

MONEY AND BANKING

MONEY SUPPLY

Overall Trends

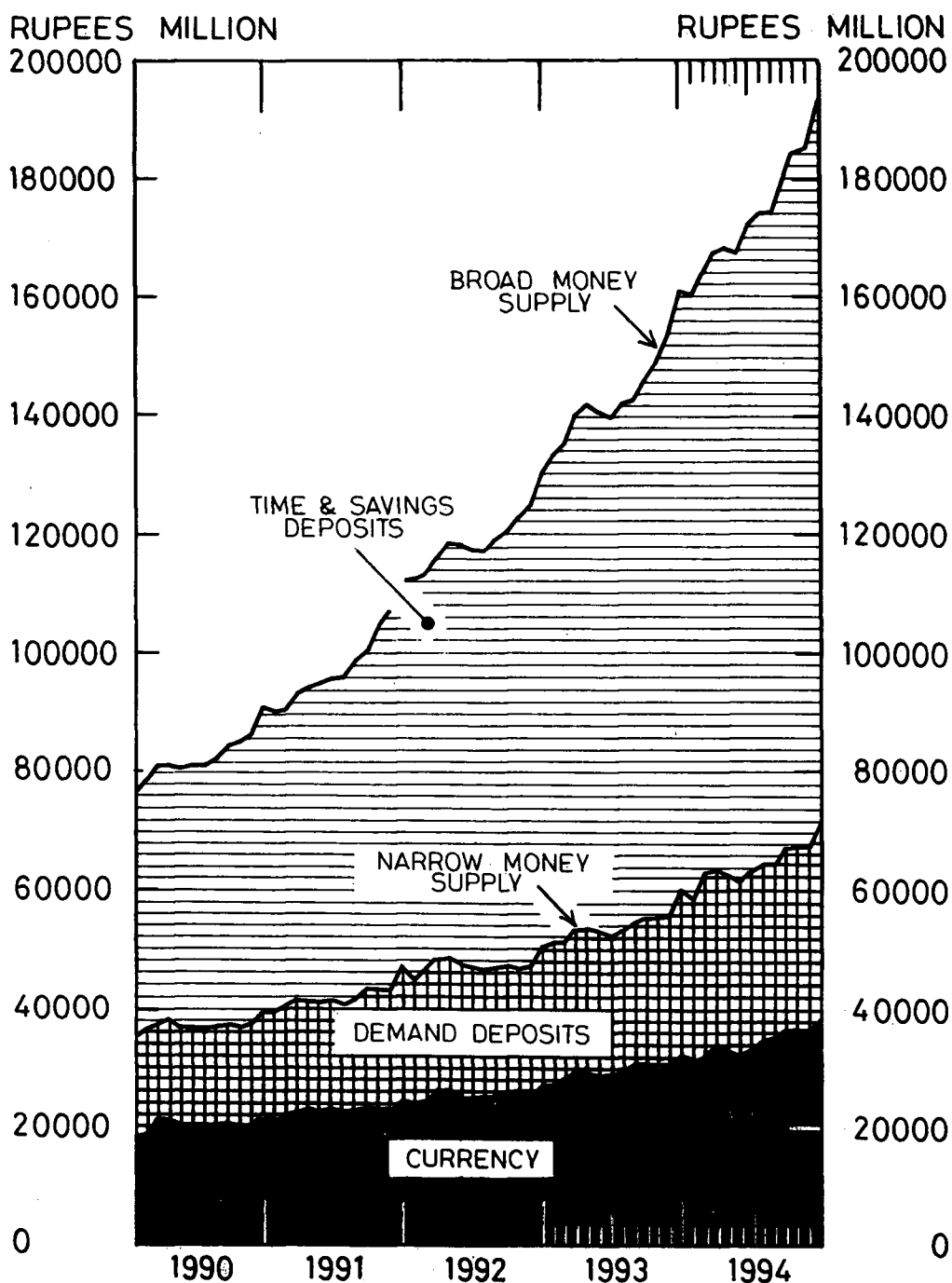
The rate of growth of money supply continued to remain high during 1994 underscoring a persistently high demand pressure in the economy. The Narrow Money Supply (M_1), which recorded an annual growth of 19 per cent at the end of the year, remained at the same rate of growth registered in 1993, while the rate of growth of Broad Money Supply (M_2) moderated to 19.6 per cent in 1994 from the 23.5 per cent growth a year ago. Although there was some moderation in the growth of money supply during January-May 1994, monetary growth on average, remained persistently high throughout the year.

A sustained rise in domestic credit was the prime cause for the continued high monetary expansion during 1994. Under the impact of private sector credit growth of 21 per cent and public sector net credit expansion of 4 per cent, domestic credit rose sharply by 14.7 per cent compared to a growth of 3.5 per cent at the end of the previous year. However, reflecting a lower surplus in the overall balance of payments, the growth in net foreign assets (NFA) moderated at 37.7 per cent as against a sharp rise of 87.9 per cent in 1993, easing pressure on monetary expansion.

The monetary base (consisting of currency issued and deposits of commercial banks and government agencies with the Central Bank) expanded by 20.5 per cent (Rs.11,588 million) and reached Rs.68,055 million at the end of the year, in comparison with the high growth of 25.9 per cent (Rs.11,609) recorded in the previous year. On the source side, the accumulation of net foreign assets with the Central Bank, which grew by Rs.14,288 million, continued to be the main contributory factor for the expansion in reserve money. A reduction in Net Domestic Assets (NDA) of the Central Bank by Rs.2,700 million, mainly through the issuance of Central Bank securities, and a gradual reduction in Central Bank refinance credit, helped to contain the increase in reserve money to Rs.11,588 million in 1994. The increase in reserve money during the previous year was Rs.11,609 million. However, as a consequence of the higher growth rate in reserve money in relation to the growth rate in money supply (M_2), the money multiplier - the ratio between money supply and the monetary base - declined marginally from 2.86 at the end of 1993 to 2.84 at the end of 1994 underpinning a strong preference for transaction demand for money as was evident in the rise in the currency/deposit ratio from 24.8 per cent in 1993 to 25.2 per cent in 1994.

In spite of high liquidity in the economy, the ability of the Central Bank to conduct intensified open market operations during 1994 was constrained by a depleted stock of Treasury bills in the Bank's portfolio. With this constraint, the Central Bank continued to issue its own securities to mop up excess liquidity, while allowing market clearance of all maturing Treasury bills that were re-issued at the primary Treasury bills auctions. Moreover, the Statutory Reserve Ratio (SRR), which was raised to 15 per cent in August 1993 in respect of rupee deposit liabilities as well as foreign currency deposit liabilities, was kept at the same level. However, the SRR applicable on foreign currency deposits placed abroad was reduced to 5 per cent in February 1994 with a view to encouraging commercial banks to increase their foreign currency holdings abroad and thereby reducing the pressure on reserve money expansion. In addition, the Central Bank also terminated short term refinance credit and refrained from granting new credit under the Medium and Long Term Credit Fund (MLCF) to moderate the liquidity expansion.

MONEY SUPPLY MONTHLY



Central Bank of Sri Lanka.

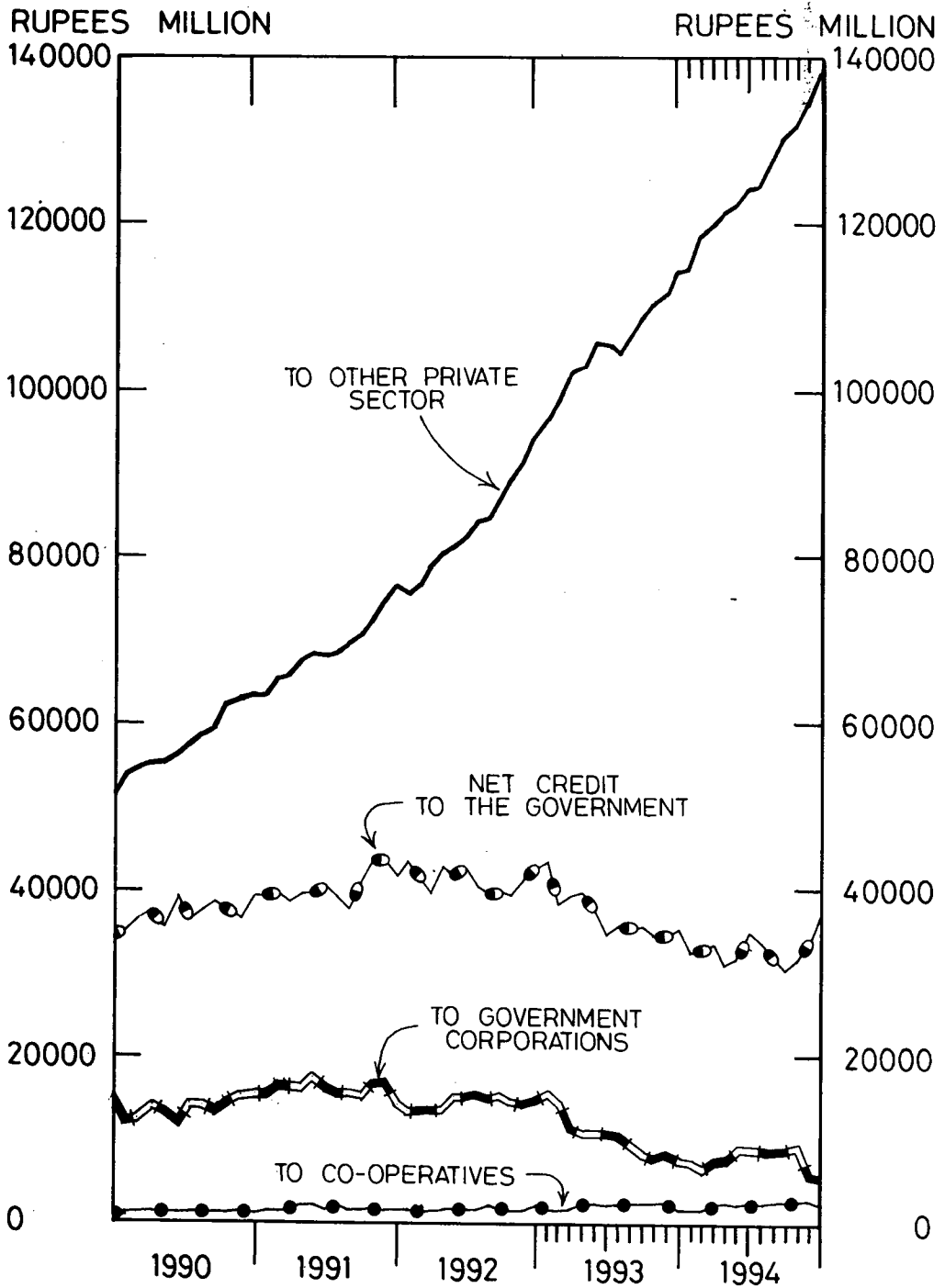
TABLE 1.65
Monetary Aggregates 1992 – 1994

(Rs. Million)

End of Period	Narrow Money Supply (M ₁)						Broad Money Supply (M ₂)					
	1992	1993	1994	% Change 1992 over 1991	% Change 1993 over 1992	% Change 1994 over 1993	1992	1993	1994	% Change 1992 over 1991	% Change 1993 over 1992	% Change 1994 over 1993
January	44,833	51,582	58,607	+12.3	+15.1	+13.6	112,367	133,234	160,310	+24.6	+18.6	+20.3
February	46,128	51,519	63,133	+14.1	+11.7	+22.5	113,572	135,238	164,598	+25.0	+19.1	+21.7
March	48,312	53,869	63,763	+15.4	+11.5	+18.4	116,193	140,062	167,443	+23.9	+20.5	+19.5
April	48,492	53,954	62,337	+17.1	+11.3	+15.5	118,710	142,177	168,155	+25.9	+19.8	+18.3
May	47,304	53,003	61,484	+14.8	+12.0	+16.0	118,398	140,838	167,719	+24.2	+19.0	+19.1
June	47,007	52,465	63,082	+13.0	+11.6	+20.2	117,627	139,508	172,529	+22.3	+18.6	+23.7
July	46,208	53,443	64,099	+13.3	+15.7	+19.9	117,513	142,054	174,109	+21.8	+20.9	+22.6
August	46,687	54,073	64,232	+11.6	+15.8	+18.8	119,144	143,054	174,951	+20.4	+20.1	+22.3
September	47,285	55,149	66,866	+ 9.3	+16.6	+21.2	120,447	146,286	179,287	+18.2	+21.5	+22.6
October	46,758	55,693	67,798	+ 8.3	+19.1	+21.7	122,975	149,584	184,336	+16.7	+21.6	+23.2
November	47,107	55,996	67,813	+ 9.2	+18.9	+21.1	125,090	154,153	185,792	+15.8	+23.2	+20.5
December	50,490	60,104	71,520	+ 7.3	+19.0	+19.0	130,701	161,362	192,990	+16.6	+23.5	+19.6
Monthly Average	47,218	54,238	64,561	12.0	+14.9	+19.0	119,395	143,963	174,352	+21.1	+20.6	+21.1

Source : Central Bank of Sri Lanka

DOMESTIC CREDIT MONTHLY



Central Bank of Sri Lanka

TABLE 1.66
Monetary Aggregates and Underlying Factors 1992 - 1994

(Rs. Million)

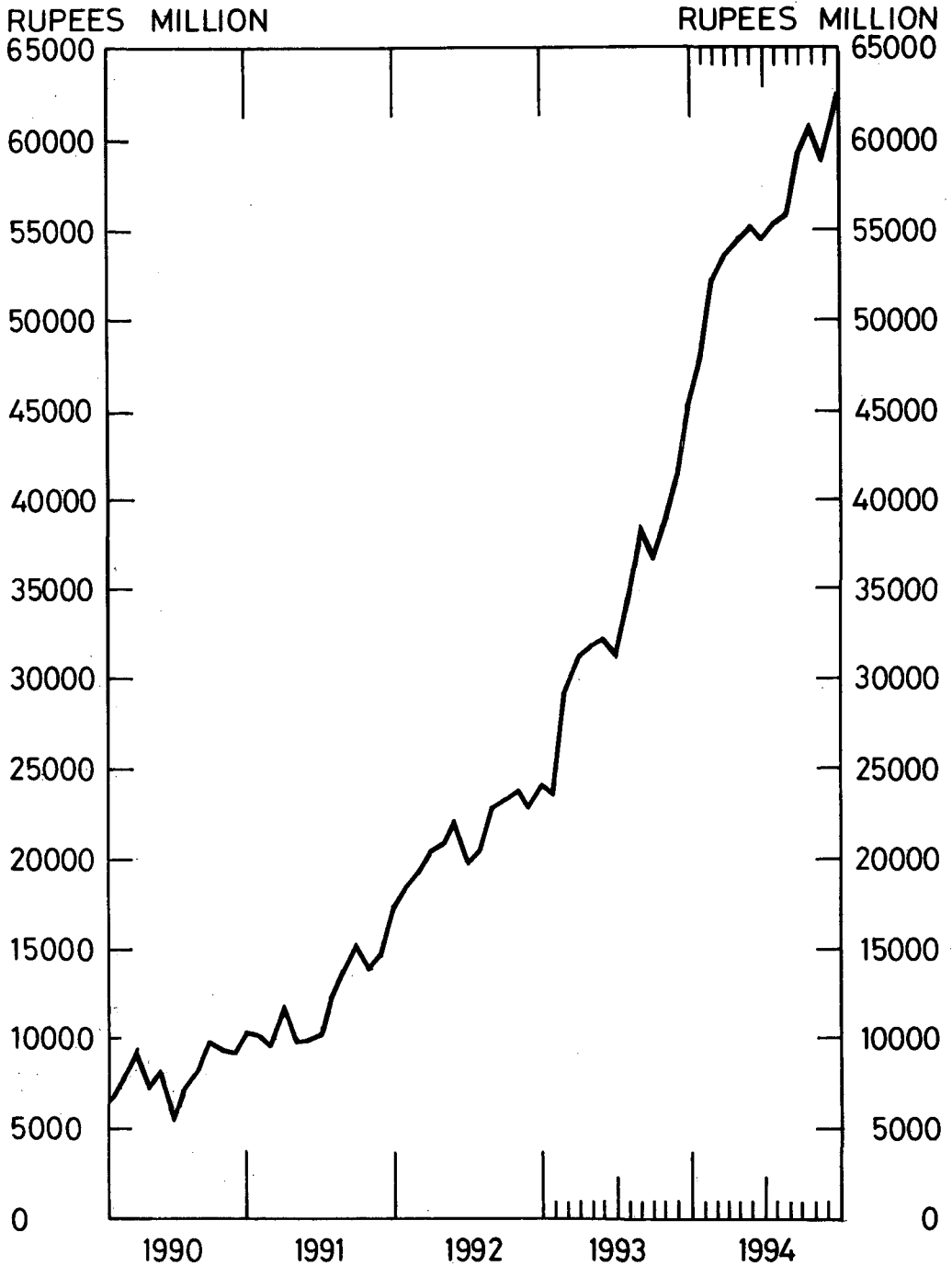
Item	Dec. 1992	Dec. 1993	Dec. 1994	Change 1992 / 1993		Change 1993 / 1994	
				Amount	Percentage	Amount	Percentage
Monetary Aggregates							
1. Currency held by the public	27,280	32,133	38,906	+ 4,853	+ 17.8	+ 6,773	+ 21.1
2. Demand deposits held by the public	23,210	27,971	32,614	+ 4,761	+ 20.5	+ 4,643	+ 16.6
Narrow Money Supply (M ₁)	50,490	60,104	71,520	+ 9,614	+ 19.0	+ 11,416	+ 19.0
3. Time and Savings Deposits of the private sector held with commercial banks	80,211	101,258	121,470	+ 21,047	+ 26.2	+ 20,212	+ 20.0
3.1 Co-operative Institutions	2,714	3,287	3,781	+ 573	+ 21.1	+ 495	+ 15.1
3.2 Government Corporations	7,391	10,287	13,236	+ 2,896	+ 39.2	+ 2,949	+ 28.7
3.3 Other Private Sector Constituents (a)	70,106	87,684	104,452	+ 17,578	+ 25.1	+ 16,768	+ 19.1
Broad Money Supply (M ₂)	130,701	161,362	192,990	+ 30,661	+ 23.5	+ 31,628	+ 19.6
Underlying Factors							
1. Domestic Credit	153,347	158,709	182,044	+ 5,362	+ 3.5	+ 23,336	+ 14.7
1.1 Net Credit to Government	42,350	35,004	36,397	- 7,346	- 17.3	+ 1,393	+ 4.0
1.1.1 Gross Credit to Government	54,090	43,110	48,500	- 10,980	- 20.3	+ 5,390	+ 12.5
by Central Bank	40,604	24,810	27,818	- 15,794	- 38.9	+ 3,008	+ 12.1
by Commercial Banks	13,486	18,300	20,682	+ 4,814	+ 35.7	+ 2,382	+ 13.0
1.1.2 Government deposits and cash balances	11,740	8,105	12,103	- 3,634	- 31.0	+ 3,998	+ 49.3
1.2 Gross Credit to Private Sector	110,997	123,704	145,647	+ 12,707	+ 11.4	+ 21,943	+ 17.1
1.2.1 Co-operative Institutions	2,021	1,903	2,541	- 118	- 5.8	+ 638	+ 33.5
1.2.2 Government Corporations	14,750	7,775	5,163	- 6,975	- 47.3	- 2,612	- 33.6
1.2.3 Other Private Sector Constituents	94,226	114,026	137,943	+ 19,800	+ 21.0	+ 23,917	+ 21.0
2. External Banking Assets (net)	24,162	45,400	62,502	+ 21,238	+ 87.9	+ 17,102	+ 37.7
2.1 Central Bank (net)	21,049	45,725	60,013	+ 24,676	+ 117.2	+ 14,288	+ 31.2
2.2 Commercial Banks (net)	3,113	-325	2,489	- 3,438	- 110.4	+ 2,814	+ 865.9
3. Other Items (net)	-46,808	-42,747	-51,557	+ 4,062	+ 8.7	- 8,810	- 20.6
3.1 Other Liabilities (net) of Central Bank	-19,903	-17,170	-20,341	+ 2,733	+ 13.7	- 3,171	- 18.5
3.2 Other Liabilities (net) of Commercial Banks	-25,721	-20,335	-24,314	+ 5,386	+ 20.9	- 3,979	- 19.6
3.3 Adjustments for items in transit	- 1,184	- 5,242	- 6,902	- 4,058	- 342.7	- 1,660	- 31.7
Broad Money Supply (M ₂)	130,701	161,362	192,990	+ 30,661	+ 23.5	+ 31,628	+ 19.6

Note: Signs indicate the effect on M₂.

(a) Excludes Non-Resident Foreign Currency Deposits.

Source: Central Bank of Sri Lanka

EXTERNAL BANKING ASSETS (NET)
MONTHLY



Central Bank of Sri Lanka.

Money Supply and Causal Factors

The Narrow Money Supply (M_1), comprising currency and demand deposits held by the public, at Rs.71,520 million at the end of 1994, was an increase of 19.0 per cent (Rs.11,416 million). A growth of 19.0 per cent (Rs.9,614 million) was experienced in the previous year as well. Reflecting a strong preference for transaction demand for money, currency in circulation grew by 21 per cent (Rs.6,773 million) as against a rise of 18 per cent (Rs.4,853 million) in 1993, while demand deposits rose by 17 per cent (Rs.4,643 million) compared to a growth of 21 per cent (Rs.4,761 million) in the previous year. Accordingly, the share of currency in circulation in M_1 rose from 53 per cent in 1993 to 54 per cent at the end of 1994.

Meanwhile, in response to aggressive deposit mobilization efforts of commercial banks, time and savings deposits (quasi-money) held by the public with commercial banks grew by 20 per cent (Rs.20,212 million) compared with an increase of 26 per cent (Rs.21,047 million) in 1993. As in the previous years, a large share of the increase in deposits was contributed by a rise in deposits of private sector constituents, which rose by 19 per cent (Rs.16,768 million). Time and savings deposits of government corporations and co-operative institutions grew by 29 per cent (Rs.2,949 million) and 15 per cent (Rs.495 million), respectively. Accordingly, the Broad Money Supply (M_2), consisting of M_1 plus time and savings deposits held by the public, expanded by 19.6 per cent in 1994.

The high growth of credit to the private sector was the major contributory factor for high monetary expansion in 1994. Despite a reduction in credit to public corporations, domestic credit recorded a high growth of 14.7 per cent (Rs.23,336 million) in comparison to the 3.5 per cent (Rs.5,362 million) increase in the previous year largely due to a high credit growth of 21 per cent (Rs.23,917 million) to private sector constituents.

Domestic credit expansion was also further fuelled by a 4.0 per cent (Rs.1,393 million) rise in net credit to government (NCG) extended by the banking system in 1994 in contrast to a significant decline of 17 per cent (Rs.7,346 million) in 1993. In spite of a build up of government deposits by Rs.1,011 million and a reduction in cash items in process of collection by Rs.237 million, NCG from the Central Bank increased by Rs.1,760 million due to increased Treasury bill holdings of the Central Bank by Rs.1,145 million and an increase in provisional advances to the government of Rs.1,863 million, reflecting the adverse fiscal situation in 1994. Meanwhile, NCG from commercial banks declined during the period under consideration. Although there was an increase in gross credit to government from commercial banks by Rs.2,382 million, with an increase in government deposit balances by Rs.2,986 million, NCG from commercial banks declined by Rs.604 million.

Bank credit to public corporations declined by 33.6 per cent (Rs.2,612 million) in 1994. Reflecting an improved financial position largely due to lower international prices for crude oil, credit utilized by the Ceylon Petroleum Corporation (CPC) declined by Rs.2,400 million in contrast to an increase of Rs.416 million in 1993. In spite of a reduction in the wholesale price of wheat flour sold by the Co-operative Wholesale Establishment (CWE) in July and again in August 1994, bank borrowings of the CWE increased only marginally by Rs.67 million due to favourable international wheat prices, particularly during the early part of the year, and the availability of wheat grain under concessional arrangements. Outstanding advances to the Ceylon Cement Corporation declined by Rs.384 million as a result of the privatisation of this corporation. Meanwhile, total bank credit to co-operative institutions increased from Rs.1,903 million in 1993 to Rs.2,541 million in 1994.

Under the impact of a surplus in the overall balance of payments position for the fifth consecutive year, the NFA of the banking system recorded a further rise of 37.7 per cent (Rs.17,102 million) during the year compared to a growth of 87.9 per cent (Rs.21,238 million) in 1993. NFA of the Central Bank rose by Rs.14,288 million, while those of commercial banks expanded by Rs.2,814 million.

In the composition of the foreign reserve of the Central Bank, investments in foreign securities and Treasury bills rose by Rs.14,374 million, while cash and balances abroad declined by Rs.4,985 million. On the liabilities side, deposits of international organizations increased by Rs.4,139 million, mainly due to the receipt of the first tranche under the third year Enhanced Structural Adjustment Facility (ESAF) arrangements with the International Monetary Fund in support of the ongoing policy reforms aimed at restructuring the economy.

The increase in NFA of the commercial banks was mainly due to the increases in deposits with the FCBUs and deposit balances with banks abroad. Gross foreign assets of commercial banks registered a rise of 24.8 (Rs.6,350 million) and reached Rs.31,917 million as at end 1994. Meanwhile, gross foreign liabilities of commercial banks rose by 13.7 per cent (Rs.3,536 million). The increase in liabilities was confined to a rise in foreign currency deposits by 15.4 per cent (Rs.3,602 million) compared to an increase in such deposits by 29.5 per cent (Rs.5,322 million) in 1993. Accordingly, the net foreign assets of commercial banks rose from a negative level of Rs.325 million at the end of 1993 to Rs.2,489 million at the end of 1994 indicating a turn around in the net foreign assets position of the commercial banks.

COMMERCIAL BANKING

Overall Trends

Commercial banking activity expanded during the year with increased deposits and an improved capital base. An improvement in the net foreign assets (NFA) position of commercial banks was a noteworthy feature observed in 1994. The role of privately owned commercial banks continued to strengthen, deepening further competition in the banking system in the country during the period under review. The share of state banks in total assets of commercial banks, which declined from 67 per cent in 1990 to 64 per cent in 1993, further declined to 62 per cent in 1994. Similarly, the share of deposits of the two state banks in total deposit liabilities of commercial banks, which declined to 61 per cent in 1993 from 68 per cent in 1990, further dropped to 60 per cent in 1994.

Under the influence of a sustained increase in deposit liabilities, the commercial banking system continued to remain liquid during 1994. Liquid assets of commercial banks increased by 18.5 per cent (Rs.12,204 million) in 1994 compared to a rise of 23.4 per cent (Rs.12,504 million) in the previous year. The expansion in liquid assets was mainly through increases in foreign balances, cash on hand and investments in Treasury bills. Reflecting a slower increase in liquid assets in relation to deposit liabilities during the year, the ratio of liquid assets to demand deposits dropped from 190.8 per cent at the end of 1993 to 187.4 per cent at the end of 1994, while the ratio of liquid assets to total deposits fell marginally from 40.6 per cent to 40.2 per cent.

Structure of Assets and Liabilities

The total assets/liabilities of commercial banks (excluding contra items) expanded by 15 per cent (Rs.37,162 million) during the year, in comparison to a higher increase of 32 per cent (Rs.59,397 million) in the previous year. There were also some structural changes in assets and liabilities of commercial banks. The share of liquid assets in total assets rose from 27.0 per cent in 1993 to 27.8 per cent in 1994. The shares of foreign assets and investments in government securities and other instruments also rose from 8.4 per cent and 8.0 per cent in 1993, to 9.5 per cent and 9.3 per cent, respectively, in 1994. The share of fixed assets declined from 21 per cent in 1993 to 17.9 per cent in 1994 while the share of total loans and advances remained unchanged at 51 per cent. On the liabilities side, the share of demand deposits increased from 14.2 per cent to 14.8 per cent while time and savings deposits rose from 51.1 per cent to 53 per cent of total liabilities. While the share of paid up capital in total liabilities rose by 1 percentage point to 10 per cent, the share of other liabilities declined from 21.1 per cent to 17.6 per cent.

TABLE 1.67

Selected Items of Assets and Liabilities of Commercial Banks 1993 – 1994

(Amount in Rs. Million)

Item	Average of Monthly Figures		End of Period	
	1993	1994	1993	1994
Cash on Hand and Deposits at Central Bank (inclusive of Statutory Reserve Requirements)	18,172	23,365	20,562	25,389
Foreign Balances	19,653	22,353	20,529	26,804
Treasury Bills	11,230	13,957	14,274	15,143
Bills Discounted	10,712	10,904	10,541	10,773
Total Liquid Assets	59,766	70,578	65,905	78,109
Total Investments (a)	3,188	8,531	5,176	10,861
Total Loans and Overdrafts (b)	109,667	42,160	114,641	132,447
Demand Deposits (c)	31,810	37,377	34,543	41,678
Time and Savings Deposits (d)	114,058	138,600	127,919	152,601
Total Deposits	145,868	175,977	162,462	194,279
Ratio of:	%	%	%	%
Cash to Demand Deposits	57.1	62.5	59.5	60.9
Cash to Total Deposits	12.5	13.3	12.7	13.1
Foreign Balances to Total Deposits	13.5	12.7	12.6	13.8
Treasury Bills to Total Deposits	7.7	7.9	8.8	7.8
Commercial Bills Discounted to Total Deposits	7.3	6.2	6.5	5.5
Liquid Assets to Demand Deposits	187.9	188.8	190.8	187.4
Liquid Assets to Total Deposits	41.0	40.1	40.6	40.2
Investments to Total Deposits	2.2	4.8	3.2	5.6
Loans and Overdrafts to Total Deposits	75.2	24.0	70.6	68.2

Source: Central Bank of Sri Lanka

(a) Government and Government Guaranteed Securities, Central Bank Securities and Private Securities and excluding Treasury Bills.

(b) Excluding bills discounted.

(c) Excludes domestic inter-bank deposits.

(d) Includes sums of Rs. 3,174 million and Rs. 3,719 million being long term deposits mobilised by the two state banks under the special savings schemes in 1993 and 1994, respectively.

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

TABLE 1.68

Sources and Uses of Resources of Commercial Banks 1992 – 1994

(Rs. Million)

Category	End 1992 / 1993		End 1993 / 1994	
	Sources	Uses	Sources	Uses
1. Government Sector	-	7,584.3	604.3	-
Holdings of Govt. Securities	-	3,391.3	-	1,410.6
Deposits	-	2,770.5	2,985.8	-
Import Bills	-	904.8	-	397.6
Short-Term Credit	-	659.4	-	604.8
Overdrafts	141.7	-	31.5	-
2. Central Bank	-	5,644.4	-	9,850.2
Borrowings	240.2	-	-	1,789.2
Reserves	-	3,662.2	-	4,468.0
Investment in Central Bank Securities	-	1,612.0	-	3,234.0
Till Cash	-	610.4	-	359.0
3. Government Corporations	9,870.8	-	5,107.4	-
Deposits	2,896.0	-	2,495.9	-
Advances	6,974.8	-	2,611.5	-
4. Co-operatives	690.7	-	-	142.8
Deposits	572.8	-	494.9	-
Advances	117.9	-	-	637.7
5. Other Domestic Private Sector	8,299.4	-	-	1,687.0
Deposits*	28,099.9	-	22,229.9	-
Local Bills	22.2	-	-	2.7
Import Bills	-	1,601.2	332.5	-
Overdrafts	-	5,747.5	-	7,066.8
Loans	-	11,528.9	-	13,658.4
Investments in Securities and Bonds	-	945.1	-	3,521.5
6. Inter-Bank Transactions	480.5	-	2,024.8	-
Balance with Domestic Banks	-	644.5	-	1,179.4
Deposits and Borrowings with Domestic Banks	1,125.0	-	3,204.2	-
7. Foreign Sector	-	2,286.8	-	2,723.5
Borrowings	11.9	-	16.7	-
Deposits	106.9	-	3,610.5	-
Foreign Balances including Export Bills	-	2,405.6	-	6,350.7
8. Other Assets and Other Liabilities	-	3,825.9	6,667.0	-
Capital and Reserves	11,983.0	-	6,427.5	-
Fixed and Other Assets	-	32,940.9	2,753.4	-
Other Liabilities	17,132.0	-	-	2,513.9
Total Net Sources / Uses	19341.4		14403.5	

Source : Central Bank of Sri Lanka

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

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

Further analysis of liabilities disclosed that increases in deposits, capital base and domestic inter-bank borrowings were the main contributors to the enhancement of the resource base of commercial banks. There was a total deposit build-up of Rs.31,252 million during the year, which was caused by increases in demand deposits by 20.6 per cent (Rs.7,116 million) and time and savings deposits by 19.3 per cent (Rs.24,137 million). Meanwhile, the capital base, including paid up capital, reserve fund and undistributed profits, increased by 29.4 per cent (Rs.6,428 million) during the year. This was due in part to the banks increasing their capital base to comply with the requirement of the risk weighted capital adequacy ratio under the Basle Agreement. Banks were required to maintain these ratios from 1994. Domestic inter-bank borrowings increased by 15.7 per cent (Rs.1,434 million) while foreign borrowings increased marginally by 0.8 per cent (Rs.16.7 million). Other liabilities of commercial banks dropped by 3.8 per cent (Rs.1,969 million) during the year under review.

The enhanced resource base permitted an expansion in the total asset portfolio during the year. Accordingly, total loans and advances increased by 14.4 per cent (Rs.18,039 million) in comparison to an expansion of 11.1 per cent (Rs.12,547 million) during 1993. Investments in Treasury bills rose by 6 per cent (Rs.869 million), while other investments, including government and government guaranteed securities, Central Bank securities and private securities, increased by 110 per cent (Rs.5,685 million) by the end of 1994. Foreign currency on hand and balances due from banks abroad increased by 30.6 per cent (Rs.6,276 million) during the year.

There was an expansion in liquid assets by 18.5 per cent largely due to increases in foreign balances by 30.6 per cent (Rs.6,276 million), investments in Treasury bills by 6.0 per cent (Rs.869 million) and cash on hand and deposits with the Central Bank by 23.4 per cent (Rs.4,827 million).

Sources and Uses of Funds

Government corporations, the Government, inter-bank transactions and other liabilities, including the capital and reserve base of commercial banks, provided the resource base of commercial banks, while the Central Bank, the foreign sector, the domestic private sector and co-operatives absorbed the resources during 1994.

On the source side, underscoring improved financial performance of major public enterprises, government corporations provided Rs.5,107 million worth of funds to the commercial banking system through increased deposits with banks amounting to Rs.2,496 million and reduced advances. Advances to government corporations decreased by Rs.2,612 million during the year 1994, mainly due to a reduction in the loans outstanding to the Ceylon Petroleum Corporation by 69.6 per cent (Rs.2,400 million).

The Government sector became a net supplier of funds to the commercial banks providing Rs.604 million in 1994, as against a net utilisation of Rs.7,584 million in 1993. This was mainly due to an increase in government deposits by Rs.2,986 million. Meanwhile, banking sector investments in government securities increased by Rs.1,411 million, in addition to providing advances on import bills and short term credit to the tune of Rs.1,002 million.

Inter-bank transactions contributed Rs.2,025 million to the commercial banks' cash flow in 1994 in comparison to an amount of Rs.481 million provided in the previous year. In addition, Rs.6,428 million was injected to the banking system through an enhanced capital and resource base. This was partly due to efforts taken by commercial banks to comply with the requirement to maintain a minimum risk weighted capital adequacy ratio of 8 per cent, after March 1994.

The Central Bank's monetary policy actions resulted in an absorption of a major share of resources from commercial banks in 1994, taking away Rs.9,850 million on a net basis. With high statutory reserve requirements, commercial bank reserves held with the Central Bank increased by Rs.4,468 million, consonant with the increased deposit base of commercial banks. In the context of

TABLE 1.69
Commercial Banks Advances* Classified by Purpose and
According to Maturity 1993 – 1994

(Amount in Rs. Million)

Category		Short Term (below 1 year)		Medium Term (1 to 5 years)		Long Term (Over 5 years)		Total	
		(1) Amount Rs. Mn.	(2) (1) as % of (7)	(3) Amount Rs. Mn.	(4) (3) as % of (7)	(5) Amount Rs. Mn.	(6) (5) as % of (7)	(7) Amount Rs. Mn.	(8) (7) as % of Grand Total
A. Trading									
December	1993	43,851.9	72.3	10,248.3	16.9	6,511.4	10.7	60,610.6	47.3
March	1994	41,693.5	73.9	10,042.0	17.8	4,682.7	8.3	56,418.2	42.3
June	1994	44,238.9	74.0	11,054.6	18.5	4,509.1	7.5	59,802.6	44.1
September	1994	45,452.8	72.6	11,835.1	18.9	5,292.5	8.5	62,580.4	43.9
B. Financial									
December	1993	4,186.2	72.4	1,049.0	18.1	548.2	9.5	5,783.4	4.5
March	1994	3,798.4	55.6	2,657.4	38.9	381.8	5.6	6,837.6	5.1
June	1994	3,458.0	58.6	2,056.8	34.8	390.9	6.6	5,905.7	4.4
September	1994	3,422.0	54.5	2,244.6	35.7	617.2	9.8	6,283.8	4.4
C. Agricultural									
December	1993	5,308.6	59.3	1,847.3	20.6	1,793.6	20.0	8,949.5	7.0
March	1994	5,390.2	63.8	1,788.2	21.2	1,263.9	15.0	8,442.3	6.3
June	1994	6,427.7	66.7	1,951.7	20.2	1,261.4	13.1	9,640.8	7.1
September	1994	6,991.2	69.4	1,913.2	19.0	1,174.6	11.7	10,079.0	7.1
D. Industrial**									
December	1993	12,067.1	65.4	2,583.4	14.0	3,799.8	20.6	18,450.3	14.4
March	1994	12,233.5	67.7	2,503.0	13.8	3,340.5	18.5	18,077.0	13.6
June	1994	13,018.2	72.1	2,818.4	15.6	2,219.8	12.3	18,056.4	13.3
September	1994	13,551.9	69.5	3,468.5	17.8	2,488.3	12.8	19,508.7	13.7
E. Tourism									
December	1993	963.2	44.8	504.3	23.5	682.9	31.8	2,150.4	1.7
March	1994	970.9	50.9	419.3	22.0	516.6	27.1	1,906.8	1.4
June	1994	1,084.5	55.3	362.6	18.5	515.3	26.3	1,962.4	1.4
September	1994	998.3	50.2	466.8	23.5	524.2	26.4	1,989.3	1.4
F. Housing									
December	1993	3,111.2	21.8	3,792.2	26.6	7,379.8	51.7	14,283.2	11.1
March	1994	3,068.3	17.9	3,854.2	22.4	10,260.0	59.7	17,182.5	12.9
June	1994	3,299.7	18.3	4,216.0	23.4	10,514.1	58.3	18,029.8	13.3
September	1994	3,622.2	18.6	4,429.1	22.8	11,383.3	58.6	19,434.6	13.6
G. Consumption									
December	1993	4,205.3	64.2	1,366.4	20.9	980.7	15.0	6,552.4	5.1
March	1994	10,348.5	78.7	1,391.4	10.6	1,409.6	10.7	13,149.5	9.9
June	1994	7,587.7	67.1	1,480.2	13.1	2,235.0	19.8	11,302.9	8.3
September	1994	7,676.9	70.0	1,610.7	14.7	1,677.6	15.3	10,965.2	7.7
H. Other Loans									
December	1993	5,816.4	50.7	3,606.3	31.4	2,057.7	17.9	11,480.4	9.0
March	1994	5,751.1	50.8	3,384.3	29.9	2,176.9	19.2	11,312.3	8.5
June	1994	7,059.0	64.9	2,520.9	23.2	1,292.8	11.9	10,872.7	8.0
September	1994	7,458.8	63.2	3,062.4	25.9	1,284.3	10.9	11,805.5	8.3
I. Total									
December	1993	79,508.9	62.0	24,997.2	19.5	23,754.1	18.5	128,260.2	100.0
March	1994	83,254.4	62.4	26,039.8	19.5	24,032.0	18.0	133,326.2	100.0
June	1994	86,173.7	63.6	26,461.2	19.5	22,938.4	16.9	135,573.3	100.0
September	1994	89,174.1	62.5	29,030.4	20.4	24,442.0	17.1	142,646.5	100.0

Source: Central Bank of Sri Lanka

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

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

TABLE 1.70
Advances* by Type of Security – December, 1993 - September, 1994

Item	31st December 1993		31st March 1994		30th June 1994		30th September 1994	
	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total	Amount (Rs. Mn.)	% of Total
1. Documentary Bills	7,584.7	5.9	6,931.6	5.2	5,760.0	4.2	7,830.7	5.5
2. Government Securities	3,662.6	2.9	5,457.6	4.1	6,805.0	5.0	6,426.0	4.5
3. Shares of Joint Stock Companies, Bonds, Debentures Sundries including Cash Value of Life Policies	3,650.4	2.8	3,955.8	3.0	6,117.9	4.5	4,634.0	3.2
4. Fixed, Saving & Other Cash Deposits and CDs	14,071.5	11.0	12,547.7	9.4	12,017.4	8.9	13,363.9	9.4
5. Stocks in Trade	12,386.7	9.7	9,050.2	6.8	11,264.4	8.3	12,634.0	8.9
6. Immovable Property, Plant & Machinery	27,687.7	21.6	34,370.3	25.8	33,182.0	24.5	35,016.6	24.5
7. Personal Guarantees and Pro Notes	17,829.8	13.9	19,422.5	14.6	21,348.3	15.7	23,405.4	16.4
8. Trust Receipts	8,442.2	6.6	7,465.7	5.6	5,767.4	4.3	5,484.8	3.8
9. Hire Purchase Agreements	1,880.3	1.5	2,067.9	1.6	1,808.4	1.3	1,775.6	1.2
10. Tractor & Motor Vehicles	2,182.9	1.7	2,287.2	1.7	2,220.6	1.6	2,155.2	1.5
11. Other Securities	22,243.5	17.3	20,048.1	15.0	21,207.2	15.6	18,698.1	13.1
12. Unsecured	6,637.9	5.2	9,721.6	7.3	8,074.7	6.0	11,222.2	7.9
T O T A L	128,260.2	100.0	133,326.2	100.0	135,573.3	100.0	142,646.5	100.0

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

Source : Central Bank of Sri Lanka

a depleted stock of Treasury bills, the Central Bank continued issuing its own securities in 1994 with a view to containing monetary expansion and this policy action resulted in commercial banks investing Rs.3,234 million in Central Bank securities during 1994. Moreover, the termination of short term refinance facilities and restraint on medium and long term refinance credit by the Central Bank with a view to containing reserve money expansion contributed to a reduction of commercial banks' borrowings from the Central Bank by Rs.1,789 million. However, a deterioration in the Government's fiscal operations towards the end of the year led to an increase in the Central Bank's holdings of government and government guaranteed securities, which includes Treasury bills, by Rs.1,145 million.

In spite of low interest rates that prevailed in 1994, commercial banks mobilized Rs.22,230 million through deposits from the domestic private sector, while recording a cash outflow to the domestic private sector by way of loans and advances which amounted to Rs.20,395 million. Meanwhile, investments in private sector securities and bonds by commercial banks grew by Rs.3,522 million. The use of resources by the private sector exceeded its injection to the banking system by Rs.1,687 million during 1994.

As in the previous year, the foreign sector was a net user of funds, absorbing Rs.2,724 million of commercial bank resources in 1994. The resources provided by the foreign sector through deposits and loans increased by Rs.3,627 million, while the resources used by the foreign sector by way of increases in balances held abroad by commercial banks rose by Rs.6,351 million. Meanwhile, the co-operative sector utilized Rs.143 million on a net basis in 1994, in contrast to an injection of Rs.691 million in the previous year.

Meanwhile, as growth in total deposits (19.6 per cent or Rs.31,252 million) continued to outpace growth in total loans and advances (14.4 per cent or Rs.18,039 million), the commercial banking sector remained in a deposit surplus position during the year. The ratio of total loans and advances to total deposits declined from 78.6 per cent at the end of 1993 to 75.1 per cent at the end of 1994. Following the previous years' trend, commercial bank credit to the private sector proper grew by 21 per cent (Rs.23,917 million) in 1994.

Distribution of Commercial Bank Loans and Advances¹

Total outstanding loans and advances of commercial banks to the private sector, public enterprises and co-operative institutions registered a growth of 15.3 per cent (Rs. 18,978 million) during the twelve months ending September 1994, compared to a growth of 15.7 per cent (Rs.16,823 million) in the corresponding period of 1993. Commercial banks increased their lending to all sectors of the economy during this period. The bulk of loans and advances was of a short term nature and was disbursed for trading purposes.

A significant share (44 per cent) of total loans and advances was channelled to finance trading activities consisting of exports, imports and domestic trade. In this category, 73 per cent of loans and advances were in the form of short term advances. Credit outstanding of the Trade sector rose only by 3 per cent (Rs.2,177 million) in 1994 compared with a growth of 29 per cent (Rs.13,443 million) in 1993.

A notable feature in the twelve month period ending September 1994 was that credit to the Industrial sector grew by 14 per cent (Rs.2,343 million), in contrast to a decrease of such credit by 8 per cent (Rs.1,536 million) in the corresponding period in 1993. The share of credit outstanding of this sector remained at 14 per cent of total loans and advances. The majority of loans granted for industrial purposes fell into the short term category, which accounted for 70 per cent of total loans outstanding of the industrial sector. Meanwhile, the share of medium term credit outstanding for industrial purposes increased from 15 per cent at end September 1993 to 18 per cent at end

^{1/} The analysis of this section is based on data for the first three quarters of 1994.

September 1994. Commercial bank credit outstanding in respect of housing and property development accounted for 14 per cent of total bank loans as at end September 1994 and stood at Rs. 19,435 million, registering an increase of 38 per cent (Rs.5,354 million) over the value at the end of September 1993. The major share of advances for housing and property development fell into the long term category (59 per cent).

The use of credit by the Agriculture sector in 1994 grew by 10 per cent (Rs.883 million) as against a decline of 20 per cent (Rs.2,316 million) in 1993. The share of agricultural credit in total outstanding loans and advances was 7 per cent at end September 1994. Meanwhile, credit to the financial sector, amounting to Rs.6,284 million, accounted for 4 per cent of the total credit outstanding at end September 1994.

Underscoring the high demand for consumption oriented lending, credit for consumption purposes, including consumer durables and other personal needs, rose by 87 per cent (Rs.5,113 million) compared to a 33 per cent (Rs.1,457 million) rise in the previous year. Credit for this purpose accounted for 8 per cent of the total credit outstanding at the end of September 1994 compared to 5 per cent at the end of September 1993.

As at end September 1994, 36 per cent of commercial bank loans and advances carried interest rates in the range of 21-25 per cent. In comparison, 45 per cent of loans and advances outstanding were in this interest rate category as at end September 1993. Meanwhile, 23 per cent of loans and advances had interest rates in the range of 18-20 per cent as in the previous year. The share of loans and advances earning interest rates within a range of 26-30 per cent was 19 per cent compared to 17 per cent in 1993. According to a securitywise classification of advances, significant increases were recorded in advances granted against immovable property, personal guarantees, deposit accounts, documentary bills and stock in trade.

CENTRAL BANKING

Overall Trends

The monetary base (reserve money or high powered money) increased from Rs.56,467 million at the end of 1993 to Rs.68,055 million at the end of 1994. Reflecting a slower growth of net foreign assets in the Central Bank, the expansion in the monetary base moderated to 20.5 per cent in 1994 from 25.9 per cent in 1993.

Net international reserves of the Central Bank reached Rs.60,013 million at the end of 1994, recording a 31.2 per cent increase. This was largely due to increased remittances from abroad and increased income earned on investment of the international reserves. The Central Bank further reduced its net domestic assets from Rs.10,742 million at the end of 1993 to Rs.8,042 million at the end of 1994. On the liabilities side, currency in circulation increased by Rs.7,132 million (19.8 per cent) while commercial bank deposits rose by Rs.4,366 million (21.3 per cent).

Structure of Assets and Liabilities

The total assets/liabilities of the Central Bank, at Rs.155,958 million at the end of 1994, was an increase of 16.7 per cent (Rs.22,324 million). The increase in the previous year was 32 per cent (Rs.32,380 million).

On the assets side, the increase was mainly through a build up of external assets of the Bank. The external assets, comprising cash and bank balances abroad, foreign securities and Treasury bills and holdings of Special Drawing Rights (SDR) rose from Rs.76,694 million at the end of 1993 to Rs.95,671 million at the end of 1994. Foreign securities and Treasury bills rose by Rs.24,374 million (41.8 per cent) and stood at Rs.82,648 million at the end of the year. Cash and balances abroad, amounting to Rs.13,007, recorded a decrease of Rs.5,394 million (29.3 per cent) while

Special Drawing Rights (SDR) holdings decreased by Rs.2.4 million (12.4 per cent) to Rs.16.5 million.

Domestic assets comprising loans and advances to government, loans to commercial banks, government guaranteed securities and other assets, rose by Rs.3,346 million in 1994. Continued open market operations through the sale of Treasury bills from the Central Bank's portfolio resulted in a reduction in the holding of government and government guaranteed securities during the first eleven months of the year. However, a deterioration in the Government's fiscal operations led to the issue of Treasury bills in December 1994 to the tune of Rs.3,000 million, but a seasonal decline in market liquidity reduced private sector investment in Treasury bills during the month. Consequently, the Central Bank's holdings of government and government guaranteed securities increased by Rs.1,145 million by December to reach Rs.5,099 million at the end of 1994.

Credit to government on account of the Central Bank's provisional advances and government securities, net of government deposit balances, increased by Rs.1,998 million during 1994. Furthermore, loans to credit institutions (long term, medium term and short term) decreased from Rs.4,903 million in 1993 to Rs.3,376 million in 1994. A major decline was recorded in the short term loans category (short term refinance) from Rs.753 million at the end of 1993 to Rs.72 million at the end of 1994. Consequent to the termination of short term refinance credit and the curtailment of the MLCF, overall credit on account of Central Bank refinance schemes, net of the change in provisions for loan losses of Rs.271 million, declined by Rs.1,256 million during 1994.

On the liabilities side, the amount of Central Bank securities outstanding rose from Rs.2,155 million in 1993 to Rs.3,740 million in 1994 (73.0 per cent) as a result of open market operations. Deposit liabilities on account of international organizations and foreign governments and foreign banking institutions rose from Rs.30,969 million in 1993 to Rs.35,658 million (15 per cent) in 1994. This was mainly due to an increased liability on account of disbursements under the third year Enhanced Structural Adjustment Facility (ESAF III) of the IMF and annual revaluation adjustments in the IMF accounts with the Central Bank. Meanwhile, domestic liabilities increased by Rs.17,634 million. Commercial bank deposits with the Central Bank under the statutory reserve requirement increased by 21 per cent (Rs.4,366 million) and currency in circulation rose by Rs.7,132 million (19.8 per cent) during 1994. Other liabilities increased from Rs.40,399 million at end 1993, to Rs.43,885 million at end 1994.

MONETARY POLICY

In the wake of a sustained high growth in monetary aggregates, the Central Bank was compelled to pursue a tight monetary policy stance during 1994, although the Bank's ability to conduct aggressive open market operations was hampered by a depleted stock of Treasury bills in its portfolio. The Central Bank thus relied on the issue of its own securities to the market to mop up excess liquidity. The Bank also terminated its short term refinance facilities and refrained from granting new financing facilities under the medium and short term credit funds, except for troubled finance companies, with a view to containing the expansion of reserve money. In addition, the high Statutory Reserve Ratio (SRR) of 15 per cent on deposit liabilities imposed in August 1993 was maintained throughout 1994 to reduce credit expansion.

In the context of the limited scope for conducting open market operations through Treasury bills, the Central Bank issued its own securities with 3 - 6 month maturity to mop up excess liquidity. Consequently, the outstanding liabilities on account of Central Bank Securities rose from Rs.2,155 million at the end of 1993 to Rs.3,740 million at the end of 1994. The average yield on Central Bank Securities was in a range of 12.06-18.37 per cent.

The continued open market operations also enabled the Central Bank to reduce its holdings of Treasury bills from a level of Rs.3,949 million at the end of 1993, to Rs.31 million at the end of

September. However, the Central Bank's holdings of Treasury bills increased by December 1994 to Rs.5,093 million due to the deterioration in government fiscal operations.

As a further means of restraining the growth of reserve money, the Central Bank terminated its short term refinance facility. In the process, refinance facilities under the New Comprehensive Rural Credit Scheme (NCRCS) and the Export Credit Refinance Scheme were terminated. The grant of new credit facilities under the Medium and Long Term Credit Fund (MLCF) was also curtailed.

The refinance facility under the NCRCS was terminated with effect from 31 March 1994. However, arrangements were made to provide an interest subsidy by the Government to the lending institutions participating in the NCRCS in respect of agricultural credit extended under the Scheme. Export credit refinance facilities provided in respect of pre-shipment credit provided by commercial banks were terminated with effect from 31 May 1994. Consequent to these changes, short term refinance provided by the Central Bank declined from Rs.753 million at the end of December 1993 to Rs.72 million at the end of December 1994.

The Central Bank also refrained from granting new credit under the MLCF although requests for refinance from distressed finance companies continued to be accommodated, the amount of funds provided however being curtailed. A sum of Rs.263 million was granted in 1994 for this purpose while Rs.4 million was received as repayments. Consequently, the outstanding level of refinance facilities granted to distressed finance companies under the MLCF rose from Rs.2,045 million at the end of 1993 to Rs.2,304 million at the end of 1994. All in all, these measures brought down the overall outstanding refinance under both short term facilities and the MLCF from Rs.4,903 million at the end of 1993, to Rs.3,376 million at the end of 1994, a decrease of Rs.1,256 million, net of an increase in provisions for loan losses of Rs.271 million.

In order to contain the expansion of domestic credit, the Central Bank maintained the SRR on deposit liabilities at a high level of 15 per cent. However, with a view to encouraging commercial banks to build up their foreign currency assets, thus reducing the pressure on reserve money growth, the SRR on foreign currency deposits placed abroad was lowered to 5 per cent with effect from 18 February 1994. The continuation of a high statutory reserve ratio was conducive to reducing the money multiplier from 2.86 in December 1993 to 2.84 in December 1994.

INTEREST RATES

Overall Trends

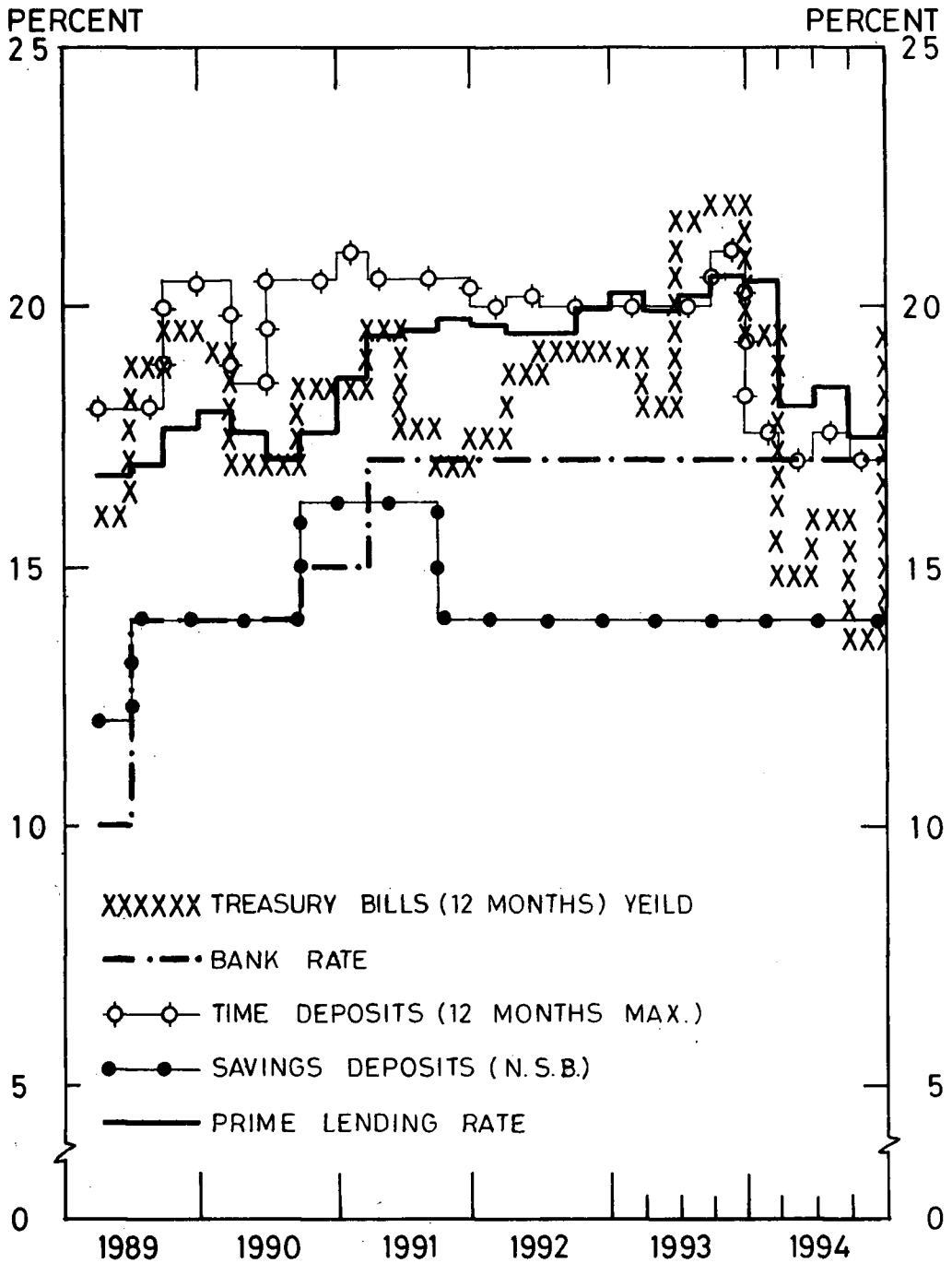
Short term interest rates fluctuated in a wide range during the year. Continued high liquidity conditions in the economy in the context of a depleted stock of Treasury bills in the Central Bank portfolio led to a sharp fall in short term interest rates during the first two months of 1994. With the tightening of liquidity conditions through the issues of Treasury bills and Central Bank Securities during the following months, short term interest rates moved in an upward direction until May 1994. This was followed by another fall that continued until October due to increased liquidity following a rise in foreign inflows. A slowing down in foreign inflows and increased government borrowing caused short term interest rates to rise sharply in the last two months of the year. However, medium and long term rates remained at levels lower than the rates in 1993.

Short Term Rates

A significant variation in foreign inflows, government fiscal operations and a rapid depletion of Treasury bills in the Central Bank's portfolio resulted in a considerable degree of volatility in interest rates during the year.

The surge in foreign capital inflows experienced in 1993 continued into the early part of 1994, generating considerable liquidity in the domestic money market. With a limited holding of Treasury

INTEREST RATES END QUARTERLY FIGURES



Central Bank of Sri Lanka.

bills in its portfolio, the ability of the Central Bank to engage in open market operations to absorb excess liquidity was seriously constrained. Thus, despite the net issue of the Central Bank's own securities worth Rs.635 million and a reduction in Treasury bills held by the Central Bank by Rs.3,908 million by end February 1994, the excess liquidity in the market led to a drop in the average yields on Treasury bills. Accordingly, the average yield on 3-month Treasury bills dipped to 14.43 per cent by the end of February 1994 from 18.09 at the beginning of the year, while the 6-month Treasury bill rate fell to 14.88 per cent, from 18.47 per cent and the 12-month rate fell to 15.63 per cent from 19.38 per cent. These represented a drop of about 3.75 percentage points in the average yield of Treasury bills within a period of two months.

This fall in interest rates continued into the middle of March. However, the new issue of Rs.1,400 million worth of Treasury bills in March 1994 and the issue of Rs.686 million worth of Central Bank Securities in March served to arrest this downward trend. Further issues of Treasury bills and Central Bank Securities in April and May were conducive to sustaining the upward trend in interest rates. Consequently, by the end of June, the average yield rate on 3-month Treasury bills rose to 15.39 per cent, while the yield on 6-month and 12-month bills had risen to 15.62 per cent and 15.87 per cent, respectively.

Increased liquidity conditions witnessed during July led to a downward movement in interest rates in subsequent months. Depleted stocks of Treasury bills in the Central Bank and the non-renewal of maturing short term Central Bank Securities caused the yield on 3-month Treasury bills to decline to 11.58 per cent and on 12-month bills to 12.20 per cent by October 1994.

The last two months witnessed a drastic reversal of this trend, following the slowing down of foreign capital inflows and fresh demand for Treasury bills to the tune of Rs.3,000 million from the Government to meet its cash needs in December 1994. Meanwhile, the Central Bank was compelled to intensify its open market operations to dampen the high rate of growth of monetary aggregates through the issue of Rs.2,510 million of its own Securities. These factors saw a steep rise in interest rates in December 1994. By the end of December, the yield on 3-month Treasury bills rose to 18.73 per cent, while the 6-month and 12-month rates rose to 19.29 per cent and 19.43 per cent, respectively. Thus, within the two months from end October to end December, interest rates on 3-month, 6-month and 12-month bills rose by 7.15 - 7.58 percentage points. However, in spite of the sharp rise in the yield on Treasury bills, the Central Bank's holdings of Treasury bills increased from Rs.1,433 million at the end of October, to Rs.5,093 million at the end of December, fuelling reserve money expansion. The most noteworthy development in the Treasury bill market during 1994 was the over subscription of Primary Treasury bill auctions on most occasions.

Meanwhile, the repurchase market introduced by the Central Bank in October 1993, partly to prevent excessive fluctuations in inter-bank call money market rates, succeeded, in general, in preventing drastic declines in rates. However, at certain times when the portfolio of bills held by the Central Bank was exhausted, significant drops in the call money rates were observed. Call market rates, which were in the range of 16.50-18.50 per cent at the end of December 1993, had declined, but to a wider range of 05.00-15.00 per cent, by the end of March. The Central Bank's overnight repurchase yield rate had also been gradually reduced from 16.5 per cent at the end of 1993 to 12.00 per cent by the end of March, in line with market developments. The overnight repurchase rate was maintained at this level, with minor variations, until mid-September. Call money rates at this time were at very low levels and hence the overnight repurchase rate was further decreased in steps to 7.00 per cent by mid-October. Call market rates were in the range of 04.00-08.00 per cent in the middle of September, but rose gradually to a range of 12.25-13.50 per cent by the end of October. The lack of market liquidity in the last two months of the year was also reflected in the call money market with rates rising to a range of 13.00-17.00 per cent at the end of November and to 20.00-23.00 per cent at the end of December. The Central Bank's overnight repurchase rate was also raised, reaching 13.75 per cent at the end of November and 20.00 per cent at the end of December.

The yield rates on Central Bank Securities moved with market trends. The yield on 6-month securities offered during January was 18.37 per cent. This declined gradually to 14.79 per cent by May. In the last few months of the year when only 3-month securities were offered, the interest rate rose from 13.00 per cent at the beginning of October, to 14.70 per cent at the end of November.

The interest rates offered on National Savings Bank (NSB) savings deposits remained at 14.0 per cent throughout the year. Rates on fixed deposits, which were in the range of 16.0-17.0 per cent, were maintained at this level until December, when they were reduced to 14.0 per cent. The deposit rates of commercial banks, which declined towards the end of 1993, continued to decline in 1994. The time deposits of commercial banks varied in a range of 8.00-18.25 per cent at the end of 1994 compared to 10.00-19.00 at the end of 1993, while those on savings deposits remained in a range of 5.5-13.0 per cent as against 6.0 - 15.0 per cent in 1993. Underscoring these developments the Average Weighted Deposit Rate (AWDR) fell from 13.6 per cent at the end of December 1993 to 12.6 per cent at the end of December 1994. Consequently, the Average Weighted Prime Lending Rate (AWPR) of commercial banks also declined from 20.4 per cent at the end of 1993 to 16.9 per cent at the end of October 1994 but rose to 17.8 per cent by the end of the year in line with the upturn in Treasury bill yield rates.

Long term Rates

The long term rates were in general lower during 1994 than in 1993, following the general downward trend in short term rates. The interest rates for government securities with 3 - 5 year maturities were 14.0-16.0 per cent, compared to 16.0-17.0 per cent in 1993. During 1994, twenty one issues of government securities were made. Longer term rupee securities with maturity periods of 6 and 7 years were also floated during this period, carrying interest rates in the range of 14.0-15.75 per cent.

During the period January-May, four year securities were floated at 15.0 per cent while five and six year maturities were issued at 14.0 per cent and 14.75 per cent. During the latter part of the year, four year securities were floated at 14.0 per cent. Six year securities were floated at a lower rate of 14.5 per cent in October 1994 as against 15.75 per cent in June 1994.

Meanwhile, lending rates of long term credit institutions decreased by 1-2 percentage points, although some rates remained at the same level. The lending rate of the DFCC declined marginally to a range of 18.0-22.0 from 18.0-24.0 per cent. The lending rate of the National Savings Bank (NSB) for housing purposes dropped by 1 percentage point to from 19.0-22.0 to 18.0-21.0 per cent while the lending rate of the National Housing Development Authority (NHDA) under the Housing Guarantee Low Income Shelter Programme continued to remain at 20.5 per cent. The State Mortgage and Investment Bank, which charged rates based on the size of the loans, maintained its rates in the range 20.5-22.0 per cent. The refinance rate under the Small and Medium Scale Industries (SMI-IV) Scheme, which is fixed on the basis of the AWDR of commercial banks, was reduced from 13.7 at the end of 1993 to 13.6 per cent at the close 1994.

BANKING DEVELOPMENT

Branch Expansion

The total number of commercial banks operating in Sri Lanka remained unchanged at 23 in 1994 but their branch network continued to expand. Domestic commercial banks opened 27 new branches while foreign banks established two new main branches and a sub branch during the year. Consequently, the total number of commercial bank branches expanded from 845 in 1993 to 875 in 1994. The total number of Regional Rural Development Banks (RRDBs) too remained unchanged at 17 though the RRDB branch network broadened from 163 in 1993 to 169 in 1994. Meanwhile, the National Savings Bank increased its branch network from 85 at the end of the previous year to

TABLE 1.71
Distribution of Bank Branches 1992 – 1994

Category	1992	1993	1994
1. No. of Institutions	39	40	40
1.1 No. of Commercial Banks	23	23	23
1.1.1 No. of Domestic Banks	6	6	6
1.1.2 No. of Foreign Banks	17	17	17
1.2 No. of RRDBs ^(a)	16	17	17
2. No. of Branches ^(b)	1,051	1,093	1,134
2.1 No. of Commercial Bank Branches	811	845	875
2.1.1 No. of Domestic Bank Branches ^(c)	782	812	839
2.1.1.1. No. of A.S.C Branches	34	29	27
2.1.2 No. of Foreign Bank Branches	29	33	36
2.2 No. of RRDB Branches	156	163	169
2.3 No. of NSB Branches	84	85	90

Source : Central Bank of Sri Lanka.

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

(b) Includes Head Offices.

(c) Includes Extension Offices, Kachcheri branches, Pay Offices, ASC branches and Overseas branches.

90 at the end of 1994. With these changes, the total number of bank branches rose from 1,093 in 1993 to 1,134 in 1994. As a result, banking density, *i.e.*, the total number of bank branches for each 10,000 population, increased from 0.6210 in 1993 to 0.6349 in 1994.

During the year, People's Bank (PB) opened three new branches in Kurunegala, Nugegoda and Mount Lavinia and re-opened its Karaitivu branch, while closing its Inner Harbour branch in Trincomalee, thus increasing the total number of its branches to 323. Bank of Ceylon (BOC) opened a new branch at York Street, Colombo, named the Taprobane branch, to maintain government accounts, which were previously handled by the Metropolitan branch, while upgrading its Agrarian Service Centre (ASC) branches in Wariyapola and Padavi-Parakramapura, thus raising its total number of main branches from 259 to 262 at the end of 1994. In addition, BOC established three extension offices at the Development Lottery Centre, Colombo 2, the University of Moratuwa and the Department of Immigration and Emigration. The Kachcheri branch at Polonnaruwa was amalgamated with the Polonnaruwa New Town branch. With these changes, the total number of BOC branches increased to 337 by the end of December 1994.

Hatton National Bank (HNB) Ltd., opened three new branches - in Monaragala, Kiribathgoda and at D.S. Senanayake Mawatha, Colombo 8, during the year, expanding its branch network to 54. Commercial Bank of Ceylon Ltd., opened three new branches in Minuwangoda, Panadura and at Keyzer Street, Colombo 11, increasing its total number of branches to 34. Sampath Bank Ltd. added three new branches to its total branch network. Seylan Bank Ltd., broadened its branch network significantly by opening eight new branches in Welimada, Kochchikade, Pettah, Beliatta, Malabe, Matugama, Warakapola and Colombo South. Meanwhile, Seylan Bank Ltd., upgraded five of its sub-branches operating in Raddolugama, Ganemulla, Weliweriya, Kotagala and Bogawantalawa.

The Hongkong and Shanghai Banking Corporation established a sub-branch in Borella. ANZ Grindlays Bank plc. established a branch in Kandy while Habib Bank AG. Zurich Ltd., upgraded its money changers unit at Kollupitiya to a main branch during the year.

The Badulla RRDB opened four new branches at Meegahakivula, Lunugala, Haldumulla and Girandurukotte while the Gampaha and Kegalle RRDBs established branches in Minuwangoda and Yatiyantota, respectively. Consequently, the RRDB branch network (including Head Office branches) rose from 163 at the end of 1993 to 169 at the end of 1994. During the period under review, the National Savings Bank (NSB) opened five branches in Kamburupitiya, Kotahena, Vavunia, Trincomalee and Balangoda, thus raising the total number of its branches to 90.

Agency Banking

The two state banks engaged in agency banking activities through the Praja Naya Niyamaka (PNN) Scheme during the year 1994. Bank of Ceylon and People's Bank appointed 119 and seven PNNs respectively, during the year, raising the total number of PNNs recruited by the two state banks from 10,250 at the end of 1993 to 10,376 at the end of December 1994. Under this scheme, People's Bank extended credit facilities by Rs.5 million during the year. However, its total outstanding credit under this scheme decreased from Rs.202 million at the end of 1993 to Rs.72 million at the end of 1994. Meanwhile, Bank of Ceylon granted Rs.4 million in 1994 and its total outstanding credit under this scheme stood at Rs.229 million at the end of 1994. The total outstanding loans granted by Sampath Bank Ltd., under its Sampath Seva Sanyojaka (SSS) Scheme was Rs.11.5 million, while 76 Sampath Seva Sanyojakas were in employment as at the end of 1994.

Service Facilities

Service facilities provided by commercial banks were further enhanced during 1994. The main service facilities enhanced by commercial banks during the period were electronic money transfer facilities, Automated Teller Machines (ATMs), credit cards, foreign exchange banking facilities and new deposit and loan schemes.

The SWIFT (Society for World-wide Inter-bank Financial Telecommunication) network, which facilitates trade finance, foreign exchange operations, custodial services and transfer payments, was inaugurated in Sri Lanka in 1994. The majority of commercial banks became members of the SWIFT system during the year. Another electronic money transfer facility was implemented by Seylan Bank Ltd., in collaboration with the Saudi American Bank (SAMBA).

The ATM network of commercial banks was further improved in 1994 facilitating cash withdrawals, inter-account fund transfers, balance inquiries, cash/cheque deposits, message transmission, stop payment orders, cheque book requisitions etc. Seylan Bank Ltd., introduced its Automated Teller Card, the SMART card, to the market during the year. The total number of ATMs operated by eight banks grew by 32 during the year and stood at 109 at the end of 1994. Commercial Bank of Ceylon Ltd., introduced another financial facility named 'COMTEL', which enables its customers to make inquiries on balances, rates of interest on various deposit instruments and loan schemes and exchange rates and to leave messages for the bank, by using a telephone.

During the period under review, domestic banks introduced new loan schemes to various sectors of the economy. People's Bank began granting overdraft facilities to private sector tea producers for working capital requirements. Facilities under this scheme carry an interest rate of 22 per cent. People's Bank initiated another new credit scheme for the industrial sector. Under this scheme Rs.100 million was granted for small and medium term industrial projects. Hatton National Bank Ltd., and Commercial Bank of Ceylon Ltd., also introduced two loan schemes under the Private Finance Development Project and the Development Finance Loan Scheme, for the purpose of financing industrial projects.

Bank of Ceylon (BOC) introduced the Janasaviya Trust Fund Credit Scheme with a view to providing credit facilities for any income generating activities recommended by non-governmental organizations (NGOs). Commercial Bank of Ceylon Ltd., also granted Janasaviya Trust Fund loans for straw hat manufacturing projects and coir product development projects.

With a view to extending facilities to the rural sector, Hatton National Bank Ltd., launched three credit facilities under the Second Integrated Rural Development Project, in the Badulla District, the Anti-Poverty Lending Projects and Fisherman Community Development Credit Scheme. BOC granted cultivation loans to farmer organizations registered under the Agrarian Services Act, for on lending to their members undertaking cultivation of selected food crops. In addition, BOC implemented a special consumer credit scheme in 1994 as a pilot scheme in the Anuradhapura District. The maximum amount of a loan under this scheme is Rs.5,000/-. Meanwhile, BOC implemented relief measures to defaulters of cultivation loans.

BOC launched a new credit scheme, named the Self Sustaining Solvent Credit Scheme, to provide credit to small scale income generating production activities of entrepreneurs, subject to a maximum limit of Rs.10,000 per family unit.

Sampath Bank Ltd., also introduced a new loan scheme for self-employment projects in Kandy. Loans under this scheme are granted for a period of 36 months, at a rate of 22 per cent and a maximum amount of Rs.15,000. Seylan Bank Ltd., also launched a new loan facility, named the Micro Entrepreneurial Loan Scheme, to facilitate self-employment ventures. Loans under this scheme carry an interest rate of 13 per cent and the maximum amount of loan is Rs. 8 million. Seylan Bank Ltd., introduced a loan scheme for construction and renovation of residential houses named "Ranmaliga Loan Scheme" with a maximum of one million Rupees. In addition, a housing loan scheme for holders of long term deposits was introduced by Seylan Bank Ltd. Under this scheme, deposit holders will be eligible to obtain a housing loan up to the full face value of the deposits.

Hatton National Bank Ltd., introduced a foreign currency deposit scheme called "Singithi Ran Surakum". Under this deposit scheme, accounts could be opened by a person employed abroad for his/her child who is a minor. The minimum deposit in an account is US.\$ 25. Interest on these accounts is paid at 1 percentage point above the prevailing rate for Non-Resident Foreign Currency (NRFC) accounts. Meanwhile, Sampath Bank Ltd., commenced issuing certificates of deposits with four and five year maturities.

Seylan Bank Ltd., introduced a new investment scheme, named "Seylan Plan", which is a retirement pension scheme designed for anyone within the age group of 18-50 years. Meanwhile, several commercial banks acted as bankers to the issue of commercial paper by corporate customers.

CREDIT INFORMATION BUREAU OF SRI LANKA

During 1994, the Credit Information Bureau of Sri Lanka continued to perform its principal functions of collecting credit information, developing the database on borrowers and supplying credit reports on borrowers.

The reporting limits for loan accounts maintained by lending institutions, which were Rs.100,000 for irregular loan accounts and Rs.500,000 for regular loan accounts, remained unchanged. In January 1994, the Bureau improved the updating cycles for loan accounts and commenced updating, on a monthly basis, the irregular loan accounts in a large section of banks and bank branches located in the Western Province. These account for nearly 95 per cent of the all-Island credit volume. The updating interval of regular loan accounts was reduced from six months to three months. The irregular loan accounts of outstation bank branches and finance companies continued to be updated on a half-yearly basis.

By the end of 1994, the database of the Bureau covered 21,371 irregular loan accounts and 31,373 regular loan accounts. An increased interest by lending institutions to utilize the credit information service of the Bureau was noted in 1994. The Bureau responded to 71,623 requests for credit reports in 1994 as against 58,657 in 1993 and 49,577 in 1992.

No change was made in the share capital of the Bureau. At the end of 1994, the issued share capital of Rs.25,000,000, divided into 250,000 shares of Rs.100/- each, was held by 52 shareholders including the Monetary Board of the Central Bank of Sri Lanka (holding 51 per cent), 23 commercial banks (holding amongst themselves 30 per cent) and a third group consisting of the Development Finance Corporation of Ceylon, the State Mortgage & Investment Bank, the National Savings Bank, the National Development Bank and 24 registered finance companies (holding amongst themselves 19 per cent).

RURAL BANKING AND CREDIT

(a) Rural Credit Policy

The year 1994 witnessed a significant change in the rural credit policy in Sri Lanka. Effective from 01 April 1994, the scope of the New Comprehensive Rural Credit Scheme (NCRCS) was modified by substituting a bank financed lending programme with an interest subsidy from the Government, for cheaper Central Bank refinance hitherto available to lending banks. Under the revised Scheme, lending banks commenced lending to farmers out of their own funds, and, in order to maintain lending rates at the prevailing 16 per cent per annum, an interest subsidy of 7.5 per cent was paid by the Treasury. The termination of Central Bank refinance was prompted by the inflationary nature of such refinance and the obviation of the need for such outside funding in view of the improved liquidity position of banks. Accordingly, the new Scheme came into force from Yala 1994. The NCRCS remained unchanged with respect to its other features, such as the roll-over facility and the Central Bank credit guarantee cover.

A notable feature in rural credit policy during the year under review was the announcement by the Government in October 1994 of a relief facility to farmers who had failed to repay their loans to lending banks. Under this relief scheme which became effective from Maha 1994/95, defaulting farmers were permitted to have their loan accounts cleaned by a payment of 25 per cent of the principal sum in default. Once the farmers opted to join this scheme, the balance sum of 75 per cent plus the accumulated interest was to be written-off by banks in a joint programme with the Central Bank and the Government. Such farmers were eligible to receive full credit facilities as in the case of normal borrowers. A limited credit facility to cover the cost of seed and fertilizer was also granted by the two state banks, at the Government's instance, to those who did not opt to make the down-payment of 25 per cent. For such farmers, the credit facility during Maha 1994/95 was limited to Rs.4,000 if the extent of the land cultivated was below two acres and to Rs.8,000 if it exceeded two acres.

(b) New Comprehensive Rural Credit Scheme (NCRCS)

The total volume of credit disbursed by banks under the NCRCS amounted to Rs.976 million in 1994, reflecting an increase of 6.2 per cent over the previous year's disbursement. However, the total number of loans granted under the NCRCS declined from 63,864 in 1993 to 58,836 in 1994. The higher volume of credit disbursed in 1994 could therefore be attributed to the upward revision in the scales of financing of cultivation loans which came into effect in November 1993. Of the total amount of credit disbursed under the NCRCS in 1994, Rs.633 million was provided by banks during the Maha 1993/94 season under the Central Bank Refinance Facility, while Rs.343 million was disbursed by banks utilizing their own funds during the Yala 1994 season. The latter disbursements were eligible for an interest subsidy of 7.5 per cent per annum provided by the Government. The major share of the loans granted under the NCRCS was for the cultivation of paddy, which accounted for 69 per cent of the total credit disbursed in 1994. The balance 31 per cent was disbursed for the cultivation of subsidiary food crops.

Although the total number of cultivation loans granted for the Maha season declined sharply from 43,929 in 1992/93 to 38,868 in 1993/94, the total amount of credit disbursed rose by 5 per cent to Rs.633 million in Maha 1993/94. There was a reduction in the number of loans granted for

TABLE 1.72
Cultivation Loans Granted Under the New Comprehensive Rural Credit Scheme
(Position as at 31. 12. 1994)

(Rs. Million)

Season	People's Bank			Bank of Ceylon			Hatton National Bank			Reg. Rural Dev. Banks			Commercial Bank of Ceylon Ltd.			Seylan Bank			Mul. Purpose Co-op. Societies			Total Loans		Total Loans under NCRCS
	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	Total	Paddy	Subsidiary food crops	
1990/91 Maha	165.3	20.4	185.7	228.4	52.2	280.6	13.0	3.9	16.9	105.0	27.6	132.6	0.2	0.1	0.3	-	-	-	-	-	-	511.9	104.2	616.1
1991 Yala	66.3	88.8	155.1	103.9	57.4	161.3	3.1	12.9	16.0	49.1	53.9	103.0	-	0.5	0.5	-	-	-	-	-	-	222.4	213.5	435.9
Cultivation Year 1991	231.6	109.2	340.8	332.3	109.6	441.9	16.1	16.8	32.9	154.1	81.5	235.6	0.2	0.6	0.8	-	-	-	-	-	-	734.3	317.7	1,052.0
1991/92 Maha	185.4	28.7	214.1	179.7	65.0	244.7	18.0	5.4	23.4	100.3	49.3	149.6	-	-	-	-	-	-	0.4	0.07	0.5	483.8	148.5	632.2
1992 Yala	38.6	31.8	70.4	57.0	24.8	81.7	0.9	3.9	4.8	37.6	37.7	75.3	-	0.3	0.3	-	-	-	-	-	-	134.0	98.5	232.5
Cultivation Year 1992	224.0	60.5	284.5	236.7	89.8	326.4	18.9	9.4	28.3	137.9	87.0	224.9	-	0.3	0.3	-	-	-	0.4	0.07	0.5	617.8	247.1	864.9
1992/93 Maha	155.2	32.4	187.6	159.4	56.7	216.1	15.6	15.2	30.8	86.5	80.6	167.1	1.6	0.2	1.8	-	-	-	-	-	-	418.3	185.2	603.4
1993 Yala	61.4	47.7	109.1	78.7	28.0	106.7	1.1	4.4	5.5	42.8	50.7	93.5	1.2	1.1	2.3	-	-	-	-	-	-	185.2	131.9	317.1
Cultivation Year 1993	216.6	80.1	296.7	238.1	84.7	322.8	16.7	19.6	36.3	129.3	131.3	260.6	2.8	1.3	4.1	-	-	-	-	-	-	603.5	317	920.5
1993/94 Maha	157.4	34.5	191.9	150.2	50	200.2	20.5	21	41.5	121.9	73.4	195.3	2.9	0.5	3.4	-	0.9	0.9	-	-	-	452.9	180.3	633.2
1994 Yala*	66.9	39.9	106.8	69.2	23.6	92.8	6.7	32.9	39.6	62.4	38.2	100.6	1.7	1.8	3.5	-	-	-	-	-	-	206.9	136.4	343.3
Cultivation Year 1994	224.3	74.4	298.7	219.4	73.6	293	27.2	53.9	81.1	184.3	111.6	295.9	4.6	2.3	6.9	-	0.9	0.9	-	-	-	659.8	316.7	976.5

* The Refinance Scheme was withdrawn in April 1994 and replaced by an Interest Subsidy Scheme.

Sources : Rural Credit Department, Central Bank of Sri Lanka.

TABLE 1.73

Deposits and Advances – Rural Sector*

(Amount Rs. '000)

	Co-operative Rural Banks (CRBs)		Bank of Ceylon sub-offices at Agrarian Services Centres		Regional Rural Development Banks		Thrift and Credit Co-operative Societies	
	1993	1994	1993	1994	1993	1994	1993	1994
1. Total Savings **	5,196,746	6,359,432	366,578	n.a.	1,099,420	1,481,281	1,415,452	1,552,531
1.1 Savings	4,665,514	5,551,550	315,010	n.a.	979,040	1,253,687	1,033,605	1,132,823
1.2 Special Savings	–	–	8,818	n.a.	–	–	254,014	301,569
1.3 Fixed Deposits	531,232	807,882	42,750	n.a.	120,380	227,594	127,833	118,139
2. Total Loans Granted ***	538,881	536,455	233,270	257,892	966,438	1,118,229	1,086,011	1,204,885
2.1 Agriculture	67,495	79,748	88,281	107,903	422,231	379,470	296,188	n.a.
2.2 Animal Husbandry	33,611	18,479	1,922	2,233	31,880	24,503	25,562	n.a.
2.3 Fisheries	–	–	10	12	22,026	29,347	–	n.a.
2.4 Small Industries	32,908	21,024	2,047	2,379	99,528	102,010	38,975	n.a.
2.5 Housing, Electrification and Water Supply	264,208	261,188	10,851	12,607	–	–	76,361	n.a.
2.6 Projects/Commerce	62,813	73,909	86,273	87,771	178,250	215,875	–	n.a.
2.7 Others	77,846	82,107	43,886	44,987	212,523	367,024	648,925	n.a.

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

** Total value of savings as at 31 December.

*** Total value of loans granted during the year.

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

both paddy cultivation and subsidiary food crop cultivation. Credit for paddy cultivation increased from Rs.418 million in Maha 1992/93 to Rs.453 million in Maha 1993/94, whereas credit for subsidiary food crop cultivation declined marginally from Rs.185 million in 1992/93 to Rs.180 million in 1993/94. The total area cultivated under subsidiary food crops during Maha 1993/94 also declined by 2.5 per cent to 35,880 hectares. Floods that prevailed during the Maha season severely curtailed the demand for loans.

The total amount of credit disbursed by banks for the Yala 1994 cultivation season amounted to Rs.343 million, recording an increase of 8.5 per cent over the previous Yala. This was despite the withdrawal of Central Bank refinance facilities for the Yala 1994 season. The total number of loans granted also increased marginally to 19,968 in 1994 from 19,935 in 1993. This was entirely due to an increase in both the amount and the quantity of loans granted for paddy cultivation. Credit disbursed for paddy cultivation amounted to Rs.220 million in 1994 compared with Rs.185 million in 1993, while the number of loans granted totalled 13,058 in 1994 compared with 11,539 in 1993. Credit for the cultivation of subsidiary crops registered a decline in 1994. Loan disbursements for the cultivation of subsidiary food crops amounted to Rs.124 million in 1994 compared to Rs.131 million in 1993, while the number of loans granted dropped from 8,396 in 1993 to 6,910 in 1994.

In view of the shortage of funds experienced by some Regional Rural Development Banks (RRDBs), a special refinance facility of Rs.100 million was extended by Bank of Ceylon and People's Banks to RRDBs during 1994. Under this special facility, RRDBs could obtain refinance from the two state banks at 20 per cent per annum for cultivation loans granted to farmers at 16 per cent per annum. In such cases, the RRDBs were eligible for an interest subsidy of 11.5 per cent per annum from the Government to compensate them for the higher cost of funds. During Yala 1994, the RRDBs utilized Rs.60 million under this facility.

The indemnity paid by the Central Bank under the Credit Guarantee Scheme in respect of loan defaults under the NCRCS amounted to Rs.37 million in 1994, bringing the total indemnity paid to Rs.138 million as at the end of December 1994. Indemnity payments accounted for 50 per cent of the losses incurred by banks for loans granted under the NCRCS.

(c) Agricultural Insurance Board (AIB)

The AIB insured approximately 39,500 hectares of paddy lands during 1994 which was an increase of 20 per cent over the previous year. The premia collected in respect of the area insured amounted to Rs.17 million in 1994, indicating an increase of 18 per cent over 1993. The most significant feature of the AIB operations was the massive increase in indemnity payments which totalled Rs.27 million in 1994 compared with Rs.6 million in 1993. This four-fold increase was due to 100 per cent indemnity payments made by AIB for loan defaults resulting from extensive crop damage caused by floods in the North Central and Eastern Provinces during the 1993/94 Maha cultivation season. Indemnity payments for the Maha season rose to Rs.20 million in 1994 which was double the amount paid by the AIB in 1993.

(d) Credit Facilities to the Rural Sector

Credit to the rural sector is mainly channelled through the Regional Rural Development Banks (RRDBs), Co-operative Rural Banks (CRBs), Bank of Ceylon sub-offices at Agrarian Service Centres (ASCs) and the Thrift & Credit Co-operative Societies (TCCSs). The total quantum of loans disbursed by these institutions amounted to Rs.3.1 billion in 1994, indicating a 10 per cent increase when compared with Rs.2.8 billion in 1993.

Loans granted by the RRDBs, and TCCSs rose by 16 per cent and 11 per cent amounting to Rs.1.1 billion and Rs.1 billion, respectively. However, credit disbursed through the CRBs declined marginally in 1994 to Rs.536 million.

(e) Mobilization of Rural Savings

The savings of the rural sector are primarily mobilised by the CRBs, RRDBs and TCCSs. The total savings mobilised from the rural sector stood at Rs.9.4 billion at year end 1994 compared to Rs.7.7 billion at year end 1993, indicating an increase of 22 per cent. CRBs mobilised the bulk of the rural savings at Rs.6.4 billion, followed by the TCCSs and RRDBs at Rs.1.5 billion each.

OTHER FINANCIAL INSTITUTIONS

Savings Institutions

With the sustained growth in the economy and comparatively higher interest rates offered, the National Savings Bank (NSB) continued to record further growth in the mobilization of savings deposits. The total deposit base of the NSB rose by Rs.11,169 million or 27 per cent to Rs.53,326 million at the end of 1994 as against an increase of Rs.9,280 million or 28 per cent during the previous year. Fixed deposits of varying maturities recorded an increase of Rs.7,575 million (29 per cent) compared to an increase of 25 per cent (Rs.5,131 million) in 1993. Meanwhile, savings deposits increased by Rs.3,595 million (22 per cent). In line with the reduction in Treasury bill yield rates and commercial bank deposit rates, interest rates offered on fixed deposits were reduced with effect from 01 December 1994. The interest rates on deposits with one year maturity was lowered from 16.0 per cent to 14.0 per cent. The interest rate in respect of one year deposits on which interest was paid monthly was also reduced, from 15.3 per cent to 13.2 per cent. The interest offered on savings deposits remained unchanged at 14.0 per cent per annum during 1994.

Another noteworthy development in the operations of the NSB was the introduction of an Automatic Teller Machine for account holders of the Head Office branch. During the year, the NSB expanded its investments in Rupee Securities. Total investment during the year in these securities amounted to Rs.19,608 million. Investment in Treasury bills declined from Rs.20,096 million to Rs.13,396 million. Meanwhile, lending activities further expanded during the year. The total amount disbursed amounted to Rs.2,734 million, with 74 per cent of loans being granted against fixed deposits as security.

The Employees' Trust Fund (ETF) further expanded with the growth of its reserves. The total contribution by members rose by Rs.1,418 million as against Rs.1,183 million in the previous year. Meanwhile, outstanding member balances rose from Rs.7,883 million at the end of 1993 to Rs.9,969 million at the end of 1994.

The bulk of ETF resources was invested in government securities. Total investment in government securities rose from Rs.5,869 million to Rs.6,539 million - a rise of Rs.670 million, during the year. Other major investments were in corporate equities (Rs.1,174 million) and debentures (Rs.1,365 million).

Long Term Lending Institutions

Reflecting further expansion in lending activities, the total value of loans disbursed by the Development Finance Corporation of Sri Lanka Ltd. (DFCC), amounted to Rs.2,748 million as against Rs.1,928 million in the previous year. However, total resources available to the DFCC for lending in 1994 amounted to Rs.4,215 million compared with Rs.4,548 million in 1993 as a result of a reduction in loan facilities from foreign sources. Major sources of funds were recoveries of loans (Rs.2,385 million), borrowings from IDA and ADB (Rs.500 million) and lease amortization (Rs.400 million). The number of loans approved during the year rose to 678 from 551 in the previous year. The largest increase in the number of loans approved was in the Agricultural sector where the number of loans rose by 88. The total value of loans disbursed amounted Rs.2,748

TABLE 1.74

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

(Amount Rs. Million)

Purpose	DFCC		NSB		SMIB		HDFC		NDB (2)		NHDA		Total		% of Total Loans Approved	
	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
1. Agriculture	110	308	-	-	-	12	-	-	148	324	-	-	258	644	2.2	4.4
(i) Plantation	110	308	-	-	-	-	-	-	-	-	-	-	110	308	0.9	2.1
(ii) Domestic	-	-	-	-	-	-	-	-	148	324	-	-	148	324	1.3	2.2
(iii) Livestock & Dairies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iv) Fishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(v) Purchase of land for agricultural purposes	-	-	-	-	-	12	-	-	-	-	-	-	-	12	-	-
2. Industry	2,298	2,718	-	-	-	-	-	-	2,566	2,510	-	-	4,864	5,228	42.0	35.9
(i) Mechanical processing of plantation crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(ii) Mechanical processing of agricultural crops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Engineering & Building Trade	86	201	-	-	-	-	-	-	-	-	-	-	86	201	0.7	1.4
(iv) Mining	11	16	-	-	-	-	-	-	-	-	-	-	11	16	0.1	0.1
(v) Food, Beverage & Tobacco	329	463	-	-	-	-	-	-	603	564	-	-	932	1,027	8.0	7.1
(vi) Textiles, Wearing Apparel and Leather Products	330	311	-	-	-	-	-	-	778	496	-	-	1,108	807	9.6	5.5
(vii) Rubber & Plastic Products	239	326	-	-	-	-	-	-	-	64	-	-	239	390	2.1	2.7
(viii) Metal, Chemicals and Engineering	502	431	-	-	-	-	-	-	645	933	-	-	1,147	1,364	9.9	9.4
(ix) Other Manufacturing	801	970	-	-	-	-	-	-	540	453	-	-	1,341	1,423	11.6	9.8
3. Tourism	448	694	-	-	-	-	-	-	95	505	-	-	543	1,199	4.7	8.2
4. Commercial (Service Industries)	-	-	-	-	-	-	-	-	1,005	1,312	-	-	1,005	1,312	8.7	9.0
5. Financial	110	181	580	470	-	-	-	-	299	70	-	-	989	721	8.5	5.0
(i) Loans to Financial Institutions	110	181	580	470	-	-	-	-	26	70	-	-	716	721	6.2	5.0
(ii) Investment Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-	-	-	273	-	-	-	273	-	2.4	-
6. Housing	-	-	156	236	884	670	192	291	-	-	755	547	1,987	1,744	17.1	12.0
(i) Purchase of houses	-	-	12	58	170	182	27	151	-	-	290	248	499	639	4.3	4.4
(ii) Construction	-	-	144	178	714	488	165	140	-	-	465	299	1,488	1,105	12.8	7.6
7. Redemption of Debt.	-	-	-	-	15	11	82	-	-	-	-	-	97	11	0.8	0.1
8. Other Loans	197	657	1,510	2,028	138	31	-	-	-	979	-	-	1,845	3,695	15.9	25.4
Total (Approved)	3,163	4,558	2,246	2,734	1,037	724	274	291	4,113	5,700	755	547	11,588	14,554	100	100
Loans disbursed (1)	1,928	2,748	2,245	2,734	674	635	249	255	4,100	5,418	534	454	9,730	12,244		
Loans disbursed as a % of Total loans approved	61	60	100	100	65	88	91	88	100	95	71	83	84	84		

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

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

Housing Development Finance Corporation (HDFC)
National Development Bank (NDB)
National Housing Development Authority (NHDA)

million as against Rs.1,928 million in the previous year. The total outstanding value of loans was Rs.7,223 million at the end of year. Meanwhile, the DFCC also provided equity finance facilities totalling Rs.589 million to 20 companies. Of these, nine were in the Industrial category and received funds amounting Rs.423 million.

Loans granted to the Industrial sector amounted to Rs.2,295 million with the major share of loan approvals being for the Food, Beverages and Tobacco sector. Tourism (Rs.679 million), Agriculture (Rs.307 million) and Transport Services (Rs.516 million) were other sectors that received significant amounts of credit. As in the past, the majority of outstanding loans (63 per cent) was in the medium term category.

During the year, both the resource base and the lending activities of the National Development Bank (NDB) further expanded. Total resources available to the NDB rose by Rs.504 million to Rs.5,433 million. The increase was mainly through recoveries of loans from customers. Recoveries rose to Rs.3,356 million from Rs.2,143 million in the previous year. The other important sources of funds were the utilization of credit lines (Rs.733 million) and the use of reserves (Rs.686 million).

Total loan approvals by the NDB rose from Rs.4,114 million in 1993 to Rs.5,418 million in 1994. The number of loans increased from 262 to 352. In addition, a sum of Rs.281 million was provided by way of equity financing to 22 projects. The bulk of loan approvals was in respect of the Industrial sector which received Rs.2,337 million. The credit approved for other sectors included Service Industries (Rs.1,307 million), Property Development (Rs.874 million) and Agriculture (Rs.324 million). Within the Industrial category, the major sub-sectors which received credit during 1994 were Food Beverages and Tobacco (Rs.564 million), Chemical and Plastic Products (Rs.729 million), Textiles, Wearing Apparel and Leather Products (Rs.402 million).

The State Mortgage and Investment Bank (SMIB), which is the premier institution engaged in housing finance in Sri Lanka, recorded a moderate expansion in 1994. Total resources available to the SMIB for lending increased from Rs.1,029 million in 1993 to Rs.1,336 million in 1994. As in the previous years, repayment of loans by customers, which amounted to Rs.789 million, accounted for the major share of the resources available for lending.

Total loan disbursements for housing construction and purchase of houses and building sites amounted to Rs.634 million as compared to Rs.674 million during the previous years. Of the loans approved, 77 per cent were in the range of Rs.100,000 - Rs.1,000,000. The SMIB lending rates for housing were in a range of 20.5-22.0. The rate applicable for loans above Rs.500,000 was 22.0 per cent and loans below Rs.500,000 was 20.5 per cent.

Finance Companies

Reflecting a significant expansion in operations of finance companies, the total assets of the finance companies increased by 31.6 per cent (Rs.2,853 million) in 1994 in contrast to a decline of 12.4 per cent (Rs.1,279 million) in the previous years. The total number of finance companies licensed with the Central Bank continued to remain at 24.

With the increase in lease financing by Rs.1,018 million to Rs.3,384 million, total loans outstanding showed a significant increase of Rs.1,134 million. During the year, hire purchase activities also expanded by Rs. 78 million as against a decline of Rs.678 million in the previous year. Meanwhile, investments, which includes investments in other companies and government securities, rose by Rs.482 million. On the liabilities side, total deposits of the finance companies grew at a faster rate of 23.6 per cent (Rs.1,295 million) to Rs.6,788 million at year-end after declining by 2.6 per cent (Rs.149 million) in 1993. With increased reserves required on higher deposit liabilities, capital funds including reserves were raised from Rs.1,335 million to Rs.2,184 million. Meanwhile, liquid assets to total deposits rose from 19 per cent at end 1993 to 21.5 per cent by end 1994 in view of the improved liquid assets on account of cash in hand and deposits

with financial institutions. However, total investment in government paper as a proportion of total deposits remained at 11.7 per cent.

TABLE 1.75
Sources and Uses of Resources of Licensed Finance Companies

(Amount in Rs. Million)					
Item	As at 31st December 1993	As at 31st March 1994	As at 30th June 1994	As at 30th September 1994	As at 31st December 1994
Sources					
1. Capital Account	1,335.1	1,556.1	1,758.3	1,833.3	2,183.6
2. Deposits	5,492.6	5,901.7	6,271.9	6,525.3	6,788.4
3. Borrowings	1,157.7	1,198.9	1,245.7	1,235.1	1,335.1
4. Other Liabilities	1,035.7	1,177.6	1,591.4	1,478.9	1,566.4
Total	9,021.1	9,834.3	10,867.3	11,072.6	11,873.5
Uses					
1. Hire Purchase Business	2,140.7	2,140.8	2,157.0	2,172.4	2,218.6
2. Loans Outstanding	3,138.8	3,516.8	3,714.6	3,893.2	4,273.3
3. Investments	1,383.4	1,537.8	1,691.2	1,717.3	1,864.8
4. Other Assets	2,358.2	2,638.9	3,304.5	3,289.7	3,516.8
Total	9,021.1	9,834.3	10,867.3	11,072.6	11,873.5
Number of Licensed Finance Companies	24	24	24	24	24

Source : Central Bank of Sri Lanka.

Relief payments to meet deposit liabilities of failed finance companies continued to be made under the medium and long term credit fund (MLCF). Altogether, a sum of Rs.263 million was provided during the year for two finance companies while Rs. 4 million was received as repayments. Accordingly, the outstanding refinance facilities provided by the Central Bank rose from Rs.2,045 million to Rs.2,304 million by end 1994.

SPECIALISED FINANCIAL INSTITUTIONS

Merchant Banking

The merchant banking industry too recorded another year of strong performance in 1994. With the setting up of another company, Asia Capital Ltd., to engage in merchant banking activities, the total number of active merchant banks rose to 5 by end 1994.

The total income of merchant banks increased by 117 per cent to Rs.1,151 million as against a growth of 69 per cent in 1993. This was mainly attributed to the improved income from leasing (Rs.121 million), discounting trade bills (Rs.107 million) and profit from share trading (Rs.140 million).

TABLE 1.76
Progress of Activities of Merchant Banks (1993 - 1994)

(Rs. Million)

	1993	1994*
1. Earned Income on Leasing	168.5	289.9
2. Interest on Discounting Trade Bills	168.4	275.5
3. Financial and Marketing Consultancy	13.3	7.2
4. Underwriting Commissions	10.6	18.3
5. Insurance Commissions	3.1	1.5
6. Interest on Margin Trading	11.9	52.9
7. Profit on Investments in Shares	35.9	175.9
8. Interest on Treasury Bills	11.1	85.4
9. Other	106.8	243.9
T O T A L	529.6	1,150.5

* Provisional.

Sources: Merchant Bank of Sri Lanka Ltd.
People's Merchant Bank Ltd.
Seylan Merchant Bank Ltd.
Vanik Incorporation Ltd.
Asia Capital Ltd.

Leasing Companies

The number of companies engaged purely in leasing activities continued to remain at three. They are Lanka Orix Leasing Company Ltd., Commercial Leasing Company Ltd. and Mercantile Leasing Company Ltd. The total assets of these companies rose from Rs.2,162 million at the end of 1993 to Rs.2,956 million at the end of 1994, while lease finance provided rose by Rs.784 million from Rs. 1,134 million in 1993 to Rs.1,918 million in 1994.

In terms of lease finance by type of equipment, the major users of funds were the categories commercial vehicles (Rs.1,056 million), passenger vehicles (Rs.347 million) and plant and machinery (Rs. 315 million). Sectorwise, leases executed channelled funds to finance Industry (Rs.408 million), Trading (Rs.915 million) and Services (Rs.256 million).

Venture Capital Companies

The number of companies operating as suppliers of venture capital increased from six in 1993 to seven in 1994. The total resource base available to venture capital companies by way of issued share capital and long term loans increased by 27 per cent to Rs.666 million at the end of 1994. The investment made by venture capital companies in the equity of projects increased more than two-fold in 1994, reaching a level of Rs.417 million by the end of 1994. Of this total, 44 per cent was for the commencement of new operations, 20 per cent for expansion, 9 per cent for acquisitions or buyouts and the balance 27 per cent for other purposes. A sectoral breakdown of the projects assisted indicated that 66 per cent of funds had been granted to the manufacturing sector, 26 per cent to the services sector and 8 per cent to the agriculture sector.

Insurance Companies

A new life insurance company, Janashakthi Life Insurance Co. Ltd., was setup during the year increasing the total number of insurance companies operating in the country to six. Both life insurance and general insurance activities further expanded during 1994.

The total value of Life Funds of the insurance companies rose from Rs. 5,507 million at the end of 1993 to Rs. 7,731 million at the end of 1994. Life policies in force grew from 493,780 to

633,000. The annual life premiums rose from Rs.1,313 million to Rs.2,031 million. Meanwhile, net premiums of general insurance activities rose from Rs.1,793 million to Rs.2,359 million. As in the previous year, motor insurance continued to be the dominant sector in general insurance, accounting for 51 per cent of the industry's premiums. General Accident insurance, which became the second biggest sector, contributed 26 per cent of the net premiums, while Fire insurance had a share of 10 per cent.

MONEY MARKET

Overall Trends

With financial institutions introducing new instruments into the market and developing the use of existing instruments, activities in the money market continued to expand in 1994. As has been the case in the recent past, the major influence in determining interest rates in the money market was the yield rate movements in the Treasury bill market. The yield rates on Central Bank securities, which continued to be issued to mop up excess liquidity, were closely related to the yield rates on Treasury bills. The continued high inflow of net foreign assets in the early part of the year and the relative slowing down of inflows towards the end of the year had an impact on the liquidity in the market and hence on market interest rates. The repurchase arrangements for Treasury bills introduced by the Central Bank in October 1993 served to minimize sudden large drops in interest rates at the short end of the money market.

Inter-Bank Call Money Market

The expansion in the inter-bank call money market witnessed in 1993 continued into 1994. Following on the 81 per cent increase in turnover experienced in the previous year, turnover increased by 25 per cent (to Rs.468,464 million) in 1994. Call money rates decreased from a range of 16.50-28.00 per cent in December 1993 to a range of 2.50-17.00 per cent in June 1994 and to a range of 0.25-14.00 per cent in September 1994. Rates began to rise thereafter and reached a range of 14.00-28.00 per cent in December 1994.

Treasury Bill Market

(a) Primary Treasury Bill Market

The total value of Treasury bills offered in the primary market during 1994 was Rs.168.4 billion, in comparison to total issues of Rs.158.9 billion in 1993. New issues of Treasury bills by the Government for budgetary purposes amounted to Rs.5.5 billion, while bills to the value of Rs. 3.8 billion were retired. Thus, in 1994, the net value of new Treasury bills issued was Rs.1.7 billion. Consequently, the total face value of Treasury bills outstanding rose from Rs.97.2 billion at the end of 1993, to Rs.98.9 billion at the end of 1994. Treasury bill holdings by the Central Bank, which stood at Rs.3.9 billion at the end of 1993, declined to a negligible level by September. However, with reduced market liquidity and increased issues in the last quarter, Central Bank holdings rose to Rs.5.1 billion at the end of 1994. This accounted for 5.7 per cent of total outstanding Treasury bills, in comparison to a holding of 4.8 per cent at the end of 1993. Of the total value of Treasury bills issued in the primary market in 1994, Rs.20.1 billion (11.9 per cent) was purchased by the Central Bank, Rs.101.9 billion by commercial banks (60.6 per cent) and Rs.46.3 billion (27.5 per cent) by others. However, reflecting intra-market activity, the distribution of outstanding Treasury bills on the basis of book value at the end of 1994 was: 5.7 per cent Central Bank, 16.8 per cent commercial banks and 77.5 per cent others.

(b) Central Bank Secondary Treasury Bill Market

A further decline in the sales (discounting) of Treasury bills from the Central Bank's secondary window was seen in 1994. The total sales value in 1994 was Rs.21.2 billion as against Rs.94.8 billion in the previous year. This low level of sales was due both to the reduction in the

TABLE 1.77

Money Market Operations (1992 – 1994)

(Amount Rs. Mn.)

Period	Call Money Market		Primary Treasury Bill Market						Secondary Treasury Bill Market		
	Total Lending/ Borrowings	Outstanding as at end of period (a)	Total Out standing	Amount Issued	Amount Accepted (Purchases)				Total Sales	Total Purchases	Outstanding position as at end of period
					Central Bank	Commercial Banks	Others	Total			
1992											
1st Quarter	40,912	580	73,722.4	43,723.3	21,652.8	4,245.7	17,824.8	43,723.3	32,158	12,520	2,103
2nd Quarter	58,123	1,265	76,967.7	65,821.3	38,341.5	8,591.3	18,888.5	65,821.3	41,328	10,832	1,927
3rd Quarter	45,823	1,288	82,295.7	47,115.7	28,346.2	8,351.5	10,418.0	47,115.7	24,345	11,234	3,869
4th Quarter	62,307	1,458	87,095.7	38,147.9	20,851.9	12,722.0	4,574.0	38,147.9	21,535	15,026	3,696
1993											
1st Quarter	78,122	1,059	88,095.7	35,632.2	11,120.2	13,749.0	10,763.0	35,632.2	27,670	16,565	3,285
2nd Quarter	100,584	1,571	92,495.7	50,735.9	16,610.9	20,467.0	13,658.0	50,735.9	27,026	13,000	3,962
3rd Quarter	98,377	1,004	94,495.7	42,028.9	14,076.3	12,896.6	15,056.0	42,028.9	27,377	8,150	5,742
4th Quarter	97,907	1,192	97,195.7	30,459.3	6,394.0	17,622.5	6,422.8	30,459.3	12,690	9,136	2,777
1994											
1st Quarter	126,036	1,125	97,995.7	29,301.5	3,601.0	13,549.5	12,151.0	29,301.5	6,948.4	2,505.6	1,560
2nd Quarter	88,612	2,144	98,095.7	36,151.6	4,147.4	22,885.1	9,119.0	36,151.6	5,546.2	5,792.2	2,688
3rd Quarter	114,341	1,811	95,395.7	45,660.1	4,475.0	29,702.1	11,483.0	45,660.1	5,484.8	2,069.7	2,939
4th Quarter	139,475	1,242	98,895.7	57,255.3	7,880.8	35,812.5	13,562.0	57,255.3	3,208.3	9,097.0	1,415

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

Source : Central Bank of Sri Lanka

bills available in the Central Bank's portfolio and a shift of activity to the repurchase facility offered by the Central Bank. The yield rates on sales were linked to the rates in the primary market and hence followed the same pattern. The yield rate on 3-month bills sold by the Central Bank fell from 17.84 per cent at the end of 1993, to 12.90 per cent towards the end of March, before rising to 15.14 per cent at the end of June. The rate declined once again thereafter, until it reached a low of 11.33 per cent at the end of October. Following a steep rise in primary market yields, the Central Bank's secondary market closed at the end of 1994 with the yield on 3-month bills sold being 18.48 per cent. Similar movements were seen in the yield on purchases (re-discounting) by the Central Bank in the secondary market. The rediscount yield, which was 20.84 per cent at the end of 1993 on 3-month bills, fell to 14.83 per cent by the end of October, but had reached a level of 22.98 per cent by the end of 1994.

(c) Central Bank Repurchase Market for Treasury Bills

The sales of Treasury bills under Repurchase Agreements (Repos) commenced by the Central Bank in October 1993, expanded in 1994. This facility, which is meant to serve both as a means of stabilizing interest rates in the call money market and as an instrument for open market operations, achieved both ends to some degree in 1994. However, activity was often constrained by a depleted stock of Treasury bills in the Central Bank's own portfolio. Repurchase market activity was most effective in conditions of high market liquidity.

Repo sales of the Central Bank in 1994 amounted to Rs.230.9 billion. Sales during the last three months of 1993 following the commencement of operations in October amounted to Rs.38.9 billion. The yield rate on overnight repos is determined by the Central Bank, based on rates prevailing in the Treasury bill market, liquidity in the call market and general economic conditions. The repo rate for overnight bills, which stood at 16.50 per cent at the end of 1993, was gradually reduced to 11.50 per cent by the end of June. It was raised slightly in July and August, but was reduced again to 10.00 per cent in September. Following the tight liquidity conditions in the call market and the Central Bank's actions to curtail the growth of monetary aggregates, the repo rate was raised on several occasions in the last two months of the year, rising to a maximum of 20.00 per cent by late December.

Central Bank Securities

In view of the limited stock of Treasury bills in the portfolio of the Central Bank, the Bank continued to issue its own securities for monetary policy purposes. During the first part of the year the issues were confined to six month bills while issues in the second half were predominantly of three months duration. The yields on Central Bank Securities closely followed the yield on Treasury bills. The Central Bank's outstanding liability on account of its securities rose from Rs.2,155 million at the end of 1993 to Rs.3,740 million at the end of 1994.

Internal Foreign Exchange Markets

The Central Bank continued to announce its spot buying and selling rates for the US Dollar, its intervention currency. The spread between the buying and selling rate was maintained at 1 per cent. The buying rate, which was Rs.49.31 per dollar at the end of 1993, fell to Rs.48.79 by the end of April following an appreciation of the rupee against the dollar. The selling rate fell from Rs.49.80 per dollar to 49.28 during the period. The rupee depreciated thereafter, although with some appreciation in June and October, and at the end of December 1994, the buying rate was Rs.49.73, while the selling rate was Rs.50.23. Purchases by the Central Bank amounted to US\$ 652 million, a 2 per cent increase over the purchases of US\$ 642 in 1993. Sales by the Central Bank declined by 38 per cent, from US\$ 20 million in 1993, to US\$ 12 million in 1994.

The Off-shore Market

In contrast to the marginal contraction recorded in 1993, the assets/liabilities of Foreign Currency Banking Units (FCBUs) of commercial banks grew by 15 per cent in 1994. The total value of assets/liabilities of the 23 FCBUs operating in Sri Lanka increased from US.\$ 1,135 million at the end of 1993 to US.\$ 1,304 million at the end of 1994. On the assets side, loans and advances to non-residents increased by 18.6 per cent to US.\$ 540 million, while loans and advances to residents increased by 14.6 per cent to US.\$ 725 million. In the residents category, advances to Board of Investment (BOI) enterprises increased by 28.7 per cent, while advances to other approved local enterprises declined by 15.9 per cent. Similarly, on the liabilities side, the deposits of non-residents increased by 10.6 per cent to US.\$ 665 million, while deposits of residents increased by 22 per cent to US.\$ 537 million in 1994.

Certificates of Deposit

Commercial banks and finance companies continued to issue Certificates of Deposit (CDs) in 1994. The outstanding value at the end of 1994 of CDs issued by commercial banks and finance companies was Rs.6,592 million in comparison to an outstanding value of Rs.5,045 million at the end of 1993, an increase of 31 per cent. Interest rates paid by commercial banks varied in a range of 9-22 per cent in comparison to a range of 14-21 per cent in 1993. The rates paid by finance companies were in the range of 16-22 per cent, the same range that prevailed in 1993.

New Debt Instruments

A new asset backed debt instrument, Treasury Bill Backed Securities (TBBS), was launched during 1994. These are securities whose issue is backed by Treasury bills held by the issuer. The first issue of TBBS was for Rs.192 million and had a maturity of one year.

CAPITAL MARKET

Although the share market sustained its buoyant sentiments at the beginning of the year under the influence of the continuing interest of foreign capital, the market suffered a setback in subse-

TABLE 1.78
Share Market Indicators 1991 – 1994

	1991	1992	1993	1994
1. Market Capitalisation (Rs.Mn.) at 31 Dec.	81,840	66,200	123,789	143,210
2. Number of New Issues (No.)	6	12	12	15
3. Total Number of Shares Issued (Mn.)	12.51	78.24	49.05	139.4
4. Value of Shares Issued (Rs. Mn.)	326	1,370.1	1,246.8	3,075.0
5. Number of Shares Traded (Mn.)	79	88	351	506
6. Value of Shares Traded (Rs. Mn.)	4,304	4,969	18,579	34,522
7. Price Indices – CSE All as at 31 Dec.	837.79	605.31	978.97	986.73
CSE Sensitive "	1,198.60	826.57	1,442.44	1,438.82

Source : Colombo Stock Exchange.

quent months against the background of national elections and a rising trend in interest rates in Western economies. The All Share Price Index (ASPI) which rose by over 40 per cent, from 979.0 at end December 1993 to 1375.1 at end February 1994, declined continuously for five months, with the ASPI dropping by 29 per cent to 976.5 at end July 1994. Although a minor recovery was experienced in August and September, this was short lived. The last quarter saw share prices falling once again. The ASPI ended the year at 986.7.

The ASPI, which had recorded a growth of 62 per cent (374 index points) in 1993, grew by less than 1 per cent (8 index points) in 1994. The Sensitive Price Index, which had advanced by 75 per cent (615 index points) in 1993, showed a marginal decline of 0.3 per cent (4 index points) in 1994. The level of market activity, in terms of turnover and the number of shares traded, was higher in the first half of 1994 than in the second. However, it is noteworthy that in spite of the general bearish nature of the market for the year as a whole, a significantly higher level of market activity was seen in 1994 than in 1993. Total annual turnover increased from Rs.18,579 million in 1993 to Rs.34,522 million in 1994. The number of shares traded rose from 351 million in 1993, to 506 million in 1994. Market capitalization, which stood at Rs.123.8 billion at the end of 1993, rose to Rs.175.8 billion at the end of February 1994 and was Rs.143.2 billion at the end of the year.

A significant development was seen in the share market with the successful launch in March 1994 of the first Euro issue by a Sri Lankan firm, a Global Depository Receipt (GDR) Issue, which raised US.\$ 33 million. The number of country funds approved to invest in the Sri Lankan stock market increased to four in 1994, with approval being granted to The Ceylon Fund. The number of regional funds granted approval to invest in Sri Lanka was 195 at the end of 1994.

Primary Share Market

Despite the lack of an overall appreciation in the stock price indices in 1994, 15 companies made new issues in the market, in comparison to 12 new issues made in 1993. Of the new issues in 1994, 14 were initial public offers (IPOs) while one was a further public issue by an already quoted company. The issue price of the new issues ranged from par (Rs.10.00) to Rs.100.00 (*i.e.*, a premium of Rs.90.00). The perception of investors with regard to anticipated future market behaviour could be gauged to some extent by the fact that the issues made in the first three quarters of the year were heavily oversubscribed (in one instance, the subscription being over 42 times the market offer), while the issues in the last quarter were undersubscribed. A total of 139.4 million shares was on offer in 1994 (for a total par value of Rs.1,394.0 million) in comparison to a total of 49.0 million shares on offer in 1993 (total par value of Rs. 490.5 million). The total value of the market offer (inclusive of premium) in 1994 was Rs.3,075.0 million in comparison to a market offer of Rs.1,246.8 million in 1993. As in 1993, the banks, finance and insurance category accounted for the major share of the new issues.

Secondary Market

In the first two months of the year, the secondary market continued to build on the gains achieved in 1993. The All Share Price Index (ASPI) increased from 979 at the end of December 1993 to 1,375.1 at the end of February (40.5 per cent), while the Sensitive Price Index (SPI) rose from 1,442.4 at the end of December to 2,093.8 at the end of February (an increase of 45.2 per cent). Thereafter, however, both indices began to decline and by the end of July, the ASPI has fallen by 29 per cent (to 976.5) from its end February level, while the SPI had fallen by 30.5 per cent (to 1,455.1). A minor market recovery was experienced in August and September, but prices recommenced their drop in the final quarter of the year. At the end of 1994, the ASPI was 986.7 (0.8 per cent above the end 1993 level), while the SPI stood at 1,438.8 (0.3 per cent below the end 1993 level). Although share price movements were not encouraging throughout much of the year, the level of market activity was significantly higher in 1994 than in 1993. The annual turnover in 1994 was Rs.34,522 million, an 86 per cent increase over the previous year. The number of shares traded increased from 351 million in 1993, to 506 million in 1994, an increase of 44.2 per cent.

TABLE 1.79**Number of New Share Issues During 1991 – 1994 by Type of Investment**

Type of Investments	1991	1992	1993	1994
Banks, Finance & Insurance	2	1	3	6
Beverages, Food & Tobacco	–	2	–	3
Chemicals & Pharmaceuticals	–	–	–	–
Constructions & Engineering	–	–	–	–
Footwear & Textile	1	1	–	1
Hotels & Travels	1	2	4	–
Investment Trusts	–	–	–	–
Land & Property	–	–	–	1
Manufacturing	1	3	2	4
Motors	–	–	1	–
Oil Palm	–	–	–	–
Services	–	1	–	–
Store & Supplies	–	–	–	–
Trading	1	2	2	–
TOTAL	6	12	12	15
Number of shares offered (Mn.)	12.51	78.24	49.03	139.4
Value of shares offered (at par) (in Rs. Mn.)	158.14	377.4	490.5	1,394.0

Source: Colombo Stock Exchange.

The decline in prices in the market in 1994 is generally attributed to a reduction in purchases by non-nationals. The rapid upward movement in the price indices in 1993 and in the first two months of 1994 were caused, to a large extent, by the inflow of funds to the market from non-national investors. In 1993, non-national purchases accounted for 51 per cent of total turnover while non-national sales were 33 per cent of turnover. Non-national purchases amounted to 155 per cent of non-national sales. Similarly, in the period January to February 1994, non-national purchases accounted for 45 per cent of turnover, while non-national sales were 28 per cent of turnover. Non-national purchases amounted to 159 per cent of non-national sales. After February however, affected both by domestic political uncertainty and rising interest rates in the developed financial markets, non-national purchases declined. For the year as a whole, non-national purchases accounted for 42 per cent of turnover, while non-national sales accounted for 38 per cent of total turnover. Non-national purchases amounted to 110 per cent of non-national sales.

Valuewise, the banks, finance and insurance category continued to be the most actively traded category of companies, accounting for 42 per cent of total turnover. The manufacturing category accounted for 23 per cent of total turnover. In terms of the number of shares traded, the banks, finance and insurance category was the most active, accounting for 29 per cent of all shares traded, while the manufacturing category accounted for 25 per cent of the total.

Unit Trusts

Four Unit Trusts (UTs) continued to operate in Sri Lanka. The combined net asset value of these four UTs grew from Rs.3,566 million at the end of 1993, to Rs.3,947 million at the end of 1994, an increase of 10.7 per cent. The increase in net asset value in 1993 was 83.5 per cent. The slower growth is a reflection of the developments in share prices in these two years. The proportion of total UT funds invested in the equity market remained at 64 per cent in 1994.

TABLE 1.80
New Share Issues of Companies during 1994

Name of Company	No. of Shares	Par Value (Rs.)	Premium (Rs.)	Value of Shares	Value Subscribed	No. of Subscribers
Peoples Merchant Bank Ltd.	3,125,000	10	10	62,500,000	131,673,423	102,919
Lanka Walltile Ltd.	8,000,000	10	40	400,000,000	193,394,800	7,840,000
Coco Lanka Ltd.	1,000,000	10	15	25,000,000	10,255,400	20,650
Royal Ceramics Lanka Ltd.	6,400,000	10	20	192,000,000	218,180,200	64,339
Equity Two Ltd.	1,550,000	10	10	31,000,000	4,516,000	5,740
Veyangoda Textile Mills Ltd.	7,500,000	10	08	135,000,000	13,457,461	17,217
Femtea Ltd.	2,000,000	10	20	60,000,000	5,936,500	2,757
CF Venture Fund Ltd.	3,333,593	10	05	50,003,895	34,149,393	20,456
Asia Capital Ltd.	25,000,000	10	20	750,000,000	48,912,600	10,077
Forbes Ceylon Ltd.	62,500,000	10	-	625,000,000	74,682,800	15,038
Ceylon Glass Co. Ltd.	6,625,000	10	30	265,000,000	54,838,266	27,984
Bairaha Farms Ltd.	4,000,000	10	18	112,000,000	9,501,700	6,266
Ceylinco Securities & Financial Services Ltd.	5,000,000	10	10	100,000,000	83,841,800	51,850
The Finance Co. Ltd.	2,377,700	10	90	237,770,000	8,117,271	12,776
W. M. Mendis & Co. Ltd.	990,200	10	20	29,706,000	-	-

Source : Colombo Stock Exchange.

TABLE 1.81
Category-wise Distribution of Shares Traded in the
Secondary Share Market in 1994

Category of Investment	No. of Transactions	No. of Shares	Value
Banks, Finance & Insurance	135,679	143,506,754	14,486,125,751
Beverages, Food & Tobacco	39,387	87,319,472	2,280,153,301
Chemicals & Pharmaceuticals	3,840	3,033,149	265,390,838
Construction & Engineering	5,464	8,970,439	361,216,093
Footware & Textiles	18,296	11,230,007	433,757,887
Hotels & Travels	41,593	61,563,381	1,999,145,739
Investment Trusts	6,600	7,704,656	1,912,658,273
Land & Property	23,843	28,125,323	872,305,653
Manufacturing	106,083	124,419,677	8,100,283,230
Motors	6,430	8,735,737	809,015,752
Oil Palms	30	22,918	11,252,501
Services	719	1,647,842	94,488,246
Stores & Supplies	3,310	5,109,632	1,394,252,078
Trading	11,679	16,526,773	1,542,998,247

Source : Colombo Stock Exchange.