

## (e) Banking and Credit

*Central Bank*

The reduction in the size of the deficit in the balance of payments in 1961 reflected itself in an improvement in the rate of decline in the International Reserve of the Central Bank. In 1961, the International Reserve fell by Rs. 3.9 million or 2.0 per cent as compared to a fall of Rs. 196.5 million or 50.8 per cent in 1960. The magnitude of the total international reserve in December 1960 was Rs. 190.2 million. By May 1961 the international reserve had risen to Rs. 268.8 million, and thereafter fell fairly steadily to Rs. 184.7 million at the end of December 1961. The sharp increase in the international Reserve of the Central Bank in April 1961 is the result of an increase in external assets in February and March resulting from a favourable balance of trade and also the purchase of foreign exchange of Rs. 53.8 million from the International Monetary Fund. The average level of the international reserve in 1961 was Rs. 205.5 million as against the average of Rs. 295.9 million in 1960.

The domestic assets of the Central Bank continued to increase sharply particularly on account of credit made available to the Government to finance its deficit. Central Bank advances to Government rose by Rs. 20.1 million in 1961 as compared to a rise of Rs. 21.9 million in 1960. These advances are now at the maximum possible limit, since Government borrowing from the Central Bank in the form of advances is limited to 10 per cent of the estimated revenue of the current financial year. The Central Bank's holdings of Government and Government guaranteed securities rose steadily during the year, from Rs. 568.7 million in December 1960 to Rs. 678.1 million in November 1961 an increase of Rs. 109.5 million.

Throughout the year except in the months of January and February 1961, the reserve position of the commercial banks continued to be low as in the previous year. After August 1961 the commercial banks carried no excess reserves and had from time to time to seek accommodation from the Central Bank. Commercial bank borrowing from the Central Bank was at a reasonably steady level during the second half of the year.

Reference has already been made to the increase in the currency component of the money supply during the last few years. This increase, was more marked in 1961 than in the previous year. In 1960 total currency issue rose from Rs. 621.3 million to Rs. 644.6 million an increase of Rs. 23.3 million. In 1961 the corresponding increase was from Rs. 644.6 million in December 1960 to Rs. 718.3 million in November 1961 or by Rs. 73.7 million. The sharpest increase in the currency issue occurred during the month of April when it rose from Rs. 631.0 million in January 1961 to Rs. 749.2 million. Thereafter the currency issue fell and rose steadily in the last quarter of 1961 to the level at which it stood in November. The April increase in the issue was a temporary increase which was associated with the dislocation of normal banking services as a result of a dispute between the commercial banks association and the bank employees. The commercial banks deposits with the Central Bank fell from Rs. 140.3 million in December 1960 to Rs. 102.8 million in November 1961. These deposits declined steadily throughout the year except for a minor upward fluctuation in April and in September 1961. The fall in these deposits also reflects the tightening of the liquidity position of the commercial banks, largely as a result of higher reserve requirements which the banks were

required to maintain as from 1st February, 1961. Deposits of international organisations and other liabilities rose by Rs. 69.5 million and Rs. 13.6 million respectively. On account of the increase in the total currency issue and other demand liabilities and the fall in the international reserve, the ratio of the international reserve, to currency and demand liabilities fell from 22.2 per cent in December 1960 to 19.5 per cent in November 1961. This is the lowest recorded ratio of international reserve to currency and demand liabilities.

### *Credit Policy*

The Annual Report for 1960 outlined a series of measures which the Central Bank adopted in that year mainly with a view to dealing with the rapid fall in the country's external assets. These measures were largely of a selective nature and were designed to restrict the volume and cost of credit for the purchase and importation of certain specified luxury and semi-luxury goods. These measures were further re-inforced by an increase in the Central Bank's rate of interest on advances from  $2\frac{1}{2}$  to 4 per cent. In order that the increase in the bank rate may not raise the cost of commercial bank credit for essential trade and production purposes the Central Bank's lending rates to commercial banks against the pledge of usance promissory notes relating to certain transactions was fixed at  $2\frac{1}{2}$  per cent and these transactions were separately specified. On January 26, 1961 the special rate at which the Central Bank granted advances to the commercial banks against pledge of usance promissory notes for these specified transactions was raised from  $2\frac{1}{2}$  to 4 per cent per annum. The Central Bank found that there were no advantages in having a lower rate for essential transactions and a higher rate for non essential transactions because of the possible leakage of credit from one category of transaction to another. It was therefore decided to unify the rate and have a flat rate of 4 per cent for Central Bank accomodation to the commercial banks secured by the pledge of government securities. At the same time the ceiling rate of 6 per cent on commercial bank advances to customers for certain specified purposes which had been introduced simultaneously with the increase in Bank rate in 1960 was also withdrawn from the same date.

With a view to making available credit for the purchase, sale or storage of locally grown agricultural products, with effect from August 1961, the Central Bank made advances to commercial banks at the concessionary rate of 3 per cent against the pledge of usance promissory notes of co-operative societies.

In view of the growth of the liquidity of the commercial banks particularly in the last four months of 1960 and in January and February 1961 the Central Bank introduced measures to immobilise a good part of the excess reserves of the commercial banks. With effect from 10th February, 1961 commercial banks were required to maintain special reserves equal to 38 per cent of any increase in their demand deposit liabilities over the level of such liabilities as at February 1, 1961. These special reserves were required to be maintained in addition to the current statutory reserve requirements of 12 per cent against demand deposits. No special reserves were required to be maintained against time and savings deposits and the existing reserve ratio of 5 per cent remained unchanged.

To relieve the commercial banks of the strain on their liquidity position which resulted from the higher reserve requirements, from July onwards banks were permitted to maintain required reserves partly in the form of rupee deposits in the Central Bank and partly in Ceylon currency notes and coins held by such banks. Initially not more than 50 per cent (which was increased to 75 per cent in September) of the required reserves could be maintained in the form of currency notes and coins and the balance in the form of rupee deposits in the Central Bank. The term "currency notes and coins" referred only to the increase in the holdings of a commercial bank's currency notes and coins over its holdings as at the close of business on March 15th, 1961.

### Commercial Banks

The People's Bank which was established on July 1, 1961, opened branches in the following towns: Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy; thus increasing its number of offices outside Colombo to 7. Four of its new branches were established at places where previously no banking facilities were available. The Bank of Ceylon opened one branch in Colombo thus increasing the number of its offices to 27. The total number of banking offices at the end of 1961 was 54 of which 20 were in Colombo. The following table shows the distribution of banking offices, and deposits between the local and foreign banks at the end of the year.

TABLE II—33

### Distribution of Bank Offices and Deposits

Total			Ceylonese Banks			British Banks			Indian and other Banks		
No of offices	Deposits		No of Offices	Deposits		No. of Offices	Deposits		No of Offices	Deposits	
	Amount in Rs. Mn.	%		Amount in Rs.Mn.	%		Amount in Rs. Mn.	%		Amount in Rs. Mn.	%
54	1,041	100	37	503	48	12	467	45	5	71	7

Source: Central Bank of Ceylon

The distribution of the commercial banks assets and liabilities is shown in detail in Table 4 of Appendix 2 and table II—34 contains a summary.

TABLE—II—34

*Distribution of Assets and Liabilities of Commercial Banks*  
(Average of monthly figures)

Rupees Million

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961*
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements)	177	128	106	149	148	139	119	116	132	149
Foreign balances ..	97	44	55	112	116	72	50	52	58	54
Treasury bills ..	39	55	60	51	39	34	16	24	28	50
Bills discounted ..	64	65	73	94	93	100	116	119	115	122
Total liquid assets ..	377	292	294	406	396	345	301	311	333	375
Total investments(1) ..	235	235	221	245	291	308	296	285	284	289
Total loans and overdrafts	176	182	208	244	273	340	363	395	430	435
Demand Deposits(2) ..	653	573	562	675	731	721	661	655	657	678
Time and savings deposits ..	95	102	126	190	206	240	263	300	340	358
Total deposits ..	754	677	689	869	941	965	926	955	998	1,038
Ratio of:—	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits	27.1	22.3	18.9	22.1	20.2	19.3	18.0	17.7	20.1	22.0
Cash to total deposits ..	23.5	18.9	15.4	17.1	15.7	14.4	12.9	12.1	13.2	14.4
Foreign balances to total deposits ..	12.9	6.5	8.0	12.9	12.3	7.5	5.4	5.4	5.8	5.2
Treasury bills to total deposits ..	5.2	8.1	8.7	5.9	4.1	3.5	1.7	2.5	2.8	4.8
Commercial bills discounted to total deposits	8.5	9.6	10.6	10.8	9.9	10.4	12.5	12.5	11.5	11.8
Liquid assets to demand deposits ..	57.7	50.9	52.3	60.1	54.2	47.9	45.5	47.5	50.7	55.3
Liquid assets to total deposits ..	50.0	43.1	42.7	46.7	42.1	35.8	32.5	32.6	33.4	36.1
Investments to total deposits ..	31.2	34.7	32.1	28.2	30.9	31.9	32.0	29.8	28.5	27.8
Loans and overdrafts to total deposits ..	23.3	26.9	30.2	28.1	29.0	35.2	39.2	41.4	43.1	41.9

Source: Central Bank of Ceylon

\*January/November

(1) Government and government guaranteed securities and Central Bank issues

(2) Excludes domestic inter-bank deposits.

Total deposits of the commercial banks fell by Rs. 15.9 million from Rs. 1,057.1 million to Rs. 1,041.2 million in November 1961 as compared to an increase of Rs. 64.0 million from Rs. 993.1 million to Rs. 1,057.1 million in 1960. However, the monthly average of total deposit liabilities was higher in the first 11 months of 1961 than in 1960, being Rs. 1,037.6 million in 1961 and Rs. 997.5 million in 1960. There was a fall both in demand deposits and time and savings deposits. The former falling from Rs. 684.9 million to Rs. 681.0 million in November 1961 and the latter from Rs. 372.2 million to Rs. 360.2 million. Proportionately,

the fall in the time and savings deposits (3.2 per cent) was greater than that of demand deposits (0.6 per cent). In October 1961 most banks raised their maximum rates on savings deposits to 2½ per cent. Effective in the latter half of September 1961 some of the banks also raised their rates on fixed deposits to 3 per cent on amounts of Rs. 25,000 and over. The increase in savings deposits in October and November 1961 may be largely attributable to these higher rates.

The following table shows the ownership of deposits (excluding government and inter-bank) at the end of September 1960, March and September 1961 based on the half yearly survey conducted by the Central Bank.

TABLE—II—35

## Ownership of Deposits

Rupees. Million

Owner	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Financial Institutions:</b>								
Sept. 1960 .. ..	48.7	8.3	51.3	24.2	5.3	4.2	105.2	11.4
March 1961 .. ..	51.2	8.9	56.5	25.0	3.1	2.5	110.8	12.0
Sept. 1961 .. ..	46.5	7.8	55.0	26.6	3.7	2.9	105.2	11.3
<b>Plantations</b>								
Sept. 1960 .. ..	129.3	22.0	52.4	24.7	1.4	1.1	183.1	19.8
March 1961 .. ..	125.9	21.9	57.8	25.5	0.9	0.7	184.7	19.9
Sept. 1961 .. ..	101.4	17.1	44.4	21.4	0.1	...	146.0	15.7
<b>Trading</b>								
Sept. 1960 .. ..	73.3	12.5	12.2	5.7	0.5	0.4	86.1	9.3
March 1961 .. ..	73.3	12.8	12.5	5.5	0.4	0.3	86.2	9.3
Sept. 1961 .. ..	91.2	15.4	13.3	6.4	1.1	0.9	105.6	11.4
<b>Other Business</b>								
Sept. 1960 .. ..	50.7	8.6	38.7	18.2	1.2	1.0	90.6	9.8
March 1961 .. ..	55.2	9.6	18.1	8.0	1.2	1.0	74.4	8.0
Sept. 1961 .. ..	68.9	11.6	17.5	8.5	1.8	1.4	88.1	9.5
<b>Local Authorities</b>								
Sept. 1960 .. ..	16.9	2.9	6.1	2.9	0.2	0.2	23.2	2.5
March 1961 .. ..	16.9	2.9	27.0	11.9	0.2	0.2	44.1	4.8
Sept. 1961 .. ..	21.0	3.5	19.0	9.2	0.2	0.2	40.2	4.3
<b>Non-business Institutions:</b>								
Sept. 1960 .. ..	26.8	4.6	8.0	3.8	2.7	2.2	37.6	4.1
March 1961 .. ..	30.5	5.3	5.8	2.6	2.3	1.8	38.6	4.2
Sept. 1961 .. ..	33.8	5.7	7.3	3.5	2.3	1.8	43.4	4.7
<b>Individuals:</b>								
Sept. 1960 .. ..	241.7	41.1	43.7	20.6	113.8	91.0	399.1	43.1
March 1961 .. ..	221.4	38.5	48.9	21.6	116.9	93.4	387.2	41.8
Sept. 1961 .. ..	230.0	38.8	50.5	24.4	118.2	92.9	398.6	43.0
<b>Total:</b>								
Sept. 1960 .. ..	587.4	100.0	212.4	100.0	125.0	100.0	924.9	100.0
March 1961 .. ..	574.4	100.0	226.4	100.0	125.1	100.0	925.9	100.0
Sept. 1961 .. ..	592.8	100.0	207.0	100.0	127.3	100.0	927.2	100.0

Source: Central Bank of Ceylon

Total deposits increased from Rs. 924.9 million in September 1960 to Rs. 925.9 million in March 1961 and Rs. 927.2 million in September 1961. The net increase of Rs. 2.3 million in these deposits was mainly in respect of demand and savings deposits whereas time deposits have fallen. The increase in demand deposits was mainly those belonging to business concerns and local authorities. With regard to the time deposits those belonging to local authorities have increased sharply while those in the category "other business" have fallen sharply; time deposits of individuals have also risen. Except for the savings deposits of individuals, other categories of savings deposits shown in Table II—35 have changed little. Mainly on account of the credit restrictions introduced by the Central Bank and the quantitative controls on imports by Government in August 1960, total loans and advances of commercial banks fell from Rs. 556.9 million in August 1960 to Rs. 543.9 million in December. However, in January 1961 they had risen to Rs. 559.5 million. But after a fall of approximately Rs. 10 million in February they rose steadily in March and April 1961. The biggest increase occurred in April 1961 when total loans and advances rose from Rs. 560.9 million in March to Rs. 589.3 million. Thereafter there has been a certain amount of fluctuation. At the end of August 1961 total loans and advances were at Rs. 560.8 million or at a slightly higher level than in August, 1960. The monthly average level of loans and overdrafts was higher in 1961 being Rs. 434.6 million as against Rs. 429.7 million in 1960. Total overdrafts fell by Rs. 5.1 million in December 1960 to Rs. 289.6 million in November 1961. Loans fell by Rs. 10 million from Rs. 138.1 million in 1960 to Rs. 128.1 million in November 1961. Export bills rose by Rs. 9.7 million from Rs. 55.4 million to Rs. 65.1 million and import bills from Rs. 53.3 million to Rs. 53.8 million. The sharp increase in loans and overdrafts in March and April could be partly attributed to the disorganisation of banking services resulting from a dispute between the commercial banks and their employees. During this dispute since commercial banking operations were confined mainly to the encashment of cheques the banks had to extend the credit limits of constituents who had already taken overdrafts from them; thus it will be seen that the increase in total loans and advances was mainly in respect of overdrafts which rose from Rs. 299.8 million in February to Rs. 321.7 million in April 1961. The increase in loans and overdrafts in January over the December 1960 figure is partly due to the improvement in excess reserve and the liquidity position of the commercial banks in this period and to several banks converting overdrafts into loans to enable themselves to borrow from the Central Bank at the concessionary rate of  $2\frac{1}{2}$  per cent against usance promissory notes in terms of Section 82 (1) of the Monetary Law Act. After this facility was withdrawn in February 1961 commercial banks ceased to follow this practice and the loans fell slightly thereafter.

Whereas in the previous year cash on hand fell by Rs. 4.2 million from Rs. 43.5 million in December 1959 to Rs. 39.3 million in December 1960, in

1961 these cash balances increased by Rs. 8.2 million to Rs. 47.5 million in November 1961. Balances with the Central Bank fell sharply by Rs. 32.5 million from Rs. 136.8 million to Rs. 104.3 million in November 1961. This must be contrasted with the marked increase of Rs.44.5 million 1960. The fall in the balances with the Central Bank is in part due to the reduction in the quantum of excess reserves in the banking system and in part to the overall contraction in the volume of demand and time and savings deposits. The banks' holdings of foreign balances fell by Rs. 11.0 million from Rs. 56.3 million to Rs. 45.3 million as compared with an increase of Rs. 5.4 million from Rs. 50.9 million to Rs. 56.3 million in 1960. The commercial banks' holdings of treasury bills increased markedly by Rs. 22.1 million from Rs. 47.9 million in December 1960 Rs. 70.0 million in November 1961. Average holdings during the year were Rs.49.9 million as against Rs.28.5 million in the previous year. The commercial banks' portfolio of Government securities increased by Rs. 5.0 million from Rs. 287.5 million in December 1960 to Rs. 292.5 million in November 1961. In the previous year holdings of Government securities increased by Rs. 4.0 million to Rs. 287.5 million. Bills purchased and discounted rose from a monthly average of Rs. 114.7 million in 1960 to Rs. 121.9 million in 1961. Of the individual components of this item export bills rose by Rs. 9.7 million from Rs. 55.4 million in December 1960 to Rs. 65.1 million in November 1961. whereas import bills rose slightly from Rs. 53.3 million to Rs. 53.8 million during the same period.

Total liquid assets rose from an average of Rs. 333.3 million in 1960 to Rs. 375 million in the 11 months ending November 1961. The ratio of liquid assets to demand deposits rose slightly by 0.4 per cent from 57.2 per cent in 1960 to 57.6 per cent in November, 1961.

Excess reserves which stood at Rs. 39.5 million in December, 1960 fell steadily over the first 7 months of 1961. From August onwards the banks held no excess reserves. In January and February 1961 the banks held substantial excess reserves, but with the introduction of special reserve requirements effective 10th February, 1961 these excess reserves were considerably reduced. The increase in the excess reserves of the commercial banks from September 1960 onwards up to February 1961 was mainly the result of the monetary measures introduced in 1960 which tended to immobilise a portion of commercial bank resources.

Up to March 1961 several banks were able to finance the increase in their loans and advances by utilising their excess reserves. After March, however, in order to meet increased credit requirements most banks had to borrow from the Central Bank. These borrowings have remained substantial throughout the year except in the months of October and November. Even in the months of January and February when the banking system as a whole had excess reserves, individual banks had to borrow from the Central Bank. This was mainly due to the uneven distribution of excess reserves between the various banks. The following figures show the extent to which the Central Bank accommodated the commercial banking system from January, 1961.

TABLE— II — 36

## Commercial Bank borrowings from Central Bank 1960—1961

Rupees Million

End of month*	1960	1961
January	—	21.0
February	—	20.0
March	15.2	27.9
April	14.8	16.0
May	5.5	17.8
June	—	26.4
July	14.4	38.9
August	19.3	21.0
September	23.0	15.5
October	22.0	1.0
November	21.0	1.0
December	21.0	20.6

Source: Central Bank of Ceylon

\*Amount outstanding.

Inter-bank borrowings in 1961 were considerably higher than in the previous year. Due to the fall in their liquidity position several commercial banks had to borrow regularly in the market. The average level of inter-bank indebtedness in 1961 was Rs. 40.4 million as against Rs. 36.9 million in 1960. Although the level of inter-bank borrowing remained steady during the year the inter-bank call loan rate remained unchanged at 2 per cent.

The analysis of bank advances to the private sector during the year ended 30th September 1961 is based on the continuing half-yearly survey.



The table below shows the classification of advances by purpose and according to maturity.

TABLE—II—37

\*Advances classified by purpose and according to maturity

Rupees Million

Purpose	Short-term (below 6 months)		Medium-term 6 months to 30 months		Long-term (over 30 months)		Total		
	(1)	(1) as % of (7)	(3)	(3) as % of (7)	(5)	(5) % of (7)	(7)	(7) as % of Total (8)	
A. Commercial	Sept. 1960 ..	194.4	50.5	154.4	40.1	36.2	9.4	385.1	68.7
	March 1961 ..	193.7	49.4	163.2	41.6	35.3	9.0	392.2	69.7
	Sept. 1961††	143.0	36.4	210.0	53.5	39.7	10.1	392.7	70.3
B. Financial	Sept. 1960 ..	24.1	23.7	51.8	51.0	25.6	25.2	101.6	18.1
	March 1961 ..	20.5	22.1	49.6	53.4	22.7	24.4	92.9	16.5
	Sept. 1961††	23.0	26.0	39.8	45.0	25.6	29.0	88.4	15.8
C. Agricultural	Sept. 1960 ..	2.6	25.0	4.8	46.2	3.0	28.8	10.4	1.9
	March 1961 ..	2.3	23.2	4.9	49.5	2.8	28.3	9.9	1.8
	Sept. 1961††	3.5	32.4	3.7	34.3	3.6	33.3	10.8	1.9
D. Industrial	Sept. 1960 ..	2.2	10.9	8.3	41.3	9.5	47.3	20.1	3.6
	March 1961 ..	2.2	8.7	10.1	39.8	13.1	51.6	25.4	4.5
	Sept. 1961††	2.9	10.1	14.5	50.5	11.3	39.4	28.7	5.1
E. Consumption	Sept. 1960 ..	10.5	29.9	14.8	42.2	9.8	27.9	35.1	6.3
	March 1961 ..	8.6	26.5	15.1	46.6	8.7	26.9	32.4	5.8
	Sept. 1961††	8.1	26.8	13.4	44.4	8.7	28.8	30.2	5.4
F. Other Loans	Sept. 1960 ..	1.3	15.1	5.2	60.5	2.1	24.4	8.6	1.5
	March 1961 ..	2.0	19.6	5.4	52.9	2.8	27.4	10.2	1.8
	Sept. 1961††	0.9	11.5	4.5	57.7	2.4	30.8	7.8	1.4
Total	Sept. 1960 ..	235.2	41.9	239.3	42.7	86.3	15.4	560.9	100.0
	March 1961 ..	229.3	40.7	248.3	44.1	85.4	15.2	562.9	100.0
	Sept. 1961††	181.4	32.5	285.9	51.2	91.3	16.3	558.6	100.0

Source: Central Bank of Ceylon

††Provisional.

\* Advances include loans, overdrafts and bills discounted.

In the period ending 30th September 1960 total advances fell by Rs. 2.3 million from Rs. 560.9 million to Rs. 558.6 million. The largest decrease in the component items of this total were in financial advances which fell by Rs. 13.2 million from Rs. 101.6 million to Rs. 88.4 million in September 1961. Advances for consumption fell by Rs. 4.9 million from Rs. 35.1 million to Rs. 30.2 million and "other" advances by Rs. 0.8 million from Rs. 8.6 million to Rs. 7.8 million. On the other hand advances for commercial purposes increased by Rs. 7.6 million from Rs. 385.1 million to Rs. 392.7 million, those for agricultural purposes from Rs. 10.4 million to Rs. 10.8 million. Industrial advances showed a significant increase of Rs. 8.6 million from Rs. 20.1 million to Rs. 28.7 million. Credit given for financial purposes relates generally to advances to hire purchase companies and other firms for the purpose of financing a fairly wide range of transactions such as the purchase of new and second hand

motor vehicles; durable consumer goods and also certain other types of essential equipment such as tractors, plant and machinery. Consumption loans are mainly those given directly by the commercial banks to their constituents for the purpose of either purchasing durable consumption goods or financial assistance for various contingencies and loans of a purely personal nature. The fall in the categories of advances for financial and consumption purposes is mainly due to the restrictions which were introduced on the availability of credit for hire purchase transactions and for other non-essential purposes. The increase in the volume of advances for commercial purposes has been largely due to the expansion in the volume of credit to the export trade. The increase in advances for agricultural and industrial purposes shows that the banks are now diverting a slightly larger proportion of their resources than previously for these purposes.

Of the total volume of bank advances given to the private sector, 70.3 per cent was utilised for commercial purposes, i.e. mainly for financing the movement of agricultural produce; 15.8 per cent for financial purposes; 1.9 per cent for the direct financing of agricultural enterprises; 5.1 per cent for industrial purposes; and 5.4 per cent for consumption. "Other" advances constituted 1.4 per cent of the total. These figures show that the overall volume of direct bank financing of agricultural and industrial enterprise in the private sector continued to remain at a very low level while the bulk of the resources of the banking system was utilised to provide credit to the export and import trade. The following table classifies advances by type of security based on the half yearly survey.

TABLE II— 38

*Advances by Type of Security*

Type of Security	Sept. 30, 1960		March 31, 1961		Sept. 30, 1961	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary bills .. .. .	130.8	23.3	143.2	25.4	148.5	26.6
Government securities .. .. .	11.8	2.1	14.0	2.5	11.6	2.1
Shares of joint stock companies .. .. .	31.2	5.6	32.0	5.7	28.8	5.2
Time and savings deposits and other cash deposits including cash value of life policies .. .. .	16.0	2.9	18.4	3.3	20.4	3.7
Stock in trade .. .. .	185.6	33.1	172.8	30.7	169.9	30.4
Immovable property .. .. .	54.1	9.6	54.8	9.7	48.5	8.7
Others .. .. .	88.4	15.8	72.3	12.8	62.0	11.1
Unsecured .. .. .	43.0	7.7	55.3	9.8	68.9	12.3
<b>Total .. .. .</b>	<b>560.9</b>	<b>100.0</b>	<b>562.9</b>	<b>100.0</b>	<b>558.6</b>	<b>100.0</b>

Source: Central Bank of Ceylon

Between September 1960 and September 1961 the distribution of advances according to the type of security as compared with the corresponding period before has not shown any significant change except that the percentage of unsecured advances has risen by 4.6 per cent from 7.7 per cent to 12.3 per cent. Advances secured by time and savings and other cash deposits have increased

slightly by 0.8 per cent from 2.9 per cent to 3.7 per cent while advances against documentary bills have risen by 3.3 per cent from 23.3 per cent to 26.6 per cent. The fall of 4.7 per cent from 15.8 per cent to 11.1 per cent in advances secured by "other" types of paper reflects the fall in the volume of bank advances which had been secured by hire purchase paper.

Advances classified by rate of interest are shown in the table below:

TABLE—II—39

## Advances by Rate of Interest\*

Rate of interest%	Sept. 30, 1960		March 31, 1961		Sept. 30, 1961	
	Amount Rs. Mn.	% of Total	Amount Rs.Mn.	% of Total	Amount Rs.Mn.	% of Total
Below 2½ .. .. .	3.1	0.6	3.2	0.7	3.0	0.6
2½ .. .. .	..	..	..	..	..	..
3 .. .. .	10.9	2.2	4.0	0.8	1.8	0.4
3½ .. .. .	11.4	2.3	6.9	1.4	11.0	2.3
4 .. .. .	7.9	1.6	9.5	1.9	8.4	1.7
4½ .. .. .	148.6	30.0	26.6	5.4	14.5	3.4
5 .. .. .	47.3	9.6	26.5	5.4	19.7	4.1
5½ .. .. .	24.1	4.9	23.7	4.9	6.1	1.3
6 .. .. .	133.1	26.9	255.4	52.3	244.7	50.8
6½ .. .. .	37.2	7.5	44.1	9.0	33.9	7.0
7 .. .. .	60.2	12.2	76.6	15.7	86.5	18.0
7½ .. .. .	6.8	1.4	5.0	1.0	41.7	8.7
8 and above.. .. .	4.2	0.8	7.0	1.4	8.3	1.8
Total .. .. .	494.8	100.0	488.5	100.0	481.8	100.0

Source: Central Bank of Ceylon

\* Excluding export bills purchased at current rates of exchange

Although there were no official changes in the commercial banks' lending rates the above table shows that the banks as a whole have adjusted their lending policies to the higher Bank rate and market rates which became operative in the previous year. Whereas in September 1960 approximately 30 per cent of the total advances outstanding were given at 4½ per cent, in September 1961 only 3.4 per cent of the advances was made available at this rate. On the other hand in September 1961 50.8 per cent of advances outstanding were given at 6 per cent as against 26.9 per cent in September 1960. Of the total amount approximately 86 per cent of bank advances were at interest rates of 6 per cent and above, as compared with 49 per cent in the period before September, 1960.

Bank clearings changed little from a monthly average of Rs. 743.0 million in 1960 to Rs. 742.8 million in 1961. The interest rates charged by commercial banks except those on savings deposits which were referred to earlier, remained unchanged throughout the year. Except for an increase in the treasury bill rate of 0.04 per cent in February 1961 when the rate rose from 2.64 per cent in January, 1961 to 2.68 per cent, the rate remained at the latter figure during the rest of the year.

*Other financial institutions*

Total savings deposits in the commercial banks, Ceylon Savings Bank, Post-Office Savings Bank and Savings Certificates outstanding decreased by Rs. 16.4 million as compared to a rise of Rs. 78.6 million in 1960. This decrease in the quantum of savings occurred in the Post Office Savings Bank, Ceylon Savings Bank and commercial banks whereas Savings Certificates outstanding increased slightly. Deposits at the Ceylon Savings Bank fell by Rs. 1.8 million as against an increase of Rs. 2.3 million in 1960. Deposits at the Post Office Savings Bank fell by Rs. 3.1 million as against a rise of Rs. 22.5 million in 1960. This fall in the volume of savings deposits has occurred at a time when demand deposits have also fallen considerably. The fall in the savings deposits may be partly attributed to the decline in export incomes during the year and the fall in incomes in general arising out of the level of activity in that sector.

TABLE—II—40

*Savings Deposits and Savings Certificates*

Rupees Million

	At the end of 1960	At the end of 1961	Change
Post Office Savings Bank .. .. .	343.4	340.3*	- 3.1*
Ceylon Savings Bank .. .. .	75.5	73.7*	- 1.8*
Commercial Banks (time and savings deposits) ..	372.2	360.2†	-12.0†
Savings certificates outstanding .. .. .	32.2	32.7*	+ 0.5*
Total .. .. .	823.3	806.9*	-16.4*

Source: Central Bank of Ceylon

\* Provisional

† End of November

The increase in the collections of the Employees' Provident Fund was less marked in 1961 than in 1960. The receipts in the Fund increased by Rs. 1.2 million from Rs. 55.8 million to Rs. 57.0 million in 1961. The small increase in the total collections for 1961 as against 1960 is due to the fact that in the current year very few new employments were brought into the Fund and in 1960 considerable coverage had already been given to existing employments.

Total loans and equities outstanding of the Development Finance Corporation of Ceylon rose by Rs. 3 million from Rs. 18 million in 1960 to Rs. 21 million in December 1961. The bulk of these investments consisted of loans directly granted to the borrowers. Equity investments in development projects amounted to Rs. 0.3 million in 1961. With regard to the lending operations of the Agricultural and Industrial Credit Corporation, after a slight increase in January 1961, loans have tended to decrease. Total loans outstanding at the end of November 1961 was Rs. 30.7 million as against Rs. 31.7 million in December 1960. Between January and June 1961 total loans fell by Rs. 0.4 million as compared with an increase of Rs. 0.2 million in the same period in 1960. The Corporation has made all its new loans out of capital repayments as there has been no net increase in the volume of resources available for lending. One of the reasons for the fall in volume of new loans of the Agricultural and Industrial Credit Corporation has been the extension of maturities on existing loans because of the fall in commodity prices and on other restric-

tions introduced on the availability of credit. With the extension of the maturities on these loans the repayments which were normally utilised for the making of new loans have fallen substantially. Another reason for the fall in the volume of credit given by the Corporation has been the adoption of a more restrictive lending policy and a closer examination of the purpose for which loans are required. It has introduced a policy of scrutinising more closely loans which are not directly required for purposes of industrial and agricultural development. As a result of this policy applications from clients who normally seek financial assistance from the Corporation for purposes such as transfer or sale of property from one person to another have tended to decrease.

Loans outstanding of the State Mortgage Bank at the end of 1960/61 was Rs. 57.0 million as compared with Rs. 56.1 million at the end of 1959/60, an increase of Rs. 0.9 million. The State Mortgage Bank has been able to finance its new loans not only out of capital repayments but also by the issue of debentures. During the year the State Mortgage Bank issued debentures for Rs. 5 million carrying an interest rate of  $4\frac{1}{4}$  per cent.

In 1961 the Insurance Corporation of Ceylon made preliminary arrangements with a view to commence business on 1st January 1962. The Corporation is now the sole underwriter of new life insurance business in the country in addition to underwriting all other types of insurance business. An Act entitled an Act to control Insurance Business in Ceylon was presented in Parliament with the object of regulating the operations of the existing insurance companies who are engaged in both life and general business in the country.

A Bill for the establishment of the Peoples' Bank became law on 30th May 1961 and the Bank commenced operations on 1st July 1961. The Peoples' Bank replaces the Co-operative Federal Bank and has a considerably wider scope and range of functions than the latter. The Act gives the Bank very wide powers. It is empowered to undertake commercial banking business on the lines now undertaken by the Bank of Ceylon in addition to the wide range of new functions which include the provision of credit at short and medium and long term to agriculture and industry in the rural and other sectors. The purpose of the Bank according to the Peoples' Bank Act No. 29 of 1961 is to develop the co-operative movement of Ceylon, rural banking and agricultural credit by furnishing financial and other assistance to co-operative societies, approved societies, cultivation committees and other persons.

The budget speech of the Finance Minister included proposals for the nationalisation of the Bank of Ceylon. Since its establishment in 1939 the bank has been partly owned by private share holders and partly by government. With the nationalisation of the Bank government will purchase the shares now held by the public and thereafter the entire share capital of the Bank will be owned by Government. Before nationalisation, in addition to the Secretary to the Treasury the Government nominated two representatives on the Board of Directors, while the other Directors, were elected by the share holders. After nationalisation all the Directors were appointed by the Government.