

(E) THE MONEY SUPPLY

During 1962, the money supply increased by Rs. 54 million from Rs. 1289 million to Rs. 1343 million whereas the increase in the previous year was Rs. 80 million. Expressed as a percentage this increase amounted to 4.2% as against the increase of 6.6% in 1961. The movement of the money supply during the first 5 months of 1962 deviated from the normal trend due to the temporary suspension of normal banking activities on account of a dispute between the commercial bank employees and the commercial banks. In November 1961, when the commercial banks were carrying on normal business, the money supply was Rs. 1251 million. In December the money supply rose to Rs. 1289 million and thereafter sharply to the peak level of Rs. 1635 million in March 1962. From April onwards the money supply declined moderately until it reached Rs. 1289 million in June when most commercial banks had resumed normal banking operations.

The sizeable increase in the money supply during these months was chiefly due to the suspension of normal banking operations. During the period of this dispute banking operations were carried on on a very restricted scale and were confined largely to the encashment of cheques. Other normal banking business such as cash credits to accounts and payments on standing orders were suspended. On the other hand the banks provided customers with facilities to have their accounts credited with cheques that should have normally gone through clearing. Inter-bank clearing of cheques was suspended throughout the period of the dispute and for many weeks thereafter. As inter-bank clearing of cheques had to be temporarily suspended the crediting of cheques that had previously not gone through the process of clearing to customers accounts tended to inflate the volume of bank deposits in the banking system. In addition the extension of credit facilities mainly as overdrafts to established customers also was partly effective in increasing the money supply. In a sense, the expansion in the money supply during the first four months of 1962 was purely statistical.

The steady fall in the money supply after July 1962 reflected the resumption of inter-bank clearing operations and the fall in individual deposit accounts to true levels. It will be observed that at the end of August 1962 the money supply had fallen to a level approximately Rs. 19 millions less than at the end of 1961. However, at the end of August, the figure was approximately Rs. 39 millions above the figure for August 1961, reflecting that despite the abnormal expansion in the money supply during the period of the dispute between the bank employees and the commercial banks the money supply had in fact expanded during 1962. During the last four months of 1962 the trend of the money supply was generally upwards with the exception that in November, the money supply fell moderately but this fall was more than offset by a sizeable increase during December. Between September and October the increase of the money supply was Rs. 24 million but the increase in December was larger being Rs. 36 million.

When normal banking activities had to be suspended during the first four months of the year the currency held by the public which is now the larger component of the money supply increased from Rs. 692.2 million at the end of 1961 to the highest level reached during the year of Rs. 766.1 million in February 1962. Thereafter the

TABLE II E-1
The Money Supply

Rupees Million

End of period	1957	1958	1959	1960	1961	1962	% Change (1958 over 1957)	% Change (1959 over 1958)	% Change (1960 over 1959)	% Change (1961 over 1960)	% Change (1962 over 1961)
January ..	1,131	1,014	1,050	1,180	1,207	1,426	- 10.3	+ 3.6	+ 12.4	+ 2.3	+ 18.1
February ..	1,105	1,016	1,053	1,192	1,193	1,561	- 8.1	+ 3.6	+ 13.2	+ 0.1	+ 30.8
March ..	1,107	1,023	1,089	1,194	1,210	1,635	- 7.6	+ 6.5	+ 9.6	+ 1.3	+ 35.1
April ..	1,082	1,032	1,084	1,165	1,306	1,448	- 4.6	+ 5.0	+ 7.5	+ 12.1	+ 10.9
May ..	1,061	1,000	1,096	1,163	1,219	1,317	- 5.7	+ 9.6	+ 6.1	+ 4.8	+ 8.0
June ..	1,045	1,015	1,094	1,170	1,221	1,298	- 2.9	+ 7.9	+ 6.9	+ 4.4	+ 6.3
July ..	1,056	1,023	1,094	1,150	1,223	1,277	- 3.1	+ 6.9	+ 5.1	+ 6.3	+ 4.4
August ..	1,024	1,022	1,095	1,161	1,231	1,270	- 0.2	+ 7.1	+ 6.0	+ 6.0	+ 3.2
September ..	1,046	1,072	1,128	1,181	1,261	1,294	+ 2.5	+ 5.2	+ 4.7	+ 6.8	+ 2.6
October ..	1,052	1,085	1,153	1,212	1,248	1,317	+ 3.1	+ 6.3	+ 5.1	+ 3.0	+ 5.5
November ..	1,049	1,070	1,170	1,219	1,251	1,307	+ 2.0	+ 9.3	+ 4.2	+ 2.6	+ 4.5
December ..	1,040	1,077	1,178	1,209	1,289	1,343	+ 3.6	+ 9.4	+ 2.6	+ 6.6	+ 4.2

(67)

Source: Central Bank of Ceylon.

currency held by the public tended to fall steadily. At the end of 1962, the total currency holdings of the public was Rs. 712.6 million and exceeded the figure as at the end of December 1961 by Rs. 20.4 million. The overall trend during the year shows that there has been a slight reversal in the trend whereby the currency component of the money supply has tended to increase relatively to demand deposits during the last five years. Attention to this trend was drawn in the Annual Report for 1961. As a ratio of the money supply currency was 53.1 per cent at the end of 1962 as against 53.8 per cent at the end of last year. During the year deposits held by the public have risen by a slightly greater proportion than currency. From a level of Rs. 596.4 million in December 1961, deposits rose to Rs. 630.0 million in 1962; an increase of Rs. 33.6 million.

TABLE II E-2

Components of the Money Supply

Rupees Million

End of period	Currency held by public		Demand deposits held by public		Total money supply
	Amount	As % of total money supply	Amount	As % of total money supply	
1953	335.3	40.6	491.5	59.4	826.8
1954	341.8	35.7	615.3	64.3	957.1
1955	384.5	35.8	688.4	64.2	1072.9
1956	401.1	35.6	725.7	64.4	1126.8
1957	434.9	41.8	605.2	58.2	1040.1
1958	529.8	49.2	546.9	50.8	1076.8
1959	565.0	48.0	612.7	52.0	1177.7
1960	595.3	49.2	613.6	50.8	1208.9
1961	692.2	53.8	596.4	46.2	1288.6
1962	712.6	53.1	630.0	46.9	1342.7

Source: Central Bank of Ceylon.

An analysis of the increase in the currency issue in terms of various denominations shows that issues of all denominations except those of Rs. 10 have increased during the year. But it is noteworthy that currency notes of Rs. 100 denominations and Rs. 50 denominations have increased by a greater percentage than those of other denominations. The increase of currency notes of the larger denominations shows that the demand by the public for currency to be kept outside the banking system or for hoarding has increased fairly markedly during the year. At the end of 1960 both 100 rupee and 50 rupee denominations amounted to Rs. 148.4 million and the level as at the end of December 1962 shows that during the past two years 100 rupee notes have increased by Rs. 89.8 million and 50 rupee notes by Rs. 38.4 million. On the average, the issue of coins showed little change throughout the year except that the 50 cents coins increased by Rs. 1 million.

The following table shows the principal factors causing changes in the money supply on a comparative basis during the last six years.

TABLE II E-3

Changes in the Money Supply

Rupees Million

Factors affecting money supply	End of December 1956 - 57		End of December 1957 - 58		End of December 1958 - 59		End of December 1959 - 60		End of December 1960 - 61		End of December 1961 - 62	
	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors
1. External banking assets (net) ..	—	209.2	—	82.2	—	195.0	—	170.2	—	78.6	—	91.1
2. Commercial bank operations:—												
(a) credit to private sector	55.3	—	53.4	—	9.7	—	31.5	—	12.5	—	42.2	—
(b) holdings of treasury bills and Govt. and govt. guaranteed securities ..	—	7.4	—	39.6	30.2	—	6.0	—	21.4	—	71.3	—
3. Central Bank operations:—												
(a) Advances to the Govt. ..	32.6	—	75.0	—	61.8	—	21.9	—	1.9	—	3.0	—
(b) Holdings of treasury bills and Govt. and govt. guaranteed securities ..	42.2	—	100.6	—	191.0	—	224.3	—	140.8	—	175.9	—
(c) Other assets and accounts (net) ..	—	10.3	24.5	—	—	27.9	—	19.3	—	9.1	—	18.6
4. Time and savings deposits and other liabilities (net) of commercial banks ..	—	38.4	—	68.1	—	23.2	—	72.5	—	19.6	—	50.9
5. Govt. cash balances ..	49.3	—	—	36.4	64.0	—	8.0	—	9.4	—	—	76.1
6. Adjustments ..	—	0.8	9.6	—	—	9.6	1.4	—	1.0	—	—	1.7
Total expansionary/contractive factors ..	179.4	266.1	263.1	226.3	356.7	255.7	293.1	262.0	187.0	107.3	292.4	238.4
Change in money supply	-86.7		+36.6		+101.0		+31.1		+79.8		+54.0	

Source: Central Bank of Ceylon.

Note:—Differences as compared with previously published figures are due to subsequent revisions.

In general terms the factors causing the money supply to expand in 1962 were similar to those which caused an expansion in the previous year. By far the largest expansionary force behind the money supply was the increase in Central Bank holdings of Treasury bills and in government and government-guaranteed securities which increased by Rs. 175.9 million as compared with Rs. 140.8 million in the previous year. The other principal expansionary factors were commercial bank credit which increased by Rs. 42.2 million in 1962 as against Rs. 12.5 million in 1961 and the increase in commercial bank holdings of Treasury bills and government and government-guaranteed securities by Rs. 71.3 million as against Rs. 21.4 million in the previous year. Although the sum total of all these expansionary factors was greater in 1962 than in the previous year the forces acting to reduce the money supply

were sufficiently large to offset a good part of the expansion. The principal factors tending to contract the money supply were the fall in external banking assets of Rs. 91·1 million in 1962 as against Rs. 78·6 million in the previous year, the increase in time and savings deposits by Rs. 50·9 million as compared with Rs. 19·6 million in 1961 and the increase in government cash balances by Rs. 76·1 million as against a fall in government cash balances of Rs. 9·4 million in the previous year. The net effect of these factors was an increase in the money supply of Rs. 54 million during the year.

The above data shows that whereas in the previous year the most significant contractionary influence on the money supply was the balance of payments, in the year under review, equally important was the rise in the government cash position and the increase in time and savings deposits of the public. On the other hand, if the fall in external assets had continued at a high level as in the years 1959 and 1960 probably the increase of the money supply would have been much less. In the light of the trends in 1959 and 1960, the money supply situation reflects the relatively lower rate of fall in external assets brought about largely by import restrictions and the increasing tendency on the part of the public and government to increase their cash balances.