

## **PART II**

# ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

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## ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK

### ACCOUNTS AND BANKING OPERATIONS

Total assets/liabilities of the Central Bank as at end 1995, stood at Rs.173,505 million, registering an increase of 11.3 per cent over the previous year. The Balance Sheet of the Central Bank as at 31 December 1995 together with the Profit and Loss Account of the Bank for the year ended 31 December 1995 are presented in Table II-1.

On the assets side, the international reserves of the Bank rose by 10.9 per cent from Rs.95,282 million to Rs.105,647 million. The international reserve has remained the largest asset category accounting for 60.9 per cent of the total assets compared to 61.1 per cent at end 1994. Domestic assets increased by 25.8 per cent, from Rs.31,755 million to Rs.39,950 million.

Among domestic assets, loans and advances to the Government and Government and Government guaranteed securities rose by 5.9 per cent and 145.6 per cent, respectively. Medium and long-term credit facilities to commercial banks and other credit institutions declined by 16.8 per cent due to net repayments and provisions on account of non-performing loans. Short-term advances to commercial banks also declined by 15.1 per cent in 1995.

On the liabilities side, currency in circulation increased by 8.4 per cent from Rs.43,081 million to Rs.46,685 million. A comparison of the major components of assets and liabilities of the Bank is given in Table II-2. The total deposits comprising mainly the commercial bank deposits maintained with the Central Bank under Statutory Reserve Requirements against their deposit liabilities and the deposits made by international organisations, foreign governments and foreign banking institutions registered an increase of 20.2 per cent from Rs.61,023 million to Rs.73,320 million. Deposits constituted the largest category of liabilities and accounted for 42.3 per cent of total liabilities. Within this category, deposits of commercial banks increased by 28.3 per cent, mainly owing to the increase in rupee deposit liabilities of the commercial banks. Deposits of international organisations, foreign governments and foreign banking institutions rose by 13.3 per cent.

The total gross income of the Bank for the year 1995 was Rs.22,502 million compared with Rs.25,680 million in 1994, while the total gross expenditure in 1995 was Rs.20,802 million compared with Rs.24,280 million during the previous year. Around 85.4 per cent of the income of the Bank was generated from investment of foreign reserves while the interest earned from domestic transactions accounted for

about 7.4 per cent. After making allowances for expenditure and allocations to reserves and provisions for depreciation and other charges, the balance net profit of the Bank, amounting to Rs.1,700 million, was earmarked to be paid to the Consolidated Fund of the Government in terms of Section 39 (c) of the Monetary Law Act (MLA).

### Accounting Policies

#### General

The accompanying Balance Sheet and Profit and Loss Account have been prepared on the historical cost basis and in conformity with generally accepted accounting principles.

#### Foreign Currency Conversion

Assets and liabilities denominated in foreign currencies have been converted at the middle rate of exchange prevailing at the date of the Balance Sheet.

#### Investments

All investments are valued at cost.

#### Advances

Advances shown in the Balance Sheet are net of provisions for non-performing loans due from finance companies.

#### Fixed Assets

Fixed Assets are shown at cost less depreciation. Depreciation is charged on the reducing balance method, at the following rates :

Items	Percentages
Buildings	2
Fixtures and Fittings	10
Office Furniture and Equipment	10
Motor Vehicles	10
Personal Computers	25

Depreciation is provided on fixed assets for the full year in which such assets are purchased and no depreciation is provided for the year in which the fixed assets are sold or disposed of.

#### Stocks

The total cost incurred during the year on stationery and engineering stores have been charged to the Profit and Loss

**COMPARISON OF THE CENTRAL BANK  
as at 31st December, 1994 and**

31st December, 1994		LIABILITIES	31st December, 1995	
15,000,000	1,000,000,000	<b>Capital Accounts</b>	15,000,000	1,000,000,000
985,000,000		Capital	985,000,000	
		Surplus		
41,496,102,836	43,081,062,504	<b>Currency in Circulation</b>	44,886,101,205	46,684,502,439
1,584,959,668		Notes	1,798,401,234	
		Coins		
2,812,322,857	61,022,694,446	<b>Deposits</b>	3,039,394,202	73,319,699,789
141,639,414		Government	48,879,581	
24,832,127,774		Government Agencies and Institutions	31,852,685,006	
		Commercial Banks		
32,430,115,310		International Organisations, Foreign Government and Foreign Banking Institutions	36,742,536,986	
1,199,835		Compulsory Savings Fund excluding Rs. 37,064,000/= invested in Treasury Bills	739,368	
805,289,256		Others	1,635,464,646	
	4,925,000,000	Medium and Long Term Credit Fund		4,925,000,000
	560,250,000	Capital Contribution Account		560,190,000
	3,740,000,000	Central Bank Securities		-
	41,628,492,604	Other Liabilities and Accounts		47,016,155,976
	155,957,499,554			173,505,548,204

**Profit and Loss Account for the**

1994		1995
24,279,878,851	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings and Office Furniture) and Allocations made in terms of Section 38 of the Monetary Law Act.	20,802,418,205
	<b>Net Profit for the Year</b>	
1,400,000,000	To Part Liquidation of Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.	1,700,000,000
25,679,878,851		22,502,418,205

**Note of the Auditor-General**

The accounts of the Central Bank of Sri Lanka for the year ended 31 December, 1995, were audited under my direction in pursuance of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act No. 38 of 1971 and Section 42(1) of the Monetary Law Act, No. 58 of 1949.

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

Auditor-General's Department,  
Colombo 7.

23 April 1996.

**S. C. Mayadunne**  
Acting Auditor-General

Table II-1

## OF SRI LANKA GENERAL BALANCE SHEET

31st December, 1995.

Rs.

31st December, 1994		ASSETS		31st December, 1995	
12,617,630,949	95,281,755,395	International Reserve		39,681,917,863	105,646,858,323
82,647,583,119 *		Cash and Balances Abroad		65,916,311,198 *	
16,541,327		Foreign Securities and Treasury Bills		48,629,262	
		Holdings of Special Drawing Rights			
		Domestic Assets			
22,718,899,947	31,755,115,600	Loans and Advances to Government		24,053,099,947	39,949,998,922
3,304,188,300		Others – Medium and Long Term		2,750,193,526 **	
72,230,621		Short Term		61,326,176	
		Government and Government Guaranteed Securities		12,525,189,273	
5,099,546,732		Contributions to Financial and Other Institutions		560,190,000	
560,250,000		Other Assets and Accounts			
	28,920,628,559	* Including Securities acquired from Government Institutions on 1 February, 1964, at a face value of Rs. 5,527,675/= and on 24th May, 1965, at a face value of Rs. 57,450/= (the estimated market value of these Securities were Rs. 2,933,697/= and Rs. 34,340/=, respectively, as on these dates).			
		** Includes the amount outstanding on the special loan of Rs. 100.0 Mn. The amount outstanding is net of Rs. 890,456,091/= being provisions for loan losses.			
	155,957,499,554				173,505,548,204

year ended 31st December, 1995

Rs.

1994		1995
25,679,878,851	By Interest, etc., earned	22,502,418,205
25,679,878,851		22,502,418,205

A. S. Jayawardena  
Governor

M. B. Dissanayake  
Chief Accountant

**TABLE II-2**  
**Comparison of the Major Components of Assets and Liabilities of the Central Bank**  
**as at end 1994 and 1995**

L I A B I L I T I E S					A S S E T S				
I T E M	1994		1995		I T E M	1994		1995	
	Rs. Mn.	%	Rs. Mn.	%		Rs. Mn.	%	Rs. Mn.	%
Capital and Surplus	1,000	0.6	1,000	0.6	International Reserve	95,282	61.1	105,647	60.9
Currency in Circulation	43,081	27.6	46,685	26.9	Domestic Assets	31,755	20.4	39,950	23.0
Deposits	61,023	39.1	73,320	42.3	Other Assets	28,921	18.5	27,909	16.1
Medium & Long Term Credit Fund	4,925	3.2	4,925	2.8	Liability of Constituents for Guarantees Issued	17,307	11.1	16,255	9.4
Capital Contribution Account	560	0.4	560	0.3	Foreign Currency Deposit A/cs of Commercial Banks	2,776	1.8	3,040	1.8
Central Bank Securities	3,740	2.4	-	-	Adjusting Account - Amounts Receivable	1,884	1.2	2,146	1.2
Other Liabilities	41,629	26.7	47,016	27.1	Cash Items in process of Collection	1,517	1.0	646	0.4
Guarantees Issued on account of Constituents	17,307	11.1	16,255	9.4	Other	5,438	3.4	5,823	3.3
Control Accounts Reserves	9,178	5.9	11,623	6.7					
Allocation of Special Drawing Rights	4,939	3.2	5,547	3.2					
International Reserve Revaluation Account	1,940	1.2	2,583	1.5					
Profit & Loss Account	2,554	1.6	4,444	2.6					
Asian Clearing Union Account	3,228	2.1	1,511	0.9					
Other	2,482	1.6	5,053	2.8					
<b>TOTAL</b>	<b>155,958</b>	<b>100.0</b>	<b>173,506</b>	<b>100.0</b>	<b>TOTAL</b>	<b>155,958</b>	<b>100.0</b>	<b>173,506</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

Account and no adjustments have been made in respect of closing stocks.

### Income Recognition

Interest and other income are recognised in the books on an accrual basis except interest on non-performing loans which is recognised on a cash basis.

### Discounts and Premia on Central Bank Securities

Discounts allowed and premia received on Central Bank Securities issued during the year are accounted for in the Profit and Loss Account for the year, irrespective of the date of maturity of these securities.

### Net Profit

The net profit disclosed in the Profit and Loss Account is after charging all expenses and making the following provisions:

- (i) Provision for non-performing loans
- (ii) Provision for depreciation of fixed assets
- (iii) Other necessary provisions and allocations to reserves in terms of Section 38 of the MLA.

### Bank Rate

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

### Short Term Credit

Refinance facilities provided to the commercial banks under the New Comprehensive Rural Credit Scheme (NCRCS) and the Export Credit Refinance Scheme (ECRS) were terminated from April and May 1994, respectively. However, banks which provided the roll over facility to farmer borrowers prior to the termination of the NCRCS were granted a refinance facility on the roll over amount. The outstanding amount under this facility as at end 1995 amounted to Rs.61.3 million, as compared with Rs.72.2 million in 1994.

### Medium and Long Term Credit

The Medium and Long Term Credit Fund (MLCF) remained unchanged at Rs.4,925 million during 1995. The amount repaid, net of disbursements, during the year amounted to Rs.214 million.

## Accommodation to Finance Companies

The Central Bank continued to grant financial accommodation to finance companies in terms of Section 20(4)(a) and 21(1) of the Finance Companies Act No. 78 of 1988. The total amount disbursed under this facility in 1995 amounted to Rs.172 million and the total amount outstanding was Rs.2,472 million at end 1995.

## Reserve Requirements

The Statutory Reserve Requirement on commercial banks remained unchanged throughout the year. The Statutory Reserve Requirement on rupee deposits remained at 15 per cent, on foreign currency deposits invested outside Sri Lanka at 5 per cent and, on all other foreign currency deposits at 15 per cent, throughout the year.

## Open Market Operations

### Secondary Treasury Bill Market

The sales of Treasury bills in the Secondary Market decreased from Rs.21.2 billion in 1994 to Rs.17.0 billion in 1995. The purchases increased from Rs.18.9 billion to Rs.35.3 billion during the same period. The decline in sales was mainly attributed to the shifting of short-term investments from the Secondary Market to the Repurchase Market for Treasury bills as well as the sales of Central Bank Securities.

The yield rates applicable on investments in three month Treasury bills in the Secondary Market varied between 12.99 and 19.66 per cent per annum during the year.

### Repurchase Market for Treasury Bills

The Central Bank continued the sale of Treasury bills under Repurchase Agreements (Repos) during the year. Under this scheme, the total value of Treasury bills sold in 1995 amounted to Rs.197.6 billion. The overnight Repo yield rate, which was 19 per cent at the beginning of the year, gradually declined to 12 per cent by end March. However, with gradual tightening of rupee liquidity towards the end of the year, the overnight Repo yield rate rose to 16.5 per cent at end 1995.

### Reverse Repurchase Agreements

With a view to mitigating the erratic fluctuations in the call money rates, a Reverse Repurchase Facility (RRF) was introduced from 10 November 1995 to inject liquidity into the market in times of severe liquidity shortage. The facility was operated by calling for quotations from commercial banks who were primary dealers in Treasury bills, for a fixed quantum of Treasury bills, with the quantum decided by the Open Market Operations Committee (OMOC) of the Bank.

During November and December, the Central Bank had offered a total amount of Rs.11.0 billion under the RRF and accepted bids for Rs.7.6 billion. However, the RRF was not effective enough to mitigate the high volatility of call market rates in late 1995, owing to speculative transactions in the market and structural factors. The Weighted Average Yield Rate (WAYR) of the accepted bids during this period fluctuated heavily, reflecting very high volatility in the money market. During the latter part of December, the WAYR increased substantially, reaching 50 per cent on 22 December 1995. The tightness of the market was mainly due to heavy borrowings by the merchant banks and long-term lending institutions and a reduction of the amount supplied by the two state banks as a result of delays in settlement of payments by the Government.

## Subsidy and Ex-gratia Payment to Indian Repatriates

The Bank continued to operate the payment schemes relating to the repatriation of estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964. Total subsidy payments under this scheme amounted to Rs.323,232 in 1995 compared to Rs.112,786 in 1994. Ex-gratia payments amounted to Rs.39,600 in 1995, compared to Rs.32,175 in 1994.

## Import Duty Rebate to Exporters

The Bank continued to reimburse claims made by commercial banks in respect of import duty rebates paid to exporters on behalf of the Government. A total sum of Rs.923 million was reimbursed in 1995, compared with Rs.840 million in 1994.

## Foreign Exchange Operations

The Central Bank continued to engage in foreign exchange operations by way of spot purchases and sales and forward purchases of US dollars against Sri Lanka rupees. It also continued to invest its foreign exchange reserves in international money and capital markets.

The total value of foreign currency purchases by the Central Bank from commercial banks in Sri Lanka amounted to Rs.19,187 million, while foreign currency sales to commercial banks amounted to Rs.436 million in 1995. This compared with purchases of Rs.31,452 million and sales of Rs.615 million during 1994.

## Sale of Gold and Silver

The Central Bank continued its gold and silver sales at the Head Office. The value of gold sales amounted to Rs.9.6 million in 1995, compared to Rs.12.1 million in 1994, while

**TABLE II-3**  
**Foreign Exchange Transactions in 1995**

Month	Rs. Mn.		
	Spot Purchases	Spot Sales	Forward Purchases
January	1,257	—	—
February	2,355	—	—
March	2,905	—	—
April	1,367	—	—
May	1,589	—	—
June	—	—	—
July	532	438	—
August	3,551	—	—
September	811	—	—
October	1,242	—	—
November	2,231	—	—
December	1,348	—	—
<b>TOTAL</b>	<b>19,187</b>	<b>438</b>	<b>—</b>

Source : Central Bank of Sri Lanka

the total sale of silver amounted to Rs.0.4 million in 1995 compared to Rs.0.2 million in 1994.

### Asian Clearing Union

The total value of transactions routed through the Asian Clearing Union (ACU) in 1995 amounted to Rs.39,030 million compared with Rs.37,195 million during the previous year. The rupee value of the net settlement made in foreign currency in 1995 amounted to Rs.18,028 million compared with Rs.13,834 million in 1994. The Board of Directors of the ACU with the concurrence of the relevant member authorities has approved a new procedure which includes, inter alia, the settlement of transactions among member countries in US dollars, from January 1996.

### Compulsory Savings Fund

During the year, the Bank paid out Rs.0.06 million (inclusive of interest) on applications made by 4 contributors.

### Government Accounts

The number of operational accounts at end 1995 was 164 compared to 178 at end 1994.

### Foreign Finance

During the year under review, the Bank continued to receive disbursements made available under various foreign loans and grants, while effecting repayments of foreign loans on behalf of the Government.

## CURRENCY ISSUE

The Central Bank, as the sole currency issuing authority, continued to perform the function of issuing legal tender in

Sri Lanka during 1995. The currency in circulation increased from Rs.43,081 million at end 1994 to Rs.46,685 million at end 1995. Notes in circulation accounted for 96 per cent of the currency in circulation.

The Clean Currency Notes Programme to improve the standard of the currency notes in circulation continued to function in 1995. The process of withdrawing unfit notes in circulation and replacing them with new notes continued throughout the year. The currency verification, counting and sorting system (CVCS), which has two reader sorter machines commissioned in 1992, operated throughout 1995 to speed up the Clean Currency Notes Programme. In 1995, the Currency Department received two machines to process old and new designs of Sri Lanka currency notes.

In July 1995, the Central Bank issued a Rs.2 standard circulation coin to commemorate the 50th Anniversary of the Food and Agriculture Organisation. Further, arrangements were made to issue another Rs.5 commemorative coin in 1996 to mark the 50th Anniversary of the United Nations Organisation.

The mobile currency exhibition introduced in 1992 continued during 1995. Sri Lanka coins and notes and specimen currency notes of many countries were displayed at the mobile exhibition.

## BANKING DEVELOPMENT

The principal functions of the Banking Development Department include policy formulation relating to banking, the implementation of the Banking Act in relation to the establishment of commercial banks, branches of commercial banks and the establishment of specialised banks and the evaluation of proposals for the introduction of financial instruments. Further, the Department monitors the performance of Regional Rural Development Banks (RRDBs) and attends to policy formulation for the RRDBs. The Department also co-ordinates the work of the Regional Offices of the Central Bank and monitors their performance.

A notable feature in the development of commercial banks during 1995 was the opening of two new domestic commercial banks and a branch of a foreign bank. The establishment of two domestic private commercial banks, the Union Bank of Colombo Ltd. and Pan Asia Bank, took place after seven years, i.e. since the establishment of Seylan Bank Ltd. in 1988. The establishment of the Colombo branch of the Korea Exchange Bank took place after a lapse of three years since the establishment of the last foreign bank, namely a branch of the Public Bank Berhad in Colombo in 1992. The establishment of new commercial banks reflects the country's economic growth and confidence in its future economic growth and the rising share of the financial sector in the GDP



as well as the potential for further growth of the banking sector.

With the establishment of these commercial banks, the number of banking institutions including development banks and savings banks increased from 44 in 1994 to 47 in 1995. At the end of 1995, the banking system thus comprised 26 commercial banks (8 domestic commercial banks and 18 foreign commercial banks), 17 RRDBs, three development banks and a savings bank.

### Branch Expansion

During 1995, the bank branch network expanded by 4 per cent to 1,199 with the approval of the Monetary Board. Details of the expansion are as follows:

The Bank of Ceylon (BOC) opened two new branches at Ahungalla and Athurugiriya in 1995. The Agrarian Services Centres (ASCs) at Galenbindunuwewa, Horowpathana, Ipalogama, Medawachchiya, Thirappane, Yatawatta, Padavi-Parakramapura, Megalawa and Dodangoda were upgraded to 'C' grade status. New extension offices were opened at the Development Finance Corporation of Ceylon (DFCC) and the

Board of Investment (BOI) offices in Colombo. The extension office at the Export Trade Centre at Transworks House was closed down. Further, the BOC opened 2 new overseas branches in Madras and Karachi.

The People's Bank (PB) opened a branch at Dehiwela during 1995. The PB opened 4 new service counters at the Colombo International Air Port (Arrivals area), the Army Head Quarters (Galle Face), Sri Lanka Bureau of Foreign Employment (Jawatte) and the Law Society Building (Hulstsdorp Street). Eight new pawning centres were also opened during the year at Bogawanthalawa, Embuldeniya, Kotuwegoda, Kahatuduwa, Gothatuwa, Thalawathugoda, Polpitigama and Anuradhapura.

The Hatton National Bank Ltd. (HNB) opened seven new branches at Batticaloa, Panchikawatte, Ampara, Mt. Lavinia, Maharagama, Pinnawala and Suriyawewa in 1995. Further, a pay office at Nawaloka Hospital was opened during the year. Seylan Bank Ltd. (SBL) opened 7 new branches at Wattala, Vavuniya, Batticaloa, Kattankudy, Avissawella, Nawalapitiya and Kekirawa. The Commercial Bank of Ceylon Ltd. (CBCL) also continued to expand during the year adding

**TABLE II-4**  
**Composition of Banking Institutions and Distribution of Bank Branches 1990 - 1995**

Category	1990	1991	1992	1993	1994	1995 *
<b>1. No. of Institutions</b>	<b>40</b>	<b>42</b>	<b>43</b>	<b>44</b>	<b>44</b>	<b>47</b>
1.1 Commercial Banks	24	23	23	23	23	26
1.1.1 Domestic Commercial Banks	6	6	6	6	6	8
1.1.2 Foreign Banks	18	17	17	17	17	18
1.2 RRDBs (a)	12	15	16	17	17	17
1.3 Savings Banks	1	1	1	1	1	1
1.4 Development Banks	3	3	3	3	3	3
<b>2. No. of Bank Branches (b)</b>	<b>924</b>	<b>973</b>	<b>1,058</b>	<b>1,102</b>	<b>1,150</b>	<b>1,199</b>
2.1 Commercial Bank Branches	747	768	818	854	891	932
2.1.1 Branches of Domestic Banks	724	743	789	821	855	895
(i) Main Branches	638	656	699	733	763	796
(ii) ASC Branches	38	36	34	29	28	19
(iii) Kachcheri Branches	23	24	24	24	23	23
(iv) Extension/Pay Offices / Pawning Centres**	23	25	30	33	39	51
(v) Overseas Branches (c)	2	2	2	2	2	4
2.1.2 Foreign Bank Branches	23	25	29	33	36	37
2.2 RRDB Branches	101	124	156	163	169	171
2.3 National Savings Bank Branches	76	81	84	85	90	96
<b>3. No. of Branches / Offices of Development Banks (d)</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>7</b>
3.1 Development Finance Corporation of Ceylon (DFCC)	3	3	3	3	4	4
3.2 State Mortgage & Investment Bank (SMIB)	2	3	3	2	2	2
3.3 National Development Bank (NDB)	1	1	1	1	1	1

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

(b) Excluding Co-operative Rural Banks.

(c) Four overseas branches of the Bank of Ceylon (London, Male, Madras and Karachi Branches).

(d) Including Head Office and Branches of the Development Banks.

\* Provisional figures.

\*\* Revised including all extension/pay offices and pawning centres of the People's Bank, Bank of Ceylon, Hatton National Bank and Sampath Bank.

Source : Central Bank of Sri Lanka

two new branches at Aluthgama and Kaduwela. The branch position of Sampath Bank also increased with the opening of new branches at Anuradhapura, Kuliyaipitiya and Avissawella.

Two new branches were added to the branch network of RRDBs during 1995 at Mirigama (Gampaha RRDB) and Nawalapitiya (Kandy RRDB).

During the year, the National Savings Bank (NSB) established six new branches at Tissamaharama, Kaduwela, Veyangoda, Elpitiya, Katubedda and Divulapitiya.

### Mobile Banking Centres

The RRDBs, the two state banks and private commercial banks continued to provide mobile banking services in order to cater to the needs of people living in areas where there were no banking facilities or where the banking facilities were inadequate.

### Installation of Automated Teller Machines

During 1995, commercial banks continued to expand their Automatic Teller Machine (ATM) network further. The BOC installed 4 ATMs at its branches in Matara, Galle, Galle Bazaar and Anuradhapura and one at its extension office at the DFCC premises. The PB established 2 ATMs at its Head Quarters branch and Piliyandala branch. The HNB offered ATM services at its Maharagama branch and the Majestic City shopping complex, Colombo. The CBCL installed 5 ATMs at its branches in Aluthgama, Kaduwela, Pettah, Kurunegala and Mutwal. The Sampath Bank Ltd. commissioned ATM services at its branches in Anuradhapura, Avissawella and Kuliyaipitiya. The Seylan Bank Ltd. installed 4 ATMs at its branches in Mt. Lavinia, Kandy, Kiribathgoda and Gampaha. During this year, ANZ Grindlays Bank commenced Automated Teller services to its customers at its branches in Colombo Fort, Kollupitiya, Kirillapone and Kandy.

## BANK SUPERVISION

The regulatory and supervisory function of the Central Bank is executed by the Department of Bank Supervision through a process of continuous supervision and periodic examination of all commercial banks in the country. The basic objective of such supervision is to ensure the safety and soundness of the banking system with a view to safeguarding depositors' interests and promoting public confidence in the system.

The method by which these responsibilities are carried out is through on-site examinations and off-site surveillance. Where on-site examinations are concerned, the Examiners of the Department visit the banks concerned and through a

process of appraisal of a bank's assets, its performance, management, capital adequacy, liquidity, systems and controls evaluate its financial condition. Ensuring compliance with regulatory requirements is also an integral part of the examination process. During the year under review, the Department commenced such examinations in respect of 11 commercial banks and one RRDB. Of these, examinations of the RRDB and seven commercial banks were completed during the year under review. The examination of seven commercial banks which had commenced in 1994 was also concluded in 1995.

Under the off-site surveillance system, the Department continued to monitor the financial condition of commercial banks and RRDBs on the basis of monthly statements of Assets and Liabilities forwarded to the Department. Monitoring the operations of the Foreign Currency Banking Units established under the Foreign Currency Banking Scheme too, was carried out on a monthly basis. Information on irregular and large advances was also obtained on a quarterly basis to ascertain the trend in the quality and the volume of the advances portfolio of commercial banks. The profitability and financial strength of each commercial bank in relation to its own peer group and to the whole industry were computed and evaluated on the basis of monthly statements of assets and liabilities and annual statements of income and expenditure furnished by the banks.

The Department continued to fulfil its responsibility in ensuring compliance with the regulatory requirements under the Banking Act and the guidelines issued by the Central Bank on prudential requirements. These included the maintenance of a minimum level of liquid assets, capital based on risk-weighted assets, the adherence to the single borrower limits, restrictions on accommodation to directors and their interests, the submission of annual financial statements in the prescribed accounting format within the statutory period, setting up interest in suspense on non-performing advances, and providing adequate provisions for bad and doubtful debts. During the year under review, the level of liquid assets maintained by a majority of commercial banks ranged between 20 per cent (minimum) and 30 per cent of total specified liabilities. They also maintained the capital adequacy standards enforced by the Central Bank which are based on the norms specified by the Banking Regulations and Supervisory Practices Committee (BASLE Committee). These standards comprise a two-tier system in terms of which the commercial banks are required to maintain a core capital (paid up capital plus free reserves) and an overall capital of not less than 4 per cent and 8 per cent, respectively, of total risk weighted assets.

The Department continued to administer the Deposit Insurance Scheme which has been in operation since 1987.

The number of institutions registered under the scheme is 8 while the premium payable continued to be 3.75 cents for every Rs.100 per quarter.

### Amendments to the Banking Act

The amendments to the Banking Act which were necessitated by the reforms effected in Sri Lanka's financial sector were passed with the Banking Amendment Act No.33 of 1995 by Parliament in November 1995. These amendments contained provisions which have the effect of levelling the playing field for all licensed commercial banks and broadening the scope of the Central Bank's supervision and regulatory framework. The significant changes brought about in terms of these amendments are as follows :

- Repealed the provisions which enabled licensed commercial banks to maintain Numbered Accounts. However, accounts already opened would be operative for a period of 2 years from the appointed date with no credits allowed except for the purpose of interest.
- Enabled the Monetary Board, if it considers necessary, to have a measure of control over the off-shore banking units operated by licensed commercial banks by extending the provisions of the Monetary Law Act as well as the Banking Act to Foreign Currency Banking Units.
- Established the procedure for licensing, controlling and regulating the activities of specialised banking institutions such as development banks and savings banks whose operations have not been subject to such regulations in the original Banking Act. The amended Act details the type of activities that these specialised banks can undertake.
- Enabled the Central Bank to require licensed commercial banks to make adequate provisions for bad and doubtful debts.
- Limited the investments in shares and in immovable properties by licensed commercial banks to ensure that they do not divert their funds away from the principal business of banking.
- Enabled the Monetary Board to permit a licensed commercial bank to have as its subsidiary a company which carries on any form of business which is not inconsistent with the business of banking.

A requirement was also made that the alteration of the Memorandum and Articles of Association of licensed commercial banks should be made only with the prior approval of the Monetary Board. Further, the minimum level of capital requirement for commercial banks was increased to Rs.100 million.

The amendments also introduced a new part, viz. Part IXA to the Banking Act, which contained provisions for licensing and supervision of specialised banks, which include development banks and savings banks. The National Development Bank, the Development Finance Corporation of Ceylon, the National Savings Bank and the State Mortgage and Investment Bank were specifically designated as specialised banks. The provisions of Part IXA provide that from an appointed date, the business of accepting deposits of money and investing and lending such money could be carried out only by companies which have an equity capital of not less than Rs.50 million and which have the authority of a license issued by the Monetary Board. The institutions so licensed have been categorised as licensed specialised banks. Some institutions such as finance companies and co-operative societies have been exempted from the requirement of obtaining a licence in terms of Part IXA of the Banking Act. The Act specifies the procedure for obtaining a licence and enables the Monetary Board to issue directions regarding the form and manner in which the business of licensed specialised banks should be carried out.

The Department's attention was also focused on the role and responsibilities of external auditors conducting the statutory audit of licensed commercial banks. Guidelines to external auditors requiring them to perform certain specific tasks in addition to their normal audit are being prepared, and will be issued in due course.

### NON-BANK FINANCIAL INSTITUTIONS

The Central Bank of Sri Lanka through the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) continued to monitor and supervise the activities of finance companies. The DSNBFI placed greater emphasis on on-site examination of finance companies, while also continuing with the off-site surveillance through an Early Warning System (EWS) during 1995.

Based on the consolidated balance sheets of 24 registered finance companies, deposit liabilities in the financial year ending 31 March 1995 grew by 21.6 per cent following 18.5 per cent growth in the 1993/94 financial year. The capital funds of the companies increased by 21.8 per cent after a 47.5 per cent increase in the previous year. The provision made for bad and doubtful debts by the finance companies increased by 21.7 per cent during the 1994/95 financial year as compared with a 171.5 per cent increase in the previous financial year. The significant increase in provisioning for bad and doubtful debts in the financial year 1993/94 was mainly a result of the implementation of the "Finance Companies (Provision for Bad and Doubtful Debts) Direction No.2" which was issued by the Monetary Board in 1991.

The total assets of finance companies increased by 21 per cent to reach Rs.12,359 million as at 31 March 1995. The

**TABLE II-5**  
**Consolidated Balance Sheet of**  
**Operational Finance Companies**

	Rs. '000		
	As at 31.03.94	As at 31.03.95	% Change
<b>LIABILITIES</b>			
<b>1. Capital Funds</b>			
Issued Share Capital	270,819	382,586	
Share Premium	-	223,043	
Capital Reserve	571,541	488,948	
General Reserve	335,542	453,099	
Reserve Fund	204,293	245,588	
Other Reserves	213,812	165,219	
Profit & Loss A/c.	41,994	65,351	
<b>Gross Capital Funds</b>	<b>1,638,001</b>	<b>2,023,834</b>	
Less: Deferred Expenditure	124	28,445	
<b>Net Capital Funds</b>	<b>1,637,877</b>	<b>1,995,389</b>	<b>21.8</b>
<b>2. Provision for Bad Debts</b>	<b>702,791</b>	<b>855,155</b>	<b>21.7</b>
<b>3. Public Deposits</b>	<b>5,907,935</b>	<b>7,185,813</b>	<b>21.6</b>
<b>4. Borrowings</b>			
Banks	610,530	823,067	
Others	170,899	152,073	
<b>Total Borrowings</b>	<b>781,429</b>	<b>975,140</b>	<b>24.7</b>
<b>5. Other Liabilities</b>	<b>1,150,360</b>	<b>1,347,041</b>	<b>17.1</b>
<b>GRAND TOTAL</b>	<b>10,180,392</b>	<b>12,358,538</b>	<b>21.4</b>
<b>ASSETS</b>			
<b>1. Liquid Assets</b>			
Cash and Due from Banks	167,097	194,052	
Fixed Deposits	290,061	367,748	
Treasury Bills	682,848	790,727	
<b>Total Liquid Assets</b>	<b>1,140,006</b>	<b>1,352,527</b>	<b>18.6</b>
<b>2. Investments</b>			
Shares in Subsidiaries & Associates	188,043	280,477	
Shares in Other Companies	802,539	632,385	
Shares in related Companies	500	500	
Debentures	200	200	
Share Investments	-	112,660	
<b>Total Investments</b>	<b>991,282</b>	<b>1,026,222</b>	<b>3.5</b>
<b>3. Advances</b>			
Loans	604,318	606,773	
Hire Purchase	2,349,637	2,197,391	
Leasing	2,622,855	3,592,979	
Real Estate	263,528	395,965	
Other Advances	279,952	626,186	
<b>Total Advances</b>	<b>6,120,290</b>	<b>7,419,294</b>	<b>21.2</b>
<b>4. Due from Subsidiaries &amp; Associates</b>	<b>1,844</b>	<b>-</b>	
<b>5. Fixed Assets</b>			
Freehold Land & Buildings	777,723	818,695	
Furniture and Fittings	-	84,870	
Other Equipment	161,652	39,234	
Motor Vehicles	66,222	102,286	
Machinery	12,460	44,130	
Leased Assets	-	436,556	
Others	1,808	8,800	
<b>Total Fixed Assets</b>	<b>1,019,871</b>	<b>1,534,571</b>	<b>50.5</b>
<b>6. Other Assets</b>	<b>907,099</b>	<b>1,025,924</b>	<b>13.1</b>
<b>GRAND TOTAL</b>	<b>10,180,392</b>	<b>12,358,538</b>	<b>21.4</b>
<b>No. of Reporting Companies</b>	<b>24</b>	<b>24</b>	

Source: Central Bank of Sri Lanka

total liquid assets had risen by 18.6 per cent, while advances increased by 21.2 per cent during the 1994/95 financial year. Investments of finance companies which stood at Rs.991.3 million as at 31 March 1994 increased to Rs.1,026.2 million as at 31 March 1995.

The relief scheme to depositors of failed finance companies which became operational in 1989, continued during the year. The relief payments made to depositors of seven failed finance companies during the year amounted to Rs.11.9 million, while the total relief payments made to depositors upto end 1995 amounted to Rs.523.5 million. One registered finance company, the administration and management of which were taken over by the Monetary Board in February 1992, was granted loans amounting to Rs.171.5 million during the year to meet the liabilities of depositors. As at end December 1995, the total outstanding Central Bank loans which have been granted to this company, stood at Rs.1,417.6 million.

The Department was also involved in formulating several amendments to the Finance Companies Act No.78 of 1988, taking into consideration the recommendations of the Presidential Commission on Finance and Banking and the experience gathered by the Central Bank in implementing the provisions of the Finance Companies Act No.78 of 1988.

## DEVELOPMENT FINANCE

The responsibilities of the Development Finance Department (DFD) in 1995 continued to be the operation of the Credit Guarantee Schemes for Small and Medium Scale Industries (SMI), the Bus Purchase Loan (BPL), the Entrepreneur Development Programme (EDP) and the refinance scheme for low income housing under the United States Agency for International Development (USAID) Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV. The administration of the Medium and Long Term Credit Fund (MLCF) was limited mainly to following up on the performance of projects (excluding refinance provided to finance companies) which had been refinanced prior to the suspension of the MLCF facility in December 1991.

### Credit Guarantee Operations

A summary of credit guarantee operations under the credit guarantee schemes administered by the Central Bank as at 31 December 1995 is given in Tables II-6 and II-7 covering Small Scale Industries (SSI) Scheme, SMI-I, II, III and IV Schemes and BPL Scheme, respectively. Table II-8 shows an industry-wise classification of projects financed under the SMI-II, III and IV Schemes.

### Small Scale Industries Scheme

A total of 767 loans were guaranteed under this scheme. At end 1995, only eight loans amounting to Rs.0.4 million

and involving a total guarantee commitment of Rs.0.3 million were still in operation. Claims under this scheme amounting to Rs.1.7 million have been met by the Treasury. The liability in respect of the eight loans outstanding under this scheme is Rs.0.3 million.

### **Small and Medium Scale Industries Scheme I**

The SMI-I scheme was in operation from 1979 to 1981. During the period of its operation, 1,670 loans were guaranteed. The total guarantee liability in respect of these loans was Rs.286 million. At the end of 1995 only 40 loans involving a guarantee liability of Rs.4.6 million were outstanding.

Premia collected under this scheme and post claim recoveries by the Central Bank amounted to Rs.12.2 million and Rs.19.9 million, respectively. Available resources made up of premia payments and post claim recoveries amounting to Rs.32.7 million were sufficient to meet liabilities under the scheme. This is mainly due to the close follow-up of post claim recoveries conducted by the Department.

### **Small and Medium Scale Industries Scheme II**

The SMI-II Scheme came into effect in 1982 and continued in operation until 1989. During this period 2,531 guarantees involving a maximum guarantee liability of Rs.714 million were issued. At end 1995, 1,564 loans amounting to Rs.702 million were fully repaid, while 353 guarantees to the value of Rs.168 million were either withdrawn or had been cancelled due to non-compliance by the Participating Credit Institutions (PCIs) with the Central Bank's operating instructions. A total of 226 claims with a liability of Rs.59 million was received as at end 1995 of which 125 claims amounting to Rs.30 million were fully settled. Interim payments not exceeding 50 per cent of the liability of the Central Bank amounting to Rs.0.7 million were made in respect of 4 claims from the Northern and Eastern Provinces in terms of a decision taken in that regard, while 45 claims amounting to Rs.12 million were rejected on account of non-compliance by the PCIs with relevant operating instructions. Loans relating to 5 claims were repaid by the borrowers after submission of claims to the Central Bank, while PCIs have withdrawn 7 claims amounting to Rs.3.6 million. At the end of 1995, consideration of 26 claims amounting to Rs.8.2 million had been deferred on account of rescheduling, following rehabilitation programmes undertaken by the PCIs or recommencement of repayment of the loans.

At end 1995, 440 loans amounting to Rs.111 million with a total guarantee liability of Rs.66 million were operational. Of these, 326 loans with a liability of Rs.86.7 million were reported to be in arrears.

Premia collected under this scheme amounted to Rs.29.4 million as at end 1995, while post-claim recoveries by the Central Bank amounted to Rs.29.7 million, making a total inflow of Rs.59.1 million.

### **Small and Medium Scale Industries Scheme III**

The SMI-III Scheme was in operation from 1988 to 1991. Under this scheme, guarantees were issued against 3,130 loans amounting to Rs.1,956 million. At end 1995, 1,339 loans amounting to Rs.607.8 million had been fully repaid, while guarantees relating to 280 loans and amounting to Rs.212.6 million had either been withdrawn or had lapsed. A total of 146 claims with a Central Bank guarantee liability of Rs.35.5 million were received as at end 1995. Of these, 83 claims totalling Rs.22.9 million were settled, while 41 claims totalling Rs.12.1 million were rejected. Consideration of 4 claims was deferred due to regularisation of the respective loan accounts by the borrowers after the submission of such claims. By end December 1995, 1,387 loans amounting to Rs.433.7 million with a maximum guarantee liability of Rs.280.7 million were operational. Of these, 621 loans with a potential liability of Rs.143.2 million, were in arrears. The total premia collected under this scheme as at 31 December 1995 was Rs.42.5 million, while Rs.20.1 million was paid to the Central Bank as post-claim recoveries.

### **Small and Medium Scale Industries Scheme IV**

The SMI-IV Scheme commenced in March 1992 and is currently operational. By end 1995, 7,382 loans amounting to Rs.6,057 million had been guaranteed. The Central Bank's liability in respect of these loans amounted to Rs.4,176 million. During the year, 542 loans amounting to Rs.264.3 million had been fully settled, while 238 guarantees had been either withdrawn or had lapsed due to non-compliance with the Central Bank's operating instructions by the PCIs. At end 1995, 6,553 loans totalling Rs.3,747 million were operational. Total guarantee liability on these loans amounted to Rs.2,588 million. At end December 1995, 87 claims amounting to Rs.53 million were received, of which 26 claims amounting to Rs.7 million were settled. The total amount collected as guarantee premia at end 1995, was Rs.84.9 million. By the end of the year, a sum of Rs.6.5 million had been received as post-claim recoveries.

### **Bus Purchase Loan Scheme**

This scheme was inaugurated in November 1990 to assist PCIs to grant loans to private bus operators to purchase buses for public transport. Loans were refinanced by the National Development Bank (NDB) and guaranteed by the Central Bank. The scheme ceased to operate at the end of 1992 as the resources available to the NDB to provide refinance were fully committed by that date. Under the BPL scheme, 1,932

**TABLE**  
**Summary of Performance of the Central Bank**

ITEMS	SCHEMES AND YEARS	SMALL SCALE INDUSTRIES		SMALL AND	
		SSI		SMI - I	
		1995		1995	
		No.	Value	No.	Value
1.1 Loans granted		767	31.2	1,670	286.1
1.2 Loans guaranteed		767	23.4 (b)	1,670	157.5 (c)
2.1 Loans fully repaid		598	23.1	1,230	183.9
2.2 Guarantees withdrawn or lapsed		90	4.9	113	31.4
3.1 Total claims received		88	4.3 (g)	338	75.9 (g)
3.2 Central Bank liability			2.4		33.9
3.3 Settlement of claims					
3.3.1 Fully settled		63	1.7	230	19.1
3.3.2 Partly settled		1	0.0 (h)	27	2.1
3.3.3 Claims rejected		7	0.2	30	5.5
3.3.4 Loans fully paid after submission of claims (i)		16	0.2	37	2.0
3.3.5 Claims deferred (j)		1	0.3	11	2.6
3.3.6 Claims pending (j)				3	0.5
3.3.7 Claims withdrawn (j)					
4.1 Loans outstanding (k)		8	0.4	40	4.6
4.2 Loans in arrears		8	0.4	40	4.6
4.3 Central Bank liability on guarantees outstanding		8	0.3 (b)	40	2.9 (c)
5. Premia collected			1.0		12.2
6. Post claim recoveries			0.6		19.9

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

(b) 75% of loans outstanding.

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

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

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

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

(g) Amount in default including interest accrued therein.

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

(i) Included under 2.1.

(j) Included under 4.1.

(k) Excluding instalments recovered.

loans amounting to Rs.1,099 million and involving a guarantee liability of Rs.871 million were approved.

Under this scheme, 1,911 new buses were introduced to the transport fleet. A feature of this scheme was that there were 1,816 borrowers indicating the high proportion of single owner bus operators.

At end 1995, 596 loans amounting to Rs.325.1 million had been fully repaid, while 117 guarantees to the value of Rs.69.2 million had either lapsed or been withdrawn due to non-compliance with the Central Bank's operating instructions by the PCIs.

At end 1995, 18 claims amounting to Rs.9.8 million and with a guarantee liability of Rs.6.9 million had been received. Of these, 9 claims were paid a total of Rs.2.1 million being

the eligible interim settlement of 50 per cent. At end 1995, 5 claims amounting to Rs.2.8 million were outstanding, while 2 claims for Rs.1 million were rejected.

The total premia collected under the scheme upto end 1995 amounted to Rs.21.2 million, while a sum of Rs.1.7 million had been recovered as post-claim recoveries. Table II-7 summarises the performance of the scheme.

### Housing Guarantee Low Income Shelter Programme - Phase IV

The refinance scheme under the above programme, which commenced in July 1992, continued to operate through 1995. The Central Bank functions as the Apex Lender under this scheme. Refinance facilities are granted by the Central Bank from funds loaned to the Government of Sri Lanka by

## II-6

## Credit Guarantee Schemes as at 31 December 1995

Rs. Mn.

## MEDIUM SCALE INDUSTRIES

SMI - II				SMI - III				SMI - IV			
1994		1995		1994		1995		1994		1995	
No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
2,531	1,392.5	2,531	1,392.5	3,130	1,955.6 (a)	3,130	1,955.6 (a)	6,270	4,735.9	7,382	6,056.8
2,531	713.6 (d)	2,531	713.6 (d)	3,130	1,312.6 (e)	3,130	1,312.6 (e)	6,270	2,855.8 (f)	7,382	4,176.7 (f)
1,497	677.8	1,564	702.2	1,000	439.9	1,339	607.8	253	125.5	542	264.3
341	167.9	353	168.0	267	202.1	280	212.6	169	103.8	238	145.0
225	115.5 (g)	226	70.0	124	61.6 (g)	146	50.7	40	25.5 (g)	87	53.0
	58.6		58.6		42.0		35.5		20.4		42.4
124	30.3	125	30.6	69	19.9	83	22.9	16	3.6	26	7.0
4	0.7	4	0.7								
44	11.7	45	11.7	24	7.4	41	12.1	3	0.4	23	10.6
5	1.1	5	1.1			1	1.6			1	0.5
26	8.2	26	8.2	4	4.6	4	4.6	2	1.6	2	1.6
15	4.8	14	4.4	25	10.8	13	3.7	18	12.9	34	28.9
7	3.6	7	3.6	2	1.7	4	2.5	1	1.6	1	1.6
520	146.3	440	110.7	1,770	585.9	1,387	433.7	5,829	2,999.5	6,553	3,747.7
394	68.2	326	86.7	567	108.0	621	143.2	509	51.5	1,339	43.7
520	84.3 (d)	440	66.4 (d)	1,770	386.8 (e)	1,387	280.7 (e)	5,829	1,951.7 (f)	6,553	2,588.3 (f)
	29.2		29.4		39.6		42.5		61.8		84.9
	14.0		29.7		5.6		20.1		0.3		6.5

Source : Central Bank of Sri Lanka

the United States Government under the HGLISP - Phase IV. These funds are made available to the PCIs designated as Sub Apex Lenders (SALs) /Direct Primary Lenders (DPLs) who have entered into an agreement with the Central Bank under the HGLISP. At present, Bank of Ceylon (BOC), People's Bank (PB), Hatton National Bank Ltd., State Mortgage and Investment Bank, Seylan Bank Ltd., Commercial Bank of Ceylon Ltd., the Housing Development Finance Corporation (HDFC) and the RRDBs of Kurunegala, Kandy, Kegalle, Puttalam, Galle, Badulla, Gampaha, Matale and Matara participated as SALs under this scheme. In October 1995, four other RRDBs, namely Hambantota, Kalutara, Ratnapura and Nuwara Eliya signed agreements to participate in this programme. The National Housing Development Authority (NHDA) participated in this scheme through the BOC. Loans were granted under this scheme for any purpose related to owner occupied housing, including acquisition of land for house construction, additions/improvements and renovation to existing houses. Households earning a monthly income of Rs.5,700 or less were eligible to obtain loans under this scheme.

The HGLISP operated upto 1994 on the basis of an advance of Rs.150 million provided by the Treasury. In

October 1994, a borrowing of US dollars 10 million being the first tranche of a loan of US dollars 25 million under the Housing Guarantee Agreement was made. The proceeds of this loan were disbursed by April 1995. In order to continue with the scheme, in June 1995, another advance of Rs.150 million was provided by the Treasury.

A statistical profile of the performance of the HGLISP Phase IV is given in Tables II-9, II-10, II-11 and II-12.

In 1995, Rs.305 million had been approved under this programme and Rs.277 million disbursed. The cumulative figures from 1992 to 1995 show that Rs.889 million had been approved and Rs.637 million disbursed.

A very high proportion of borrowers under this scheme has been from the rural sector. Thus, 80 per cent of approvals in 1993 and 1994 and 89 per cent of approvals in 1995 were for rural sector housing. The breakdown of borrowers by gender in 1995 showed that an equal percentage of 30 per cent of borrowers in both the rural and urban sectors were female. According to the purpose-wise classification of loans, about 35 per cent of loans in 1995 were for construction of

**TABLE II-7**  
**SMI-II, SMI-III and SMI-IV Credit Guarantee Schemes**  
**Industry-wise Classification as at 31 December 1995**

Industry	SMI – II, III & IV (1982 – 1995)						SMI – IV (1995)					
	Loans Granted		Loan Amount		Guaranteed Amount		Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Rs. Mn.	%	Rs. Mn.	%	No.	%	Rs. Mn.	%	Rs. Mn.	%
Food Processing	2,968	22.8	1,958.0	20.8	1,148.8	19.9	146	13.1	147.7	11.1	97.4	11.0
Other Agro-Industries	277	2.1	136.4	1.4	86.8	1.5	6	0.5	7.5	0.6	4.7	0.5
Rubber Products	251	1.9	265.6	2.8	148.7	2.6	10	0.9	22.2	1.7	13.6	1.5
Metal Products	1,136	8.7	613.8	6.5	380.9	6.6	108	9.7	82.2	6.2	56.0	6.3
Construction Materials	784	6.0	465.5	4.9	309.1	5.4	45	4.0	43.9	3.3	29.5	3.3
Construction Contracting	211	1.6	337.6	3.6	180.1	3.1	47	4.2	101.6	7.6	64.6	7.3
Wood Products	766	5.9	375.2	4.0	255.5	4.4	44	4.0	45.8	3.4	30.0	3.4
Garments	786	6.0	693.5	7.4	391.3	6.8	26	2.3	34.2	2.6	22.1	2.5
Textiles	291	2.2	297.7	3.2	162.3	2.8	18	1.6	20.1	1.5	13.3	1.5
Repair Workshop	467	3.6	244.1	2.6	162.5	2.8	26	2.3	14.6	1.1	11.0	1.2
Others *	5,106	39.1	4,027.9	42.8	2,538.5	44.0	636	57.2	811.3	61.0	540.2	61.2
<b>T O T A L</b>	<b>13,043</b>	<b>100.0</b>	<b>9,415.2</b>	<b>100.0</b>	<b>5,764.3</b>	<b>100.0</b>	<b>1,112</b>	<b>100.0</b>	<b>1,331.0</b>	<b>100.0</b>	<b>882.4</b>	<b>100.0</b>

\* Includes Passenger & Commercial Transport, Leather, Animal Husbandry, Chemical, Fishing, Restaurants, Fibre Glass, Electronic, Glass, Ceramics and Polythene.

Source : Central Bank of Sri Lanka

**TABLE II-8**  
**Summary of Performance of the Bus Purchase Loan Scheme**

Item	Rs. Mn.			
	As at 31 December			
	1994		1995	
	No.	Value	No.	Value
1.1 Loans granted	1,932	1,098.6	1,932	1,098.6
1.2 Loans guaranteed	1,932	871.2 (a)	1,932	871.2 (a)
2.1 Loans fully repaid	251	140.8	596	325.1
2.2 Guarantees withdrawn or lapsed	116	68.5	117	69.2
3.1 Total claims received	13	7.6 (b)	18	9.8 (b)
3.2 Central Bank liability		6.3		6.9
3.3 Settlement of claims				
3.3.1 Partly settled	6	1.4 (c)	9	2.1
3.3.2 Claims rejected	2	1.0	2	1.0
3.3.3 Claims deferred (e)	–	–	–	–
3.3.4 Claims pending (e)	4	2.5	5	2.8
3.3.5 Claims withdrawn	–	–	1	0.2
3.3.6 Loans fully paid after submission of claims (f)	1	0.4	1	0.4
4.1 Loans outstanding	1,557	420.5 (d)	1,208	218.4 (d)
4.2 Central Bank liability on guarantees outstanding	1,557	333.2 (a)	1,208	171.8 (a)
5. Premia collected		19.2		21.2
6. Post claim recoveries		0.5		1.7

Source : Central Bank of Sri Lanka

(a) 80%, 60% and 40%, respectively, for upto Rs. 2 Mn., Rs. 2 Mn.–Rs. 3 Mn. and Rs. 3 Mn.–Rs. 4 Mn., subject to maximum of Rs. 1.6 Mn., per project.

(b) Amount in default including interest accrued therein.

(c) 2 cases amounting to Rs. 0.4 million indicated against fully settled have since been classified as partly settled.

(d) Excluding instalments recovered.

(e) Included under 4.1.

(f) Included under 2.1.



**TABLE II-9**  
**Housing Guarantee Low Income**  
**Shelter Programme – Phase IV**  
**Refinance Approvals and Disbursements**

Sub-Apex Lender	Rs. '000			
	Refinance Approvals		Refinance Disbursements	
	1995	1992-95	1995	1992-95
Bank of Ceylon	40,488	350,050	123,917	312,481
Commercial Bank of Ceylon Ltd.	395	1,752	180	1,083
Hatton National Bank Ltd.	-	5,284	918	4,724
Housing Dev. Finance Corporation	92,328	165,305	60,691	85,340
People's Bank	100,346	235,223	68,601	179,263
Regional Rural Development Banks	42,263	66,699	18,154	32,989
Seylan Bank Ltd.	170	4,505	75	2,430
State Mortgage & Investment Bank	28,904	60,510	4,365	18,995
<b>T O T A L</b>	<b>304,894</b>	<b>889,328</b>	<b>276,901</b>	<b>637,305</b>

Source : Central Bank of Sri Lanka

new houses, 24 per cent for improvements or extensions of existing houses and 40 per cent for land acquisition. The share of loans for land acquisition, at 40 per cent, showed a large increase when compared with 24 per cent in 1994.

In 1995, 11 per cent of the loans under this scheme were for amounts of Rs.10,000 or less, while over 25 per cent were for amounts ranging from Rs.10,000 to Rs.25,000. A further 53 per cent of loans were for amounts from Rs.45,000 to Rs.100,000. The proportion of loans approved by the HDFC, PB and the RRDBs showed a substantial increase over the previous year, while the share of the NHDA declined. Nevertheless, the NHDA which grants small loans below Rs.25,000 accounted for 40 per cent of loans granted under this scheme, indicating the strong bias of the scheme towards the very low income groups. A feature of the performance of this programme in 1995 has been the more even participation by the financial institutions in this scheme.

The maturity pattern of loans under this scheme indicated that 46 per cent of loans have been for upto 5 years, a further 16 per cent for periods from 5 to 10 years and 38 per cent for period from 10 to 15 years.

**TABLE II-10**  
**Housing Guarantee Low Income Shelter Programme – Phase IV**  
**Loan Approvals by Purpose, Maturity and Size**

Rs. '000

Category	1995			1992 - 1995		
	Urban	Rural	Total	Urban	Rural	Total
<b>Purpose</b>						
Construction	6,321	99,821	106,142	54,928	342,255	397,183
Improvements	7,117	65,527	72,644	47,767	210,810	258,577
Land Acquisition	19,648	103,329	122,977	44,430	184,171	228,601
Infrastructure Development	237	2,894	3,131	547	4,420	4,967
<b>T O T A L</b>	<b>33,323</b>	<b>271,571</b>	<b>304,894</b>	<b>147,672</b>	<b>741,656</b>	<b>889,328</b>
<b>Maturity</b>						
Less than 5 years	9,428	135,335	144,763	46,118	316,322	362,440
6 to 10 years	7,580	37,430	45,010	43,433	213,542	256,975
11 to 15 years	16,315	98,706	115,021	57,822	210,633	268,455
16 to 20 years	-	100	100	299	1,159	1,458
<b>T O T A L</b>	<b>33,323</b>	<b>271,571</b>	<b>304,894</b>	<b>147,672</b>	<b>741,656</b>	<b>889,328</b>
<b>Size (Rs.)</b>						
0 - 2,500	2	308	310	122	9,496	9,618
2,501 - 5,000	359	3,062	3,421	3,231	32,848	36,079
5,001 - 7,500	498	7,471	7,969	5,158	60,661	65,819
7,501 - 10,000	2,118	20,503	22,621	13,659	156,083	169,742
10,001 - 15,000	4,917	17,504	22,421	46,156	58,771	104,927
15,001 - 20,000	2,199	15,250	17,449	10,544	40,681	51,225
20,001 - 25,000	2,165	32,968	35,133	13,889	63,011	76,900
25,001 - 30,000	565	11,048	11,613	2,804	23,085	25,889
30,001 - 35,000	648	7,414	8,062	2,599	16,444	19,043
35,001 - 40,000	769	9,379	10,148	3,695	21,869	25,564
40,001 - 45,000	744	3,950	4,694	3,135	11,211	14,346
45,001 - 50,000	3,131	48,022	51,153	10,180	92,602	102,782
50,001 - 100,000	12,233	65,670	77,903	29,525	125,747	155,272
100,000 >	2,975	29,022	31,997	2,975	29,147	32,122
<b>T O T A L</b>	<b>33,323</b>	<b>271,571</b>	<b>304,894</b>	<b>147,672</b>	<b>741,656</b>	<b>889,328</b>

Source : Central Bank of Sri Lanka

**TABLE II-11**  
**Housing Guarantee Low Income**  
**Shelter Programme – Phase IV**  
**Loan Approvals by Province**

Province	1995		1992 – 1995	
	Amount	%	Amount	%
Central	53,794	17.6	134,268	15.1
Eastern	4,497	1.5	20,602	2.3
North Central	13,865	4.5	157,208	17.7
North Western	41,547	13.6	89,704	10.0
Northern	537	0.2	4,368	0.5
Sabaragamuwa	32,913	10.8	78,295	8.8
Southern	49,128	16.1	115,332	13.0
Uva	4,737	1.5	21,360	2.4
Western	103,876	34.1	268,191	30.2
<b>TOTAL</b>	<b>304,894</b>	<b>100.0</b>	<b>889,328</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

the Trincomalee District for school leavers and unemployed rural youth, aimed at creating an awareness in entrepreneurship potential and advising them on matters relating to dealing with banks and other service sector institutions. This programme was attended by 90 participants during its two day session. Officers of the Department also addressed senior officers of branches of the People's Bank on aspects relating to the SMI and the credit guarantee scheme at seminars organised in Hambantota, Dambulla, Kalutara, Kandy and Habarana.

### Plantation Sector Reform Project

The Government negotiated a loan of SDR 40.855 million, with the ADB, the proceeds of which were to be used for development of the plantation sector. Under this proposed

**TABLE II-12**  
**Housing Guarantee Low Income Shelter Programme – Phase IV**  
**Loan Approvals by Sector and Gender**

Year	Total		Rural Sector				Urban Sector			
			Male		Female		Male		Female	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1992	4,273	27,381	2,977	19,205	1,244	7,445	39	523	13	208
1993	23,718	218,762	13,865	123,027	6,193	51,397	2,321	28,841	1,339	15,497
1994	22,733	338,291	13,317	195,544	5,669	73,466	2,600	50,223	1,147	19,057
1995	11,960	304,894	7,511	201,022	3,154	70,548	906	24,665	389	8,659
<b>TOTAL</b>	<b>62,684</b>	<b>889,328</b>	<b>37,670</b>	<b>538,798</b>	<b>16,260</b>	<b>202,857</b>	<b>5,866</b>	<b>104,252</b>	<b>2,888</b>	<b>43,421</b>

Source : Central Bank of Sri Lanka.

### Investment of SMI and BPL Guarantee Fund Resources

Investment of SMI and BPL Guarantee Fund resources in the Primary Treasury bill market which commenced in July 1988, continued during 1995. Investment holdings of Fund resources and premia collections at end 1995 amounted to Rs.899 million. Interest income from investments during the same period amounted to Rs.120.5 million.

### Entrepreneurship Development Programme

The EDP was continued for the benefit of small industrialists through specially designed training programmes at district level. These programmes have been organised to meet the demand for upgrading technical and management skills of industrialists operating at village level, with a view to developing their products and services and making them more competitive in the market. Funds necessary for this purpose were approved by the World Bank in late 1993 under its Technical Assistance Programme covering the SMI Scheme. During 1995, a training programme was held in Kantalai in

loan, the Central Bank would function as the Apex Lender and would refinance loans to participating financial institutions. This programme will be administered by the DFD.

### Follow-up and Inspection of Projects

The programme of inspection of SMI projects was continued in 1995 in order to monitor their viability and operation. A total of 109 projects were inspected with a view to recommending corrective action where necessary and to settling claims lodged by the PCIs. The majority of projects were located in the districts of Colombo, Badulla, Kandy, Matara, Gampaha and Galle.

### RURAL CREDIT

During the year under review, the Central Bank continued to function as the Executing Agency for a number of donor-funded projects. As the Executing Agency, the Bank's functions involved the admission of Participating

Credit Institutions (PCIs), issue of Operating Instructions to PCIs, disbursement of refinance to PCIs in respect of loans eligible under projects, monitoring and co-ordination of loan schemes, maintaining of loan records, and the promotion of the loan schemes in collaboration with other local agencies. The following were the projects implemented by the Bank during 1995.

(a) ADB Funded Projects

- (i) Agriculture Rehabilitation Project;
- (ii) Small-Holder Tea Development Project;
- (iii) Mid-Country Perennial Crops Development Project;
- (iv) Southern Province Rural Development Project;
- (v) North-Western Province Water Resources Development Project.

(b) IFAD Funded Projects

- (vi) Kegalle District Integrated Rural Development Project.

(c) IFAD/CIDA/GOSL Funded Projects

- (vii) The Small Farmers and Landless Credit Project.

The detailed operations of the above Projects during the year under reference are discussed below.

**(i) Agriculture Rehabilitation Project**

The Agriculture Rehabilitation Project Credit Scheme funded by the ADB for providing financial facilities for rehabilitating persons and property affected by the on-going civil war in the Northern and Eastern Provinces was closed on 30 June 1995 after its successful completion by the Bank.

The Project covered the eight districts of Jaffna, Kilinochchi, Mannar, Mullaitivu and Vavuniya in the North, Ampara, Batticaloa and Trincomalee in the East as well as the bordering districts of Anuradhapura, Hambantota, Moneragala, Polonnaruwa and Puttalam. The Project Management Unit (PMU) which was set up in the Department in 1991 to implement the credit component had provided refinance totalling Rs.688 million to banks in respect of 12,896 sub loans granted by the PCIs as at the closing date, using more than 99 per cent of the total allocation for credit disbursement. In view of the strong demand for credit from the affected persons, arrangements were made by the Bank to recycle the recovered loans. The Bank will continue to monitor the recovery and re-lending of funds by PCIs through the PMU.

**(ii) Small Holder Tea Development Project**

The Small Holder Tea Development Project (SHTDP), also funded by the ADB, commenced operations in 1989. The Project was scheduled to be terminated by the end of 1995, but on a request by the Government, was extended till end-1997. The SHTDP aims at increasing production and export of tea by smallholders, improving the quality of tea and the productivity of privately owned tea factories. The activities financed under the credit scheme encompassed field development, nursery development and factory development including the rehabilitation and the improvement of tea factories. The credit scheme experienced a considerable setback during the early stages of its implementation, largely due to the various bottlenecks encountered at the field level and low world prices that discourage investment in this sector. During the year under reference, the credit awareness campaign started previously was continued by the Central Bank by conducting seminars and other publicity programmes in the project area. In 1995, several revisions were introduced to the original design of the credit scheme, such as an upward revision of the credit limit for field development, a reduction of interest rate by 2 percentage points for field development thus reducing the on-lending rate from 16 per cent to 14 per cent and the relaxation of the eligibility criteria concerning vehicle loans to registered green leaf collectors and private tea factory owners. These measures enabled the PCIs to accelerate the rate of disbursement of loans during the latter half of 1994 and in 1995, reaching the credit targets set by the ADB for 1995. Loan approvals and disbursements by the PCIs for field development and factory rehabilitation increased considerably during the year. The total loans disbursed by the PCIs upto end 1995 stood at Rs.339 million. Of this, disbursements during 1995 amounted to Rs.193 million. Loans granted for field development (new planting and re-planting) in 1995 amounted to Rs.87 million, while that for nursery and factory development amounted to Rs.8 million and Rs.98 million, respectively. Refinance provided by the Central Bank for all categories in 1995 stood at Rs.92 million.

**(iii) Mid-Country Perennial Crops Development Project**

The Perennial Crops Development Project Credit Scheme funded by the ADB completed the seventh year of operations in 1995. The credit scheme was designed to provide medium-term credit facilities to farmers at concessional rates for promoting the production and the commercialisation of perennial crops, particularly minor export crops and fruit crops. The Project also lays emphasis on the promotion of modern technology concerning on-farm post-harvest handling and processing in the perennial crops sector in the country. Although the Project was scheduled to be terminated in December 1995, it was subsequently extended by the ADB for two more years, taking into account the improved performance of the Project in 1995.

The reformulation of the credit scheme by way of extending the project area to cover the entire country except Northern and Eastern parts and including new PCIs under the Project has been accompanied by an increase in the disbursement of project funds during the year. The cumulative amounts of the approval and the disbursement of loans by PCIs as at end November 1995 stood at Rs.598.3 million and Rs.394 million, respectively. At end 1995, the cumulative amount of refinance granted by the Central Bank to PCIs against their disbursement of funds amounted to Rs.183 million.

Strong demand for sub loans from the PCIs has resulted in an inadequacy of loan proceeds to entertain all the loan applications submitted by the borrowers. The ADB has agreed to re-allocate US dollars 1 million from another expenditure head of the Project for the credit component. Further, the Central Bank also obtained the approval of the Treasury to grant an interest subsidy of 5 percentage points to the two state banks to enable them to extend credit out of their own funds at an interest rate of 14 per cent in respect of loan applications held with them subject to a ceiling of Rs.100 million.

The Central Bank made arrangements to train 20 officers from PCIs on monitoring, supervision and implementation of perennial crop loans under a specially designed training programme at the College of Agricultural Banking of the Reserve Bank of India in October 1995. The costs of this training programme were met out of project funds.

#### **(iv) Southern Province Rural Development Project**

The Southern Province Rural Development Project funded by the ADB began operations in 1992 with the objective of raising the income and quality of life of people in the Province by providing credit facilities for creating income and employment generating opportunities in the Project area. The Bank functions as the executing agency for the credit component of the Project which has a total credit allocation of SDR 6.4 million (approximately Rs.450 million). The Development Finance Corporation of Ceylon (DFCC) and the three RRDBs at Galle, Matara and Hambantota have been admitted as PCIs which are assisted by a Project Office set up at the Southern Province Provincial Council. Under the Project, refinance is provided by the Bank for financing small/medium scale industries located at Charley Mount Industrial Estate in Weligama and other small/medium scale rural enterprises in the Southern Province. The Bank lends PCIs at 6 per cent per annum, while the PCIs grant sub-loans at 14 per cent per annum.

The provision of refinance to RRDBs commenced in 1994. During 1995, a sum of Rs.38.1 million in respect of 1,395 loans was granted by the Bank by way of refinance.

The cumulative refinance as at end 1995 amounted to Rs.69.6 million in respect of 3,512 loans.

#### **(v) North-Western Province Water Resources Development Project**

This credit scheme funded by the ADB, completed the second year of operations in 1995. Under this Scheme, financial assistance in the form of loans is provided in Kurunegala and Puttalam districts for agro-wells, small scale lift irrigation projects, agricultural activities and self-employment projects. In the case of self-employment activities, the Project provides for a strong emphasis on lending to female borrowers. From the inception of the Project, Puttalam and Kurunegala RRDBs and the Hatton National Bank functioned as PCIs. In order to enhance credit delivery, the People's Bank and the Bank of Ceylon were also admitted as new PCIs in November 1995. The ADB has provided a sum of SDR 1.6 million (Rs.90 million) for the disbursement of credit under the Project. The Government's contribution to the credit scheme takes the form of a subsidy granted to farmers for the construction of agro-wells.

As at end 1995, PCIs had disbursed Rs.6.6 million for the construction of 200 agro-wells and Rs.6.6 million for 550 self-employment sub-projects of women in the North-Western Province. As from 1 July 1995, the interest rate on sub-loans was reduced from 16 per cent to 14 per cent per annum, while at the same time the on-lending rate of the Central Bank was revised downward from 8 per cent to 6 per cent per annum.

#### **(vi) Kegalle District Integrated Rural Development Project**

The Integrated Rural Development Project in the Kegalle District funded by IFAD has a credit component of SDR 1.55 million for disbursing credit to beneficiaries for agriculture and self-employment activities. This Project commenced its operations in October 1987 and was terminated in December 1995. However, to provide refinance facilities to PCIs for loans disbursed prior to the closing date, the accounts of this Project will be kept open until end June 1996. The amount of funds disbursed under all categories of the Project stood at Rs.147 million as at end 1995 exceeding the total allocation of Rs.90 million (SDR 1.55 million). Loans were granted for short-term cultivation as well as medium-term agricultural and industrial purposes. During 1995, a sum of Rs.19.3 million was disbursed under the Project for banana cultivation, dairy development and self-employment projects. The total number of beneficiaries under the Project stood at 8,471 as at the closing date. The Central Bank will continue to monitor and supervise the loan recovery under the Project.

#### **(vii) The Small Farmers and Landless Credit Project**

The Central Bank continued its operations as an executing agency of the Small Farmers and Landless Credit

(SFLC) Project during 1995 in the four districts of Puttalam, Kandy, Galle and Matara. The Project aims at alleviating poverty and improving the living conditions of the poorest of the poor in the above-mentioned districts. For this purpose, International Fund for Agricultural Development (IFAD) has provided a loan of SDR 4.8 million and the Canadian International Development Agency (CIDA) a grant of SDR 4.7 million. The contribution of the Central Bank towards the Project on behalf of the Government will amount to SDR 2.9 million. The Project activities which commenced in 1990 completed the sixth year of operations in 1995.

The number of loans, as at end 1995 granted to the beneficiaries in Kandy and Puttalam (IFAD Districts) stood at 19,700, recording a value of Rs.168 million. The comparable figures for Galle and Matara districts (CIDA Districts) were 10,166 loans and Rs.79.5 million, respectively. A satisfactory rate of recovery of 87 per cent and 86 per cent has been achieved in IFAD and CIDA districts, respectively, in respect of loans granted under the Project.

An impact study on the Project beneficiaries was conducted by an independent organisation in mid-1995. The study revealed that about 85 per cent of the beneficiaries of the Project has been selected from the target group and about 66 per cent of the beneficiaries to whom financial assistance had been extended by the Project had crossed the poverty line by mid-1995. It was also revealed by the Study that women constituted 63 per cent of the total beneficiaries of the Project.

## REGIONAL RURAL DEVELOPMENT BANKS

The activities of RRDBs continued to expand during 1995, thereby assisting the process of development of the rural economy.

### Branch network of RRDBs

The total number of RRDBs in operation remained unchanged at 17 as at end 1995. Two new branches were added during the year increasing the total number of RRDB branches to 171 in 1995 (Table II-13).

### Deposit Mobilisation

The RRDBs have contributed significantly to mobilising rural savings by the introduction of attractive savings schemes and the provision of mobile banking services to unbanked and under banked areas. The total deposits mobilised by RRDBs at the end September 1995 stood at Rs.1,760 million in respect of 902,996 accounts, indicating an increase of 17 per cent in the value of deposits and 8 per cent in the number of accounts when compared with the position at end 1994. Savings deposits accounted for the bulk of these deposits. The total value of savings deposits amounted to Rs.1,439 million in respect of 894,659 accounts. The average amount in a savings account increased marginally from Rs.1,534 in 1994 to Rs.1,608 in 1995. The average value of a fixed deposit rose from Rs.30,370 in 1994 to Rs.39,541 in 1995.

TABLE II-13  
Branch Network of RRDBs

Name	Date of Establish- ment	Location of Head Office	Number of Branches Opened											Total at end 1995
			1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	
Kalutara	85.07.13	Bulathsinhala	4	3	4	1	-	-	1	2	-	-	-	15
Matara	85.07.28	Matara	5	2	-	1	-	-	-	4	-	-	-	12
Kurunegala	85.08.10	Kuliyapitiya	6	4	2	1	1	1	-	2	-	-	-	17
Anuradhapura	85.08.12	Anuradhapura	2	4	1	-	-	-	3	1	-	-	-	11
Hambantota	86.12.13	Ambalantota	-	2	2	2	-	1	-	1	-	-	-	8
Kegalle	87.02.08	Kegalle	-	-	8	1	2	1	(1)	1	1	1	-	14
Puttalam	87.07.11	Chilaw	-	-	5	1	-	2	1	1	-	-	-	10
Galle	87.08.17	Elpitiya	-	-	1	7	1	-	-	3	-	-	-	12
Kandy	87.10.13	Kandy	-	-	6	3	-	2	-	2	-	-	-	13
Nuwara Eliya	88.10.10	Nuwara Eliya	-	-	-	1	3	2	-	2	-	-	1	9
Moneragala	88.10.11	Buttala	-	-	-	1	2	1	2	-	-	-	-	6
Badulla	90.10.13	Badulla	-	-	-	-	-	4	2	3	-	4	-	13
Polonnaruwa	91.05.17	Polonnaruwa	-	-	-	-	-	-	4	2	1	-	-	7
Matale	91.06.21	Matale	-	-	-	-	-	-	5	1	-	-	-	6
Ratnapura	91.09.30	Ratnapura	-	-	-	-	-	-	4	2	1	-	-	7
Ampara	92.02.24	Ampara	-	-	-	-	-	-	-	5	2	-	-	7
Gampaha	93.06.07	Gampaha	-	-	-	-	-	-	-	-	2	1	1	4
T O T A L			17	15	29	19	9	14	21	32	7	6	2	171

Source : Central Bank of Sri Lanka

## Delivery of Credit

During the period January to September, 1995 RRDBs disbursed Rs.1,481 million in respect of 258,547 loans including advances granted against the pledge of gold and gold articles. During 1994, loans granted by RRDBs amounted to Rs.1,808 million in respect of 327,187 loans. The average size of a loan (including advances granted against the pledge of gold and gold articles) has risen gradually from Rs.5,526 in 1994 to Rs.5,728 in 1995.

Among the loan schemes introduced by RRDBs during 1995 were schemes for persons who had obtained employment abroad and for teachers. The first of these loan schemes was introduced by RRDBs in collaboration with the Foreign Employment Bureau of Sri Lanka in order to assist persons selected for employment in South Korea by providing loans prior to their departure abroad. The RRDBs also concentrated on the recovery of loans during the year.

## Other Activities

The RRDBs provided a range of ancillary services to their customers and performed a developmental role in the rural economy. The RRDBs rendered advisory assistance by co-ordinating beneficiary training programmes to their customers. They continued to hold Janahamuwa meetings in villages so that the rural poor would be made aware of banking facilities available at RRDBs and also as a means of extending credit facilities. The RRDBs also continued to promote marketing and processing of agricultural products.

The RRDBs continued to act as participating credit institutions in several special credit schemes, namely, the Small Holder Tea Development Project, Perennial Crop Development Project, Agricultural Rehabilitation Project, USAID Housing Guarantee Low Income Shelter Project, Southern Province Rural Development Project, North-Western Province Water Resources Development Project, Small and Medium Scale Industry Loan Project and the Isuru Project.

## RURAL BANKING AND STAFF TRAINING COLLEGE

During 1995, the College has catered to many training needs of the Central Bank, commercial banks, other financial institutions and non-banking organisations.

In recent years, there has been a marked increase in the training of field officers and beneficiaries of institutional credit. These programmes have laid emphasis on development, and are geared to national economic needs, particularly in areas such as poverty alleviation and rehabilitation.

Considering the number of requests received, training courses for the ensuing year have been designed embodying varied course contents particularly with new methodology, keeping pace with the progress made in the banking and economic sectors. Of these, 32 courses are exclusively for Central Bank officers in areas of training identified by various departments. The use of popular computer software packages at preliminary and advanced stages provide another set of training programmes for Central Bank officers. There are 19 programmes for the RRDBs on projects useful and suited to their localities. Keeping other sectors in mind, training courses, seminars and workshops have been designed on topical subjects on popular fields of study.

Total Quality Management for the service sector organisations, Effective Resource Allocation, Structural Adjustment Process, and the Evolving Global Market Economies are some of the new programmes scheduled for 1996.

An APRACA-CENTRAB International Course on Management Development for South Asian countries was successfully conducted by the College in July 1995 at which there were 30 participants. It is envisaged that a few more similar programmes will be conducted during the following year.

The Self Access Centre for English Language for Central Bank officers has been operational since April 1994. It is envisaged that new programmes will be introduced in the future.

A Research and Development Division has been set up to assess the training needs of the banking and other financial sectors. This unit will be responsible for the improvement of the quality of the programmes, and for the introduction of new programmes in keeping with the emerging economic activities of the country and to engage in research studies in the area of training, and post training performance for both government and private sector. An Entrepreneurial Advisory Unit has also been set up to provide advice and guidance to small scale entrepreneurs.

## EMPLOYEES' PROVIDENT FUND

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

attends to the administration and enforcement of the provisions of the EPF Act.

### Contributions

According to provisional data, the contributions received by the Fund during the year 1995 amounted to Rs.8.2 billion, as against Rs.7.4 billion in 1994. This represents an increase of 11 per cent over the level of contributions received during the previous year.

### Members' Balances

Members' balances as at 31 December 1995 before allocation of interest for the year under review have been estimated to stand at Rs.81.5 billion which is an increase of Rs.5.8 billion or 8 per cent over that of 1994.

### Investment

During the year under review, the Fund invested an estimated sum of Rs.45 billion in Government Securities, Treasury bills, Inter Bank Call Money Market and Government guaranteed debentures. This is an increase of Rs.7 billion over the level of investments in 1994. The total investments held by the Fund as at 31 December 1995 have been estimated at Rs.100 billion, which is an increase of Rs.19 billion over the level of 1994.

### Income Received from Investments

In terms of an amendment to the Inland Revenue Act in 1989, the exemption from income tax granted to the EPF was withdrawn. Accordingly, all income earned on investments with effect from 1 April 1989 are subject to a Withholding Tax of 10 per cent. The total Withholding Tax deducted from the investment income for the year 1995 and the arrears paid during the year amounted to Rs.1.8 billion.

In 1995, the estimated income received from investments amounted to Rs.14 billion, as against Rs.11 billion in 1994.

### Refunds

The total sum paid out by way of refund of EPF benefits to members during the year 1995, amounted to Rs.2.7 billion, as against Rs.2.6 billion in 1994. This records an increase of 4 per cent. During the year under review 52,258 claims for refund of benefits were paid out, as against 49,986 claims disposed of in 1994.

### EPF Housing Loan Scheme

The EPF Act was amended by Act No.42 of 1988 to enable members to obtain loans of upto 75 per cent of the balance standing to their credit from certain lending institutions for housing purposes. The participating lending

institutions in this scheme are the Housing Development Finance Corporation, National Housing Development Authority, State Mortgage and Investment Bank, People's Bank, Bank of Ceylon, National Savings Bank and the Co-operative Rural Banks.

As of 31 December 1995, the EPF Department processed and dispatched a total of 59,880 applications for certification of balances to the respective Labour Officers.

### EXCHANGE CONTROL

Consequent to the acceptance of Article VIII Status of the IMF on 15 March 1994 by Sri Lanka, the activities of the Department of Exchange Control during 1995 have been mainly confined to grant of approvals for applications relating to capital account transactions and monitoring of large current international transactions, especially the release of exchange of over US dollars 20,000 or its equivalent.

### Investments Abroad by Resident Companies

During 1995, several Sri Lankan companies were permitted investments to establish joint venture companies abroad to market their products in the countries where these companies were established as well as in neighbouring countries. Investments were permitted in management companies to construct hotels in the Maldives and Singapore. Some construction firms were also granted permission to enter into contracts with foreign construction companies and to obtain sub-contracts abroad.

### Foreign Currency Loans

Applications for foreign currency loans for purchase of local inputs in value added form for executing export orders continued to be approved on a case by case basis.

### PUBLIC DEBT

In terms of Section 113 of the Monetary Law Act (MLA), the Central Bank of Sri Lanka (CBSL) through its Public Debt Department (PDD) continued to manage the public debt on behalf of the Government. The main debt instruments used by the PDD were Government Securities (GSs) Rupee Loans, Treasury bills (T-bills) and Treasury Certificates of Deposits (TCDs). In fulfilling its responsibilities the PDD continued to engage in the issuance and servicing of domestic debt, the servicing of foreign debt of the Government of Sri Lanka, the issuance of Central Bank Securities (CBSs) and State Mortgage and Investment Bank (SMIB) debentures. The PDD took pioneering steps in 1995 to develop the debt securities market through the Primary Dealer System (PDS).

## Policy Measures

During the year under review, the PDD introduced a number of measures to improve the market for government debt instruments. A review of the performance of the PDS, which came into being in July 1992 and was formalised in November 1994, was carried out for the first time in June 1995. The PDD conducted weekly meetings with Primary Dealers with a view to maintaining continuous dialogue on current developments in the money market, especially the debt securities market. Two seminars/workshops were organised by the PDD during 1995 in collaboration with the Financial Market Development Project of the USAID for investors and Primary Dealers on fixed income securities. The Primary Dealers were encouraged to use computer based systems for their trading and settlement activities and for reporting information to the CBSL. The PDD developed a computer software package in-house and issued it to the Primary Dealers for reporting information on diskettes to the PDD on their market activities. A data base was established in the PDD on secondary market activities using the information thus obtained from the Primary Dealers. During 1995, the PDD used this data base for dealer surveillance and analytical work relating to secondary market activities of the Primary Dealers. On the basis of this information the PDD commenced the release of a periodical report to the Primary Dealers on their activities in both the primary and secondary markets.

The PDD initiated amendments to the MLA, the Registered Stocks and Securities Ordinance (RSSO) and Local Treasury Bills Ordinance (LTBO) with a view to developing the Government and Central Bank Securities Market. During 1995, the amendments were passed by the Parliament, which included, among others, the provision relating to opening of current account facilities with the CBSL by non-bank Primary Dealers, the issue of Treasury Bonds, a new medium and long-term instrument, either in certificate or scripless form, on auction basis to public through the Primary Dealers and the issue of Treasury bills in scripless form.

## Operational Activities

The total outstanding gross government debt as at end 1995 was Rs.616,382 million. When compared with the position as at end of 1994, this indicated an increase of Rs.77,817 million. The outstanding external debt liabilities as at end of 1995 amounted to Rs.344,475 million, indicating an increase of Rs.42,512 million over that as at end of 1994, of which Rs.28,676 million was on account of exchange rates movements. Of the total outstanding government debt, foreign debt accounted for 55.9 per cent, while the balance 44.1 per cent represented domestic debt. Table II-14 indicates the composition of gross public debt.

**TABLE II -14**  
**Composition of Gross Public Debt**

	As at end 1994		As at end 1995	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	236,602	43.9	271,906	44.1
Treasury bills	98,896		113,771	
Rupee Securities	137,554		157,928	
Treasury Certificates of Deposits	145		200	
Tax Reserve Certificates	7		7	
Foreign Debt	301,963	56.1	344,475	55.9
<b>TOTAL</b>	<b>538,565</b>	<b>100.0</b>	<b>616,382</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

## Treasury Bills

During 1995, Treasury bills formed a major instrument of domestic borrowing of the Government. The total Treasury bills outstanding as at end of 1995 was Rs.113,771 million compared with Rs.98,896 million in the previous year, showing an increase of Rs.14,875 million, the result of new issues amounting to Rs.16,475 million and retirements amounting to Rs.1,600 million during the year under review. The authorised limit of Treasury bills remained unchanged at Rs.125,000 million during 1995. With effect from the first week of May 1995, the following measures were implemented by the CBSL in order to improve primary auctions of Treasury bills and CBSs:

- Phasing out of non-competitive bidding by Public Sector Institutional Investors within a time frame of one year effective May 1995.
- Fixing and prior announcement of T-bills to be issued under each maturity to the public at primary auctions.

During 1995, the Annual Review of the Primary Dealers was conducted by the PDD as at June 1995 in accordance with Section 6.1 of the Statement of Responsibilities and Privileges for Primary Dealers issued in November 1994. On the basis of the findings of this review, the CBSL revoked the licences of two Primary Dealers and appointed two new Primary Dealers thus maintaining the total number of Primary Dealers unchanged at 22, consisting of 16 commercial banks and 6 others.

As a part of monetary management strategy, the Monetary Operation Unit (MOU) which is serviced by the Public Debt, Banking and Economic Research Departments continued to make decisions on a weekly basis with regard to auctions of Treasury bills, such as the distribution of the amount to be offered to the market, the maturity structure for the CBSL purchases, the offers to the public prior to the auction.



Access to weekly primary auctions was confined to the Primary Dealers and other institutions authorised by the CBSL. Major buyers in the primary market were mostly commercial bank Primary Dealers and a few non-bank Primary Dealers. It was observed that certain Primary Dealers were active in the secondary market. The CBSL secondary window was open only to the commercial banks.

The bank Primary Dealers, purchasing for their own portfolios and on behalf of others, were the major buyers of Treasury bills in the Primary Market. Other major buyers were public sector institutional investors such as the NSB, approved provident funds and other statutory funds.

On the basis of primary issues, total value of Treasury bills held by the CBSL increased from Rs.8,979 million or 9.1 per cent to Rs.14,984 million or 13 per cent at end 1995. The non-CBSL holdings increased from Rs.89,917 million to Rs.98,786 million. However, the share of the latter represented a decline from 90.9 per cent of the total holdings in 1994 to 86.9 per cent of the total holdings in 1995. The stock of Treasury bills held by the Primary Dealers consisted of purchases at both primary auctions and the secondary window of the CBSL and purchases from other sources including non-Primary Dealer commercial banks, development and other banks, provident/pension funds and other approved funds, insurance companies, finance companies, other institutions and individuals.

Of the Treasury bills outstanding as at end of 1995, 66.6 per cent was of 12 month maturity. The remaining 33.4 per cent constituted maturities of three months (17.1 per cent), six months (3.8 per cent), and other maturities (12.5 per cent).

The weighted average yield rates for 3,6 and 12 month Treasury bills fluctuated between 13.24-19.91, 13.14-20.07 and 13.68-20.54 per cent, respectively, during the year. The annualised weighted average yield rates for the last 5 years are given in Table II-15 below. The total interest commitment on account of Treasury bill issues during 1995 amounted to Rs.18,221 million.

**TABLE II-15**  
**Annualised Weighted Average Yield Rates**

Year	Maturity Period			Overall Average
	3 Months	6 Months	12 Months	
1991	17.15	17.45	18.16	17.62
1992	17.84	18.02	18.83	18.34
1993	19.18	19.09	20.53	20.15
1994	14.32	14.75	15.90	14.89
1995	16.31	17.43	17.63	16.84

Source : Central Bank of Sri Lanka

## Rupee Loans

Ten Government Rupee loans were floated and subscriptions of Rs.46,715 million were received during 1995. Major subscribers were the Employees' Provident Fund (EPF) and the National Savings Bank (NSB). All these loans carried an interest rate of 14 per cent per annum. The first three loans had an optional maturity of 5-6 years and remaining seven loans had a maturity of 5-7 years. Fourteen Rupee loans consisting of Rs.26,350 million were repaid during 1995. As a result, net subscription to Rupee loans amounted to Rs.20,365 million resulting in an outstanding debt of Rs.157,928 million as at end of the year 1995. This included Rs.24,088 million of long-term bonds issued by the Government in 1993 in connection with the restructuring of two state banks. The Department continued an advertising campaign to attract new investors to long-term government securities.

## Treasury Certificates of Deposits

The CBSL continued to issue TCDs which commenced during 1990. As in the past, the TCDs were issued for maturity periods of 6 and 12 months at yield rates of 17.15 per cent and 18.06 per cent, respectively. The face value of sales made during the year under review amounted to Rs.191 million of which Rs.65 million was sold by the NSB and Rs.126 million was sold by the Currency Department of the CBSL. The corresponding repayments made by these two sources amounted to Rs.66 million and Rs.70 million respectively totalling Rs.136 million. These repayments included Rs.21 million of interest payments. The amount of TCDs outstanding as at end of 1995 was Rs.200.3 million.

## External Debt

Total principal repayment and interest and other charges on external government debt in 1995 were Rs.8,502 million and Rs.6,262 million, respectively.

Of the total outstanding amount of Rs.344,475 million as at end of 1995, loans from bilateral and multilateral sources amounted to Rs.189,601 million and Rs.144,636 million respectively, while the borrowing from commercial banks stood at Rs.10,239 million. Of the bilateral creditors, the Government of Japan as the largest lender accounted for Rs.101,098 million or 53.3 per cent of the total bilateral borrowings. The International Development Association (IDA) was the largest multilateral creditor and accounted for Rs.79,190 million or 54.8 per cent of the total multilateral debt.

## Central Bank Securities

During 1995, the PDD issued Rs.2,820 million worth of CBSs with 3 months maturity in 14 issues in order to absorb

excess liquidity in the market. There was no outstanding stock of CBSs at the end of 1995 as compared with that of Rs.3,740 million as at end of 1994. Of the 14 issues of CBSs during 1995, 12 issues carried a coupon rate of 13.0 per cent per annum while the last two issues during August and September, 1995 carried a coupon rate of 15.5 per cent per annum. The weighted average annual yield rate ranged from 14.08 per cent to 18.16 per cent for the issues during 1995.

### **State Mortgage and Investment Bank Debentures**

In March 1995, State Mortgage and Investment Bank debentures amounting to Rs.500 million were issued at 14.5 per cent per annum and a maturity of 5 to 7 years. The entirety of these debentures were purchased by the NSB.

### **REGIONAL OFFICES – MATARA, ANURADHAPURA AND MATALE**

During 1995, the Regional Offices of the Central Bank at Matara, Anuradhapura and Matale continued to carry out their development activities in addition to carrying out the traditional central banking functions assigned to them. Currency operations, cheque clearing activities, data collection, conducting beneficiary training programmes, inspection of the activities of the RRDBs, assisting in regional development projects and co-ordination with government departments, agencies and organisations involved in development work in their respective regions were among the main activities of the Regional Offices.

The Matara Regional Office handled the activities relating to the implementation of the Small Farmers and Landless Credit Project, the Southern Province Rural Development Project, the Small Holder Tea Development Project and the Inland Bill Scheme. The Regional Office conducted seminars on these credit schemes and assisted in supervision and credit recovery under these projects. The Regional Office assisted other development programmes implemented by government departments, commercial banks and other agencies in the region by organising a number of seminars, training programmes and workshops as well as educational programmes for school children. The Regional Office continued to follow up loans granted under the All Island Self Employment Credit Scheme and reported a recovery rate of 83 per cent in respect of these loans. The Regional Office also carried out the inspection of RRDBs during the year.

The Anuradhapura Regional Office, with the assistance of several government departments and institutions, conducted 85 training programmes attended by 4,106 participants during the year to provide training required for the efficient execution of projects as well as for potential entrepreneurs. The Regional Office carried out a Survey of

Industries in the Anuradhapura district. The Regional Office also co-ordinated work in connection with the Village Development Project sponsored by the Central Bank at Negampaha and was associated with two dairy development projects at Thirappana and Kekirawa. The Village Development Project has been undertaken with a view to assisting in the economic development of the area by improving technical skills and thereby improving productivity and strengthening village level organisations. The Regional Office conducted educational programmes for Advanced Level students in the districts of Anuradhapura, Polonnaruwa and Kurunegala, also undertook the inspection of RRDB branches in the area.

The Matale Regional Office placed special emphasis on training of loan beneficiaries and bankers. Training programmes on a variety of subjects including dairy development, storage of big onions, the batik industry and potato cultivation were conducted during the year. Eight seminars were also conducted on topics relevant to Advanced Level students. Altogether, 1,288 persons attended these programmes. During 1995, the Matale Regional Office received loan proposals from small scale producers for projects including dairy development, farm machinery and small industries. The Regional Office prepared 97 project feasibility reports in order to assist these producers. The reports were forwarded to the financial institutions in the area for necessary action. The Regional Office also assisted applicants for loans to purchase 3 wheel taxis in obtaining finance from banks. The Regional Office helped the Matale Self-Employees' Association to conduct three exhibitions and sales. The Office continued its activities relating to other projects such as the Small Holder Tea Development Project Credit Scheme and the Perennial Crop Development Credit Scheme. The office also carried out the inspection of RRDBs in the area.

The Regional Offices also provided regional cheque clearing facilities to the commercial banks in the area.

### **SECRETARIAT**

The Secretariat Department continued to provide all administrative services of the Bank in the fields of finance, legal services, supplies, travel and other general services.

During 1995, in addition to advising on legal matters, the Legal Division attended to the drafting of the following legal enactments :

- (1) Monetary Law (Amendment) Act No.26 of 1995
- (2) Local Treasury Bills (Amendment) Act No.31 of 1995
- (3) Registered Stocks and Securities (Amendment) Act No.32 of 1995
- (4) Banking (Amendment) Act No.33 of 1995.

## INFORMATION AND PUBLICATIONS

The Central Bank's role as a collector and disseminator of information was carried out largely by the Information Department. The Library continued to add to its collection of books, pamphlets and periodicals covering socio-economic developments domestically and worldwide. It was able to provide a rich source of both published and unpublished material to researchers, bankers, teachers, students and others interested in developments in socio-economic developments.

The following Central Bank publications were released through the Information Department :

1. Annual Report 1994 (Sinhala, Tamil and English)
2. Economic Survey - First Half of 1995 (Sinhala, Tamil and English)
3. Economic Bulletins Bi-monthly (English)
4. Monthly Bulletins (Sinhala, Tamil and English)
5. Socio-Economic Data Folder 1995 (Sinhala, Tamil and English)
6. Economic and Social Statistics of Sri Lanka 1995 - (English)
7. Darshana Vol. 1 (Sinhala).

The Department continued to publish its own journals - Satahana, News Survey and Banku Puwath. The Satahana published in Sinhala and the News Survey published in English were much sought after by GCE (Advanced Level) students and teachers. The educational programmes organised by the Information Department too continued to attract a large number of GCE (Advanced Level) students and teachers.

Audio visual media, press releases and book exhibitions were also utilised by the Department in disseminating information. The Video Unit of the Department produced documentaries and also filmed important events taking place in the Central Bank. The Art Work Visuals Section continued to design brochures, posters and cover pages for Central Bank publications.

The Printing Press completed 380 printing assignments during the year accounting for over 90 per cent of the Bank's printing needs.

## RESEARCH ACTIVITIES

The Economic Research Department continued to be responsible for collecting and analysing economic and financial statistics and conducting economic research for the guidance of the Governor and the Monetary Board in policy formulation, and for providing information to the public. The Department was also responsible for the publication of the

Annual Report, Monthly Bulletin, Economic Survey of the First Half of 1995 and Economic Bulletin as well as provision of weekly financial statistics to the public through newspapers. Also, the Department prepared the usual "September 15th Report" required by the Finance Ministry to be used in the preparation of the Budget.

In addition, the Department attended to the preparation of the weekly note on international commodity prices, monthly trade statistics on imports and exports, weekly and monthly reports on tea and rubber auctions in international markets, monthly commodity review and reports giving observations and recommendations on various economic issues for the information of the Monetary Board, as well as at the request of ministries and other institutions and organisations. Half yearly and annual surveys on industrial production were conducted during the year. The Department continued to provide data to the International Monetary Fund (IMF) on a regular basis. The Department co-ordinated the Government's consultations with the two IMF missions in March and December, 1995. Furthermore, provision of data to other international organisations and coordination of relationships with such institutions were continued as usual. The Department conducted the IMF Regional Course on "Financial Programming and Policies" in Colombo in May 1995, in collaboration with the IMF.

The officers of the Department served on internal committees regarding policy matters, such as the Monetary Operations Unit, the Treasury bills Tender Committee, Balance of Payments Committee and Exchange Rate Committee.

## SURVEYS AND DATA COLLECTION

The Statistics Department continued to perform the function of collection and dissemination of socio-economic data. The conduct of sample surveys, and the collection and compilation of data in the subject areas of Prices and Wages, National Accounts, Employment and Imports were continued during the year.

### Consumer Finance Survey 1996/97

The preliminary work in connection with the Consumer Finance Survey scheduled to be conducted in 1996 and 1997 was completed during the year. This is the seventh survey in the series.

The main objective of the proposed survey is to collect comprehensive data on socio-economic conditions of the household sector in the country. The information to be collected under this survey will provide the basis for evaluating changes in the socio-economic conditions of the population. The survey will also be a major source of

information on demographic characteristics, employment and unemployment, nutrition, income distribution, housing and education.

### **Country Wide Data Collection Scheme**

The Country Wide Data Collection Scheme which was launched in 1978 continued to operate in 1995, thereby completing its seventeenth year of operation. Under this scheme, information on retail prices of consumer items and agricultural inputs, producer prices of a wide range of items and daily wage rates for activities in paddy, tea, rubber and coconut cultivation in the informal sector and in the small scale construction sector continued to be collected from selected centres spread throughout the country on a regular basis. The scope of the scheme was extended during the year to collect additional information on production trends and underlying reasons for the fluctuations in producer prices with a view to using the scheme as an early warning system. The data collected under this scheme were published in the annual publication 'Prices and Wages Statistics'.

### **National Accounts**

The activities in connection with the estimation of National Accounts continued. The Statistics Department was involved in data collection from both primary and secondary sources. Data were collected more frequently for the compilation of quarterly estimates of National Accounts. Preliminary work was undertaken to institute a revision of the estimation procedures, to move to a national income accounts series with a more current base year. The revision of estimates based on the guidelines in the revised System of National Accounts published by the United National Statistical Office in 1993 was in progress in 1995.

### **Monitoring of Imports**

The Department continued to monitor imports through data collected from commercial banks on Letters of Credit (LCs) for the purpose of forecasting imports.

### **Employment Statistics**

The survey of public sector employment continued in 1995 with the objective of ascertaining the trends in employment in government departments, ministries, provincial councils, local authorities and in the corporation sector. In the absence of estimates of employment in the private sector, information was collected from administrative records of the Employees' Provident Fund and other Provident Funds and from institutions registered under Chamber of Commerce, with the objective of ascertaining major developments and trends in employment in the organised private sector.

### **Publications**

The Department continued to publish the two annual publications titled 'Sri Lanka Socio-Economic Data' and

'Economic and Social Statistics of Sri Lanka' which provide comprehensive information on key Socio-Economic variables.

## **DATA PROCESSING**

The creation of a modernised information technology environment within the Bank was taken a step further during the year with the acquisition of 100 new personal computers (PC) for the use of various departments. Plans were made during the year to lay the framework for a networking arrangement in the Bank to link up the stand alone machines into a distributed system. These arrangements were to constitute a significant departure from the existing outdated centralised system built around the Data Processing Department over the past three decades.

The Department undertook the development of user friendly software appropriate for the planned distributed system. An information retrieval system to provide fast access to bibliographic information was developed for the library and progress was satisfactory in capturing library catalogue data into the computer data bases. A PC-based personal information system as well as a system to process employee leave and attendance was developed and installed in all departments to be used in administration work.

### **Sri Lanka Automated Clearing House**

During the year under review the Sri Lanka Automated Clearing House (SLACH) installed new machinery capable of handling 150,000 - 300,000 cheques per day. The replacement was necessary because the old machinery designed to handle cheque volumes of 40,000 - 50,000 per day were required to cope with per day average cheque volumes exceeding 100,000. The increased workload at SLACH resulted in frequent breakdown of machinery thereby disrupting cheque clearance, inconveniencing banks and customers and leading to staff unrest. The new systems became operational in June 1995.

The upgrade of the SLACH in Colombo will be followed by the removal of old equipment from its present site and their reinstallation at a site in Kandy which would serve as the backup facility in an emergency and also as a low volume regional clearing site. This work is expected to be completed in 1996.

The SLACH expanded the scope of its off-line inter-bank payment system to include the Direct Debit System (DDS). Under the DDS the customer can authorise billing companies such as Ceylon Electricity Board, Sri Lanka Telecom and Insurance Companies to collect monthly dues by permitting the bank to debit the account with the amount of money due to the billing company for settlement of the bill. This procedure will eliminate considerable paper work and

correspondence which must take place under existing arrangements monthly or at frequent intervals and reduce collection costs to the billing company, while at the same time helping to improve customer convenience. This facility will enhance the fund transfer system in the banking system through increased speed and accuracy.

The success of the DDS will depend greatly on the interest taken by billing organisations and the manner in which they market this system, in persuading the customers to join the system by offering incentives so that the customers would see the benefit of joining the DDS.

## TRAINING

Training of officers in academic and non academic fields continued in 1995. Academic training was related to Post-graduate studies in Economics and allied fields at recognised universities. Officers were enrolled for Masters and Ph.D. degrees. During the year, eight officers proceeded abroad to follow Masters Degree courses and one officer to follow a Ph.D. Degree course. Nine officers were granted study leave to follow post-graduate courses in Sri Lanka. These comprised post-graduate diploma courses in Business and Finance, Administration, the Diploma Course on Journalism and the Mass Media and the Diploma in Banking and Management.

Non-academic training comprising short-term courses, seminars and workshops, both local and foreign, was related to specific fields relevant to the Bank. During 1995, a total of 76 officers proceeded abroad on short-term training. A total of 263 officers participated in training courses and seminars held at local institutions, while 583 officers participated in courses conducted by the Rural Banking and Staff Training College.

The Department continued its other functions of holding promotional examinations for certain categories of employees and scholarship examinations for the Staff Class. The Efficiency Bar Examination for the Staff Class was held in December 1995.

## MANAGEMENT AUDIT

During 1995, the Management Audit Department, in accordance with its programme of work, carried out the audit of various departments in the Bank. In the course of these audits, emphasis was laid on system audits and highlighting shortcomings in internal controls.

Apart from the normal audit functions, the Department undertook several special studies and surveys entrusted to it by the Bank management. These studies included the following :

- (a) Review of cadre for Bank's drivers,
- (b) Review of the cadre for minor employees in grades 1 and 2.
- (c) Fixing of cadre for Bank's telephone operators
- (d) Assessment of staff requirements in the Bank.
- (e) Inspection of the activities of the Galle District Office of the Small Farmers' and Landless Credit Project of the Rural Credit Department.
- (f) Physical verification of the books of the Central Bank Research Library.
- (g) Physical verification of fire-arms and ammunition of the Security Service Department.

## PREMISES

During 1995, the Premises Department engaged in the following construction projects, in addition to its routine maintenance work and upkeep of the Central Bank Premises.

### Extension to the Head Office

The construction work of the extension to the Head Office building, which commenced in August 1994, continued during 1995. The extension building is expected to be completed before the end of 1997. With the completion of this building, the Bank would be able to accommodate all its departments which are now housed in rented buildings.

### New Two-Storeyed Building at Rajagiriya

This building with a total floor area of approximately 7,725 sq.ft. which was being constructed to provide alternate accommodation for resident participants of training programmes conducted at Rural Banking and Staff Training College was in the final stages of completion.

### Pilgrim Rest at Kataragama

Preliminary work in connection with the construction of the proposed 20 room Pilgrim Rest at Kataragama was carried out in 1995.

## WELFARE

As in the past, in 1995, the Central Bank provided several welfare facilities to the Bank employees through the Welfare Department. These include concessional loan schemes such as Housing, Staff Benefit, Vehicle and Provident Fund loan schemes; reimbursement of medical expenses subject to approved ceilings; a regular in-house

clinical service; a subsidised canteen service and a 75 per cent payment for the procurement of railway and bus season tickets. Some of these welfare facilities were enhanced in 1995.

The Central Bank canteen, continued to provide subsidised meals and tea to the employees. The canteen also provided catering services to official functions when necessary.

The staff of the Bank Medical Clinic included a doctor and a team of experienced clinical staff. For the convenience of those employees seeking treatment, essential diagnostic tests were conducted at the clinic's laboratory. The clinic also maintained a stock of essential drugs which were sold to the employees at cost.

## SECURITY

During 1995, the Security Services Department's main function was to provide security to the main building, the Bank's building at Rajagiriya and departments housed at the Cargo Boat Development Co. Ltd., Ceylinco and Sharlima Buildings. In addition, the security network covered the Regional Offices at Anuradhapura, Matara and Matale, as well as the stores at Kelaniya and Layards Broadway, Kataragama Circuit Bungalow, Nuwara Eliya Holiday Resort, the Kandy site and the new Bank building site. Security coverage was also given for the residence of the Governor. The task of providing personal security to the Governor and foreign delegates visiting the Central Bank was also a responsibility of the Department.

The Department provided escorts for currency and gold transport with the assistance of the Police.

The Department assisted the Rural Banking and Staff Training College to conduct several training programmes on security and the Fire Preventive Training Course conducted by the Colombo Fire Brigade during the year with a view to enhancing the efficiency of the security personnel attached to the Department.

## PERSONNEL

The Governor Mr. H.B. Disanayaka attended the following meetings during the year 1995.

- (1) 32nd Executive Committee Meeting and the 10th Governors' Meeting of APRACA held in Malaysia.
- (2) World Bank/IMF Annual Meetings held in Washington D.C., U.S.A.
- (3) 30th SEACEN Governors' Conference held in Manila, Philippines.

- (4) Commonwealth Finance Ministers' Meeting in Kingston, Jamaica.

## Appointments

- (1) Mr. A.S. Jayawardena, Senior Deputy Governor, who was released to the Ministry of Finance, Planning, Ethnic Affairs and National Integration as Secretary to the Ministry, was appointed to the office of the Governor of the Central Bank from 15 November 1995.
- (2) Mr. S. Easparathan and Mr. P. Amarasinghe were appointed as Deputy Governors from 9 February 1995.
- (3) Mr. S. Pattavidana was appointed as Executive Director from 16 February 1995.
- (4) Dr. L.L. Gunaratne, Director of Economic Research was appointed as the Special Officer in charge of projects to be specified by the Governor from 2 August 1995.
- (5) Mr. R.A. Jayatissa, Deputy Director of Economic Research, was appointed as Acting Director of Economic Research from 2 August 1995.
- (6) Mr. A. Shanmugasamy, Deputy Chief Accountant, was appointed as Acting Additional Chief Accountant from 2 August 1995.
- (7) Dr. D.S. Wijesinghe, Deputy Director of Economic Research, was appointed as Acting Additional Director of Statistics from 2 August 1995.
- (8) Dr. U. Vidanapathirana, Deputy Director of Economic Research, was appointed as Acting Additional Chief Accountant from 2 August 1995.
- (9) Mr. Y.M.W.B. Weerasekera, Deputy Head of Department attached to the Financial Sector Monitoring Unit, was appointed as Acting Additional Chief Accountant from 2 August 1995.
- (10) Mr. D. Boyagoda, Director of Information, was appointed as Director of Rural Banking and Staff Training College from 2 August 1995.
- (11) Mr. J.E.D. Karunaratne, Additional Director of Supervision of Non-Bank Financial Institutions was appointed as Director of Information from 2 August 1995.
- (12) Mr. M. Ramanathan, Acting Additional Chief Accountant, was appointed as Acting Additional Director of Establishments from 2 August 1995.
- (13) Mr. M.S. Siripala, Acting Additional Director of Establishments, was appointed as Acting Additional

Superintendent of Employees' Provident Fund from 2 August 1995.

- (14) Mr. M.D.D. Gunatilake, Deputy Director of Supervision of Non-Bank Financial Institutions was appointed as Acting Additional Superintendent of the Employees' Provident Fund from 14 September 1995.
- (15) Mrs. P.T. Perera, Deputy Secretary (Legal), was appointed as Acting Additional Director of Supervision of Non-Bank Financial Institutions from 14 September 1995.
- (16) Dr. A.G. Karunasena, Deputy Director of Economic Research was appointed as Acting Additional Director of Economic Research from 14 September 1995.
- (17) Dr. P.B. Jayasundara, Deputy Director of Economic Research, was appointed as Acting Additional Director of Economic Research from 14 September 1995.
- (18) Mr. M.S. Siripala, Acting Additional Superintendent of the Employees' Provident Fund, was appointed as Acting Additional Director of Welfare from 19 September 1995.

### **Retirements / Resignations**

Dr. A.C. Randeni, Head of Department, resigned from Central Bank service from 1 March 1995.

Dr. L.E.N. Fernando, Executive Director, resigned from Central Bank service from 3 April 1995.

Dr. S.T.G. Fernando, Deputy Governor, retired from Central Bank service from 19 September 1995.

Dr. W. Hettiarachchi, Executive Director, retired from Central Bank service from 19 September 1995.

Mr. H.B. Disanayaka resigned from the office of the Governor from 15 November 1995.

Mr. A.S. Jayawardena, Senior Deputy Governor, retired from Central Bank service from 15 November 1995.

### **Officers on Release**

As at 31 December 1995, the following officers of the Bank were on release to ministries, government departments and state corporations in Sri Lanka.

Dr. D.J.G. Fernando to the Ministry of Finance as the Chairman and Director of the People's Bank.

Mr. W.A.D.E. Weerasinghe and Mr. C. de S. Jayawardena to the Ministry of Finance.