

## V. Money Supply

22. The following table compares the money supply for each month in 1951 with that for the corresponding month in 1950 :—

### Money Supply

(In millions of rupees)

End of month	1950	1951	Per cent increase over corresponding month of previous year
January	663.1	965.2	45.6
February	668.0	1,029.7	54.1
March	673.8	1,027.6	52.5
April	676.1	1,033.7	52.9
May	694.1	1,033.3	48.9
June	699.8	1,025.2	46.5
July	720.9	1,014.9	40.8
August	766.7	998.4	30.2
September	805.2	999.6	24.1
October	819.9	1,001.3	22.1
November	849.8	1,007.5	18.6
December	910.7	1,006.1	10.5
Average	745.7	1,011.9	35.7

A sharp rise in the money supply, which was the dominant movement in 1950, continued until February, 1951, and then ended abruptly. Through the rest of 1951 and into the first months of 1952, the money supply was remarkably stable, though the average of end-of-month figures for 1951 was almost 36 per cent higher than that for 1950. The factors affecting the movements of the money supply are brought out clearly by Chart 2 and Table 2 on which the chart is based. By March, when export prices reached their post-Korea peak the banking system ceased to acquire additional external assets and instead lost such assets almost continuously from April until the end of the year. This loss was partially offset by a slow expansion of domestic credit by the commercial banks and by a small shift of rupee cash from Government to the public (in other words, by a drawing-down of Government cash balances) in the last months of the year. The table on page 9 summarises the factors affecting the money supply for the entire year, and gives the corresponding figures for 1950.

## VI. Cost of Living

23. As in the 1950 Report, the Bank took the Colombo lower income cost-of-living index as the most representative index for measuring changes in consumers' prices. A detailed analysis was again made of the movements of various components of the index: the import group, the export group, and the domestic group. The results are tabulated on page 10.

*Summary Statement of Causes of Changes in Money Supply*  
( In millions of rupees )

Factors Affecting Money Supply	Increase or Decrease 31 December, 1949 to 31 December, 1950.			Per cent of total increase during 1950.		Increase or Decrease 31 December, 1950 to 31 December, 1951.			Per cent of total increase during 1951.	
1. External Banking Assets net) . . . . .			+160.8		61.5			+63.0		66.0
2. Bank credit										
(a) Commercial bank credit extended to Government sector (Government securities and treasury bills) . . . . .	+67.1			25.7		-35.9			-37.6	
(b) Commercial bank credit extended to private sector (loans, advances, bills, etc.) . . . . .	+40.3			15.4		+76.0			79.6	
(c) Shift from demand to time and other liabilities of com- mercial banks . . . . .	+17.0			6.5		+21.6			22.6	
(d) Commercial banks' net domestic credit creation (a)+(b)- (c) . . . . .		+90.4			34.6		+18.5			19.4
(e) Central Bank's net domestic credit expansion to Govern- ment sector . . . . .		+7.5			2.9		-7.0			-7.3
(f) Total bank credit (d)+(e) . . . . .			+97.9		37.5			+11.5		12.0
3. Shift of Government rupee cash to the public . . . . .			+4.6		1.8			+27.8		29.1
4. Adjustments for items in transit . . . . .			-2.0		-0.8			-6.8		-7.1
Total Increase . . . . .			+261.3		100			+95.5		100

*Note.*—The figures for external banking assets and commercial bank credit extended to the private sector for 1950 in this table differ from those in table on page 3 of the Annual Report for 1950 because outward bills have been included under external banking assets and not under commercial bank credit extended to the private sector.

*Changes in Cost of Living by Commodity Groups*

(November, 1938—April, 1939=100)

	1950				1951							
	Import Group	Export Group	Domestic Group	Total	Import Group		Export Group		Domestic Group		Total	
	Index	Index	Index	Index	Index	% Change*	Index	% Change*	Index	% Change*	Index	% Change*
January .. .. .	261	523	240	271	252	-3.4	610	+16.6	256	+6.7	281	+3.7
February .. .. .	260	520	241	271	258	-0.8	622	+19.6	255	+5.8	284	+4.8
March .. .. .	258	501	235	266	257	-0.4	614	+22.6	258	+9.8	284	+6.8
April .. .. .	256	482	240	266	259	+1.2	581	+20.5	259	+7.9	283	+6.4
May .. .. .	255	497	240	266	262	+2.7	558	+12.3	261	+8.8	283	+6.4
June .. .. .	256	493	249	271	264	+3.1	489	-0.8	271	+8.8	284	+4.8
July .. .. .	260	472	250	272	266	+2.3	463	-1.9	266	+6.4	281	+3.3
August .. .. .	265	487	248	274	266	+0.4	443	-9.0	267	+7.7	279	+1.8
September .. .. .	267	564	253	283	263	-1.5	445	-21.1	270	+6.7	279	-1.4
October .. .. .	253	580	256	279	265	+4.7	466	-19.7	270	+5.5	282	+1.1
November .. .. .	255	573	250	277	270	+5.9	485	-15.4	265	+6.0	284	+2.5
December .. .. .	247	566	248	273	268	+8.5	483	-14.7	277	+11.7	288	+5.5
Average .. .. .	258	522	246	272	263	+1.8	522	0.0	265	+7.7	283	+3.8

\* Over corresponding month of previous year.

24. The behaviour of some of the group indexes is in contrast to their behaviour in 1950. The export group fell generally through the first seven months of 1950 and then rose markedly because of the Korean War. The rise continued into 1951 and reached a peak in February. Since then the index has dropped back considerably. By the end of the year it was 15 per cent below its level at the end of 1950, and in January, 1952, it was 21 per cent below its level in January, 1951. The domestic group, on the other hand, showed a continuous rise throughout the year, and by December was 12 per cent higher than it had been in December, 1950. The import group also rose steadily, although its percentage increases over the previous year have not been quite so great as those for the domestic group.

25. The upward trend of the import group and the downward trend of the export group were to have been expected; they correspond to the worsening of Ceylon's terms of trade. The upward trend of the domestic group was more marked in 1951 than in 1950, and almost certainly represents for the most part the delayed reaction of domestic prices to the larger money supply and higher level of money incomes. Higher prices of domestic foodstuffs have probably stimulated some increase in supplies, but accurate data are not available. As domestic incomes shrink because of the fall in export prices and volume—and especially if the upward trend of the import group should be reversed—we may expect the upward trend of the domestic group also to be reversed, though again with some time lag.

26. The index as a whole averaged 4 per cent higher in 1951 than in 1950. For every month but one, September, the index in 1951 was higher than the index for the corresponding month in 1950. In December, 1951, it was 5.5 per cent higher than in December, 1950. Between the same dates the corresponding index in the United States rose 5.7 per cent, in India 7.8 per cent, in the United Kingdom 12.1 per cent, in Canada 11.8 per cent, and in Australia 24.5 per cent.

27. For a country like Ceylon whose trade is large relative to its income the trend of domestic inflation cannot vary widely, in the absence of drastic and effective controls over exports and imports, from the trend of inflation in the rest of the world. The above comparison shows that measures taken in Ceylon tended to make living costs somewhat more stable in 1951 than those of some of its principal trading partners.

## VII. Anti-inflationary Policies and Measures

27. The approach of the Central Bank to the inflationary problem during the year was based on an analysis along the lines set out in the next two paragraphs.

28. First, with respect to the money supply, the Bank in general accepted as an accomplished fact the monetization of the very sizable balance of payments surplus resulting from the Korean War export boom. One corrective, and that only partial, would have been an overall budget surplus coinciding with the rise in export prices. The sliding-scale export duties were planned for this purpose, but the trend of prices has been downward since they were actually introduced. Many also argued for an upward revaluation of the Ceylon rupee on the ground that the devaluation of the rupee along