

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

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ACCOUNTS AND BANKING OPERATIONS

The total assets/liabilities of the Central Bank at end 1997, stood at Rs. 183,895 million registering an increase of 1.3 per cent over the previous year. As in the previous years, the total volume of international reserves has become the largest single asset category accounting for 64.7 per cent of the total assets at end 1997, compared to 56.8 per cent at end 1996. This was an increase of approximately 15 per cent over the previous year. The main contributory factor for this increase was receipts on account of privatisation of Sri Lanka Telecom and the sale of foreign exchange by the National Development Bank. Domestic assets, on the other hand, showed a decrease of 20.5 per cent, from Rs.47,965 million to Rs.38,134 million due to the retirement of Rs.10,000 million worth of Treasury bills held by the Bank.

Among the domestic assets, loans and advances to Government increased by 2.2 per cent, while Government and Government guaranteed securities decreased by 57.8 per cent. Medium and long-term credit facilities to commercial banks and other credit institutions declined by 24.9 per cent mainly due to net repayments and provisions on account of non-performing loans. Short term advances to commercial banks also declined by 32 per cent in 1997¹.

On the liabilities side, currency in circulation increased by 7.4 per cent from Rs. 49,480 million to Rs. 53,135 million. As in the previous year, deposits constituted the largest category of liabilities and accounted for 37.8 per cent of the total liabilities. Within the category, the deposits held by the Government increased by 84.5 per cent, while the deposits of commercial banks maintained with the Central Bank against their deposit liabilities, under the statutory reserve requirement decreased by 15 per cent. Meanwhile, the deposits of international organisations, foreign governments and foreign banking institutions decreased by 8.2 per cent. A comparison of the major components of assets and liabilities of the Bank is shown in Table II-2.

The total gross income of the Bank for the year 1997 was Rs. 19,498 million compared with Rs. 18,711 million in 1996, while the total gross expenditure in 1997 was Rs. 16,848 million compared with Rs. 17,211 million during the previous year. Around 77 per cent of the income of the Bank was generated from investments of foreign reserves, while interest earned from domestic transactions accounted for about 23.0 per cent. After making allowances for expenditure and allocations to reserves, provisions for depreciation and bad debts and other charges, the balance net profit of the

Bank, amounting to Rs. 2,650 million, was earmarked to be paid to the Consolidated Fund of the Government in terms of Section 39 (C) of the Monetary Law Act.

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:-

Item	Percentage
Buildings	2
Fixtures and Fittings	10
Office Furniture and Equipment	10
Motor Vehicles	10
Automated Equipment	20
AS/400 Main-Frame Computers	20
Personal Computers	25
Library Books	33 1/3

Automated equipment and the AS/400 main frame computers which were earlier included under 'Office furniture and equipment' and depreciated at 10 per cent have now been transferred to separate accounts and depreciated at 20 per cent. The cost of library books, which were written off as expenses earlier, have now been capitalised and depreciated at 33 1/3 per cent.

¹ The Balance Sheet of the Central Bank as at 31 December, 1997 together with the Profit and Loss Account of the Bank for the year ended 31 December 1997 is presented in Table II-1.

**CENTRAL BANK
BALANCE SHEET AS AT**

31 December, 1996		LIABILITIES	31 December, 1997	
15,000,000		Capital Accounts		
985,000,000	1,000,000,000	Capital	15,000,000	
		Surplus	985,000,000	1,000,000,000
		Currency in Circulation		
47,566,904,953		Notes	51,071,578,291	
1,913,084,940	49,479,989,893	Coins	2,063,145,589	53,134,723,880
		Deposits		
3,509,584,531		Government	6,475,579,334	
121,661,615		Government Agencies and Institutions	63,721,050	
35,906,962,913		Commercial Banks	30,537,080,462	
34,546,267,006		International Organisations, Foreign Government and Foreign Banking Institutions	31,708,112,019	
1,025,595		Compulsory Savings Fund excluding Rs. 50,976,000/= invested in Treasury Bills	767,052	
672,758,388	74,758,260,048	Others	787,446,444	69,572,706,361
	4,925,000,000	Medium and Long Term Credit Fund		4,925,000,000
	560,157,500	Capital Contribution Account		560,125,000
	0	Central Bank Securities		10,000,000
	50,840,266,330	Other Liabilities and Accounts		54,692,899,756
	181,563,673,771			183,895,454,997

PROFIT AND LOSS ACCOUNT FOR THE

1996		1997
17,211,291,355	To General Charges (including Salaries, Expenditure on Currency Notes & Coins and Depreciation on Land & Buildings, Office Furniture etc.) and Allocations made in terms of Section 38 of the Monetary Law Act.	16,848,361,963
	Net Profit for the Year	
1,500,000,000	To Part Liquidation of Outstanding Government Obligations to the Central Bank in terms of Section 39(c) of the Monetary Law Act.	2,650,000,000
18,711,291,355		19,498,361,963

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1997, 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.

16 April 1998.

S. M. Sabry
Auditor-General

Table II-1

OF SRI LANKA
31ST DECEMBER, 1997.

31 December, 1996		ASSETS		31 December, 1997	
35,078,617,381	103,080,269,337	International Reserve			
67,896,066,443 *		Cash and Balances Abroad	51,879,914,247	118,965,129,821	
105,585,513		Foreign Securities and Treasury Bills	67,060,376,347 *		
		Holdings of Special Drawing Rights	24,839,227		
		Domestic Assets			
28,045,799,947	47,965,478,369	Loans and Advances to Government	28,660,199,947	38,134,102,033	
2,207,066,200		Others - Medium and Long Term	1,656,483,253 **		
52,162,093		Short Term	35,429,989		
17,100,292,629		Government and Government Guaranteed Securities	7,221,863,844		
560,157,500		Contributions to Financial and Other Institutions	560,125,000		
	30,517,926,065	Other Assets and Accounts		26,796,223,143	
		* Including Securities acquired from Government Institutions on 1st 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. 1,597,040,917/= being provisions for loan losses.			
	181,563,673,771			183,895,454,997	

YEAR ENDED 31ST DECEMBER, 1997

1996		1997
18,711,291,355	By Interest, etc. earned	19,498,361,963
18,711,291,355		19,498,361,963

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

L I A B I L I T I E S					A S S E T S				
I T E M	At end 1996 Rs. Mn.	%	At end 1997 Rs. Mn.	%	I T E M	At end 1996 Rs. Mn.	%	At end 1997 Rs. Mn.	%
Capital and Surplus	1,000	0.6	1,000	0.5	International Reserve	103,080	56.8	118,965	64.7
Currency in Circulation	49,480	27.2	53,135	28.9	Domestic Assets	47,966	26.4	38,134	20.7
Deposits	74,758	41.2	69,572	37.8	Other Assets	30,518	16.8	26,796	14.6
Medium & Long Term Credit Fund	4,925	2.7	4,925	2.7	Liability of Constituents for Guarantees Issued	14,152	7.8	19,050	7.1
Capital Contribution Account	560	0.3	560	0.3	Foreign Currency Deposit A/cs of Commercial Banks	3,669	2.0	2,471	1.3
Central Bank Securities	-	-	10	-	Adjusting Account - Amounts Receivable	3,022	1.7	2,027	1.1
Other Liabilities	50,841	28.0	54,693	29.8	Cash Items in process of Collection	2,419	1.3	660	0.4
Guarantees Issued on account of Constituents	14,152	7.8	13,050	7.1	Other	7,256	4.0	8,588	4.7
Control Accounts Reserves	14,829	8.2	18,553	10.1					
Allocation of Special Drawing Rights	5,572	3.1	5,680	3.1					
International Reserve Revaluation Account	3,957	2.2	723	0.4					
Profit & Loss Account	4,461	2.5	6,171	3.3					
Asian Clearing Union Account	4,634	2.6	6,543	3.6					
Other	3,236	1.6	3,973	2.2					
Total	181,564.00	100.0	183,895	100.0	Total	181,564.00	100.0	183,895	100.0

Source : Central Bank of Sri Lanka

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 has been charged to the Profit and Loss 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 in the case of interest on non-performing loans which is recognised on a cash basis.

Net Profit

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

- (a) Provision for non-performing loans
- (b) Provision for depreciation of fixed assets and
- (c) Other necessary provisions and allocations to reserves in terms of Section 38 of the Monetary Law Act.

Bank Rate

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

Short-Term Credit

Commercial banks which provided the roll over facility to farmer borrowers prior to the termination of the New Comprehensive Rural Credit Scheme (NCRCS) and the Export Credit Refinance Scheme (ECRS) with effect from April and May 1994, respectively, were granted a refinance facility only on the roll over amount. The outstanding amount under this facility at end 1997 amounted to Rs. 35.4 million as compared with Rs. 52.2 million at end 1996.

Medium and Long-Term Credit

The Medium and Long-Term Credit Fund (MLCF) remained unchanged at Rs. 4,925 million during 1997. The amount repaid, net of disbursements, during the year amounted to Rs. 193.6 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 1997 amounted to Rs. 15.0 million and the total amount outstanding, before provisions for bad debts, was Rs. 2,585.2 million at the end of 1997.

Reserve Requirements

The statutory reserve requirement (SRR) against deposit liabilities of commercial banks was revised twice during the year 1997. The SRR on commercial banks' rupee deposits was reduced from 15 per cent to 14 per cent with effect from 17 January 1997 and from 14 per cent to 12 per cent with effect from 28 March 1997. The SRR on commercial banks' foreign currency deposits invested outside Sri Lanka was abolished with effect from 17 January 1997 while the SRR on all other deposits of commercial banks denominated in foreign currency was reduced from 15 per cent to 12 per cent with effect from 28 March 1997.

Foreign Currency Loan Facility to Non-BOI Exporters

The Bank introduced a scheme in January 1997 to facilitate non-BOI exporters and indirect exporters to obtain foreign currency loans. Under this scheme commercial banks have been authorised to grant credit facilities in foreign currency through their Domestic Banking Units (DBUs) and Foreign Currency Banking Units (FCBUs). At the commencement of the scheme banks were advised to provide US dollars 100 million, through their FCBUs and this amount was allocated among the banks on the basis of their capital funds.

The total loans granted under the scheme during the year 1997 amounted to US dollars 254 million, out of which US dollars 245 million was given by DBUs while the balance of US dollars 9 million was given through FCBUs. At the end of 1997, the outstanding amount of loans granted under the scheme was US dollars 70.7 million, while loans had been provided at interest rates of 6.5 per cent to 10.5 per cent with a maturity period of approximately one year.

Open Market Operations

Secondary Treasury Bill Market

The sale (discounting) of Treasury bills in the secondary market of the Central Bank amounted to Rs.19,442 million in 1997 compared with Rs.16,000 million in the preceding year. The excess liquidity condition that prevailed in the market, particularly during the latter part of the year 1997 resulted in increased sales. The purchases (re-discounting) of Treasury bills also increased marginally from Rs.17,000 million in 1996 to Rs.17,337 million in 1997.

The Central Bank's secondary market yield rates moved in line with trends witnessed in the primary market yield rates during 1997. The yield rates on 3 month Treasury bills in the secondary window of the Central Bank gradually decreased from 17.1 per cent at the beginning of the year to 9.97 per cent at the end of the year. The rates on 6 month and 12 month Treasury bills too declined from 17.03 per cent and 17.11 per cent, respectively, at the beginning of the year to 10.09 per cent and 10.21 per cent, respectively, at the end of the year reflecting an excess liquidity situation towards the end of the year.

Repurchase Market For Treasury Bills

The sale of Treasury bills under Repurchase Agreements (repos) introduced by the Central Bank in October 1993 with a view to stabilising the lower end of the call market rates, continued to be in operation during the year 1997.

The overnight repo rate was decreased gradually from 12.75 per cent at the beginning of the year to 7 per cent at end March, 1997 reflecting excess rupee liquidity in the market. It varied between 7 per cent and 9 per cent during the months of April to November and rose to 9.5 per cent in the first week of December 1997. However, by the end of the year, the repo rate was increased to 11 per cent as a result of the gradual tightening of rupee liquidity during the month of December.

The total volume of Treasury bills sold under Repurchase Agreements during the year recorded an 11 per cent increase from Rs.404,000 million in 1996 to Rs.449,589 million in 1997 indicating further expansion of investments under repos by commercial banks.

Reverse Repurchase Agreements

The reverse repurchase scheme of the Central Bank was introduced in November 1995 with the intention of stabilising the upper end of the call market interest rates. In view of the continued liquidity in the market during 1997, there was no necessity for the Central Bank to inject rupee funds through its reverse repurchase scheme. Consequently, this scheme was inactive in 1997.

Subsidy and Ex-gratia Payments to Indian Repatriates

Total subsidy payments made to repatriated estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964, on behalf of the Government, amounted to Rs. 48,191 in 1997 compared to Rs. 125,953 in 1996. Ex-gratia payments amounted to Rs.2,475 in 1997 compared to Rs.7,475 in 1996.

Import Duty Rebate to Exporters

The Bank reimbursed a total sum of Rs. 1,028 million in 1997 to commercial banks in respect of import duty

rebates paid to exporters on behalf of the Government, compared with Rs. 1,043 million in 1996.

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 the Bank's foreign exchange reserves in international money and capital markets.

The total rupee value of foreign currency purchases by the Central Bank from commercial banks in Sri Lanka amounted to Rs.8,118 million, while foreign currency sales to commercial banks amounted to Rs.9,163 million in 1997 (Table II-3). This compares with purchases of Rs.5,222 million and sales of Rs.10,881 million in 1996.

Asian Clearing Union

The total rupee value of the transactions routed through the Asian Clearing Union (ACU) in 1997 amounted to Rs.37,236 million compared with Rs.33,828 million during the previous year. The rupee value of the net settlement made in foreign currency in 1997 amounted to Rs.26,879 million, compared with Rs.28,271 million in 1996. Sri Lanka's contribution to the SWAP facility provided under the ACU arrangement during the period under review was Rs.494 million.

Compulsory Savings Fund

The Central Bank continued to be the custodian of the monies collected under the Compulsory Savings Act No. 6 of 1971 and the Ceiling on Income and Compulsory Savings Law No. 15 of 1972 and continued to administer the Compulsory Savings Fund on behalf of the Government.

Government Accounts

As Banker to the Government, the Central Bank continued to maintain accounts of government departments, government agencies and institutions and certain statutory boards. The total number of accounts maintained by the Bank stood at 165 at the end of 1997.

Foreign Finance

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

TABLE II-3
Foreign Exchange Transactions with
Commercial Banks -1997

Month	Spot Purchases	Spot Sales	Forward Purchases	Rs. Mn.
January	-	322	-	-
February	-	1,027	-	-
March	-	-	-	-
April	-	3,096	-	-
May	37	1,166	-	-
June	805	-	-	-
July	1,068	-	-	-
August	6,208	-	-	-
September	-	-	-	-
October	-	-	-	-
November	-	-	-	-
December	-	3,552	-	-
Total	8,118	9,163		

Source: Central Bank of Sri Lanka

CURRENCY ISSUE

The Central Bank of Sri Lanka as the sole issuing authority continued to perform the functions of issuing legal tender currency in Sri Lanka for the use of domestic transactions during the year 1997. The volume of currency in circulation at end 1997 stood at Rs.53,135 million as against Rs.49,480 million at the end of 1996.

A section of the Ground Floor of the General Treasury Building including the main vault and a sub vault were refurbished by the Central Bank during the year 1997 in order to facilitate some of the operational work of the Currency Department. The shifting to the General Treasury Building of three sections of the Currency Department namely, Issue Section, Deposit Section and the Currency Verification, Counting and Sorting Systems (CVCS) Section was effected in December 1997.

The two units which were responsible for the issue of currency to the public at People's Bank Lake Side Building, Colombo 10 and Bank of Ceylon Tower Building, Fort were amalgamated and housed in the Muslim Islamic Cultural Hall (MICH) Building, Bristol Street, Colombo 1 during the year 1997 which ensured an undisrupted issue of currency to the general public.

The Central Bank issues special coins to commemorate events of national and international significance. During 1997, arrangements were made by the Currency Department to issue a 200 Rupee polymer currency note to mark the 50th Anniversary of Sri Lanka regaining Independence. This novel bank note will be the first of its kind in Sri Lanka and also the first commemorative bank note to be issued by the Bank, depicting pictorial themes relevant to the history and development of Sri Lanka. Arrangements have been made to issue an attractive commemorative note folder for numismatists.

Arrangements were also made to issue three commemorative coins in Gold, Silver and bi-metal. The legal tender value of these coins would be Rs.5,000, Rs.1,000 and Rs.10, respectively. This Rs. 10 coin will also be the first bi-metal coin to be issued in Sri Lanka. It was proposed that the Gold and Silver commemorative coins would be sold above their legal tender value.

BANKING DEVELOPMENT

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

and attends to policy formulation for the RRDBs. The Department has also attended to the preliminary work with regard to the establishment of Regional Development Banks (RDBs).

During 1997, licences were issued for the establishment of two domestic specialised banks, namely Pramuka Savings and Development Bank Ltd. and Sanasa Development Bank Ltd. These banks are permitted to carry on the forms of business specified in Schedule IV to the Banking Act. However, they cannot undertake commercial banking operations which involve the handling of current accounts.

Some particulars relating to commercial banks, RRDBs and specialised banks at end 1997 are given in Table II-4. In 1997, the number of foreign commercial banks operating in Sri Lanka was reduced by one with the acquisition of the business of the Colombo branch of the Banque Indosuez by Hatton National Bank. The number of commercial banks, RRDBs and specialised banks comprised 26 commercial banks (8 domestic commercial banks and 18 foreign commercial banks), 17 RRDBs and 6 specialised banks.

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

Category	1992	1993	1994	1995	1996	1997(a)
1. No. of Institutions	43	44	44	47	48	49
1.1 Commercial Banks	23	23	23	26	27	26
1.1.1 Domestic Commercial Banks	6	6	6	8	8	8
1.1.2 Foreign Banks	17	17	17	18	19	18
1.2 RRDBs (b)	16	17	17	17	17	17
1.3 Specialised Banks (c)	4	4	4	4	4	6
1.3.1 Savings Banks	1	1	1	1	1	1
1.3.2 Development Banks	3	3	3	3	3	5
2. No. of Bank Branches (d)	1,067	1,108	1,156	1,209	1,339	1,461
2.1 Commercial Bank Branches	820	854	890	936	1,058	1,169
2.1.1 Branches of Domestic Banks	790	820	853	897	1,019	1,127
Main Branches (e)	701	734	761	795	826	857
ASC Branches	34	29	28	19	17	14
Kachcheri Branches	24	24	23	23	23	23
Extension/Pay Offices	25	27	32	41	47	56
Pawning Centres and Saving Centres	4	4	7	15	101	172
Overseas Branches	2	2	2	4	4	4
Overseas Extension Offices	-	-	-	-	1	1
2.1.2 Foreign Bank Branches	30	34	37	39	39	42
Main Branches (e)	29	33	36	37	37	38
Extension Offices	1	1	1	2	2	4
2.2 RRDB Branches	156	163	169	171	175	176
2.3 No. of Specialised Bank Branches	91	91	97	102	106	118
2.3.1 Savings Bank Branches	84	85	90	95	97	99
2.3.2 Development Bank Branches	7	6	7	7	9	17

(a) Provisional.

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

(c) Banks requiring a licence as Specialised Banks in terms of the Banking Act as amended.

(d) Excluding Co-operative Rural Banks.

(e) Revised

Source: Central Bank of Sri Lanka

Branch Expansion

During 1997, approvals were granted for the opening of 119 branches of commercial banks including an overseas branch in Coimbatore, India by Bank of Ceylon. Approval was also given to Bank of Ceylon to open a representative office in Moscow. Further, approval was given to Seylan Bank to open 8 regional offices and to People's Bank to open one regional office. The total number of new commercial bank branches that were opened during the year by both domestic and foreign commercial banks was 111, of which domestic commercial banks opened 108 branches and foreign commercial banks opened 3 branches. RRDBs too opened one new branch during the year. During 1997, approval was granted for the specialised banks to open 10 branches. The total number of branches opened by the specialised banks was 10. The branch network of the commercial banks, RRDBs and specialised banks expanded by 122 to number 1,461 branches at end 1997.

REGIONAL OFFICES

During 1997, the Regional Offices of the Central Bank at Matara, Anuradhapura and Matale continued to carry out development activities and the traditional central banking functions assigned to them. The main activities of the Regional Offices included currency operations (in Matara and Anuradhapura), cheque clearing activities, data collection, participation in the Consumer Finances and Socio Economic Survey 1996/97, conducting beneficiary training programmes, inspection of the Regional Rural Development Banks (RRDBs), assisting in regional development projects and co-ordinating with government departments, agencies and organisations involved in development work in the region.

The Matara Regional Office continued to handle the activities relating to the implementation of the Small Holder Tea Development Project (SHTDP), the Southern Province Rural Development Project (SPRDP), Perennial Crops Development Project (PCDP), Surathura Diriya Credit Scheme and the Small Farmers and Landless Credit Project. The Regional Office also assisted in conducting workshops and training programmes for officers of participating credit institutions in the region in respect of the SHTDP, SPRDP and Surathura Diriya Programme. Under the SPRDP, the Regional Office appraised around 100 projects to examine their viability and to ensure the proper utilisation of project funds in respect of existing projects in the districts of Matara, Galle and Hambantota. A sample survey of the loans granted under the Surathura Diriya Credit Scheme was conducted in the Matara, Hambantota and Moneragala districts. The Regional Office also assisted other development programmes implemented by government departments and

financial institutions in the region. Further, it has carried out the inspection of a number of branches of RRDBs. The Currency Unit of the Regional Office continued to provide currency exchange facilities to the public as well as deposit and withdrawal facilities for commercial banks in the region. During the year, 215,046 cheques amounting to Rs.3,592 million were cleared at the Regional Cheque Clearing House at Matara.

The Anuradhapura Regional Office, in association with government departments and agencies involved in development activities, conducted 21 training programmes in the fields of agriculture, dairy farming, post harvesting techniques and entrepreneurship development with the objective of upgrading the living standards of the rural community. A total of 350 persons attended these programmes. Agriculture training programmes included lectures on modern farming, water management and fruit cultivation. Under the entrepreneurship development programmes unemployed youth were given training in the fields of resource identification, banking, marketing etc. The Regional Office conducted six educational programmes for Advanced Level students in the districts of Anuradhapura, Polonnaruwa and Kurunegala which were attended by 1,459 students. Three 'Janahamuwa' meetings were organised among rural people in order to create an awareness of the facilities provided by the Government and the banking sector. The Regional office also monitored two special projects, namely the North Central Province Participatory Rural Development Project (NCP-PRDP) and the North Central Province Rural Development Project (NCP-RDP). Two participatory NGOs (involved in these two projects) were given a training in banking by conducting four seminars. The Regional Office conducted two sample surveys, one on loans granted under the Surathura Diriya Credit Scheme and the other on the marketing of chillies and problems related thereto in the region. Further, the Regional Office carried out the inspection of branches of RRDBs in the districts of Anuradhapura, Kurunegala and Polonnaruwa. The Regional Office also accepted deposits and issued currency to commercial banks. The Regional Clearing House cleared 205,354 cheques valued at Rs.2,222 million during the year.

The Matale Regional Office conducted six beneficiary training programmes on a variety of subjects including dairy farming, poultry farming, home gardening, systematic preparation of rice and nurseries in order to provide avenues for self employment. Two seminars were also conducted on topics relevant to Advanced Level students. A total of 1,422 students participated in these programmes. The Regional Office continued to identify new projects in the region. During this period the Regional Office prepared 18 feasibility reports on small scale industrial projects. The reports were forwarded to the financial institutions in the area so that they

could assist entrepreneurs. The Regional Office conducted 'Janahamuwas' in rural areas to educate farmers on banking facilities and also assisted in conducting exhibitions and sales of the products of small scale entrepreneurs. The Regional Office also continued to handle activities relating to the Small Holder Tea Development Project and the Perennial Crops Development Project. Further, it carried out the inspection of several RRDB branches and examined the activities of RRDBs in the region. The two regional clearing houses at Matale and Kandy cleared 164,973 cheques amounting to Rs.2,061 million and 691,955 cheques amounting to Rs.22,162 million, respectively.

REGIONAL RURAL DEVELOPMENT BANKS

During 1997, the Regional Rural Development Banks (RRDBs) continued to provide finance for the development of agriculture, fisheries, cottage and small scale industry, commerce and other development activities in the rural sector.

Branch Network of RRDBs

The total number of RRDBs in operation in 17 districts remained unchanged at 17 at the end of 1997. With the opening of the Godakawela branch of the Ratnapura RRDB, in February 1997, the total number of branches of RRDBs rose from 175 in 1996 to 176 in 1997. (Table II-5) Arrangements are under way for the early establishment of

Regional Development Banks. Hence, branch expansion by RRDBs was considerably reduced, since the business of RRDBs will be vested in Regional Development Banks (RDBs) when they are established and the RDBs could then decide on further branch expansion.

Deposit Mobilisation

The RRDBs continued to mobilise deposits during 1997. In order to mobilise savings in rural areas, the RRDBs had introduced several attractive savings schemes and provided mobile banking services. The total deposits mobilised by RRDBs as at the end of the first nine months of the year stood at Rs. 2,404 million, an increase of 18 per cent above the level at end 1996. The number of accounts related to these deposits exceeded one million, rising from 993,434 at end 1996 to 1,037,981 at end 1997. Savings deposits continued to constitute the bulk of these deposits and accounted for 70 per cent of the total. The average value of deposits in a savings account increased marginally from Rs.1,643 in 1996 to Rs.1,661 in 1997, whereas the average value of a fixed deposit, declined from Rs.43,160 in 1996 to Rs.42,487 in 1997.

Delivery of Credit

During the first nine months of the year, RRDBs disbursed loans and advances amounting to Rs.1,781 million in respect of 274,365 loans. During the same period, i.e. January to September, last year, RRDBs had disbursed only Rs. 1,403 million in respect of 207,505 loans. However,

TABLE II-5
Branch Network of RRDBs

Name	Date of Establishment	Location of Head Office	Number of Branches Opened									Total at end 1997
			1985-1989	1990	1991	1992	1993	1994	1995	1996	1997	
Kalutara	85.07.13	Bulathsinhala	12	-	1	2	-	-	-	1	-	16
Matara	85.07.28	Matara	8	-	-	4	-	-	-	1	-	13
Kurunegala	85.08.10	Kuliyapitiya	14	1	-	2	-	-	-	-	-	17
Anuradhapura	85.08.12	Anuradhapura	7	-	3	1	-	-	-	-	-	11
Hambantota	86.12.13	Ambalantota	6	1	-	1	-	-	-	-	-	8
Kegalle	87.02.08	Kegalle	11	1	(1)	1	1	1	-	-	-	14
Puttalam	87.07.11	Chilaw	6	2	1	1	-	-	-	-	-	10
Galle	87.08.17	Elpitiya	9	-	-	3	-	-	-	-	-	12
Kandy	87.10.13	Kandy	9	2	-	2	-	-	1	1	-	15
Nuwara Eliya	88.10.10	Nuwara Eliya	4	2	-	2	-	-	-	-	-	8
Moneragala	88.10.11	Buttala	3	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	-	-	-	1	8
Ampara	92.02.24	Ampara	-	-	-	5	2	-	-	-	-	7
Gampaha	93.06.07	Gampaha	-	-	-	-	2	1	1	1	-	5
Total			89	14	21	32	7	6	2	4	1	176

Source : Central Bank of Sri Lanka

RRDBs increased the grant of loans and advances considerably during the latter part of last year, in order to rebuild their customer base and their level rose to Rs.2,294 million by the end of 1996.

As in the past, the RRDBs continued to grant financial assistance under various loan schemes introduced by them. These included special credit schemes for teachers and other government employees, self employment loans for Samurdhi recipients, loans for the purchase of trishaws and for the establishment of service stations and shops selling spare parts for trishaws.

Other Activities

As mentioned in earlier annual reports, the RRDBs provided a wide range of ancillary services to their customers in order to fulfil the developmental role assigned to RRDBs. They rendered advisory assistance by co-ordinating beneficiary training programmes for their customers, including Samurdhi recipients, so that effective programmes of education, imparting management techniques and new technology, would motivate customers.

The RRDBs continued to hold 'Janahamuwa' meetings in villages both in order to create an awareness of banking facilities as well as to extend credit facilities. The RRDBs also continued to promote the marketing and processing of agricultural products. Further, the RRDBs introduced an island-wide loan scheme for the purchase of trishaws, and the establishment of service centres and outlets for the sale of spare parts for trishaws. This project has been launched with the co-operation of the private sector which will provide the necessary expertise and training. The scheme will provide self-employment opportunities for youth in the rural sector. Another scheme introduced by RRDBs in order to protect farmers was for the purchase and storage of chillies during the harvesting season so that the produce could be sold later at a reasonable price.

The RRDBs acted as participating credit institutions in several special credit schemes, namely, the ADB funded Small Holder Tea Development Project, the Perennial Crops Development Project, the Southern Province Rural Development Project, the North Western Province Water Resources Development Project, the USAID Housing Guarantee Low Income Shelter Project, Small and Medium Scale Industry Loan Project and the Isuru Project.

REGIONAL DEVELOPMENT BANKS

On 5 June 1997 the Regional Development Banks Act No. 6 of 1997 was enacted. It is proposed to establish a

Regional Development Bank (RDB) for each Province which will take over the business of existing Regional Rural Development Banks (RRDBs) in the Province. This would ensure that each Province will have a development bank which will facilitate the overall development of the Province.

RDBs are expected to mobilise deposits within the Province as well as from outside the Province and lend to viable development projects within the Province, bearing in mind the need to assist the weakest segments of the population. In addition to financing development oriented enterprises, these banks will play an active role in development projects undertaken by Provincial Councils, Pradeshiya Sabhas and local authorities.

The authorised capital of each Bank will be Rs. 500 million divided into shares of Rs.10. The capital of the RDBs will be initially contributed by the Central Bank of Sri Lanka, Bank of Ceylon, People's Bank, National Savings Bank and the Employees' Provident Fund. The initial issued capital of each bank will be determined having regard to the net asset value of the RRDBs in the Province. The issued capital of RDBs will range between Rs.100 million and Rs.150 million. The RDBs will issue debentures to the Central Bank in respect of any excess of the net assets of RRDBs vested in a RDB over the Central Bank's capital contribution. These debentures will carry an annual interest rate of 12 per cent. If the net worth is less than the issued share capital the difference will be contributed by the Central Bank.

The RDBs will be Licensed Specialised Banks for purposes of the Banking Act and as such will come under the supervision of the Central Bank. They will perform banking and financial operations specified in the Regional Development Banks Act. However, they will not undertake commercial banking operations which involve the handling of current accounts.

BANK SUPERVISION

The regulatory and supervisory function of the Central Bank relating to banking institutions is undertaken by the Department of Bank Supervision. The Department carries out its functions through periodic on-site examinations and off-site surveillance of all licensed commercial banks (LCBs), Regional Rural Development Banks (RRDBs) and licensed specialised banks (LSBs) in the country. The objective of supervision is to safeguard the interests of depositors by ensuring the safety and soundness of the banking system and promoting public confidence in the financial system.

The scope of on-site examinations covers an appraisal of the quality of assets to determine the soundness of the

assets portfolio. Other aspects such as capital adequacy, earnings, liquidity, systems, internal controls and procedures are also examined, together with an evaluation of the management to assess the overall financial condition of the bank. The extent to which banks comply with the applicable laws and regulations are also carefully examined.

Licensed Commercial Banks

During the year under review the Department commenced 18 on-site examinations in respect of 13 LCBs and 5 RRDBs and concluded the examinations of 3 LCBs and 5 RRDBs. In addition, the examinations of 9 LCBs which had commenced in the previous year were concluded in 1997. Spot examinations of two RRDBs were also conducted by the Department which covered certain specific aspects of their operations.

Under the off-site surveillance system, the Department continued to monitor the financial condition of the LCBs and RRDBs on the basis of monthly statements of assets and liabilities and liquid assets and quarterly statements of capital adequacy, non performing advances and income and expenses submitted to the Department. These returns are closely scrutinised for any significant changes or symptoms of weaknesses that could have an adverse impact on a bank, on the basis of which prompt remedial action could be taken.

The Department also continued to monitor the operations of Foreign Currency Banking Units (FCBUs) of LCBs on the basis of monthly statements of assets and liabilities and quarterly statements of income and expenses submitted to the Department. Consequent to the amendments made to the Banking Act, the Department is now engaged in the framing of the necessary prudential rules and determinations to be issued to the FCBUs.

Licensed Specialised Banks

During the year under review the operations of specialised banking institutions namely, the National Development Bank, Development Finance Corporation of Ceylon, National Savings Bank, State Mortgage and Investment Bank, Pramuka Savings and Development Bank and Sanasa Development Bank came under the regulatory authority of the Central Bank in terms of part IX A of the Banking (Amendment) Act No. 33 of 1995. In this regard 18 directions approved by the Monetary Board were issued in November 1997 to meet the prudential and regulatory requirements of the specialised banks. The Department is engaged in the preparation of periodic returns the LSBs would be required to furnish to the Department for monitoring purposes.

Regulatory Requirements

The Department continued to implement the regulatory requirements under the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995. These included the maintenance of a minimum level of liquid assets, the adherence to the single borrower limit, minimum capital based on risk-weighted assets, restrictions on accommodation to directors/their close relations and their interests and the submission of annual financial statements within the statutory period. The guidelines issued under the Monetary Law Act in respect of income recognition of non-performing advances and the adequacy of provisions for bad and doubtful debts were re-issued under the Banking Act and became a statutory requirement in terms of Section 46A of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995. Similarly, capital adequacy requirements, which were hitherto enforced under the Monetary Law Act, were brought under the Banking Act. In August 1997, three new directions were issued to LCBs covering investment in shares, acquisition of property by banks and the revision of the existing direction on the maximum accommodation that a licensed bank could extend in the aggregate to a group of companies.

During the year, the attention of the Bank Supervision Department was drawn to the following violations of the provisions of the Banking Act.

- (a) Section 17A(1) and (2) relating to investment in shares of unquoted companies.
- (b) Section 19(7)(a) of the Banking Act relating to capital adequacy ratios. These capital adequacy standards are based on the norms specified by the Banking Regulations and Supervisory Practices Committee (BASLE Committee).
- (c) Section 21(1) of the Banking Act relating to the maintenance of the minimum liquid asset ratio of 20 per cent.
- (d) Section 38(1) of the Banking Act relating to the submission of Annual Audited Accounts.
- (e) Section 38(4) of the Banking Act which requires LCBs to exhibit in a conspicuous place within the place of business of the LCB the consolidated Balance Sheet of the Bank.
- (f) Section 46(1)(c) (i) and (ii) of the Banking Act relating to the maximum amount of accommodation to customers.
- (g) Section 46(1)(d) of the Banking Act relating to the maximum percentage of shareholding in a LCB incorporated in Sri Lanka.

- (h) Direction issued under Section 46 A of the Banking Act relating to segregation and suspension of interest of non-performing advances.
- (i) Section 47, (4), (5) and (6) of the Banking Act relating to granting of advances to directors/or to concerns in which the directors have an interest.

With regard to the above violations, corrective action is being taken by the Department. In addition, the Central Bank imposed penalties for failure to maintain the Statutory Reserve Requirement with the Central Bank as well as the minimum Liquid Assets Ratio in terms of Section 93 of the Monetary Law Act and Section 21(1) of the Banking Act, respectively.

The Department commenced several special investigations during the year, which are continuing.

During the year under review, the Department was also engaged in the preparation of the following:

- (a) Compilation of a panel of qualified auditors in terms of Section 38A of the Banking Act. Once the panel of auditors is approved by the Monetary Board, LCBs and LSBs are required to select auditors from this panel to undertake the annual audits of their respective banks. Banks that are classified as public corporations however would be exempted from this requirement.
- (b) Rules and regulations in terms of Section 83A of the Banking Act relating to pawn broking activities of the LCBs. With the introduction of these rules and regulations, the provisions of the Pawn Brokers Ordinance (chapter 99) shall not apply to a LCB and such bank may carry on the business of pawn brokers subject to rules and regulations determined by the Monetary Board.

Directions Issued under the Banking Act

The following directions were issued to LCBs and LSBs:

Directions issued to Licensed Commercial Banks.

- 1. Directions relating to investment in shares by a LCB under Section 17A(1)(a) and (b) of the Banking Act.
- 2. The re-issue of directions relating to the capital adequacy requirement, under Section 19(7) (a) of the Banking Act which had hitherto been enforced under Section 102 of the Monetary Law Act.

- 3. The re-issue of directions of provisioning requirements, relating to suspension of interest on non-performing advances, classification of bad and doubtful advances and valuation of security for provisioning purposes, under Section 46A of the Banking Act which were hitherto issued to the LCBs as Guidelines.
- 4. Directions issued, in terms of Section 46(1) C (i) and (ii) of the Banking Act relating to the maximum amount that could be granted to an individual, a company and the maximum amount that could be granted to a group of companies in the aggregate.
- 5. Directions issued, in terms of Section 48A of the Banking Act, relating to purchase or acquisition of immovable property by a LCB.

Directions issued to Licensed Specialised Banks.

Eighteen Directions were issued to LSBs in terms of Section 76J (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995. These directions relate to:

- 1. Capital Adequacy Ratio
- 2. Statutory Reserve Fund
- 3. Investment in equity
- 4. Unpaid interest (effective 1 January 1999)
- 5. Liquid assets
- 6. Ownership limits
- 7. Single borrower limit
- 8. Accommodation to directors/related companies
- 9. Acquisition of immovable properties
- 10. Conditions for grant of accommodation
- 11. Specific provisions (effective 1 January 1999)
- 12. Prior approval of the Central Bank for certain transactions
- 13. Alteration of Memorandum and Articles of Association
- 14. Payment of dividends
- 15. Disqualification for being appointed or elected director
- 16. Secretary of a licensed specialised bank
- 17. Disqualification for appointment as manager etc.
- 18. Restriction in the sale, transfer of immovable assets

Deposit Insurance Scheme

The Department continued to administer the Deposit Insurance Scheme which commenced operations in 1987. The number of institutions registered under this scheme is 7

consisting of 3 RRDBs and 4 Multi Purpose Co-operative Societies (MPCSs). The premium payable is 3.75 cents per quarter for every Rs. 100 and amount collected to the fund by way of premia during the year 1997 was Rs.1,326,488. The total fund stood at Rs.70,145,474 as at 31 December 1997 which includes Rs.50 million allocated to the fund by the Central Bank.

SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

The Department of Supervision of Non-Bank Financial Institutions continued to carry out its regulatory and supervisory functions in respect of finance companies (FCs) with the objective of ensuring that FCs are adequately capitalised, prudently managed and financially sound. The Department strived to achieve the above objectives mainly through off-site surveillance and on-site examinations.

Brief Overview of FCs

The consolidated balance sheet of the 25 registered FCs as at 31 March 96 and 31 March 97 are given in Table 11-6. Total assets of registered FCs have increased by Rs. 3.6 billion or 23 per cent over the year. The increase in assets was reflected mostly in advances which increased by Rs. 2.4 billion or 24 per cent and liquid assets which increased by Rs.492.2 million or 31 per cent. The distribution of the major asset categories had not changed substantially, but the trend for leasing to account for a larger portion of facilities granted, which was observed in previous years, was evident in 1997 too. The growth in assets has been funded by a growth in deposits of Rs.2.3 billion or 26 per cent and a growth in capital funds of Rs.428.3 million or 19 per cent.

Regulation and Supervision of Registered FCs

During the period under review, the Department continued its off-site surveillance of the 25 registered FCs analysing periodical statements submitted by these companies to ascertain compliance with Rules and Directions issued under provisions of the Finance Companies Act No. 78 of 1988. For the above purpose the Department continued to obtain weekly statements of liquid assets, monthly statements of large advances granted, monthly statements of assets and liabilities, quarterly statements of non-performing advances and annual audited balance sheets and financial statements based on which adherence to specified minimum capital and liquidity levels, the observance of single borrower limits and adequacy of provisions for bad and doubtful debts were monitored. The profit and growth trends of registered FCs were also monitored closely during the period under review to identify and arrest any adverse developments.

The Department also conducted on-site examinations of three FCs during the year. The books of accounts and other records of companies examined were scrutinised and discussions held with officers of the Company in order to make an appraisal of the adequacy of capital, quality of assets, capability of management, volume and quality of earnings and liquidity position. The efficacy of internal systems and controls to prevent frauds and to provide timely and accurate management information were also assessed.

In addition to comprehensive on-site examinations FCs were subjected to spot examinations, prior to the issue of annual licences, where a few key items as reported in the monthly statements of assets and liabilities were checked for accuracy by reference to the books of accounts and other records of companies.

Failed FCs

The administration and management of five FCs vested in the Monetary Board under the provisions of the Finance Companies Act continued to be performed by the Department. Relief payments to depositors of two of these FCs under the relief scheme for depositors of registered FCs in distress, utilising funds provided by the Central Bank and relief payments under enhanced relief schemes utilising funds from loan recoveries and sale of assets amounted to Rs. 5.0 million in 1997. During the period under review a further sum of Rs. 15 million was provided from the Medium and Long Term Credit Fund thus increasing the outstanding refinance facilities provided by the Central Bank to failed FCs as at 31 December 1997 to Rs.2,582.2 million. Action was initiated to sell the immovable assets of two of the remaining companies with a view to settling a considerable portion of the deposits of these companies utilising the sale proceeds. The depositors of the remaining company have been repaid in full and only the amounts unclaimed remain unpaid. The Department continued to co-ordinate with and assist the audit firm which was appointed as the liquidator in respect of four other failed finance companies. The liquidation of these companies is proceeding under the supervision of the District Court of Colombo.

The Department continued to make part refunds of deposits of a failed FC through a Trust Fund set up to channel the sales proceeds of its Head Office Building. A sum of Rs.71.3 million has been paid to 1,928 depositors through this Trust Fund up to 31 December 1997. During the year the Department also initiated action to impose on the Directors of another failed FC which has been issued with a Direction restraining alienation of its immovable assets without Monetary Board approval, to dispose of its assets by calling for offers by advertisement in the newspapers so that the sale proceeds may be distributed in an equitable manner.

TABLE II-6
Consolidated Balance Sheet of Operational Finance Companies

Category	At end March 1996		At end March 1997		Change
	Rs. Mn.	%	Rs. Mn.	%	
LIABILITIES					
1. Capital Funds					
Issued Share Capital	385.8		495.1		
Share Premium	205.0		205.4		
Capital Reserve	491.3		527.3		
General Reserve	612.3		768.5		
Reserve Fund	308.1		378.9		
Other Reserves	116.5		219.7		
Profit & Loss A/c.	109.8		63.7		
Gross Capital Funds	2,228.8		2,658.6		
Less: Deferred Expenditure	8.9		10.4		
Net Capital Funds	2,219.9	14.2	2,648.2	13.8	19.3
2. Provision for Bad Debts	1,026.7	6.6	1,281.0	6.7	24.8
3. Public Deposits	8,793.0	56.3	11,088.3	57.5	26.1
4. Borrowings					
Bank Overdrafts	375.3		314.8		
Others	867.2		888.4		
Total Borrowings	1,242.5	8.0	1,203.2	6.3	(3.2)
5. Other Liabilities	2,345.6	15.0	3,022.1	15.7	28.8
Grand Total	15,627.7	100.0	19,242.8	100.0	23.1
ASSETS					
1. Liquid Assets					
Cash and Due from Banks	241.1		305.0		
Fixed Deposits	408.7		488.4		
Short term instruments	0.0		14.8		
Treasury Bills	950.8		1,284.5		
Total Liquid Assets	1,600.6	10.2	2,092.8	10.9	30.8
2. Investments					
Shares in Subsidiaries & Associated Companies	236.4		309.2		
Shares in Related Companies	451.8		600.2		
Long term investment in Shares	145.9		168.0		
Trading Investment in Shares	210.5		52.2		
Debentures	0.5		15.2		
Total Investments	1,045.1	6.7	1,144.8	6.0	9.5
3. Advances					
Loans	1,005.0		1,085.4		
Hire Purchase	2,682.9		2,374.7		
Leasing	5,878.9		7,326.2		
Real Estate	644.6		741.5		
Other Advances	262.2		1,423.6		
Total Advances	10,473.6	67.0	12,951.3	67.3	23.7
4. Fixed Assets					
Freehold Land & Building	860.7		935.1		
Furniture, Fittings and					
Other Equipment	157.1		235.6		
Motor Vehicles	117.2		95.4		
Machinery	19.2		8.4		
Leased Assets	9.8		55.9		
Others	25.6		24.3		
Total Fixed Assets	1,189.6	7.6	1,355.6	7.0	14.0
5. Other Assets	1,318.8	8.4	1,698.3	8.8	28.8
Grand Total	15,627.7	100.0	19,242.8	100.0	23.1
No. of Reporting Companies	24		25		

Source: Central Bank of Sri Lanka

Necessary steps to ensure that errant directors of failed FCs who contravene the provisions of the Finance Companies Act or misappropriate funds of FCs are appropriately dealt with under applicable laws continue to be taken by the Department. The Department continued giving all possible assistance to the Police Department in actions initiated by it in consultation with the Attorney-General's Department against errant directors to ensure success in the cases filed.

Policy Initiatives

During the period under review, the Department participated in finalising the Draft Bill titled the Finance Companies (Amendment) Act which incorporates several amendments to the present law governing the regulation and supervision of finance companies. Among other things the proposed amendments enable the Central Bank to specify higher minimum levels of issued share capital required for registration as a finance company in keeping with economic and financial trends in the country.

The Department would be vested with authority for the registration and supervision of financial leasing companies in the near future with the enactment of the proposed legislation for the development of the institutional and regulatory framework for the financial leasing business in Sri Lanka.

The Department had discussions with the Finance Houses Association to inform members and seek their views on amendments to existing directions and new directions under consideration. These include:

- (a) introduction of minimum capital ratio based on risk weighted assets;
- (b) more stringent income recognition standards;
- (c) more stringent guidelines on provisioning for bad and doubtful debts; and
- (d) limiting the types of activities that may be undertaken by FCs.

FINANCIAL MARKETS

The Financial Markets Department was established in September 1997, with the overall responsibility for the development of the financial sector in Sri Lanka. The new department took over all the work handled by the former Capital and Financial Markets Development Unit. In addition, the Department is also responsible for co-ordinating the implementation of the country's ongoing financial sector reform programme.

The Department is expected to play a catalytic role in the development of financial markets in the country with special emphasis on the development of the debt market. The following functions have been assigned to the Department:

- Identifying areas where institutional support is needed for the development of money and capital markets and preparing a time bound action plan for the implementation of such reforms.
- Implementing appropriate measures to establish institutions that are identified as crucial to the development of money and capital markets on a priority basis and ensuring that these institutions function properly to achieve the objectives assigned to them.
- Identifying new financial instruments that will promote healthy money and capital markets.
- Identifying the constraints affecting the rapid development of money and capital markets and preparing a time bound programme to eliminate such constraints.
- Identifying fiscal incentives necessary for the development of money and capital markets.
- Co-ordinating with other relevant agencies with a view to achieving the objectives of the Central Bank in the development of money and capital markets.
- Working closely with other agencies concerned with the capital market with a view to developing a modern "state of the art" technology.
- Monitoring developments in financial markets on a regular basis and taking appropriate measures when adverse developments are observed.
- Co-ordinating the functions of the existing Financial Sector Reform Committee.

During the period under review, the Department was engaged in a number of activities. One of the main activities of the Department was coordinating the implementation of financial sector reform programme and monitoring the progress on behalf of the Financial Sector Reform Committee (FSRC). The FSRC was reconstituted by the Secretary to the Treasury in January 1997, with the Governor, Central Bank as the Chairman. The FSRC which is responsible for monitoring the country's financial sector reform programme, is composed of senior officials from the Ministry of Finance (Secretary to the Treasury and the Deputy Secretary to the Treasury are members) and the Central Bank. The FSRC

is assisted by three sub-committees in its tasks - the FSRC Sub Committee on Bank Supervision, the FSRC Sub-Committee on Regulatory Reforms and Financial Markets and the FSRC Sub-Committee on the Central Bank.

Several legislative reforms were in the pipeline during the year. Among them was the new Insurance Bill which will provide for an autonomous regulatory and supervisory authority for the insurance industry. The Bill is expected to be presented to Parliament in early 1998. During the year, the FSRC approved the Finance Leasing Bill and amendments to the National Savings Bank (NSB) Act. The Central Bank was involved in drafting the Finance Leasing Bill which will empower the Bank to regulate and supervise the leasing industry. The Finance Leasing Bill and the amendments to the NSB Act were submitted to the Ministry of Finance and are expected to be submitted to Parliament in 1998.

The Department also co-ordinated the work relating to the establishment of Credit Rating Agency (CRA) in Sri Lanka. In this respect, the Department was involved in determining the capital and ownership structure of the CRA and in identifying a suitable foreign technical partner. Multilateral agencies such as the International Finance Corporation and the Asian Development Bank are also expected to invest in the CRA, which is scheduled to be established in 1998.

The Department was also involved in preparing a Memorandum of Understanding (MOU) between the Government and the Bank of Ceylon and the People's Bank to improve the efficiency, profitability and financial soundness of the banks. The MOUs seek to improve the corporate governance of the banks by providing them with operational autonomy and will prescribe certain performance targets which the banks will be required to achieve. The MOUs will be signed in early 1998.

The Department was also engaged in :

- (a) Preparing offers of commitments for the World Trade Organization negotiations on trade in financial services which were concluded in December 1997.
- (b) liaising with international donor agencies on technical assistance projects with a view to utilising such assistance.
- (c) preparing information brochures for the public on Treasury bills, Treasury bonds and other Government securities, which will be published in 1998.

DEVELOPMENT FINANCE

The activities of the Development Finance Department expanded in 1997. A new credit guarantee scheme entitled Small and Medium Enterprise Assistance Project (SMAP) came into operation with effect from 9 September 1997. The Plantation Reform Project (PRP), which became effective in the second half of 1996, expanded rapidly during 1997 showing a very high level of performance both in respect of loan approvals and disbursements. The Department also continued to conduct inspection of projects for which credit guarantees have been provided by the Central Bank.

Current Credit Schemes

Plantation Reform Project (PRP)

In May 1996, The Asian Development Bank (ADB) approved US dollars 40 million as the credit component of a loan of US dollars 60 million for capital development of the privatised regional plantation companies. In December of the same year, the Overseas Economic Co-ordination Fund (OECF) of Japan agreed to provide a loan of Japanese yen 4,075 million (equivalent of US dollars 40 million) as additional funds for the same purpose. As the Apex Lender and Credit Guarantor of the PRP credit scheme, the Development Finance Department of the Central Bank had approved loans amounting to Rs. 426 million in 1996. In comparison, the loan approvals in 1997 increased by 92 per cent to reach Rs. 818 million. Loan disbursements which were only Rs. 57.9 million in 1996 increased to Rs. 519.2 million in 1997. According to the purpose-wise classification of PRP loans which is shown in Table II-7, loans amounting to Rs.347.7 million (42 per cent) were approved for processing, improvement and pollution control, while loans amounting to Rs. 308.5 million (38 per cent) were approved for tree crop development. The value of loans approved for purchase of service vehicles and equipment amounted to Rs.161.9 million (20 per cent).

TABLE II-7
Plantation Reform Project
Loan Approvals by Purpose

Purpose	1996		1997		1996-97	
	No.	Amount	No.	Amount	No.	Amount
Tree Crop Development	5	163.3	12	308.5	17	471.8
Processing, Improvement & Pollution Control	5	151.6	11	347.7	16	499.3
Service Vehicles & Equipment	5	111.1	11	161.9	16	273.0
Total	15	426.0	34	818.1	49	1,244.1

Source: Central Bank of Sri Lanka.

TABLE II-8
Plantation Reform Project Loan Approvals, Disbursements and
Central Bank's Credit Guarantee Liability

PFI	1996			1997			1996-97		
	App. (a)	Disb. (b)	CGL(c)	App.	Disb.	CGL	App.	Disb.	CGL
NDB	426.0	57.8	40.5	188.9	289.0	168.8	614.9	356.8	209.3
DFCCB	-	-	-	346.5	94.2	56.4	346.5	94.2	56.4
BOC	-	-	-	120.6	75.5	40.8	120.6	75.5	40.8
CBC	-	-	-	162.1	50.5	31.3	162.1	50.5	31.3
Total	426.0	57.8	40.5	818.1	519.2	297.3	1,244.1	577.0	337.8

(a) Approvals
 (b) Disbursements
 (c) Credit Guarantee Liability

Source: Central Bank of Sri Lanka

In 1996 only the National Development Bank (NDB) participated in the PRP credit scheme, approving Rs.426.0 million. However, in 1997 two development banks, i.e. NDB and DFCC Bank (DFCCB) and two commercial banks, i.e. Commercial Bank of Ceylon Ltd. (CBC) and Bank of Ceylon (BOC) participated in the loan scheme. Further, in 1997 DFCCB became the second largest participating financial institution approving 42 per cent of all loans. Details of loan approvals, disbursements and the credit guarantee liability of the Central Bank are given in Table II-8. As shown in the Table, credit guarantee liability under the PRP credit guarantee scheme which stood at Rs. 40.5 million at the end of 1996 increased to Rs.337.8 million as at end December 1997. The total premium collection as at end December 1997 was Rs. 5.1 million.

Small and Medium Scale Industries (SMI) - IV

The last lap of the Small And Medium Scale Industries SMI-IV Scheme which was launched in March 1992 was implemented in 1997. During 1997, the Central Bank guaranteed 356 loans amounting to Rs.317.4 million under SMI-IV and the Central Bank's Credit guarantee liability in respect of these loans amounted to Rs.176.8 million. During the year, repayments in respect of 1,932 loans amounting to Rs.1,033.9 million have been completed by the borrowers while credit guarantees of 65 loans worth Rs. 83.4 million have been either withdrawn or lapsed due to non-compliance with the Central Bank's Operating Instructions by the Participating Credit Institutions (PCIs). At the end of 1997, credit guarantees in respect of 6,137 loans amounting to Rs.4,029.6 million were operational and the Central Bank's liability in respect of these loans amounted to Rs.2,491.1 million. At the end of 1997, a total of 156 claims amounting to Rs.93.3 million had been received. The cumulative guarantee premium collections from SMI-IV at the end of 1997 stood at Rs.131.1 million while the total post-claim recoveries amounted to Rs.2.4 million. The progress of the SMI-IV Credit Guarantee Scheme for 1996, 1997 and for the period 1992-97 is shown in Table II-9.

TABLE II-9
Progress of SMI-IV Credit Guarantee Scheme
Number and Value of Loans

Item	Rs. Mn.					
	1996		1997		1992-97	
	No.	Value	No.	Value	No.	Value
Loans granted	1,334	1,293.1	356	317.4	9,072	7,666.4
Loans guaranteed	1,334	861.0	356	176.8	9,072	4,906.5
Loans fully repaid	72	18.0	1,932	1,039.9	2,546	1,316.2
Guarantee withdrawn or lapsed	-	-	65	83.4	303	228.4
Loans outstanding (a)	7,804	5,761.9	6,137	4,029.6	6,137	4,029.6
Loans in arrears (a)	1,339	694.7(b)	2,054	1,065.8	2,054	1,065.8
Guarantee outstanding (a)	7,804	3,254.2	6,137	2,491.1	6,137	2,491.1
Total claims received	33	17.3	36	23.0	156	93.3
Premium collected	-	20.0	-	26.2	-	131.1
Post-claim recoveries	-	1.0	-	0.3	-	2.4

(a) Up to date
 (b) Provisional

Source: Central Bank of Sri Lanka

Housing Guarantee Low Income Shelter Programme - Phase IV

The refinancing of loans under the Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV, which commenced in July 1992 continued to operate in 1997. The Central Bank, which functions as the Apex Lender of HGLISP, disbursed funds borrowed by the Government of Sri Lanka under the United States Government Housing Loan Guarantee Programme - Phase IV, to refinance the lending of PCIs, designated as Sub Apex Lenders (SAL), who have entered into agreements with the Central Bank of Sri Lanka under the HGLISP.

The HGLISP scheme was initially implemented using an advance of Rs.150 million provided by the Ministry of Finance. However, in October 1994, a loan of US dollars 10 million, being the first tranche of a loan of US dollars 25 million was made available to the scheme. In September 1997, the second tranche of US dollars 15 million was made available and consequently, during September-December 1997, the Central Bank was able to disburse Rs.195 million. The cumulative approvals and disbursements from 1992 to

1997 show that while a sum of Rs.1,142 million had been approved, Rs.832 million had been disbursed. More details can be seen in Table II-10.

TABLE II-10
Housing Guarantee Low Income Shelter Programme - Phase IV
Loan Approvals and Disbursements Rs. Mn.

Sub-Apex Lender	Approvals			Disbursements		
	1996	1997	1992-97	1996	1992-97	
BOC	-	-	350.0	-	1.3	313.8
CBC	-	-	1.8	-	0.3	1.4
HNB	-	-	5.3	-	-	4.7
HDFC	58.9	138.5	362.1	-	68.6	153.9
PB	27.1	-	262.3	-	71.6	250.9
RRDB	13.4	-	80.1	-	26.0	58.9
SEYLAN	-	-	4.5	-	1.7	4.2
SMIB	7.4	7.9	75.8	-	25.4	44.4
Total	106.2	146.4	1,141.9	-	194.9	832.2

(a) Upto date
(b) Provisional

Source: Central Bank of Sri Lanka

HGLISP was subjected to a structural change in 1997 due to the new Programme Delivery Plan (PDP) agreed for the second tranche of this loan scheme in 1996. According to the new PDP, only the loans which have been secured by mortgages are eligible for funding and hence, only the long-term lending institutions could participate in the credit scheme in 1997.

The largest proportion of borrowers of HGLISP came from the rural sector as can be seen from the data for 1996 and 1997. According to the purpose-wise classification of loans, in 1997 over 99 per cent had been approved for land acquisition. Of loans approved in 1997, the Housing Development Finance Corporation (HDFC) approved 95 per

cent and the rest were approved by the State Mortgage and Investment Bank (SMIB). The maturity pattern of loans under this scheme indicates that only 3 per cent of new loans have been granted for periods 5 to 10 years and over 96 per cent have been granted for periods of 10 to 15 years.

Small and Medium Enterprise Assistance Project

The Monetary Board of the Central Bank of Sri Lanka in May 1997, approved a new credit guarantee scheme named Small and Medium Enterprise Assistance Project (SMAP) which is being refinanced by the National Development Bank (NDB) with the rupee proceeds of loans amounting to US dollars 55 million jointly raised from foreign commercial sources and the ADB. Under this credit guarantee scheme, Central Bank would provide SMAP credit guarantee to PCIs which have concluded participating agreements with the NDB. The SMAP credit guarantee scheme became operational in September 1997 with the issue of the Central Bank's Operating Instructions No. CB/DF/SMAP(97) on 22 September 1997. During the last quarter of 1997, eight credit guarantee applications amounting to Rs.5.0 million were approved under the SMAP.

Concluded Credit Schemes

A summary in respect of concluded credit guarantee schemes, as at 31 December 1997, is given in Table II-12. Table II-13 shows an industry-wise classification of projects financed under SMI schemes. Some of the highlights of the concluded credit guarantee schemes are as follows:

Small Scale Industries Scheme (SSI)

At the end of 1997, only eight loans amounting to Rs. 0.4 million and involving a total guarantee commitment of Rs.0.3 million were outstanding.

TABLE II-11
Housing Guarantee Low Income Shelter Programme - Phase IV
Loan Approvals by Purpose and Maturity

Category	Rs. million					
	1996			1997		
	Urban	Rural	Total	Urban	Rural	Total
Purpose						
Construction	404	8,570	8,974	155	30	185
Improvements	2,665	28,614	29,279	-	-	-
Land Acquisition	9,496	57,420	66,916	6,799	139,392	146,191
Infrastructure Development	35	965	1,000	-	-	-
Total	12,600	93,569	106,169	6,954	139,422	146,376
Maturity						
Less than 5 years	3,277	34,576	37,853	-	621	621
6 to 10 years	1,667	5,521	7,188	527	3905	4,432
11 to 15 years	7,656	53,472	61,128	6,427	134,896	141,323
16 to 20 years	-	-	-	-	-	-
Total	12,600	93,569	106,169	6,954	139,422	146,376

Source: Central Bank of Sri Lanka

TABLE II-12
Summary of Performance of the Central Bank Credit Guarantee Schemes-end 1997 Rs. Million

ITEMS	SCHEMES	SMI - I (a)		SMI - II (b)		SMI - III (c)		SMI - IV (d)(e)		BPL(f)	
		No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1	Loans granted (g)	1,670	286.1	2,531	1,392.5	3,130	1,955.6	9,072	7,666.4	1,932	1,098.6
1.2	Loans guaranteed (g)	1,670	157.5	2,531	713.6	3,130	1,312.6	9,072	4,772.1	1,932	871.2
2.1	Loans fully repaid (g)	1,230	183.9	1,852	1,056.6	1,814	1,016.1	2,546	1,316.2	1,518	861.4
2.2	Guarantees withdrawn or lapsed (g)	113	31.4	392	51.0	734	239.0	303	228.4	117	69.2
3.1	Total claims received (g)	338	75.9	227	70.0	165	80.6	156	93.3	18	9.8
3.2	Central Bank liability on claims received (g)	-	33.9	-	58.6	-	64.6	-	73.9	-	6.9
3.3	Settlement of claims										
	Fully settled	232	19.2	126	31.7	86	23.4	42	14.6	-	-
	Partly settled	27	2.1	4	0.7	-	-	-	-	11	2.5
	Claims rejected	32	6.9	46	12.7	45	17.7	41	14.8	2	1.0
	Loans fully paid after submission of claims	36	2.0	5	1.5	1	1.6	3	1.0	1	0.4
	Claims deferred	8	2.1	26	8.6	5	4.5	8	5.3	-	-
	Claims pending	2	-	13	3.8	22	10.5	57	27.3	3	2.5
	Claims withdrawn	3	0.5	7	8.2	6	3.3	5	5.6	1	0.2
4.1	Loans outstanding (g)	40	4.6	106	34.7	450	119.7	6,137	4,029.6	282	52.9
4.2	Loans in arrears (g)	40	4.6	40	11.4	65	33.5	2,054	1,065.8	-	-
4.3	Central Bank liability on guarantees outstanding (g)	40	2.9	106	20.9	450	74.8	6,137	2,491.1	282	42.1
5.	Premia collected (g)	-	12.2	-	29.8	-	44.3	-	131.1	-	21.9
6.	Post claim recoveries (g)	-	10.4	-	16.5	-	15.4	-	2.4	-	1.6

- (a) SMI - I - Operated from 1979-81
 (b) SMI - II - Operated from 1982-89
 (c) SMI - III - Operated from 1988-91
 (d) SMI - IV - Operated from 1992-97
 (e) Provisional
 (f) BPL - Operated from 1990-92
 (g) Cumulative

Source : Central Bank of Sri Lanka

TABLE II-13
SMI-II, SMI-III and SMI-IV Credit Guarantee Schemes
Industry-wise Classification - end 1997

Rs. Million

Industry	SMI - II, III & IV (1982 - 1997) (a)						SMI - IV (1997)					
	Loans Granted		Loan Amount		Guaranteed Amount		Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Rs. Mn.	%	Rs. Mn.	%	No.	%	Rs. Mn.	%	Rs. Mn.	%
Food Processing	3,247	22.0	2,173.9	19.7	1,257.8	18.4	56	15.7	55.1	17.4	25.7	14.5
Other Agro-Industries	311	2.1	153.4	1.4	99.8	1.5	11	3.1	2.9	1.0	2.4	1.4
Rubber Products	304	2.1	314.7	2.9	174.1	2.6	4	1.1	11.0	3.6	6.2	3.5
Metal Products	1,394	9.4	740.9	6.7	459.5	6.7	52	14.6	11.6	3.7	9.2	5.2
Construction Materials	914	6.2	556.0	5.6	367.4	5.4	8	2.2	8.6	2.7	4.8	2.7
Construction Contracting	546	3.7	766.5	7.0	370.4	5.5	13	3.7	27.1	8.6	12.2	6.9
Wood Products	895	6.1	450.4	4.1	294.3	4.3	12	3.4	6.9	2.2	5.0	2.8
Garments	904	6.2	790.5	7.2	438.9	6.5	5	1.4	8.8	2.7	2.1	1.2
Textiles	325	2.2	319.5	2.9	181.6	2.7	-	-	-	-	-	-
Repair Workshop	558	3.8	331.0	3.0	215.3	3.2	14	4.0	12.2	3.9	8.4	4.8
Others (b)	5,335	36.1	4,417.7	40.1	2,939.2	43.2	181	50.8	172.5	54.5	100.8	57.0
Total	14,733	100.0	11,014.5	100.0	6,798.3	100.0	356	100.0	316.5	100.0	176.8	100.0

(a) A breakdown of industry-wise classification of data relating to SMI-I is not available.

Source : Central Bank of Sri Lanka

(b) Includes Passenger and Commercial Transport, Leather, Animal Husbandry, Chemical, Fishing, Restaurants, Fibre Glass, Electronic, Ceramics and Polythene.

Small and Medium Scale Industries I, II and III Schemes

A total of 7,331 loans amounting to Rs.3634.2 million and involving a guarantee liability of Rs.2,183.7 million had been granted under 'SMI-I, II and III'. As at end 1997, the total number of loans in operation under these three schemes was 596 and the loan value was Rs.159.0 million.

Bus Purchase Loan (BPL) Scheme

A total of 1,932 loans amounting to Rs.1098.6 million and involving a guarantee liability of Rs.871.2 million had been granted under the BPL Scheme. A total of 282 loans amounting to Rs.52.9 million remained outstanding by the end of 1997.

Investment of Guarantee Funds

The total value of investments of SMI, BPL and PRP guarantee funds inclusive of funds advanced by the Central Bank and premium collections invested in Treasury Bills in 1997 amounted to Rs. 1448.0 million. The total value of interest income from the investments during the year was Rs.180.5 million.

Follow-Up and Inspection of Projects

The programme of project inspection of the Department covering SMI loans in arrears and guarantee claims of PCIs continued in 1997. More active follow-up work by the Department has contributed to an improvement in recovery and the rehabilitation of several sick industries. A total of 200 projects was inspected during 1997 in contrast to 65 projects in 1996. Table II-14 gives a summary of the outcome of follow-up project inspections carried out during 1996 and 1997.

TABLE II-14
Follow-up Inspection of Loans in Default

Recommendation/ Outcome	1996		1997	
	No. of Projects	Loan Amount Rs.Mn.	No. of Projects	Loan Amount Rs.Mn.
1. Explore possibilities to reschedule the loan	5	12.2	15	18.3
2. Regularise the loan account	2	2.4	-	-
3. Guarantee to be withdrawn	1	0.6	25	33.8
4. Debtor agrees to settle the loan in full	3	0.9	5	5.8
5. Call for observations from PCIs	2	4.5	8	6.2
6. Close monitoring suggested	12	10.5	102	169.8
Total	25	31.1	155	233.9

Source: Central Bank of Sri Lanka.

As shown in Table II-15 in 1997, 45 guarantee claims of PCIs amounting to Rs.29.7 million were inspected by the Inspection Division during 1997.

TABLE II-15
Inspection of Guarantee Claims Received

Recommendation/ Outcome	1996		1997	
	No. of Claims	Loan Amount Rs.Mn.	No. of Claims	Loan Amount Rs.Mn.
1. Guarantee claims rejected	7	5.0	10	5.0
2. Guarantee claim rejections under consideration	4	1.6	3	2.0
3. Guarantee claims deferred	4	1.0	12	13.1
4. Loans settled after submission of guarantee claims to the Central Bank	3	1.6	2	0.6
5. Guarantee claims fully settled	9	2.5	5	1.5
6. Guarantee payment under consideration	5	6.4	5	1.4
7. Claims pending	8	9.4	6	3.7
8. Claims withdrawn	-	-	2	2.4
Total	40	27.5	45	29.7

Source: Central Bank of Sri Lanka.

RURAL CREDIT

During the year under review, the Central Bank continued to function as the executing agency for both donor funded projects and its own credit schemes. As the executing agency, the Central Bank is responsible for implementing the credit schemes involving 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, maintenance of loan records and giving publicity to loan schemes with the assistance of the relevant project offices and other local agencies.

The projects implemented by the Bank during 1997 were as follows :

(a) ADB¹/ Funded Projects :-

- (i) Agriculture Rehabilitation Project (Revolving Fund Credit Scheme);
- (ii) Small Holder Tea Development Project;
- (iii) Perennial Crops Development Project;
- (iv) Southern Province Rural Development Project;
- (v) North Western Province Water Resources Development Project;
- (vi) North Central Province Rural Development Project;

1. Asian Development Bank

TABLE II-16
Credit Schemes Operated by the Rural Credit Department

Name of the Project	Funding Agency	Broad Mission	Original Allocation	Interest Rate to the borrowers %	Credit Disbursement upto 31.12.97 (Rs.Mn.)	Recovery Rate where applicable %
1. Agriculture Rehabilitation Project (1990-1995)	ADB	Rehabilitation of affected farmers and affected properties in the Northern and Eastern Provinces and the five bordering districts.	US\$ 14.3Mn.	12.5	771.1	67.4
2. Small Holder Tea Development Project (1989-1997)	- do -	Increase production and export of tea by tea small holders, improve the institutional mechanism of the tea sector and expand employment opportunities.	US\$ 12.3Mn.	14.0	701.5	85.0
3. Perennial Crops Development Project (1989-1997)	- do -	Increase the production and commercialisation of perennial crops.	US\$ 13.2Mn.	14.0	714.5	63.0
4. Southern Province Rural Development Project (1992-1999)	- do -	To improve the quality of life of the people in the Southern Province.	US\$ 8.1Mn.	14.0	642.0	-
5. North-Western Province Water Resources Development Project (1993-1998)	- do -	Improve economic, social and nutritional of the well-being people living in the project area.	US\$2.7Mn.	14.0	38.1	85.0
6. North-Central Province Participatory Rural Development Project & North-Central Province Rural Development Project (1996-2003)	ADB, IFAD, SIDA and WFP	Alleviate poverty, improve food security, nutrition and increase employment opportunities for low income families.	SLRs 153 Mn. SLRs.43 Mn. SDR1.55Mn.	Existing market rate.	-	-
7. Small Farmers and Landless Credit Project (1990-1997)	IFAD, CIDA, GOSL	Establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	SLRs.284Mn	16.0	363.0	92.0
8. Food & Nutrition Promotion Credit Scheme (Year Commenced - 1997)	Japanese Government	Increase food production and food processing techniques in the country.	-	10.0	-	-
9. New Comprehensive Rural Credit Scheme. (1986 onwards)	Government of Sri Lanka	Uplift rural farmers who cultivate short-term food crops.	-	16.0	Rs.1000 Mn. per annum	60 (Overall)
10. Kegalle District Integrated Rural Development (Revolving Fund) Project (1996-2007)	- do -	Uplift the standard of living of the people in the Project area by promoting income generating activities.	SLRs.100Mn	10.0	33.3	-
11. Surathura Programme (1996 onwards)	- do -	Increase income and improve living standards of unemployed educated youth by promoting self-employment among them.	SLRs.350Mn	10.0	350.0	65.0

Source: Central Bank of Sri Lanka.

(b) IFAD¹/CIDA²/SIDA³/Japanese Govt.⁴/WFP⁵ Funded Projects :

- (vii) Small Farmers and the Landless Credit Project (IFAD, CIDA);
- (viii) North Central Province Participatory Rural Development Project (IFAD, SIDA and WFP);

(ix) Food and Nutrition Promotion Credit Scheme (Japanese Government.);

(c) Government Funded Projects :

- (x) Kegalle District Integrated Rural Development (Revolving Fund) Project;
- (xi) Surathura Programme;

(d) Special Projects :

- (xii) Relief Scheme for Shrimp Farmers;
- (xiii) Coconut Development Loan Scheme.

1. International Fund for Agricultural Development
2. Canadian International Development Agency
3. Swedish International Development Agency
4. Japanese Food Production Grant
5. World Food Programme

(i) Agriculture Rehabilitation Project (ARP)

The Agriculture Rehabilitation Project (ARP) which was successfully concluded in 1995, continued to re-cycle its loan recoveries by extending new loans for the purposes approved under the Project. The Central Bank continued to monitor and administer recoveries and re-cycling of loans by PCIs under the ARP Credit Scheme.

Of the total loans amounting to Rs.771.1 million granted under the ARP, Rs.409.4 million had been recovered by PCIs as at 30 June 1997. The average recovery rate of all PCIs stood at 67.4 per cent. The PCI branches located in the districts of the Northern and Eastern provinces have reported a low rate of recovery due to their inability to meet and communicate with the defaulting sub-borrowers. Under the arrangement for re-cycling the recoveries, PCIs have granted 1,894 loans amounting to Rs.61.5 million and, of this, Rs.29.8 million had already been recovered as at 30 June 1997.

(ii) The Small Holder Tea Development Project (SHTDP)

The Small Holder Tea Development Project funded by the ADB which commenced operations in 1989 was terminated in December 1997. The project aimed at increasing production and export of tea by small-holders, improving the quality and productivity of tea factories, increasing income and employment opportunities in rural areas and improving the Government's capability of supporting tea small holders.

The progress of the credit scheme in the initial years was slow due to a number of factors such as cumbersome procedures, difficulties in finding acceptable collateral, and the low margins due to the depressed tea prices in the world market. However, after a number of corrective measures were put in place, the project performance improved considerably since 1994. Consequently, the total allocation of US dollars 12.3 million (Rs.687 million approximately) for the credit component was fully committed for disbursement as credit by PCIs by the early part of 1997. At end 1997, the cumulative loan approvals and disbursements by PCIs amounted to Rs.847.7 million and Rs.714.5 million, respectively.

During the year under review, loans to a value of Rs.96.5 million were approved by PCIs. The disbursements, which included previously approved loans, amounted to Rs.174.8 million. Loans granted for field development (new planting and replanting) amounted to Rs.34.5 million, while those for nursery development and factory development amounted to Rs.6.5 million and Rs.133.8 million,

respectively. The cumulative refinance by the CBSL in respect of loans disbursed by PCIs amounted to Rs.536 million at end 1997. Steps were also taken to expedite the loan disbursements by PCIs so as to ensure full utilisation of the remaining Rs.200 million before the loan is closed in December 1998.

To facilitate this, the ADB has agreed to fund the credit component until end 1998, though the loan is officially closed in December 1997.

PCIs not only managed to fully utilise loan funds, but also maintained a satisfactory recovery rate of 85 per cent under the Project. In view of this satisfactory performance, the ADB has expressed willingness to consider the extension of a second line of credit for the small holder tea sector. A technical appraisal for the proposed second project has been fielded by the ADB. In order to ensure the continuity of the loan scheme until the second Project comes into operation, the PCIs have agreed to continue lending to tea small holders out of their own funds. This interim arrangement has been facilitated by the Tea Small Holders Development Authority (TSHDA) by paying an interest subsidy of 4 percentage points out of cess funds to enable PCIs to grant loans at 14 percent per annum to borrowers. This scheme came into operation from November, 1997.

(iii) Perennial Crops Development Project (PCDP)

The PCDP funded by the ADB commenced operations in 1990 and was closed in December 1997 as scheduled. The credit scheme was designed to provide medium-term credit facilities to farmers at concessionary rates for promoting the production and the commercialisation of perennial crops, particularly minor export crops and fruit crops. The Project also had as its objectives the promotion of the use of modern technology, handling and processing of perennial crops economically and productively.

The disbursement of loans under the PCDP accelerated in 1997 mainly due to the new vigour shown by all agencies involved in the Project in the face of its scheduled termination by end 1997. Accordingly, the cumulative loan approvals and disbursements upto end 1997 amounted to Rs.824 million and Rs.642 million, respectively. The total refinance granted by the Bank to PCIs in respect of the above loans amounted to Rs.508.2 million at the end of 1997. The physical achievements in terms of both the area cultivated and the sub-loans approved have exceeded the targets set at the time of the design of the Project in 1988.

In view of the satisfactory progress achieved by the Project, the ADB has agreed to finance a Second Perennial

Crops Development Project with a loan facility of SDR 14.743 million. The loan negotiations by the Government with the ADB were successfully completed in September 1997 and the new Project is scheduled to commence operations from the beginning of 1998. In the new Project too, the Central Bank will function as the executing agency for the credit component.

(iv) Southern Province Rural Development Project (SPRDP)

The SPRDP, funded by the ADB, began operations in 1992 with the objective of raising the income and quality of life of people in the Southern Province by undertaking infrastructural development and providing credit facilities to generate income and employment opportunities in the project area. The Central Bank functions as the executing agency for the credit component of the project which has a credit allocation of SDR 6.4 million (approximately Rs.450 million). The Development Finance Corporation of Ceylon Bank (DFCC) and the three RRDBs at Galle, Matara and Hambantota functioned as PCIs from the inception of the Project. During the year, the National Development Bank (NDB) was also admitted as a PCI under this credit scheme. All these PCIs are assisted by a Project Office set up in the province by 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 on-lending rate and the refinance rate under the project remained unchanged at 14 per cent and 6 per cent per annum, respectively, during 1997.

During the year under review, PCIs granted 432 loans amounting to Rs.67.7 million recording a cumulative disbursement of Rs.212 million at the end of the year. A sum of Rs.60.7 million in respect of 432 loans was granted by the Bank by way of refinance to PCIs during 1997. Accordingly, the cumulative refinance as at end 1997 amounted to Rs.187.8 million in respect of 5,541 loans.

(v) North-Western Province Water Resources Development Project (NWP-WRDP)

The ADB funded North Western Province Water Resources Development Project Credit Scheme completed its fourth year in 1997. The credit component of the project, amounting to SDR 1.6 million (approximately Rs. 100 million), consists of three main sub-components, viz., Agro-well Construction, Lift Irrigation Sub-projects and Income Generating Self-employment Projects for Rural Women in the NorthWestern Province. The Puttalam and Kurunegala Regional Rural Development Banks and Hatton National

Bank participated in the project from its inception as PCIs, while People's Bank and Bank of Ceylon joined the credit scheme in 1996.

During the year under review, the Central Bank with the approval of the ADB adopted a number of measures to improve the performance of the credit scheme. These include the enhancement of the upper limits of the loans for agro-wells and self-employment for rural women to Rs.50,000; extension of Rs.60,000 for construction of overhead water tanks under the Lift Irrigation Scheme; extension of a second loan for women who have successfully completed the first loan, upto a maximum of Rs.70,000; and identification of women beneficiaries through farmer organisations.

At the end of 1997, PCIs had disbursed Rs.22.81 million for the construction of 725 agro-wells and Rs.14.2 million for 1,031 self-employment sub-projects for women in the NorthWestern Province. The Lift Irrigation Projects, which were activated in 1997, funded 41 schemes at a cost of Rs.1.1 million. The Central Bank has granted Rs.29.2 million as refinance to all PCIs under this project upto end 1997.

(vi) North Central Province - ADB Funded Rural Development Project and IFAD Funded Participatory Rural Development Project

The Government of Sri Lanka has signed two loan agreements with the International Fund for Agricultural Development (IFAD) and the Asian Development Bank (ADB) for the implementation of two poverty alleviation projects, viz. North Central Province Participatory Rural Development Project (NCP-PRDP) and North Central Province Rural Development Project (NCP-RDP), respectively. NCP-PRDP became effective from 1996, while the NCP-RDP was inaugurated in 1997. The broad objectives of both projects are to alleviate poverty and improve productivity of farmers through development of infrastructure and provision of credit facilities in the districts of the North Central Province.

The Central Bank is the apex co-ordinating agency for the credit component of both these projects. The credit component of the IFAD/NCP-PRDP was to be implemented utilising the funds of the National Development Trust Fund (NDTF). However, this arrangement did not materialise as envisaged, since the failure of the Partner Organisations which were to function at the grassroots level to fulfill the conditions stipulated by the NDTF and the subsequent termination of the operation of the NDTF. It was, therefore, decided to amalgamate the credit component of the NCP-PRDP with the ADB/NCP-RDP of which the credit component was funded by PCIs out of their own funds

supported by the payment of a service fee of 2 per cent on the portfolio and provision of other support services. The basic ground work to implement the credit component of both projects with the participation of Bank of Ceylon, People's Bank, Hatton National Bank and Seylan Bank was completed by the end of 1997 and the credit scheme is expected to get off the ground in early 1998.

(vii) Small Farmers and the Landless Credit Project (SFLCP)

The SFLCP, for which the Bank functions as the executing agency, was completed in December 1997 as originally scheduled after achieving the targets set for the Project at the design stage. This Project, inaugurated in 1990 with funding provided by IFAD (a loan of US dollars 6.7 million), CIDA (a grant of US dollars 6.6 million) and the Government of Sri Lanka (a contribution by the Bank amounting to US dollars 4.1 million) as a pilot poverty alleviation project, was implemented in the four selected districts of Galle, Matara, Kandy and Puttalam. The Project relies on linkage and the self-help group (SHG) concept as its methodology in reaching the target groups.

At end 1997, the Project had covered 2,274 villages in the four districts under reference, forming 8,203 self-help groups as the vehicle for providing assistance to the project beneficiaries. The total number of beneficiaries in these groups stood at 49,746, well above the target of 32,000 set in the project design. A noteworthy feature in the Project has been the active and predominant participation of women borrowers numbering 26,832 or 67 per cent of the total beneficiaries. As at the end of the year, a sum of Rs.363 million had been advanced as micro loans to 40,275 borrowers to enable them to undertake income generating self-employment activities. The average size of a loan amounted to Rs.9,000 while the Project had consistently maintained a recovery rate of over 91 per cent.

A sample survey conducted by the Bank in June 1997 on the benefit monitoring and project performance revealed that about 80 per cent of beneficiaries had crossed the poverty line through Project activities. However, with the closing of the Project by end 1997, it was necessary to ensure the sustainability of the beneficiaries through continued investment in income generating activities. To achieve this objective, the Bank made arrangements to continue with project activities for a further period of 20 years by continuing to engage the RRDB in the district as the banker to the Project and utilising the loan recoveries, for recycling. These loan recoveries which had been credited to a special Project Revolving Fund, amounted to Rs.256.2 million at end 1997.

Since the small self-help groups that had been formed as the vehicle for delivering credit and other support services to project beneficiaries had come of age by the end of the year, there was a necessity for the formalisation of these groups into larger voluntary associations to function as the link between the beneficiaries and the RRDBs. Hence, several groups operating in a village were amalgamated into SFLC Development Societies (*ISURU SANVARDENA SAMITHI*) which were registered with the Registrar of Companies as corporate bodies with limited liability under the Societies Ordinance. At the end of 1997, 110 such limited liability societies had been formed.

In order to share the experience which the Bank has gathered through the SFLC Project, a video documentary titled "*Isuru: The Crossing*" and a book of case studies in Sinhala titled "*Isuru ManPethe Piyawara Thabuwo*" were released by the Bank during the year. In addition, several other video documentaries covering fields such as the empowerment of women, technology transfer, the concept of self-help groups and poverty alleviation are presently under production by the Bank.

(viii) Food and Nutrition Promotion Credit Scheme

A new credit scheme titled Food and Nutrition Promotion Credit Scheme was inaugurated in 1997 by the Bank at the request of the Ministry of Agriculture and Lands. For implementation of the credit scheme, the Government allocated a sum of Rs.284 million out of the counterpart funds of the Japanese Food Production Grant received by the Government. The Bank formulated the credit scheme and implemented it through the lending banks. This credit scheme has been introduced with a view to implementing a comprehensive programme for the improvement of food production and food processing techniques in the country.

Under the scheme, credit facilities will be provided to farmer organisations/ co-operatives, individual farmers and rural organisations with the objective of restructuring the agricultural sector and improving the country's food production by encouraging financial institutions to channel credit through farmer organisations/rural organisations/co-operatives/Thrift and Credit Co-operative Societies as a way of implementing a cost-effective credit delivery mechanism for agriculture. The scheme is also intended to encourage projects capable of introducing new agri-industries and improving productivity through provision of storage facilities with capacity for preserving large quantities of food crops to minimise wastage and maintenance of buffer stocks to be utilised during the off-harvesting period.

Credit will be provided through Bank of Ceylon, People's Bank, Hatton National Bank, Sampath Bank, Seylan Bank and the Commercial Bank at an interest rate of 10 per

cent per annum. The lending banks will provide bulk loans to partner organisations at an interest rate of 6 per cent per annum for on-lending to their members at 10 per cent per annum.

The Ministry of Agriculture and Lands through their provincial offices will assist in the provision of technical know-how and support facilities to eligible farmers and co-ordinate scheme with PCIs at the ground level.

(ix) Kegalle District Integrated Rural (Revolving Fund) Project

The Kegalle District Integrated Rural Development Project which was implemented during 1986-95, provided for the re-cycling of loan recoveries for similar purposes through a Revolving Fund Credit Scheme. Accordingly, the Central Bank, with the collaboration of the Regional Development Division of the Ministry of Plan Implementation took action in 1997 to establish a Revolving Fund Credit Scheme out of the cumulative loan recoveries. The credit disbursements under this arrangement commenced in mid 1997 after the Central Bank signed subsidiary loan agreements with PCIs, viz., Kegalle Regional Rural Development Bank, Bank of Ceylon and the People's Bank.

Under the credit scheme, loans upto a maximum of Rs.250,000 are granted to eligible borrowers at an interest rate of 10 per cent per annum to enable them to undertake self-employment economic activities. The borrowers are introduced to PCIs by specially trained Business Development Officers who operate on a fee based system. As at end 1997, 15 such officers had been attached to the branches of the relevant PCIs.

After the Project commenced operations in mid 1997, 550 loans to a value of Rs.30 million were approved by PCIs upto the end of the year. Of this, a sum of Rs.22 million had been disbursed to borrowers. Refinance to a value of Rs.10.5 million had been released by the Bank on such disbursements.

(x) Surathura Programme - Self Employment Promotion Through Micro Enterprise Credit

The Surathura Programme, which was inaugurated by the Government in September 1996, provides micro finance to the unemployed, especially the educated youth, to enable them to undertake income generating self-employment activities. The Project which is implemented by the Central Bank is being operated through the Bank of Ceylon, People's Bank and the Hatton National Bank which function as PCIs.

Under the Scheme, the Government allocated a sum of Rs. 350 million in the Budget of 1997 to provide refinance

to PCIs. This allocation was fully utilised by PCIs by the end of the third quarter of the year providing 9,009 loans to eligible borrowers. Of these loans, small industries (48 per cent), and trade based projects (38 per cent), accounted for the bulk. The balance 14 per cent had been extended to agricultural, livestock and fisheries sector projects.

In view of the full utilisation of the funds by PCIs, the Government decided to continue the Project in Phase II, with a new design. Under Phase II, PCIs agreed to fund the credit scheme out of their own resources, but to lend to the borrowers at 10 per cent per annum and they were paid an interest subsidy of 10 percentage points.

Under Phase II, 10,000 loans for a value of Rs.500 million are planned to be disbursed to the target borrowers to facilitate them to undertake self-employment projects.

In order to assess the status of loan utilisation under Surathura Phase I, the Bank conducted an island-wide sample survey in July, 1997. The survey revealed that 85 per cent of the borrowers had effectively utilised the funds for the projects for which they had obtained loans.

(xi) Relief Scheme to Shrimp Farmers

The shrimp farming industry, a rising foreign exchange earner, continued to suffer from the white spot disease which affected it adversely in 1996. A relief package was introduced by lending banks to this industry in 1996 at the instigation of the Central Bank to facilitate fast recovery and rehabilitation of the affected ponds. The relief package included a loan moratorium for 15 months, rescheduling of the outstanding loans at an interest rate of 5 per cent per annum, extension of new loans at the prevailing average prime lending rate, quick repayment of the outstanding loans from the new harvests and technical assistance from the National Aquatic Resources Agency (NARA) for the rehabilitation of ponds. While about a half of the farmers utilised this facility, it was felt by mid 1997, that the rehabilitation took longer than originally planned. Hence, at the request of the Ministry of Fisheries and Aquatic Resources Development, the Central Bank persuaded the lending banks to continue the relief package for a further period. Accordingly, the moratorium was extended by a further period of 8 months from September 1997 at an interest rate of 5 per cent per annum.

(xii) Coconut Development Loan Scheme

The Coconut Cultivation Board (CCB), in consultation with the Central Bank and the lending banks, has introduced a new credit scheme with the objective of increasing coconut production and productivity of coconut lands.

enhancing farm income and the standard of living of coconut farmers and increasing employment opportunities in the coconut sector. The subsidy scheme, which had been implemented by the Board earlier, was replaced by the credit scheme which was a departure from the subsidy based development strategies that were being adopted earlier. The Central Bank plays an advisory role to CCB in the implementation of the loan scheme.

The loan scheme will initially be implemented in the major coconut growing regions, as pilot projects, covering the Gampaha, Kurunegala, Puttalam, Hambantota and Moneragala Districts. Bank of Ceylon, People's Bank, Hatton National Bank, Kurunegala RRDB, Thrift and Credit Co-operative Societies and the Sri Lanka Coconut Producers' Co-operative Societies Union will participate in the scheme.

Loans will be provided for new planting/replanting of coconut for both inter-cropping and as a mono crop.

The lending banks will provide loans to borrowers using the banks' own funds at an interest rate not exceeding 18 per cent per annum for a period of 5 years including one year's grace period. An interest rebate will be paid by the Coconut Cultivation Board out of cess funds directly to the borrowers, at the rate of 100 per cent in the first year and 50 per cent in each of the subsequent four years to those who have successfully followed the recommended agricultural practices as agreed in the farm plan and the cash flow budget.

Approximately Rs.672 million will be provided by the lending banks in the next five years to develop an extent of 17,500 acres of coconut land. The extent financed per individual farmer will be within the range 1/2 - 5 acres per year.

RURAL BANKING AND STAFF TRAINING COLLEGE

During the year 1997, the Rural Banking and Staff Training College (RB&STC) conducted 89 training courses for 2,384 persons representing 1,258 small scale entrepreneurs and self employed persons, 357 Central Bank employees, 250 Commercial Bank employees, 306 Regional Rural Development Bank (RRDB) employees and 213 employees from other institutions. Of the 89 training courses 49 were conducted at the RB&STC and the balance at outstation venues.

Of the 49 training courses conducted at the RB&STC, 11 programmes were exclusively for RRDB employees. Lending on pledge of jewellery, collateral and related legal procedures for lending, accounting, internal auditing, project

appraisal and management were the main areas of training provided to the RRDBs. There were 13 computer training courses designed to train Central Bank officers on personal computer applications, Marketing of bank services, financial sector reforms, effective loan management, investment and merchant banking, team work for quality, forex operations, managing change, fund management, strategic planning, commercial banking operations and practices, living long after retirement, managing for excellence, national economic management, enhancing management control and profitability, resource allocation and development, better report writing and managing risk were the main areas covered under other training programmes conducted at the college.

Training courses conducted in the outstations were mainly on entrepreneurship development, micro-enterprise management and leadership development. These training programmes were conducted at district level in Matara, Galle, Kandy and Puttalam under the aegis of the Small Farmers and Landless Credit Project. Two special training programmes were conducted on requests made by the TEAM Project of CARE International and the Integrated Rural Development Project in Kegalle to train field officers/managers of the Partner Organisation of the TEAM Project and the business development consultants and regional co-ordinators of the Integrated Rural Development Project.

The Self Access Centre (SAC) for English Language for Central Bank officers commenced its courses in July 1997 after a temporary setback consequent to the 1996 tragedy. During the second half of 1997, 96 Central Bank officers availed themselves of the facilities in the SAC. To supplement SAC facilities, classes were also held to improve skills in oral communication and report writing during this period.

The RB&STC in association with the Rural Credit Department, co-ordinated the Comparative Rural Study on Models for Linking Banks with Self-help Groups for the members of the Asia Pacific Rural and Agricultural Credit Association (APRACA).

The RB&STC held its 16th Anniversary Lecture on the topic 'What more do we know about Economic Growth' which was delivered by Dr. G. Uswatte-Aratchi, Executive Vice Chairman, Marga Institute.

EMPLOYEES' PROVIDENT FUND

In terms of the Employees' Provident Fund (EPF) Act, the Monetary Board of the Central Bank of Sri Lanka is vested with the responsibility of receiving contributions, surcharges and income from investments, maintaining proper

accounts of registered employers and the individual members of the Fund and also effecting refund of benefits to its members. These activities were carried out in close co-operation with the Employees' Provident Fund Division of the Department of Labour which attends to the administration and enforcement of the provisions of the EPF Act.

Since the disruption of the computer data-base and the destruction of a bulk of the documents in 1996, the reconstruction and updating of the database relating to EPF member accounts have been done using newly developed computer software on the new IBM AS 400.

The annual statements of all member accounts in respect of the years 1994 and 1995, the preparation of which was hampered consequent on the bomb blast, were issued in 1997.

Contributions

According to provisional data, the contributions received by the Fund during 1997 amounted to Rs. 9.8 billion as against Rs. 9.3 billion in 1996. This represents an increase of 5 per cent over the level of contributions received during the previous year.

The EPF contributions were collected by the EPF Department centrally in Colombo since its inception. Since April 1997, the two state banks, viz, Bank of Ceylon and People's Bank, at which the EPF accounts were opened, commenced collecting EPF contributions from employers. This arrangement obviated the need for employers to send the remittances to the EPF Department, and enabled them to pay their contributions conveniently through a bank branch of their choice.

Members' Balances

Members' balances as at 31 December 1997 before allocation of interest for the year under review have been estimated at approximately Rs. 104 billion, which is an increase of about Rs. 17 billion or 20 per cent over the level of 1996.

Investment

During the year under review, the Fund invested its excess monies in government securities, Treasury bills and Treasury bonds. The total investments held by the Fund as at 31 December 1997 amounted to Rs. 137.6 billion, which is an increase of Rs. 21.6 billion over the level at end 1996.

Income Received from Investments and Tax Paid

With the withdrawal in 1989 of the exemption from income tax granted to the EPF, the liability for income tax

on its investment income for the year 1997 amounted to Rs. 1.6 billion.

In 1997 the income received from investments amounted to Rs. 18.2 billion as against Rs. 15.8 billion in 1996.

Refunds

The total sum paid out by way of refund of EPF benefits to members during 1997 amounted to Rs. 4.6 billion as against Rs.3.5 billion in 1996. This is an increase of 31.4 per cent over the previous year. During the period under review, 61,196 claims for refund of benefits were paid out as against 56,536 claims disposed of in 1996. The payment of refunds continued to be made through the Sri Lanka Inter-bank Payments System (SLIPS).

EPF Housing Loan Scheme

During the period under review, the EPF Department had processed and despatched a total of 6,057 applications for certification of balances to the respective labour offices.

Other Activities

A seminar for software developers was conducted in May 1997 to lay the ground work for the modernisation of the EPF.

During the period under review, a committee comprising of officials of the Labour Department and the Central Bank was set up by the Minister of Labour to make recommendations to improve efficiency and modernise the operations of the Fund. The Committee, which met several times during the year, discussed certain proposals towards achieving these ends. The final report is in draft form.

EXCHANGE CONTROL

There were no major changes during 1997 in exchange control policy except in the scheme of foreign currency loans to exporters, which was relaxed further. Granting of approvals for capital account transactions, monitoring of current account transactions, issuing of licences to freight forwarders, renewing licences issued to money changers, hoteliers, jewellery shop owners and others who are permitted to accept foreign currency against services provided by them to foreigners and conducting investigations into violations of the provisions of the Exchange Control Act, preparation of reports on exchange arrangements and restrictions, disclosing information to public, local and international organisations on exchange control regulations

relating to various foreign exchange transactions are some of the important activities that were carried out during the period under review. The Department was also engaged in clearing import applications referred by the Sri Lanka Customs in terms of Government Gazette Notification No. 915/15 dated 21 March 1996 outlining the procedure relating to import of goods and services.

Capital Account Transactions

(a) Investments Abroad

Investments abroad by Sri Lankan companies were permitted on a case by case basis with the approval of the Minister of Finance and Planning. These applications were to establish a jewellery shop at Forte Grand Hotel in Dubai, a plastic water flow control equipment manufacturing unit at Coimbatore, India, a state of the art lingerie manufacturing plant in South India and to purchase a company in Poland to set up a production plant to process and pack tea under the brand name "Dilma".

(b) Foreign Currency Loans to Exporters

A significant change in the policy with regard to foreign currency loans to exporters was made in 1997 consequent to a proposal announced in the Government Budget for 1997. The new arrangement which came into force on 3 January 1997 provided for the grant of loans in foreign exchange from funds available in the Domestic Banking Units (DBU) as well as Foreign Currency Banking Units (FCBU) of commercial banks to meet the working capital and fixed capital requirements of the export companies without any restriction on the duration of such loans. Conversion of rupee funds to effect settlement of the loans was strictly prohibited. Previously, foreign currency loans were restricted only for the purpose of importing foreign inputs required to execute export orders.

(c) Foreign Loans

During 1997, several applications to borrow from international financial institutions were approved on an exceptional basis by the Exchange Control Department.

(d) Other Capital Account Transactions/ Business Approved by the Department

- (a) Share transactions outside provisions in the Government Gazette Notification No. 721/4 of 29 June 1992.
- (b) Share issues to non residents against funds not channelled through the Share Investment External Rupee Accounts (SIERA).

- (c) Share issues to non residents against value of machinery imported to Sri Lanka on no foreign exchange involved basis.
- (d) Debenture issues to foreigners by resident companies.
- (e) Remittances relating to projects by foreign contractors.
- (f) Remittances of sale proceeds of shares purchased prior to the implementation of the new procedure relating to share purchases by non-residents.
- (g) Repayment of project loans by Government institutions.
- (h) Activities relating to foreign currency denominated financial instruments.
- (i) Loans and overdrafts to foreign controlled companies from commercial banks and other lending institutions in Sri Lanka.
- (j) Opening of special foreign currency accounts, special rupee accounts, Resident Guest Foreign Currency Accounts (RGFCA) and Resident Guest Rupee Current Accounts (RGRCA).
- (k) Purchase of assets of non-residents.
- (l) Issue of foreign currency denominated leases to BOI companies which are fully exempted from Exchange Control provisions.
- (m) Foreign bank guarantees, performance bonds and advance bonds for international contracts.

(e) Capital Transfers on Migration

During 1997, several applications from resident Sri Lankans who have obtained emigrant visas/permanent resident status in other countries, for the transfer of capital funds were approved by the Department. In addition, approvals were given for the disposal of funds belonging to deceased estates by emigrants, repatriation of assets by emigrants and remittances out of blocked funds.

(f) Monitoring of Current International Transactions

The Department continued to monitor inflows and outflows of foreign exchange pertaining to current international transactions on the basis of returns furnished by

the commercial banks. The credits and debits to rupee current accounts maintained by shipping and airline agents as well as freight forwarders on behalf of approximately 100 foreign principals were also monitored by examining cargo manifests, debit notes, inward remittance memos, etc. It is envisaged that the monitoring activities of the Department would be further strengthened by the use of electronic machinery.

(g) Investigations

The Department has conducted several investigations into violations of the provisions of the Exchange Control Act by some local and foreign companies and individuals. These investigations were mainly related to transfer/sale/purchase of shares, investments abroad and conducting foreign exchange transactions without the permission of the Exchange Control Department.

PUBLIC DEBT

In terms of Section 113 of the Monetary Law Act, the Central Bank of Sri Lanka (CBSL) is entrusted with the issuance, management and servicing of domestic debt and the servicing of foreign debt of the Government of Sri Lanka (GOSL). These activities were handled by the Public Debt Department (PDD) of the CBSL. In fulfilling its responsibilities the PDD continued to issue domestic debt instruments namely Rupee Securities, Treasury bills, Treasury bonds and Treasury Certificates of Deposits (TCDs).

The PDD also handled the service payment of Tax Reserve Certificates (TRCs) and debenture issues on behalf of the State Mortgage and Investment Bank (SMIB), the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA).

Development Activities

The PDD took several initiatives with a view to further developing the domestic debt securities market. One such development activity was the steps taken to strengthen the Primary Dealer System (PDS). Regular meetings with Primary Dealers (PDs) were organised by the PDD in order to maintain a continuous rapport between the Central Bank and PDs on current developments in the debt securities market. At these meetings it was possible to discuss issues of current interest and obtain the views of the primary dealers on these matters.

Information relating to trading activities of the PDs in debt instruments, especially Treasury bills and Treasury bonds, was collected and analysed regularly by the PDD.

Steps were taken by the PDD to publish the information thus collected through the electronic media such as Reuters, Internet etc. In order to improve public awareness of the PDS, information was released regularly to the market in the form of press releases through newspapers and news services such as Reuters and Lanka Online Internet computer network. A database was established using the information collected from the PDs. These data were used to compute performance indicators on individual PDs as well as the total market. Information in summary form was released to the PDs at one-to-one meetings that were held on a weekly basis enabling dealers to evaluate their respective positions in relation to the total market. The database was also used to prepare the Annual Review of the PDS.

The CBSL encouraged the setting up of an association to represent the PD community in order that matters of common interest relating to their dealings in Government debt securities be discussed. As a result of these efforts the Primary Dealer Association (PDA) was established in June 1997. Several sub-committees have been formed in the PDA to address different issues concerning the PDs.

The PDD formulated the procedures, guidelines and regulations for the implementation of the T-bond programme and developed in-house the necessary computer software for auctioning, issuing and servicing of Treasury bonds. The regulations thus formulated titled 'Registered Stocks and Securities (Treasury bonds) Regulations No.1 of 1997' were gazetted on 20 February 1997. In terms of these regulations, the existing PDs for Treasury bills and Central Bank Securities (CBSs) were appointed PDs for Treasury bonds. Having finalised these arrangements, the PDD launched the issue of Treasury bonds in March 1997, and the first auction was held on 27 February 1997 for the first issue of Treasury bonds value dated 2 March 1997. During the year, the PDD also engaged in developing the modalities to improve the primary issue and trading of this instrument in the secondary market. The PDD also conducted two workshops for institutional investors on Treasury bonds on 3 April 1997 and 26 July 1997.

The PDD also made arrangements for early retirement of 7 RSs amounting to Rs.16,000 million which were due for compulsory repayment in 1999 and optional repayment in 1998. These included 3 RSs amounting to Rs.6,000 million carrying a rate of interest of 15 per cent and 4 RSs amounting to Rs.10,000 million carrying a rate of interest of 16 per cent. The gazette order relating to the early retirement of these RSs was issued on 23 September 1997.

In order to develop the debt securities market, the PDD obtained technical advice from two foreign consultants during the year. The PDs were given opportunities to discuss

matters relating to capital market development with these consultants thus enabling them to present their views.

The reconstruction of the computer software and the database on Public Debt that were destroyed in the bomb blast in January 1996 was continued in 1997. The PDD completed the issue of duplicates for Treasury bills destroyed in the bomb blast and by mid 1997 maturity proceeds of all duplicate Treasury bills had been fully paid.

The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) database which is currently used at the PDD for recording and management of external debt was upgraded from Version 6.1 to Version 7.1 in July 1997. The main advantage of the new version is the connectivity of the database to spreadsheets in Windows/DOS.

Operational Activities

Total outstanding gross public debt serviced by the PDD as at end 1997 amounted to Rs.740,412 million. This indicated an increase of Rs.49,708 million or 7.2 per cent as compared with that of 1996. Total public debt outstanding as at end 1997 consisted of Rs.364,561 million (49.2 percent) of domestic debt and Rs.375,851 million (50.8 percent) of foreign debt. The domestic component of the public debt increased by Rs. 33,371 million or by 10.1 percent whilst that of foreign debt rose by Rs.16,337 million or 4.5 per cent over that of 1996. Table II-17 shows the composition of public debt serviced by the PDD.

TABLE II -17
Composition of Gross Public Debt

Category	At end 1996		At end 1997	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	331,190	47.9	364,561	49.2
Treasury Bills	124,996		114,996	
Rupee Securities	205,975		239,475	
Treasury Bonds	-		10,000	
Treasury Certificates of Deposit	212		83	
Tax Reserve Certificates	7		7	
Foreign Debt	359,514	52.1	375,851(a)	50.8
Total	690,704	100.0	740,412	100.0

(a) Provisional

Source: Central Bank of Sri Lanka

Treasury Bills

Primary Market

Total Treasury bills outstanding as at end 1997 was Rs. 114,996 million as compared with Rs. 124,996 million as at end 1996. This reduction was due to the retirement of

Rs.10,000 million out of the stock of Treasury bills held by the CBSL in August 1997. There were no new issues of Treasury bills during the year. The authorised limit of Treasury bills remained unchanged at Rs. 125,000 million during 1997.

The retirement of Rs. 10,000 million of Treasury bills in August 1997 was made possible by the privatisation proceeds of US dollars 225 million received by the Government from the divestiture of 35 per cent of the holdings of Sri Lanka Telecom. The amount retired at Rs. 10,000 million included Rs.3,150 million of Treasury bills due to mature during 1997 and Rs.6,850 million of Treasury bills due to mature during 1998. The direct total interest savings from this retirement amounted to Rs. 516 million.

The Monetary Operations Unit (MOU) serviced by the Public Debt, Banking and Economic Research departments continued to determine the amounts of Treasury bills to be offered at the weekly primary auctions and their maturity distribution and any advanced reservations of Treasury bills to the Central Bank. The MOU also determined the maturity structure of Treasury bills purchased by the CBSL at primary auctions.

Based on the review of performance of PDs during 1996, the Monetary Board decided to withdraw the PD status of five PDs and approved the appointment of two new PDs on the recommendations made by the PDD. As a result, the total number of PDs at end 1997 stood at 18, of which 11 were commercial banks and 7 were non-commercial banks. Weekly one-to-one meetings with PDs were conducted continuously by the PDD with a view to evaluating the money and debt markets while discussing issues pertaining to PD activities. In addition, weekly regular meetings with all PDs commenced from July 1997.

Access to the weekly primary auction was confined to the PDs and institutional investors authorised by the CBSL. Total sales of Treasury bills at primary auctions amounted to Rs.210,887 million during 1997. The largest single category of buyers of Treasury bills at the primary market was commercial bank PDs who purchased Rs. 123,313 million or 58.4 per cent of total sales. The second largest category was the non-bank PDs who purchased 21.3 per cent of the total. Until May 1997 several institutions such as the National Co-operative Council (NCC) and Employees' Trust Fund (ETF) were allowed to bid directly at the primary auctions. These institutional investors, together with CBSL managed funds were responsible for 8.3 per cent of the bids accepted in 1997. Table II-18 shows the source wise distribution of bids accepted for 1997.

TABLE II - 18
Bids Accepted at Treasury Bill Auctions - 1997

Source	Maturity period (months)				Total	Rs. Million	%
	3	6	12	Other			
	1. Domestic Commercial Banks	54,942	21,489	32,437			
State Banks	41,572	16,790	23,912	0	82,274	39.0	
Private Banks	13,370	4,699	8,525	0	26,594	12.6	
2. Foreign Banks	7,796	3,656	2,993	0	14,445	6.8	
3. Non-banks (a)	17,697	11,836	15,197	0	44,730	21.3	
4. Direct Bids(b)	595	1,058	417	0	2,070	1.0	
5. Institutional Investors(c)	9,494	3,692	2,290	0	15,476	7.3	
6. Central Bank Purchases	0	0	0	25,298	25,298	12.0	
Total	90,524	41,731	53,334	25,298	210,887	100.0	

Source : Central Bank of Sri Lanka.

- (a) Includes NSB
 (b) NCC and ETF
 (c) Funds managed by the CBSL

Of the total bids amounting to Rs. 318,258 million received in 1997, 67.8 per cent were from commercial bank PDs. The remaining 32.2 per cent were from non-bank PDs (25.9 per cent) and others (6.3 per cent).

Of the Treasury bills outstanding as at end 1997, Rs. 53,334 million (46 per cent) was in respect of 12 month maturities and Rs. 20,111 million (18 per cent) was in respect of 6 month maturities. The balance 36 per cent or Rs. 41,551 million constituted maturities of three months (26 per cent) and other maturities (10 per cent). Other maturities represent the stocks resulting from purchases by the CBSL. The total number of physical scrips of Treasury bills issued during 1997 was 72,866 for all maturities.

The weighted average (w.a) yield rates for 3, 6 and 12 month Treasury bills fluctuated between 9.87 - 17.14, 10.09 - 17.03 and 10.17 - 17.11 per cent, respectively. The large spreads between the highest and the lowest rates during the year were due to the sharp drop in the yield rates towards the end of 1997 from the high levels that prevailed at the beginning of the year. The annualised w.a yield rates by maturity with their overall averages are given in Table II-19. The total interest commitment on account of Treasury bills issued during 1997 was Rs. 12,661 million showing a decrease of 31.6 per cent when compared with that of the previous year.

The minimum and maximum w.a yield rates of bids received during the year 1997 were 9.67 and 17.25 per cent for 3 month maturities, 10.04 and 17.17 per cent for 6 month maturities and 10.00 and 17.18 per cent for 12 month maturities.

TABLE II-19
Annualised Weighted Average Yield Rates

Year	Maturity Period (Months)			Overall Average
	3	6	12	
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
1996	16.04	16.46	17.17	16.46
1997	11.03	11.95	12.29	11.60

Source : Central Bank of Sri Lanka

Secondary Market

The secondary market for Treasury bills expanded considerably during 1997. A substantial amount of outright, repurchase and reverse repurchase transactions took place among the PDs and their customers. The total volume of outright sales and purchases by the PDs amounted to Rs.95 billion and Rs. 28 billion, respectively during 1997. Trading volume by the PDs in respect of repurchases and reverse repurchases amounted to Rs.582 billion and Rs. 474 billion, respectively. The total stock of outright holdings of Treasury bills by the PDs as at the end 1997 amounted to Rs. 44 billion.

Rupee Loans

A total of seventeen Rupee Loans to the value of Rs. 48,500 million were floated during 1997. The Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the two major subscribers to the Rupee Loan Programme in 1997 and these two institutions together subscribed Rs. 42,758.8 million accounting for 88.2 per cent of total subscriptions in 1997.

Rupee Loans issued during 1997 carried interest rates ranging from 11.25 per cent to 14.50 per cent per annum with maturities ranging from 2 to 6/8 years. Of these, seven loans were floated with fixed maturities of 2, 3 and 4 years while the other ten loans carried optional maturity periods of 4/8, 5/7, 6/7 and 6/8 years. Information relating to floatation of Rupee Loans is summarised in Table II-20.

TABLE II-20
Flotation of Rupee Loans - 1997

Interest Rate % p.a.	Maturity Years	No. of Loans	Amount Floated Rs. Mn
14.50	3	2	10,000
13.50	3	1	5,000
13.00	4	1	3,000
14.00	2	1	3,000
13.10	2	1	2,500
12.50	4	1	2,000
12.25	6-7	4	11,000
12.00	6-7	1	3,000
11.75	6-7	1	3,000
11.75	6-8	1	1,000
11.80	4-8	1	2,500
11.50	4-8	1	1,000
11.25	5-7	1	1,500
Total		17	48,500

Source : Central Bank of Sri Lanka

A total of seven Rupee Loans amounting to Rs.15,000 million was repaid during 1997. Accordingly, net subscriptions to Rupee Loans amounted to Rs. 33,500 million and resulted in an increase in the outstanding of the liability on account of rupee loans from Rs. 205,975 million at end 1996 to Rs. 239,475 million as at end 1997. The maturity profile of outstanding Rupee Loans is presented in Table II-21.

TABLE II-21
Maturity Profile of Rupee Loans - end 1997

Maturity Years	Amount Rs. Million	Percentage
2	17,500	7.31
3	15,000	6.26
4	12,000	5.01
5	12,204	5.10
4-5	16,000	6.68
6	5,500	2.30
4-6	10,317	4.31
5-6	14,878	6.21
5-7	53,715	22.43
6-7	22,000	9.19
4-8	3,500	1.46
6-8	1,000	0.41
7-8	5,400	2.25
10	5,980	2.50
1-10	19,393	8.10
8-10	1,000	0.42
30	24,088	10.06
Total	239,475	100.00

Source : Central Bank of Sri Lanka

Total interest payments at Rs. 30,020.6 million on Rupee Loans during 1997 recorded an increase of Rs. 6,819.5 million (or 29.4 per cent) as compared with the total interest payments in the previous year.

Treasury Bonds

A new medium and long-term coupon bearing Government Debt Instrument in the form of Treasury bonds (T-bonds) was issued by the CBSL on behalf of the Government of Sri Lanka commencing from March 1997. Treasury bonds are issued under the provisions of the Registered Stock and Securities Ordinance (RSSO) as amended by Act No. 32 of 1995. During 1997 Treasury bonds were issued at auctions held fortnightly.

During 1997, Rs. 10 billion of Treasury bonds were issued. Initially, the CBSL introduced Treasury bonds with a 2 year maturity and subsequently shifted to 3 year and 4 year maturities. During 1997, 18 issues, of which 13 were 2 year maturities, 2 were 3 year maturities and 3 were 4 year maturities, were made. Of the 10 billion of Treasury bonds issued, Rs. 7,500 million was in respect of 2 year maturities, Rs. 1,000 million was in respect of 3 year maturities and Rs. 1,500 million was in respect of 4 year maturities. The coupon rate was announced by the CBSL prior to each auction. In view of money market developments that exerted pressure on the interest rates, the coupon rate was reduced from 14 per cent per annum at the beginning to 11.5 per cent per annum at the end of the year. All auctions held during 1997 were over-subscribed and there were bids at par and at a premium at all but one auction. Of the total bids received during the year Rs. 14,216 million of bids were received at a premium, Rs. 9,135 million of bids were received at par and Rs. 4,898 million of bids were received at a discount. The bids received from institutional investors who were allowed to receive a weighted average yield to maturity, amounted to Rs. 4,790 million. Table II-22 presents information pertaining to primary issues of Treasury bonds.

Interest payments are made on surrender of coupons by the bond holders bi-annually through PDs to the PDD. Total interest payments on account of Treasury bonds amounted to Rs. 326.9 million in 1997. The number of Treasury bonds issued during 1997 was 2,979, of which 2,592 were for 2 year maturities, 93 were for 3 year maturities and 294 were for 4 year maturities. The number of coupons received by the PDD for bi-annual coupon payments was 2,035.

During 1997 PDD took several steps to establish a secondary market for Treasury bonds. PDs were encouraged to quote buying and selling prices in respect of Treasury bonds and arrangements were made by the PDD to publish such quotes for the information of the public. Two-way

TABLE II -22
Selected information on Treasury Bonds - 1997

Series	Maturity (Years)	Bids Received (Rs. Mn.)	Bids Accepted (Rs. Mn.)	W.A.Y.R. to Maturity (% p.a.)	Coupon Rate (% p.a.)
14.00% 1999A	2	1,139	500	14.00	14.00
14.00% 1999B	2	1,325	500	14.00	14.00
13.75% 1999A	2	1,909	500	13.71	13.75
13.50% 1999A	2	1,488	500	13.44	13.50
13.00% 1999A	2	1,335	500	12.96	13.00
12.25% 2001A	4	755	500	12.25	12.25
12.75% 1999A	2	1,880	1,500	12.75	12.75
12.75% 1999B	2	785	500	12.75	12.75
12.75% 1999C	2	1,045	500	12.75	12.75
12.75% 1999D	2	1,225	500	12.78	12.75
12.75% 1999E	2	3,365	500	12.42	12.75
12.50% 1999A	2	2,910	500	11.87	12.50
12.00% 1999A	2	1,795	500	11.69	12.00
12.00% 1999B	2	2,238	500	11.56	12.00
12.00% 2000A	3	2,084	500	11.74	12.00
11.75% 2001A	3	3,475	500	11.10	11.75
11.50% 2001A	4	2,112	500	11.36	11.50
11.50% 2001B	4	2,194	500	11.39	11.50
Total		33,039	10,000		

Source : Central Bank of Sri Lanka

prices quoted by the PDs were collected by the PDD and w.a. rates computed on a daily basis for each series of Treasury bonds for the purpose of publication.

PDs engaged in trading Treasury bonds in the secondary market mainly through outright buying and selling and repo transactions of substantial magnitudes. As at end 1997, total Treasury bonds in the portfolios of the PDS amounted to Rs. 4,023.1 million.

Treasury Certificates of Deposit

The face value of total sales of TCDs during 1997 amounted to Rs.68.9 million. The entirety of TCD sales was by the NSB. The maturity period and the annual yield rate of TCDs issued in 1997 were 12 month and 18.06 per cent, respectively. Total repayments of TCDs during 1997 amounted to Rs.198.6 million of which Rs.168.1 million was in respect of capital repayment and Rs.30.5 million constituted interest payments. The TCDs outstanding as at end 1997 amounted to Rs.82.6 million.

Other Domestic Debt Instruments

Variable rate debentures of the State Mortgage and Investment Bank (SMIB) with a maturity of 5-6 years amounting to Rs.500 million were offered to the public for subscription in December 1997. The variable rate was linked to the rate of interest of Rupee Loans of comparable maturities. The issue however had a poor response reflecting uncertainties in interest rates resulting from developments in the foreign exchange market and lack of familiarity of investors with similar instruments in the market.

There were no issues or repayments in respect of debentures of the NHDA and UDA. The amounts outstanding of SMIB, NHDA and UDA debentures remained unchanged at the previous year levels at Rs.500 million, Rs.141 million and Rs.83 million, respectively, at end 1997.

The PDD repaid Rs.50,899 of Tax Reserve Certificates (TRCs) during the year. The outstanding amount of TRCs remained at Rs.7 million at end 1997.

External Debt

The total external government debt outstanding as at end 1997 amounted to Rs.375,851 million, showing an increase of Rs.16,337 million (4.5 percent) as compared with the value at end 1996. Of the total outstanding debt at end 1997, bilateral loans amounted to Rs.188,264 million (50 per cent), while multilateral and commercial loans amounted to Rs.173,265 million (46 per cent) and Rs.14,322 million (4 per cent), respectively. The major creditors in the bilateral category were Japan, USA and Germany. These sources accounted for Rs.172,308 million on 92 per cent of the total bilateral loans. The International Development Association (IDA), which is the largest creditor in the multilateral category, accounted for Rs.92,085 million or 53 per cent of the total multilateral debt.

When classified according to the use of funds, project, programme and commodity loans amounted to Rs.277,258 million (74 per cent), Rs.39,814 million (11 per cent) and Rs.27,489 million (7 per cent), respectively, of the total government external debt. Table II-23 shows the composition of outstanding external government debt as at end of 1997 by donor category and use of funds.

TABLE II-23
Gross External Debt Outstanding - end 1997

Category	Rs. Million	%
1. Donor	375,851	100
Bilateral	188,264	50
Multilateral	173,265	46
Commercial	14,322	4
2. Use of Funds	375,851	100
Cash	4,708	1
Commodity	27,489	7
Food	26,421	7
Programme	39,814	11
Project	277,258	74
Technical Assistance	161	-

Source: Central Bank of Sri Lanka

Total principal repayments plus interest and other charges on external government debt in 1997 were Rs.10,027 million and Rs.6,732 million, respectively. Total disbursements during 1997 amounted to Rs. 24,406 million.

In 1997, 22 new foreign loans were contracted and the number of operative loans increased to 461 at the end of the year. These loans carried grace periods ranging from 3 to 7 years and repayment periods from 5 to 42 years. Interest rates ranged from 0 to 10.85 per cent per annum. The grant element of the loans ranged between 4 and 91 per cent. Table II-24 shows the ranges of grace period, maturity period, interest rate and grant element of the external government debt by donor category as at end 1997.

TABLE II-24
Summary Statistics of External Debt - end 1997

Donor Category	Maturity Period (Years)		Interest Rate/ Service Charge (% p.a.)	Grant Element (%)
	Grace Period	Repayment Period		
Bilateral	3-17	5-42	0.00-7.39	4-91
Multilateral	5-11	6-40	0.75-8.25	5-87
Commercial	1-10	0-20	5.95-10.85	3-56

Source: Central Bank of Sri Lanka

Other Activities

In addition to the issuance and servicing of public debt, the PDD handled the activities relating to issuance and servicing of Central Bank Securities (CBSs). The issue of CBSs, commenced on 1 September 1997 and they continued to be available till the end of December 1997. The amount offered was open-ended for the issues that were kept open for subscription by the PDs and Commercial banks on a daily basis.

These issues except for one, had a maturity of 7 days. The one-off issue had a maturity of 28 days. The interest rate applied to CBSs was the equivalent of the annualised daily interest rates used in CBSL repurchase transactions. Accordingly, the rate of interest applied for 7 day CBSs ranged from 8.35 - 10.91 per cent per annum while that for the one-off issue of 28 day maturity was 9.21 per cent per annum. Total CBSs issues amounted to Rs.7,835 million during the year. The amount of CBSs outstanding as at end December 1997 was Rs.10 million. Total interest cost of CBSs for 1997 amounted to Rs.13.4 million.

SECRETARIAT

In 1997, the Central Bank implemented an administrative budget and strict financial controls over expenditure control within the framework of a comprehensive corporate plan. In the past, expenditure control was effected through indicative budgets. Monitoring of expenditure was planned in order to increase efficiency and cost effectiveness of the budgetary process.

For this purpose a detailed review of current and capital expenditure of each department was made and an administrative and capital expenditure budget prepared for the Bank. Any request for expenditure outside the budget is reviewed and supplementary approval obtained.

Total administrative expenditure in 1997 amounted to Rs.2,264 million of which expenditure excluding note and coin issue expenses amounted to Rs.1,535 million. Of this amount expenditure on personnel which includes salaries, allowances, overtime payments, taxes, welfare payments, etc. amounted to Rs.1,150 million or 75 per cent, while administrative costs and establishment costs amounted to 13 per cent each.

The total staff strength of the Bank at the end of 1997 was 2,152, which included 518 staff grade officers. There were 85 retirements in the course of the year.

There was a marked escalation in some items of administrative expenditure in 1997. Nine departments of the Bank had been relocated in 10 floors in the World Trade Centre (WTC) Building, Echelon Square, Colombo 1 in November 1996. In the course of 1997 most of the other departments of the Bank were relocated at the Renuka and Equity Two Buildings in Janadhipathi Mawatha. As a result, the costs of rent, rates and other charges such as electricity and water increased markedly.

Capital expenditure in 1997 was Rs.938 million compared with Rs.508 million in 1996. The bulk of this expenditure, amounting to Rs.924 million, was on

construction of the new Central Bank building and rehabilitation of the old building at Janadhipathi Mawatha. A large amount of furniture and equipment was destroyed in the bomb blast of January 1996 and had to be replaced. Although purchases of furniture and equipment had been made on an urgent basis in 1996, the requirements of all the departments were not fully met. Equipment such as photocopying machines and electronic calculators were obtained, but the purchase of furniture was deferred in view of the need to relocate offices again after the completion of the Bank's own buildings. Pending the purchase of computers under German aid, it was also decided to obtain the immediate requirements of computers and printers on hire. The Secretariat Department, therefore, had to keep to a very busy schedule to ensure the Bank's departments functioned smoothly by providing them with adequate furniture and equipment in time.

Again, in October 1997, the smooth functioning of the bank was temporarily disrupted by a bomb explosion in the Galadari Hotel car park. The bomb blast caused extensive damage to the WTC building, but damage to the Bank's own furniture and equipment was minimal. The Bank was, therefore, able to carry out its functions, without interruption. Some relaxation of leave and late attendance rules were made in the aftermath of this bomb blast.

Compensation payments to the victims of the bomb blast of January 1996 were completed in 1997. Compensation paid out amounted to Rs.98 million, of which Rs. 51 million was paid to the dependents of deceased employees and Rs.47 million to partially and permanently disabled employees.

In addition to advising the departments of the Bank on legal matters, the Legal Division represented the Bank in the Supreme Court and other Courts, and in the Labour Tribunal in several cases concerning the Bank.

The Legal Division attended to the drafting of the Regional Development Banks Act No. 6 of 1997 and the enactment of the regulations under the Monetary Law Act.

The Legal Division also assisted in the preparation of the following proposed legislation and the subsidiary legislation:

1. Legislation relating to regulating finance leasing.
2. Amendments to the Monetary Law Act.
3. Legislation to combat money laundering.
4. Regulations under the Local Treasury Bills Ordinance.

INFORMATION

During 1997, the Information Department, except the library situated at the WTC, carried out its operations from the premises of the Rural Banking and Staff Training College, Rajagiriya. The Department during the current year continued to build and strengthen its role as a collector, storer and disseminator of information to bank personnel and the public through the multi-media.

In 1997, the library continued collecting and adding books and magazines to its database, while subscribing to 193 journals in its efforts towards rebuilding the library and serving its users efficiently. One Staff Officer and 4 non-staff officers with professional qualifications and experience were recruited. Organisations, including the IMF, World Bank and Asia Foundation, continued to support the library by donation of books and periodicals. The total number of books and reports/pamphlets accessed during the year amounted to 4,171 and 2,753 respectively.

In the dissemination of information, the department released on a regular basis the daily exchange rate, economic indicators, food and vegetable prices, CCPI information on Treasury bills, Treasury bonds and Rupee Loans and other advertisements to the media, both print and electronic.

Apart from its sales outlet at Rajagiriya and in the Regional offices, the Department extended its network of sales outlets to the People's Bank Head Office premises and the Government Publications Bureau. The Annual Report, State of the Economy, Monthly Bulletin, Socio Economic Data - 1997 and other books on economic and social statistics along with the Department's own monthly and bi-monthly publications, *Satahana* and *News Survey*, respectively, were released through these outlets. There has been a rising demand for these publications, particularly for *Satahana*, which on an average has a sale of around 10,000 copies per month. The *News Survey* however, has not met with similar success being constrained by its limited readership in the English medium. The Department was able to reach a wider spectrum of readers when it successfully ran a sales counter at the Industrial and Trade Exhibition - *Jana Nipayuma* - held from the 1 to 5 July 1997 in commemoration of the 36th anniversary of the People's Bank.

The printing of publications and other requirements of the Bank were undertaken by the Printing Press. The Press completed 340 assignments during 1997. The Press was also responsible for the printing of the pocket diaries for 1998 for the second year in succession. The New year greeting cards too continued to be printed at the Press. This year the Press also undertook the printing of the Budget Speech.

Public Investment Plan and the book - 'Budget at a glance' - on behalf of the Treasury. A limited number of Samurdhi Pass Books too were printed by the Press.

The task of designing and drawing the cover of the book, Economic Progress of Independent Sri Lanka 1948 - 1998, the visual art work for the UNICEF's 50th anniversary commemorative coin, Sri Lanka's Golden Jubilee of Independence commemorative coins and the designing of many advertisements were undertaken by the Department.

The Department continued to provide photographic services for the activities of the Bank, including seminars and press conferences.

A series of documentary/video films was produced on behalf of the Rural Credit Department to appraise the success of the ISURA loan scheme. Copies of these films were distributed to a number of Asian countries.

RESEARCH ACTIVITIES

The Economic Research Department continued to collect and analyse economic and financial statistics and to conduct economic research for the guidance of the Governor and the Monetary Board in policy formulation, and to provide information to the public. In addition to the Annual Report, the Department was responsible for the publication of the Monthly Bulletin and State of the Economy - 1997. This last publication was an expanded version of the usual Economic Survey of the first half of the year, and provided not only an economic survey of the first half of 1997, but also macro-economic projections for 1997 and 1998. The provision of weekly financial statistics to the public through the print media continued, and selected monthly economic indicators were produced for the information of policy makers. The Department prepared and submitted the "September 15th Report" to the Minister of Finance, a report provided under Section 116 of the Monetary Law Act, to be used in the preparation of the Budget. The Department was extensively involved in the preparation of a book "Economic Progress of Independent Sri Lanka" to be published in 1998 to commemorate the 50th Anniversary of Sri Lanka's Independence. In addition, the Department compiled data on monetary aggregates, balance of payments statistics, international commodity prices and monthly external trade statistics, prepared weekly and monthly reports on tea and rubber auctions in international markets 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. Surveys on industrial production (half yearly and annually), small scale industries, private hospitals and the feasibility of establishing forward contracts for agricultural produce were conducted during the year.

The Department continued to provide data to the International Monetary Fund (IMF) on a regular basis and co-ordinated the Government's consultations with the IMF Missions in May and November 1997. Provision of data to other international organisations and co-ordination of work with such institutions were also continued.

The Department conducted a public seminar on "Current State of the Economy and Future Prospects" in March 1997 and arranged other seminars by officers who returned after post-graduate studies. Lectures by visiting guest speakers were also arranged by the Department.

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 and Financial Sector Monitoring Unit. Officers also presented papers on economic issues at seminars held locally and abroad. In addition, introduction and computation of two new indices, namely, monthly trade indices and monthly private sector industrial production indices were undertaken by the Department in 1997.

STATISTICS AND FIELD SURVEYS

The Statistics Department continued to carry out its functions of compilation, analysis and dissemination of (a) macro level socio economic data including national accounts, prices and wages, and employment, and (b) micro level data on the household and corporate sectors. The collection of wholesale and retail price data of major food commodities in the key market centres of the country and publication of the same in the print and electronic media on a daily basis were continued. A major task accomplished by the Department was completion of the Consumer Finances and Socio Economic Survey 1996/97.

Consumer Finances and Socio Economic Survey 1996/97

The field work of the Consumer Finances and Socio Economic Survey 1996/97, which was commenced by the Department in October 1996, was successfully completed in December 1997. The survey, consisting of 4 rounds, covered a sample of 8,880 households drawn from the Urban, Rural and Estate sectors. The survey was conducted in all areas other than the Northern Province and some areas of the Eastern province.

This is the seventh in the series of Consumer Finances and Socio Economic Surveys conducted at regular intervals by the Central Bank of Sri Lanka since 1953. The last survey in the series was conducted in 1986/87. The primary objective of the survey is to collect comprehensive data on

socio-economic conditions including demographic profiles, income, expenditure, consumption, employment, savings and investments of the households. Such data are useful to assess the changes in living standards of the population. The provincial data collected under this survey for the first time would be used to strengthen the socio economic database at the provincial level.

A new feature of the present survey is that data were processed on a round-wise basis so as to disseminate the findings of the survey without much time lag. The entire data processing work is being carried out in the Statistics Department for the first time. The processing of survey data in respect of 2,147 sampled households in Round 1 and 2,186 households in Round 2 was completed during 1997. It is expected to release preliminary results of these rounds shortly.

Country wide Data Collection System

The Country Wide Data Collection System which was commenced by the Statistics Department in 1978 completed its nineteenth year of operation in 1997. Under this programme, information on retail prices of consumer goods, producer prices of agricultural commodities and wage rates pertaining to the informal sector continued to be collected regularly. The scheme was further extended to monitor the agricultural situation in major growing areas. Data collection is accomplished through an island-wide network of school teachers who function as statistical investigators. The sub sectors of paddy, tea, rubber, coconut cultivation and the small scale construction sector are covered by the scheme. Information collected is published regularly through the print and electronic media. In order to improve the collection of micro level data through investigators, two seminars were conducted in Matara and Colombo in 1997.

The Department continued with its scheme of collecting wholesale prices of major food items mainly from the Pettah market on a daily basis and from other major producing centres with a view to (a) disseminating the information to farmers, traders and consumers and (b) monitoring the variations in wholesale and retail prices. Information so collected is published and is also used for the compilation of national accounts and price and real wage indices. The collection of price information from the Jaffna market, which was not possible for some time due to the security situation, was also recommenced from September 1997.

National Accounts

The Department continued the activities in connection with the estimation of National Accounts. These included the collection and compilation of primary and secondary data. The Department is also in the process of compiling national accounts at more frequent intervals. With the improvement

of the database, it was possible to publish GDP projections for 1997 in advance in the publication, 'State of the Economy - 1997'.

Employment Statistics

The Annual Survey of Public Sector Employment was carried out in 1997 with the objective of ascertaining the trends in employment in government departments, ministries, Provincial Councils, local authorities and the corporation sector. Preliminary work relating to obtaining employment statistics from the database of the Employees' Provident Fund was completed during the year.

Publications

The Department released its two annual publications entitled "Sri Lanka Socio Economic Data" and "Economic and Social Statistics of Sri Lanka" which provide comprehensive time-series and cross-sectional data on socio economic variables including demography, labour force and employment, national income and expenditure, agriculture, industry, external trade and finance, prices and wages, money, banking, capital market, government finance and socio economic services. The data in these publications also include comparative statistics for regional economic groups. In addition, the Department contributed to several other publications of the Central Bank.

DATA PROCESSING

The Data Processing Department (DPD) moved into the WTC building and installed 2 IBM AS400 computer systems in November 1996. Some old applications were migrated to the new system with modifications in 1997. Work also commenced on the development of new applications for many departments.

One AS400 system was installed at the EPF Department and a team of Analyst Programmers directly under the supervision of the Deputy Director, Data Processing Department, developed and made operational a new system for processing EPF data. This system is currently being expanded to streamline and expedite the processing of EPF data.

A Human Resource Management package was installed in the AS400 system at the DPD and many of its modules were made operational. Work is continuing to complete the implementation of the other modules including the development of the personal data base of all employees and payment of salaries.

Using personal computer systems, an integrated package for processing the country wide market information of the Statistics Department was implemented. A system, for maintaining the leave and attendance of all departments was developed and is due to be installed in all departments in early 1998.

The AS400 computer system in the Data Processing Department was linked to all the commercial banks for monitoring the liquidity position of the commercial banks. All commercial banks now transmit the relevant information by 9.30 a.m. each day.

The project for modernisation of the Central Bank computer environment was launched and a tender has been awarded for the supply of personal computers, servers and other equipment to initially install some Local Area Networks in the departments. Once the new extension building is completed and the Old Central Bank building is renovated, these will be transferred and linked to form one network. This system will create a modern technological environment in the Central Bank.

Steps have also been taken to carry out a study on the automation of banking activities including the installation of a real time gross settlement payment system and scripless government securities trading.

Ten Senior Analyst Programmers and two System Engineers were also recruited to the Department to enable it to carry out all the above projects efficiently.

Sri Lanka Automated Clearing House (SLACH)

During the year under review, the cheque volume processed increased by 1,553,811 items, thus raising the total volume of cheques processed to 29,261,633

The SLACH continued its normal operations except for some disruption due to the bomb blast of 15 October 1997. Although much damage was caused to the building, the equipment was not damaged and SLACH commenced operations on the second day following the blast. Action has been taken to establish a back up site for the SLACH. This project will also look into the possibility of using imaging, which is a new technology being used for expediting and modernising the automated cheque clearing operation.

The off-line Inter Bank payment System (SLIPS) suffered a set back in 1996 due to the Central Bank bomb blast destroying the main computer system of the Bank. However, in 1997 these transactions were reactivated and the Central Bank systems were developed to accommodate future value dates from the limited one value date system which operated temporarily. More and more transactions are going

through the SLIPS system. Much work was also done to carry forward the implementation of Phase III of the Project which is for the payment of direct debits. It is hoped that this project will be fully implemented in 1998.

TRAINING

During the year under review, the Central Bank continued its policy of training officers in academic as well as non-academic fields. Academic training was related to post graduate studies in Economics and allied fields at recognised universities abroad. During the year, six officers proceeded abroad to follow Masters Degree courses in Economics. In addition, one officer followed a Diploma Course in Statistics at the International Statistical Education Centre, India.

Non-academic training comprising short-term, courses, seminars and workshops, both local and foreign, was related to specific fields relevant to the Bank. During 1997, a total of 53 officers proceeded abroad on short-term training on 41 training programs. A total of 127 officers participated in 20 training courses conducted by the Rural Banking and Staff Training College while 62 officers participated in 22 courses and seminars held at other local institutions.

The Department also conducted classes in Economics and Mathematics for those officers intending to proceed abroad on postgraduate studies. The Department continued its usual functions of holding promotional examinations for certain categories of employees and the postgraduate scholarship qualifying examination for Staff Officers.

MANAGEMENT AUDIT

During 1997 the Management Audit Department carried out its audit programme to ensure adherence to the rules, regulations, interpretations and internal control systems of the Central Bank with the objective of increasing the efficiency and effectiveness of the Bank. Whenever deficiencies and deviations were observed in the course of audit, they were brought to the notice of the relevant authorities.

After the relocation of the Central Bank Head Office in the World Trade Centre in November 1996, audit units were re-established in the Secretariat, Welfare and Banking Departments during 1997 to provide auditing services to these departments more efficiently.

Auditing of the Central Bank Regional Office in Anuradhapura was conducted according to the Departmental Audit Programme, while physical verification of Bank vehicles maintained by the Premises Department and currency notes and coins in the Currency Department vaults.

were carried out during the year. Surprise checks on cash counters were done from time to time. Furthermore, pre-audits relating to the revision of salary scales of the Bank employees, relief payments to employees who were affected by the bomb blast and payment transactions relating to the construction of the new building of the Bank were also carried out during the year.

In addition to the above work, studies on the requirement of Staff Assistants in the Central Bank and staff requirements of the Central Bank Clinic were undertaken as required by the management and completed during the year.

PREMISES

During 1997, the Premises Department continued to perform its maintenance work and upkeep of basic necessities to create a pleasant environment for Bank employees who were relocated at various rented buildings close to the former Head Office premises.

Apart from the above functions the Premises Department had to effect repair urgently to relocate the Currency Department in the Treasury Building in November 1997.

The functions assigned by the Monetary Board to co-ordinate work at the Central Bank Building Extension Project and Repairs to the Old Building have been delegated to a new department from November 1997.

NEW BUILDINGS

The New Buildings Department established in November 1997 is entrusted with the task of attending to the work connected with the Extension Building Project and the Head Office Rehabilitation Project. The work connected with these two building projects was hitherto carried out by a separate unit with officers released from the Premises Department. As the two building projects had to be completed urgently it was considered appropriate that a separate department be created and the Head of Department appointed be given sufficient powers to carry out the activities of the projects without delays or hindrances.

Extension to the Central Bank Head Office Building

The construction work in respect of this project commenced in August 1994 and continued during 1997. The progress of the work was affected considerably due to unforeseen sub-soil conditions, stoppage of work due to security reasons, restriction of heavy vehicular traffic in the

Fort area and interruption of work consequent to the bomb blast that took place on 31 January, 1996. At the end of 1997 around 75 per cent of the civil work and 43 per cent of the total work had been completed. The Electrical/Mechanical work has now commenced.

The building project is expected to be completed in August, 1998. With the completion of the building, the Bank would be able to accommodate, many of its departments which are now housed in rented premises.

Damaged Head Office Building

Due to the complex nature of the repair work involved to the Head Office Building resulting from the bomb blast which caused extensive damage, considerable time was taken to finalise the actual volume of repair work that has to be undertaken, to consult the panel of engineers, to evaluate tender proposals received and thereafter, to negotiate with the contractor. The rehabilitation work of the building has been awarded to M/s. Ed Zublin AG of Stuttgart, Germany and the consultancy services in respect of project management, design approvals, construction supervision and architectural and M & E design and drawings, have been assigned to Central Engineering Consultancy Bureau. The order to commence the repair work was issued to the contractor in December 1997 after the Currency Department was relocated in the Treasury Building. In December 1997, the contractor commenced the dismantling of damaged machinery and equipment, windows and sanitary fittings, electrical and air-conditioning fittings, demolishing of damaged walls etc. and removal of architectural elements from the building in order to facilitate repair work.

The rehabilitation work on this building is expected to be completed in April 1999.

WELFARE

The Welfare Department continued to provide enhanced facilities in 1997 to the staff affected by the bomb explosion in 1996 while also providing routine welfare facilities. The Department administered several concessional loan schemes for housing, vehicles and other financial requirements of employees and advances and reimbursements were made under the Staff Medical Benefit Schemes for the medical expenses of employees and their dependants within the quotas approved by the Bank. The special facilities provided in 1996 to cover medical requirements of the employees who were affected by the bomb explosion continued to be in operation during the year.

The subsidised Railway and Bus Season Ticket scheme and the Railway Warrant scheme also continued as in the

previous years. Since the departments of the Central Bank were located at several places, the provision of canteen facilities remained limited during the year 1997. The Department provided facilities according to the needs arising from the various locations where the employees were deployed for their work from time to time.

The Central Bank Medical Clinic was re-established and the facilities provided by the Clinic were restored to a significant extent as most of the equipment had been destroyed in the fire following the bomb explosion. However, a flexible approach was adopted in the reimbursement of medical expenses of the employees who were injured. The facilities provided to the bomb victims to obtain medical expenses upto Rs.250,000 for local medical treatment and upto Rs.250,000 for treatment abroad were continued. The employees whose medical expenses exceeded these ceilings were assisted from the Special Fund established for this purpose.

In addition, a relief package introduced in 1996 for the Central Bank employees whose vehicles were damaged in the bomb explosion continued during the year.

In order to provide relief for the employees by way of providing an enhanced take home salary, a scheme was introduced to amalgamate and reschedule the welfare loans obtained by the employees. In addition, the interest charged on housing loans was reduced marginally.

Although the database, the accounting system and all other records of the Welfare Department were destroyed in the fire of January 1996 the Department has been able to reconstruct the entire accounting system to administer the welfare loans and other welfare schemes effectively. A computerised accounting and payment system has been introduced to improve the efficiency of the Department and reduce the cost of welfare management.

SECURITY SERVICES

Security Officers were deployed to provide security to the following premises during the year 1997.

1. Central Bank of Sri Lanka, Old Building, Janadhipathi Mawatha, Colombo 1.
2. Hemachandra Building, Colombo 2.
3. Rural Banking and Staff Training College, Rajagiriya.
4. Word Trade Centre Building, Echelon Square, Colombo 1.
5. Renuka Building, Colombo 1.

6. Equity 2 Building, Colombo 1.
7. Y.M.M.A. Building, Colombo 1.
8. Currency Department, People's Bank Lake Side Branch, Colombo 1.
9. Old Secretariat Building, Colombo 1.
10. Bank House, Colombo 7.
11. Governor's Residence, Nugegoda.
12. Regional Offices at Anuradhapura, Matale and Matara.

The Department provided escorts for the transport of currency and gold with the assistance of the Police. The Department also provided escorts to the Governor and foreign delegates who visited the Central Bank of Sri Lanka.

The security services provided to the holiday homes at Nuwara Eliya and Kataragama by the Bank Security Officers were out sourced to a private security firm with effect from 1 July 1997.

PERSONNEL

The Establishments Department continued to perform its functions with regard to recruitments, appointments, promotions, retirements and other related personnel matters during 1997.

During 1997, a Bank Doctor (on contract), five Staff Officers, ten Analyst Programmers, two Computer Systems Engineers (on contract), one Assistant Controller of Security (on contract), one Assistant Librarian and five Library Assistants were appointed to the Bank service.

The Bank established a Panel of Legal, Accounting, Banking and Financial Consultants to undertake specific assignments involving inquiries and investigations. Four consultants were appointed to this Panel during the year.

Two new Departments were established during the year. The Department of Financial Markets was established with effect from 29 July 1997 to play a catalytic role in the development of financial markets in Sri Lanka with special emphasis on the development of the capital market. The New Buildings Department was established with effect from 18 November 1997 to supervise and co-ordinate the work connected with construction of the new building and reconstruction of the old building.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 1997:

- (a) 32nd SEACEN Governors' Conference held in Bangkok, Thailand from 13 to 16 February, 1997.

- (b) Roadshows for Issue of US dollars 50 million Floating Rate Notes - from 26 February to 6 March, 1977 in Hongkong (27 February), Korea (28 February), Baharain (2 March) and London, U.K. (4 March).
- (c) IMF/World Bank 1997 Spring Meetings of G24 Development and Interim Committee held in Washington DC, U.S.A. from 26 to 29 April, 1997.
- (d) World Bank/IMF Annual Meetings held in Hongkong from 18 to 26 September, 1997.
- (e) Commonwealth Heads of Government Meeting and Business Forum held in London, U.K. from 19 to 28 October, 1997.

Appointments

- (1) Mr. T.H.D Peiris, Special Officer was appointed as Acting Director, Training in addition to his duties with effect from 13 January, 1997.
- (2) Mr. Y. A. Piyatissa, Director, Security services was appointed as Director, Bank Supervision, in addition to his duties as Special Officer for Capital and Financial Market Development with effect from 7 February, 1997.
- (3) Brigadier H.S.A. Perera, Controller of Security Services (contract) was appointed as Director, Security Services with effect from 7 February, 1997.
- (4) Mr. D. Boyagoda, Director, Rural Banking and Staff Training College was appointed as Director, Establishments with effect from 2 June, 1997.
- (5) Mr. H.A.G. Hettiarachchi, Director, Establishments was appointed as Director, Rural Banking and Staff Training College with effect from 2 June, 1997.
- (6) Mr. T.H.D Peiris, Special Officer and Acting Director of Training was appointed as Director, Training with effect from 1 July 1997.
- (7) Mr. P.T. Sirisena, Staff Class Grade 4 officer was appointed as a Special Officer, Capital Market Development with effect from 8 July, 1997.
- (8) Dr. D.S. Wijesinghe, Additional Director, Statistics was appointed as Additional Director, Rural Banking and

Staff Training College with effect from 15 August 1997.

- (9) Mr. P.T. Sirisena, Special Officer, Capital Market Development was appointed as Director, Financial Markets with effect from 19 September, 1997.
- (10) Mr. T.H.D Peiris, Director, Training was appointed as Director, Premises in addition to his duties with effect from 19 November, 1997.
- (11) Mr. M.S. Siripala, Additional Director, Welfare was appointed as Additional Superintendent, Employees' Provident Fund with effect from 19 November, 1997.
- (12) Mr. M.I.F. Hamid, Director, Premises was appointed as Director, New Buildings with effect from 19 November, 1997.

Retirements/Resignations

- (1) Mr. G.A. Perera, Head of Department was retired from Central Bank service with effect from 14 March, 1997.
- (2) Dr. M.U.A. Tennakoon, Executive Director retired from Central Bank service with effect from 17 March, 1997.
- (3) Dr. L.L. Gunaratne, Head of Department retired from Central Bank service with effect from 1 July, 1997.

Officers on Release/Leave

- (1) Dr. D.J.G. Fernando to the Ministry of Finance and Planning as the Chairman and Director of People's Bank.
- (2) Dr. P.B. Jayasundera to the Ministry of Finance and Planning as Deputy Secretary to the Treasury.
- (3) Mr. C.De S. Jayawardena as Chairman and Director of RRDB/Ampara.
- (4) Mr. A. Abayaratna to the Ministry of Finance and Planning.
- (5) Dr. (Mrs.) Rancee Jayamaha on leave abroad for an assignment with the Commonwealth Secretariat, London.