

(E) MONETARY AND BANKING TRENDS

Financial events in 1963, as in 1962, presented a picture of opposing monetary forces.¹ External transactions resulted in a net loss of internal liquidity. But this was more than offset by liquidity creation by the banking system and the Government. The direction of these changes was the same as in 1962, but the quantitative relationships were markedly different. The loss of domestic liquidity, associated with the loss of external liquidity, and the increase in liquidity from fiscal expansion for the year as a whole were substantially smaller than in 1962, but credit creation by the banking system for the domestic private sector² was much greater. The total net extent of domestic liquidity creation in 1963 was very much greater than in the preceding year. Broadly, 1963 was a year of rapidly expanding internal liquidity.

In this context the credit policy of the Central Bank had to be one of controlled expansion geared to meeting the genuine credit needs of economic development and of expanding the institutional framework of credit into new areas and spheres, while simultaneously restraining any undue expansion of credit for speculative and non-essential purposes. The expanding aggregate level of liquidity in the private sector as well as the various inflationary pressures present in the economy reinforced the need for greater caution in general, and for vigilance in assessing the credit requirements of particular sectors of the economy. Credit restraint continued to be operated with increased alertness throughout the year, through the various selective controls introduced prior to 1963, and also through moral suasion. Generally while being aware of the need for restraining credit expansion, the Bank was also unwilling to restrain such growth impulses as were manifesting themselves in particular spheres of the economy.

1. Growth of internal liquidity:

Under the influence of the various factors outlined above, the total volume of liquid assets held by the non-bank private sector increased in 1963 by about Rs. 287 million or about 11 per cent, as compared with an increase of Rs. 146 million

1. The analysis here discusses changes in all liquid assets rather than in the money supply (currency and demand deposits) alone. Although by definition "money" is the most liquid of all assets savings and fixed deposits can also be converted into money quickly, virtually without any financial loss. Thus they are very nearly as liquid as money. But there are also a whole host of other "near-monies" which are claims against financial institutions and the government such as travellers' cheques, trade bills, treasury bills and various forms of redeemable and marketable securities of which government bonds are perhaps the largest category. The liquidity of government bonds depends on their terms and maturities, the policy of the central bank, and the degree of perfection in the security market. Government bonds are generally more liquid in developed security markets than in under-developed markets.

The following quotation from the Radcliffe Committee is of significance in this connection—"Though we do not regard the supply of money as an unimportant quantity, we view it as only part of the wider structure of liquidity in the economy. It is the whole liquidity position that is relevant to spending decisions, and our interest in the supply of money is due to its significance in the whole liquidity picture". (*Report of the Committee on Working of the Monetary System*, 1959—p. 132, para 389).

2. The concept of "private sector" used here includes government corporations, local authorities and various semi-government or government sponsored institutions and agencies—in fact all entities other than the central government, the commercial banks and the Central Bank.

or about 5.8 per cent in 1962.¹ Per capita holdings of liquid assets also increased from Rs. 253.9 in 1962 to Rs. 274.3 in 1963, representing a rise of about 8.0 per cent as compared with an increase of only about 3.0 per cent in 1962. As Ceylon's national income is estimated to have increased in the course of the year by about 4.8 per cent in nominal terms (and by about 1.8 per cent in real terms), the country's key liquidity ratios rose significantly as shown in Table II E-1.

TABLE II E-1
Total Liquid Assets of the Non-Bank Private Sector
1961-1963

Description	Amount (Rupees Million)			Percentage of G.N.P. (a)		
	1961	1962	1963	1961	1962	1963
1. Primary Liquid assets						
(a) Notes and coins	692.2	712.6	828.4	11.3	11.1	12.3
(b) Demand Deposits	596.4	630.0	677.7	9.7	9.8	10.1
Total	1288.6	1342.7	1506.0	21.0	20.9	22.4
Percentage change		+4.2	+12.2			
2. Secondary liquid assets						
(a) Savings deposits with commercial banks	130.6	140.9	165.2	2.1	2.2	2.5
(b) Savings deposits with Post Office Savings Bank	351.9	362.3	368.5*	5.7	5.6	5.5
(c) Savings deposits with Ceylon Savings Bank	75.3	75.4	75.1*	1.2	1.2	1.1
(d) Time deposits with commercial banks	223.8	263.7	302.8	3.6	4.1	4.5
(e) Foreign balances of residents	19.6	21.0	13.6*	0.3	0.3	0.2*
(f) Savings Certificates	32.7	32.9	34.4	0.5	0.5	0.5
(g) Treasury Bills	5.8	2.8	0.5	0.1	...	...
(h) Tax Reserve certificates	17.1	17.2	25.3	0.3	0.3	0.4
(i) Government bonds	359.6	392.5	446.6	5.9	6.1	6.6
Total	1216.4	1308.7	1432.0*	19.8	20.4	21.3
Percentage change		+7.6	+9.4			
3. Total Private sector liquid assets	2505.0	2651.4	2938.0*	40.8	41.3	43.7
Percentage change		+5.8	+10.8			
Not included above are holdings of Treasury Bills and Government Bonds by Government financial institutions e.g. Post Office Savings Bank, Ceylon Savings Bank, Employees' Provident Fund etc.	698.0	764.4	886.6	11.4	11.9	13.2

*Estimated.

Source: Central Bank of Ceylon.

(a) At current factor cost prices.

1. If government bonds are excluded from the definition of total liquid assets, the increase in 1963 amounts to Rs. 232.5 million or 10.3 per cent as compared with an increase of Rs. 113.4 million or 5.3 per cent in 1962. On the other hand, if government bonds held by specialised financial agencies of the state such as Post Office Savings Bank, the Ceylon Savings Bank, the Employees' Provident Fund etc., are also included, the increase in 1963 amounts to Rs. 408.8 million or 12.0 per cent as compared with an increase of Rs. 212.7 million or 6.6 per cent in 1962.

The increase in the aggregate volume of liquid assets in 1963 took mainly the form of increases in the currency holdings of the public, in deposits held with commercial banks, and in holdings of Government bonds. Currency notes and coins increased by Rs. 115.8 million or 16.2 per cent, as compared with an increase of only Rs. 20.4 million or 2.9 per cent in 1962. Demand deposits with commercial banks rose by Rs. 47.7 million or 7.6 per cent, as compared with an increase of Rs. 33.6 million or 5.6 per cent in the preceding year. The money supply as a whole increased by Rs. 163.3 million or 12.2 per cent, as compared to an increase of Rs. 54.0 million or 4.2 per cent in 1962. Time and savings deposits with commercial banks moved up by Rs. 63.4 million or 15.7 per cent—the corresponding increase for 1962 being Rs. 50.2 million or 14.2 per cent. Government bonds held by the private sector went up by Rs. 54.1 million or 13.8 per cent, as compared to an increase of Rs. 32.9 million or 9.1 per cent in 1962.

The growth in the total volume of liquid assets and in the significant liquidity ratios during 1963 was also accompanied as shown above by a change in the composition of these assets. Despite the increase in fixed and savings deposits as well as in Government bonds, there was a significant shift away from secondary forms into primary forms of liquid wealth. The ratio of money supply to the total volume of liquid assets rose from 50.6 per cent in 1962 to 51.3 per cent in 1963, and the ratio of currency holdings of the private sector to the total money supply rose from 53.1 per cent to 55.0 per cent. Briefly, the change in internal liquidity in 1963 was both quantitative and qualitative.

On the basis of available information it is not possible to show how the aggregate increase of liquid assets in 1963 was distributed between the different economic classes within the private sector. The increase of Rs. 54.1 million in Government bonds in 1963 shown in Table II E-1 reflects almost entirely the portfolio expansion by trusts, benevolent, pension and provident funds¹ (Rs. 29.4 million), by the insurance sector (Rs. 22 million) and by individuals (Rs. 1.0 million). The position with regard to commercial bank deposits as revealed by survey data for the year 1962 and 1963 is summarised below in Table II E-2.

TABLE II E-2
Change in total private-sector deposits with commercial
banks analysed by ownership categories

Rupees Million			
	1962	1963	Total
1. Non-bank financial institutions ..	+ 10.5	— 5.0	+ 5.5
2. Plantations	— 14.6	— 18.8	— 33.4
3. Trading Institutions	+ 26.7	+ 65.0	+ 91.7
4. Other businesses	+ 41.2	— 14.0	+ 27.2
5. Local authorities	— 10.4	+ 16.6	+ 6.2
6. Non-business institutions ..	+ 10.8	+ 31.9	+ 42.7
7. Individuals	+ 25.7	+ 36.7	+ 62.4
Total Change	+ 89.8	+ 112.5	+ 202.3

Source: Central Bank of Ceylon

1. Excludes Employees' Provident Fund.

1. (a) Money Supply

In 1963 the money supply increased by Rs. 163.3 million or 12.2 per cent, from Rs. 1,342.7 million to Rs. 1,506.0 million, as compared with an increase of Rs. 54 million or 4.2 per cent in 1962. The monthly rate of increase in the money supply averaged Rs. 13.6 million in 1963 as compared with Rs. 4.5 million in the preceding year. As shown in Table II E-1, the most significant aspect of the growth in internal aggregate liquidity in 1963 was this expansion of the money supply, which accounted for 57 per cent of the total increase in liquid assets accruing to the private sector. By contrast, in 1962 when the growth in domestic liquidity was on a much smaller scale, the rise in the money supply accounted only for 37 per cent of the increase in aggregate liquidity. Further in 1963, 71 per cent of the total increase of Rs. 163.3 million in the money supply consisted of an expansion of currency notes and coins whereas in 1962 the increase in the currency component accounted only for 38 per cent of the total increase in the quantity of money. The ratio of currency to the total money supply moved up from 53.1 per cent in 1962 to 55.0 per cent in 1963.

TABLE II E-3

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	1,072.9
1956	401.1	35.6	725.7	64.4	1,126.8
1957	434.9	41.8	605.2	58.2	1,040.1
1958	529.8	49.2	546.9	50.8	1,076.8
1959	565.0	48.0	612.7	52.0	1,177.7
1960	595.3	49.2	613.6	50.8	1,208.9
1961	692.2	53.8	596.4	46.2	1,288.6
1962	712.6	53.1	630.0	46.9	1,342.7
1963	828.4	55.0	677.7	45.0	1,506.0

Source: Central Bank of Ceylon.

Thus the rate of expansion both of demand deposits (these deposits increased by 7.6 per cent in 1963) and of the currency holdings of the private sector in 1963 substantially exceeded the rate of increase in Gross National Product in nominal terms. The view that the increased demand for currency in 1963 was associated to a significant degree with the desire for hoarding is also suggested by a study of components of the currency expansion. Notes of the denomination of Rs. 100 and Rs. 50 increased in 1963 by Rs. 87.0 million (or by 20.5 per cent), accounting for 78.0 per cent of the total increase in currency circulation. Further the ratio of these two classes of notes to the total currency circulation, which has been rising consistently during recent years, moved up steeply from 53.8 per cent in 1962 to 56.8 per cent in 1963.

In 1962, Ceylon's Gross National Product is estimated to have risen by 3.7 per cent in real terms and by 4.5 per cent in nominal terms. In that year, the money supply expanded by 4.2 per cent. On the other hand in 1963 provisional Gross National Product estimates suggest an increase of about 1.8 per cent in real terms and of about 4.8 per cent in nominal terms, while the money supply rose by 12.2 per cent. The ratio of the supply of money to the Gross National Product at current factor cost prices—which may be taken as being about the most significant single measure of the relative degree of domestic liquidity available—rose from 21.0 per cent in 1962 to 22.4 per cent in 1963. Per capita money supply rose by 9.3 per cent, from Rs. 128.6 million to Rs. 140.6 million.

For purposes of analysing the changes in money supply, total transactions of the public can be conveniently grouped under three broad categories—i.e. (i) net transactions with the outside world as approximately indicated by the change in net external banking assets inclusive of both the Central Bank and the commercial banks, (ii) net transactions of the domestic commercial banking sector, as reflected in the amount of credit creation by the banks vis-a-vis the private sector, adjusted for changes in the volume of time and savings deposits with commercial banks, and (iii) net domestic transactions of the Government, as represented by credit expansion or contraction to the Government by the Central Bank and the commercial banks, adjusted for changes in Government rupee balances. Formally, it will be incorrect to treat a net change in banking portfolios of Government paper as necessarily representing a change in bank credit to the Government in as much as banks may have bought from or sold securities to the private sector. But by and large the latter possibility can be ignored as there were no such transactions of any quantitative significance in 1963. Such an analysis for each year from 1958-1963 is provided in Table II E-4.

TABLE II E-4

Changes in the Money Supply

Rupees Million

Factors affecting Money Supply	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		End of December 1962/63	
	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)	—	82.2	—	195.0	—	170.2	—	78.6	—	91.1	—	53.2
2. Commercial bank operations:—												
(a) Credit to the private sector	53.4	—	9.7	—	31.5	—	12.5	—	42.2	—	124.2	—
(b) Holdings of treasury bills and govt. and govt. guaranteed securities	—	39.6	30.2	—	6.0	—	21.4	—	71.3	—	—	5.4
(c) Time and savings deposits	—	38.5	—	34.8	—	52.8	8.4	—	—	62.6	—	63.4
(d) Other liabilities (net)	—	29.6	11.6	—	—	19.7	—	28.0	11.7	—	33.9	—
3. Central Bank operations												
(a) Advances to the Government	75.0	—	61.8	—	21.9	—	1.9	—	3.0	—	7.0	—
(b) Holdings of treasury bills and govt. and govt. guaranteed securities	100.6	—	191.0	—	224.3	—	140.8	—	175.9	—	139.5	—
(c) Other assets and accounts (net)	24.5	—	—	27.9	—	19.3	—	9.1	—	18.6	—	10.7
4. Government cash balances	—	36.4	64.0	—	8.0	—	9.4	—	—	76.1	—	8.3
5. Adjustments	9.6	—	—	9.6	1.4	—	1.0	—	—	1.7	—	0.2
Total expansionary/contractive factors ..	263.1	226.3	368.3	267.3	293.1	262.0	195.4	115.7	304.1	250.1	304.6	141.2
Change in Money Supply	+36.6		+101.0		+31.1		+79.8		+54.0		+163.3	

Source: Central Bank of Ceylon.

TABLE II E-5
The Money Supply

Rupees Million

End of Period	1958	1959	1960	1961	1962	1963	% Change (1959 over 1958)	% Change (1960 over 1959)	% Change (1961 over 1960)	% Change (1962 over 1961)	% Change (1963 over 1962)
January	1,014	1,050	1,180	1,207	1,423	1,347	+ 3.6	+ 12.4	+ 2.3	+ 18.1	— 5.5
February	1,016	1,053	1,192	1,193	1,561	1,359	+ 3.6	+ 13.2	+ 0.1	+ 30.8	— 12.3
March	1,023	1,089	1,194	1,210	1,635	1,385	+ 6.5	+ 9.6	+ 1.3	+ 35.1	— 15.3
April	1,032	1,084	1,165	1,306	1,448	1,400	+ 5.0	+ 7.5	+ 12.1	+ 10.9	— 3.3
May	1,000	1,096	1,163	1,219	1,317	1,431	+ 9.6	+ 6.1	+ 4.8	+ 8.0	+ 8.6
June	1,015	1,094	1,170	1,221	1,298	1,448	+ 7.9	+ 6.9	+ 4.4	+ 6.3	+ 11.5
July	1,023	1,094	1,150	1,223	1,277	1,447	+ 6.9	+ 5.1	+ 6.3	+ 4.4	+ 13.3
August	1,022	1,095	1,161	1,231	1,270	1,474	+ 7.1	+ 6.0	+ 6.0	+ 3.2	+ 16.1
September	1,072	1,128	1,181	1,261	1,294	1,499	+ 5.2	+ 4.7	+ 6.8	+ 2.6	+ 15.8
October	1,085	1,153	1,212	1,248	1,317	1,505	+ 6.3	+ 5.1	+ 3.0	+ 5.5	+ 14.3
November	1,070	1,170	1,219	1,251	1,307	1,533	+ 9.3	+ 4.2	+ 2.6	+ 4.5	+ 17.3
December	1,077	1,178	1,209	1,289	1,343	1,506	+ 9.4	+ 2.6	+ 6.6	+ 4.2	+ 12.2

Source: Central Bank of Ceylon.

It can be observed that the influence of external transactions, Government operations and commercial banking transactions with the private sector on the money supply in 1963 was broadly in the same direction as in the preceding year. But the quantities involved were noticeably different. In 1963, the diminution of money holdings resulting from external transactions was only Rs. 53.2 million as compared with Rs. 91.1 million in 1962 (and Rs. 78.6 million in 1961)—the lower rate of fall in banking assets in 1963 being largely a reflection of the import restrictions in force. The expansionary impact of Government deficits on the money supply was smaller in 1963—Rs. 132.8 million compared with Rs. 174.1 million in 1962 (and Rs. 173.5 million in 1961). Commercial bank credit to the private sector on the other hand expanded steeply by Rs. 124.2 million—mainly by the Ceylonese banks—in 1963 as compared with Rs. 42.2 million in 1962 (and Rs. 12.5 million in 1961) but time and savings deposits with commercial banks offset the expansion of primary liquidity (money supply) by Rs. 63.4 million in 1963 as compared to a similar figure—Rs. 62.6 million in 1962. (In 1961 these deposits dropped by Rs. 8.4 million). Thus in 1963 the contractive impact exerted on the domestic monetary scene by declining external liquidity and the increasing level of time and savings deposits was insufficient to offset the combined expansion generated by commercial bank credit creation and deficit spending by the Government. Consequently the money supply increased by Rs. 163.3 million.

In marked contrast to 1962 the money supply increased during every month of 1963, with the exception of July and December. Table II E-6 which supplements the data presented in Table II E-4 with an analysis of quarterly changes in the quantity of money, shows that the relative significance of the main causal factors differed widely during different stages of the year.

TABLE II E-6

Analysis of Quarterly Change in Money Supply, 1963

Rs. Million

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
External banking assets (net) ..	+ 66.7	+ 24.1	- 51.2	- 92.9	- 53.2
Government operations ..	- 1.9	- 23.2	+ 107.8	+ 49.9	+ 132.8
Commercial bank credit ..	- 12.9	+ 54.1	+ 25.1	+ 57.9	+ 124.2
Time and savings deposits ..	- 11.7	- 1.2	- 28.8	- 21.8	- 63.4
Change in Money Supply ..	+ 42.6	+ 62.6	+ 51.4	+ 6.7	+ 163.3

Source: Central Bank of Ceylon.

In the first three months the increase of Rs. 42.6 million in the money supply was dominated by the expansion of external banking assets while the fall in bank credit and the rise in time deposits exerted significant contractive effects. The principal factor behind the increase of Rs. 62.6 million in the money supply during the second quarter of the year was banking expansion, reinforced by a further accrual of external liquidity which was partially offset by a contraction in the Government sector. In the third quarter fiscal expansion swamped other forces in

importance, and the main factor which limited the expansion of money to Rs. 51.4 million was the large loss of external liquidity. In the final quarter external banking assets contracted heavily and time and savings deposits also rose significantly but their effect on the internal monetary situation was largely nullified by Governmental and banking expansion.

Transactions with the external sector operated as a potent expansionary force in the first half of the year, and as a contractive influence in the second half. The Government sector exerted some contractive influence in the first half of the year but emerged as a powerful generator of money in the latter half, particularly in the third quarter. With minor interruptions bank credit continued to expand while the growth of time and savings deposits continued to check the expansion of primary liquidity more or less throughout the year.

1. (b) Time and Savings Deposits

In 1963 the total volume of fixed and savings deposits of the private sector increased by Rs. 69.3 million or 8.2 per cent, from Rs. 842.3 million to Rs. 911.6 million, as compared with an increase of Rs. 60.7 million or 7.8 per cent in 1962. Expressed as a ratio of the gross national product at current factor cost prices, these deposits rose from about 13.1 per cent to about 13.5 per cent in 1963, but the relative share of these deposits in the total volume of liquid assets held by the private sector declined from 31.8 per cent to 31.0 per cent, and their share of the total volume of secondary liquid assets from 64.4 per cent to 63.7 per cent.

Time and savings deposits held with commercial banks increased by Rs. 63.4 million — savings deposits increased by Rs. 24.3 million and time deposits by Rs. 39.1 million, accounting for 61.7 per cent of the total increase in time and savings deposits in 1963. Savings deposits with the Post Office Savings Bank rose by Rs. 6.2 million or 1.7 per cent while those held by the Ceylon Savings Bank moved down by Rs. 0.3 million or 0.4 per cent.

The continuous increase of savings and time deposits at commercial banks in recent years underlines the need for studying the movements of these balances with close attention. Experience of the behaviour of these balances is still too short for the purpose of obtaining definite insights into the question of how far increases in these balances represent decisions to save on the part of deposit holders. But available data is consistent with the hypothesis that the growth of these balances, at least in the present expansive phase, has a character different from balances held at traditional savings institutions such as the Post Office Savings Bank. It is true that demand deposits in Ceylon are on the average about ten times less stable as time and savings deposits with commercial banks. But it is shown in 1. (d) that in 1963 the growth of time and savings liabilities of commercial banks has been accompanied by an increase of 21 per cent in the intensity of their utilisation. Moreover, available data suggest that deposits at the Post Office Savings Bank, in spite of the fact that they are owned by the poorer classes of the community, are about eight to ten times as stable as time and savings deposits with commercial banks. It is probable that these deposits at commercial banks are composed of funds required for meeting current expenditures as well as of amounts set aside as genuine savings. In so far as this is in fact the case, the economic

distinction between demand deposits and savings deposits tends to be blurred to some extent. In any case with the continuous growth of these balances their liquidity aspects assume increasing importance.

1. (c) Government Bonds

As stated earlier, the volume of Government bonds held by the private sector¹ increased in 1963 by Rs. 54.1 million or 13.8 per cent, from Rs. 392.5 million in 1962 to Rs. 446.6 million. The ratio of Government bonds held by the private sector to their total liquid assets rose from 14.8 per cent to 15.2 per cent and the ratio of bonds to total secondary liquid assets moved up from 30.0 per cent to 31.2 per cent in 1963.

This increase in the holdings of Government bonds in 1963 reflected mainly a portfolio expansion by various trusts, provident and pension funds and by the insurance sector. Individual deposits increased only by about Rs. 1.0 million. The increase of Rs. 54.1 million in 1963 represented mainly subscriptions to new floatations, mostly with long-maturity periods. The longer the maturity period, of course, the less the degree of liquidity attaching to Government bonds. The degree of liquidity of the private sector bond portfolio has also diminished to some extent in 1963 with increases in the bond rate, thus offsetting part of the increase in liquidity resulting from the expansion in the size of the bond portfolio.

1. (d) Turnover Rates

The growth of aggregate liquidity described above was accompanied in 1963 by certain significant changes in the monetary turnover rates.

The average level of savings deposits in the Post Office Savings Bank was Rs. 10.5 million or 3.0 per cent higher in 1963 than in 1962. But the average monthly turnover rate of these deposits declined from 0.023 in 1962 to 0.021 in 1963, representing a decline of 8.7 per cent in the turnover rate. The volume of time and savings deposits at commercial banks was on the average Rs. 64.7 million or 17.5 per cent higher in 1963 than in the preceding year. The combined average monthly turnover rate of these two classes of deposits at commercial banks moved up from 0.14 to 0.17 or by 21.4 per cent.

The average level of demand deposits as well as the average level of total money supply in 1962 was artificially inflated in the first half of the year as a result of the prolonged stoppage of work by commercial bank employees. A more representative average for the year as a whole would be the average for the latter six months of 1962. On this basis, the average level of demand deposits and the money supply would be Rs. 599.0 million and Rs. 1,301.1 million respectively in 1962. Thus the average level of demand deposits was Rs. 60.4 million or 10.1 per cent higher in 1963 than in the preceding year, and the average monthly turnover rate of demand deposits declined by 5 per cent, from 1.81 in 1962 to 1.72 in 1963. On the same basis while the money supply was Rs. 1,445.5 million or 11.1 per cent higher on the average in 1963 than in 1962, the income velocity of money (G.N.P. at current factor cost

1. Excluding Post Office Savings Bank, Ceylon Savings Bank, Employees' Provident Fund etc.

prices divided by the average money supply) dropped from 4.93 in 1962 to 4.65 in 1963 or by 5.7 per cent. The decline in these turnover rates was no doubt partly a passive adjustment to the high increase in the degree of internal liquidity referred to above and partly a result of the changing ownership distribution of liquid assets.

1. (e) Interest Rates

All short-term rates in the organised sector of the money market, with the exception of the commercial bank rate on advances secured by company shares, remained unaltered in 1963. The maximum rate of bank advances secured by shares rose from 8 to 9 per cent per annum but the minimum rate declined from $5\frac{1}{2}$ to 5 per cent. In any case, in view of the fact that only a small proportion (about 5 per cent) of total bank advances in Ceylon are normally secured by company shares, these changes were of little practical significance.

In the market for long-term loans, the rates charged by the Ceylon Savings Bank on loans not exceeding Rs. 10,000 increased from 4.5 to 5.0 per cent and for loans in excess of Rs. 10,000 but not exceeding Rs. 40,000, moved up from 4.5 to $5\frac{1}{2}$ per cent. Interest rates on all size-categories of loans granted for residential construction by the National Housing Department increased by $\frac{1}{4}$ per cent. The rate on new issues of long term government bonds was raised from $4\frac{1}{4}$ per cent to $4\frac{1}{2}$ per cent in June, 1963 and following this change there was a tendency for the yield on government bonds to rise during the latter part of the year.

Thus in spite of the high increase in internal liquidity, 1963 was, by and large, an year of interest rates stability, reflecting a variety of forces such as structural frictions and imperfections in the money market, increased willingness to hold money on the part of trading groups with decreased investment opportunities in the import trade and on the part of consumers with reduced opportunities of purchasing imported goods &c. Indeed as outlined above, a slight movement towards a hardening of rates at the long end of the rates structure was discernible especially in the latter half of the year.

2. Commercial Banking

1963 was an year of continued expansion in commercial banks' activities, characterized by large increases both in deposit resources and in advances to the private sector, and by further extension of their growing branch net-work. The accrual of deposit resources to the banks was substantially in excess of the corresponding amount in 1962, and the expansion of their lending activities with the private sector occurred on a much larger scale. But in contrast to 1962 there was no increase in the banking portfolio of government securities. The expansion in banking moreover was largely confined to the Ceylonese segment of the banking system. By and large the liquid resources available to the banking system remained substantially unchanged although there was some small decline as a consequence of the large expansion of bank advances.

2. (a) Branch Network

Seven new banking offices were opened by the Peoples' Bank and three offices by the Bank of Ceylon in 1963, bringing up the total number of commercial banking offices in the country to eighty-three. The new offices which opened their doors to business in 1963 are located in Colombo, Jaffna, Negombo, Avissawella, Ambalangoda, Kankasanturai, Ekela, Matara and Haputale. Thus of the ten new offices eight are located outside Colombo and five in towns not previously supplied with banking facilities.

Of the total of eighty-three banking offices in existence at the end of 1963, fifty-seven are located outside Colombo and sixty-seven offices are operated by Ceylonese banks. Ceylonese banks have fifty-two branches operating outside Colombo. In 1963 the number of units of population per banking office in Ceylon amounted to 129,060 as compared with 143,041 in 1962.

The number of branch offices outside Colombo still continues to be below what is required for an adequate national coverage even though recent rates of expansion have been high. However, the strengthening of branches already opened must receive as much emphasis at the present stage as programmes of further branch extension. The rapid extension of banking facilities to new areas as well as (possibly) to new economic and social classes, has been one of the notable achievements of recent years in the financial field. Nevertheless it must be stressed that while there is an undoubted need for a further expansion of banking facilities into "non-banked" areas, the complex problem of rural credit cannot be satisfactorily solved by commercial banking alone. A parallel improvement in the efficiency of the co-operative credit mechanism, particularly at the primary level, is a necessary requirement.

The distribution of deposit resources and of the total number of banking offices between Ceylonese, British and Indian and other banks is shown in Table II E-7.

TABLE II E-7

Distribution of Bank Offices and Deposits, 1961-63

	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	
		Amt. Rs. mn.	%		Amt. Rs. mn.	%		Amt. Rs. mn.	%		Amt. Rs. mn.	%
1961	54	1041	100	37	503	48	12	467	45	5	71	7
1962	73	1182	100	57	683	58	12	429	36	4	70	6
1963	83	1301	100	67	801	61	12	412	32	4	88	7

Source: Central Bank of Ceylon.

2. (b) Financial Resources, their Sources and their utilization

Table II E-8 provides an approximate sectoral analysis of changes in commercial banks' financial resources and their utilization in 1963 as compared with each of the two preceding years.

TABLE II E-8
Changes in Banks' Resources and their Utilization, 1960-63

					Rs. Million		
					1961	1962	1963
<i>Sources of Funds</i>							
1. Government Sector	..	..	..	..	—	84.8	14.8
Increase in borrowings	..	..	..	..	—	5.0	—
Reduction of holdings of government paper	..	..	..	..	—	—	5.5
Increase in deposits	..	..	..	..	—	79.8	9.3
2. Increase in Borrowings from Central Bank	..	..	..	..	—	—	37.9
3. Domestic private sector	..	..	..	..	80.0	125.0	115.3
Increase in deposits	..	..	..	..	—	82.4	109.9
Increase in reserves, paid-up capital etc.	..	..	..	..	8.8	7.5	5.4
Increase in other liabilities	..	..	..	..	71.2	—	—
Decrease in other assets	..	..	..	..	—	35.1	—
4. Foreign sector	..	..	..	..	10.0	5.6	8.2
Reduction of foreign balances	..	..	..	..	10.0	5.6	8.2
5. Reduction of domestic cash items	..	..	..	..	35.4	—	1.1
Total increase in resources	..	..	..	..	125.4	215.4	177.3
<i>Utilization of Funds</i>							
1. Government Sector	..	..	..	..	35.5	71.4	—
Reduction of borrowings	..	..	..	..	2.0	—	—
Increase in holdings of government paper	..	..	..	..	21.4	71.4	—
Withdrawal of deposits	..	..	..	..	12.1	—	—
2. Reduction of Borrowings from Central Bank	..	..	..	..	0.4	20.6	—
3. Domestic Private Sector	..	..	..	..	89.4	88.1	176.1
Withdrawal of deposits	..	..	..	..	21.2	—	—
Increase in advances	..	..	..	..	19.0	41.2	136.8
Reduction of other liabilities	..	..	..	..	—	46.9	1.5
Increase in other assets	..	..	..	..	49.2	—	37.8
4. Foreign Sector	..	..	..	..	2.9	4.2	1.3
Reduction of borrowings	..	..	..	..	0.6	3.5	0.6
Withdrawal of deposits	..	..	..	..	2.3	0.7	0.7
5. Increase in domestic cash items	..	..	..	..	—	30.6	—
Total increase in resources utilized	..	..	..	..	128.2	214.9	177.4

Source: Central Bank of Ceylon.

In 1963 banks' working resources from all sources increased by Rs. 177.3 million of which Rs. 14.8 million came from the Government sector (in the form of deposits and a reduction of bank-held investments), Rs. 37.9 million by way of borrowings from the Central Bank, and Rs. 109.9 million from the mobilisation of domestic private deposits. Banks also reduced their foreign balances by Rs. 8.2 million. Thus the mobilisation of domestic private deposits occurred on a much larger scale in 1963 than in the preceding year, but the accrual of Government deposits was very much smaller. These financial resources were used by the banks mainly to increase their advances to the private sector by Rs. 136.8 million and to increase their fixed and other miscellaneous assets by Rs. 37.8 million. Thus the utilisation of increased financial resources in 1963 diverged sharply from the pattern observed in 1962, when the banks harnessed their funds mainly to swell their portfolio of "governments" by Rs. 71.4 million, to reduce their "other" liabilities by Rs. 46.9 million, to expand their advances by Rs. 41.2 million, and to strengthen their cash position by Rs. 30.6 million.

As in 1962, virtually the whole of the increase in deposit resources in 1963 accrued to the Ceylonese banking sector, but (unlike in 1962 when deposits held by foreign banks declined by Rs. 39 million) there was a very slight increase in the deposit resources of the foreign banks in 1963. The large expansion of bank accommodation to the private sector in 1963 similarly represented mainly, though not entirely, an increase in Ceylonese banking activity¹.

2. (c) Structure of Banking Liabilities

Table II E-9 provides an analysis of the distribution of assets and liabilities of the commercial banking system as a whole based on Table 4 of the Appendix. This table, in addition to providing the usual information on the monthly average level of assets and liabilities, includes end-year data for 1962 and 1963. The inclusion of end-year figures is necessary in view of the distortion of average figures for 1962 as a consequence of the prolonged stoppage of work by the employees of commercial banks in the earlier part of the year. For analytical purposes, end-year figures are more reliable than average figures for these particular years.

In 1963 total liabilities (and assets) of the banking system increased by Rs. 148.8 million or 10.8 per cent—from Rs. 1,379.6 million to Rs. 1,528.4 million—compared with an increase of Rs. 117.5 million or 9.3 per cent in 1962. The change in 1963 consisted largely of increases in deposit liabilities (by Rs. 118.8 million or 10.0 per cent), and in commercial bank indebtedness to the Central Bank (by Rs. 37.9 million). The ratio of total deposits to total liabilities declined from 85.7 per cent in 1962 to 85.1 per cent in 1963.

The composition of deposit liabilities also changed to some extent in 1963. Government deposits at commercial banks—these deposits have a very much larger turnover rate than private deposits—increased only by Rs. 9.3 million or 6.3 per cent while other deposits rose by Rs. 109.5 million or 10.6 per cent. The ratio of Government deposits to total deposits declined from 12.5 per cent in 1962 to 12.1 per cent in 1963. The aggregate volume of demand deposits—both Government and private—moved up by Rs. 46.0 million or 6.1 per cent while the aggregate level of time and savings deposits rose by Rs. 72.8 million or 17.1 per cent. The ratio of demand to total deposits dropped from 63.9 per cent to 61.6 per cent. Thus, quite apart from the decline in the turnover rate of demand deposits discussed in Section 1(d) above, there was in 1963 a continuance of the movement, which has been discernible in recent times, towards a structural change in the maturity pattern of deposit liabilities in the direction of longer-term deposits.

Table II E-10 provides an analysis of the (ownership) distribution of bank deposits based on half-yearly surveys carried out by the Central Bank. The decline in plantation deposits and the mounting increase in the bank balances of trading concerns which have been the most conspicuous features of changes in ownership distribution in recent years, was continued in 1963. Deposits of individuals increased by Rs. 36.7 million. Deposits of financial institutions and other business declined while all other groups showed increases.

1. In terms of the Finance Act of 1961, the opening of new accounts by Ceylon citizens and Companies is confined to the Ceylonese banks with effect from 27th July, 1961.

TABLE II E-9
Distribution of Assets and Liabilities of Commercial Banks
(Average of Monthly figures)

	Rupees Million													
	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	Dec. 1962	Dec. 1963
Cash on hand and deposits at Central Bank (Inclusive of statutory reserve requirements) ..	177	128	106	149	148	139	119	116	132	148	186	164	171	170
Foreign balances	97	44	55	112	116	72	50	52	58	54	55	44	41	32
Treasury bills	39	55	60	51	39	34	16	24	28	51	89	128	111	104
Bills discounted and others	64	65	73	94	93	100	116	119	115	122	136	114	117	164
Total liquid assets	377	292	294	406	396	345	301	311	333	375	466	450	440	471
Total investments (1)	235	235	221	245	291	308	296	285	284	290	303	313	317	318
Total loans and overdrafts	176	182	208	244	273	340	363	395	430	435	477	495	447	545
Demand deposits (2)	653	573	562	675	731	721	661	655	657	677	829	789	756	802
Time and savings deposits	95	102	126	190	206	240	263	300	340	359	380	460	426	499
Total deposits	754	677	689	869	941	965	926	955	998	1036	1209	1250	1182	1301
Ratio of:—	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits	27.1	22.3	18.9	22.1	20.2	19.3	18.0	17.7	20.1	21.9	22.4	20.8	22.6	21.2
Cash to total deposits	23.5	18.9	15.4	17.1	15.7	14.4	12.9	12.1	13.2	14.3	15.4	13.1	14.5	13.1
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	4.5	3.5	3.5	2.5
Treasury bills to total deposits	5.2	8.1	8.7	5.9	4.1	3.5	1.7	2.5	2.8	4.9	7.4	10.2	9.4	8.0
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	11.2	9.1	9.9	12.6
Liquid assets to demand deposits	57.7	50.9	52.3	60.1	54.2	47.9	45.5	47.5	50.7	55.4	56.2	57.0	58.2	58.8
Liquid assets to total deposits	50.0	43.1	42.7	46.7	42.1	35.8	32.5	32.6	33.4	36.2	38.5	36.0	37.2	36.2
Investments to total deposits	31.2	34.7	32.1	28.2	39.9	31.9	32.0	29.8	28.5	28.0	25.1	25.0	26.8	24.4
Loans and overdrafts to total deposits	23.3	26.9	30.2	28.1	29.0	35.2	39.2	41.4	43.1	42.0	39.4	39.6	37.8	41.9

Source: Central Bank of Ceylon.

- (1) Government and government guaranteed securities and Central Bank issues.
 (2) Excludes domestic inter-bank deposits.

TABLE II E-10
Ownership of Deposits

Owner		Rupees Million							
		Demand		Time		Savings		Total	
		Amt.	%	Amt.	%	Amt.	%	Amt.	%
Financial Institutions:									
December 1962	..	48.8	7.9	68.3	26.8	4.9	3.5	122.0	12.0
June 1963	..	43.6	6.9	59.6	23.0	6.1	4.1	109.2	10.5
December 1963	..	46.7	7.0	64.9	21.8	5.4	3.3	117.0	10.4
Plantations:									
December 1962	..	89.8	14.6	43.7	17.0	1.0	0.7	134.6	13.3
June 1963	..	74.5	11.8	31.9	12.3	0.8	0.5	107.2	10.3
December 1963	..	76.3	11.5	38.8	13.0	0.7	0.4	115.8	10.3
Trading:									
December 1962	..	100.5	16.3	20.7	8.1	2.0	1.4	123.2	12.2
June 1963	..	139.9	22.1	24.4	9.4	2.5	1.7	166.8	16.0
December 1963	..	146.5	22.1	40.2	13.5	1.6	1.0	188.2	16.7
Other Business:									
December 1962	..	93.2	15.1	39.2	15.4	3.1	2.2	135.5	13.4
June 1963	..	82.4	13.0	19.4	7.5	4.5	3.0	106.3	10.2
December 1963	..	72.3	10.9	45.2	15.1	4.0	2.4	121.5	10.8
Local Authorities:									
December 1962	..	13.2	2.1	17.7	6.9	0.2	0.1	31.1	3.1
June 1963	..	25.8	4.1	38.8	14.9	0.2	0.1	64.8	6.2
December 1963	..	29.9	4.5	17.5	5.9	0.3	0.2	47.7	4.2
Non-business Institutions:									
December 1962	..	38.2	6.2	13.7	5.4	3.1	2.2	55.0	5.4
June 1963	..	37.9	6.0	25.3	9.7	4.0	2.7	67.2	6.4
December 1963	..	50.6	7.6	33.4	11.2	2.9	1.8	86.9	7.7
Individuals:									
December 1962	..	233.4	37.8	52.0	20.4	126.2	89.9	411.6	40.6
June 1963	..	229.6	36.2	60.1	23.2	132.0	87.9	421.8	40.4
December 1963	..	240.7	36.3	58.2	19.5	149.3	90.9	448.3	39.8
Total:									
December 1962	..	617.0	100.0	255.3	100.0	140.6	100.0	1012.9	100.0
June 1963	..	633.6	100.0	259.5	100.0	150.2	100.0	1043.3	100.0
December 1963	..	662.9	100.0	298.3	100.0	164.2	100.0	1125.4	100.0

Source: Central Bank of Ceylon.

2. (d) Structure of Bank Assets

Partly as a result of recent changes in the structure of banking liabilities referred to in Section 2(c) above, and partly as a result of the extension of the institutional framework of credit through Ceylonese banking, significant changes took place in 1963 both in the volume and in the structure of banking assets.

The increase in the total volume of assets by Rs. 148.8 million or 10.8 per cent in 1963 reflected mainly an expansion of loans and overdrafts by Rs. 97.5 million or 21.8 per cent. Trade bills and cash items in process of collection also rose by Rs. 21.6 million (or 18.5 per cent) and Rs. 17.7 million (or 27.5 per cent) respectively. Banks increased their fixed and other miscellaneous assets by Rs. 37.8 million or 56.9 per cent. Cash balances, foreign balances and treasury bills declined slightly.

Loans and overdrafts as a ratio of total assets rose sharply from 32.4 per cent in 1962 to 35.6 per cent in 1963. There was also some evidence of a shift in the structure of bank advances toward somewhat longer-term forms. Government bonds declined from 23.0 per cent in 1962 to 20.8 per cent in 1963. At the end of 1963, the commercial banking system held 18.3 per cent of the total gross volume of Government rupee bonds as compared with 20.2 per cent in 1962. Banks' cash balances as a proportion of their total assets dropped from 12.4 per cent to 11.1 per cent, and their total liquid assets—including cash items in process of collection—from 36.6 per cent to 36.2 per cent.

2. (e) Bank Credit to the Private Sector

With the exception of February, March and October, bank accommodation to the private sector increased throughout 1963. There was a decrease of Rs. 10.3 million in the first quarter of the year, but this was followed by quarterly increases of Rs. 50.1 million, Rs. 38.8 million and Rs. 40.5 million during the rest of the year.

Over the year, loans increased by Rs. 45.3 million, overdrafts by Rs. 52.2 million, export bills by Rs. 12.0 million, import bills by Rs. 12.5 million, and cash items in process of collection by Rs. 17.7 million. The expansion of Rs. 17.7 million in items in process of collection reflected largely the increase in short-term accommodation provided by Ceylonese banking for servicing the Guaranteed Price Scheme for locally-produced rice.

Foreign banks raised their total advances by Rs. 23.6 million, mostly in the form of overdrafts, while Ceylonese banks increased their advances by Rs. 113.3 million mostly in the form of loans and overdrafts. Ceylonese banks' share of total advances rose from 47.7 per cent in 1962 to 54.0 per cent in 1963. A considerable part of the increase in advances granted by Ceylonese banks during 1963 no doubt represented an expansion of credit facilities to co-operative societies. The replacement of non-institutional sources of credit both in urban and rural areas may also have been a factor. Table II E-11 shows the distribution of bank advances between foreign and Ceylonese banks classified by types of accommodation.

TABLE II E-11

Commercial Bank Advances, December 1962/December 1963

Rupees Million									
	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. '62	Dec. '63	Change	Dec. '62	Dec. '63	Change	Dec. '62	Dec. '63	Change
(a) Cash items in process of collection ..	61.1	79.6	+ 18.5	3.2	2.5	- 0.7	64.4	82.1	+ 17.7
(b) Local bills ..	—	—	—	6.6	3.7	- 2.9	6.6	3.7	- 2.9
(c) Import bills ..	15.5	28.4	+ 12.9	34.1	33.7	- 0.4	49.6	62.1	+ 12.5
(d) Export bills ..	8.5	11.1	+ 2.6	52.3	61.7	+ 9.4	60.8	72.8	+ 12.0
(e) Overdrafts ..	87.1	119.7	+ 32.6	192.6	212.2	+ 19.6	279.7	331.9	+ 52.2
(f) Loans ..	127.8	174.6	+ 46.8	39.8	38.4	- 1.4	167.7	213.0	+ 45.3
Total ..	300.0	413.4	+ 113.3	328.6	352.2	+ 23.6	628.7	765.6	+ 136.9

Source: Central Bank of Ceylon.

Table II E-12 provides a classification of bank advances based on survey data according to purpose and maturity. During 1963 as a whole advances for commercial purposes increased by Rs. 76.0 million—export trading by Rs. 46.4 million, import trading by Rs. 3.8 million and others by Rs. 30.8 million. Loans for financial purposes and for consumption decreased by Rs. 15.2 million and Rs. 12.9 million respectively. Agricultural advances rose by Rs. 8.8 million reflecting an increase in advances to tea plantations by Rs. 3.3 million and for 'other' agricultural crops including live-stock and dairying by Rs. 5.8 million. Industrial advances increased by Rs. 17.3 million—engineering and building trades by Rs. 7.2 million and other industries by Rs. 15.7 million—and advances for other miscellaneous purposes by Rs. 50.3 million. There was also a shift in the maturity structure of bank advances. Loans granted for periods of less than six months increased from 36.3 per cent of total advances to 38.6 per cent while 6-30 months category declined from 43.6 per cent to 35.9 per cent. Loans for periods of more than 2½ years increased from 20.1 per cent in 1962 to 25.5 per cent in 1963.

TABLE II E-12

*Advances classified by purpose and according to maturity

Purpose	Short-Term (below 6 months)		Medium-Term (6 months– 30 months)		Long-Term (over 30 months)		Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		(1) as % of (7)		(3) as % of (7)		(5) as % of (7)		(7) as % of Total
A. Commercial								
December 1962 ..	153.8	40.9	170.0	45.3	51.8	13.8	375.6	66.3
June 1963 ..	138.1	37.1	176.3	47.3	58.4	15.7	372.7	61.6
December 1963 ..	196.0	43.4	182.4	40.4	73.2	16.2	451.6	65.4
B. Financial								
December 1962 ..	24.1	27.9	39.2	45.4	23.0	26.7	86.3	15.2
June 1963 ..	27.0	30.3	39.5	44.4	22.5	25.3	89.0	14.7
December 1963 ..	18.7	26.3	26.1	36.7	26.4	37.1	71.1	10.3
C. Agricultural								
December 1962 ..	5.9	34.9	4.0	23.7	7.0	41.4	16.9	3.0
June 1963 ..	6.4	28.4	6.3	28.0	9.7	43.1	22.5	3.7
December 1963 ..	5.9	23.0	5.7	22.2	14.2	55.2	25.7	3.7
D. Industrial								
December 1962 ..	5.0	19.2	12.8	49.0	8.3	31.8	26.1	4.6
June 1963 ..	7.2	20.5	15.9	45.3	12.0	34.2	35.1	5.8
December 1963 ..	8.6	19.8	16.7	38.5	18.0	41.5	43.4	6.3
E. Consumption								
December 1962 ..	12.8	25.9	17.0	34.3	19.7	39.8	49.5	8.7
June 1963 ..	15.5	24.9	21.1	33.9	25.6	41.2	62.2	10.3
December 1963 ..	7.7	21.0	10.0	27.3	19.0	51.9	36.6	5.3
F. Other Loans								
December 1962 ..	3.6	31.0	3.7	31.9	4.2	36.2	11.6	2.0
June 1963 ..	9.7	40.4	8.0	33.3	6.3	26.3	24.0	4.0
December 1963 ..	29.7	48.0	7.1	11.5	25.1	40.5	61.9	9.0
G. Total:								
December 1962 ..	205.3	36.3	246.8	43.6	114.0	20.1	566.1	100.0
June 1963 ..	203.8	33.7	267.1	44.1	134.5	22.2	605.4	100.0
December 1963 ..	266.6	38.6	247.9	35.9	175.9	25.5	690.4	100.0

Source: Central Bank of Ceylon.

*Advances include loans, overdrafts and bills discounted, (exclude cash items in process of collection).

Table II E-13 classifies commercial bank credit to the private sector according to types of security offered against advances. It can be observed, that with the exception of advances secured by company shares, and government securities, which declined loans granted against all other forms of security expanded during 1963 as a whole. The combined volume of advances made against security of stock-in-trade and documentary bills comprised 49.5 per cent of total advances in December 1963 as against 48.7 per cent in December, 1962.

TABLE II E-13
Advances* by Type of Security

Type of Security	Dec. 31, 1962		June 30, 1963		Dec. 31, 1963	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary Bills	135.1	23.9	118.4	19.6	141.5	20.5
Government Securities	12.7	2.2	11.9	2.0	5.9	0.8
Shares of joint stock companies	31.2	5.5	30.5	5.0	18.6	2.7
Time and savings deposits and other cash deposits including cash value of life policies	26.9	4.8	33.3	5.5	30.9	4.5
Stock in trade	140.8	24.9	149.8	24.7	200.6	29.0
Immovable property	50.3	8.9	53.8	9.7	68.8	10.0
Others	99.3	17.5	129.9	21.5	133.5	19.3
Unsecured	69.8	12.3	72.9	12.0	90.7	13.1
Total ..	566.1	100.0	605.4	100.0	690.4	100.0

Source: Central Bank of Ceylon.

*Excludes cash items in process of collection.

It is evident from Table II E-14 that the bulk of the increase in advances which occurred in 1963 carried interest rates of 6 and 7 per cent per annum. The largest proportion of advances outstanding continues to yield 6 per cent. The proportion of total advances earning a yield of 6 per cent declined however, from 47.4 per cent at the end of 1962 to 44.2 per cent in December 1963 while advances earning 7 per cent increased from 25.7 per cent to 27.4 per cent of total advances. Advances carrying rates of 4 per cent, 6½ per cent and 7½ per cent declined to some extent both in absolute terms and as a porportion of total advances.

TABLE II E-14
Advances by Rate of Interest*

Rate of Interest %	Dec. 31, 1962		June 30, 1963		Dec. 31 1963	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Below 2½	3.3	0.7	4.4	0.8	4.8	0.8
2½ .. ..	...	...	0.6	0.1	0.3	...
3	1.6	0.3	2.2	0.4	1.4	0.2
3½	5.4	1.1	5.0	0.9	15.3	2.5
4	8.8	1.7	11.9	2.2	2.0	0.3
4½	12.9	2.5	17.0	3.2	10.7	1.7
5	31.6	6.2	29.9	5.6	52.0	8.4
5½	17.2	3.4	13.6	2.6	12.3	2.0
6	240.0	47.4	244.5	46.1	273.3	44.2
6½	34.5	6.8	30.4	5.7	27.9	4.5
7	130.0	25.7	152.9	28.8	169.6	27.4
7½	9.9	2.0	7.4	1.4	5.8	0.9
8 and above	11.0	2.2	11.1	2.1	43.3	7.0
Total ..	506.2	100.0	530.9	100.0	618.8	100.0

Source: Central Bank of Ceylon.

*Excluding export bills purchased at current rates of exchange and cash items in process of collection.

3. Savings and Long-term Credit Institutions

Table II E-15 below analyses the lending operations of long-term credit institutions in each of the years from 1961 to 1963.

TABLE II E-15
Lending Operations of Long-term Credit Institutions

	Rupees Thousands					
	1961		1962		1963	
	Loans granted	Amount out-standing	Loans granted	Amount out-standing	Loans granted	Amount out-standing
Development Finance Corporation*	4,318	20,931	3,555	22,841	1,864	23,072
Ceylon Savings Bank ..	2,435	10,302	2,801	11,635	3,339	13,387
Agricultural and Industrial Credit Corporation ..	2,905	30,706	2,477	29,874	3,334	29,501
State Mortgage Bank ..	5,442	56,994	2,553	55,785	3,135	55,119
Loan Board ..	2,284	11,937	1,660	12,309	1,033	12,203
National Housing Department**	13,880	n.a.	9,799	n.a.	9,208	n.a.
Total ..	31,264	130,870	22,845	132,444	21,913	133,282

Source: Central Bank of Ceylon.

*Includes equity investments.

**Financial Year October/September.

**Includes Departmental Schemes.

It can be seen that the combined volume of loans granted in 1963 by the Development Finance Corporation, the Ceylon Savings Bank, the Agricultural and Industrial Credit Corporation, the State Mortgage Bank, the Loan Board and the National Housing Department totalled Rs. 21.9 million in 1963 as compared with Rs. 22.8 million in 1962. The total volume of loans outstanding from borrowers to the institutions listed above, other than the National Housing Department, rose from Rs. 132.4 million in December 1962 to Rs. 133.3 million in 1963.

TABLE II E -16
Savings Deposits and Savings Certificates

	Rupees Million		
	December 1962	December 1963	Change Dec. '62/ Dec. '63
Post Office Savings Bank ..	362.3	368.5*	+ 6.2*
Ceylon Savings Bank ..	75.4	75.1*	- 0.3*
Commercial Banks (Time and Savings Deposits)**	426.4	499.2	+ 72.8
Savings Certificates outstanding ..	32.9	34.4	+ 1.5
Total ..	897.0	977.2*	+ 80.2*

Source: Central Bank of Ceylon

*Provisional

**Includes Government deposits.

The combined volume of savings certificates and savings and fixed deposits in the commercial banks, the Post Office Savings Bank and the Ceylon Savings Bank increased by Rs. 80.2 million, from Rs. 897.0 million to Rs. 977.2 million in 1963 as compared with an increase of Rs. 73.3 million in the preceding year. Total collections by the Employees' Provident Fund during 1963 amounted to Rs. 58.5 million as compared with Rs. 57.7 million in 1962.