

91. The overall deficit in the balance of payments, as measured by the change in the net external assets of official and banking institutions, was Rs. 198.3 million. External assets fell altogether by Rs. 229.7 million, of which Rs. 31.4 million were applied towards reducing rupee liabilities to non-residents.

V. Operations and Accounts of the Central Bank

92. Financial accounts of the Central Bank for the year 1953 are set out in table 6. The main changes in comparison with 1952 were :—

	Rs. million	Per cent
Total demand liabilities	— 94.1	—17.8
Currency in circulation	— 21.7	— 5.6
Demand deposits	— 72.4	—51.6
(of which commercial banks')	(— 66.1)	(—50.1)
International reserve	—156.0	—38.9
Domestic assets	+ 66.7	+40.5
(of which advances to Government).. .. .	(— 12.9)	(—15.2)

increase + ; decrease —

The ratio of the International Reserve to total demand liabilities declined further from 75.8 per cent at the end of 1952 to 56.4 per cent at the end of 1953.

93. The Central Bank's discount rate for treasury bills continued to be fixed in 1953 at 1/8 of one per cent over the last average tender rate. As the average tender rate advanced, the discount rate moved up from 1.045 per cent in January to 2.605 per cent in August, and remained approximately at this level up to December.

94. The Central Bank rate for advances to commercial banks (against the pledge of Government securities) was raised from 2½ per cent to 3 per cent on July 23, 1953, at which level it remained unaltered for the rest of the year. The reserve ratio applicable to demand deposits of commercial banks was reduced from 14 per cent to 10 per cent with effect from September 11, 1953.

95. There was no change during 1953 in the Central Bank's spot and forward rates for sterling and the Indian rupee, which were :—

		T.T. Buying	T.T. Selling
Sterling (per Ceylon rupee) ..	Spot ..	1 sh. 6 3/64d.	1 sh. 6 1/32 d.
	Forward ..	1/128 d. per month	1/128 d. per month
	(up to six months) ..	discount against spot	premium against spot
Indian rupees (per 100) ..	Spot ..	Rs. 99 3/4	Rs. 99 13/16
	Forward ..	1/32 of a rupee per month discount against spot	1/32 of a rupee per month premium against spot

96. The Central Bank's rates for the U.S. dollar were changed from time to time (as shown in Appendix 1 B) in alignment with the movements in the sterling-dollar rate.

97. Total foreign exchange transactions of the Central Bank are recorded in table 8. Spot purchases were Rs. 150·6 million (Rs. 103·5 million in 1952) and spot sales Rs. 640·6 million (Rs. 988·6 million in 1952). The value of contracts entered into for forward purchases was Rs. 251·9 million (Rs. 422·5 million in 1952) and for forward sales Rs. 31·4 million (Rs. 11·4 million in 1952). Deliveries under forward purchase and sale contracts including under those outstanding from the previous year were Rs. 349·4 million and Rs. 19·7 million respectively. Total purchases (spot and deliveries under forward contracts) amounted, therefore, to Rs. 500·0 million and the corresponding total of sales to Rs. 660·3 million.

98. The increase in spot purchases and the decrease in forward purchase contracts during 1953 largely reflected the need for rupee funds by commercial banks. Unfounded rumours that the Ceylon rupee would be devalued led to an increase of forward sales in November, but this exceptional demand for forward cover disappeared in the following month.

99. *Bank Supervision.*—The Department of Bank Supervision continued its bank examinations prescribed by section 29 of the Monetary Law Act. In all fourteen commercial banks were examined.

100. *Note Issue.*—In 1953, the Central Bank issued for the first time currency notes of the denominations of Rs. 100, Rs. 50, and Rs. 5 designed and printed under its authority and continued to withdraw from circulation the denominations printed under the authority of the Currency Board. All of the denominations of the Bank's first series of notes are now in circulation.

101. *Income and Expenditure.*—The income of the Central Bank for the year amounted to Rs. 12,801,014·59 and expenditure including allocations to reserves in terms of section 38 of the Monetary Law Act absorbed Rs. 10,801,014·59. The net profit of the Bank was Rs. 2 million. As a result of the large increase in domestic assets of the Bank in 1953, caused by the expansion of Central Bank credit to Government, the capital accounts were below the minimum of 15 per cent of the difference between the total assets of the Bank and its International Reserve, prescribed by section 39 (b) of the Monetary Law Act. Accordingly, in terms of that section the net profit was carried to surplus.