

PART II

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

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ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

ACCOUNTS AND BANKING OPERATIONS

Total assets/liabilities of the Central Bank as at the end of 1992 stood at Rs. 101,254 million registering an increase of 5.7 per cent over the previous year. The Balance Sheet of the Central Bank as at December 31, 1992, and the Profit and Loss Account of the Bank for the year ended December 31, 1992, are presented in Table 2.1.

On the assets side, International Reserves of the Bank increased by 38.4 per cent, while Domestic Assets and Other Assets and Accounts decreased by 9.5 per cent and 4.3 per cent, respectively. Among Domestic Assets, Government and Government Guaranteed Securities recorded the largest decrease of 27.0 per cent. However, loans and advances to the Government rose by 16.7 per cent, while medium and long term credit facilities to commercial banks and other credit institutions increased by 22.5 per cent. Meanwhile, short term advances to commercial banks recorded a decrease of 33.9 per cent over the previous year.

On the liabilities side, capital accounts showed an increase of 16.7 per cent due to the transfer of Rs.143 million to the surplus account from profits of the previous year. Currency in circulation, which is the largest single item, showed an increase of 10.8 per cent over the previous year. Total deposits with the Central Bank registered an increase of 1.5 per cent. During the year under review, the deposits of Government decreased by 70.6 per cent and deposits of Government Agencies by 66.5 per cent. Meanwhile deposits of international organizations, foreign governments and foreign banking institutions rose by 37 per cent, while the deposits of commercial banks recorded an increase of 15.3 per cent. The resources of the Medium and Long Term Credit Fund recorded an increase of 23.1 per cent. A comparison of the major components of assets and liabilities of the Bank is shown in Table 2.2.

The income of the Bank for the year 1992, at Rs. 12,070 million showed an increase of 34.8 per cent over the preceding year. After making allowances for expenditure and allocations to reserve accounts and provisions for depreciation and other charges, the balance net profit of the Bank amounting to Rs. 1,000 million was earmarked to be paid to the Consolidated Fund of the Government in terms of Section 39 (c) of the Monetary Law Act.

Foreign Exchange Operations

The Central Bank continued to engage in foreign exchange operations in the Spot Buying and Selling of US Dollars against Sri Lanka Rupees with commercial banks. Since March 1992, the Bank started quoting buying and selling rates with a wider margin with a view to improving the operations of the local foreign exchange market.

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

**COMPARISON OF THE CENTRAL BANK
as at 31st December, 1991 and**

31st December, 1991		LIABILITIES	31st December, 1992	
Rs.	Rs.		Rs.	Rs.
15,000,000	857,000,000	Capital Accounts	15,000,000	1,000,000,000
842,000,000		Capital Surplus	985,000,000	
26,411,240,020	27,522,593,970	Currency in Circulation	29,270,372,778	30,496,255,524
1,111,353,950		Notes	1,225,882,746	
9,016,971,676	35,248,905,963	Deposits	2,654,614,089	35,765,136,290
107,140,735		Government	35,910,658	
12,426,154,793	4,000,000,000	Government Agencies and Institutions	14,325,662,158	
12,994,279,929		Commercial Banks	17,827,214,959	
346,094	507,750,000	International Organisations, Foreign Government and Foreign Banking Institutions	538,427	
704,012,736		Compulsory Savings Fund excluding Rs. 22,600,033/= invested in Treasury Bills	921,195,999	
	27,698,765,231	Others		4,925,000,000
	95,835,015,164	Medium and Long Term Credit Fund		537,750,000
		Capital Contribution Account		28,529,936,566
		Other Liabilities and Accounts		101,254,078,380

Profit and Loss Account for the

31st December, 1991			31st December, 1992	
Rs.	Rs.		Rs.	Rs.
	7,658,214,373	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act.		11,070,337,959
143,000,000		Net Profit for the Year ended 31st December, 1992		
		Carried to Surplus in terms of section 39(b) of the Monetary Law Act.		
1,150,000,000	1,293,000,000	To Part Liquidation of Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.	1,000,000,000	1,000,000,000
	8,951,214,373			12,070,337,959

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1992, were audited under my direction in pursuance of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 42(1) of the Monetary Law Act, No. 58 of 1949.

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

Auditor-General's Department,
Colombo 7.
7th April, 1993.

S. M. Sabry
Auditor-General

OF SRI LANKA GENERAL BALANCE SHEET

31st December, 1992.

31st December, 1991		ASSETS	31st December, 1992		
Rs.	Rs.		Rs.	Rs.	
21,318,200,937	28,659,933,511	International Reserves			
7,331,728,788		Cash and Balances Abroad	10,229,341,245		
10,003,786		Foreign Securities and Treasury Bills	29,430,157,174*	39,662,720,579	
		Holdings of Special Drawing Rights	3,222,160		
		Domestic Assets			
16,117,313,293	51,833,092,542	Loans and Advances to Government	18,801,831,081		
3,949,828,378		Others – Medium and Long Term	4,839,548,302**		
1,394,248,551		Short Term	923,265,218		
		Government and Government			
29,863,952,320		Guaranteed Securities	21,802,050,273		
		Contributions to Financial and			
507,750,000		other Institutions	537,750,000	46,904,444,874	
		Other Assets and Accounts		14,686,912,927	
			* Including Securities acquired from Government Institutions on 01st February, 1964, at a face value of Rs. 5,527,675/= and on 24th May, 1965, at a face value of Rs. 57,450/= (the estimated market value of these Securities were Rs. 2,933,697/= and Rs. 34,340/= respectively as on these dates).		
			** Includes special loan of Rs. 100.0 Mn.		
	95,835,015,164			101,254,078,380	

year ended 31st December, 1992

31st December, 1991			31st December, 1992	
Rs.	Rs.		Rs.	Rs.
	8,951,214,373	By Interest, etc., Earned		12,070,337,959
	8,951,214,373			12,070,337,959

H. B. Disanayaka
Governor

M. B. Dissanayake
Chief Accountant

TABLE 2.2

**Comparison of Major Components of Assets and Liabilities of the Central Bank
as at the end of 1991 and 1992**

L I A B I L I T I E S					A S S E T S				
I T E M	1991		1992		I T E M	1991		1992	
	Rs. Mn.	%	Rs. Mn.	%		Rs. Mn.	%	Rs. Mn.	%
Capital Account	857.0	0.9	1,000.0	1.0	International Reserve	28,659.9	29.9	39,662.7	39.2
Currency in Circulation	27,522.6	28.7	30,496.3	30.1					
Deposits	35,248.9	36.8	35,765.1	35.3	Domestic Assets	51,833.1	54.1	46,904.5	46.3
Medium and Long Term Credit	4,000.0	4.2	4,925.0	4.9	Other Assets	15,342.0	16.0	14,686.9	14.5
Capital Contribution Account	507.7	0.5	537.8	0.5					
Other Liabilities	27,698.8	28.9	28,529.9	28.2					
T O T A L	95,835.0	100.0	101,254.1	100.0	T O T A L	95,835.0	100.0	101,254.1	100.0

Source : Central Bank of Sri Lanka

Sale of Gold

In the year under review, with the further liberalisation of trade and exchange controls, it was decided to allow commercial banks to start gold sales operations within the International Airport, Katunayake. Accordingly, measures were taken to cease the operations of the two gold sales outlets of the Central Bank at the Airport. The gold sales outlet at the Departure Lounge was closed with effect from September 29, 1992 and the other sales outlet at the Arrivals Area was closed on November 05, 1992. However, the Central Bank continued its gold sales at the Head Office premises as usual.

Asian Clearing Union

The total value of transactions routed through the Asian Clearing Union (ACU) facility in 1992, amounted to Rs. 21,806 million as compared with Rs. 23,906 million during the previous year. The rupee value of net settlements made in foreign currency in 1992 amounted to Rs. 7,403 million as compared with Rs. 8,756 million in 1991. This reduction in the level of transactions and the net settlement was mainly on account of allowing importers to make payments against their imports from India outside the ACU settlement system. This decision was taken in order to alleviate the difficulties experienced by the importers in Sri Lanka, under the Liberalised Exchange Rate Management System (LERMS) introduced by India in 1992. The contribution of Sri Lanka to the Swap Facility in the period under review was Rs. 752 million.

Bank Rate

The Central Bank's rate of interest (Bank Rate) on short-term advances to commercial banks under Section 87 of the Monetary Law Act remained unchanged at 17 per cent per annum.

Short Term Credit

The Central Bank continued to provide facilities to commercial banks under the Export Credit Refinance Scheme (ECRS). With effect from March 31, 1992, the margins applicable to Category I and II of the scheme were reduced by one percentage point to 2.0 per cent per annum and 2.8 per cent per annum, respectively. Meanwhile, with effect from December 15, 1992, the refinance rates under Category I and II were increased to 18 per cent per annum and 15 per cent per annum, respectively. At the same time, the margin permitted to the commercial banks under each of the above categories was reduced to 1.5 per cent per annum. The revised rates and the previous rates are given in the following Table.

TABLE 2.3
Export Credit Refinance Scheme (ECRS) – Interest Rates

(per cent per annum)

	Interest Rate		Margin allowed to Commercial Banks	
	Before the Revision	After the Revision	Before the Revision	After the Revision
Category I	17	18	2.0	1.5
Category II	12	15	2.8	1.5

Changes were also introduced with respect to the coverage, refinance rates and limits applicable to commercial banks under the ECRS. With effect from January 16, 1992, bristle fibre and cinnamon were transferred from Category I to Category II. With effect from February 03, 1992, the extent of refinance for remaining items under Category I was revised to a maximum of 60 per cent of the f.o.b. value of the export order or letter of credit, not exceeding, however, the amount of the loan granted by the commercial banks. Before the revision, the extent of refinance applicable to this category had been 50 per cent of the relevant packing credit granted by the commercial banks. As from December 01, 1992, the individual limits applicable to banks under Category I were revised downwards resulting in a decline in the overall limit from Rs. 490 million to Rs. 150 million. At the same time, the maximum ceiling of Rs. 10 million imposed on each individual exporter per each item of export under Category II was replaced by individual allocations to commercial banks within an overall limit of Rs. 200 million.

As from December 15, 1992 the interest rate charged by the Central Bank on advances for purchase and storage of commodities under the Guaranteed Price Scheme (GPS) and the Floor Price Scheme was also increased from 9 per cent per annum to 11 per cent per annum.

A new scheme to provide refinance facilities to the Regional Rural Development Banks (RRDBs) in respect of advances to their individual customers or farmer organisations for the purchase/storage of paddy and other crops was introduced and made effective from March 12, 1992. Under this scheme loans were made available for a maximum period of 6 months. At the inception of the scheme, both the refinance rate and the margin permitted to RRDBs were fixed at 9 per cent. With effect from December 15, 1992, the refinance rate was revised upwards to 11 per cent while the margin remained unchanged.

With effect from April 07, 1992, the Central Bank introduced a special refinance facility to commercial banks on account of their advances to seven tea brokering firms to be distributed among tea factory owners to maintain production and to pay arrears on account of green tea leaves supplied by small holders to tea factories. Central Bank's refinance rate and the margin permitted to commercial banks under this scheme were fixed at 17 per cent per annum and 3 per cent per annum, respectively. The initial period of refinance loans was 6 months with provision to extend such loans for further periods not exceeding 6 months at a time upto a total period of 18 months. The outstanding amount of refinance under this scheme amounted to Rs. 258 million at the end of 1992.

Medium and Long Term Credit

The Medium and Long Term Credit Fund (MLCF) was increased by Rs. 925 million to Rs. 4,925 million by the end of 1992.

The interest rates on all categories under the MLCF also were increased by 2 percentage points each on December 15, 1992. At the same time, the margin applicable to Category I of the Scheme was reduced by two percentage points and those under the other categories by one percentage point each. The revised interest rates and the margins allowed to credit institutions under MLCF are indicated in Table 2.4

TABLE 2.4

Rate of Interest and Margin Allowed for Refinance under MLCF

(per cent per annum)

	Interest Rate		Margin Permitted to the Credit Institutions
	Total cost of the Project Rs. 5 Mn. and below	Total cost of the Project Above Rs. 5 Mn.	
Category I	13	13	5
Category II	11	12	3
Category III	14	14	3
Category IV	16	16	3

Accommodation to Finance Companies

The Central Bank continued to grant financial accommodation to finance companies in terms of Section 20 (4) (a) and 21 (1) of the Finance Companies Act No. 78 of 1988. The total amount disbursed under this scheme in 1992 amounted to Rs. 948 million and the total amount outstanding stood at Rs. 1,811 million as at the end of 1992.

Commercial Bank Credit

(a) Credit Ceiling

With effect from August 3, 1992, the Central Bank withdrew the Credit Ceiling which was enforced with effect from June 15, 1989.

(b) Margin Requirements on Letters of Credit

The requirement of a 100 per cent cash margin which came into effect from June 15, 1989 against Letters of Credit for the importation of goods considered as non essential was withdrawn on August 13, 1992.

Reserve Requirements

The Statutory Reserve Requirements against demand, time and savings deposits liabilities of commercial banks was increased from 13 per cent to 14 per cent with effect from January 24, 1992. Subsequently, this ratio was reduced to 13 per cent and deposit liabilities in foreign currencies were also brought under this requirement with effect from September 04, 1992.

Secondary Market Operations in Treasury Bills

The sales turnover of Treasury Bills in the Secondary Market increased from Rs. 78,254 million in 1991 to Rs. 120,798 million in 1992. The purchase turnover also increased from Rs. 37,486 million to Rs. 50,907 million during the year under review. The net sales turnover to the non-banking sector increased from Rs. 9,658 million in 1991 to Rs. 20,768 million in 1992.

The discount rates applicable to Secondary Market Operations in Treasury Bills varied between 14.50 per cent per annum to 17.05 per cent per annum during the year.

Subsidy and Ex-gratia Payment to Indian Repatriates

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

Import Duty Rebate to Exporters

The Bank continued to reimburse on behalf of the Government, claims made by commercial banks in respect of import duty rebates paid to exporters. A total sum of Rs. 638 million was reimbursed during 1992 compared with Rs. 556 million in 1991.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies collected under the Compulsory Savings Act No. 6 of 1971 and the ceiling on Income & Compulsory Savings Law No. 15 of 1972 and administered the Compulsory Savings Fund on behalf of the Government. During the year, the Bank paid out Rs. 47,433 (inclusive of interest) on applications made by 34 contributors.

Government Accounts

As Banker to the Government, the Central Bank continued to maintain accounts of Government Departments, Government Agencies and Institutions and certain statutory boards. The number of operational accounts at the end of December, 1992 was 182.

Foreign Finance

Central Bank continued to receive disbursements made available under various foreign loans and grants while repayments of foreign loans also were effected on behalf of the Government.

Monetary Operations Unit

The Monetary Operations Unit (MOU) comprising the representatives of the Central Bank and Treasury officials established in the Banking Department continued to monitor the reserve money position of the Central Bank. The functions of the Treasury Bill Forecasting Committee were entrusted to the MOU during the year under review.

Sri Lanka Automated Clearing House

The Sri Lanka Automated Clearing House (SLACH) continued to provide the services of inter-bank cheque clearing facility to commercial banks in Sri Lanka. The daily average number of cheques cleared at the SLACH increased by 17 per cent to 90,000 in 1992. According to the clearing schedule operated in 1992, of a total of 684 commercial bank/branches, 220 bank/branches were brought under one day clearing arrangement. Of the remainder 54, 211 and 120 bank/branches were under 2 day, 3 day and 5 day clearing schedules, respectively. Owing to unsettled conditions in the North and East, a total of 69 bank/branches remained under a clearing schedule of 7 days. In June 1992, a system was introduced to levy the cost of items rejected by the Reader/Sorter machines, on relevant

commercial banks in order to induce the participating banks to make better use of the automated cheque clearing facility.

CURRENCY ISSUE

During 1992, the Bank as the sole currency issuing authority, continued to perform the function of issuing legal tender currency in Sri Lanka for use in domestic transactions. The volume of currency in circulation as at the end of 1992 stood at Rs. 30,496 million. Notes in circulation comprised 96 per cent of the total currency in circulation.

In 1992, the Bank issued currency notes with new designs in the denominations of Rs. 50/-, Rs. 20/- & Rs. 10/- in the Sri Lanka Heritage Series introduced in 1991.

On January 02, 1992, the Bank issued a coin to commemorate the 3rd anniversary of the induction of His Excellency the President of Sri Lanka, Ranasinghe Premadasa. This particular coin in the denomination of Rs. 1/- was struck in silver. The coin was also struck in cupro nickel for general circulation. The inaugural presentation of the coin to His Excellency the President took place at the Mahamaluwa of the Dalada Maligawa, Kandy. Special arrangements were also made to issue the coin to the general public at the Dalada Maligawa in Kandy.

The Bank made arrangements to commemorate the 2300th Anubudu Mihindu Jayanthiya by issuing a coin struck in silver in the denomination of Rs. 500/-. The coin is scheduled to be issued in June 1993 during the Poson festival.

The "clean currency note" operation launched by the Bank in 1991 was continued during 1992 with the help of the commercial banks.

The mobile currency exhibition of the Bank was launched during 1992. Specimen currency notes of almost all countries of the world, as well as counterfeit notes and defectively printed Sri Lankan notes were displayed in the mobile exhibition, which was of educational value to the viewers, especially the school children. The mobile exhibition was displayed in the rural areas throughout the country in the districts of Anuradhapura, Polonnaruwa, Matale, Kandy, Badulla, Moneragala and Matara. The Bank participated in the 14th Gam Udawa Exhibition at Buttala in June 1992 for the first time by running a stall with cash exchange counters and displaying the mobile currency exhibition.

The Bank automated its currency processing system by installing two currency verification, counting and sorting systems known as the 'CVCS Systems' in the Bank. These systems were commissioned in February 1992 and formally accepted in June 1992. These systems are capable of handling all the currency processing operations at high speed with a few operators.

BANKING DEVELOPMENT

Institutional Network

The banking network in the country continued to expand in 1992. The Regional Rural Development Bank (RRDB), Ampara opened in February and a branch of the Public Bank Berhad, Malaysia commenced operations in March. The opening of the

RRDB, Ampara marked the beginning of the expansion of the RRDB network to the Eastern Province. The total number of RRDBs by the end of 1992 was 16. The opening of a branch by the Public Bank Berhad was also noteworthy since it marked the opening of a foreign bank branch after nearly a decade.

Another important event that took place during the year was the vesting of the domestic banking business of the three branches of the Bank of Credit & Commerce International Ltd. (BCCI) in the Seylan Bank Ltd. The liquidation of the BCCI was also carried out by the relevant authorities. Accordingly, the number of foreign commercial banks in operation in the country remained unchanged at 17 in 1992. The total number of institutions engaged in banking business including development banking institutions increased from 42 in 1991 to 43 in 1992.

During the course of 1992, the RRDBs, the local private commercial banks and the foreign commercial banks expanded their branch network. As in the previous year, the two state commercial banks - the Bank of Ceylon and the People's Bank - showed relatively slow progress in the expansion of their branch network. The Bank of Ceylon opened only one branch (Koggala) and upgraded one ASC branch (Wellawaya) to a full-fledged branch thereby increasing the total number of main branches to 252 and reducing the number of ASC branches from 36 in 1991 to 35 in 1992. Four extension offices were also opened by the Bank of Ceylon. Meanwhile, the number of Kachcheri branches of the Bank of Ceylon remained unchanged at 24. The People's Bank opened 5 branches, two in Colombo and one each at Kesbewa, Kottawa and Koggala increasing the total number of branches to 313.

During the year 1992, the Commercial Bank of Ceylon Ltd. opened 7 branches increasing the total number of branches to 28. The Hatton National Bank Ltd. which had 41 branches at the beginning of the year opened 6 more branches. The Seylan Bank Ltd. recorded a rapid expansion in its branch network by opening 15 branches. At the end of the year under review, the Seylan Bank Ltd. had 44 full-fledged branches including the 3 BCCI branches vested in it. The Sampath Bank Ltd. which did not open branches in the previous year, expanded its branch network to 16 by opening 3 branches during 1992.

The foreign commercial banks too continued to expand their branch network during the year. The Hongkong and Shanghai Banking Corporation opened 3 branches while the Standard Chartered Bank opened 2 branches. The ANZ - Grindlays Bank also opened a branch during the year. At the beginning of the year, the domestic operations of the 3 branches of the BCCI were vested in the Seylan Bank Ltd. while the Public Bank Berhad opened a branch in Colombo. Consequently, the total number of branches of foreign banks increased from 25 at the end of the previous year to 29 at the end of 1992.

The Regional Rural Development Banks (RRDBs) recorded an expansion of their branch network during the year. The RRDB Matara opened 4 branches at Walgama, Deniyaya, Thihagoda and at Kamburupitiya. The RRDB Galle opened 3 branches at Galle Urugasmanhandiya and Yakkalamulla. The RRDB Badulla too opened 3 branches at Uva-Paranagama, Bandarawela and Ridimaliyadda. The RRDBs in Kalutara, Kurunegala, Mahanuwara (Kandy), Nuwara-Eliya, Polonnaruwa and Ratnapura opened 2 branches each; these were respectively at Baduraliya and Kalutara - North, Narammala and Polpithigama, Menikhinna and Daulagala, Hanguranketha and Kotagala, Bakamuna

and Manampitiya, and at Eheliyagoda and Kolonna. The RRDBs in Anuradhapura, Hambantota, Kegalle, Puttalam and Matale opened one branch each respectively at Konapathirawa, Weeraketiya, Hemmathagama, Mahawewa and at Naula. The RRDB, Ampara which was established in 1992 opened branches at Ampara, Dehiattakandiya, Sammanthurai, Damana and at Akkaraipattu. Consequently, the total number of RRDB branches increased from 124 in 1991 to 156 in 1992.

During the year 1992, the National Savings Bank increased its branch network to 84 by opening 3 branches. The office network of the Development Banking Institutions, *i.e.* the National Development Bank, Development Finance Corporation of Ceylon and the State Mortgage & Investment Bank remained unchanged during the year.

The Seylan Bank Ltd. established a merchant bank named the Seylan Merchant Bank Ltd. as a subsidiary, increasing the number of merchant banks by one to four.

Mobile Banking Services

The RRDBs as well as some commercial banks continued to provide mobile banking services during 1992 in order to cater to banking needs in remote underbanked and unbanked areas. The Seylan Bank Ltd. commenced Mobile Banking Centres at Weliwariya in the Gampaha District, Manampitiya in the Polonnaruwa District and at Bogawantalawa and Kotagala in the Nuwara-Eliya District. The Hatton National Bank Ltd. too commenced providing of mobile banking services at the Sri Jayawardenapura Hospital and at the International Irrigation Management Institution (IIMI) Building at Thalagama in the Colombo District, and at Bogawantalawa in the Nuwara-Eliya District.

Installation of Automated Teller Machines (ATMs)

In contrast to the rapid expansion in the bank branch network, the year 1992 witnessed slow progress in the installation of off-site Automated Teller Machines (ATMs). During the year there was only one installation of an ATM by the Hatton National Bank at the Mt. Lavinia Super Market.

BANK SUPERVISION

The Bank Supervision Department of the Central Bank is responsible for regulation and supervision of commercial banks. Amendments to the Monetary Law Act in February 1992 widened the supervisory role of the Department to cover any banking institution other than a commercial bank and empowered the Monetary Board to issue directions to such institutions to cease and desist from carrying on unsafe and unsound practices, and also to issue directions regarding the form and manner in which any aspect of business should be carried out. The term "Banking Institution" is defined in the amended provisions to include any institution which in the opinion of the Monetary Board is carrying on the business of merchant banking.

The Department carries out these responsibilities through on-site supervision and off-site surveillance. Exercising the powers vested in the Department for undertaking

bank examinations, the Department commenced the examinations of nine commercial banks and one Regional Rural Development Bank (RRDB) in 1992 and concluded seven of them during the year. In addition, the Department undertook for the first time the examination of the National Development Bank (NDB) consequent upon the NDB being declared a banking institution. The examination of three commercial banks which commenced in 1991 were also concluded in the year under review.

In regard to off-site surveillance of commercial banks, the Department continued to monitor the financial conditions of commercial banks, FCBU's established under the Foreign Currency Banking Scheme and RRDBs on the basis of monthly statements of Assets and Liabilities furnished by them. The coverage of reporting was widened to include more detailed information on FCBU's lending operations to resident exporters. The analysis of information given in monthly, half yearly and annual returns relating to aspects such as irregular and large advances, movement of deposits and other liabilities, investments and income and expenditure were undertaken by the Department to determine profitability and financial strength of each commercial bank and to compare performance of each against industry averages to make a comparative assessment.

The strict application of and securing compliance with regulatory requirements under the Banking Act and other directives issued by the Department constitute the most important function of the Department. These include the maintenance of minimum level of liquid assets and capital adequacy, the observance of single borrower limits, restrictions on accommodation to directors and directors' interest, credit ceilings and restrictions on investments. The daily monitoring of foreign working balances of commercial banks and credit ceilings on non-priority sector credit and cash margin requirements on Letters of Credit (LCs) to determine whether they are in line with limits imposed by the Central Bank fall within the ancillary functions of the Department.

Guidelines were issued by the Department on provisioning for non-performing advances in February 1991, in terms of which all commercial banks were required to provide 100 per cent, 50 per cent and 20 per cent in respect of advances classified as loss, doubtful and substandard, respectively, with full compliance being achieved by April 1992. The valuation of securities for provisioning purposes was a major aspect covered in the guidelines. Accordingly, the Department's attention was particularly focussed on monitoring strict compliance with these requirements during the year.

Following the collapse of the BCCI in London and the global suspension of banking operations in July 1991, the operations of the Domestic Banking Unit of the Bank of Credit & Commerce International (Overseas) Limited (BCCI) was vested in the Seylan Bank Ltd. with effect from January 01, 1992 under the Emergency (Banking Special Provisions) Regulations No. 2 of 1991. The Department was therefore closely involved in examining and taking remedial action on several matters relating to the affairs of the BCCI. The formulation of a Relief Scheme to grant redress to the NRFC and RNNFC account holders of the BCCI was among the important measures taken. The Relief Scheme operated in two stages, commenced in January and October 1992, respectively. Under Stage I of the Relief Scheme, depositors with balances below US\$ 4,000 were settled in full while those with larger balances were settled partially; the depositors with larger balances getting a progressively declining proportion of their deposits, depending

on size of deposit. The larger depositors who did not receive the full amount of their deposits under Stage I were settled in full under Stage II of the Relief Scheme. The payment was made in Sri Lanka Rupees and made on the condition that the payments would not be convertible into foreign currencies. Negotiations are presently underway with the liquidators to resolve the issues connected with the B.C.C.I.'s FCBU.

In regard to the two State Banks, the on-site examinations conducted by this Department drew the attention of the management to the inadequacy of provisions for loan losses made by the Banks. Remedial action is contemplated by the Government and steps have already been taken to recapitalise the two State Banks to restore their capital structure to internationally accepted levels.

In the year under review, the Department continued to administer the Deposit Insurance Scheme which came into operation in 1987. However, the number of institutions registered under the Scheme declined to 11 during the year following the withdrawal of the two commercial banks participating in the Scheme. The insurance premium was revised upward from 01 cent to 3.75 cents for every Rs. 100 per quarter during the year.

Amendments to the Banking Act and Monetary Law Act are presently being considered and the Department is actively engaged in the formulation of such amendments. The Department made submissions to the Presidential Commission on Banking and Finance on several issues covering regulation and supervision.

NON-BANK FINANCIAL INSTITUTIONS

The Bank continued to monitor and supervise the finance companies registered with the Central Bank by conducting regular on-site examinations and off-site monitoring on the basis of statistical data furnished by them.

Four companies were registered in 1992 under the provisions of the Finance Companies Act No. 78 of 1988. Out of the 24 finance companies that had been carrying on finance business in 1991, one company could not engage in finance business in 1992, because of its failure to maintain an unimpaired capital of Rs. 5.0 million due to losses.

The Deposit Relief Scheme which was formulated by the Monetary Board in 1988 continued to be implemented in 1992. As at end of 1992, out of 40,590 deposits in 8 distressed finance companies, relief payments had been made on 36,111 deposits under the Scheme. The total value of payments made was Rs. 462 million. Payments under this Scheme were financed largely by refinance loans granted by the Central Bank. During the year, the Central Bank disbursed Rs. 80 million for the implementation of the Deposit Relief Scheme. In the case of one company, additional relief payments were made utilising the Company's own funds realized from the sale of assets and debt recoveries.

In February, 1992, the management and administration of a registered finance company which was experiencing financial problems, was taken over by the Monetary Board and was granted financial accommodation by way of refinance loans. The total of refinance loans granted to this Company during the year 1992 amounted to Rs. 813 million.

During the year 1992, the following directions were issued by the Monetary Board :-

Direction on Single Borrower Limit – On June 19, 1992, a direction was issued requiring that the maximum of a single advance or the aggregate of advances granted to and the aggregate outstanding at any point of time on advances granted to an individual borrower should not exceed 10 per cent of the capital funds of a finance company. Further, the maximum of a single advance or the aggregate of advances granted to and advances in aggregate outstanding at any point of time to any group of corporate or unincorporate borrowers with common directors or common partners or common proprietors, should not exceed 15 per cent of the capital funds of such finance company.

Amendment to Direction No. 2 of 1992 on Provision for Bad & Doubtful Debts – On October 24, 1992, the Monetary Board issued an amended direction requiring the finance companies to make provisions for Bad & Doubtful Debts, in the following manner :-

- (i) Twenty five (25) per cent of all advances in arrears for a period of 12 - 24 months;
- (ii) Fifty (50) per cent of all advances in arrears for 25 - 36 months;
- (iii) Hundred (100) per cent of all advances in arrears for more than 36 months.

However, the amendment further provided that any finance company which fails to comply with the above provision shall refrain from declaring dividends out of profits for the financial year ending March 31, 1992.

Under the Public Security Ordinance, a new regulation, *i.e.* Regulation No. 1 of 1992 regarding the payment of relief to depositors was promulgated by the President on January 29, 1992. According to this where a finance company is vested in the Monetary Board under Section 20 of the Finance Companies Act, the liability of the vested finance company to meet the demands of the depositors, shall be limited to relief payments which are decided by the Monetary Board, upon the review of the business of the vested finance company.

In 1991, petitions for winding up of affairs were filed in the District Court of Colombo in respect of four companies. The Order was given for the winding up of one of these companies, namely, Sarabhoomi Investments Co. (Pvt) Ltd. in 1992 and a Liquidator was accordingly appointed. The petitions filed in respect of other two companies, *i.e.* Hideki Finance & Investments Ltd. and Castle Finance Ltd. are still being heard in the District Court of Colombo. The case filed for the winding up of House & Property Trades Ltd. (HPTL) in the District Court of Colombo was withdrawn by the Monetary Board, on agreeing to the proposals submitted by the shareowner directors of the Company to settle the deposit liabilities of the Company.

DEVELOPMENT FINANCE

During 1992 the administration of the Medium and Long-term Credit Fund (MLCF), the operation of the Credit Guarantee Schemes for Small and Medium Scale Industries (SMI), the Bus Purchase Loans (BPL) and the Entrepreneurship Development Programme

continued to be the responsibility of the Development Finance Department (DFD) of the Bank. In July 1992, DFD instituted a Housing Refinance Scheme for low income groups under the United States Agency for International Development (USAID) Housing Guarantee Low Income Shelter Programme (HGLISP) Phase IV.

Medium and Long-Term Credit Fund

The suspension of refinance facilities under the MLCF which came into effect in December 1991 continued during 1992. However, the Department followed up on the performance of projects which had been refinanced under the MLCF in the previous years.

Credit Guarantee Operations

A summary of credit guarantee operations under the six credit guarantee schemes administered by the Central Bank as at December 31, 1992 is given in Tables 2.5 and 2.6 respectively.

Small Scale Industries (SSI) Scheme

Out of a total of 767 loans guaranteed under the SSI Scheme during 1978 - 1981, only 10 loans amounting to Rs. 0.58 million were still in operation as at the end of 1992. These loans which are categorised as overdue had a guarantee liability of Rs. 0.44 million.

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

Under the SMI-I Scheme 1,670 guarantees were issued during 1979 - 1982 to cover loans amounting to Rs. 286 million. At the end of 1992, 112 guarantees amounting to Rs. 30 million had either been withdrawn or had lapsed due to non-compliance by the PCII with the Central Bank's operating instructions. A total of 1,216 loans were fully repaid. In 1992, 334 claims with a total liability of Rs. 33 million were received and 224 claims amounting to Rs. 18 million were settled. In terms of a decision to settle claims submitted by PCII in the Northern and Eastern Provinces of the country without project inspections, interim payments not exceeding 50 per cent of liability of the Central Bank and amounting to Rs. 2.1 million were made in respect of 27 claims. Loans relating to 37 claims amounting to Rs. 2 million were repaid by the borrowers after submission of the claims, while 28 claims with a total value of Rs. 4.8 million were rejected on account of non-compliance by the PCII with operating instructions. Consideration of 12 claims amounting to Rs. 3 million was deferred on account of either rehabilitation programmes undertaken by the PCII or re-commencement of repayment of the loan by the borrowers after the submission of such claims. At the end of December 1992, only 61 loans amounting to Rs. 9.7 million with a maximum guarantee liability of Rs. 5.8 million were reported to be operational. Premiums collected under this scheme and post claim recoveries by the Central Bank amounted to Rs. 12.1 million and Rs. 5.4 million respectively.

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

Out of a total of 2,531 loans guaranteed under the SMI-II Scheme during 1982 - 1989, 1,111 loans amounting to Rs. 442 million were fully repaid while 340 guarantees to

TABLE 2.5
Summary of the Central Bank Credit Guarantee Schemes as at December 31, 1992

(Value Rs. Mn.)

SCHEMES AND YEARS	SMALL SCALE INDUSTRIES (SSI)		SMALL AND MEDIUM SCALE INDUSTRIES (SMI)											
			SMI - I		SMI - II				SMI - III				SMI - IV	
	1992		1992		1991		1992		1991		1992		1992	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans granted	767	31.20	1,670	286.10	2,531	1,392.54	2,531	1,392.54	3,883	2,373.20	3,129	1,955.04 (a)	2,621	1,915.99
1.2 Loans guaranteed	767	23.40 (b)	1,670	157.50 (c)	2,531	713.63 (d)	2,531	713.63 (d)	3,883	1,660.65 (e)	3,129	1,312.18 (e)	2,621	1,137.52 (f)
2.1 Loans fully repaid	597	22.90	1,216	178.83	707	232.78	1,111	441.65	48	17.50	227	99.36	6	1.28
2.2 Guarantees withdrawn or lapsed	90	4.89	112	30.38	276	142.24	340	167.37	208	101.70	267	202.09	22	11.62
CLAIMS														
3.1 Total claims received	88	4.32 (g)	334	75.24 (g)	180	80.55 (g)	204	84.71 (g)	11	5.02 (g)	36	14.54 (g)	1	0.14 (g)
3.2 Central Bank liability		2.42		33.02		45.71		49.87		3.22		12.74		0.14
3.3 Settlement of claims														
3.3.1 Fully settled	63	1.68	224	17.84	99	23.26	113	25.94	6	1.60	16	3.45		
3.3.2 Partly settled	1	0.00 (h)	27	2.11	5	0.71	5	0.71						
3.3.3 Claims rejected	7	0.22	28	4.78	39	9.08	39	9.08	1	0.56	5	1.70		
3.3.4 Loans fully paid after submission of claims (j)	16	0.24	37	2.03	2	0.58	2	0.58						
3.3.5 Claims deferred (k)	1	0.27	12	3.04	25	7.12	24	7.51	2	0.46	3	0.40		
3.3.6 Claims pending (k)			6	1.06	5	1.69	21	5.16	2	0.59	12	7.18	1	0.14
3.3.7 Claims withdrawn (k)					5	2.26								
4.1 Loans outstanding	10	0.58 (l)	61	9.68 (l)	1,405	422.71 (l)	923	287.27 (l)	3,620	1,825.42 (l)	2,614	1,128.53 (l)	2,592	840.75 (l)
4.2 (of which in arrears)	10	0.58	61	9.68	897	184.05	678	163.37	395	36.37	893	73.16		
4.3 Central Bank liability on guarantees outstanding	10	0.44 (b)	61	5.81 (c)	1,405	265.49 (d)	923	164.76 (d)	3,620	1,284.42 (e)	2,614	759.41 (e)	2,592	579.09 (f)
5. Premia collection		1.00		12.07		25.42		27.17		18.79		27.96		2.58
6. Post Claim Recoveries		0.61		5.44		3.11		6.98		0.00		0.49		

(a) Excluding loans transferred to SMI-IV by National Development Bank.

(b) 75% of loans outstanding.

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

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

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

(f) 90%, 80%, 70% and 60% respectively for upto Rs. 0.5 mn., Rs. 0.5 mn., -Rs. 1.0 mn., Rs. 1.0 mn. -Rs. 2.0 mn. and Rs. 2.0 mn. - Rs. 8.0 mn., subject to maximum of Rs. 1.6 mn. per project.

(g) Amount in default including interest accrued therein

(h) Amount of Rs. 4,504.75 has been settled.

(i) Excluding instalments recovered.

(j) Included under 2.1.

(k) Included under 4.1.

Source : Central Bank of Sri Lanka

TABLE 2.6

SMI - II, SMI - III and SMI - IV Credit Guarantee Schemes – Industry-wise classification as at December 31, 1992

(Rs. '000)

Industry	SMI - II, III & IV – 1982 - 1992						SMI - III – 1992						SMI - IV – 1992					
	Loans Gran- ted	%	Loan Amount Rs.	%	Guaran- teed Amount Rs.	%	Loans Gran- ted	%	Loan Amount Rs.	%	Guaran- teed Amount Rs.	%	Loans Gran- ted	%	Loan Amount Rs.	%	Guaran- teed Amount Rs.	%
01. Food Processing	2,090	25.2	1,531,745	24.0	773,945	24.0	4	16.0	5,245	16.5	3,356	16.8	565	21.5	377,333	19.7	225,526	19.8
02. Other Agro-Industries	187	2.3	105,635	1.7	57,941	1.8	1	4.0	306	1.0	245	1.2	49	1.9	24,074	1.3	17,024	1.5
03. Rubber Products	197	2.4	214,134	3.4	108,974	3.4	0	0.0	0	0.0	0	0.0	46	1.8	49,687	2.6	26,855	2.4
04. Metal Products	727	8.8	439,815	6.9	223,830	6.9	3	12.0	1,485	4.7	1,188	6.0	212	8.1	126,563	6.6	75,095	6.6
05. Construction Materials	594	7.2	375,996	5.9	222,833	6.9	3	12.0	2,612	8.3	1,730	8.7	130	5.0	79,533	4.2	54,233	4.8
06. Construction Contracting	92	1.1	138,528	2.2	54,475	1.7	0	0.0	0	0.0	0	0.0	31	1.2	64,411	3.4	24,807	2.2
07. Wood Products	531	6.4	276,480	4.3	154,114	4.8	2	8.0	2,210	7.0	1,768	8.9	151	5.8	75,505	3.9	54,547	4.8
08. Garments	610	7.4	609,015	9.6	309,718	9.6	1	4.0	3,000	9.5	1,600	8.0	188	7.2	184,877	9.6	92,701	8.1
09. Textiles	214	2.6	262,071	4.1	116,064	3.6	0	0.0	0	0.0	0	0.0	82	3.1	102,429	5.3	51,403	4.5
10. Repair Workshop	314	3.8	172,648	2.7	94,938	2.9	2	8.0	1,725	5.5	1,380	6.9	101	3.9	48,689	2.5	35,753	3.1
11. Others	2,725	32.9	2,246,717	35.2	1,107,170	34.3	9	36.0	15,048	47.5	8,686	43.5	1,066	40.5	782,888	40.9	479,574	42.2
T O T A L	8,281	100.0	6,372,784	100.0	3,224,002	100.0	25	100.0	31,631	100.0	19,953	100.0	2,621	100.0	1,915,989	100.0	1,137,518	100.0

Source : Central Bank of Sri Lanka.

the value of Rs. 167 million were either withdrawn or had lapsed as at the end of 1992 due to non-compliance by the PCII with the Central Bank's operating instructions. A total of 204 claims with a liability of Rs. 50 million were received as at the end of 1992 and of these 113 claims amounting to Rs. 26 million were settled. Interim payments not exceeding 50 per cent of the liability of the Central Bank and amounting to Rs. 0.7 million were made in respect of 5 claims from the Northern and Eastern Provinces in terms of a decision taken in that regard, while 39 claims amounting to Rs. 9.1 million were rejected on account of non-compliance with operating instructions by the PCII. Loans relating to 2 claims were repaid by the borrowers after submission of claims to the Central Bank. At the end of 1992, consideration of 24 claims amounting to Rs. 7.5 million had been deferred on account of either rehabilitation programme undertaken by the PCII or recommencement of repayment of the loans by the borrowers after the submission of such claims. At the end of 1992, 923 loans amounting to Rs. 287 million and with a total Central Bank guarantee liability of Rs. 165 million were operational. Of these, 678 loans with a liability exposure of Rs. 163 million were reported to be in arrears.

The total premium collection under this scheme amounted to Rs. 27 million as at December 31, 1992 while post-claim recoveries by the Central Bank amounted to Rs. 7.0 million.

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

As at the end of 1992, only 3,129 loans amounting to Rs. 1,955 million had been guaranteed under the SMI-III Scheme, which commenced operations in July 1988. In terms of a decision taken with the consent of the PCII refinance loans originally approved under SMI-III had been transferred to SMI - IV by the National Development Bank (NDB). Consequent to this decision the Central Bank made the transfers to the SMI - IV guarantee scheme. This explains the decline in loans guaranteed in 1992 (3,129) as compared with 1991 (3,883).

Out of the 3,129 loans guaranteed under this scheme, 227 loans amounting to Rs. 99 million were fully repaid while guarantees relating to 267 loans and amounting to Rs. 202 million had either been withdrawn or had lapsed due to non-compliance by the PCII with Central Bank's operating instructions. A total of 36 claims with a Central Bank guarantee liability of Rs. 13 million were received as at December 31, 1992. Of these, 16 claims totalling Rs. 3.4 million were settled while 5 claims totalling Rs. 1.7 million were rejected. Consideration of 3 claims was deferred due to regularisation of the respective loan accounts by the borrowers after the submission of such claims. By the end of December 1992, 2,614 loans amounting to Rs. 1,128 million with a maximum guarantee liability of Rs. 759 million were operational.

The total premium collected under this scheme was Rs. 28 million as at December 31, 1992 while Rs. 0.5 million was recovered by the Central Bank as post-claim recoveries during the same period.

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

The SMI - IV Scheme was inaugurated in November 1991 with the approval of the Monetary Board and commenced operations in March 1992. By the end of December 1992, 2,621 loans amounting to Rs. 1,916 million had been guaranteed. The Central

Bank's liability in respect of these loans amounted to Rs. 1,137 million. During the year, 6 loans amounting to Rs. 1.3 million had been fully settled while 22 guarantees had been either withdrawn or had lapsed due to non-compliance with the Central Bank's operating instructions by the PCII. As at the end of 1992, 2,592 guarantees were operational. These covered loans totalling Rs. 841 million where the Central Bank's liability amounted to Rs. 579 million.

The guarantee premium under the SMI - IV Scheme is collected annually unlike under the three previous SMI Schemes. At the end of 1992, a total of Rs. 2.6 million was collected. The performance of the scheme as at the end of 1992 is summarised in Table 2.6.

An industry-wise classification of projects financed under SMI-II, III and IV schemes is given at Table 2.6.

Bus Purchase Loan (BPL) Scheme

This guarantee scheme was inaugurated in November, 1990 by the Central Bank to cover loans granted by the PCII to private bus operators to purchase buses for public

TABLE 2.7
Summary of the Bus Purchase Loan Scheme

(Value - Rs. Million)

Item	As at December 31, 1991		As at December 31, 1992	
	No.	Value	No.	Value
1.1 Loans granted	1,511	347.94	1,928	1,096.57
1.2 Loans guaranteed	1,511	674.82 (a)	1,928	870.62 (a)
2.1 Loans fully repaid	2	0.96	9	4.78
2.2 Guarantees withdrawn or lapsed	16	7.35	104	59.51
Claims				
3.1 Total claims received			5	3.17 (b)
3.2 Central Bank liability				1.94
3.3 Settlement of claims				
3.3.1 Fully settled			1	0.2
3.3.2 Partly settled			1	0.6
3.3.3 Claims rejected				
3.3.4 Claims deferred (d)				
3.3.5 Claims pending (d)			3	1.82
4.1 Loans outstanding	1,493	679.36 (c)	1,810	903.5 (c)
4.2 Central Bank liability on guarantees outstanding	1,493	541.17 (a)	1,810	716.79 (a)
5.0 Premia collected		3.08		8.9

Source : Central Bank of Sri Lanka

- (a) 80%, 60% and 40% respectively for upto Rs. 2.0 mn., Rs. 2.0 mn.-3.0 mn., and Rs. 3.0 mn.-Rs. 4.0 mn., subject to maximum of Rs. 1.6 mn., per project.
- (b) Amount in default including interest accrued therein.
- (c) Excluding instalments recovered.
- (d) Included under 4.1.

transport. The resources available with the NDB to provide refinance were fully committed by the end of 1992 and the Scheme therefore ceased to operate from this date. Under this scheme, 1928 loans amounting to Rs. 1,097 million were guaranteed with a Central Bank liability of Rs. 871 million. At the end of 1992, 9 loans amounting to Rs. 4.8 million had been fully repaid while 104 guarantees to the value of Rs. 59 million had either lapsed or been withdrawn due to non-compliance with the Central Bank's operating instructions by the PCII.

During 1992, 5 claims amounting to Rs. 3.17 million were received where the Central Bank's liability was Rs. 1.9 million. Of these, one claim amounting to Rs. 0.2 million has been settled and another claim amounting to Rs. 0.6 million was deferred while 3 claims amounting to Rs. 1.8 million were under consideration.

Under the BPL Scheme a total of 1,911 new buses were introduced to the public bus transport fleet by 1,816 borrowers. A significant feature of the scheme was the emergence of 1,420 new private bus owners who accounted for 1,463 buses. Expansion by existing bus operators accounted for only 396 borrowers with 448 buses. A total of 1,031 borrowers or 56 per cent of the total loan beneficiaries were engaged in passenger transport as single bus owners. Thus, this scheme has contributed both to a broadbasing and an enlarging of private bus ownership.

The total premium collection under the scheme amounted to Rs. 8.9 million as at December 31, 1992.

Housing Guarantee Low Income Shelter Programme (HGLISP) Phase IV

In terms of Section 106(1) of the Monetary Law Act (MLA) the Central Bank instituted a refinance scheme in July 1992 for the administration of the HGLISP - Phase IV, to improve shelter conditions of urban and rural low income households. Under this scheme the Bank functions as the Apex Lender. Refinance facilities are granted by the CBSL from the funds loaned to the Government of Sri Lanka under the United States Government Housing Loan Guarantee Programme - Phase IV. These funds are made available to the participating credit institutions (PCII) designated as Sub-Apex Lenders (SALL)/Direct Primary Lenders (DPLL) who have entered into an agreement with the CBSL under the HGLISP-Phase IV Programme. Bank of Ceylon, People's Bank, Hatton National Bank Ltd., State Mortgage & Investment Bank and Seylan Bank Ltd. had entered into agreement with the Central Bank as at the end of 1992.

The Sub-Apex Lenders are required to lend these funds direct to eligible households or through Primary Lenders such as Co-operative Rural Banks, Federation of Thrift and Credit Co-operative Societies, Real Estate Development Companies or Insurance Companies. The Primary Lenders are required in turn to lend these funds to eligible households. Under the eligibility criteria used in 1992 rural households earning Rs. 2,960 per month and urban households earning Rs. 3,700 per month were eligible to borrow funds under this scheme for acquisition of land for house construction, new house construction, additions or improvements to existing houses, renovations of existing houses and for housing infrastructure.

The disbursement of refinance under this scheme, commenced in mid-October 1992 and by the end of December 1992 refinance approval was granted for 4,273 housing loans amounting to Rs. 27 million.

TABLE 2.8
Summary of Refinance Approvals and Disbursements
as at December 31, 1992

(Value Rs. Million)

Sub-Apex Lender (Participating Credit Institutions)	Refinance Loans Approved		Refinance Loans Disbursed	
	No.	Value	No.	Value
1. Bank of Ceylon	4,158	24.50	2,990	7.60
2. Hatton National Bank Ltd.	68	1.20	-	-
3. State Mortgage & Investment Bank	47	1.70	-	-
4. People's Bank	-	-	-	-
5. Seylan Bank Ltd.	-	-	-	-
T O T A L	4,273	27.40	2,990	7.60

Source : Central Bank of Sri Lanka.

Investment of SMI & BPL Guarantee Fund Resources

Investment of SMI & BPL Guarantee Fund Resources in the primary and secondary Treasury bill market which commenced in July 1988, continued during 1992. These investments and the premiums collected as at the end of 1992 totalled Rs. 425 million. Interest income received during the year from these investments amounted to Rs. 48.9 million.

Entrepreneurship Development Programme

The Development Finance Department conducted 3 Entrepreneurship development programmes during the year. A programme aimed at creating awareness of self-employment opportunities among school leavers and Janasaviya recipients was held in the Puttalam District which was attended by 110 participants. Two programmes on management and technology upgrading were held one in Anuradhapura and the other in Mahiyangana. The participants were 60 ready-made garment industrialists from existing industries in the Anuradhapura District and 45 industrialists involved in light engineering industries from Mahiyangana District. These programmes were conducted with the assistance of the Industrial Development Board of Sri Lanka (IDB) and the Regional Rural Development Banks (RRDBs) operating in Puttalam, Anuradhapura and Badulla.

Follow-up & Inspection of Projects

During the year 1992, 230 projects under the SMI Schemes were inspected with a view to recommending corrective action where necessary and to settling claims lodged by the PCII. The majority of these projects were situated in the districts of Colombo, Galle, Puttalam, Gampaha, Anuradhapura and Kandy.

RURAL CREDIT

In 1992, the Bank continued to act as the credit executing agency for the following foreign funded credit schemes:

1. International Fund for Agricultural Development (IFAD) funded Kegalle District Integrated Rural Development Project.
2. Asian Development Bank (ADB) funded Kirindi Oya Irrigation and Settlement Project (Phase II).
3. ADB funded Small Holder Tea Development Project.
4. ADB funded Mid-country Perennial Crop Development Project.
5. ADB funded Agriculture Rehabilitation Project.
6. ADB funded Southern Province Rural Development Project.
7. ADB funded North Western Province Water Resources Development Project (NWP/WRD Project).

The Integrated Rural Development Project in Kegalle District which has a credit component of SDR 1.55 million commenced its operations on October 15, 1989 and is scheduled to be terminated on June 30, 1993. Loans granted under this project are entitled for 100 per cent refinance facilities. In respect of medium term agricultural and industrial loans 75 per cent refinance is provided out of project funds while the remaining 25 per cent is provided out of the Bank (CBSL) funds. In respect of cultivation loans, 50 per cent refinance is provided out of project funds while the Bank funds the other 50 per cent.

Kirindioya Irrigation and Settlement Project which provides training, supporting services and finances for the purchase of two wheel tractors to the farmers in the project area has the Bank of Ceylon, People's Bank and Hambantota Regional Rural Development Bank (RRDB) as its Participating Credit Institutions (PCII). Total disbursement under this project as at December 31, 1992 stood at Rs. 71.8 million while the disbursements during the year 1992 amounted to Rs. 15.8 million.

In 1992, the fourth year of operation of the Small Holder Tea Development Project, refinance amounting to Rs. 23.2 million was provided by the Central Bank of Sri Lanka, to PCII in respect of loans disbursed for field development, nursery development and factory rehabilitation. As at end 1992, total refinance granted by the Bank under the above credit scheme stood at Rs. 43.4 million. Two new institutions, namely Badulla and Ratnapura Regional Rural Development Banks (RRDBs) were included as PCIs under the scheme during 1992.

The Perennial Crop Development Project Credit Scheme is designed to provide credit facilities to farmers with the funds obtained from the ADB for the purpose of increasing the production and improving the commercialization of perennial crops particularly the minor export crops and food crops in the districts of Badulla, Kandy, Matale and Moneragala. The PCII of the credit scheme are the Bank of Ceylon, People's Bank, Hatton National Bank Ltd., Commercial Bank Ltd., and RRDBs of Kandy, Kegalle, Moneragala, Badulla and Matale districts. Credit facilities under this project are provided for on-farm crop development, private nursery development and on-farm post-harvest handling and processing activities of perennial crops. As at end 1992, Rs. 17.2 million had been disbursed by the Central Bank as refinance. The amount disbursed during the year was Rs. 11.6 million.

The main objective of Agriculture Rehabilitation Project (ARP) is the provision of loans for financing the capital requirements of the projects for rehabilitation of persons

and property in the affected areas through revitalising agriculture, livestock, fisheries and agribusiness sector which can complement and encourage farm production in order to resume and further expand employment and income generation. The Project covers the eight districts of Jaffna, Kilinochchi, Mannar, Mullaitivu and Vavuniya in the North, Amparai, Batticaloa and Trincomalee in the East and the bordering districts of Anuradhapura, Hambantota, Moneragala, Polonnaruwa and Puttalam. The Project Management Unit which was set up in the Rural Credit Department of the Bank in October 1991, for implementation of the credit component of the project provided refinance facilities totalling Rs. 31.5 million to Banks in respect of 626 sub-loans granted by the PCII during 1992. The Unit carried out a vigorous publicity campaign to create an awareness among the borrowers about the scheme and conducted seven training programmes in association with the Rural Banking and Staff Training College for the benefit of bank staff in the project area with a view to expediting the implementation of the project.

The CBSL is the apex implementing agency for the credit component of the Southern Province Rural Development Project (SPRD Project) funded by the ADB. The CBSL will provide refinance facilities under the project to finance small/medium scale industrial enterprises located at Charley Mount Industrial Estate and small/medium scale rural enterprises in the Southern Province.

A Loan Agreement has been signed between the Government of Sri Lanka and the ADB to obtain a loan of US\$ 30.0 million from the ADB to implement the North Western Province Water Resources Development Project (NWP/WRD Project) during a 7 year period from 1992 to 1998. The CBSL is the apex implementing agency for the credit component of US\$ 2.7 million of the project. Under the credit scheme refinance will be provided for construction of dug wells, lift irrigation schemes and for small scale self-employment projects undertaken by rural women. Disbursement of credit has not commenced as yet.

The Inland Bill Scheme continued to operate during the year 1992, with the approval of one acceptance credit limit amounting to Rs. 0.8 million, bringing the total number of such limits to 30. This scheme was introduced in 1989 in order to assist green leaf suppliers and Bought Leaf Factory Owners through commercial banks in the tea sector. Subsequently this scheme was extended to provide financial assistance to buyers and sellers of milk through Nuwara Eliya RRDB.

REGIONAL RURAL DEVELOPMENT BANKS

The Regional Rural Development Banks (RRDBs) continued to promote the development of the rural economy by mobilising savings, channelling credit and extending promotional services.

Expansion of RRDB Network

With the establishment of the Ampara Regional Rural Development Bank in February, the number of RRDBs in operation as at the end of 1992 increased to 16 while the number of branches expanded considerably from a total of 124 in 1991 to a total of 156 at the end of 1992.

TABLE 2.9
Branch Expansion of RRDBs

Name of the RRDB	Date of Establishment of the RRDB	Head Office	Number of Branches Opened							Total at the end 1992	
			1985	1986	1987	1988	1989	1990	1991		1992
1. Kalutara	85.07.13	Bulathsinhala	4	3	4	1	-	-	1	2	15
2. Matara	85.07.28	Matara	5	2	-	1	-	-	-	4	12
3. Kurunegala	85.08.10	Kuliyapitiya	6	4	2	1	1	1	-	2	17
4. Anuradhapura	85.08.12	Anuradhapura	2	4	1	-	-	-	3	1	11
5. Hambantota	86.12.13	Ambalantota		2	2	2	-	1	-	1	8
6. Kegalle	87.02.08	Kegalle			8	1	2	-1+1	-	1	12
7. Puttalam	87.07.11	Chilaw			5	1	-	2	1	1	10
8. Galle	87.08.17	Elpitiya			1	7	1	-	-	3	12
9. Mahanuwara	87.10.03	Mahanuwara			6	3	-	1	1	2	13
10. Nuwara Eliya	88.10.10	Nuwara Eliya				1	3	2	-	2	8
11. Moneragala	88.10.11	Buttala				1	2	1	2	-	6
12. Badulla	90.10.13	Badulla						4	2	3	9
13. Polonnaruwa	91.05.17	Polonnaruwa							4	2	6
14. Matale	91.06.21	Matale							5	1	6
15. Ratnapura	91.09.30	Ratnapura							4	2	6
16. Ampara	92.02.24	Ampara								5	5
T O T A L			17	15	29	19	9	12	23	32	156

Source : Central Bank of Sri Lanka

Deposit Mobilization

The RRDBs recorded considerable progress in mobilizing savings during 1992. As at end 1992, deposits of the RRDBs were Rs. 666 million of which fixed deposits amounted to 12 per cent and savings deposits to 88 per cent. The total number of savings accounts in 1992 was 570,360 and the total number of fixed accounts was 3,365. The value of deposits of RRDBs in 1992 recorded an increase of 52 per cent over 1991 while the total number of deposit accounts in 1992 at 573,725 recorded an increase of 35 per cent. This increase was mainly due to the expansion of the branch network into remote underbanked and unbanked areas and an increase in development activities in rural areas, the introduction of innovative savings schemes, the implementation of compulsory savings schemes and to efforts taken at village level meetings to promote the savings habits.

The average size of a savings account which was Rs. 920/- in 1991 increased by about 12 per cent to Rs. 1,030/- in 1992 while the average value of a fixed deposit increased by 25 per cent from Rs. 18,929/- in 1991 to Rs. 23,661/- in 1992.

Loan Operations

During the year 1992, the RRDBs granted a total of Rs. 703 million in respect of 71,559 loans in comparison with Rs. 595 million granted in respect of 60,315 loans during 1991.

Of the total loans granted by RRDBs during 1992, the percentage share of loans granted for small industries, commerce and business increased from 23 per cent in 1991 to 28 per cent in 1992 while the share of agriculture declined to 46 per cent.

Loans granted under the pawning scheme increased by 96 per cent over the previous year and amounted to Rs. 302 million. The number of loans granted at 118,978 recorded a similar increase over the previous year.

At the end of the current year, the total value of loans outstanding of all RRDBs amounted to Rs. 1,116 million representing an increase of about 38 per cent over the level at the end of 1991. Of the total, loans granted for agriculture accounted for the largest share of 40 per cent while loans granted for commerce and business purposes accounted for 13 per cent and loans extended to small industries was 10 per cent. The share of agricultural loans has shown a decreasing trend over the last few years - declining from 52 per cent in 1990 to 40 per cent in 1992.

Other Activities

During 1992, RRDBs launched special saving schemes for children and provided additional facilities for savings accounts in their effort to promote savings.

RRDBs have continued to implement special loan schemes to assist the poverty alleviation programmes. Under these schemes, the RRDBs provided credit facilities on easy terms for self-employment. The RRDBs, also provided other facilities such as training of beneficiaries in order to ensure the success of these projects.

As rural producers face difficulties in marketing their produce, the RRDBs attempted to provide assistance in the field of marketing. The RRDBs in Kurunegala, Polonnaruwa, Mahanuwara, Moneragala, Matale, Hambantota, Anuradhapura, Badulla and Puttalam purchased paddy, chillies, onions and green gram valued at Rs. 20 million under the agricultural products storage scheme. These products were stored until prices improved and this enabled producers to obtain higher prices.

Small Farmers and Landless Credit Project

The Central Bank of Sri Lanka is the executing agency for the Small Farmers and Landless Credit Project (SFLCP) funded by the International Fund for Agricultural Development (IFAD) and the Canadian International Development Agency (CIDA). The IFAD provides a loan of SDR 4.85 million for the project and the CIDA provides a grant of SDR 4.7 million. This amounts to 74 per cent of the total cost of the project. The Government contribution to the project is 23 per cent of the total project cost and the remaining 3 per cent is contributed by beneficiary savings.

During 1992, credit was channelled to the identified beneficiaries, *i.e.* the rural poor who are below the abject poverty line. Loans were granted to beneficiaries in the districts of Kandy, Puttalam, Galle and Matara. The value of loans approved in 1992 recorded an increase of 91 per cent in comparison with 1991. Loans amounting to Rs. 52 million were approved in respect of 7,146 beneficiaries in comparison with loans amounting to Rs. 27 million to 4,676 beneficiaries during the previous year.

The value of loans approved during the period 1990 to 1992 amounts to Rs. 83 million in respect of 12,518 beneficiaries. The savings of beneficiaries during this period amounted to Rs. 10 million. A noteworthy feature of this project is the average

loan recovery rate of 92 per cent. Further, an important feature of this project is the number of female beneficiaries accounting for 58 per cent of the total number of beneficiaries.

By the end of 1992, the project completed surveying 1,006 villages. 2,936 groups were formed and registered with the project. The total number of beneficiaries registered were 17,923.

In addition to the identification of beneficiaries, the formation of small groups, mobilization of savings and the provision of credit, other support services such as training and technical assistance are also provided to beneficiaries. The project is implemented by the Central Bank through participating agencies, the Project District Offices and the Regional Rural Development Banks.

RURAL BANKING & STAFF TRAINING COLLEGE

The Rural Banking and Staff Training College (RB & STC) of the Bank conducted 67 training courses for 1,901 persons during 1992 compared with 97 training courses conducted for 2,385 persons during 1991.

Out of the 67 training courses conducted in 1992, only 29 were conducted at the College and the balance 38 were conducted in the outstations. The participants of those training courses conducted in the outstations numbering 1,104 consisted mostly of small scale entrepreneurs and self-employed persons who were either those already receiving credit facilities provided mostly by the RRDBs or those who were anticipating to receive institutional credit facilities made available by the RRDBs. A total of 797 participants consisting 201 participants from the Central Bank, 138 from commercial banks and 458 participants from the RRDBs attended the 29 courses conducted in the College in 1992.

Rural banking, project-oriented development, commercial banking, international trade, foreign exchange operations, hire purchase and lease financing, management, training of trainers, computer training and small entrepreneur development were the main areas of training provided by the RB & STC in 1992. In addition to the scheduled training courses conducted in 1992, the RB & STC conducted several special training courses on request for the benefit of the field level officers attached to : (a) the Small Farmers and Landless Credit Project for which, Central Bank is the executing agency; (b) Agricultural Rehabilitation Project; and (c) Mid-country Perennial Crop Development Project.

The RB & STC also conducted an orientation course for the benefit of those Central Bank officials who were qualified to be exempted from the Efficiency Bar Examination and held the 11th anniversary lecture on "Human Resources Development" and necessary preliminary arrangements have also been made to set up an English Language Self-Learning Laboratory at the College in due course to assist those in need of English language knowledge improvements.

EMPLOYEES' PROVIDENT FUND (EPF)

In terms of the Employees' Provident Fund Act, the Monetary Board of the Central Bank of Sri Lanka is charged with the responsibility of receiving contributions, sur-

charges and income from the investment of the monies of the Fund, maintaining proper accounts of registered employers and the individual members of the Fund and also effecting refund of benefits to its members. These activities were carried out in close co-operation with the Employees' Provident Fund Division of the Department of Labour which attends to the administration and enforcement of the provisions of the E.P.F. Act.

Contributions

The contributions received by the Fund during the year 1992 amounted to Rs. 5,294.5 million as against Rs. 4,421.3 million in 1991. This represents an increase of Rs. 873.2 million or 19.7 per cent over the level of contributions received during the previous year.

Members' Balances

Members' balances as at December 31, 1992, before allocation of interest for the year under review stood at Rs. 45,790.6 million which is an increase of Rs. 7,328.1 million or 19 per cent over that of 1991.

Investments

During the year under review, the Fund invested a sum of Rs. 26,742.4 million in Government Securities, Treasury bills and Inter Bank Call Money Market as against a sum of Rs. 16,014.4 million in 1991. This is an increase of Rs. 10,728 million over the level of investments in 1991. The total investments held by the Fund as at December 31, 1992 amounted to Rs. 54,834.7 million which is an increase of Rs. 8,588.4 million over the level of 1991.

Income Received from Investments

In terms of an amendment to the Inland Revenue Act in 1989, the exemption from income tax granted to the EPF was withdrawn. Accordingly, all income earned on investments with effect from April 01, 1989 is subject to a Withholding Tax of 10 per cent. The total Withholding Tax deducted from the investment income for the year 1992 was Rs. 690.5 million.

In 1992, the income received from investments amounted to Rs. 6,905.5 million as against Rs. 5,648.2 million in 1991, recording an increase of Rs. 1,257.3 million.

Refunds

The total sum paid out by way of refund of E.P.F. benefits to members during the year 1992, amounted to Rs. 2,265.1 million as against Rs. 1,344.2 million in 1991. This records an increase of Rs. 920.9 million or 68.5 per cent. During the year under review 49,864 claims for refund of benefits were paid out, as against 38,910 claims disposed of in 1991.

Interest on Members' Balances

The Employees' Provident Fund is required to pay interest on members' Balances as at the end of each year out of the income from investment of monies of the Fund. The rate of interest payable on members' balances as at the end of 1992 was 11.5 per cent per annum.

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

EPF Housing Loan Scheme

The E.P.F. Act was amended by Act No. 42 of 1988 to enable the members to obtain a loan of upto 75 per cent of the balance standing to their credit from certain lending institutions for housing purposes. The participating lending institutions in this scheme are Housing Development Finance Corporation, National Housing Development Authority, State Mortgage and Investment Bank, People's Bank, Bank of Ceylon, National Savings Bank and the Multipurpose Co-operative Societies spread out in the country.

As of December 31, 1992 the E.P.F. Department processed and despatched a total of 45,588 applications for certification of balances to the respective Labour Offices.

The comparative data on the operations of the Fund are given in Table 2.10.

TABLE 2.10
EPF Statistics

	(Rs. Million)	
	1991	1992
1. Contributions received (a)	4,421.3	5,294.5
2. Investments (b)	16,014.4	26,742.4
3. Income received from investments	5,091.7	6,227.5
4. Refund payments	1,344.2	2,265.1
5. Number of refunds	38,910	49,864
6. Rate of interest (per cent)	11.5	11.5
7. Interest provision on members' balances	5,041.2	5,990.9

(a) Excludes contributions credited to Suspense Accounts.

(b) Includes maturity proceeds re-invested in Government Securities, Short Term & Primary Market Treasury Bills and Call Money Market.

EXCHANGE CONTROL

The following changes were effected by the Central Bank in exchange control procedures during 1992.

1. Imports

The ceiling on the import of goods for personal use of the importer and for spare parts was enhanced from US\$ 1,000 to US\$ 2,000 c.i.f. Colombo or its equivalent in any other foreign currency and remittance for which is permitted in any manner required by the importer. With effect from December 24, 1992 the import of goods into Sri Lanka on commercial basis on documents on payment (D/P) terms without the establishment of a letter of credit was permitted upto US\$ 5,000 c.i.f. Colombo or its equivalent in any other foreign currency.

The requirement of settlement of bills being in terms of ACU arrangements was removed in respect of merchandise imports and invisible import transactions with India where invoice values have been expressed in convertible currency.

With the withdrawal of the 100 per cent cash margin requirement for the establishment of Letter of Credit in respect of luxury items, Authorised Dealers may sell foreign exchange forward to cover all imports and payments for services, without any restrictions.

With effect from November 12, 1992 all commercial banks in Sri Lanka were permitted to import gold on a consignment basis subject to payment of duty turnover tax etc. and a licence from the Controller of Imports and Exports. Commercial banks operating at the Colombo International Airport, Katunayake were also permitted to sell locally manufactured gold jewellery purchased duty free from manufacturers of jewellery who import gold under the manufacture-in-bond scheme. Manufacturers of jewellery who intend supplying jewellery for sale at the gold sales outlets at the Airport could import gold under the manufacture-in-bond scheme to overcome problem of duty payment.

With effect from November 12, 1992, returning Sri Lankan passport holders who had stayed abroad for more than 6 months and those who had stayed for periods less than 6 months were permitted to buy gold/gold jewellery upto US\$ 5,000 and US\$ 1,000, respectively per person per annum against designated currencies in the arrival area of the Colombo International Airport Katunayake. Gold/Gold jewellery could be purchased for a further sum of US\$ 500 per person per annum on payment of duty.

2. Exports

With effect from January 08, 1992 re-export of goods under entrepot trade transactions either on Letters of Credit or on D/P terms was permitted.

The ceiling placed on export of gifts and trade samples was raised from Rs. 3,500 to Rs. 10,000 with effect from March 17, 1992. Export of personal jewellery to be taken out by female passengers travelling to the Indian region countries and other countries on a bring back basis, was raised from Rs. 90,000 to Rs. 100,000 and from Rs. 90,000 to Rs. 150,000 respectively with effect from 20.03.1992.

3. Travel

- (a) With effect from August 04, 1992 holiday exchange ration granted to resident Sri Lankans who travel to Indian Region Countries was increased to US\$ 800 per

adult and US\$ 400 per child under 12 years of age. To the other countries the amount was US\$ 7,500 and US\$ 3,750 per adult and child under 12 years respectively. Application for basic exchange by Sri Lankan nationals who have been granted dual citizenship and who have been out of Sri Lanka for a considerable period of time (more than six months) and have returned to Sri Lanka for a short stay should be referred to Exchange Control Department of the Bank.

- (b) Per diem allowances for business travel both to the Indian Region countries and other countries were increased by 50 per cent with effect from August 04, 1992. As at the end of December 1992, the rates applicable to Chairman/Directors of Public companies were US\$ 350 and US\$ 450 to the countries of the respective regions. Business travel allowances for employees of other companies were also increased.

4. Education

Living allowances to students proceeding to United Kingdom were increased with effect from August 04, 1992 from Stg. Pounds 4,800 to Stg. Pounds 9,000 per annum in respect of primary, secondary, under graduate, professional and technical studies and from Stg. Pounds 5,400 to Stg. Pounds 10,000 per annum in respect of post graduate studies. Provision has been made in the same operating instructions for increases in living allowances to students proceeding to other countries as well.

5. Emigration

Capital transfers of Rs. 500,000 per individual subject to a ceiling of Rs. 1.0 million per family at the time of departure was permitted to emigrants with effect from March 16, 1992. The ceiling on the export of personal effects was enhanced to Rs. 30,000 and Rs. 15,000 in the case of adults and children under 12 years of age respectively.

6. Blocked Funds

Authorised Dealers were informed by operating instructions dated July 23, 1992 that all approved Non-Resident Blocked funds as at June 30, 1992 standing to the credit of the following categories of Sri Lankans who have emigrated from Sri Lanka could be released :

- (i) Sri Lankans who have emigrated and acquired foreign citizenship and
- (ii) Sri Lankans who have acquired permanent resident status abroad and whose Non-Resident Accounts have remained blocked for 5 years or more on June 30, 1992.

7. Investment in Securities

Permission has been granted for the issue and transfer of shares in companies upto 100 per cent of the issued capital of such companies, to approved country funds, approved regional funds, companies incorporated outside Sri Lanka and non-resident individuals including Sri Lankans, subject to certain exclusions, limitations and conditions set out in the Government Gazette No. 721/4 of June 29, 1992.

In order to facilitate these investments Authorised Dealers have been permitted to open and maintain "Share Investment External Rupee Accounts" in the name of such investors. Permission has also been granted to non-resident NRFC account holders and holders of FCBU accounts to make investments in these companies with the funds in such foreign currency accounts.

8. Loans and Overdrafts

In view of the frequent changes in the foreign equity ratio of public companies quoted in the Colombo Stock Exchange consequent on the granting of Exchange Control permission for foreign investors to purchase shares in this category of companies upto 100 per cent of the paid up capital through Share Investment External Rupee Accounts, for the purpose of section 30(7) of the Exchange Control Act, an amendment has been introduced to consider only those public quoted companies, which have a majority of non-resident directors as requiring the prior approval of the Department of Exchange Control, irrespective of the ownership of shares.

9. Declaration of Foreign Currency to Customs

Sri Lankans both resident and non-residents were permitted with effect from March 19, 1992 to import and export in person foreign currency upto an amount of U.S. \$ 5,000 or its equivalent in other convertible currencies without a declaration to Customs irrespective of the number of trips they make abroad.

PUBLIC DEBT

The Bank continued to manage the Public Debt on behalf of the Government in terms of Section 113 of the Monetary Law Act. The major debt instruments used by the Bank were Government Securities/Loans, Treasury Bills (TBs), Debentures and Treasury Certificates of Deposit (CDs). The Bank also handled the management and servicing of foreign debt of the Government. In addition, a data base both for foreign debt and domestic debt was maintained and studies were also undertaken to assist in the formulation of policies in respect of Public Debt.

The total outstanding gross Government Debt as at the end of 1992 was Rs. 418,624 million. The increase in the debt amounting to Rs. 38,849 million was lower than that in 1991. The outstanding external debt liabilities during the year amounted to Rs. 238,730 million indicating an increase of Rs. 19,747 million of which a sum of Rs. 12,531 million was on account of exchange rate depreciations. Of the outstanding Government debt, foreign debt accounted for 57 per cent while the balance 43 per cent represented domestic debt.

Rs. 20,920 million worth of Government rupee loans were floated during 1992. Total repayments of rupee loans and interest payments during the year amounted to Rs. 18,094 and Rs. 9,273 million, respectively. The amount outstanding as at the end of 1992 was Rs. 73,712 million including Rs. 4,532 million of National Defence Bonds. The Employees' Provident Fund was the major subscriber to the Rupee Loan Programme in 1992 and held 74 per cent of the total rupee loans outstanding as at the end of 1992. The National Savings Bank held 19 per cent of the outstanding debt.

The authorised limit on Treasury Bills was increased from Rs. 90,000 million to Rs. 125,000 million on December 16, 1992. There were two major policy changes in the marketing of Treasury Bills during 1992. Deviating from the procedures hitherto followed, the Bank appointed Accredited Primary Dealers to sell Treasury Bills with effect from July 24, 1992. Since then, only Accredited Primary Dealers are allowed to bid at weekly tenders and the public has to purchase Treasury Bills from these dealers. However, non-competitive bids from captive sources are also accepted at the weighted average rate for the respective maturity periods. At the end of 1992, 18 Primary Dealers consisting of thirteen Commercial Banks, four Money Broking firms and one Management Company of a Unit Trust were accredited as Primary Dealers. The other policy change was to invite bids for longer maturities of 24, 36 and 48 months along with the 3, 6 and 12 month maturities. Treasury Bills with maturity period of less than 3 months were also issued to the Central Bank. The remarkable feature of Treasury Bill operations during 1992 was the decline in the share of Treasury Bills held by the Central Bank from 48.0 per cent as at the end of 1991 to 29.9 per cent as at the end of 1992. Treasury Bills outstanding as at the end of 1992 was Rs. 87,096 million compared with Rs. 72,968 million as at the end of 1991. This increase represented new issues of Treasury Bills amounting to Rs. 14,128 million. The total interest paid during the year in respect of Treasury Bills was Rs. 11,355 million.

The Bank continued to issue Treasury Certificates of Deposit which commenced in 1990. The Certificates were issued for 6, 12 and 24 months maturity periods at the rates of interest of 17.15 per cent, 18.06 per cent and 19.83 per cent, respectively. The amount outstanding as at the end of 1992 was Rs. 102 million.

Total disbursements on medium and long term external Government debt during 1992 amounted to Rs. 14,355 million. Project loans accounted for 68.3 per cent of the total amount utilized while the balance represented non-project loans. The total interest payments and other charges on external Government debt in 1992 was Rs. 4,725 million.

REGIONAL OFFICES – MATARA, ANURADHAPURA & MATALE

There has been an increase in development related work of the Regional Offices at Matara, Anuradhapura and Matale such as conducting beneficiary training programmes and seminars for prospective borrowers, identifying resources which could be harnessed for development purposes and coordinating the activities of Government departments and other agencies involved in development work in the respective regions. However, these activities which centered around identification, appraisal and recommendation of viable projects to credit institutions for financing and post-supervision of such projects declined during 1992 with the suspension of the grant of refinance under the MLCF credit scheme in December, 1991.

The traditional Central Banking functions performed by the Regional Offices namely, currency operations, cheque clearing and data collection were expanded during the year under review. The Regional Offices also continued to assist prospective borrowers with the preparation of farm budgets and cash flow statements required in order to obtain loans under the Small Holder Tea Development Project and the Perennial Crop Development Project. With the objective of promoting the banking habit in rural areas, the Regional Offices continued to hold village level meetings (Janahamuwas) in their respective regions.

The main activity of the Anuradhapura Regional Office during 1992 was that of conducting training programmes for prospective borrowers. During the year under review, the Regional Office, in association with other development agencies conducted 49 training classes, covering subjects such as agriculture, dairy development and rice processing. These classes were attended by around 3,000 participants. The Regional Office conducted the examination of several branches of the Kurunegala and Polonnaruwa RRDBs. This office also carried out a resource survey in a selected village in the Horowpatana AGA division.

During the year, the Matara Regional Office conducted a resource survey in a selected number of villages in the region. The total number of projects recommended by the Regional Office to credit institutions for financing fell sharply.

The Matale Regional Office recommended 2,434 projects valued at Rs. 32.8 million during 1992. This indicated a decline of 46 per cent in the number of projects recommended when compared with the previous year. The Regional Office conducted 9 beneficiary training programmes for around 1,500 unemployed youth and small scale entrepreneurs. In view of the importance of providing marketing facilities to producers, the Regional Office provided assistance to farmers especially to small scale producers of big-onions, to sell their produce. In addition, the Regional Office carried out an examination of bank branches of RRDBs in the Central Province and in the Kegalle District.

The Currency Units of the Regional Offices of Matara and Anuradhapura continued to provide currency exchange facilities to commercial banks, other institutions and the general public in their respective regions. The commercial banks in the regions are also provided with cash deposit and withdrawal facilities at the vaults of above two Regional Offices. A "Clean Currency Notes Week" conducted in Matale and Kandy districts by the Matale Regional Office in 1992 provided an opportunity to educate the public on the need to ensure the cleanliness of currency notes in circulation.

With the appointment of accredited dealers for the sale of Treasury Bills at the primary market, the sale of Treasury Bills at Regional Offices was discontinued in June, 1992. The amount of Treasury Bills sold by Matara, Anuradhapura and Matale Regional Offices during the first half of 1992 stood at Rs. 66.2 million, Rs. 0.1 million and Rs. 66.9 million respectively.

The Regional Cheque Clearing facilities offered to Commercial Banks by Regional Offices continued during the year 1992. A total of 174,198 cheques amounting to Rs. 2,305 million was cleared through the Regional Cheque Clearing House at Matara while the Anuradhapura Cheque Clearing House cleared 115,389 cheques amounting to Rs. 1,780 million, during year 1992. The Regional Office at Matale cleared a total of 406,830 cheques valued at Rs. 11,216 million through its Cheque Clearing Houses at Kandy and Matale.

The Regional Offices took part in the island-wide data collection programme and other Regional Surveys conducted by the Central Bank in their respective regions. They assisted in the educational programmes in economics and banking conducted by the Bank during 1992 for school children.

INFORMATION AND PUBLICATIONS

The Information Department continued to maintain its on-going efforts to be in the forefront in fulfilling its role as collector/disseminator of information. In this effort it has kept a close track of recent trends in socio-economic developments and has provided materials both published and hitherto unpublished which would be of benefit to students, teachers, researchers and the general public alike. The following Central Bank publications formed the main source of information dissemination :

1. Annual Report 1991 (Sinhala, Tamil and English)
2. Economic Survey First Half of 1992 (Sinhala, Tamil and English)
3. Monthly Bulletin (Sinhala, Tamil and English)
4. Bi-monthly Bulletin (English)
5. Socio-Economic Data Folder 1992 (Sinhala, Tamil and English)
6. Occasional Paper No. 21
7. Functions and Working of the Central Bank (Sinhala)
8. Exchange Relaxations – A Guide to Importers and Exporters
9. Thesis : Financial Reforms in Sri Lanka 1977 - 1987
10. A special issue of the Satahana
11. Sri Lanka : An Economic Financial and Industrial Guide

The Department's publications such as Satahana, News Survey and Banku Puvath continue to be published.

During the year the Library added 591 books and pamphlets, and subscribed to 223 periodical titles. It also received 250 books and pamphlets as gifts and exchange from banks and other institutions. These acquisitions enabled this main data and information base to enhance its collection of publications in economic, banking, accounting and related fields.

The Department continued to maintain its rapport with the mass media. Several press conferences were held and press releases covering major policy changes were issued during the year.

Further, important events were given adequate coverage by the video unit for onward transmission through the Rupavahini. This unit expanded its activities to produce short filmlets to capture important themes and subjects, the first one was completed during the year on rural development activities sponsored by IFAD.

The art work and visual section of the media unit continued to design brochures and publications for various departments. It is to the credit of the competence of this unit, that the design of the coin to be issued in commemoration of the Mihindu Jayanthi celebrations to be held in 1993 was accepted.

The Department's educational programmes launched were targetted to GCE Advanced Level Students and teachers in the periphery. Around 5,000 students in the Moneragala, Anuradhapura and Matale Districts benefitted by these programmes which were conducted by specially selected staff of the Bank.

The Bank Press has now undertaken around 90 per cent of the printing of the Bank's publications. Considering the assignments undertaken by the Press around Rs. 2 million has been saved by way of printing expenses during the year under review. The Press has expanded its capacity with the addition of more machinery.

RESEARCH ACTIVITIES

The officers of the Bank completed a number of research projects during the year. These included research studies that had been assigned to some of the officers under the on-going research training programmes of the Bank as well as several studies undertaken by the senior officials on their own initiative or to meet the demands made on them by other organizations. Some of these are scheduled to be published during 1993.

SURVEYS AND DATA COLLECTION

Survey of Credit Needs with Special Emphasis on the Poor – 1992

In 1992, the Bank commenced a comprehensive household survey in order to ascertain the credit needs in the country with special emphasis on the poor. The objectives of this survey are to -

- (a) Identify the extent to which institutional credit has spread in the Rural sector and the extent to which it has met the credit needs of the lower income groups in the Urban, Rural and Estate sectors.
- (b) Evaluate the credit needs of both borrowers and non-borrowers.
- (c) Assess the adequacy of bank credit available to borrowers and the supplementary sources of credit.
- (d) Evaluate the success or failure of projects started with money borrowed from institutional sources.
- (e) Investigate the reasons for resorting to credit from the Informal sector.

With these objectives in view, information relating to income generating activities, sources of credit, credit usage, entrepreneurship and loan repayment is sought from sampled households. In order to afford an indepth analysis of credit needs, information on socio-economic conditions such as demographic characteristics, housing conditions, land use, labour force employment and manpower use, household income, savings and indebtedness, is also collected from the households.

In this survey, about 32,000 households sampled from 43 urban wards representing the Urban sector, 216 villages representing the Rural sector and 10 estates representing the Estate sector will be enumerated. Data collection which commenced in May, 1992 would continue for a period of one year in order to capture seasonal variations. Data collection, field supervision and data processing are being undertaken entirely by trained Central Bank staff.

Country-wide Data Collection Scheme

The Country-wide Data Collection Scheme, which was launched in 1978, continued to operate in 1992 as well. Data on retail prices of consumer goods, producer prices of

major agricultural commodities, wage rates in the Non-Formal tea, rubber and coconut cultivation sectors and the construction sector and prices of major agricultural inputs were collected on a regular basis from about 100 selected centres spread throughout the country. The information under this system is collected by some selected government school teachers.

National Accounts

In 1992, the Bank continued to improve the National Accounts system both from the product side as well as the expenditure side. Apart from collecting data from secondary sources, the Bank was involved in data collection from primary sources as well, wherever possible on a quarterly basis, to improve the national accounts estimates for the country.

Monitoring of Imports

The Bank continued to monitor imports through data collected from commercial banks on Letters of Credit and Bills Received against Letters of Credit, with the objective of providing an advance indicator of total imports and its composition.

Employment Statistics

The annual survey on Employment in the public sector continued in the year 1992. The objective of this survey is to measure the trends in employment in the government departments, ministries, provincial councils, local authorities and in the corporation sector. Meanwhile, data available in administrative records such as the data on the Employees' Provident Fund and other Provident Funds were used to measure the trends in employment in the Formal private sector.

DATA PROCESSING

The Bank continued to process large volumes of data, using its own mainframe computer. Bulk of this data was on the Employees' Provident Fund. A major task commenced in 1992 was the processing of the data collected in the "Survey of Credit Needs with Special Emphasis on the Poor" conducted by the Bank. The total number of utilized computer hours including both Central Processing Unit Time and List Time of the mainframe computer amounted to 3,618 hours in 1992 and this was marginally higher than that of the previous year's level of 3,577 hours.

TRAINING

Training of officers in academic and non-academic fields continued during the year 1992. Academic training was in post-graduate studies in Economics and related fields, arranged at recognised universities abroad. These covered courses leading to Masters and Ph.D. degrees. 18 officers were nominated for post-graduate studies for 1992/93 and 5 officers for 1993/94. This comprised of 8 officers in April, 1992, 10 officers in June 1992 and 5 officers in November 1992. Of this number 15 officers proceeded abroad on post-graduate studies upto December, 1992. One officer proceeded for a Ph.D. Degree.

Non-academic training covered short-term courses, seminars, workshops and study tours, both local and foreign, relating to specific fields of importance to the Bank. During

1992 a total of 68 officers proceeded abroad on short-term training. 143 officers participated in local training courses, seminars etc. at various institutions in Sri Lanka while 201 officers participated in courses conducted by the Rural Banking and Staff Training College.

The Bank also conducted classes in Economics & Mathematics for those officers intending to proceed abroad on post-graduate training. Arrangements were also made with the British Council to conduct an English Language course at their Language Centre for post-graduate aspirants.

The Department continued its usual functions of holding promotional examinations for technical and Non-Staff Class grades, Efficiency Bar Examinations for the Staff Class and also the Qualifying Examination for Post-graduate Scholarships.

MANAGEMENT AUDIT

During the year 1992, the Management Audit Department, in accordance with its programme of work, carried out the audit of various departments in the Bank. During this period, the Department also undertook a comprehensive audit of the activities of the RRDB - Matara and an investigative audit of the RRDB - Anuradhapura.

In the course of audit, emphasis was laid to highlight shortcomings relating to compliance with the procedures laid down in the Bank's rules and regulations.

Apart from audit functions, during the period under review, several important studies and surveys on subjects pertaining to the management of the Bank were conducted. These studies included - Usage of photocopying machines in the Bank, Work Study in the Exchange Control Department, Survey on Minor Employees' uniforms, Utilisation of Personal Computers in the Bank, A study on the monthly expenditure on account of electricity, water, fuel and telephone charges, Report on fire hazards and cleanliness in the Bank buildings, Review of existing cadre for Minor Employees, Non-Staff and Staff Class and Survey of motor vehicles owned by the Bank.

PREMISES

In addition to the customary maintenance work and up-keeping of the Central Bank premises, the following construction projects were handled during the year.

1. Nuwara Eliya

- (a) Twin-Bungalow, construction of which commenced in November 1991 was completed in April 1992. This Bungalow is used as a holiday home for the Bank staff.
- (b) Holiday Home consisting of 15 apartments which was under construction during 1992 is expected to be ready for use by April 1993.

2. Kandy

The construction work on the Circuit bungalow at Kandy progressed satisfactorily during last year. At the end of 1992, 90 per cent of the construction work was completed and the remaining work is expected to be completed by the end of April 1993.

3. Rajagiriya

The construction of the workshop which commenced in 1991 was completed in March 1992. The construction of a new two-storeyed building adjacent to this workshop was deferred on the instructions of the Ministry of Finance.

4. Kataragama

The construction work on Circuit Bungalow cum Pilgrim Rest for the Central Bank employees and a Branch Office for RRDB, Moneragala District commenced in March, 1992. As at end of 1992, 90 per cent of the construction work of circuit bungalow consisting of 3 bedrooms, was completed. The pilgrim rest comprised 3 units with 2 double rooms per unit is scheduled to be completed before the end of first half of 1993. The branch office of RRDB, Moneragala District with a floor area of 1,900 sq.ft. which is now in progress at the same premises is expected to be completed in 1993.

Multi-Storeyed Car Park

The construction of the multi-storeyed car park commenced in March 1990 was completed in March 1992. This car park, a first of its kind in Sri Lanka was designed and constructed by the Bank's Technical Staff with outside labour obtained on contractual basis at a cost of about Rs. 10 million.

WELFARE

The Bank continued to extend the following welfare facilities to its employees.

1. Housing Loan Scheme
2. Staff Benefit Scheme
3. Vehicle Loan Scheme
4. Medical Benefit Scheme
5. Provident Fund Loan Scheme

The loan entitlements under the Housing and Vehicle Loan Schemes and the benefits under the Medical Benefit Scheme were increased in 1992.

The Central Bank canteen continued to make breakfast and lunch available to employees at cost price. Tea was served in the morning and evening to all the officers in all the Departments of the Bank. The Canteen also provided catering services at official functions.

The Bank Clinic has a Doctor in full attendance during office hours on all working days. In addition, there is also a pharmacy and a Path.Lab. attached to the Medical Clinic.

PERSONNEL

The Governor, Dr. H.N.S. Karunatilake, attended the following conferences and meetings upto June 30, 1992.

- (1) The 27th Conference of the SEACEN Governors held in Kuala Lumpur, Malaysia.
- (2) The 20th Board Meeting of the Asian Clearing Union held in Kathmandu, Nepal.
- (3) The commonwealth Central Bank Governors' Conference held in London, U.K. and the Annual Meeting of the Bank of International Settlements in Basle, Switzerland.

Mr. H.B. Disanayaka who succeeded Dr. H.N.S. Karunatilake as Governor with effect from July 1, 1992, attended the Governors' Symposium of the 19th SEANZA Central Banking Course held in Tokyo, Japan and also visited Jakarta to meet the Governor of the Bank of Indonesia.

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

Appointments

Mr. W.A. Wijewardena, Acting Additional Superintendent of Currency was appointed Acting Superintendent of Currency with effect from October 29, 1991.

Mr. S. Rupasinghe, Deputy Director of Management Audit was appointed Acting Additional Director Management Audit with effect from February 21, 1992.

Mr. W.S.L. Fernando, Deputy Superintendent of Public Debt was appointed Acting Additional Superintendent of Public Debt with effect from February 21, 1992.

Mrs. M.N.R. Cooray, Deputy Director of Rural Credit was appointed Acting Additional Director of Banking Development with effect from February 21, 1992.

Mr. C.K. Paranavithana, Deputy Superintendent of Currency was appointed Acting Additional Superintendent of Currency with effect from February 21, 1992.

Mr. G.A. Perera, Director of Premises was appointed Acting Director of Security Services with effect from May 13, 1992.

Dr. M.U.A. Tennakoon was appointed Director of Rural Banking & Staff Training College with effect from July 03, 1992.

Mr. J.E.D. Karunaratne , Acting Additional Director of Rural Banking & Staff Training College was appointed Acting Additional Director of Supervision of Non-Bank Financial Institutions with effect from July 03, 1992.

Dr. A.C. Randeni attached to the Governor's Research Unit was appointed Superintendent of Public Debt & Registrar of Public Debt with effect from July 17, 1992.

Mr. G.M.P.D. De Silva, Adviser was appointed Executive Director with effect from August 01, 1992.

Dr. L.E.N. Fernando was appointed Executive Director with effect from August 01, 1992.

Mr. P.M. Nagahawatte was appointed Executive Director with effect from August 01, 1992.

Mr. H.A.G. Hettiarachchi, Acting Additional Secretary was appointed Acting Director of Establishments with effect from August 20, 1992.

Mr. S. Rupasinghe, Acting Additional Director of Management Audit was appointed Acting Additional Director of Establishments with effect from August 20, 1992.

Mr. T.S.N. Fernando was appointed Director of Banking Development with effect from October 19, 1992.

Mr. C.E. Jayasuriya, Director of Banking Development was appointed Secretary with effect from October 29, 1992.

Mr. T.G. Savundranayagam, Director of Training was appointed Director of Development Finance with effect from December 08, 1992.

Mr. S. Rupasinghe, Acting Additional Director of Establishments was appointed Acting Director of Premises with effect from December 08, 1992.

Mr. W.S.L. Fernando, Acting Additional Superintendent of Public Debt was appointed Acting Additional Director of Rural Credit with effect from December 08, 1992.

Mr. T.H.D. Peiris, Additional Director of Welfare was appointed Director of Welfare with effect from December 08, 1992.

Mr. S. Pattividana, Director of Welfare was appointed Director of Training with effect from December 08, 1992.

Mr. G.A. Perera, Director of Premises and Acting Director of Security Services was appointed Director of Security Services with effect from December 08, 1992.

Officers on Release (as at December 31, 1992)

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

Mr. A.S. Jayawardena to the Ministry of Industries, Science and Technology as Secretary.

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

Mr. N.A. Dharmabandu to the Central Bank of Myanmar as Adviser to the Governor.

Dr. (Mrs.) R. Jayamaha to Presidential Commission on Finance and Banking as Secretary.

Messrs. C. Liyanage, W.A.D.E. Weerasinghe, N.M. Dayaratne, L.A. Mahendran, K.M. Abeykoon, T.W. Ariyaratne and Miss. K. Saravanamuttu to the Ministry of Finance.

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

Mr. D.B. Jayasuriya to the Prime Minister's Office.

Retirements / Resignations

Mr. S.W.P. Amarasuriya, Executive Director retired from the Bank service with effect from July 31, 1992.

Mr. W. Jayasena, Secretary retired from the Bank service with effect from October 29, 1992.

Mr. K.G. Dharmasena, Director of Establishments retired from the Bank service with effect from November 28, 1992.