houses	-	-	66	34	59	85	15	26	-	-	-	-	140	145	2.0	1.5
(ii) Construction	-	-	-	71	193	237	37	82	-	-	617	391	847	781	12.3	8.3
7. Redemption of Debt.	-	-	-	-	-	4	-	-	-	-	-	-	-	4	-	-
8. Other Loans	126	171	734	1,052	-	11	-	-	957	850	-	-	1,817	2,084	26.4	22.1
Total (Approved)	2,215	2,893	968	1,707	252	337	52	108	2,771	4,007	617	391	6,875	9,443	100.0	100.0
Loans granted (1)	1,261	1,642	965	1,700	196	302	26	108	1,300	3,589	555	297	4,303	7,638		
Loans granted as a % of Total loans approved	57	57	100	100	78	90	50	100	47	90	90	76	63	81		

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

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)

form of Treasury bills and fixed deposits in SMIB. Investments in Treasury bills stood at Rs. 3,716 million at the end of 1992 while those in fixed deposits in SMIB amounted to Rs. 605 million.

Long-term Lending Institutions

Lending activities of the Development Finance Corporation of Ceylon (DFCC) recorded a considerable increase during 1992. Despite the decline in the number of loans granted, the volume of loans approved and disbursed during the year increased to Rs. 2,893 million and Rs. 1,642 million, respectively. Meanwhile, outstanding loans rose by Rs. 1,149 million to Rs. 4,700 million as at end December, 1992.

A notable feature of DFCC lending activities during 1992 was the higher disbursement of medium term loans which increased from Rs. 1,219 million at the end of 1991 to Rs. 3,163 million at end of 1992. Thus, the share of medium term loans in the total loan portfolio rose to 67 per cent from 34 per cent in 1991.

New loans approved to the industrial sector during 1992 amounted to Rs. 2,506 million. Further sums of Rs. 123 million and Rs. 102 million were provided to tourist and transport sectors, respectively. The majority of loans granted by the DFCC were over Rs. 1 million. The inflow of resources to the DFCC from various sources continued to remain favourable. Repayment of loans by customers which accounted for 37 per cent of the total resources showed a substantial increase of Rs. 149 million due to an improvement in loan recoveries. Meanwhile, resources raised through debenture issues also rose from Rs. 314 million to Rs. 618 million.

The National Development Bank (NDB) approved 312 loans amounting to Rs. 4,007 million during 1992 compared with 213 loans amounting to Rs. 2,771 million in 1991. Continuing the past trend, the majority of loan approvals in 1992 was in respect of industrial purposes which accounted for 61 per cent of total loans. The major industrial sectors which received loans in 1992 were textiles, wearing apparel and leather products (Rs. 1,183 million), basic metal products, (Rs. 607 million) and food, beverages and tobacco (Rs. 417 million). Meanwhile, loans approved for other purposes, viz. agriculture, tourism and other services amounted to Rs. 1,552 million. The projects financed directly by the NDB which were mostly of a medium and large scale nature ranged between Rs. 10 million and Rs. 400 million. The interest rate payable on these loans averaged at 19.5 per cent per annum. Funds raised by the NDB during 1992 amounted to Rs. 5,623 million. These consisted of foreign borrowings (Rs. 2,061 million), borrowings from the Government and other sources (Rs. 1,975 million) and loan repayments (Rs. 1,555 million).

During 1992, the State Mortgage and Investment Bank (SMIB) provided finances for housing construction, purchase of houses and purchase of building sites, etc. continuing its lending operations to promote housing development in the country. Total loans approved by the Bank amounted to Rs. 337 million and total disbursements amounted to Rs. 302 million. The majority of the loans granted were in a range of Rs. 100,000 - Rs. 1,000,000 with the interest rate at 20.5 per cent per annum. Total resource mobilization by the SMIB in 1992 was Rs. 479 million, of which loan repayments amounted to Rs. 257 million.

Finance Companies

The total assets/liabilities of the 27 finance companies registered with the Central Bank stood at Rs. 10,300 million at the end of December, 1992. This was an increase of 8 per cent (Rs. 723 million) over the previous year. On the liabilities side, the total deposit liabilities of finance companies increased marginally from Rs. 5,625 million at the end of 1991 to Rs. 5,642 million at the end of December, 1992, while other liabilities declined from Rs. 918 million to Rs. 811 million over the same period. Meanwhile, liabilities of finance companies on account of borrowings rose sharply from Rs. 1,953 million at the end of 1991 to Rs. 3,274 million by end December, 1992.

On the assets side, outstanding loans rose by Rs. 368 million to Rs. 3,055 million and investments by Rs. 286 million to Rs. 1,294 million. Meanwhile, leasing accounting for 18 per cent of total assets expanded by 68 per cent (Rs. 740 million) during the year. An important feature in the assets portfolio of finance companies was the further reduction in the value of hire purchase transactions from Rs. 3,408 million to Rs. 2,819 million. Moreover, the overall liquidity position of registered finance companies improved during 1992. Thus, the ratio of liquid assets to deposit liabilities rose from 15.9 per cent at the end of 1991 to 18.8 per cent by end December, 1992.

TABLE 1.67
Sources and Uses of Resources of Registered Finance Companies

(Amount in Rs. Million)

Item	As at 31st December 1991	As at 31st March 1992	As at 30th June 1992	As at 30th September 1992	As at 31st December 1992
Sources					
1. Capital Account	1,082.0	1,107.7	1,115.3	1,077.8	574.0
2. Deposits	5,625.1	5,502.4	5,470.6	5,409.5	5,641.8
3. Borrowings	1,952.6	2,653.9	2,966.1	3,040.8	3,273.8
4. Other Liabilities	917.8	588.4	603.8	658.5	810.8
Total	9,577.5	9,852.4	10,155.8	10,186.6	10,300.4
Uses					
1. Hire Purchase Business	3,407.9	3,368.0	3,293.4	3,264.1	2,819.0
2. Loans Outstanding	2,687.0	2,587.7	2,678.5	2,794.6	3,054.7
3. Investments	1,007.7	1,133.6	1,228.7	1,259.2	1,293.6
4. Other Assets	2,474.9	2,763.1	2,955.4	2,868.7	3,133.1
Total	9,577.5	9,852.4	10,155.8	10,186.6	10,300.4
Number of Finance Companies	24	27	26	26	27

Source : Central Bank of Sri Lanka.

The number of finance companies vested with the Central Bank dropped to 9 by end-1992 from 10 at the end of 1991 with the liquidation of the Saraboomi Investment Company (Pvt.) Limited. The Central Bank continued providing assistance to finance companies in distress in the form of refinance facilities from the Medium and Long Term Credit Fund of the Central Bank. The volume of such refinance credit extended to finance companies amounted to Rs. 946 million in 1992 increasing the outstanding level of such refinance to Rs. 1,810 million by the end of the year. With a view to strengthening financial viability, all finance companies were required to make provisions for bad and doubtful debts as specified by the Central Bank before any dividends were declared out of the profits generated for the financial year ending 31st March, 1992.

SPECIALIZED FINANCIAL INSTITUTIONS

Merchant Banking

Merchant Banking activities continued to expand with two new companies entering the merchant banking business in 1992. Accordingly, the Seylan Merchant Bank Limited commenced operations in October, 1992 and the Vanik Inc. incorporated in November, 1992. However, the Mercantile Merchant Bank Limited did not carry out any operations during the year. Meanwhile, the merchant banks were brought under the purview of the Central Bank by extraordinary Gazette Notification No. 703/18 of 28th February, 1992.

Reflecting a further expansion in fund based activities such as discounting trade bills and leasing, the turnover of merchant banks at Rs. 296.7 million recorded an increase of 40 per cent (Rs. 84.5 million) during the year. The total income on leasing rose from 23 per cent of total turnover in 1991 to 32 per cent in 1992. Although income from discounting trade bills rose by 20 per cent, the share of such income in the total declined from 51 per cent in the previous year to 44 per cent in 1992.

TABLE 1.68
Progress of Activities of Merchant Banks (1991 - 1992)

	(Rs. Million)	
	1991	1992*
1. Earned Income on Leasing	49.2	94.4
2. Interest on discounting trade bills	108.6	130.7
3. Income from Computer Assignments	0.8	0.7
4. Financial and Marketing Consultancy	1.5	10.5
5. Underwriting Commission	0.8	1.8
6. Insurance Commission	1.4	1.7
7. Other Income	49.9	56.9
T O T A L	212.2	296.7

* Provisional.

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

Leasing Companies

The number of registered leasing companies operating in the country stood at three as in the previous year. The total value of leases executed by these three companies increased from Rs. 893 million in 1991 to Rs. 1,065 million in 1992, recording a 19 per cent growth (Rs. 172 million). The slow down in leasing activities in industry, services and other sectors was more than compensated by increases in those in trading, construction and transport sectors with the trading sector establishing the highest growth of Rs. 138 million or 42 per cent. The total lease financing of commercial vehicles at Rs. 500 million was an increase of 11 per cent in comparison to a rise of 47 per cent in 1991.

Insurance

The insurance business, both life and general categories, expanded considerably in 1992. Life business expanded strongly with the number of policies increasing from 279,069 in 1991 to 354,881 in 1992. Accordingly, the life insurance premium income increased by Rs. 207 million to Rs. 1,104 million. The general insurance business also expanded during the year. Based on provisional data, total net premium income of general business increased by Rs. 341 million to Rs. 1,345 million. As in previous years, the motor vehicle insurance premium income continued to account for the major share of the premium income.

MONEY MARKET

Overall Trends

Against the background of enhanced liquidity and further market orientation in the conduct of the Treasury bill market, the money market remained active during 1992. The Treasury bill market, where non-bank public participation remained active, played a leading role in determining short term interest rates in the money market. Meanwhile, the improved liquidity position of commercial banks resulted in a depressed demand for call money leading to a reduction in the turnover of inter-bank call money market. Nevertheless, the tight monetary policy stance contributed to sustain high interest rates in the money market as reflected in Treasury bill rates.

Inter-bank Call Money Market

The activities in the inter-bank call money market showed a contraction during 1992, the turnover declining by 8 per cent (Rs. 17,695 million) in contrast to an increase of 4 per cent (Rs. 9,549 million) in the previous year. The improved liquidity position of commercial banks was conducive for a generally reduced demand for call money during the year. However, demand for call money rose during the fourth quarter following the liquidity constraint created by the extension of the reserve requirement to cover foreign currency deposits of commercial banks in September, 1992. Thus, the call money market rates which narrowed from a range of 13 - 27 per cent at end-1991 to 15 - 19 per cent in August, 1992, widened again to 10 - 32 by the end of the year.

The Treasury Bill Market

(a) Primary Treasury Bill Market

The appointment of primary dealers to trade in Treasury bills and the issue of Treasury bills with maturities exceeding one year were the salient features of the

developments in the Treasury bill market in 1992. During the year, the Central Bank appointed 18 Accredited Primary Dealers consisting of 13 commercial banks, 4 money brokers and 1 unit trust to tender for Treasury bills in the primary market. This was aimed at broadening the Treasury bill market network. With these developments, the public now has a wider market network to purchase and re-discount Treasury bills at competitive prices. The Central Bank also commenced the issue of two year Treasury bills in October, 1992 with a view to promoting a long term market for Government paper. The value of two year Treasury bills issued during the period October - December, 1992 totalled Rs. 2,100 million.

The value of Treasury bills offered in the primary market totalled Rs. 193.8 billion in 1992 as compared with Rs. 131.7 billion in the previous year. The new issues made during the year for budgetary purposes amounted to Rs. 14.1 billion as compared to issues totalling Rs. 5.0 billion in the previous year. Accordingly, the total amount of Treasury bills outstanding increased from Rs. 72.9 billion at the end of 1991 to Rs. 87.1 billion at the end of 1992. In spite of these developments, the Central Bank's holdings of Treasury bills declined by Rs. 8.1 billion during the year due to the increased participation by the non-bank public in the Treasury bill market. The non-bank sector holdings of Treasury bills rose from Rs. 25.1 billion at the end of 1991 to Rs. 43.6 billion at the end of 1992. Consequently, the holdings of Treasury bills by the Central Bank declined from Rs. 29.9 billion to Rs. 21.8 billion between the two years. The major investors in Treasury bills from the non-bank sector included the National Savings Bank (Rs. 16.5 billion), approved Provident Funds (Rs. 5.8 billion) and government corporations (Rs. 5.1 billion). Meanwhile, commercial banks' holdings of Treasury bills also rose from Rs. 9.9 billion in 1991 to Rs. 10.7 billion in 1992.

(b) Secondary Treasury Bill Market

The secondary market for Treasury bills continued to function as an outlet for the placement of temporary surplus funds of commercial banks. Further, the narrowing of discount and re-discount rates provided an added impetus to secondary market activities. Accordingly, sales (discounting) from the Central Bank totalled Rs. 119.4 billion in comparison with the sales of Rs. 80.4 billion in 1991. Meanwhile, the purchases (re-discounting) amounted to Rs. 49.6 billion compared with Rs. 36.7 billion in 1991. Reflecting the movements in the primary market, yield rates in the secondary market for 3 month bills rose from 15.05 per cent in 1991 to 17.26 per cent in 1992. Similarly, the re-discount yield also increased from 17.21 per cent to 18.85 per cent over the same period. The discount and re-discount yields for 6 months and 12 months increased from a range of 15.92 and 20.12 per cent to 17.45 and 21.95 per cent.

Internal Foreign Exchange Market

The Central Bank continued to operate in the internal foreign exchange market through spot buying and selling of US Dollars against Sri Lanka Rupees at rates pre-determined by the Central Bank for transactions with commercial banks. During the year the spread between spot buying and selling rates was widened with a view to further activating the market. The spot buying rate at the end of 1992 was Rs. 45.77 while the selling rate stood at Rs. 46.23. The corresponding rates in the previous year were Rs. 42.56/US\$ and Rs. 42.59/US\$, respectively. Meanwhile, the spot middle rate averaged at Rs. 46.00/US\$ in 1992 as compared to Rs. 42.58/US\$ in the previous year.

TABLE 1.69

Money Market Operations (1990 – 1992)

(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			
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
1992											
1st Quarter	40,912	580	73,722.4	42,723.3	21,652.8	4,245.7	17,824.8	43,723.3	32,158	12,520	2,103
2nd Quarter	58,123	1,265	76,967.7	65,821.3	38,341.5	8,591.3	18,888.5	65,821.3	41,328	10,832	1,927
3rd Quarter	45,823	1,288	82,295.7	47,115.7	28,346.2	8,351.4	10,418.0	47,115.6	24,345	11,234	3,869
4th Quarter	62,307	1,458	87,095.7	38,147.9	20,851.9	12,722.0	4,574.0	38,147.9	21,535	15,026	3,696

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

Source : Central Bank of Sri Lanka

Spot purchases of the Central Bank amounting to US\$ 458 million registered a decline of 17 per cent (US \$ 96 million) while spot sales totalling US \$ 84 million was a drop of 71 per cent (US \$ 209 million) over the previous year. Meanwhile, Central Bank's participation in the forward market was confined to forward purchases during the year.

The Off-Shore Market

In line with the trend observed in the past, off-shore banking activities of the FCBUs of commercial banks continued to expand during 1992. Total assets/liabilities of the 23 FCBUs in operation recorded a significant growth of 37 per cent (Rs. 14,563 million) to reach Rs. 53,928 million (US\$ 1,172.4 million) by end-1992. Substantial increases in loans and advances to GCEC enterprises of 111 per cent (Rs. 6,486 million) and to non-residents of 35 per cent (Rs. 6,410 million) contributed to this expansion in total assets of FCBUs. The total assets position of FCBUs was also augmented by Rs. 1,237 million of loans and advances granted to exporters during 1992. On the liabilities side, increases were reflected in the deposit liabilities of non-residents by 60 per cent (Rs. 10,993 million) and of GCEC enterprises by 70 per cent (Rs. 1,262 million) during the year.

Money Market Instruments

Certificates of Deposits (CDs) and Treasury bills continued to be the major instruments traded in the money market in 1992. The outstanding value of CDs issued by commercial banks and finance companies at Rs. 4,130 million at the end of 1992 registered an increase of Rs. 1,079 million. Meanwhile, showing a marginal decline, the rates offered by commercial banks fluctuated in a range of 9 - 22 per cent per annum compared with 9 - 22.5 per cent per annum in 1991 while those offered by finance companies varied in a range of 12 - 22 per cent per annum in comparison to 12 - 24 per cent per annum in 1991.

CAPITAL MARKET

The share market experienced a slump in 1992 following the upsurge of activities during the preceding two years. The downward trend in market indicators was influenced by a number of factors. First, there was a shift of funds from the secondary market to the primary market due to a large number of new companies going public. Second, investments in the share market by Unit Trusts were considerably lower than the funds mobilized by them, reflecting a cautious approach in investment in the context of depressed market conditions. Third, high interest rates on money market instruments provided alternative investment outlets in the context of bearish sentiments in the capital market. Fourth, in spite of further incentives granted by way of the removal of the capital gains tax on share trading and the relaxation of restrictions on share ownership by non-nationals, participation in share trading remained subdued due to a "wait-and-see" policy by many participants.

The slump in the share market was reflected in almost all market indicators. The CSE All Share Price Index (1985=100) declined by 28 per cent (233 points) to 605 at the end of 1992, while the Sensitive Price Index (1985=100) declined by 31 per cent (372 points) to 827. Meanwhile, the market capitalization of the Colombo Stock Exchange

TABLE 1.70
Share Market Indicators 1987 – 1992

	1987	1988	1989	1990	1991	1992
1. Market Capitalization (Rs.Mn.)	18,460	15,694	17,087	36,880	81,084	64,655
2. Number of New Issues (No.)	5	10	2	1	5	12
3. Total Number of Shares Issued (Mn.)	819	919	1,048	1,099	1,209	1,615
4. Value of Shares Issued (Rs. Mn.)	8,196	9,190	10,404	10,908	11,640	14,660
5. Number of Shares Traded (Mn.)	17	13	12	42	79	88
6. Value of Shares Traded (Rs. Mn.)	334	379	255	1,563	4,304	4,969
7. Price Indices - CSE All as at 31st Dec.	217.97	172.44	179.49	384.39	837.79	605.31
CSE Sensitive "	384.12	309.56	341.74	680.30	1,198.60	826.57

Source : Colombo Stock Exchange.

TABLE 1.71
Number of New Share Issues During 1987 – 1992 by Type of Investment

Type of Investments	1987	1988	1989	1990	1991	1992
Bank, Finance & Insurance	2	4	1	-	1	1
Beverages Food & Tobacco	-	-	-	-	-	2
Chemicals & Pharmaceuticals	-	-	-	-	-	-
Constructions & Engineering	-	-	-	-	-	-
Footwear & Textile	-	-	-	-	1	-
Hotels & Travels	-	-	-	-	1	2
Investment Trusts	-	-	-	-	-	-
Land & Property	1	5	-	-	-	-
Manufacturing	2	1	-	1	1	3
Motors	-	-	1	-	-	-
Oil Palm	-	-	-	-	-	-
Services	-	-	-	-	-	1
Store & Supplies	-	-	-	-	-	-
Trading	-	-	-	-	1	3
Total	5	10	2	1	5	12
Number of shares offered (Mn.)	20.59	20.15	14.0	7.0	12.1	78.2
Value of shares offered (in Rs. Mn.)	205.9	201.5	140.0	70.0	121.5	1,474.5

Source: Colombo Stock Exchange.

TABLE 1.72

New Share Issues of Companies During 1992

Name of Company	No. of Shares	Par Value (Rs.)	Premium (Rs.)	Value of Shares	No. of shares Subscribed	No. of Subscribers
Blue Diamond	9,000,000	10	2	108,000,000	9,000,000	n.a.
Hayleys Exports	625,000	10	35	28,125,000	9,968,700	31,221
Bogala Graphite	11,184,400	10	-	111,844,000	15,895,335	30,591
Aitken Spence Hotel	3,856,772	10	40	192,838,600	3,856,772	n.a.
Soy Foods	562,500	10	40	28,125,000	1,293,200	5,416
Compak Morrison	1,050,000	10	-	10,500,000	13,069,900	21,962
Hayleys Photoprint	375,000	10	45	20,625,000	1,057,800	4,591
Distilleries	45,000,000	1	10	495,000,000	149,136,145	30,471
Kuruwita Textiles	1,250,000	10	40	62,500,000	1,250,000	371
Commercial Leasing	1,833,334	10	50	110,000,040	1,883,334	n.a.
James Finlay	2,500,000	10	55	162,500,000	2,500,000	n.a.
Renuka Hotels	1,000,000	10	30	40,000,000	1,000,000	n.a.

Source : Colombo Stock Exchange.

dropped by 20 per cent (Rs. 16,430 million) to Rs. 64,655 million in 1992. However, the total turnover of shares traded increased from Rs. 4,304 million in 1991 to Rs. 4,969 million in 1992, while the number of shares traded expanded from 79 million to 88 million.

Primary Share Market

In spite of depressed market conditions prevailing during 1992, primary share market transactions continued to expand. There were 12 new issues in 1992 compared with 5 in 1991. Meanwhile, the number of shares issued increased from 12.1 million in 1991 to 78.2 million in 1992, while the value of such shares increased more than ten fold, from Rs. 121.5 million in 1991 to Rs. 1,474.5 million in 1992. Among these, the Distilleries Company of Sri Lanka Limited accounted for about 57 per cent of the total number and 36 per cent of the total value of new issues.

Secondary Share Market

In contrast to active trading observed in the primary share market, the secondary market reflected mixed performance. The market capitalization declined from Rs. 81,084 million in 1991 to Rs. 64,655 million in 1992, both the CSE All Share Price Index and the CSE Sensitive Price Index recording substantial decreases during the year. However, total turnover increased by 16 per cent to Rs. 4,969 million in 1992. Following the same trend, the number of share transactions moved up substantially from 91,571 in 1991 to 109,701 in 1992, while the number of shares sold rose from 79 million to 88 million. Furthermore, non-national purchases of shares increased by 4 per cent to Rs. 1,871 million.

TABLE 1.73
Category-wise Distribution of Shares Traded in the
Secondary Share Market in 1992

Category of Investment	No. of Transactions	No. of Shares	Value
Banks, Finance & Insurance	25,815	15,071,731	1,539,630,478.25
Beverages, Food & Tobacco	17,839	23,979,830	625,759,465.25
Chemicals & Pharmaceuticals	2,271	912,853	79,654,820.75
Construction & Engineering	3,548	4,203,537	102,638,501.50
Footwear & Textiles	9,126	2,755,988	134,591,948.50
Hotels & Travels	7,910	14,227,830	547,224,376.75
Investment Trusts	2,417	2,145,348	472,460,982.50
Land & Property	2,894	6,717,058	138,929,181.00
Manufacturing	28,035	14,765,421	567,638,970.25
Motors	2,476	3,410,256	298,280,636.50
Oil Palms	15	7,124	3,746,735.00
Services	1,338	1,180,602	325,220,136.00
Stores & Supplies	277	242,563	30,100,569.50
Trading	5,744	1,349,434	235,063,900.00

Source : Colombo Stock Exchange.

As in the previous year, the banking, financing and insurance sub-sector recorded the largest turnover, while beverages, food and tobacco and manufacturing sub-sectors continued to maintain the next largest trading volumes. In terms of the number of shares traded, beverages, food and tobacco was the leading sub-category registering the largest number of transactions as in the previous year.

Unit Trusts

The number of Unit Trusts (UTs) operating in the country increased to four with the establishment of the Ceybank Unit Trust and the Comtrust Equity Fund in 1992. The first two UTs established in 1991 were the National Equity Fund and the Pyramid Unit Trust. The total value of assets of UTs as at end-1992 stood at Rs. 1,943 million, of which Rs. 1,405 million or 72 per cent belonged to the National Equity Fund and the Ceybank Unit Trust. Of the total assets of UTs, only Rs. 780 million or 40 per cent had been invested in the share market. The investments in Treasury bills and money market instruments amounted to Rs. 1,163 million. The overheated market conditions at the time of the establishment of UTs and the depressed conditions in the stock market in the subsequent period appear to have prompted the UTs to be cautious in their investment policy and place greater emphasis on investing in short-term money market instruments.