

PART II

PART II

ACCOUNTS AND OPERATIONS OF THE CENTRAL BANK OF SRI LANKA

	<i>Page</i>
ACCOUNTS AND BANKING OPERATIONS	(I)
CURRENCY ISSUE	(VI)
BANKING DEVELOPMENT	(VII)
REGIONAL OFFICES	(VIII)
REGIONAL RURAL DEVELOPMENT BANKS AND REGIONAL DEVELOPMENT BANKS ...	(IX)
BANK SUPERVISION	(X)
SUPERVISION OF NON- BANK FINANCIAL INSTITUTIONS	(XII)
FINANCIAL MARKETS	(XIII)
DEVELOPMENT FINANCE	(XVI)
RURAL CREDIT	(XIX)
THE CENTRE FOR BANKING STUDIES	(XIX)
EMPLOYEES' PROVIDENT FUND	(XXV)
EXCHANGE CONTROL	(XXVI)
PUBLIC DEBT	(XXVII)
SECRETARIAT	(XXXII)
INFORMATION	(XXXIII)
RESEARCH ACTIVITIES	(XXXIII)
STATISTICS AND FIELD SURVEYS	(XXXIV)
INFORMATION TECHNOLOGY	(XXXVI)
TRAINING	(XXXVII)
MANAGEMENT AUDIT	(XXXVII)
PREMISES	(XXXVII)
NEW BUILDINGS	(XXXVII)
WELFARE	(XXXVIII)
SECURITY SERVICES	(XXXVIII)
PERSONNEL	(XXXIX)

ACCOUNTS AND BANKING OPERATIONS

Accounts

The total assets/liabilities of the Central Bank as at the end of 1998, stood at Rs.188,673 million registering an increase of 2.6 per cent over the previous year. As in the previous years, the total volume of international reserves has become the largest single asset category amounting to Rs.127,174 million and accounting for 67.4 per cent of the total assets as at the end of 1998, compared to Rs.118,965 million or 64.7 per cent of the total assets at the end of 1997. This was an increase of 6.9 per cent over the previous year. The main contributory factors for this increase were the receipt of privatisation proceeds on account of Air Lanka Ltd. (US dollars 45 million) and Orient Lanka (US dollars 11.5 million) and the sale of foreign exchange by the Development Finance Corporation of Ceylon (DFCC) and the government (US dollars 65 million and US dollars 100 million, respectively). The depreciation of the Sri Lanka rupee by 9.6 per cent during the year also contributed to the increase in assets in rupee terms. The domestic assets of the Central Bank also showed an increase of 6.1 per cent during the year, from Rs.38,134 million as at end of 1997 to Rs.40,465 million as at end of 1998, due to increases in the Treasury bills held by the Bank and the volume of loans and advances (mainly revolving credit facility) granted to the government. Meanwhile, medium and long term credit facilities granted to commercial banks and other credit institutions declined by 33.7 per cent mainly due to repayments and provisions on account of non-performing loans. Short term advances to commercial banks also declined by 34.5 per cent in 1998¹.

On the liabilities side, currency in circulation increased by 13.1 per cent from Rs.53,135 million to Rs.60,087 million. The deposits constituted the largest category of liabilities and accounted for 35.1 per cent of the total liabilities of the Bank during the year. Within this category, the deposits held by the government decreased by 52.0 per cent, while the deposits of commercial banks maintained with the Central Bank against their deposit liabilities, under statutory reserve requirement, increased by 7.2 per cent. The deposits of international organisations, foreign governments and foreign banking institutions declined by 6.4 per cent. A comparison of 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 1998 was Rs.17,897 million compared with Rs.19,498 million in 1997, while the total gross expenditure in 1998 was Rs.14,897 million compared with Rs.16,848 million during the previous year. Around 78 per cent of the income of the Bank was generated from investments of foreign reserves of

the Bank, while interest earned from domestic sources accounted for about 22 per cent. After making allowances for expenditure and allocations to reserves, provisions for depreciation and bad debts, etc., the balance net profit of the Bank amounting to Rs.3,000 million, was earmarked to be applied in liquidation of any outstanding government obligations to the Central Bank or be paid and credited 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 on the date of the Balance Sheet.

Investments

All investments are valued at cost.

Advances

Advances shown in the Balance Sheet are net of provisions made on the following basis against non-performing loans due from finance companies :

Loans overdue	Percentage of the outstanding amount
a. 6 - 12 months	20
b. 12 - 18 months	50
c. over 18 months	100

Fixed Assets

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

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

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.

¹ The Balance Sheet of the Central Bank as at 31 December, 1998 together with the Profit and Loss Account of the Bank for the year ended 31 December 1998 is presented in Table II-1.

CENTRAL BANK **BALANCE SHEET AS AT**

31 December, 1997		LIABILITIES	31 December, 1998	
15,000,000	1,000,000,000	Capital Accounts	15,000,000	1,000,000,000
985,000,000		Capital	985,000,000	
		Surplus		
		Currency in Circulation		
51,071,578,291	53,134,723,880	Notes	57,770,936,107	60,086,819,199
2,063,145,589		Coins	2,315,883,092	
		Deposits		
6,475,579,334		Government	3,108,459,238	
63,721,050		Government Agencies and Institutions	31,180,173	
30,537,080,462		Commercial Banks	32,747,901,779	
		International Organisations, Foreign Government and Foreign Banking Institutions	29,678,306,986	
31,708,112,019		Compulsory Savings Fund excluding Rs. 55,625,200/= invested in Treasury Bills	1,836,362	
767,052		Others	601,826,176	
787,446,444	69,572,706,361			66,169,510,714
	4,925,000,000	Medium and Long Term Credit Fund		4,925,000,000
	560,125,000	Capital Contribution Account		560,112,500
	10,000,000	Central Bank Securities		0
	54,692,899,756	Other Liabilities and Accounts		55,931,648,947
	183,895,454,997			188,673,091,360

PROFIT AND LOSS ACCOUNT FOR THE

1997		1998
16,848,361,963	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.	14,897,153,928
	Net Profit for the Year	
2,650,000,000	To be paid and credited to the consolidated fund in terms of Section 39(c) of the Monetary Law Act.	3,000,000,000
19,498,361,963		17,897,153,928

Note of the Auditor-General

The accounts of the Central Bank of Sri Lanka for the year ended 31st December, 1998, 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.

15 April 1999.

S. M. Sabry
Auditor-General

Table II-1

OF SRI LANKA

31ST DECEMBER, 1998.

Rs.

31 December, 1997		ASSETS	31 December, 1998	
51,879,914,247	118,965,129,821	International Reserve	59,381,277,514	127,174,001,278
67,060,376,347 *		Cash and Balances Abroad	67,716,713,296 *	
24,839,227		Foreign Securities and Treasury Bills	76,010,468	
	38,134,102,033 26,796,223,143	Holdings of Special Drawing Rights		40,465,083,355 21,034,006,727
		Domestic Assets		
28,660,199,947		Loans and Advances to Government	30,545,099,947	
1,656,483,253		Others - Medium and Long Term	1,098,294,677 **	
35,429,989		Short Term	23,200,000	
7,221,863,844		Government and Government Guaranteed Securities	8,238,376,231	
560,125,000		Contributions to Financial and Other Institutions	560,112,500	
		Other Assets and Accounts		
		* 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).		
		** The amount outstanding is net of Rs. 1,923,409,224/= being provisions for loan losses.		
	183,895,454,997			188,673,091,360

YEAR ENDED 31ST DECEMBER, 1998

Rs.

1997		1998
19,498,361,963	By Interest, etc. earned	17,897,153,928
19,498,361,963		17,897,153,928

A. S. Jayawardena
GovernorM. 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 1997 Rs. Mn.	%	At end 1998 Rs. Mn.	%	I T E M	At end 1997 Rs. Mn.	%	At end 1998 Rs. Mn.	%
Capital and Surplus	1,000	0.5	1,000	0.5	International Reserve	118,965	64.7	127,174	67.4
Currency in Circulation	53,135	28.9	60,087	31.9	Domestic Assets	38,134	20.7	40,465	21.4
Deposits	69,572	37.8	66,169	35.1	Other Assets	26,796	14.6	21,034	11.2
Medium & Long Term Credit Fund	4,925	2.7	4,925	2.6	Liability of Constituents for Guarantees Issued	13,050	7.1	3,502	1.9
Capital Contribution Account	560	0.3	560	0.3	Foreign Currency Deposit A/cs of Commercial Banks	2,471	1.3	3,993	2.1
Central Bank Securities	10	—	0	—	Adjusting Account (Amounts Receivable)	2,027	1.1	2,137	1.1
Other Liabilities	54,693	29.8	55,932	29.6	Cash Items in process of collection	660	0.4	—	—
Guarantees issued on account of Constituents	13,050	7.1	3,502	1.8	Other	8,588	4.7	11,402	6.1
Control Accounts Reserve	18,553	10.1	22,559	12.0					
Allocation of Special Drawing Rights	5,680	3.1	6,051	3.2					
International Reserve Revaluation Account	723	0.4	7,262	3.8					
Profit & Loss Account	6,171	3.3	5,102	2.7					
Asian Clearing Union Account	6,543	3.6	6,247	3.3					
Other	3,973	2.2	5,209	2.8					
Total	183,895	100.0	188,673	100.0		183,895	100.0	188,673	100.0

Source : Central Bank of Sri Lanka

Stocks

The total cost incurred during the year on stationery and engineering stores has been charged to Profit and Loss Account and no adjustments have been made in respect of closing stocks.

Income Recognition

Interest and other income are recognized in the books on accrual basis, except in the case of interest on non-performing loans which is recognized 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:

- provisions for non-performing loans,
- provision for depreciation of fixed assets, and
- other necessary provisions and allocations to reserves in terms of Section 38 of the Monetary Law Act.

Banking Operations

Foreign Exchange Operations

Investment of Foreign Reserves

The Central Bank of Sri Lanka continued to engage in foreign exchange operations with commercial banks by way of spot purchases and sales of US dollars against Sri Lanka rupees.

The total rupee value of foreign currency purchased by the Central Bank from commercial banks in Sri Lanka amounted

to Rs.3,845 million and foreign currency sales to commercial banks amounted to Rs.13,695 million in 1998 (Table II-3). This compares with purchases of Rs.8,118 million and sales of Rs.9,163 million in 1997.

The Central Bank also continued to invest its foreign exchange reserves in international money and capital markets. The foreign exchange reserves were invested in fixed income assets in the capital markets denominated in six major currencies, and in short-term money markets in nine currencies including SDR and in gold.

By the end of 1998, about 53.2 per cent of the reserves were in capital markets, 42.3 per cent in money markets and

TABLE II-3
**Foreign Exchange Transactions with
Commercial Banks -1998**

Month	Spot Purchases		Spot Sales	
	in '000			
	USD	Rs.	USD	Rs.
January	-	-	75,380	4,635,083
February	75	4,625	14,225	877,256
March	31,000	1,930,830	-	-
April	23,000	1,448,373	-	-
May	-	-	49,185	3,148,664
June	-	-	12,650	819,151
July	-	-	14,475	940,535
August	-	-	5,400	355,682
September	-	-	-	-
October	7,000	462,994	-	-
November	-	-	29,590	1,982,199
December	-	-	13,875	936,854
Total	61,075	3,846,822	214,780	13,695,424

Source : Central Bank of Sri Lanka

the balance in gold and SDR.

Open Market Operations

Secondary Treasury Bill Market

The sale (discounting) of Treasury bills in the secondary window of the Central Bank amounted to Rs.11,934 million in 1998 compared with Rs.19,442 million in the preceding year. The increased investments under overnight repurchase agreements with the Bank, which accounted for Rs.728, 757 million was the main reason for the drop in discounting. The purchases (re-discounting) of Treasury bills also decreased significantly from Rs.17, 337 million in 1997 to Rs.14, 969 million in 1998 due to the high level of rupee liquidity available during the year.

The Central Bank's secondary market yield rates moved in line with the trends witnessed in the primary Treasury bills market yield rates during 1998. The yield rates on 3-month Treasury bills in the secondary window of the Central Bank increased from 9.72 per cent at the beginning of the year to 11.86 per cent at the end of the year. Similarly, the rates on 6 month and 12 month Treasury bills increased from 9.70 and 9.99 percent to 12.19 and 12.39 respectively, during the year.

Secondary Market for Treasury Bonds

The Central Bank made the Treasury bonds eligible for Repurchase Agreements (Repos) and outright buying and selling at its secondary window with effect from 21 May 1998. However, there were no outright purchases and sales of Treasury bonds at the secondary window of the Bank during the year under review.

Repurchase Market

The sale of Treasury bills under Repurchase Agreements (Repos) which was introduced by the Central Bank in October, 1993 continued to be in operation during 1998. The repurchase rate is determined daily by the Central Bank taking into consideration factors such as primary and secondary Treasury bills market rates, call market rates and rupee liquidity, general economic conditions and monetary policy considerations.

The overnight repo rate which was 11 percent at the beginning of the year was gradually increased to reach 12.25 per cent by the beginning of June to discourage speculative purchases of foreign exchange. However, the Repo rate was gradually reduced to 11.25 per cent towards the end of the year following a greater stability in the exchange market, a continued decline in the rate of inflation and a drop in the international interest rates.

The total volume of Treasury bills sold under Repurchase Agreements during the year showed a sharp increase of 62 per cent from Rs.449,589 million in 1997 to Rs.728,757 million during 1998. This was mainly due to increased purchases made by commercial banks resulting from a relatively higher level of excess rupee liquidity

created in the market particularly during the last quarter of the year. The increase in the level of liquidity was partly due to the Central Bank's net purchases of foreign exchange which amounted to approximately US dollars 165 million.

Reverse Repurchase Agreements

The reverse repurchase (Reverse Repo) facility was re-activated by the Central Bank in November, 1998 as a part of its open market operations, to stabilize the short term interest rates at a desirable level by injecting funds at times of tight liquidity in the market. Treasury bills and Treasury bonds are accepted as eligible instruments for Reverse Repo transactions with the Bank.

Under this facility, the Central Bank purchases Treasury bills and Treasury bonds from commercial banks and non-bank primary dealers at a price determined by the Bank, with an agreement to sell back the same at an agreed upon sell back price and date. Initially, under the Reverse Repo facility only overnight funds were to be provided while no maximum limit was imposed on the amount to be transacted.

With the introduction of this facility and the existing Repo facility, the call money rates recorded a greater degree of stability.

In December 1998, the Central Bank carried out reverse repo transactions in Treasury bonds on two occasions and released overnight funds amounting to Rs.1,065 million to the market at 15.45 per cent.

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 and Regional Rural Development Banks (RRDB) which provided the roll over facility to farmer borrowers prior to the termination of the New Comprehensive Rural Credit Scheme (NCRCS) with effect from April, 1994, were granted a refinance facility only on the roll-over amount. The outstanding amount under this facility as at the end of 1998 amounted to Rs. 23.2 million as compared with Rs. 35.4 million at the end of 1997.

Medium and Long Term Credit

The Medium and Long Term Credit Fund (MLCF) remained unchanged at Rs. 4,925 million during 1998. The amount repaid during the year amounted to Rs. 181.8 million while there were no loan disbursements.

Accommodation to Finance Companies

During 1998, no disbursements were made under the Finance Companies Act No. 78 of 1988. The total amount outstanding under the facility before provisions for bad debts was Rs. 2,583.9 million at the end of 1998.

Reserve Requirements

The Statutory Reserve Requirement (SRR) against deposit liabilities of commercial banks remained unchanged during the year 1998. The SRR on commercial banks' rupee deposits continued to remain at 12 per cent. The commercial banks' foreign currency deposits invested outside Sri Lanka were not subject to the SRR while all other deposits of commercial banks denominated in foreign currencies were subject to the SRR at 12 per cent throughout the year.

Foreign Currency Loan Facility to Non-BOI Exporters

The scheme introduced in January 1997 to provide foreign currency loans to non-BOI exporters continued to operate during 1998. Under this scheme, commercial banks have been authorized to grant credit facilities in foreign currency through their Domestic Banking Units (DBUs) as well as their Foreign Currency Banking Units (FCBUs). At the commencement of the scheme, commercial 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. During 1998, this amount was enhanced to US dollars 104 million.

The total loans granted during the year 1998 through DBUs and FCBUs under the scheme amounted to US dollars 177 million compared with US dollars 253 million granted in 1997, which is a drop of 30 per cent. Lending through DBUs dropped from US dollars 244 million in 1997 to US dollars 166 million in 1998, while loans granted through FCBUs marginally increased from US dollars 8.8 million in 1997 to US dollars 11.5 million in 1998. At the end of 1998, the outstanding amount of loans granted under the scheme was US dollars 44 million. During the year 1998, loans were provided at an interest rate of 6.2 per cent to 10.5 per cent with a maturity period of approximately one year. Details are given in Table II-4.

Subsidy and Ex-gratia Payments to Indian Repatriates

Total subsidy payments made on behalf of the government to repatriated estate workers of Indian origin covered under the Indo-Ceylon Agreement of 1964, amounted to Rs.148,231 in 1998 compared to Rs.48,191 in 1997. Ex-gratia payments amounted to Rs.15,675 in 1998 compared to Rs.2,475 in 1997.

Import Duty Rebate to Exporters

On behalf of the government, the Bank reimbursed a total sum of Rs. 768 million to commercial banks in 1998 in respect of import duty rebates paid to exporters, compared with Rs. 1,028 million in 1997.

Asian Clearing Union

The total rupee value of the transactions routed through the Asian Clearing Union (ACU) in 1998 amounted to Rs.44,240 million compared with Rs.37,236 million during the previous year. The rupee value of the net settlements made in foreign currency in 1998 amounted to Rs.34,257 million, compared with Rs.26,879 million in 1997. 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. As at 31 December 1998, there was a balance of Rs.55.6 million in the fund maintained with the Bank.

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 159 at the end of 1998 compared to 165 in 1997. While seven accounts of government departments and agencies were closed, a new government account was opened during the year 1998.

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 government.

CURRENCY ISSUE

The Central Bank of Sri Lanka as the sole currency issuing authority continued to perform the function of issuing legal tender currency for the use of domestic transactions during the year 1998. The volume of currency in circulation as at end of

TABLE II-4
Foreign Currency Loans Granted to Non-BOI Exporters

Foreign Currency Loans Granted to Non-BOI Exporters										US dollars Mn.
Period	Lending below One Year		Lending above One Year		Total		Grand Total	Average Interest Rate Range (%)		Total amount Outstanding as at year- end
	DBUs	FCBUs	DBUs	FCBUs	DBUs	FCBUs		Min.	Max.	
1997	241.61	8.70	2.83	0.10	244.44	8.80	253.25	6.50	10.50	70.66
1998	163.18	11.43	2.70	0.03	165.88	11.46	177.34	6.20	10.50	44.10

1998 stood at Rs.60,086.8 million as against Rs.53,134.7 million at the end of 1997.

During the year, the Central Bank issued its first commemorative note to mark the 50th Anniversary of Sri Lanka regaining Independence. The note in the denomination of Rupees Two Hundred has been printed on polymer, depicting pictorial themes relevant to the history and socio economic development of Sri Lanka. An attractive commemorative note folder and an acrylic block were issued for numismatists. The Bank also issued three commemorative coins to celebrate the occasion, viz. a gold proof coin in the denomination of Rs.5,000, a silver proof coin in the denomination of Rs.1,000 and a circulation standard Rs.10 bimetal coin.

Sections 52 and 55 of the Monetary Law Act were amended by Monetary Law (Amendment) Act No.6 of 1998 providing for the issue of commemorative coins and notes at prices above the legal tender value.

The currency operational sections which were shifted in December 1997 continued operations at the Secretariat Building, Colombo 1, during the year 1998. The cash exchange counters continued to operate at the Moors' Islamic Cultural Home (MICH) Building, Bristol Street, Colombo 1.

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 the 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 also attended to the work with regard to the establishment of Regional Development Banks.

A significant development in the year 1998 was the establishment of specialised banks at the regional level in terms of the provisions of the Regional Development Banks Act No. 6 of 1997. Six Regional Development Banks (RDBs) viz the Ruhuna Development Bank, the Kandurata Development Bank, the Rajarata Development Bank, the Sabaragamuwa Development Bank, the Wayamba Development Bank and the

TABLE II-5
Composition of Banking Institutions and Distribution of Bank Branches

Category	1993	1994	1995	1996	1997	1998(a)
1. No. of Institutions	44	44	47	48	49	44
1.1 Commercial Banks	23	23	26	27	26	26
1.1.1 Domestic Commercial Banks	6	6	8	8	8	8
1.1.2 Foreign Banks	17	17	18	19	18	18
1.2 RRDBs (b)	17	17	17	17	17	9
1.3 Specialised Banks (c)	4	4	4	4	6	9
1.3.1 Savings Banks	1	1	1	1	1	1
1.3.2 Development Banks	3	3	3	3	5	5
1.3.3 Regional Development Banks (d)	-	-	-	-	-	3
2. No. of Bank Branches (e)	1,108	1,156	1,209	1,339	1,461	1,528
2.1 Commercial Bank Branches	854	890	936	1,058	1,169	1,221
2.1.1 Branches of Domestic Banks	820	853	897	1,019	1,127	1,177
(i) Main Branches	734	761	795	826	857	889
(ii) ASC Branches	29	28	19	17	14	12
(iii) Kachcheri Branches	24	23	23	23	23	23
(iv) Extension / Pay Offices	27	32	41	47	56	58
(v) Pawning Centres & Savings Centres	4	7	15	101	172	190
(vi) Overseas Branches (f)	2	2	4	4	4	4
(vii) Overseas Extension Offices	-	-	-	1	1	1
2.1.2 Foreign Bank Branches	34	37	39	39	42	44
(i) Main Branches	33	36	37	37	38	40
(ii) Extension Offices	1	1	2	2	4	4
2.2 RRDB Branches	163	169	171	175	176	96
2.3 No. of Specialised Bank Branches	91	97	102	106	116	209
2.3.1 Savings Bank Branches	85	90	95	97	99	100
2.3.2 Development Bank Branches	6	7	7	9	17	29
2.3.3 Regional Development Bank Branches	-	-	-	-	-	80

Source: Central Bank of Sri Lanka

(a) Provisional

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

(c) Banks requiring a license as Specialised Banks in terms of the Banking Act No.30 of 1988 as amended by the Banking (Amendment) Act No.33 of 1995.

(d) Regional Development Banks established under the Regional Development Bank Act No 6 of 1997.

(e) Excluding Co-operative Rural Banks.

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

Uva Development Bank were incorporated during the year. Of these, the Ruhuna, the Kandurata and the Rajarata Development Banks commenced operations during the year, while the Sabaragamuwa, the Wayamba and the Uva Regional Development Banks were scheduled to commence operations in early 1999. During 1998, licences (as specialised banks) were also issued to the DFCC Bank, the National Savings Bank, the State Mortgage and Investment Bank and the National Development Bank of Sri Lanka as required in terms of Section 76A(3) of the Banking Act.

Some particulars relating to commercial banks, specialised banks and RRDBs at end 1998 are given in Table II-5. The number of domestic and foreign commercial banks remained at the same level as in the previous year. With the commencement of business of the Ruhuna, the Kandurata and the Rajarata Development Banks, the number of specialised banks increased from 6 to 9 in 1998. Since the business of 8 Regional Rural Development Banks (RRDBs) was vested in the three Regional Development Banks which commenced business, the total number of RRDBs declined from 17 to 9 during the year. With these changes, the number of banking institutions dropped by 5 to 44 during the year.

Branch Expansion

During 1998, approvals were granted for the opening of 39 branches of commercial banks. The number of new commercial bank branches that were opened during the year by both domestic and foreign commercial banks was 32, of which domestic commercial banks opened 30 branches and foreign commercial banks opened 2 branches. In addition, 3 extension offices and 18 pawning centres were also opened and one extension office was closed by the commercial banks during the year. Approvals were also granted for the specialised banks to open 19 branches. The number of branches opened by the specialised banks was 13. The branch network inclusive of extension offices, pawning centres etc. of the commercial banks, RRDBs and specialised banks expanded by 65 to 1,526 branches at the end of 1998.

The commercial banks and specialised banks changed the location of some of their branches due to the inadequacy of space, the need for technological improvements in the branches and the need for better customer convenience. During the year, approvals were granted to change the location of 69 branches of commercial banks and one branch of a specialised bank.

REGIONAL OFFICES

During the year 1998, the three Regional Offices of the Central Bank at Matara, Anuradhapura and Matale continued to carry out their development activities in addition to carrying out the traditional central banking functions assigned to them. The main activities of the Regional Offices included currency operations (at Matara and Anuradhapura), cheque clearing activities, socio economic data collection, conducting beneficiary training programmes, conducting research and

carrying out surveys, inspection of the activities of the RRDBs, conducting educational seminars, sale of Central Bank publications and co-ordination with government departments, agencies and organisations involved in development work in the respective regions. The Regional Offices played an important role during 1998 in assisting with the establishment and commencement of operations of Regional Development Banks. Regional Managers were appointed to represent the Central Bank on the Boards of Directors of the Ruhuna Development Bank, the Kandurata Development Bank and the Rajarata Development Bank which commenced operations in July, October and November, respectively.

Matara

The Matara Regional Office continued to handle the activities relating to the implementation of the Small Holder Tea Development Project (SHTDP), Perennial Crops Development Project (PCDP), Surathura Diriya Credit Scheme, the Small Farmers and Landless Credit Project, Kirindi Oya Development Project Credit Scheme and the Arunalu Credit Scheme. The Regional Office assisted in the recovery of loans granted under the SHTDP which was concluded at the end of the previous year after the project funds were fully utilized. Workshops were conducted for officers of the SHTDP and commercial banks in two districts for this purpose with the assistance of the Rural Credit Department. Under the Southern Province Rural Development Project Credit Scheme, the Regional Office carried out field investigations to recommend large loans. This resulted in the recommendation of loans amounting to Rs. 68 million in respect of 208 applications. Five workshops were conducted for the staff of the Ruhuna Development Bank on the implementation of this project. The Regional Office was associated with government departments, other agencies and the commercial banks in the region in educational, development and research activities. Educational seminars were conducted for around 700 students in the district of Galle by the Regional Office. The Regional Office also carried out the islandwide data collection programme of the Central Bank in the region and the inspection of RRDB branches. The Regional Office rendered considerable assistance towards the establishment of the Ruhuna Development Bank and its operations. The Currency Unit of the Regional Office continued to provide currency exchange facilities to the public as well as deposit and withdrawal facilities to commercial banks in the region. During 1998, 222,468 cheques amounting to Rs. 3,903 million were cleared at the Regional Cheque Clearing House at Matara.

Anuradhapura

The Anuradhapura Regional Office conducted 24 training programmes during the year. These programmes were conducted with the assistance and/or in association with government departments and agencies involved in development activities. The programmes were in the fields of self employment, entrepreneurship development, marketing,

livestock, agriculture and managerial development. A workshop was also conducted for unemployed graduates. Altogether, 1,023 persons participated in these programmes. Additionally, 5 educational seminars were organised by the Regional Office for GCE Advanced Level students in Anuradhapura, Polonnaruwa, Kurunegala and Medirigiriya and 1,500 students participated in these seminars. The Regional Office also continued to monitor two special projects, namely the North Central Province Participatory Rural Development Project (NCP-PRDP) and the North Central Province Rural Development Project (NCP-RDP). Under the NCP-PRDP, the Regional Office carried out an inspection of loans disbursed to low income families. The Regional Office conducted a survey of the progress made by 200 farmer families in the Anuradhapura district who had received finance for wells (with pumps) under the village adoption and self employment refinance credit scheme. This was conducted with the assistance of students of the Rajarata University. Another survey was conducted by these students under the guidance of the Regional Office to study the progress of the "Surathura" loan beneficiaries in the districts of Anuradhapura and Polonnaruwa. A special survey was conducted by the Regional Office on the marketing problems encountered by farmers with a view to studying the establishment of a wholesale trading centre in Anuradhapura. The Regional Office also continued to collect data on prices under the islandwide data collection scheme and to sell Central Bank publications. The Regional Office continued to inspect the branches of RRDBs. The Regional Office also accepted deposits and issued currency to commercial banks and provided currency exchange facilities to the public. The Regional Clearing House cleared 229,931 cheques valued at Rs. 2,332 million during the year.

Matale

During the year, the Matale Regional Office conducted 17 seminars, training programmes, workshops and exhibitions in which 10,495 persons participated. Among these programmes, a special training programme on finance leasing was conducted for the managers of the RRDBs of Kandy, Matale, Kegalle and Nuwara Eliya. Another programme on investing in the share market was attended by more than 100 investors and businessmen. The Regional Office established a mobile sales unit to sell Central Bank publications in response to numerous requests received from the Education Department, universities and schools. 21 schools were visited for this purpose. The Regional Office also organized two exhibitions and sales of Central Bank publications as well as notes and coins. The Regional Office also continued the identification of micro enterprises in the area and obtained finance for several viable projects from commercial banks. The Regional Office organized an association of plant and foliage nursery holders in the Central Province. The association was assisted by the Regional Office in holding 4 exhibitions and sales. The Regional Office also initiated the establishment of a bankers'

association in Matale. The Regional Office conducted surveys of farm machinery and the use of three wheel vehicles. The Regional Office also conducted a study of marketing of agricultural products and had discussions with government authorities on developing the Dambulla market. The Regional Office continued to collect and update socio economic data relating to the districts of Kandy, Nuwara Eliya, Kegalle and Matale. The data collected is used by government departments, local government authorities, universities, research students and others. The Regional Office continued to collect price data for the islandwide data collection scheme. Further, the Regional Office carried out the inspection of RRDBs in the region and assisted in the establishment of the Kandurata Development Bank. The two regional clearing houses at Matale and Kandy cleared 135,645 cheques valued at Rs. 2,506 million and 763,814 cheques amounting to Rs. 23,845 million, respectively. The Sampath Bank, Kandy branch and the Hatton National Bank, Katugastota branch were accommodated by the Kandy Clearing House during the year 1998.

REGIONAL RURAL DEVELOPMENT BANKS AND REGIONAL DEVELOPMENT BANKS

The year 1998 marked a departure from the developments during the last 13 years in respect of Regional Rural Development Banks (RRDBs). The Regional Development Banks Act was enacted in 1997 for the establishment of Regional Development Banks (RDBs) in specified regions by vesting in each RDB the business of RRDBs operating in the region.

Six RDBs were incorporated during the course of the year 1998. The manner in which the businesses of the 17 RRDBs in operation are to be vested in the RDBs and the share capital of each RDB are set out in the Table II-6.

The authorised capital of each RDB is Rs. 500 million divided into shares of Rs. 10. The capital of the established RDBs has been initially contributed by the Central Bank of Sri Lanka, the Bank of Ceylon, the People's Bank, the National Savings Bank and the Employees' Provident Fund. The initial issued capital of each bank has been determined having regard to the net asset value of the RRDBs in the region. The issued capital of each of these RDBs has been fixed at Rs. 100 million or Rs. 150 million (Table II - 6).

Of the six Regional Development Banks which were incorporated during the year, three RDBs, namely, the Ruhuna Development Bank, the Kandurata Development Bank and the Rajarata Development Bank commenced operations in 1998. The Head Offices of these banks were situated in Matara, Kandy and Anuradhapura, respectively. The Sabaragamuwa, Wayamba and Uva Development Banks were scheduled to commence operations in early 1999.

Licences to operate as specialised banks have been issued to the RDBs which commenced operations in 1998, as well as to the Wayamba and Sabaragamuwa Development Banks.

Hence, these Banks have been brought within the ambit of supervision and regulation by the Central Bank.

The RDBs have commenced mobilising deposits from within the region as well as from outside the region and lending to viable development projects within the region, 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 other local authorities.

TABLE II - 6

R.R.D.B.	R.D.B.	Total Share Capital (Rs. Mn.)
Mahanuwara Matale Nuwara Eliya	Kandurata	150
Anuradhapura Polonnaruwa	Rajarata	100
Kurunegala Puttalam Gampaha	Wayamba	150
Kegalle Ratnapura Kalutara	Sabaragamuwa	150
Galle Hambantota Matara	Ruhuna	150
Badulla Moneragala Ampara	Uva	100

The RDBs perform the functions specified in Schedule IV of the Banking Act, subject to such functions being authorized by the Regional Development Banks Act. They are also permitted to carry on such other business activities that are authorized by the Regional Development Banks Act.

The RRDBs and RDBs had mobilized deposits totalling Rs. 3,057 million at the end of 1998, an increase of 17 per cent above the level of deposits of all RRDBs at the end of 1997. The total number of accounts relating to these deposits numbered over one million. During the year 1998, RRDBs and RDBs had disbursed loans and advances estimated at Rs. 2,185 million in respect of borrowers numbering over 360,000. The value of loans and advances disbursed during the year recorded a decline of 16 per cent when compared with the previous year. This was due to the restructuring of most of the RRDBs during the course of the year, the greater degree of financial discipline exercised as well as the weak financial position of a few RRDBs.

BANK SUPERVISION

The Bank Supervision Department (BSD) is responsible for the regulatory and supervisory functions of the Central Bank which are executed 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). The basic objective of supervision is to ensure the safety and soundness of the banking system in Sri Lanka and thereby safeguard the interests of depositors.

Scope of Examination

Hitherto, the nature and scope of on-site examinations was primarily confined to an appraisal of the quality of the assets of the bank to arrive at an overall assessment of the financial condition of the bank, which includes such key aspects as capital adequacy, earnings, liquidity, management quality, internal controls and systems and procedures. The banks' compliance with statutory requirements, applicable laws and regulations, were also carefully examined.

World-wide attention has now turned to the need to implement the Core Principles for Effective Banking Supervision issued by the Basle Committee in September 1997. The events in East Asia have served to underline the relevance of the Core Principles in modern financial markets. Accordingly, a risk based supervisory approach has been adopted in keeping with the internationally accepted practice of banking supervision. The risk based supervision focuses on risks that are associated with banking operations such as capital risk, liquidity risk, credit risk and operational risk. This focus on identification of risks enables remedial action to be taken to mitigate the risks. Action is being taken to develop further the risk based supervisory approach under the on-going project to upgrade the supervisory capabilities of the department which is funded by the Swedish Government.

In addition to risk based supervision, increased emphasis is now being placed on good internal governance, effective internal audit control procedures and more disclosure requirements.

Supervision of LCBs and LSBs

During the year under review the Department commenced 12 on-site examinations in respect of 6 LCBs, 3 RRDBs and 3 LSBs and concluded the examination of the three RRDBs. In addition, on-site examinations of 6 LCBs which commenced in the previous year were concluded in 1998. Spot examinations of one RRDB and 2 LSBs were also conducted by the Department. In addition, the Department conducted special investigations relating to due diligence exercises, violations of Exchange Control regulations, and imprudent lending.

Under the off-site surveillance system, the Department continued to monitor the financial conditions of the LCBs and RRDBs. In 1998 the Department also undertook the monitoring of LSBs on the basis of returns submitted to the Department. The returns that are to be submitted by these banks include monthly statements of assets and liabilities and liquid assets and quarterly statements of capital adequacy, income and expenses and non-performing advances, while the audited financial accounts are submitted annually. The information given in the

returns is reviewed to ascertain the quality of assets, profitability and financial strength of each bank in relation to its own peer group and the industry. The scrutiny of returns also helps to identify 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 upgrading of the off-site surveillance system through the Diskette Submission System implemented under an USAID technical assistance programme has been completed with the installation of the Electronic Reporting System in all the 26 LCBs and the development of an in-house Report Generating System. It is proposed to expand this reporting system to LSBs and Regional Development Banks (RDBs) as well.

The Department is also engaged in the monitoring of Foreign Currency Banking Units of Commercial Banks which is undertaken on the basis of periodic statements relating to assets and liabilities, income and expenses and the maturity profile of assets and liabilities submitted to the Department.

The number of Licensed Specialised Banks that came under the regulatory authority of the Central Bank in terms of Part IX A of the Banking Amendment Act No. 33 of 1995 increased with the establishment of 3 Development Banks under the provisions of the Regional Development Banks Act No. 6 of 1997 namely, Ruhuna Development Bank, Kandurata Development Bank and Rajarata Development Bank. The operations of the Matara, Galle and Hambantota RRDBs were vested in the Ruhuna Development Bank. The operations of the Nuwara Eliya, Kandy and Matale RRDBs were vested in the Kandurata Development Bank, while the operations of the RRDBs of Anuradhapura and Polonnaruwa were vested in the Rajarata Development Bank. With a view to monitoring and supervising the operations of LSBs, the Department, during the year under review, issued the following Reporting Formats to the LSBs:

- i. Monthly statement of assets and liabilities
- ii. Monthly statement of liquid assets
- iii. Quarterly statement of non-performing advances
- iv. Quarterly statement of share ownership in the bank
- v. Quarterly statement of accommodation granted to a director or a close relation
- vi. Quarterly statement of accommodation granted to concerns where the director has a substantial interest
- vii. Quarterly statement of investment in equity
- viii. Quarterly statement of income/expenditure and distribution of profits
- ix. Quarterly statement of large accommodation granted

While issuing to LSBs the above monthly and quarterly returns, the coverage of returns of LCBs was also further expanded with the inclusion of the following returns:

- i. Monthly statement of post-dated cheques purchased/taken as security and cheques returned
- ii. Quarterly statement of classified advances

Regulatory Requirements

During the year under review, the Department continued to monitor compliance with the regulatory requirements under the provisions of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995. These included the implementation of the directions on minimum Capital Adequacy Ratio in relation to risk weighted assets, minimum Liquid Assets Ratio, the adherence to the Single Borrower Limit, directions on non-performing advances and the adequacy of provisions for bad and doubtful debts, restrictions on accommodation to directors/their close relations and their interests and submission of annual audited financial statements within the statutory period. During the year under review, three LCBs failed to maintain the capital adequacy standards enforced by the Central Bank which are based on the Basle Capital Accord of the Banking Regulations and Supervisory Practices Committee. Of these, two banks have taken corrective action to meet the required capital adequacy ratio of 8 per cent while the other LCB failed to reach the minimum standard specified. Proposals submitted by the Bank to restore its capital adequacy ratio are being examined. The minimum level of liquid assets of 20 per cent stipulated in terms of the Banking Act was maintained by all the LCBs and LSBs and ranged between 20 per cent (minimum) and 42 per cent of total liabilities. However a few RRDBs that failed to reach the minimum liquidity level stipulated, were subjected to the payment of a penalty in terms of the Banking Act.

Consequent to the Amendment to the Banking Act permitting banks to undertake pawn broking business, the Department issued rules and regulations governing the conduct of pawn broking activities of LCBs including the 2 State Banks and the RRDBs.

Disclosure Requirements

The Core Principles for Effective Banking Supervision recognise that sound accounts and transparent financial information are fundamental pillars of strong banking and indeed of a financial system. The Department has taken steps to introduce a disclosure regime which would improve the market's ability to make informed decisions as a means of promoting a sound banking system. Accordingly, a revised prescribed format has been introduced incorporating Sri Lanka Accounting Standards No. 23 under Section 38(1) of Part V of the Banking Act. In terms of the revised prescribed format, banks would be required to disclose, inter alia, the following:

- i. an analysis of assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.
- ii. significant concentrations of assets, liabilities, off balance sheet items and other risks in terms of customer or industry groups

- iii. the amount of significant net currency exposures
- iv. accounting policy based on which uncollectable loans, advances and finance leases are recognised as an expense or written off, details of the movements in the provision for losses on loans, advances and finance leases during the period and the aggregate amount of provision for such losses
- v. information on the bank's risk profile, its profitability and the capital available to support it
- vi. the aggregate amount of secured liabilities and the nature and the amount of the assets pledged as security
- vii. trust activities
- viii. exposure to all related parties and connected concerns in whatever manner related

In addition, the BSD has compiled a Panel of Auditors in terms of Section 38A of the Banking Act. On the basis of approved criteria, ten audit firms, some with affiliations to international audit firms, have been selected. Banks are required to select their auditors from this panel. Further, in terms of Section 39 of the Banking Act, operational guidelines have been issued to external auditors in order to assist them to address various issues connected with such audits which are supplementary to the Sri Lanka Accounting Standards No. 23 and 30 and other relevant standards pertaining to such audits.

The Department has further strengthened the disclosure requirements by requiring the LCBs to publish in daily newspapers, half yearly financial accounts and audited annual accounts.

Y2K Issue

The Central Bank has set up a Task Force in 1998 to raise awareness of the issue relating to the century date change, to promote appropriate action within the banking industry and to monitor Y2K compliance by the banking sector. The monitoring is jointly conducted by officers released from the BSD and the Department of Information Technology. During the year under review, the BSD was actively involved in assessing the adequacy of the preparations the banks are taking to be Y2K compliant.

Directions Issued in 1998

The Department issued a new direction relating to share capital ownership in a LCB under Section 46(1)(d) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995 during the year under review. This direction while retaining the existing maximum shareholding limit of 15 percent of the issued share capital in a LCB in the name of any company, incorporated body or an individual as per Section 46 (1)(d)(i) of the Banking Act, revised the aggregate maximum shareholding limit by a company and one or more of its subsidiaries, its holding company, a subsidiary of its holding company in terms of Section 46 (1)(d)(ii)(a), to 20 percent of the issued share capital of a LCB.

It also revised the aggregate maximum shareholding limit by an individual and one or more of his close relations and a company in which such individual or close relations has a substantial interest, to 20 percent of the issued share capital of a LCB in terms of Section 46(1)(d)(ii)(b) of the Banking Act.

In addition, this direction allowed a promoter, whose integrity and financial standing in the business community is beyond doubt and who in the opinion of the Monetary Board is predominantly responsible in promoting the establishment of a company as a bank, to hold as a company, incorporated body, or an individual in the aggregate, a maximum share ownership not exceeding 25 percent of the issued share capital of the Bank.

The Department also issued a new direction to all LSBs in respect of time and savings deposits under Section 76 J(1) of the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995. This direction restricts the payment of interest on savings accounts, where withdrawals exceed four per month, and 7 days call deposits which are prematurely withdrawn. These restrictions are comparable with those imposed on Licensed Commercial Banks.

The Department was also engaged in revising directions in respect of the Single Borrower Limit (SBL) of LCBs during the year under review.

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 the amount collected to the fund by way of premia in 1998 was Rs. 1.64 million. The total of the Deposit Insurance Fund stood at Rs. 79.58 million as at 31 December 1998, which included Rs. 50 Mn. 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 registered 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 1997 and 31 March 1998 is given in Table II-7. Total assets of registered FCs have increased by Rs.3.7 billion or 19.7 per cent over the year. The increase in assets was reflected mostly in liquid assets which increased by Rs.684.7 million or 32.7 per cent and advances which increased by Rs.1.5 billion or 11.6 per cent. The distribution of the major asset categories

had not changed substantially. However, the increasing trend towards lease financing which was observed in the previous year continued in 1998. The growth in assets has been funded by a growth in deposits of Rs.3.6 billion or 33.2 per cent and a growth in capital funds of Rs.720.0 million or 27.2 per cent. The decline in provision for bad and doubtful debts by Rs.343 million or 26.8 per cent was due to writing off of unrecoverable loans by FCs.

Regulation and Supervision of Registered FCs

During the period under review, the Department continued its off-site surveillance of the 25 registered FCs by analysing periodical statements submitted by these companies to ascertain compliance with Directions and Rules 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. From these financial statements the Department was able to monitor the compliance of Directions and Rules issued by the Board. These included minimum capital requirement, liquidity ratio, single borrower limits, adequacy of provisions for bad and doubtful debts, etc. 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 were scrutinised and discussions were held with officers of the companies 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 provide timely and accurate management information was also assessed.

In addition to comprehensive on-site examinations, FCs were also subjected to spot examinations where critical areas were covered. The area of examination depended on the information revealed in the off-site examination. Spot examinations were also conducted prior to the issue of annual licences.

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 were made to depositors of two of these FCs under the "Relief Scheme for Depositors of Registered FCs in Distress". These relief payments were made from funds obtained through loan recoveries and sale of assets of these companies.

The Department continued to make part refunds of deposits of a failed FC through a Trust Fund set up to channel

the sale proceeds of its Head Office Building. A sum of Rs.72.04 million has been paid to 1,963 depositors through this Trust Fund up to 31 December 1998. The Department was successful in prosecuting the directors of the company for violating the Directions issued by the Department. The fines collected from these directors amounted to Rs.2.4 million as at 31 December 1998.

Policy Initiatives

The Department had discussions with the Finance Houses Association seeking their views on amendments to existing Directions and new Directions under consideration. These included introduction of minimum capital ratio based on risk weighted assets, more stringent income recognition standards, more stringent guidelines on provisioning for bad and doubtful debts, and limiting the types of activities that may be undertaken by FCs.

FINANCIAL MARKETS

The broad objective of the Financial Markets Department is to assist in creating a conducive policy environment for the development of financial markets in Sri Lanka, with special emphasis on the debt market. This involves identifying appropriate incentives, institutional support requirements and improving operating and regulatory structures for the proper and efficient functioning of the financial markets. The department is also responsible for coordinating the implementation of the on going financial sector reform program and monitoring the progress on behalf of the Financial Sector Reform Committee. The functions of the department also include liaising with external donor agencies on technical assistance projects relating to the Central Bank and the financial sector.

During the year under review, the department was engaged in coordinating a number of activities.

Credit Rating Agency

Arrangements were made to set up a credit rating agency. A Letter of Intent was signed with Duff and Phelps Credit Rating Company (DCR), a leading US credit rating firm, in July 1998 for this purpose. The credit rating agency will be established as a public limited liability company under the Companies Act, with DCR as the major shareholder and technical partner. The other shareholders will be the Central Bank of Sri Lanka, the Rating Agency of Malaysia Berhad, the International Finance Corporation, and several local financial institutions (banks, provident funds, insurance and finance companies). Duff and Phelps Credit Rating Lanka Limited (DCR Lanka) is scheduled to be incorporated in early 1999. The company is expected to commence operations in the second quarter of 1999. The DCR Lanka will initially provide ratings for issues of fixed income securities and other related services.

TABLE II-7
Consolidated Balance Sheet of Operational Finance Companies

Category	At end March 1997		At end March 1998		Change
	Rs. '000	%	Rs. '000	%	%
LIABILITIES					
1. Capital Funds					Is
Issued Share Capital	495,094		620,862		
Share Premium	205,373		190,546		
Capital Reserve	527,275		843,104		
General Reserve	768,470		1,094,003		
Reserve Fund	378,945		474,114		
Other Reserve	219,700		58,145		
Profit & Loss A/C	63,746		96,099		
Gross Capital Fund	2,658,603		3,376,893		
Less: Deferred Expenditure	10,428		8,664		
Net Capital Fund	2,648,175	13.76	3,368,229	14.63	27.19
2. Provision for Bad & Doubtful Debts	1,280,979	6.66	937,940	4.07	-26.78
3. Public Deposits	11,088,338	57.62	14,773,980	64.15	33.24
4. Borrowings					
Bank Overdrafts	314,760		389,766		
Others	888,446		386,249		
Total Borrowings	1,203,206	6.25	776,015	3.37	-35.50
5. Other Liabilities	3,022,086	15.71	3,173,670	13.78	5.02
GRAND TOTAL	19,242,784	100.00	23,029,834	100.00	19.68
ASSETS					
1. Liquid Assets					
Cash & Due from Banks	305,035		331,431		
Fixed Deposits	488,403		613,589		
Short term Investments	14,816		32,350		
Treasury Bills	1,284,528		1,800,127		
Total Liquid Assets	2,092,782	10.88	2,777,497	12.06	32.72
2. Investments					
Share in Subsidiaries & Associated Companies	309,241		382,560		
Shares in Related Companies	167,999		256,653		
Shares in Other Companies	600,183		705,663		
Share Trading	52,183		224,915		
Total Investments	1,129,606	5.87	1,569,791	6.82	38.97
3. Advances					
Loans	822,634		872,845		
Hire Purchase	2,374,695		3,421,408		
Leasing	7,326,206		7,783,084		
Real Estate	932,161		1,110,212		
Other Advances	1,510,810		1,262,104		
Total Advances	12,966,506	67.38	14,469,653	62.83	11.59
4. Fixed Assets					
Freehold Land & Buildings	935,058		1,565,737		
Furniture, Fittings & Other Equipment	235,568		200,217		
Motor Vehicles	96,446		177,048		
Machinery	8,413		5,567		
Leased Assets	55,870		47,025		
Other Assets	24,271		21,802		
Total Fixed Assets	1,355,626	7.04	2,017,396	8.76	48.82
5. Other Assets	1,698,264	8.83	2,195,497	9.53	29.28
GRAND TOTAL	19,242,784	100.00	23,029,834	100.00	19.68
No. of Reporting Companies	25		25		

Source : Central Bank of Sri Lanka

Fiscal Incentives for the Development of a Debt Market

The Central Bank made a number of proposals relating to taxes and stamp duties applicable to transactions in Treasury and corporate debt securities which were implemented in 1997 and 1998. The measures included the removal of capital gains and withholding tax on Treasury Bonds, the exemption from stamp duty for the transfer of listed debentures and the reduction of stamp duty on commercial paper and repurchase agreements relating to Treasury Bills. In 1998, the Central Bank recommended that the stamp duty on the issuance of listed debentures, commercial paper transactions and repurchase agreements relating to Treasury Bills and Treasury Bonds should be removed.

The Budget for 1999 made the following changes for implementation:

- i. Removal of stamp duty which was Rs.10 per Rs.1000, or part thereof, on the issue of listed debt instruments such as debentures and promissory notes.
- ii. Removal of stamp duty of Rs. 10 on Re-purchase Agreements relating to Treasury Bills.
- iii. Removal of withholding tax of 10 per cent levied on interest paid on listed debentures and debt securities.
- iv. Removal of capital gains tax on share warrants and derivative instruments

The Agreements between the Government of Sri Lanka (GOSL) and the State Commercial Banks

The Agreements between the GOSL and the Bank of Ceylon and People's Bank, were signed on 16 July 1998. The objectives of the Agreements are to improve the banks' profitability, efficiency and financial soundness by commercialising and consolidating operations, increasing productivity, reducing costs, rationalising staff levels and branch network, conserving assets, increasing loan recoveries and improving risk management.

The main features of the Agreements are as follows:

- i. Granting operational autonomy to the bank management
- ii. Stipulation of qualifications for the appointment of Directors and the General Manager
- iii. Appointment of an Internal Audit Committee consisting of members of the Board of Directors
- iv. Quantitative targets for profits, administrative costs, loan recoveries and non-performing loans
- v. Freeze on staffing levels
- vi. Rationalization of loss making branches
- vii. Restrictions on credit facilities to defaulters
- viii. Payment for non-commercial services undertaken by the bank on behalf of the GOSL

- ix. Stipulation of terms, conditions and procedures for granting credit facilities at the request of the GOSL
- x. Requirement for the Minister of Finance to present a statement to Parliament on all GOSL guarantees provided to the bank

The Agreements seek to improve the banks' internal governance and financial performance by providing the management with operating autonomy and by specifying annual quantitative performance targets. These include profitability targets such as return on assets and return on capital, efficiency targets such as staff cost and overhead costs to average assets and financial soundness targets such as for loan recovery and non-performing loans. The Agreements are also aimed at reducing administrative and intermediation costs through branch rationalisation and restrictions on staffing levels. The banks are required to submit quarterly performance reports to the GOSL and the Central Bank on the achievement of targets and other requirements. The Central Bank monitors compliance with the Agreements on behalf of the GOSL.

Steps were also taken to introduce a standard branch accounting system for the state commercial banks, in order to assess the profitability and viability of their branch network. A working group consisting of officers from the Central Bank, Bank of Ceylon, People's Bank and a firm of Chartered Accountants made recommendations for a uniform system of transfer pricing and cost allocation for branches. The banks will implement the new branch accounting system in 1999.

Arrangements were made for a special audit of the current loan and investment portfolios of the Bank of Ceylon and People's Bank. The main objective of the audit is to determine the overall quality of the banks' loan and investment portfolio and the required level of provisioning. The portfolio audit will be conducted by a private audit firm in accordance with international accounting and auditing standards. The portfolio audits are scheduled to commence in March 1999 and be completed in three months.

Legislative Enactments

Several draft Bills were being prepared during the year, for submission to Parliament in 1999.

- (a) **Amendments to the Monetary Law Act** - The objectives of the Central Bank will be amended to emphasise maintenance of price stability as the main objective. The other proposed amendments relate to broadening the definition of money supply and the maintenance of the statutory reserve ratio.
- (b) **Amendments to the Banking Act** - The proposed amendments are aimed at strengthening the regulatory and supervisory framework relating to Licensed Commercial and Specialised Banks.
- (c) **Finance Leasing Bill** - This new legislation will provide a regulatory and supervisory framework for the leasing industry. It is proposed that the Central Bank will license and supervise companies engaged

in leasing. The law will also define finance leasing transactions and specify the rights and obligations of lessors, lessees and suppliers of leased equipment.

- (d) **Amendments to the National Savings Bank Act**
The proposed amendments remove the impediments to the creation of a capital base for the bank, by capitalising the dormant accounts. The amendments also specify the range of activities NSB could engage in as a specialised savings bank.
- (e) **Bill for the Regulation of the Insurance Industry**
The proposed Insurance law provides for the establishment of a statutory Insurance Board of Sri Lanka, with powers to register insurance companies and brokers for the purpose of developing, supervising and regulating the industry. This legislation will replace the Control of Insurance Act No. 25 of 1962.

Technical Assistance Projects

- (a) **Legal Framework for the Regulation and Supervision of Merchant /Investment Banks**
Merchant (Investment) banks undertake a variety of fund and fee based activities, but are not licensed by any regulatory authority. Some activities, such as those related to share trading, come under the purview of the Securities and Exchange Commission, while other activities are not supervised. In this context, the Central Bank initiated action to study the role and impact of merchant banks on the economy, with a view to identifying a suitable regulatory and surveillance framework. The study will be financed by a World Bank Japanese Grant and will commence in early 1999.
- (b) **Scripless Securities Trading System and a Real Time Gross Settlement System**
The Central Bank proposes to introduce a scripless trading and real time gross settlement system for Treasury Bills and Treasury Bonds. Preliminary work on procedures and system design was completed during the year. A team of consultants, funded by the World Bank, assisted the Central Bank in preparing the technical specifications of the computer software and hardware requirements for the system.
- (c) **Surveillance System for Primary Dealers**
The Central Bank proposes to establish a supervisory framework for primary dealers. Work is in progress on the preparation of the legal framework.
- (d) **Developing the Portfolio Management Capacity of the Employees' Provident Fund (EPF)**
The project includes the preparation of investment

guidelines for the EPF and staff training in portfolio management techniques. A firm of consultants was selected in December 1998 and the assignment was scheduled to commence in January 1999.

The project will be funded by the World Bank under the Private Finance Development Project.

- (e) **Institutional Development of the Bank Supervision Department**
The project consists of upgrading the on site and off site supervisory mechanisms, making proposals for strengthening the legal framework, skills development and staff training. The project is financed by a grant from the Swedish International Development Agency. The consultants were selected and the project commenced in December 1998.
- (f) **Computerising the Off Site Surveillance of Banks**
The Department of Bank Supervision is developing a software package for the off site surveillance of banks. The project involves the preparation of formats for obtaining bank financial data on diskette. The system would also have an early warning mechanism. The system was designed and tested in 1998 and will become operational in January 1999.

DEVELOPMENT FINANCE

The activities of the Development Finance Department further expanded in 1998. The operations of the new credit guarantee scheme for the Small and Medium Enterprise Assistance Project (SMAP), which became effective in the second half of 1997, expanded rapidly during the year. The disbursements of loans approved under the Low Income Shelter Programme were by and large concluded during the year. Loan negotiations with the Asian Development Bank for a new line of credit for financing housing activities of urban and semi-urban dwellers were successfully concluded in the last quarter of 1998. The loan operations under the Plantation Reform Project also expanded rapidly during the year. 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)

The total loan approvals under the PRP increased by nearly three times in 1998 to reach Rs. 2563.7 million from the end 1997 level of Rs.672.7 million, while the total fund disbursements increased by about 91 per cent to reach Rs.990.6 million. For replanting and crop development purposes, 26 loans worth Rs.1072.1 million were approved in 1998, while the disbursements of funds for the same purpose amounted to Rs 550.2 million. For tea processing improvements, 27 loans amounting to Rs.1005.3 million were approved in 1998 while the disbursement of funds amounted to Rs. 259.1 million.

Further, in 1998, 21 loans worth Rs.486.3 million were approved for purpose of purchasing vehicles, while disbursements for the same purpose amounted to Rs.181.3 million. Details of loan approvals and disbursements are given in Table II-8.

TABLE II-8
Plantation Reform Project
Loan Approvals and Disbursements by Purpose

Purpose	1997		1998		1996-98	
	A(a)	D(b)	A	D	A	D
Tree Crop Development	217.0	188.7	1072.1	550.2	1452.4	796.6
Processing, Improvement & Pollution Control	313.5	196.9	1005.3	259.1	1470.4	456.0
Service Vehicles & Equipment	142.2	132.6	486.3	181.3	739.6	315.0
TOTAL	672.7	518.2	2583.7	990.6	3662.4	1567.6

Source: Central Bank of Sri Lanka.

Note: (a) = Approvals
(b) = Disbursements

In 1998, DFCC Bank (DFCCB) disbursed the largest amount of funds to Regional Plantation Companies (RPCs) under the PRP loan scheme amounting to Rs. 418.8 million, while the National Development Bank (NDB) disbursed Rs.406.6 million. Bank of Ceylon (BOC) disbursed Rs.85.4 million to RPCs while Commercial Bank of Ceylon (CBC) disbursed Rs. 79.8 million. Sampath Bank which approved a loan worth Rs. 98.4 million to RPC in the last quarter of 1998 did not disburse any funds. Progress of the PRP loan scheme according to participating credit institutions is given in Table II-9.

The liability of the Central Bank's credit guarantee scheme on the PRP loan scheme which was Rs.297.3 million in 1997 increased to Rs.605.3 million in 1998. The total guarantee liability for the three years 1996 to 1998, amounted to Rs.943.1 million. Details of progress of the Central Bank's credit guarantee scheme on the PRP loan scheme are also given in Table II-9.

Small and Medium Enterprise Assistance Project (SMAP)

The SMAP credit line which is being refinanced by NDB with the rupee proceeds of loans amounting to US dollars 55 million jointly raised from foreign commercial sources and the ADB was launched in May 1997. The approval of loans as well as disbursements under the SMAP credit line to small and medium scale enterprises has accelerated in 1998. In 1997, only eight credit guarantees for loans amounting to Rs.4.9 million were issued by the Central Bank. On the other hand in 1998, 695 credit guarantees for loans worth Rs.857.9 million were issued. As three guarantees were withdrawn, the Central Bank's credit guarantee liability which was only Rs.3.9 million in 1997 increased to Rs. 498.8 million in 1998. More details on the SMAP loan scheme are given in Table II-10.

TABLE II-10
SMAP Credit Guarantee Scheme
Industry-wise Classification of Loans
As at 31 December 1998

Industry Category	Loans Granted		Loan Amount	
	No.	%	Value	%
Food Beverages & Tobacco	112	15.9	186.4	21.6
Textile Wearing Apparel & Leather Products	63	9.0	87.0	10.1
Wood & Wood Products	23	3.3	17.6	2.1
Paper & Paper Products	13	1.8	25.4	3.0
Chemical, Petroleum				
Rubber & Plastic Products	16	2.3	23.3	2.7
Basic Metal Products	8	1.1	12.4	1.4
Non-Metallic Mineral Products	47	6.7	51.9	6.0
Fabricated Metal Products, Machinery & Transport Equipment	28	4.0	21.9	2.5
Agro-Industries	70	10.0	79.7	9.2
Other (a)	323	45.9	357.2	41.4
TOTAL	703	100	862.8	100

Source: Central Bank of Sri Lanka

(a) Includes passenger and commercial transport, service and filling stations, restaurants, electronic and other services

TABLE II-9
Plantation Reform Project Loan Approvals, Disbursements and Central Bank's Credit Guarantee Liability

PCI	1997				1998				1996-1998			
	A(a)	D(b)	GL(c)	PC(d)	A(a)	D(b)	GL(c)	PC(d)	A(a)	D(b)	GL(c)	PC(d)
NDB	120.6	299.0	168.8	3.4	1147.2	406.6	251.3	7.0	1693.8	763.4	460.6	10.4
DFCCB	269.4	94.2	56.4	0.3	993.6	418.8	256.5	3.4	1263.0	513.0	312.9	3.7
BOC	120.6	75.5	40.8	0.9	286.0	85.4	47.3	1.6	406.6	160.9	88.1	2.5
CBC	162.1	50.5	31.3	0.4	38.5	79.8	50.2	1.3	200.6	130.3	81.5	1.7
Sampath Bank	-	-	-	-	98.4	-	-	-	98.4	-	-	-
TOTAL	672.7	519.2	297.3	5.0	2583.7	990.6	605.3	13.3	3662.4	1567.6	943.1	18.3

(a) Approvals
(b) Disbursements
(c) Central Bank's Credit Guarantee Liability
(d) Premium Collections

Source: Central Bank of Sri Lanka

An industry-wise classification of SMAP loans, which is also given in Table II-10, indicates that the majority of loans amounting to about 41 per cent has been granted for service industries such as passenger and freight transport and vehicle servicing, while about 22 per cent of loans have been granted for food processing industries.

Housing Guarantee Low Income Shelter Programme (HGLISP) - Phase IV

The Central Bank which functions as the Apex Lender of the HGLISP, on behalf of the government, for funds borrowed under the United States Government's Housing Loan Guarantee Programme - Phase IV, by and large, concluded the disbursement of funds for approved loans by the end of 1998.

TABLE II-11
Housing Guarantee Low Income Shelter Programme - Phase IV
Loan Approvals and Disbursements

Sub-Apex Lender	Approvals			Disbursements		
	1997	1998	1992-98	1997	1998	1992-98
BOC	-	-	313.8	1.3	-	313.8
CBC	-	-	1.4	0.3	-	1.4
HNB	-	-	4.7	-	-	4.7
HDFC	138.5	246.7	595.9	68.6	442.1	595.9
PB	-	1.0	251.9	71.6	1.0	251.9
RRDB	-	1.0	74.0	26.0	14.1	73.0
SEYLAN	-	-	4.2	1.7	-	4.2
SMIB	7.8	63.5	117.0	25.4	72.1	116.6
TOTAL	146.4	312.2	1,362.9	194.9	529.3	1,361.5

Source: Central Bank of Sri Lanka

TABLE II-12
Housing Guarantee Low Income Shelter Programme - Phase IV
Loan Approvals by Purpose and Maturity

Category	1997			1998		
	Urban	Rural	Total	Urban	Rural	Total
Purpose						
Construction	0.2	-	0.2	2.6	92.7	95.3
Improvements	-	-	-	-	5.7	5.7
Land Acquisition	6.6	139.4	146.2	10.3	200.9	211.2
Infrastructure	-	-	-	-	-	-
Total	7.0	139.4	146.4	12.9	299.3	312.2
Maturity						
Less than 5 years	-	0.6	0.6	0.4	5.1	5.5
6 to 10 years	0.5	4.0	4.5	1.0	18.7	19.7
11 to 15 years	6.5	134.8	141.3	11.5	275.3	286.8
16 to 20 years	-	-	-	-	0.2	0.2
Total	7.0	139.4	146.4	12.9	299.3	312.2

Source: Central Bank of Sri Lanka

The cumulative loan approvals from 1992 to 1997 amounted to Rs.1050.7 million, while the cumulative loan disbursements amounted to Rs.832.2 at end 1997. In 1998, loan approvals amounted to Rs.312.2 million, while the disbursement of funds for loans approved in 1998 as well as

for previously approved loans amounted to Rs.529.3 million. More details of the HGLISP loan scheme are given in Table II-11.

About 68 per cent of loans approved in 1998 have been for financing land acquisitions, while 30.5 per cent of loans have been for financing construction. (Table II - 12)

A New Housing Loan Scheme for Urban and Semi-urban Areas

In November 1998, the Monetary Board approved the participation of the Central Bank in a new housing loan scheme targeted to low income households dwelling in urban and semi-urban areas of the country. This loan scheme, which is the housing finance component of the Urban Development and Low Income Housing Sector Project (UDLIHSP) which is being financed by the ADB through its loan no. 1632-Sri (SF), will provide the rupee proceeds of US dollars 20 million as housing loans to households whose monthly income does not exceed Rs.8,500 per month. The maximum size of an individual loan will be Rs.100,000, while the loans will be granted for purposes such as infrastructure improvement and repair, land acquisition, extensions to present housing and construction of new houses.

Investment of Credit Guarantee Funds

The total value of investments in Government of Sri Lanka Treasury Bills amounted to Rs.1,652 million. The total value of interest income from the investments amounted to Rs.169.53 million. The funds for these investments came from SMI, BPL and PRP guarantee funds advanced by the Central Bank and the premium collections.

TABLE II - 13
SMI-II, SMI-III and SMI-IV Credit Guarantee Schemes
Industry-wise Classification of Loans(a)- End 1998

Industry Category	SMI-II, III and IV (1982 - 1998)					
	Loans Granted		Loan Amount		Guaranteed Amount	
	No.	%	Value	%	Value	%
Food Processing	3,247	22.0	2,173.9	19.7	1,257.8	18.4
Other Agro Industries	311	2.1	153.4	1.4	99.8	1.5
Rubber Products	304	2.1	314.7	2.9	174.1	2.6
Metal Products	1,394	9.4	740.9	6.7	459.5	6.7
Construction Materials	914	6.2	556.0	5.0	367.4	5.4
Construction Contracting	546	3.7	766.5	7.0	370.4	5.5
Wood Products	895	6.1	450.4	4.1	294.3	4.3
Garments	904	6.2	790.5	7.2	438.9	6.5
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
Others (b)	5,335	36.2	4,417.7	40.1	2,939.2	43.2
TOTAL	14,733	100	11,014.5	100	6,798.3	100

Source: Central Bank of Sri Lanka

Notes: (a) A detailed breakdown of industry-wise classification of SMI-I loans is not available

(b) Includes passenger and commercial transport, leather, animal husbandry, fishing, restaurants, fibre glass, electronic, ceramics, polythene and services

TABLE II-14

Summary of Performance of the Central Bank's SMI Credit Guarantee Schemes-As at 31 December 1998

Value in Rs. Million

ITEMS	SCHEMES		SMI - I (a)		SMI - II (b)		SMI - III (c)		SMI - IV (d)		BPL(e)		SMAP(f)	
	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value
1.1 Loans Granted	1670	286.1	2531	1,392.5	3130	1955.6	9072	7866.4	1932	1098.6	703	862.8		
1.2 Loans Guaranteed	1670	157.5	2531	713.6	3130	1312.6	9072	4772.1	1932	871.2	703	508.7		
2.1 Loans Fully Repaid	1235	184.0	1963	1057.5	1915	1108.6	3877	1386.1	1711	965.4	1	10.0		
1.2 Guarantee Withdrawn or Lapsed	113	31.4	456	232.2	890	590.5	337	245.0	104	80.5	3	6.0		
3.1 Total Claims Received	338	75.9	227	70.0	168	96.2	197	143.4	-	-	-	-		
3.2 Central Bank Liability on Claims Received	-	33.9	-	58.6	-	65.2	-	96.5	-	-	-	-		
3.3 Settlement of Claims -														
Fully Settled	232	19.3	126	31.7	88	23.4	60	21.2	-	-	-	-		
Partly Settled	27	2.1	5	0.7	-	-	-	-	-	-	-	-		
Claims Rejected	32	6.9	46	12.7	45	17.7	50	19.2	-	-	-	-		
Loans fully paid after submission of claims	36	2.0	4	1.4	5	3.3	21	9.9	-	-	-	-		
Claims Deferred	8	2.1	21	7.6	4	4.2	10	6.7	-	-	-	-		
Claims Pending	2	-	13	3.8	20	9.6	49	24.0	-	-	-	-		
Claims Withdrawn	3	0.5	12	4.1	6	3.3	7	6.8	-	-	-	-		
4.1 Loans Outstanding	35	4.5	99	31.3	290	94.3	4765	2826.2	112	23.5	700(g)	820(g)		
4.2 Central Bank Liability on Guarantees Outstanding	35	2.7	99	18.5	290	62.9	4765	1881.2	112	18.8	-	483.5(g)		
5. Premium Collected	-	12.2	-	29.9	-	44.9	-	153.4	-	21.9	-	3.0		
6. Post Claim Recoveries	-	10.4	-	18.5	-	17.2	-	3.18	-	1.8	-	-		

(a) SMI - I - Operated from 1979-81
 (c) SMI - III - Operated from 1988-91
 (e) Bus Purchase Loan Scheme
 (g) Provisional

(b) SMI - II - Operated from 1982-89
 (d) SMI - IV - Operated from 1992-97
 (f) SMAP - Commenced in 1997

Source: Central Bank of Sri Lanka

Concluded Credit Schemes

An industry-wise classification of loans given under the concluded SMI credit schemes is given in Table II-13. A summary of performance of credit guarantee operations in respect of concluded credit schemes is given in Tables II-14.

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 which involves admitting Participating Credit Institutions (PCIs), issuing Operating Instructions to PCIs, disbursing refinance to PCIs in respect of loans eligible under projects, monitoring and co-ordinating of loan schemes, maintaining 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 1998 were as follows:

(a) ADB¹ Funded Projects:

- i. Small Holder Tea Development Project;
- ii. Perennial Crops Development Project;
- iii. Southern Province Rural Development Project;
- iv. North Western Province Water Resources Development Project;
- v. North Central Province Rural Development Project;

(b) IFAD²/CIDA³/SIDA⁴/Japanese Govt.⁵/WFP⁶ Funded Projects:

- vi. Small Farmers and the Landless Credit Project (IFAD, CIDA);
- vii. North Central Province Participatory Rural Development Project (IFAD, SIDA & WFP);
- viii. Food and Nutrition Promotion Credit Scheme (Japanese Govt.);

(c) Government Funded Projects:

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

Small Holder Tea Development Project (SHTDP)

The SHTDP was completed in December 1998. This project was originally scheduled to be completed in December 1997, but a further extension of one year was allowed by ADB for the credit component to enable PCIs to complete the disbursement of already approved loans.

This Project which commenced in 1989, aimed at increasing production and export of tea by small holders,

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

improving the quality and the productivity of small holder-grown tea and tea factories, increasing income and employment opportunities in rural areas and improving the effectiveness of the institutional mechanism of supporting tea small holders. The ADB allocated originally a sum of US dollars 19 million for the credit component for the provision of refinance to PCIs to enable them to on-lend to small holders and private tea factory owners to undertake activities in new planting and re-planting, nursery development and factory development. The funds allocated did not move at the expected rate in the initial few years due to a slack in the demand for loans from tea small holders. This slow progress led to a review of the credit allocation by both the ADB and the government in 1994. Accordingly, a downward revision of the credit component by US dollars 10 million was effected with the concurrence of the government. Since then, the project recorded a gradual improvement in the performance and PCIs were able to meet the total loan target well ahead of the closing date of the Project. However, the total amount could not be fully disbursed as loan disbursements are spread over a number of years. At the time of loan closure in December 1998, a total sum of US dollars 11.83 million or 94 per cent had been utilised out of the revised allocation of US dollars 12.6 million.

As at the end of 1998, a total of Rs.641 million had been disbursed by the Central Bank by way of refinance in respect of new planting (Rs.107 million), re-planting (Rs.118 million), nursery development (Rs.41 million) and factory development (Rs.374 million). The DFCC Bank (Rs.239 million), People's Bank (Rs.130 million) and Bank of Ceylon (Rs.100 million) were the largest disbursements of credit under the project. A total of 7,692 ha. had been planted with tea under the project representing 4,338 ha. for new planting and 3,354 ha. for replanting, thereby achieving the original target of the Project. Under the factory rehabilitation component, 84 factories had been granted loans under the Project. The Credit Scheme maintained a satisfactory overall recovery rate of 91 per cent, recovering Rs.229 million out of a total amount of Rs.253 million due to be recovered by all PCIs as at the end of December 1998.

In view of the successful completion of the SHTDP, the ADB approved a new project named the Tea Development Project (TDP). A loan of SDR 26.3 million will be made available by the ADB to the government for credit and infrastructural development purposes in the Tea Small Holder sector. Out of the loan, a sum of SDR 15.4 million will be made available to the Central Bank for the credit component to enable it to lend to the Participating Financial Institutions (PFIs) for financing of sub-loans in the tea sector.

In order to ensure the continuity of project activities during the interim period of closing the SHTDP and the introduction of the TDP, an interest subsidy scheme was launched in 1998 to facilitate PCIs to grant loans at 14 per cent per annum to small holders out of their own funds. Accordingly, a subsidy

of 4 percentage points was paid by the Tea Small Holder Development Authority (TSHDA) out of its cess funds. During the year under review, loan approvals and disbursements by PCIs under the subsidy scheme amounted to Rs.85.3 million and Rs.78.0 million, respectively.

First Perennial Crops Development Project (FPCDP)

The Credit Component of the FPCDP was closed in December, 1997 but the Central Bank continued to monitor recoveries, attend to field problems and claim funds from ADB in respect of disbursements effected in the last quarter of 1997.

The CBSL has provided a sum of Rs.586.3 million (US dollars 10.964 million.) by way of refinance to PCIs during the entire project period. This reflects a utilisation rate of 84 per cent from the enhanced allocation of US dollars 13.053 million. for the credit component. The amount financed out of ADB proceeds amounted approximately to 90.48 per cent of the disbursements by PCIs to sub-borrowers. Up to the end of 1998, a sum of Rs.693.0 million had been disbursed by PCIs for field development, nursery development and on-farm post-harvest handling and processing. As at end-December 1998, a sum of Rs.274.5 million had been recovered by the Central Bank from PCIs. However, on account of the medium term nature of lending, some loan instalments continue to be released to farmers by PCIs. In order to facilitate PCIs with refinance on such loan instalments, action has been taken to establish a Revolving Fund Credit Scheme out of the loan recoveries of the FPCDP.

Second Perennial Crops Development Project (SPCDP)

The SPCDP, a continuation of the FPCDP, came into operation in August, 1998 subsequent to a loan agreement which the government signed with the ADB in April, 1998. The new project, which covers the entire island except the Northern and Eastern Provinces, is scheduled to be completed by 2004. The Project consists of five major components, viz., (a) Credit, (b) Farm Advisory, Marketing and Technical Services, (c) Research, (d) Seed and Planting Materials, and (e) Institutional Strengthening. The Central Bank handles the credit part, while the Ministry of Agriculture and Lands handles the other components.

The objectives of the Project are to support the development of the Perennial Crop Sector by providing credit facilities and extension services. The project is also expected to increase the profitability of enterprises that process or market perennial crops and the income of farmers considerably. It will also help to broaden the agricultural export base of the country, while encouraging a greater private sector participation in commercial agriculture.

A sum of SDR 11.562 million has been allocated for the credit component to provide medium and long term credit for cultivation of perennial crops through PFIs.

The maximum individual sub-loan size has been set at US dollars 150,000 or equivalent in Sri Lanka rupees. The PFIs are allowed to approve loans upto US dollars 50,000 or its Sri Lanka rupee equivalent, while loans exceeding that amount should receive ADB approval. Sub-loans under the Project can be granted with a maximum maturity of 12 years, including a grace period of upto 6 years. In deciding the repayment period, lending banks are expected to take into account the economic life of the assets financed, the gestation period of the crops and the sub-borrower's repayment capacity as reflected in the cash flow projections.

Credit will be provided through the DFCC Bank, National Development Bank, Hatton National Bank, Commercial Bank and the Sampath Bank. Both the lending rate and the refinance rate reflect market rates as they are linked to the AWDR (Average Weighted Deposit Rate of commercial banks) : lending rates at 2 percentage points higher than AWDR and the refinance rate from the Central Bank at 6 percentage points below the AWDR.

Southern Province Rural Development Project (SPRDP)

The SPRDP which commenced in 1992, will close in December, 1999. The main objective of the project is to raise the income and the quality of life of the people in the Southern Province through the creation of opportunities for employment and income generating activities and the strengthening of the economic and social infrastructure in the area.

Of the credit component of Rs.466 million (SDR6.4 million), Rs.378.5 million or 81 per cent has been allocated to the Central Bank to refinance PCIs in respect of rural micro credit provided for small and medium scale industries. The balance Rs.87.5 million has been allocated to the Thrift and Credit Co-operative Societies (TCCS) to provide self-employment credit. Three RRDBs in Galle, Matara and Hambantota (amalgamated into the Ruhuna Development Bank or RDB in July, 1998), the DFCC Bank and the National Development Bank are the PCIs of the Central Bank's credit component.

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 1998. The total amount of refinance released by the Central Bank during the year under review amounted to Rs.86 million, bringing the cumulative amount to Rs.303.7 million as at the end of 1998. The three RRDBs and the DFCC Bank disbursed 757 loans to a value of Rs.96 million during 1998. Accordingly, the total number of loans financed under the Project upto the end of 1998 stood at 6,656 with a cumulative disbursement of Rs.342.5 million.

During the year under review, several steps were taken to improve the quality of loans. A Committee was set up for the assessment of loans over Rs.100,000. Three workshops were conducted by the Central Bank in the three project districts for branch managers of the RDB to create awareness and enhance

motivation among them in the disbursement of loans for viable projects. In addition, the RDB in collaboration with the Project Management Office, conducted a training programme for branch managers on project appraisal.

A survey was conducted in 1998 by the Project Office to evaluate the impact of the credit component and the preparation of the survey report is presently in progress.

NWP-Water Resources Development Project (NWP-WRDP)

The ADB funded North Western Province Water Resources Development Project Credit Scheme completed its 5th year in 1998. The credit component of the project, amounting to SDR1.6 million (approximately Rs.100 million), consists of three main sub-components, viz., Agro-wells Construction, Lift Irrigation Sub-projects and Income Generating Self-employment Projects for Rural Women in the North Western Province. The Puttalam and Kurunegala Regional Rural Development Banks and the Hatton National Bank participated in the credit scheme from its inception. In 1996, the People's Bank and the Bank of Ceylon too joined the credit scheme.

Upon a request made by the government for an extension of the project period by another year, the ADB has granted approval to extend the period by six months. Accordingly, the credit component of the Project is scheduled to be terminated on 30 June 1999.

During the year under review, the Central Bank took several steps to improve the performance of the credit scheme, including the increase of the quota allocated for self-employment loans for rural women and allow PCIs to identify suitable borrowers under this component. Further, the Central Bank conducted a number of orientation programmes/workshops for PCI staff as well as the beneficiaries in order to make them aware of the project objectives and procedures.

Upto the end of the year 1998, PCIs had disbursed Rs.28.3 million for the construction of 847 agro-wells and Rs.48.6 million for 2,261 self-employment sub-projects for women in the North Western Province. Under the Lift Irrigation component, which commenced operations in late 1996, only 94 Projects to a value of Rs.2.7 million were financed. However, the cumulative refinance claimed by PCIs from the Central Bank upto the end of 1998 amounted only to Rs.59.3 million.

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

The ADB funded North Central Province Rural Development Project (NCP-RDP) and the IFAD Funded North Central Province Participatory Rural Development Project (NCP-PRDP) commenced operations in 1996 and 1997, respectively. Both these projects aim at poverty alleviation through the improvement of productivity of farmers and the development

of infrastructure facilities in the Anuradhapura and Polonnaruwa districts.

The Central Bank is the apex co-ordinating agency for the credit component of both projects. The total credit component, amounting to Rs.196 million is to be funded by PCIs, viz., the People's Bank, Bank of Ceylon, Hatton National Bank and the Seylan Bank, out of their own funds. Under the original project plan, it was scheduled to be funded by the National Development Trust Fund (NDTF). However, with the closing of NDTF activities, the Central Bank entered into agreements with the above four commercial banks to operate the scheme without refinance from outside.

In 1998, the initial year of the implementation of the credit component under the new PCIs, a major emphasis was given to train the staff involved in credit activities. Two workshops were conducted by the Central Bank for Branch Managers of PCIs to create an awareness of project objectives and operating instructions etc., in the two project districts. Further, the Anuradhapura Regional Office of the Central Bank conducted a series of workshops for the same purpose at the divisional secretariat level for the officials involved in project activities. About 60 social mobilizers and Samurdhi animators who are involved in field activities in the two districts were exposed to the experience gained by the Small Farmers and the Landless Credit (SFLC) Project in the Puttalam District through two training programmes conducted by the Central Bank.

Small Farmers and the Landless Credit Project (SFLCP)

The SFLCP, inaugurated in 1990 and jointly funded 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 amounting to US dollars 4.1 million by the Central Bank), aims at establishing a cost effective credit delivery system for the alleviation of poverty among the poorest of the poor in the Galle, Matara, Kandy and Puttalam districts. The Project relies on the linkage banking system strengthened by the group lending strategy to achieve its objectives. The Central Bank functions as the Executing Agency of the Project on behalf of the government. Although foreign funding for the Project closed in December 1997 as originally scheduled after achieving the targets set for the Project at the design stage, the Project activities continued to be carried out during 1998 by recycling the loan recoveries as provided for in the Loan Agreement signed with IFAD.

As at the end of 1998, the Project had covered 2,312 villages in the four districts under reference, forming 8,722 self-help groups as the vehicle for providing assistance to the Project beneficiaries. The beneficiaries reached through these groups numbered 52,993 and was 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 in project activities; 35,711 women accounting for 67 percent of the total beneficiaries. As at the end of year, a sum of Rs.416 million had been advanced as microloans to 45,034 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 94 per cent. In addition, the beneficiaries have saved Rs.61.38 million as their group savings upto the end of 1998 under the Savings Mobilisation Scheme of the Project.

In 1998, the loan recoveries that were collected to a Revolving Fund were utilized to provide refinance to the RRDBs, while the interest income earned by investing excess funds was used to meet the administration and beneficiary training expenditure of the Project.

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. Hence, there was a necessity for the formation of these groups into large voluntary associations with proper legal status to function as the link between the beneficiaries and the RRDBs. Hence, several groups operating in a village were formed into SFLC Development Societies, (Isuru Sanwardana Samithi), which were registered with the Registrar of Companies as corporate bodies with limited liability under the Societies Ordinance. As at the end of 1998, 160 such limited liability societies had been formed. Action was also taken to form four district federations in the Project Districts of Matara, Galle, Puttalam and Kandy. The members of the federations were elected by the society members from among themselves (three members from each society). The federations were registered under Section 21 of the Company Ordinance as non-governmental organizations. The issued share capital, savings and the loans granted from their own funds by the SFLC Development Societies amounted to Rs.2.87 million, Rs.2.25 million and Rs.13.81 million, respectively, as at the end of 1998.

The Overseas Economic Co-operation Fund (OECF) of Japan has agreed to examine the possibility of funding a replication of the SFLC Project activities in the six districts of Kalutara, Hambantota, Badulla, Nuwara Eliya, Matale and Kurunegala. During 1998, OECF commenced the initial work in this connection on a request by the government and, if approved, the replication project would come into effect in 1999.

Food and Nutrition Promotion Credit Scheme

The Food and Nutrition Promotion Credit Scheme which was inaugurated by the Central Bank at the request of the Ministry of Agriculture and Lands, provides funds to lending institutions to disburse credit for crop production, storage, processing and marketing of agricultural produce, and dairy and livestock development. The sub-projects to be funded under the credit

scheme have been specifically agreed to by the Japanese Government, the funding agency of the Credit Scheme.

The Scheme aims at improving the country's food production and encouraging lending institutions to channel credit through farmer organisations, co-operatives and rural organisations for effecting a cost effective credit delivery mechanism to the sector.

The total allocation by the government for implementing the credit scheme amounted to Rs.284 million. Of this, Rs.100 million was provided to the Central Bank in 1997/98 to finance approved sub-projects.

At end 1998, loans to a value of Rs.97.5 million had been approved by PCIs in respect of dairy development (Rs.34 million), vegetable and fruit processing (Rs.34 million), rice

TABLE II-15
Details of 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 31.12.98 (Rs.Mn.)	Recovery Rate where applicable %
1. Small Holder Tea Development Project (1989-1997)	ADB	Increase production and export of tea by tea small holders, improve the institutional mechanism of the tea sector and expand employment opportunities.	US\$12.6Mn.	14.0	724.3	91.0
2. Perennial Crops Development Project (1989-1997)	- do -	Increase the production and commercialisation of perennial crops.	US\$13.2Mn.	14.0	693	80.0
3. Second Perennial Crops Development Project (1998-2004)	- do -	Increase the production and commercialisation of perennial crops, development of nurseries, post-harvest handling and processing activities and marketing.	US\$15.685Mn.	Average Weighted Deposit Rate + 2 (Present rate : 12)	-	-
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	342.5	-
5. North-Western Province Water Resources Development Project (1993-1999)	- do -	Improve economic, social and nutritional well-being of the people living in the project area.	US\$2.7Mn.	14.0	79.6	90.0
6. North-Central Province Participatory Rural Development Project (1996-2002) & North-Central Province Rural Development Project (1997-2003)	ADB, IFAD, SIDA and WFP	Poverty alleviation, improve food security and nutrition and increase employment opportunities for low-income families.	SLRs.43Mn. SLRs.153Mn	Existing market rate.	-	-
7. Small Farmers and Landless Credit Project (1990-1997)	IFAD, CIDA, GOSL	To establish a cost effective and sustainable micro-credit delivery system to generate employment and improve savings habits.	SDR 4.85Mn.	16.0(Agr.) 20.0 (Other Pur-poses)	367.0	94.0
8. Food & Nutrition Promotion Credit Scheme (Year Commenced - 1997)	Japanese Government	Increase food production and food processing techniques in the country.	SLRs.284Mn	10.0	2.6	n.a.
9. New Comprehensive Rural Credit Scheme (1986 onwards)	PCIs with govt. interest subsidy	Upliftment of rural farmers who cultivate short-term food crops.	-	12.0	Rs.422 Mn.97/98 Maha & 98 Yala	70 (Overall)
10. Kegalle District Integrated Rural Development (Revolving Fund) Project (1997-2007)	Government of Sri Lanka	Uplift the standard of living of the people in the project area by promoting income-generating activities.	SLRs.100Mn	10.0	50	n.a.
11. Surathura Programme Phase II (1998 onwards)	PCIs with govt. interest subsidy	Increasing income and improving living standards of unemployed educated youth by promoting self-employment among them.	SLRs.1,000Mn (target)	10.0	575.2	59.0 (as at 30-06-98)

Source: Central Bank of Sri Lanka.

milling (Rs.22 million), banana cultivation (Rs.5.8 million), storage of onions (Rs.1.4 million) and grinding mills (Rs.0.3 million).

Kegalle District Integrated Rural Development (Revolving Fund) Project

This Project was started in mid 1997. Under this scheme, credit facilities have been provided for farmers and entrepreneurs in the Kegalle District to enhance their income through micro credit projects.

During the year under review, loans to a value of Rs.50 million were disbursed by PCIs in respect of 1,029 sub-projects. Refinance amounting to Rs.45 million was granted by the Central Bank for these loans.

In order to assess the status of loan utilization under the Project, the Central Bank conducted a field survey in March 1998. The preliminary results of the survey revealed that more than 90 per cent of the borrowers had effectively utilized the funds for the projects for which they had obtained loans.

The Surathura Programme - Self Employment Promotion through Micro Enterprise Credit

The Surathura Program Phase II that was inaugurated with a new design in 1997, was continued during 1998 by the three PCIs, viz., the Bank of Ceylon, People's Bank and the Hatton National Bank. The first Surathura Programme was introduced in 1996 with refinance received from the government to provide micro-credit to the unemployed, especially, the educated youth, to enable them to undertake income generating self-employment activities. Under Phase II of the programme, PCIs provided micro loans out of their own resources. The government paid an interest subsidy of 10 percentage points to PCIs to facilitate the maintenance of a concessionary interest rate of 10 per cent per annum to final borrowers.

In view of the high demand for micro enterprise development loans, the initial targets under Phase II were revised upward by raising the number of loans from 10,000 to 20,000 and the value of loan from Rs.500 million to Rs.1,000 million. The three PCIs under reference had offered 25,095 loans to a value of Rs.1,310 million. Of this, a sum of Rs.575 million in respect of 15,116 loans had been disbursed at end 1998. The overall recovery rate maintained by the 3 PCIs in Phase I of the loan scheme amounted to 69 per cent by the Bank of Ceylon, 59 per cent by the People's Bank and 89 per cent by the Hatton National Bank.

The Bank conducted a Performance Evaluation Survey of the Surathura Phase I in July, 1998. The survey was intended to assess credit utilisation progress of the projects undertaken, status of loan recoveries and the issues involved in the delivery of credit to the target groups.

The findings of the survey revealed mixed results. Although the educated unemployed youth constituted the target

group, those funded under the Scheme had been drawn basically from relatively well-off individuals outside the target group. The extent of financing new projects accounted for only 42 per cent of the total number of projects. Lending banks had financed 79 per cent of the loans for small trading activities, while the balance was for agriculture and services. Only 39 per cent of the projects that were funded under the Scheme had recorded a satisfactory performance in loan re-payments. The implementation system of the credit scheme was modified during 1998 in the light of the findings of the Performance Evaluation Survey.

THE CENTRE FOR BANKING STUDIES

The name of the former Rural Banking and Staff Training College (RB&STC) was changed to the Centre for Banking Studies (CBS) with effect from 21 December 1998. In 1998, the Centre for Banking Studies (CBS) conducted 47 training programmes, running into 1,875 training hours, with 926 participants. Among these, 263 were from the Central Bank and 247 from Regional Development Banks (RDBs) and Regional Rural Development Banks (RRDBs) and 200 participants from commercial banks. The rest were from development banks, finance companies and other institutions. All programmes were conducted at the CBS premises.

For the first time, in 1998, the CBS offered relatively long-term courses in core subjects leading to the award of a diploma or a certificate to successful candidates. There were three diploma courses covering central banking, commercial banking and management development and one certificate course in advanced accountancy. These courses were conducted on a part time basis. Of the 47 training programmes, 9 were exclusively for RDB and RRDB employees. These programmes covered subject areas of lending on pledge of jewellery, collateral and related legal procedures, accounting, management and project appraisal. There were 10 computer training courses designed to train mainly Central Bank employees on personal computer applications. Training programmes were also conducted to train Central Bank officers in the English language, report writing and accounting. Other training programmes covered areas such as forex operations, fund management, recent developments in the financial sector, strategic planning in banking, effective loan management, Colombo stock market operations, hire purchase and lease financing, the government debt securities market, foreign exchange liberalisation, managing for excellence-leadership, team work for quality and life after retirement.

In addition to the above training programmes, the CBS conducted 17 special programmes. Twelve of these programmes were exclusively for Central Bank employees. Risk management in foreign exchange, liquidity management, bank supervision techniques, information systems audit and assurance for banks, plastic card operations, letters of guarantee bonds and World Bank procurement rules were the areas covered by these special programmes. Further, orientation programmes for new recruits to the Central Bank were also conducted.

In 1998, the CBS inaugurated a series of Central Bank Public Seminars and Commemoration Lectures. Public Seminars were aimed at enhancing awareness among the general public on current economic policies and issues, while commemoration lectures were designed to disseminate new ideas and to provide a forum for professionals and academics in the relevant fields to exchange views and share experiences on issues pertaining to economic and financial sector developments. Four commemoration lectures namely, Independence Commemoration Lecture, Republic Commemoration Lecture, Central Bank Anniversary Lecture and the RB & STC Anniversary Lecture were held in 1998.

The Independence Commemoration Lecture was delivered by former Secretary General of UNCTAD, Dr. Gamani Corea on "50 Years of Economic Development in Sri Lanka" and the Republic Commemoration Lecture was delivered by Dr. W.M. Tilakaratna, Chairman, Vanik Incorporation Ltd, on "Economic Priorities for the Next Decade". Mr. Charles A. Freeland, Deputy Secretary General, Basle Committee on Banking Supervision, Switzerland, delivered the 48th Anniversary Lecture of the Central Bank on "Banking Supervision and Regulation". Dr. N.E.H. Sanderatne, Chairman, National Development Bank, delivered the Anniversary Lecture of the RB & STC on "The Demographic Transition: Opportunities and Challenges". The lectures were published under the occasional paper series of the Central Bank.

A total of nine public seminars were conducted in 1998. At each seminar, a paper was presented by a main speaker and there were at least two discussants. A list of seminar topics and key speakers is given below :

- i. "East Asian Economic Crisis: Lessons for Sri Lanka" by Mr. Nimal Ratnayake, Accountant, Central Bank
- ii. "Emerging Role of the IMF and World Bank in the World Economy" by Mr. Anton Op-de-Beke, IMF Resident Representative in Sri Lanka
- iii. "Recent Developments in East Asia" by Dr. H.N. Thenuwara, Senior Economist, Central Bank.
- iv. "State of the Economy in 1997 and Prospects for 1998" (Highlights of the Central Bank Annual Report) by Mr. R.A. Jayatissa, Director of Economic Research, Central Bank
- v. "Recent Trends in Monetary Policy in Sri Lanka" by Dr. P.W.R.B.A.U. Herat, Senior Economist, Central Bank
- vi. "World Trade and Protectionism: Issues for Sri Lanka" by Dr. H.N. Thenuwara, Senior Economist, Central Bank
- vii. "The Euro and its Implications for Sri Lanka" by Mr. Gordon O.Nelson, Regional Co-ordinator, Central Banks (Asia), Morgan Guaranty Trust Co. New York, Singapore.
- viii. "Highlights of the Budget" by Mr. R.A. Jayatissa, Director of Economic Research, Central Bank.

- ix. "Socio-Economic Developments in Sri Lanka: Major Findings of the Consumer Finances and Socio-Economic Survey-1996/97" by Dr. S.S. Colombage, Director of Statistics, Central Bank

During the year under review, 150 officers of the Central availed themselves of the facilities in the Self Access Centre (SAC) for English Language at the CBS. To supplement the SAC facilities, classes were held to improve skills in oral communication and writing reports.

The CBS library continued to provide data and information to the Central Bank staff and also to researchers from outside universities and institutions. The CBS library added 350 books to its collection and subscribed to 52 periodical titles.

EMPLOYEES' PROVIDENT FUND

The Employees' Provident Fund (EPF) Act has vested the Monetary Board of the Central Bank with the responsibility of receiving contributions, surcharges and income from investments, maintaining proper accounts of registered employers and individual members of the Fund and also effecting refunds of benefits to its members. These activities were carried out by the Board in close co-operation with the EPF Division of the Department of Labour which attends to the administration and enforcement of the provisions of the EPF Act.

Since the destruction of the computer data-base and a bulk of the documents in the bomb blast in 1996, the reconstruction and updating of the database relating to EPF member accounts were completed by using newly developed computer software on a new IBM AS 400.

The annual statements of all the 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. Members' annual statements for 1996 and 1997 were also issued during the year under review by implementing a special project.

Contributions

According to provisional data, the contributions received by the Fund during 1998 amounted to Rs.12.2 billion as against Rs.10.8 billion in 1997. This represents an increase of 13 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, the Bank of Ceylon and the People's Bank, at which the EPF accounts were opened, commenced collecting EPF contributions from employers. This arrangement was made to enable the employers to pay their contributions conveniently through a bank branch of their choice. However, this decentralised system of collecting EPF contributions through bank branches was discontinued since

June 1998 due to some administrative difficulties that were encountered by the Fund. Consequently the centralised system of collecting contributions that prevailed prior to 1997 was reintroduced with certain modifications to suit current requirements.

Members' Balances

Members' balances as at 31 December 1998 before allocation of interest for the year under review have been estimated at approximately Rs.156 billion, which is an increase of about Rs.28 billion or 21.8 per cent over the level of 1997.

Investments

During the year under review, the Fund invested its excess monies in government securities, Treasury bills, Treasury bonds, shares in quoted public companies and Regional Development Banks and debentures of Regional Plantation Companies. The total investments held by the Fund as at 31 December 1998 amounted to Rs.162 billion, which is an increase of Rs.25 billion or 18.2 per cent over the level of 1997.

Income Received from Investments and Taxes 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 1998 amounted to Rs.2 billion.

In 1998 the income received from investments amounted to Rs.20 billion, as against Rs 18.2 billion in 1997.

Refunds

The total sum paid out by way of refund of EPF benefits to members during 1998 amounted to Rs.6.1 billion as against Rs 4.6 billion in 1997. This is an increase of 32 per cent over the previous year. During the period under review, 68,928 claims for refund of benefits were paid out as against 61,196 claims disposed of in 1997. 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 dispatched a total of 6,674 applications for certification of balances to the respective labour officers.

Other Activities

For the first time in the history of the Fund, facilities were provided to the members to obtain their balances off-site through an on-line terminal facility installed at the 50th Independence Anniversary Exhibition at the BMICH in February, 1998. Subsequently, the same terminal facility was also provided to the Labour Secretariat at Narahenpita, and the District Labour Offices at Kandy and Kegalle.

The Fund also participated in all Presidential Mobile Services that were held in various parts of the country during the year under review. At these meetings, members were afforded an opportunity to have their problems sorted out and queries answered by the Fund staff.

In 1998, the Fund also commenced its first educational campaign aiming at creating an awareness of the Fund's services among the members. Two such sessions were held in the Nuwara-Eliya District for the member estate workers.

EXCHANGE CONTROL

There were no major legislative changes during the year 1998, except for the amendments introduced in April 1998 to the Special Import Licence Regulations No.1 of 1977, which were made to further liberalise payment terms for imports, i.e. advance payments, consignment account terms and gifts and trade samples, and the liberalisation of the trade in gold, other precious metals and gems, with a view to promoting the gem and jewellery industry in Sri Lanka. The Exchange Control Department continued to concentrate its activities in the areas of capital transactions, monitoring of current international transactions and granting of licences to freight forwarders and renewing licences issued to money changers, hoteliers, jewellery shops and others who are permitted to accept foreign currency against the services provided by them to foreigners, in addition to monitoring of their activities.

Investments Abroad

Applications for investments abroad by Sri Lankan companies were permitted on a case by case basis. During the year 1998, nine applications for investments abroad, in India, the Maldives, Poland, USA, the Netherlands and Bangladesh, amounting to US dollars 13.3 million were approved with the concurrence of the Minister of Finance and Planning. In addition, permission was granted to the National Development Bank to invest an amount of US dollars 500,000 in the South Asian Regional Fund.

Foreign Currency Loans to Exporters

The foreign currency loan facilities granted to exporters and indirect exporters were further enhanced by providing them with access to bank account facilities in Foreign Currency Banking Units. The restrictions that prevailed earlier in respect of the purpose of the loan and the duration of repayment were relaxed.

Foreign Loans

During 1998, five applications to obtain foreign currency loans by resident companies from reputed international financial institutions were approved.

Capital Transfers on Migration

During the year, 136 applications for capital transfers by Sri Lankans who have obtained emigrant visas/permanent resident

status in other countries were approved. In addition, approvals were granted to release funds from the estates of the deceased and to remit funds from blocked accounts within the limits specified.

Imports

The Department engaged in clearing import applications referred by the Sri Lanka Customs in terms of Government Gazette Notification No.1022/6 of 8 April 1998 in respect of the following:

- i. Import of goods on no exchange involved basis where the value in aggregate exceeds US dollars 1,000.
- ii. Motor vehicles imported against earnings abroad.
- iii. Machinery and equipment received from foreign collaborators against equity.
- iv. Project related cargo.
- v. Imports by armed forces.
- vi. Amendments to Letters of Credit.
- vii. Clearance of gold imports on consignment basis by commercial banks for sale at the duty free shop.

Monitoring

With the liberalisation of current international transactions, the Department strengthened its monitoring scheme relating to release of foreign exchange by authorised dealers and approved travel agents with a view to avoiding any abuses, indiscriminate release of foreign exchange or use of foreign exchange for unauthorised purposes. Under this scheme, all commercial banks are required to submit information on the purchase of foreign currency exceeding US dollars 5,000 on a daily basis and in respect of sales and purchases of foreign currency amounting to less than US dollars 5,000 on a weekly basis.

In terms of the Gazette Extra-ordinary No.1022/6 dated 8 April 1998, the Exchange Control Department commenced monitoring payments made in advance in order to ensure that the goods and services were received in Sri Lanka against such advance payments. Credits and debits made 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 examining cargo manifests, debit notes, inward remittance memos, etc.

Investigation

In addition to the investigations carried out regarding the irregularities identified as a result of the scrutiny of the release of foreign exchange in respect of current international transactions, violations of the provisions of the Exchange Control Act relating to transfer/sale/purchase of shares, investments abroad, without obtaining the permission of the Exchange Control Department, were investigated and action has been taken in terms of the Exchange Control Act. Several investigations are in progress.

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 are handled by the Public Debt Department (PDD) of the CBSL. In fulfilling its responsibilities the PDD continued to issue domestic debt instruments, namely Rupee loans, Treasury bills and Treasury bonds in 1998.

The PDD also handled the service payments on 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 relates to the steps taken to strengthen the Primary Dealer System (PDS). Regular meetings with Primary Dealers (PDs) were held by the PDD in order to maintain a continuous rapport between the CBSL and PDs on current developments in the debt securities market. At these meetings it was possible to discuss and understand several important issues relating to the development of the government debt securities market.

Information relating to trading activities of the PDs on Treasury bills and Treasury bonds was collected and analysed regularly by the PDD. Steps were taken by the PDD to publish such information through the electronic media such as Reuters, Internet etc. In order to improve public awareness on investment in government debt securities, information was released regularly to the market in the form of press releases through news papers, Reuters and other computer net works. A data base was established using information collected from PDs. The data were used to compute performance indicators on individual PDs as well as total market activities. Information in summary form was released to PDs at one-to-one meetings that were held on a weekly basis enabling PDs to evaluate their positions in relation to the total market. The database was also used to prepare the Annual Review of the PDs.

During the year under review, the PDD engaged in developing the modalities to improve the primary issue and trading of debt instruments in the secondary market. Computer software to facilitate the issue of Treasury bonds were further developed in-house by the PDD during 1998. As a promotional activity, the PDD also conducted several seminars and workshops for PDs and institutional investors in order to enhance their awareness in government securities.

The Primary Dealer Association (PDA) which was established in June, 1997 formed several sub-committees to address different issues concerning the development of the debt securities market. Some of these issues related to the proposed systems of electronic bidding and scripless securities,

appointment of a screen broker, creation of separate legal entities for PD activities and compiling supplemental terms for the Global Master Re-purchase Agreement and preparation of a Repo Code of Best Practice.

A number of steps were taken by the PDD in order to activate the government securities market. Those included the introduction of the electronic bidding system in June, 1998 on a trial basis. This system was operated parallel to the existing paper based bidding system.

The CBSL and PDA felt the need for establishing an electronic trade matching system for rapid growth of the secondary market. With a view to selecting a suitable screen broker, the PDA and officials of the CBSL had a series of meetings with three vendors namely; Reuters, Sasianet and Lanka Online. The system developed by Sasianet was operated on a trial basis.

The PDD retired 7 Rupee loans amounting to Rs.16,000 million which were due to mature in 1998/99. These included 3 loans amounting to Rs.6,000 million carrying a rate of interest of 15 per cent and 4 loans amounting to Rs.10,000 million carrying a rate of interest of 16 per cent. In addition, Rs. 2,000 million of Treasury bills from holdings of the CBSL were retired on 31 March 1998 using the proceeds realised from the divestiture of 26 per cent of share holdings in Air Lanka Ltd. Treasury bills issued at higher interest rates were chosen for retirement, thus maximising the saving of direct interest cost to the government.

The PDD obtained technical assistance from a foreign consultant during the year. He conducted several training sessions for CBSL officers, PDs and institutional investors.

New security features were introduced to Treasury bills with effect from 4 September, 1998. These security features include the use of a special security paper with exclusive watermark, security fibres woven in the paper which becomes visible under ultra violet light and intaglio printing of background designs and borders. The Treasury bills were printed in 3 different colours for easy identification i.e., 3 month bills were in orange, 6 month bills were in light green and 12 month bills were in light blue.

Operational Activities

Total outstanding gross public debt serviced by the PDD as at end 1998 amounted to Rs.887,234 million. This indicated an increase of Rs.146,249 million or 19.7 per cent as compared with that of 1997. The public debt outstanding as at end 1998 consisted of Rs.419,500 million (47.3 percent) of domestic debt and Rs.467,734 million (52.7 percent) of foreign debt. The domestic component of public debt increased by Rs. 54,939 million or by 15.1 per cent, whilst the foreign debt component rose by Rs.91,309 million or 24.3 per cent over that of 1997. Table II-16 shows the composition of public debt serviced by the PDD.

TABLE II -16
Composition of Public Debt

Category	At end 1997		At end 1998	
	Rs. Mn.	%	Rs. Mn.	%
Domestic Debt	364,561	49.2	419,500	47.3
Treasury Bills	114,996		119,996	
Rupee Loans	239,475		250,570	
Treasury Bonds	10,000		48,915	
Treasury Certificates of Deposit	83		12	
Tax Reserve Certificates	7		7	
Foreign Debt	376,425	50.8	467,734(a)	52.7
Total	740,986	100.0	887,234	100.0

(a) Provisional

Source : Central Bank of Sri Lanka

Treasury Bills

Primary Market

Total Treasury bills outstanding as at end 1998 was Rs. 119,996 million as compared with Rs. 114,996 million as at end 1997. This increase of Rs. 5,000 million was the net effect of new issues amounting to Rs.7,000 million and the retirement of Treasury bills worth Rs.2,000 million held by the CBSL during 1998. The authorised limit of Treasury bills remained unchanged at Rs. 125,000 million during 1998.

The retirement of Rs. 2,000 million of Treasury bills in March 1998 was made possible due to privatisation proceeds from the divestiture of 26 per cent of the share holdings of Air Lanka Ltd. The amount retired included Rs.1,100 million of Treasury bills due to mature during 1998 and Rs.900 million of Treasury bills due to mature during 1999. The direct total interest savings from this retirement amounted to Rs. 114.4 million of which Rs. 31.7 million was in respect of the Treasury bills maturing in 1998 and Rs. 82.7 million in respect of the Treasury bills maturing in 1999.

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 in the weekly primary auctions and their maturity distribution and any advance reservation of Treasury bills for the CBSL. The MOU also determined the maturity structure of Treasury bills purchased by the CBSL at primary auctions.

The total number of PDs at 18, constituting 11 commercial banks and 7 non-commercial banks, remained unchanged during 1998. Weekly one-to-one meetings with PDs were conducted regularly by the PDD with a view to evaluating the money and debt markets on a continuous basis. In addition, the PDD organised meetings on a fortnightly basis with all PDs in order to exchange views on current issues and economic developments.

Access to primary auctions of Treasury bills was confined to the PDs and institutional investors authorised by the CBSL. Total sales of Treasury bills at primary auctions amounted to Rs.230,683 million during 1998. The largest single category of

TABLE II - 17
Bids Accepted at Treasury Bill Auctions - 1998

Source	Maturity period (months)				Total	%
	3	6	12	Other		
1. Domestic Commercial Banks	58,010	26,773	29,855	-	114,638	49.70
State Banks	43,382	23,964	23,129	-	90,475	39.2
Private Banks	14,628	2,809	6,726	-	24,163	10.5
2. Foreign Banks	15,502	2,280	5,720	-	23,502	10.2
3. Non-banks (a)	17,616	13,358	20,907	-	51,881	22.5
4. Institutional Investors (b)	5,552	5,245	3,866	-	14,663	6.3
6. Central Bank Purchases	-	-	-	25,999	25,999	11.3
Total	96,680	47,656	60,348	25,999	230,683	100.00

(a) Includes NSB

(b) Funds managed by the CBSL

Source : Central Bank of Sri Lanka.

TABLE II-18
Annualised Weighted Average Yield Rates

Year	Maturity Period (Months)			Overall Average
	3	6	12	
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
1998	11.77	12.13	12.20	11.98

Source : Central Bank of Sri Lanka

buyers of Treasury bills at the primary market was commercial bank PDs who purchased Rs. 138,140 million or 59.9 per cent of total sales, followed by non-bank PDs who purchased 22.5 per cent of the total. The balance 6.3 per cent was purchased by the funds managed by the CBSL. Table II - 17 shows the source wise distribution of bids accepted for the year 1998.

Of the total bids received amounting to Rs.294,487 million, commercial bank PDs, non-bank PDs and institutional investors accounted for 69.2 per cent, 25.8 per cent and 5.0 per cent, respectively.

Of the Treasury bills outstanding as at end 1998, 12 month maturities amounted to Rs. 58,134 million (48 per cent) while 6 month maturities were in the region of Rs. 26,478 million (22 per cent). The balance Rs. 35,384 million or 30 per cent was accounted for by 3 month maturities (17 per cent) and other maturities (13 per cent). The number of physical scrips of Treasury bills issued during 1998 was 74,480 for all maturities.

The weighted average yield rates for 3, 6 and 12 month Treasury bills issued during the year fluctuated between 9.97 - 12.65, 9.95 - 12.92 and 10.24 - 13.06 per cent, respectively. The annualised weighted average yield rates of Treasury bills by maturity are given in Table II- 18. Total interest commitment on account of Treasury bills issued during 1998 was Rs. 13,851 million when compared with Rs. 12,661 million during the previous year.

The minimum and maximum weighted average yield rates of bids received during the year 1998 were 9.84 and 12.72 per cent for 3 month maturities, 9.89 and 12.98 per cent for 6 month maturities and 10.18 and 13.09 per cent for 12 month maturities.

Secondary Market

The secondary market for Treasury bills expanded considerably during 1998. A substantial amount of outright buying and selling as well as repurchase and reverse repurchase transactions took place among the PDs and between PDs and their customers. The total volume of outright sales and purchases by the PDs amounted to Rs.144 billion and Rs. 28 billion, respectively, during 1998. Trading volumes by PDs in respect of repurchases and reverse repurchases amounted to Rs.1,059 billion and Rs. 643 billion, respectively. The total stock of outright holdings of Treasury bills by the PDs as at end 1998 amounted to Rs. 19 billion.

Rupee Loans

A total of 15 Rupee loans amounting to Rs. 52,300 million was floated during 1998. The Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the two major subscribers to the Rupee loan Programme in 1998 and these two institutions together subscribed Rs. 48,200 million accounting for 92.2 per cent of total subscriptions in 1998.

Loans issued during 1998 carried interest rates ranging from 11.00 per cent to 12.25 per cent per annum and maturities ranging from 4/5 to 9/10 years. Of these, 3 loans were floated with fixed maturity of 5 years while the other 12 loans carried optional maturity periods of 4/5, 5/6, 6/7, 7/8 and 9/10 years. Data relating to floatation of loans are summarised in Table II - 19.

A total of 19 loans amounting to Rs.41,205 million were repaid during 1998. Accordingly, net subscriptions to Rupee loans amounting to Rs. 11,095 million resulted in an increase in the outstanding stock from Rs. 239,475 million as

TABLE II-19
Flotation of Rupee Loans - 1998

Interest Rate % p.a.	Maturity Years	No. of Loans	Amount Floated Rs. Mn
11.00	5	3	10,000
11.50	4-5	1	5,500
12.00	5-6	1	6,000
11.25	6-7	5	16,800
12.25	7-8	4	12,500
11.50	9-10	1	1,500
Total		15	52,300

Source : Central Bank of Sri Lanka

TABLE II-20
Maturity Profile of Rupee Loans - end 1998

Maturity Years	Amount Rs. Million	Percentage
2	5,500.00	2.19
3	15,000.00	5.99
4	5,000.00	2.00
5	16,000.00	6.39
6	5,500.00	2.19
10	5,979.96	2.39
30	24,088.00	9.61
4-5	5,500.00	2.19
4-6	10,316.68	4.12
4-8	3,500.00	1.40
5-6	20,877.77	8.33
5-7	53,715.01	21.44
6-7	38,800.00	15.48
6-8	1,000.00	0.40
7-8	17,900.00	7.14
8-10	1,000.00	0.40
9-10	1,500.00	0.60
1-10	19,392.62	7.74
Total	250,569.94	100

Source : Central Bank of Sri Lanka

at end 1997 to Rs. 250,570 million as at end 1998. The maturity profile of outstanding Rupee loans is presented in Table II - 20.

Total interest payments at Rs. 33,086 million on account of Rupee loans during 1998 was an increase of Rs. 3,065 million (or 10.2 per cent) as compared with that of the previous year.

Treasury Bonds

A marketable and coupon bearing medium and long term government debt instrument in the form of Treasury 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.

The important policy decisions taken by the CBSL regarding Treasury bonds during 1998 included (a) accepting non-competitive bids from the Central Bank managed funds in primary auctions of Treasury bonds at the weighted average price of the respective auctions and (b) admitting Treasury bonds as a liquid asset under Section 86 of the Banking Act. In addition, the PDD resorted to jumbo issues of Treasury Bonds in 1998. Under a jumbo series, successive Treasury Bond issues are considered to be a part of a single series with a maturity date, coupon rate and an interest payment schedule in common, irrespective of the auction date. This measure increased active trading in the secondary Treasury bond market.

During the year of 1998, Rs. 38,915 million of Treasury bonds were issued. This included Treasury bonds with 2, 3 and 4 year maturities. During 1998, 52 auctions of which 29 of 2 year maturity, 14 of 3 year maturity and 9 of 4 year maturity were held. Of the Rs.38,915 million of Treasury bonds issued,

TABLE II-21
Selected Information on Treasury Bonds - 1998

Series	Maturity (Years)	Bids Received (Rs. Mn.)	Bids Accepted (Rs. Mn.)	W.A.Y.R. to Maturity (% p.a.)	Coupon Rate (% p.a.)
11.00% 2000A	2	4,142	2,000	10.81-10.87	11.00
11.00% 2000B	2	2,260	1,815	11.33-12.07	11.00
11.00% 2000C	2	4,495	2,000	11.94-11.98	11.00
11.00% 2000D	2	2,560	2,000	11.95-12.23	11.00
11.50% 2001C	3	3,120	2,250	12.44-12.59	11.50
11.00% 2000E	2	7,483	3,000	12.63-12.82	11.00
11.00% 2000F	2	5,430	2,250	12.79-12.83	11.00
11.50% 2001D	3	5,885	2,500	13.01-13.90	11.50
12.00% 2002A	4	4,490	2,000	12.93-13.94	12.00
11.00% 2000G	2	4,357	3,000	13.07-13.34	11.00
11.00% 2000H	2	7,269	3,500	13.76-13.94	11.00
11.00% 2000J	2	5,312	2,500	13.92-13.94	11.00
11.00% 2000K	2	6,917	2,000	13.56-13.93	11.00
11.50% 2001E	3	6,594	3,500	13.91-13.93	11.50
12.00% 2002B	4	5,395	2,400	13.83-13.94	12.00
11.50% 2001F	3	4,051	1,200	13.09-13.81	11.50
11.00% 2000L	2	6,462	1,000	12.99-13.50	11.00
Total		86,222	38,915		

Source : Central Bank of Sri Lanka

Rs. 25,065 million or 64.4 per cent was in respect of 2 year maturity, Rs. 9,450 million or 24.3 per cent was in respect of 3 year maturity and Rs. 4,400 million or 11.3 per cent was in respect of 4 year maturity. Prior to each auction, the CBSL announced the coupon rate. The coupon rates on 2, 3 and 4 year maturities were 11.00, 11.50 and 12.00 per cent per annum, respectively, at the end of 1998. All 52 auctions held during 1998 were over-subscribed with bids amounting to Rs.86,222 million being received of which Rs.2,025 million were received at a premium, Rs. 125 million were at par and Rs. 83,810 million were at a discount. Bids received from institutional investors(CBSL managed funds) who were allowed to receive weighted average yield, amounted to Rs. 262 million. Table II-21 presents information pertaining to primary issues of Treasury bonds.

There were two special issues totalling Rs. 1,000 million in October, 1998. These issues were made in order to regularise the borrowings by the Road Construction and Development Company, the liabilities of which were taken over by the Treasury. These issues comprised of 2 year Treasury bonds amounting to Rs. 500 million at the rate of interest of 11.00 per cent per annum and 3 year Treasury bonds amounting to Rs. 500 million at the rate of interest of 11.50 per cent per annum.

Interest payments were made bi-annually on surrender of coupons to the PDD by the bond holders through PDs. The total interest payments on account of Treasury bonds amounted to Rs. 2,101 million in 1998.

The number of Treasury bond scrips issued during 1998 totalling 5,304 included 3,728 of 2 year maturity, 1,167 of 3 year maturity and 409 of 4 year maturity. The number of coupons received by the PDD for bi-annual coupon payments totalled 7,906.

During 1998, the PDD took several steps to further develop the secondary market for Treasury bonds. PDs were required to quote buying and selling prices in respect of Treasury bonds and these prices were published for the information of the general public. On the basis of two-way prices quoted by the PDs, weighted average prices and rates were computed for the purpose of publication. In July and September, 1998, seminars on government securities were held with a view to increase awareness of investors and the general public on Treasury bonds.

PDs engaged in secondary market trading in Treasury bonds by way of outright buying and selling and repos involving substantial volumes during the year. As at end 1998, total Treasury bonds held by PDs in their portfolios amounted to Rs. 21,474 million, or 44 per cent of the total outstanding, as compared with Rs. 4,023 million or 40 per cent at end 1997.

Treasury Certificates of Deposit

There were no issues of Treasury Certificates of Deposit (TCDs) during 1998. Total repayments of TCDs during 1998 amounted to Rs.70.3 million of which Rs.59.5 million was in

respect of capital repayments and Rs.10.8 million constituted interest payments. The TCDs outstanding as at end 1998 amounted to Rs.12.4 million.

Other Domestic Government Debt Instruments

There were no new issues or repayments in respect of debentures of SMIB, NHDA and UDA. The amount outstanding of SMIB, NHDA and UDA debentures were Rs.500 million, Rs.109 million and Rs.83 million, respectively, at end 1998.

There were no capital repayments or interest payments on Tax Reserve Certificates (TRCs) during the year. The outstanding TRCs remained at Rs.7 million as at end 1998 the same as at end 1997.

External Debt

The total external government debt outstanding as at end 1998 amounted to Rs.467,734 million, showing an increase of Rs.91,309 million (24.3 percent) as compared with that of end 1997. Of the total outstanding debt as at end 1998, bilateral loans amounted to Rs.234,284 million (50 per cent) while multilateral and commercial loans amounted to Rs.211,715 million (45 per cent) and Rs.21,735 million (5 per cent), respectively. Major creditors in the bilateral category were Japan, USA and Germany. These sources accounted for Rs.214,483 million or 92 per cent of total bilateral loans. The International Development Association (IDA), which is the largest creditor in the multilateral category, accounted for Rs.111,711 million or 53 per cent of the total multilateral debt.

When classified according to the use of funds, project, programme and commodity loans accounted for Rs.357,078 million (76 per cent), Rs.45,698 million (10 per cent) and Rs.30,661 million (7 per cent) respectively, of the total government external debt. Table II-22 shows the composition of outstanding external government debt as at end 1998 by donor category and use of funds.

Total principal repayments and interest and other charges on external government debt in 1998 were Rs.11,601 million

TABLE II- 22
Gross External Debt Outstanding - end 1998

Category	Rs. Million	%
1. Donor	467,734	100
Bilateral	234,284	50
Multilateral	211,715	45
Commercial	21,735	5
2. Use of Funds	467,734	100
Cash	5,052	1
Commodity	30,661	7
Food	29,079	6
Programme	45,698	10
Project	357,078	76
Technical Assistance	166	-

Source : Central Bank of Sri Lanka

and Rs.7,513 million, respectively. Total disbursements during 1998 amounted to Rs. 37,725 million.

In 1998, 21 new foreign loans were contracted and the number of operative loans increased to 476 at the end of the year. These loans carried grace periods ranging from 1 to 17 years and repayment periods of up to 42 years. Interest rates ranged from 0 to 10.85 per cent per annum. The grant element of the loans ranged between 2 and 91 per cent. Table II- 23 shows the ranges of grace period, maturity period, interest rate and grant element of the external government debt by donor category as at end 1998.

TABLE II-23
Maturity, Interest Rates and Grant Element
of External Debt

Donor Category	Maturity Period (Years)		Interest Rate/ Service Charge (% p.a.)	Grant Element (%)
	Grace Period	Repayment Period		
Bilateral	1-17	5-42	0.00-7.39	4-91
Multilateral	5-11	6-40	0.75-8.25	2-87
Commercial	1-10	0-20	5.95-10.85	2-61

Source : Central Bank of Sri Lanka

Central Bank Securities

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 which commenced on 27 February 1998 was available till end December, 1998. An open-ended amount for the issue of CBSs was available for subscription by the PDs and commercial banks.

All issues of CBSs during the year had a maturity of 7 days. The interest rate applied to CBSs was the equivalent of the annualised daily interest rates used in CBSL repo transactions. These rates ranged from 11.93 - 12.06 per cent per annum. Total CBSs issues amounting to Rs. 40 million in 1998 were repaid in full during the year and there were no outstanding CBSs as at end December, 1998. The total interest cost of CBSs in 1998 amounted to Rs.0.092 million.

SECRETARIAT

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

In 1998, a comprehensive budgetary system was introduced to ensure strict financial controls over expenditure, within the framework of the comprehensive corporate plan of the Bank with a view to monitoring the expenditure in order to increase efficiency and cost effectiveness.

For this purpose, departmental detailed proposals and projects for the current year were thoroughly scrutinised in order to identify whether these were within the objectives to achieve certain goals specified under the comprehensive

corporate plan. An income and expenditure (both capital and administrative) budget was prepared for the Bank. Any request for expenditure (both capital and administrative) outside the budget was reviewed and supplementary approval obtained. To make the budget more flexible. The previous year's performance was reviewed at the Budget Review Committee level and revised budget figures were incorporated in the budget.

Total administrative expenditure in 1998 amounted to Rs.2,372 million, including note and coin issue expenses and other administrative expenditure amounting to Rs.1,618 million. Of this amount, expenditure on personnel, which includes salaries, allowances, overtime payments and medical benefits, amounted to Rs.1,211 million or 74.8 percent, while administrative costs and establishment costs amounted to 12.8 percent and 12.4 percent, respectively.

The total staff strength of the Bank at the end of 1998 was 2,102 which included 511 Staff Officers. There were 69 retirees from the Bank service during the year.

There was a marked escalation in some items of administrative expenditure in 1998. The relocation of certain Bank offices at the Renuka Building and the Equity Two Building in Janadhipathi Mawatha raised the rent and rates and other charges such as electricity.

Two buildings namely the old building and the new extension building, owned by the Bank were insured for terrorist cover during the second half of 1998. As a result, the cost of insurance premia increased markedly.

Capital expenditure in 1998 was Rs.2,766 million compared with Rs.938 million in 1997. The bulk of this expenditure, amounting to Rs.2,626 million, was for construction of the new Central Bank building and rehabilitation of the old building at Jandhipathi Mawatha. The amounts spent on the new building and the old building were Rs.2,287 million and Rs.337 million, respectively. A total of 22 new vehicles costing approximately Rs.56 million were purchased in 1998 to strengthen the vehicle fleet of the Central Bank. Computers purchased under German Aid numbering 125 were distributed among the departments after studying the requirements of each department based on their requests.

Apart from attending to the routine legal work of the Central Bank, the Legal Division was associated in the drafting of preliminary draft amendments to the Banking Act No.30 of 1988 to further strengthen the provisions relating to the regulating and monitoring of licensed banks. The Legal Division has also prepared draft regulations under the Registered Stock and Securities Ordinance and the Treasury Bills Ordinance for the regulation of Primary Dealers.

INFORMATION

The Department was responsible for building and strengthening its role as a collector, storer and disseminator of information to the Bank personnel and the public, through the multi-media.

In the dissemination of information within the Bank, the department published its Internal News Letter regularly with eighteen such letters being issued during the year. The Library, with its trained staff, upgraded its services and facilities to provide a better service to Bank personnel by its reader services: Selective Dissemination of Information (SDI) system; the circulation of periodicals and magazines and Inter Library Loan Scheme, while creating awareness of the current material available in the Library by circulating accession lists for Books and CD ROMs, content pages of periodicals, country study series, current technical literature series and compiling information on topics of current interest. At present the Library has a total collection of 8,590 books, 354 periodicals, 4,870 reports and over 104 CD-ROMs. The Sri Lankan collection too has been built up gradually to around 2,000 books. All the collections can be accessed through a computerised catalogue. In its project for capacity building and modernisation, the expertise of a primary consultant from the World Bank was made available to the Library during the period, July/August 1998.

Disseminating information to the outside world, the department released on a regular basis the daily exchange rates, economic indicators, consumer price indices, information on Treasury bills, Treasury bonds and Rupee loans to the print and electronic media along with press releases and other advertisements being placed regularly. Four press conferences were held by the Department in the latter half of 1998 on the World Economic Outlook, Release of Quarterly National Accounts Data, IMF's Article IV Consultations with Sri Lanka and Recent Economic Developments. The Annual Report, State of the Economy, Sri Lanka Socio-Economic Data, monthly Bulletin, Staff Studies Vol:23 and Economic and Social Statistics were released to the public through the Department along with the Satahana and News Survey - the Department's own monthly and bi-monthly publications. The Satahana, being very popular among the student population, registered record sales, with 180,000 copies being sold in 1998. As a result of its ever increasing demand, the number of copies printed each month was increased from 10,000 to 25,000. Comparatively, the News Survey which is restricted by its limited readership in English, recorded a moderate sale of 3,500 copies for 1998, displaying a better response than in the previous year.

The educational programmes undertaken by the department with the student population in mind, which commenced in a modest way in 1996 after the bomb blast, continued through the year 1998 as well. Five such programmes were held during the year. Three programmes were held for students in Advanced Level classes, and two were held for teachers and police inspectors. The first of the Educational Series in Sinhala, titled *Artikayak Handunaganimu* (Introduction of an Economy) was also published by the Department in 1998. The Sinhala and Tamil editions of the book entitled *Economic Progress of Independent Sri Lanka 1948 - 1998*, Annual Report 1997 and Sri Lanka

Socio-Economic Data were sent free of charge to schools which conduct Advanced Level classes in Commerce and Arts subjects.

1998 being Independent Sri Lanka's Golden Jubilee year, the Department actively participated in the Swarna Jayanthi Exhibition held at the BMICH from 5 - 25 February 1998. The overall organisation of the Central Bank's pavillion at the Exhibition was handled by the Department. At the pavillion the Department successfully ran a sales outlet for the Bank's publications, with special emphasis on "Economic Progress of Independent Sri Lanka, 1948 - 1998", the commemorative volume published by the Bank, wall plaques of *Avalokiteshwara* and national flag tie pins. The Department once again took part in the Industrial and Trade Exhibition - *Jana Nipayuma* held from 1 - 5 July 1998 to commemorate the People's Bank's 37th anniversary by running a counter for the Bank's publications, reaching a wider spectrum of readers.

The second of the Isuru documentary series, titled *Isuru Magama* on the Empowerment of women was undertaken by the Department on behalf of the Rural Credit Department. The outdoor shooting for this documentary was done at Ambilipitiya, Deniyaya, Matara and Kandy.

Photographic services were provided for the activities of the Bank which were disseminated to the print and electronic media for publicity. The visual art work for the coin to commemorate the World Cup cricket, 1999, was undertaken by the Department, along with the designing and drawing of the Logos for four Regional Development Banks viz Wayamba, Rajarata, Sabaragamuwa and Uva. The artwork for the Bank's wrapping paper, book covers for Satahana and Selected Economic Indicators, designing of the invitation cards for the opening of the Bank's new building and the art work for many advertisements were also handled by the Department.

Internationally, the department continued to contribute its mite by way of member news to the SEACEN Quarterly and undertook the updating of information to other international organisations on request.

The Central Bank Printing Press continued to meet all the printing requirements of the Bank, undertaking 260 such assignments for the year. Apart from printing the regular Central Bank publications, the Press also undertook special assignments by printing the commemorative volume - *Economic Progress of Independent Sri Lanka 1948 - 1998*; *Budget at a Glance*, *Budget Speech* and the *Six Year Development Programme* for the Ministry of Finance. The press continued to print the New Year greeting cards and pocket diaries for 1999.

RESEARCH ACTIVITIES

The Economic Research Department continued to collect and analyse economic and financial statistics to conduct economic research for the guidance of the Governor and the Monetary Board in policy formulation, and to provide information to the public. The Department also continued to provide data to the

International Monetary Fund (IMF) on a regular basis and co-ordinated the government's routine annual consultations with the IMF in May 1998. Provision of data to other international organisations and co-ordination of work with such institutions were also continued. The provision of weekly financial statistics to the public through the print media was continued and the Selected Monthly Economic Indicators were prepared for the information of policy makers. In addition to the Annual Report, the September 15th Report, a report provided under Section 116 of the Monetary Law Act, to be used in the preparation of the Budget, was prepared and submitted by the Department as usual. The Department published the monthly Bulletins and State of the Economy in 1998. The State of the Economy, an expanded version of the usual Economic Survey of the First of Half of the Year, presented macro-economic projections for 1998 and 1999. In February 1998, the Department published a book entitled "Economic Progress of Independent Sri Lanka" to mark the 50th Anniversary of Sri Lanka's independence. The Department also published Staff Studies Volume 23 No.1 and 2 in May 1998. A number of Board Papers were submitted to the Monetary Board advising on the monetary implications of various loan agreements entered into by the government and the decisions of the Monetary Board were conveyed to the Ministry of Finance.

The Department compiled data on monetary aggregates, balance of payments statistics, international commodity prices and monthly external trade statistics. Preparation of weekly and monthly reports on tea and rubber auctions in international markets and reports containing observations and recommendations on various economic issues for the Monetary Board, and at the request of ministries and other institutions and organisations, continued. During the year, the Department conducted surveys on industrial production (half yearly and annually), small scale industries, Greater Colombo housing approvals, real estate development and financing, the Goods and Services Tax (GST) and rubber smallholders in the Ratnapura and Kalutara districts. The Department prepared a new index, the Greater Colombo Housing Approvals Index (GCHAI) to measure the trends in the construction of houses in the Greater Colombo area. The Department also commenced computation of a new monthly trade indices series.

In March 1998, the Department conducted two comprehensive seminars namely "South Asia beyond 2000, Policies for Sustained Catch-up Growth" and "Independent Sri Lanka: Economic Development and Prospects 1948-98". The former was arranged in collaboration with the Economic Development Institute (EDI) of the World Bank. In addition, the Department conducted a workshop on Macro-Economic Management and Policy Analysis in May 1998 which was funded by the EDI of the World Bank. Also, a seminar on "WTO Agreements and Procedures" organised by the Department in collaboration with the Department of Commerce of the Ministry of Internal and International Commerce and Food, was held in August 1998. The Department arranged several internal seminars by Staff Officers who were posted to

the Department after post-graduate studies abroad. Officers in the Department also presented papers on economic issues at several seminars held locally and abroad.

Officers of the Department undertook a number of research studies both on their initiative and also to meet the demand made by other organisations. They included policy oriented research as well as studies which are largely of academic interest, covering macro and micro-economic analysis and policy issues. Some of these were published in the May 1998 issue of Staff Studies. The results of the surveys on the Goods and Services Tax and the utilisation of residential and commercial buildings in the Greater Colombo area were submitted to the Monetary Board as Information Series Board Papers. Officers from the Department continued to serve as country researchers on research projects conducted by the South East Asian Centre for Central Banks (SEACEN) Research and Training Centre. One collaborative research study with the SEACEN Centre was completed on "Securitization and Its Impact on Banking Business".

During the year, officers of the Department served on many internal committees with regard to policy matters such as the Monetary Operations Unit, the Treasury Bills Tender Committee, Balance of Payments Committee, Financial Sector Reform Committee and the Tariff Commission and on committees of regional organisations such as the Indo-Lanka Joint Sub Commission on Trade Finance and Investment, South Asia Association for Regional Co-operation (SAARC) and Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation (BIMSTEC). The Department also established a cell to co-ordinate activities of the "Network of SAARC Central Bank Governors and Finance Secretaries".

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 and prices and wages, and (b) micro level data on the household and corporate sectors.

The major tasks accomplished by the Department were the completion of the report containing the analysis and data of the Consumer Finances and Socio Economic Survey 1996/97, compilation and publication of quarterly GDP statistics and compilation of new consumer price indices for the Colombo District and other selected districts. The Department also commenced collection of data at regional level with a view to compiling regional production indicators. The daily publication of wholesale and retail price data of food commodities in key market centres continued.

Consumer Finances and Socio Economic Survey - 1996/97

The Report containing the findings of the Consumer Finances and Socio Economic Survey 1996/97 was finalised during the year. The findings of the survey will be published in two parts.

Part I of the survey report contains a detailed analysis of the data, while Part II will present the statistical tables. This report is being printed and will be released in April, 1999. With the publication of this report, the Central Bank has been able to develop a rich socio economic data base for the country covering a period of nearly five decades.

As in the previous surveys, the 1996/97 survey provides comprehensive data on socio economic conditions including demographic features, education, housing, health, labour force, income, expenditure, consumption, savings, investments and borrowings. Another new feature of this survey is that the data were collected and cross tabulated on a province-wise basis, in addition to presenting data by sectors, urban, rural and estate and geographical zones. The provincial data are expected to strengthen the socio economic database at the provincial level. Such data would be very useful for provincial planning in devolving socio economic development programmes to the provincial governments.

The entire data processing functions of the survey which consisted of (1) developing the necessary software for data entry and data verification (2) computerised data entry (3) data verification (4) developing necessary software for data processing and (5) data processing and tabulation were carried out in the Statistics Department for the first time.

With a view to disseminating timely micro level information on the household sector, the processing of data of this survey was carried out on a round-wise basis, and, as such, it was possible to publish the preliminary results early. These results were published in the Central Bank Annual Report - 1997, Sri Lanka Socio Economic Data Folder - 1998 and the "Economic Progress of Independent Sri Lanka". The major findings of the Consumer Finances and Socio Economic Survey 1996/97 were presented at a public seminar of the Central Bank. These survey data are also available in the Central Bank web site in 1998.

The Central Bank has used the statistical results derived from this survey to strengthen its data base on national accounts, as well as in the computation of the Colombo District Consumer Price Index and regional consumer price indices.

Computation of District-wise Consumer Price Indices

The Central Bank introduced a new Consumer Price Index to supplement the existing consumer price indices computed by the Department of Census and Statistics. The new Index, the Colombo District Consumer Price Index, was published in 1998. The commodity weights of the new index are based on the expenditure patterns derived from the Consumer Finances and Socio-Economic Survey 1996/97 conducted by the Central Bank. The target population used to construct the weights of the Index consisted of the lowest 40 per cent of households in the Colombo District ranked by income. The base period for the Index is from October 1996 to September 1997. Price data for the Index were obtained from selected markets in the

Colombo District. Initially, prices for the computation of this Index were obtained through the statistical investigators of the Country Wide Data Collection System in the 5 centres established in the Colombo District namely Hanwell, Homagama, Moratuwa, Avissawella and the Pettah market. From January 1999, price collection is to be extended to a further 6 suburban and semi-rural markets within the Colombo District, namely, Kolonnawa, Nugegoda, Dehiwala, Piliyandala, Maharagama and Padukka. Price collection in these markets will be undertaken by the staff of the Statistics Department.

Country Wide Data Collection System

The Country Wide Data Collection system which was commenced by the Statistics Department in 1978 completed 20 years of operation in 1998. 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 is also used to monitor the performance of agriculture in major producing areas. Data collection is accomplished by an island-wide net work of school teachers who function as statistical investigators. The sub-sectors of paddy, tea, rubber, coconut cultivation and 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 quality of data collected through the investigators and with the specific objective of using these data for the computation of regional consumer price indices seminars were conducted in Anuradhapura, Kandy and Matara regions in 1998 to provide training for the data collectors.

The Department continues with its scheme of collecting wholesale prices of major food items from the Pettah market on a daily basis and from other major producing centres. In 1998, the collection of retail prices of major food items from the Pettah market was also undertaken on a daily basis. Information so collected is published daily in the media with a view to disseminating the information to farmers, traders and consumers. The data are also provided to government and private sector agencies.

National Accounts

The Department continued with the task of estimating National Accounts. These included the collection and compilation of primary and secondary data. The base year used in the GDP computations was shifted to 1996 from the base period 1982 used earlier, to capture a more current structure of output and value-addition. The details in information sought from primary and secondary sources in selected sectors were expanded in order to progress from the production accounts to the generation of income accounts. This is in view of incorporating the revisions suggested in the System of National Accounts (SNA) 1993.

The Statistics Department completed the exercise of compiling National Accounts on a quarterly basis during the

year. The GDP statistics for the first, second and third quarters of 1998 along with the comparable data for 1996 and 1997 were disseminated to the public regularly through the print and electronic media and the Central Bank monthly Bulletin within 3 months of the end of each quarter, giving emphasis to timely release in information of macro-economic importance. Earlier, the national income data compiled by the Central Bank and the Department of Census and Statistics were limited to annual estimates. The quarterly GDP statistics provides a better understanding of the current situation in the economy unlike earlier when information on the previous year's performance was available only in the second quarter of the following year. Being better informed of the current developments would enable the private sector and the government to respond to emerging developments and possibly take quick remedial measures.

Publications

The Department released its two annual publications titled "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.

INFORMATION TECHNOLOGY

In April 1998, the Data Processing Department was renamed as the Information Technology Department (ITD) to better reflect its present activities. During the year under review, the ITD completed shifting all its old applications to the new AS400 environment.

Following the bomb blast of January 1996 the department used the computer system at the Department of Census and Statistics to run its payroll and other applications and also installed a system at the Institute of Computer Technology (ICT), University of Colombo, for the Employees' Provident Fund (EPF) application. These applications were migrated fully to the new AS400 environment and functions at the two temporary installations were terminated in 1998.

The EPF application was completely rewritten in the AS400 environment enhancing the functionalities and also using a four-digit year field to ensure Year 2000 compliance. The new system links up different divisions of the EPF Department through terminals located in these divisions. Query facilities have also been made available to the Labour Department and also tested at a few district Labour Offices using telecommunication links. The new system has succeeded in improving the productivity of the EPF Department and it is expected that the member statements will be issued even earlier

next year. Sub-systems have also been developed for collecting contributions from employers using diskettes instead of the manual methods used so far. At the fiftieth independence anniversary exhibitions held at the BMICH, employees were provided with the facility of obtaining their 1996 annual statements at the exhibition grounds.

The Department has developed applications where commercial banks and Primary Dealers have been successfully linked to the Central Bank through dial-up telephone lines. All banks use this system to provide their liquidity positions to the Central Bank each morning to enable the Central Bank to ascertain the liquidity position in the Banking Sector. This link is also used for transmitting bids for the Primary Auctions of Treasury bills. A new system was also developed for automating the activities of the Banking Department.

A major modernisation project for office automation commenced during the year under review. 125 personal computers and 10 servers were installed in the WTC building and linked up to form 10 Local Area Networks (LANs) under Phase I of this project. Phase II will commence when the Bank shifts to the new extension building and the renovated old building where the LANs will be interconnected through a fibre optic backbone to form one large LAN.

The Bank is also involved in a major project to develop a Real Time Gross Settlement (RTGS) Payments System. As the first step, a Study on the Automation of Banking Activities and the Government Debt Securities Market was carried out by PricewaterhouseCoopers of Australia under financial assistance from the World Bank. This project will enable a modern payment system to be introduced for the Sri Lankan banks. It is expected to be implemented towards the latter part of the year 2000.

The Department is also responsible for achieving full Year 2000 compliance in the Central Bank and the banking and financial sector. All critical applications of the Central Bank including the Clearing and Settlement System have already been remedied and tested. The Department is just completing the task of testing small applications running in various departments. Monitoring of the Year 2000 projects in the 32 banks is being carried out by the Department together with the Bank Supervision Department.

Sri Lanka Automated Clearing House (SLACH)

The SLACH continued its operations uninterrupted. The cheque volumes processed keep on increasing every year inspite of the introduction of other payment instruments, such as credit and debit cards. In 1998 the number of cheques processed increased by 7 per cent to reach 31,356,490 items. Average items processed per day is 131,750.

The Sri Lanka Interbank Payment System (SLIPS) is also being used more extensively. The number of transactions processed through this interbank payment system ranges between 1,000 to 12,000 per day. The Central Bank also

commenced using this system to pay salaries and other payments to their employees.

The Cabinet of Ministers approved the tender for setting up of a backup site for the SLACH. The installation will be set up in 1999.

TRAINING

The Central Bank continued its policy of training officers in academic as well as non-academic fields during the year under review. Academic training was related to postgraduate studies in Economics and allied fields at recognised universities abroad. During the year 6 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.

As at 31 December 1998, 16 officers were pursuing postgraduate studies abroad. Four officers were in Ph.D. programs and twelve officers were in Masters programs. During the year, 9 officers returned after postgraduate studies.

TABLE II - 24

Training of Officers: Postgraduate Studies 1997/1998

Year	No. of Officers Sent for Postgraduate Studies	No. of Officers who returned after Postgraduate Studies	No. of Officers pursuing Postgraduate Studies as at 31 December 1998	
			Ph.D.	M.Sc./M.A.
1997	06	07	05	12
1998	06	09	04	12

Officers were sent for non-academic training comprising short-term courses, seminars and workshops, both local and foreign, in specific fields relevant to the Bank. During 1998 a total of 90 officers proceeded abroad on short-term training programs. A total of 322 officers participated in 42 training courses conducted by the Rural Banking and Staff Training College (now Centre for Banking Studies) while 108 officers participated in 33 Courses and seminars held at other local institutions.

The Training Department also conducted classes in Economics and Mathematics for those officers intending to proceed abroad for 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 1998 the Department of Management Audit carried out its functions under the Annual Audit Programme for the Central Bank and undertook a number of special studies as required by the Management.

Pre-auditing was carried out on all payments relating to the construction of the extension building and rehabilitation of

the Head Office building of the Bank, all refunds of the Employees' Provident Fund and payments made to employees on retirement or on terminating Bank service. Monthly and annual accounts of the Sri Lanka Automated Clearing House, accounts and activities of the Central Bank Regional Office at Matale and expenditure of other Regional Offices and the Centre for Banking Studies were post-audited. Further, welfare payments and financial statements relating to employee benefit schemes were also post-audited.

The verification of stocks of gold, currency notes and coins in the vaults of the Currency Department, vehicles maintained by the Premises Department, the Currency Museum, and furniture and equipment of the holiday bungalows was undertaken during the year in order to ensure security of Bank assets. Surprise audits were carried out from time to time on the counters of the Currency Department and petty cash balances maintained by departments.

In addition to the above, audits were also carried out under the Audit Programme on the accounts and activities of other departments of the Bank to ensure efficient utilisation of the Bank's resources and effectiveness of its rules, regulations and internal control systems.

Studies on the work performance of English stenographers and minor employees of the Bank were undertaken and completed during the year. The objective of these studies was to ensure efficient allocation of present staff in these categories after identifying excesses and deficiencies in different departments and to assess whether recruitment of additional staff was necessary. As required by the Management Committee a scheme of promotions for telephone operators was also prepared.

PREMISES

During the year 1998 the Premises Department was mainly engaged in routine maintenance work and upkeep of the offices in premises taken on lease to relocate the Bank's Head Office until the completion of the extension project and rehabilitation of the old Head Office building. In addition, the Department with the agreement of the Colombo Municipal Council, undertook the maintenance of the Chatham Street Clock Tower which stands right in front of the Central Bank building complex.

NEW BUILDINGS

The New Buildings Department established on 18 November 1997 is entrusted with the special task of attending to the work connected with the construction of the Central Bank Extension Building Project and the Head Office Rehabilitation Project.

Extension to the Central Bank Head Office Building

The construction work in respect of this project commenced in August 1994 and continued during 1998. The progress of

the work was affected considerably due to unforeseen sub-soil conditions, stoppage of work due to security reasons, design changes, 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. During the years 1997 and 1998 construction work of the building continued without interruptions and by the end of 1998 structural work of the building was fully completed while about 60 per cent of the architectural work and finishes, 65 per cent of the mechanical and electrical work and 80 per cent of the overall work of the project have been completed.

The building project is expected to be completed by end April 1999. 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

The rehabilitation work of the damaged Central Bank Head Office building commenced in December 1997 and continued without interruptions in 1998. However, the progress of work has been considerably delayed due to:

- i. attending to extensive repair and alterations which became necessary due to detection of corrosion damage and structural weaknesses revealed while removing finishes carried out under the contract. These damages were not foreseen at the time of tender.
- ii. design changes required to be carried out subsequently, in the course of co-ordinating the fire and security systems and services provided in the two buildings.

At the end of 1998, the progress in respect of major areas of work were as follows:

Area	Extent of Completion (%)
a. Demolition works	100
b. Repair works	95
c. New Concrete works	85
d. Finishes	65
e. Overall	30

In addition, installation of windows, internal/external plasters and mechanical and electrical works are in progress.

The rehabilitation work in the building is expected to be completed by end August 1999.

WELFARE

The Welfare Department continued to provide several welfare facilities to the Bank employees in 1998. These include concessional loan schemes, such as housing, staff benefit, vehicle and provident fund loan schemes, reimbursement of medical expenses and in-house clinic service, the subsidised canteen service and subsidised railway and bus season tickets. In addition, the facilities provided to the staff affected by the

bomb explosion in 1996 continued during the year. However, the provision of canteen facilities remained limited during the year as the departments of the Central Bank have been located in several places.

The amalgamation and rescheduling of welfare loans introduced in the previous year continued during the year, and, in keeping with the rising cost of land and building materials, the size of the housing loan granted to employees was increased from Rs. 750,000 to Rs. 1.5 million and in order to simplify the work of the housing loan scheme a flat rate of interest of 3.8 per cent was introduced during the year. The payments under the medical benefit scheme were computerised and in order to expedite the payments, the payments were routed through the Sri Lanka Interbank Payment System (SLIPS).

The introduction of computerised accounting systems and simplification of payments systems has paved the way to improve the productivity of employees to a great extent and to reduce the cost of overtime.

SECURITY SERVICES

Duties Performed

Security Officers were detailed at the following places:

1. World Trade Centre Building, West Tower in floors 26 to 35.
2. Currency Department at Chartered Bank, Treasury building and at the basement of the Old Head Office building.
3. Renuka and Equity Two building.
4. Bank Supervision Department at Hemachandra building.
5. People's Bank car park at Lotus Road.
6. Regional Offices at Matara and Anuradhapura.
7. Stalls sponsored by the Central Bank at the exhibition held at BMICH to commemorate 50 years of Independence in Sri Lanka.

Security Officers provided armed escorts to transport cash to Regional Offices, the cash counter at Bristol Street and the currency counters at the Treasury building.

Training

Security Officers were trained in the following areas:

1. Functions and responsibilities of Security Officers.
2. Handling of Fire Fighting Equipment.
3. First Aid.
4. Weapon Handling.
5. Live Firing

In addition to the above, additional security measures were taken in liaison with government security and intelligence agencies. As there was a threat to the new extension building, a new scheme was adopted to transport building materials and water to this work site under stringent security measures.

PERSONNEL

The Establishments Department continued to perform its functions with regard to recruitments, appointments, promotions, retirements and other related matters during 1998 in keeping with its vision of "maintaining a competent and capable work force developed to its true potential, with an ability to clearly understand the role responsibilities and discharge them efficiently and effectively and meet unhesitatingly the emerging needs and challenges".

During 1998, sixteen staff officers and twenty three clerks including a court clerk were appointed to the Bank service. An investigating officer (on contract) was appointed to the Exchange Control Department to undertake special investigations into cases involving violations of Exchange Control regulations.

The Bank widened the panel of consultants during 1998 by appointing four more consultants in the fields of Labour, Economics and Public Finance to the existing panel of consultants in Legal, Accounting, Banking and Financial Services, increasing the total number of consultants to eight. These consultants continued to undertake specific assignments in their respective areas.

During the year the Data Processing Department was renamed the "Information Technology Department" with effect from 7 April 1998 and the Rural Banking and Staff Training College was renamed "The Centre for Banking Studies" with effect from 21 December 1998.

The Department for the first time organised two workshops for Heads of Departments and Additional Heads of Departments during the year. The first workshop was held on 8 and 9 August 1998 at Rural Banking and Staff Training College and the second workshop was held at the Blue Water Hotel, Wadduwa on 17 and 18 October 1998. These two workshops enabled the Heads of Departments and Additional Heads of Departments to discuss the activities and work programmes of their respective departments and to formulate policy guidelines for the future.

During the year, the Department introduced a new Performance Evaluation Scheme which will replace the Confidential Report Marking Scheme now in existence. The new scheme that has been introduced on a trial basis from 1998 is a major deviation from the earlier reporting scheme. The new scheme is growth oriented and lays emphasis on evaluation of an employee on the basis of activities identified and targets given and the extent to which such activities are completed and targets achieved.

Selection of an outstanding employee of the Bank is yet another novel idea introduced by this Department during the year 1998 to increase productivity among employees of the Bank.

The Governor, Mr. A. S. Jayawardena, attended the following meetings during 1998.

1. G-24 Extraordinary Ministerial Meeting held in Caracas, Venezuela from 7 to 9 February, 1998 and 33rd SEACEN Governors' Annual Conference, held in Bali, Indonesia from 13 to 15 February 1998.
2. IMF World Bank 1998 Spring Meetings held in Washington DC, USA from 13 to 17 April, 1998; Sri Lanka Seminar and other meetings held in London, U.K. from 21 to 27 April, 1998, 31st Annual Meeting of the Board of Governors of the Asian Development Bank held in Geneva, Switzerland, from 29 April to 01 May 1998 and IMF Singapore Regional Training Institute Seminar held in Singapore on 04 May 1998.
3. 27th Meeting of the Board of Directors of the Asian Clearing Union held in Karachi, Pakistan from 21 to 22 May, 1998 and Sri Lanka Aid Group Meeting, held in Paris, France from 26 to 27 May 1998.
4. Commonwealth Symposium on Banking and Financial Services held in London, UK on 03 June 1998; Central Bank Governors' Symposium held in London, U.K. from 4 to 5 June 1998; Annual General Meeting of the Bank for International Settlements held in Basle, Switzerland from 6 to 8 June 1998 and Meeting with Bankers in Zurich, Switzerland on 9 June 1998.
5. South Asian Forex Dealers' Conference held in Hyderabad, India, on 30 September 1998 and IMF/World Bank Annual Meetings held in Washington D.C., USA, from 2 to 8 October 1998.
6. SEANZA Central Bank Governors' Symposium held in Wellington, New Zealand from 19 to 22 November 1998.

Appointments

1. Dr. U. Vidanapathirana, Additional Chief Accountant, was appointed as Superintendent of Currency with effect from 21 May 1998 and subsequently appointed as Additional Superintendent of Public Debt with effect from 20 August 1998.
2. Mr. J. M. T. B. Jayasundara, Additional Superintendent of Public Debt, was appointed as Superintendent of Currency with effect from 20 August 1998.
3. Mr. M. I. F. Hamid, Director, New Buildings Department, was appointed as Director, Supervision of Non-Bank Financial Institutions Department with effect from 1 October 1998.
4. Mr. T. H. D. Peiris, Director, Training Department, and Director, Premises Department, was appointed as Director, Premises Department and Director, New Buildings Department with effect from 1 October 1998.

5. Mr. K. C. M. Gunasekera, Special Officer, was appointed as Director, Training Department with effect from 1 October 1998.
6. Mrs. P. T. Perera, Additional Director, Supervision of Non-Bank Financial Institutions Department, was appointed as Acting Secretary with effect from 9 October 1998.

Retirements

1. Mr. R. G. Jayaratne, Superintendent of Currency retired from Central Bank service with effect from 21 May 1998.
2. Mr. J. E. D. Karunaratne, Director, Department of Supervision of Non-Bank Financial Institutions retired from Central Bank service with effect from 1 October 1998.
3. Mr. N. A. Dharmabandu, Executive Director, retired from Central Bank service with effect from 15 November 1998.

Officers on Release

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. Jayasundara to the Ministry of Finance and Planning as Deputy Secretary to the Treasury.
3. Dr. A. G. Karunasena to the International Monetary Fund as Alternate Executive Director.
4. Dr. U. Vidanapathirana to the Ministry of Public Administration, Home Affairs and Plantation Industries as the Director General (Development).
5. Mr. M. J. S. Abeysinghe to the Ministry of Finance and Planning.
6. Mr. A. Abayaratna to the Ministry of Finance and Planning.
7. Dr. (Mrs.) Ranee Jayamaha to the Commonwealth Secretariat, London.