

104. During 1956, the external assets of official and banking institutions increased by Rs. 58.0 million. This includes an increase of Rs. 33.1 million in the debt owed by the Government of China to the Government of Ceylon under the existing bilateral agreement. A liability of Rs. 8.9 million was incurred on the I.B.R.D. drawings during the year.

V. Operations and Accounts of the Central Bank

105. Financial accounts of the Central Bank for the year 1956 are given in table 6. The main changes in comparison with 1955 were :—

	Change	
	Rs. Million	Per cent
Total demand liabilities	+ 35.9	+ 5.7
Currency circulation	+ 18.3	+ 4.3
Demand deposits	+ 17.6	+ 8.7
(of which commercial banks)	+ 11.6	+ 8.4
International Reserve	+ 81.9	+ 12.5
Domestic Assets	— 16.0	— 47.6
Government and Government Guaranteed Securities	— 7.7	— 42.0

+ Increase ; Decrease —.

106. The ratio of the International Reserve to total demand liabilities increased from 104.5 per cent at the end of 1955 to 111.2 per cent at the end of 1956.

107. The Central Bank's rate for advances to commercial banks against the pledge of Government securities which was reduced from 3 per cent to 2½ per cent on 11th June, 1954, remained unchanged during the year. The Central Bank's discount rate for treasury bills continued to be fixed at 1/8 of one per cent over the last accepted average tender rate.

108. There were no changes in the reserve ratios to be maintained by commercial banks with the Central Bank. The ratios remained at 10 per cent of demand deposits and 5 per cent of time and savings deposits.

109. The Central Bank's rates for U.S. dollars were changed from time to time (as shown in Appendix I) in alignment with movement in the Sterling dollar rate. There were no changes during the year in the Central Bank's rates for sterling and the Indian rupee which were :—

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

110. Total foreign exchange transactions of the Central Bank are shown in table 10. Spot purchases were Rs. 151·2 million and spot sales Rs. 535·3 million as compared with Rs. 211·2 million and Rs. 456·6 million respectively in 1955. The value of contracts entered into for forward purchases was Rs. 451·7 million (Rs. 437·9 million in 1955). No contracts were entered into in 1956 for forward sales (Rs. 1·2 million in 1955). Deliveries under forward purchase contracts excluding those outstanding from the previous year were Rs. 445·5 million. Total purchases (spot and deliveries under forward contracts) amounted therefore to Rs. 596·7 million ; and total sales to Rs. 535·3 million.

111. *Circulation of 2-cent Coins.*—Reference was made in para 116 of last year's Report to the issue of a 2-cent coin bearing the effigy of Her Majesty Queen Elizabeth II. The demand for 2-cent coins increased very greatly in 1956. In addition to the 5 million 2-cent coins delivered in 1955, a further 10·6 million coins of the same denomination had to be obtained in 1956. The per capita circulation of all coins stands at approximately Rs. 2·8 at 31st December, 1956, as compared with Rs. 2·5 at 31st December, 1951, when subsidiary notes had almost entirely been replaced by coins.

112. *Demonetization of Old Pattern Currency Notes.*—Reference was made in para 117 of last year's Report to the "calling in" of old pattern currency notes of the denomination of Rs. 10 and below, including subsidiary notes of the denominations of 50 cents, 25 cents and 10 cents. The following currency notes ceased to be legal tender after 31st August, 1956—all currency notes of the denominations of Rs. 10, Rs. 5, Rs. 2, and Re. 1, and subsidiary notes of the denominations 50 cents, 25 cents and 10 cents, bearing a date prior to December 31, 1950, and the facsimiles of the signatures of the Commissioners of Currency.

113. These notes can now be exchanged only at Government Kachcheries up to 31st August, 1957, and at the Central Bank for some years to come.

114. The following statement shows the value of old pattern currency notes and subsidiary notes outstanding at 31st August, 1955, *i.e.*, a few days after the notice issued, at 31st August, 1956, when these notes ceased to be legal tender, and at 31st December, 1956, four months later :

	31.8.55	31.8.56	31.12.56
Rs. 10	9,729,060·00	3,358,545·00	1,648,450·00
Rs. 5	3,378,135·00	1,692,795·00	987,780·00
Rs. 2	1,131,449·00	811,449·00	597,449·00
Re. 1	1,647,686·50	1,431,686·50	1,268,686·50
50 cents	411,195·50	408,695·50	407,195·50
25 cents	497,276·75	495,776·75	494,776·75
10 cents	495,788·20	495,588·20	495,288·20
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	17,290,590·95	8,694,535·95	5,899,625·95

115. During the year there were four prosecutions for possession of counterfeit notes, one for possession of blocks for counterfeiting Re. 1 currency notes and one for conspiracy to counterfeit Re. 1 notes and possession of instruments and materials therefor. These counterfeits were not such close reproductions of the genuine notes as to constitute a real danger to the security of the currency note issue. The Ceylon Police deserve to be commended for their vigilance in bringing these cases to light.

116. *Bank Supervision.*—In the year 1956 the Department of Bank Supervision examined 14 commercial banks in terms of Section 29 (1) of the Monetary Law Act, conducted examinations of two banking institutions under Section 29 (2) of the Monetary Law Act and special examinations of two co-operative provincial banks.

117. The examination period under Section 29 (b) of the Monetary Law Act, No. 58 of 1949 commences on May 1 in each calendar year and terminates on April 30, in the succeeding year.

118. *Income and Expenditure.*—The income of the Central Bank for the year amounted to Rs. 27,800,857.88 and expenditure including allocations to reserves in terms of Section 38 of the Monetary Law Act amounted to Rs. 23,800,857.88. The net profit of Rs. 4 million was paid and credited to the Consolidated Fund in terms of Section 39(c) of the Act.