

I. Introduction

1. The present report, which is the first Annual Report of the Monetary Board of the Central Bank of Ceylon, is issued in pursuance of Section 35 of the Monetary Law Act, No. 58 of 1949, which provides that within three months after the end of each financial year, that is to say, by March 31, the Monetary Board shall submit to the Minister of Finance and shall publish an Annual Report on the condition of the Central Bank and a review of the policies and measures adopted by the Monetary Board during the financial year and an analysis of the economic and financial circumstances which prompted those policies and measures.

2. The Monetary Board was constituted on July 1, 1950, and the Central Bank commenced business on August 28. The Monetary Board is the governing body of the Bank and consists of the Governor, the Permanent Secretary to the Ministry of Finance and an appointed member. Mr. John Exter was appointed the first Governor, and Mr. J. Tyagaraja the first appointed member. Sir Charles Jones, C.M.G., Mr. T. D. Perera, C.M.G., and Mr. A. G. Ranasinha, C.M.G., C.B.E., served on the Board successively in the capacity of the Permanent Secretary to the Ministry of Finance. Mr. N. U. Jayawardena was appointed the first Deputy Governor. The organization of the Bank by departments and its principal executive officers is given on page (iii).

3. The Bank's financial year is the calendar year. Since the Bank was only open for business during the last four months of 1950, the present report, strictly speaking, need cover only that period. However, to enable a better appreciation of the policies and measures adopted by the Board during the period, the report contains an analysis of the economic and financial conditions in Ceylon during the entire calendar year 1950, with the emphasis on the developments subsequent to the establishment of the Central Bank.

4. The year 1950 is notable as a period of marked inflation in which abnormal movements in the money supply and in the price level tended to endanger domestic monetary stability. It was also a year in which the full effects of the devaluation of the Ceylon rupee in September, 1949, began to be felt. In addition to the measures taken by the Monetary Board in connection with the organization and commencement of business by the Bank, the major policy measures of the Board were concerned with the problems of inflation. Consequently, a considerable part of this report is devoted to an analysis of the inflationary situation in Ceylon.

II. Money Supply

5. As the following table indicates, the money supply increased rapidly during the year:—

Month	Money Supply		Per cent. increase over corresponding month of previous year
	1949	1950	
	Rs. million	Rs. million	
January	589.6	642.1	8.9
February	577.5	644.8	11.7
March	558.1	654.9	17.3
April	545.9	659.7	20.8
May	555.7	682.1	22.7
June	574.7	687.3	19.6
July	576.6	707.7	22.7
August	591.2	747.8	26.5
September	588.4	780.4	32.6
October	608.2	788.2	29.6
November	619.9	822.9	32.7
December	640.2	881.1	37.6

Note.—Since December, 1949, the Central Bank's money supply figures have differed from those before that date, especially because they have included semi-Government deposits (see Statement 1A in Appendix II). However, since monthly figures for semi-Government deposits before December, 1949, are not available, the above figures since that date also exclude such deposits. The 1950 figures are thus in all respects comparable to those of 1949.