

(E) MONETARY AND BANKING TRENDS

Monetary expansion in 1964, although of a lesser order of magnitude than in 1963, was yet considerable. The increase in credit created by commercial banks on account of operations with the private sector¹ totalled Rs. 92.0 million as against an increase of Rs. 136.9 million in 1963. Commercial bank and Central Bank credit associated with the Government's financial operations increased by Rs. 104.6 million in 1964 as compared with an increase of Rs. 166.9 million in 1963. The foreign assets owned by the banking system declined by Rs. 36.4 million. In 1963, the decline was Rs. 53.2 million. In sum, the increase of bank credit to the public and private sectors less the decline in external banking assets was Rs. 160.2 million in 1964 as against Rs. 250.6 million in 1963.

Growth of liquidity:

In 1964 the total volume of liquid assets held by the non-bank private sector increased by Rs. 266.6 million or 9.0 per cent as compared with an increase of Rs. 298.0 million or 11.2 per cent in 1963. However, the growth in primary liquidity² in the year under review was Rs. 115.8 million as against an increase of Rs. 163.3 million in 1963. The increase in secondary liquidity³ in 1964 was, on the other hand, greater than that in 1963. Secondary liquidity increased by Rs. 150.8 million in 1964 as compared with Rs. 134.7 million in 1963.

Table II (E) 1 gives a breakdown of non-bank private sector liquid assets into two broad categories of primary and secondary liquid assets.

The total volume of liquid assets held by the non-bank private sector increased by Rs. 266.6 million or 9.0 per cent as compared with an increase of Rs. 298.0 million or 11.2 per cent in 1963. Total non-bank private sector liquid assets as a ratio of Gross National Product also rose from 43.9 per cent in 1963 to 45.2 per cent in 1964.

The increase in private sector liquid assets in 1964 was associated mainly with increases in currency, deposits, and Government bond holdings of the public. Currency held by the public rose by Rs. 24.6 million or 3.0 per cent compared with Rs. 115.8 million or 16.2 per cent in 1963. Demand deposits held by the public increased at a much faster rate than previously—Rs. 91.1 million or 13.4 per cent as against Rs. 47.7 million or 7.6 per cent in 1963. Time and savings deposits with commercial banks and savings deposits with other savings institutions also recorded an increase of Rs. 72.5 million or 7.9 per cent compared with Rs. 78.4 million or 9.3 per cent during the previous year. Government bond holdings of the public which rose by Rs. 54.1 million or 13.8 per cent in 1963, increased further by Rs. 59.1 million. Tax reserve certificates held by the public also increased by Rs. 16.2 million or 64.0 per cent.

1. Private sector is here defined to include Government Corporations, local authorities, co-operatives 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.
2. Currency and demand deposits held by the public (money supply)
3. Time and savings deposits, Government securities tax reserve and savings certificates and foreign balances held by the public,

TABLE II (E) 1

Total Liquid Assets of the Non-Bank Private Sector

1962-1964

Description	Amount (Rs. mn)			Percentage of G.N. P. (a)		
	1962	1963	1964	1962	1963	1964
1. Primary Liquid Assets						
(a) Notes and Coins ..	712.6	828.4	853.0	11.1	12.3	12.0
(b) Demand deposits ..	630.0	677.7	768.8	9.8	10.1	10.8
Total ..	1342.7	1506.0	1621.8	20.9	22.4	22.8
Percentage change ..		+12.2	+7.7			
2. Secondary Liquid Assets						
(a) Savings deposits with commercial banks ..	140.9	165.2	193.5	2.2	2.5	2.7
(b) Savings deposits with Post Office Savings Bank ..	362.3	375.5	393.4 *	5.6	5.6	5.5
(c) Savings deposits with Ceylon Savings Bank ..	75.4	77.2	79.3 *	1.2	1.1	1.1
(d) Time deposits with commercial banks ..	263.7	302.8	327.0	4.1	4.5	4.6
(e) Foreign balances of residents ..	21.0	15.9	15.9 *	0.3	0.2	0.2
(f) Savings Certificates ..	32.9	34.4	37.4	0.5	0.5	0.5
(g) Treasury bills ..	2.8	0.5	0.5	...	...	...
(h) Tax Reserve certificates ..	17.2	25.3	41.5	0.3	0.4	0.6
(i) Government bonds ..	392.5	446.6	505.7	6.1	6.6	7.1
Total ..	1308.7	1443.4	1594.2	20.4	21.5	22.4
Percentage change ..		+10.3	+10.4			
3. Total Private Sector Liquid Assets ..	2651.4	2949.4	3216.0 *	41.3	43.9	45.2
Percentage change ..		+11.2	+9.0			
Not included above are holdings of Treasury bills and Government Bonds by Government financial institutions eg Post Office Savings Bank, Ceylon Savings Bank Employees' Provident Fund etc.	764.4	886.6	1022.9	11.9	13.2	14.4

Source: Central Bank of Ceylon

(a) At current factor cost prices.

* Provisional.

Significant changes were observed in the composition of private sector liquid assets in 1964. In 1963, the increase of Rs. 163 million in primary liquid assets was the dominant influence on the growth of internal liquidity. During the current year, the increase in primary liquidity was relatively small—Rs. 116 million. The increase in aggregate liquidity was in a large measure due to the increase of

Rs. 151 million in secondary liquid assets. Secondly, although total liquid assets increased, the ratio of cash and near cash assets¹ to aggregate liquid assets tended to decline. The ratio of currency and demand deposits to total liquid assets declined fractionally from 51.1 per cent to 50.4 per cent while the combined ratio of money supply, time and savings deposits with commercial banks and savings deposits with traditional savings institutions to total liquid assets declined from 82.3 per cent to 81.3 per cent in 1964.

As indicated in the previous Annual Report, it is not possible to show how the increase in aggregate liquid assets is distributed between various economic groups within the private sector. Details by ownership categories of Government bond holdings of the private sector and of commercial bank deposits are given below, in Tables II (E) 2 and II (E) 3.

Table II (E) 2
Government Bonds held by the Private Sector

Rupees Million.

	1962	1963	1964	Change 1962/63	Change 1963/64
1. Trusts, Benevolent, Pension and Provident Funds* ..	210.2	239.7	256.5	+29.5	+16.8
2. Insurance Corporation ..	7.5	19.9	55.0	+12.4	+35.1
3. Insurance Companies ..	114.1	124.3	129.2	+10.2	+4.9
4. Individuals ..	16.7	17.9	18.4	+1.2	+0.5
5. Other ..	44.0	44.8	46.6	+0.8	+1.8
Total ..	392.5	446.6	505.7	+54.1	+59.1

Source: Central Bank of Ceylon.

*Excludes Employees' Provident Fund.

In 1964, the increase of Rs. 59.1 million in Government bonds accrued largely to the Insurance Corporation and to trusts, benevolent, pension and provident funds.

TABLE II (E) 3
Change in total private sector deposits with commercial banks analysed by ownership categories

Rupees Million

	1963	1964	Total
1. Non-bank financial institutions ..	-- 5.0	+ 3.9	-- 1.1
2. Plantations	-- 18.8	-- 15.7	-- 34.5
3. Trading institutions ..	+ 65.0	+ 19.3	+ 84.3
4. Other businesses	-- 14.0	+ 11.2	-- 2.8
5. Local authorities	+ 16.6	+ 6.5	+ 23.1
6. Non-business institutions ..	+ 31.9	+ 13.8	+ 45.7
7. Individuals	+ 36.7	+ 81.4	+118.1
Total	+112.5	+120.4	+232.9

Source: Central Bank of Ceylon.

1. Demand deposits of the public are by definition money. Time and savings deposits with commercial banks and savings deposits with other savings institutions, although not as liquid as demand deposits, are more liquid than tax reserve certificates, Government bonds etc.
2. Does not include Employees' Provident Fund.

The bulk of the increase in private sector deposits in 1964 accrued to individuals (Rs. 81.4 million) while trading institutions, other businesses and non-business institutions also recorded moderate increases.

1. (a) Money Supply

The money supply increased by Rs. 115.8 million or by 7.7 per cent from Rs. 1506.0 million to Rs. 1621.8 million in 1964. The monetary expansion during the year was less than the increase of Rs. 163.3 million or 12.2 per cent during the previous year. The monthly rate of increase in the money supply was Rs. 9.6 million in 1964 compared with Rs. 13.6 million in 1963.

As indicated in Table II (E) 1, a notable feature in the domestic monetary situation in recent years has been the steady increase in non-bank private sector liquidity. The large increase of Rs. 163.3 million in the money supply in 1963 contributed to a significant degree to this increase in private sector liquidity. In 1964, the increase in the money supply continued to be a major influence on private sector liquidity. However, the relative contribution of the money supply to the increase in private sector liquidity was much less than in the previous year. The increase in the money supply accounted for only 43 per cent of the increase in private sector liquid assets compared with 55 per cent in 1963.

TABLE II (E) 4
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
1963	828.4	55.0	677.7	45.0	1505.0
1964	853.0	52.6	768.8	47.4	1621.8

Source. Central Bank of Ceylon

The Annual Reports for the last three years drew attention to the marked change in the composition of the money supply in recent years, in favour of currency relative to demand deposits. And within this change, attention was focussed on the relative increase in the issue of notes of higher denominations as against notes of smaller denominations. Table II (E) 4 above, reveals that the increase in currency accounted for 71 per cent of the increase of Rs. 163 million in the money supply in 1963 and demand deposits for only 29 per cent of the increase. This trend towards a rising proportion of currency in the total money supply was reversed during the year under review. Demand deposits accounted for

Rs. 91 million or 79 per cent and currency in circulation for only Rs. 25 million or 21 per cent of the increase in the money supply. The ratio of currency to total money supply declined from 55 per cent in 1963 to 52.6 per cent in 1964.

TABLE II (E) 5

Currency Composition—by denominations of Rs. 100, 50, 10, and 5

Rupees million					
End of Period	Rs. 100	Rs. 50	Rs. 10	Rs 5	Currency * Issue
1960 ..	148.4	148.4	237.6	40.1	644.6
1961 ..	211.9	180.3	254.6	42.1	763.8
1962 ..	238.2	186.8	241.9	42.8	789.4
1963 ..	275.3	236.7	257.6	46.5	900.9
1964 January ..	271.9	230.9	245.7	45.0	878.1
February ..	274.1	227.5	244.1	44.5	874.7
March ..	285.5	234.8	248.5	45.3	899.8
April ..	291.7	241.5	257.3	47.5	925.6
May ..	298.0	246.5	257.4	47.8	937.6
June ..	242.5	243.4	295.2	50.5	918.6
July ..	200.7	245.8	319.0	52.2	905.0
August ..	186.3	248.9	326.6	52.7	901.4
September ..	170.2	246.2	335.8	53.3	892.4
October ..	166.9	250.4	346.7	55.0	907.7
November ..	165.8	253.4	352.1	55.0	917.0
December ..	168.4	258.3	359.5	55.5	932.1

Source. Central Bank of Ceylon

* Includes notes of denominations of Rs. 2 and Re. 1 and all coins.

The larger use of currency may be attributed to such factors as changes in income distribution in favour of sections of the population who do not have recourse to banking facilities, to motives of tax evasion, and to the tax on certain categories of debits to bank accounts. The considerable increase in currency notes of larger denominations which occurred since 1960 lends support to this view. As revealed by Table II (E) 5 above, currency notes of Rs. 100 and Rs. 50 denominations together increased by Rs. 248 million between December 1960 and May 1964, while the ratio of these notes to total currency issue rose markedly from 46 per cent to 58 per cent. However, from June 1964 onwards, the currency composition underwent a considerable change. Notes of Rs. 100 denomination declined sharply by Rs. 130 million between end of May and December 1964, while notes of Rs. 50 and Rs. 10 denominations increased by Rs. 12 million and Rs. 102 million respectively. These changes might have been a reflection of expectations regarding measures directed against tax evasion and the hoarding of undeclared assets in the form of currency notes of the higher denominations. It may be noted however that the fear of these expected measures did not induce dishoarding of currency to any appreciable extent. It merely resulted in a change in the currency composition in favour of notes of smaller denominations as a medium of currency hoarding.

Table II (E) 6 analyses changes in the money supply during the period 1959 to 1964. Factors affecting the money supply are classified in terms of the operations of major economic sectors with the banking system, since these operations induce changes in the latter's asset/liability relationships and hence in the money supply.

TABLE II (E) 6
Changes in the Money Supply

Rupees Million

Factors Affecting Money Supply	1958 to 1959		1959 to 1960		1960 to 1961		1961 to 1962		1962 to 1963		1963 to 1964	
	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors
1. External banking assets (net)	—	195.0	—	170.2	—	78.6	—	91.1	—	53.2	16.9*	—
2. Private Sector												
(a) Credit to the private sector	9.7	—	31.5	—	12.5	—	42.2	—	124.2	—	111.7†	—
(b) Time and Savings deposits	—	38.8	—	63.8	9.2	—	—	50.2	—	63.4	—	52.5
(c) Other liabilities (net)	15.6	—	—	8.7	—	28.8	—	0.7	8.1	—	—	4.9
3. Government Sector												
(a) Commercial banks' holdings of treasury bills and government and government guaranteed securities	30.2	—	6.0	—	21.4	—	71.3	—	—	5.4	0.4	—
(b) Central Bank's holdings of treasury bills and government and government guaranteed securities	191.0	—	224.3	—	140.8	—	175.9	—	139.5	—	123.2	—
(c) Central Bank's provisional advances	61.8	—	21.9	—	1.9	—	3.0	—	7.0	—	6.8	—
(d) Central Bank's other liabilities and accounts (net)	—	27.9	—	19.3	—	9.1	—	18.6	—	10.7	—	54.8**
(e) Commercial banks' short term credit to the government (food imports)‡	—	—	—	—	—	—	—	—	25.8	—	—	25.8
(f) Government rupee cash balances	64.0	—	8.0	—	9.4	—	—	76.1	—	8.3	—	2.9
4. Adjustments for items in transit.	—	9.6	1.4	—	1.0	—	—	1.7	—	0.2	—	2.3
Total expansionary / contractionary factors	372.3	271.3	293.1	262.0	196.2	116.5	292.4	238.4	304.6	141.2	259.0	143.2
Change in Money Supply	+101.0		+31.1		+79.8		+54.0		+163.3		+115.8	

Source: Central Bank of Ceylon

* Includes foreign assets with a face value of Rs 53.3 million purchased by the Central Bank from Government institutions in February. When allowance is made for this transaction, net external banking assets actually declined by Rs 36.4 million during the year.

† Does not include the value of export bills discounted which figure was a negative quantity in 1964 (–19.2 million rupees). The value of export bills discounted is included under external banking assets.

** Rs 53.3 million of the increase in Central bank's liabilities to government institutions represents the issue of Central Bank's securities of equal value to government institutions. However, there was no net creation of money on this account.

‡ This item was included under 'other assets' of commercial banks in the Annual Report for 1963 because it was an unusual transaction of a purely temporary nature. This sum has now been repaid in full.

TABLE II (E) 7
The Money Supply

Rupees million

End of Period	1959	1960	1961	1962	1963	1964	% Change (1960 over 1959)	% Change (1961 over 1960)	% Change (1962 over 1961)	% Change (1963 over 1962)	% Change (1964 over 1963)
January ..	1,050	1,180	1,207	1,426	1,347	1,468	+ 12.4	+ 2.3	+ 18.1	— 5.5	+ 9.0
February ..	1,053	1,192	1,193	1,561	1,369	1,501	+ 13.2	+ 0.1	+ 30.8	— 12.3	+ 9.6
March ..	1,089	1,194	1,210	1,635	1,385	1,505	+ 9.6	+ 1.3	+ 35.1	— 15.3	+ 8.7
April ..	1,084	1,165	1,306	1,448	1,400	1,534	+ 7.5	+ 12.1	+ 10.9	— 3.3	+ 9.6
May ..	1,096	1,163	1,219	1,317	1,431	1,547	+ 6.1	+ 4.8	+ 8.0	+ 8.6	+ 8.1
June ..	1,094	1,170	1,221	1,298	1,448	1,550	+ 6.9	+ 4.4	+ 6.3	+ 11.5	+ 7.0
July ..	1,094	1,150	1,223	1,277	1,447	1,543	+ 5.1	+ 6.3	+ 4.4	+ 13.3	+ 6.6
August ..	1,095	1,161	1,231	1,270	1,474	1,529	+ 6.0	+ 6.0	+ 3.2	+ 16.1	+ 3.7
September ..	1,128	1,181	1,261	1,294	1,499	1,549	+ 4.7	+ 6.8	+ 2.6	+ 15.8	+ 3.3
October ..	1,153	1,212	1,248	1,317	1,505	1,592	+ 5.1	+ 3.0	+ 5.5	+ 14.3	+ 5.8
November ..	1,170	1,219	1,251	1,307	1,533	1,603	+ 4.2	+ 2.6	+ 4.5	+ 17.3	+ 4.6
December ..	1,178	1,209	1,289	1,343	1,506	1,622	+ 2.6	+ 6.6	+ 4.2	+ 12.2	+ 7.7

Source: Central Bank of Ceylon

The principal influences underlying changes in the money supply in 1964 were broadly the same as in 1963. Domestic transactions of the Government with the banking system and operations of the private sector with the commercial banks were expansionary, while the external deficit, as reflected in the net external banking assets position, tended to contract the money supply. However, domestic money creation associated with Government deficits though continuing to be high was markedly smaller during the current year than in the previous year - Rs. 101.7 million compared with Rs. 158.6 million. In fact, the main development which contained the monetary expansion during the year, to a volume substantially less than the increase in 1963 was the relatively smaller Government deficit. It is also observed that aggregate commercial bank lending to the private sector including Government Corporations emerged as the major expansionary influence on the money supply in 1964. However, the increase of Rs. 111.7 million in gross bank credit¹ during the current year fell short of the increase of Rs. 124.2 million in 1963. Thus factors tending to increase the money supply were quantitatively smaller in 1964 than in 1963; but the contraction of domestic circulation of money, resulting from external deficits and the increase in non-Governmental savings, also occurred on a smaller scale. The decline in net external banking assets was only Rs. 36.4 million in 1964 compared with Rs. 53.2 million in 1963. Non-Governmental time and savings deposits held with the banking system rose by Rs. 52.5 million as against Rs. 63.4 million in 1963. These factors, in sum, resulted in a net increase of Rs. 115.8 million in the money supply in 1964.

TABLE (II) E 8

Analysis of Quarterly Change in Money Supply

Rupees Million

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
External Banking Assets (net)	-32.4*	+13.8	+ 9.8	+25.7	+ 16.9*
Government Operations	+32.3	+4.1	- 7.7	+73.0	+101.7
Commercial Bank Credit	+45.4	+62.1	+ 1.5	+ 2.7	+111.7
Time & Savings Deposits	-22.9	-22.4	+10.6	-17.8	- 52.5
Change in Money Supply	- 0.9	+45.2	- 1.4	+72.9	+115.8

Source : Central Bank of Ceylon

* Includes foreign assets with a face value of Rs. 53.3 million purchased by the Central Bank from Government institutions in February 1964. Hence the actual contraction in net external banking assets during the first quarter of the year was Rs. 85.7 million, and for the year as a whole Rs. 36.4 million.

Quarterly changes in the money supply and underlying factors are presented in Table II (E) 8 above. The money supply declined slightly during the first and third quarters of the year, reflecting mainly contractions in January, July and August, while it rose sharply during the second and fourth quarters.

During the first quarter, the fractional contraction in the money supply reflected a sizeable increase in time and savings deposits and a heavy external payments deficit. This decrease was almost wholly offset by a considerable

1. The figure of gross bank credit given here does not include advances granted against export bills. The value of export bills discounted is included under external banking assets.

increase in Government transactions with the banking system, and in gross bank credit extended to the private and semi-Government sectors. During the second quarter, the continued increase in commercial bank credit extended to semi-Government and private sectors was particularly expansionary, while the continued increase in time and savings deposits partially offset this expansion. Moderate changes in underlying influences, which made for change in bank lending, resulted in a slight contraction of the money supply during the third quarter. The sharp increase in domestic circulation of money during the last three months of the year reflected mainly increases in Government operations with the banking system, and, in net external banking assets.

After a heavy initial decline during the first quarter, net external banking assets exerted an expansionary impact on the money supply during the subsequent quarters. Gross commercial bank credit rose sharply during the first six months but the rate of expansion thereafter was rather negligible. Government transactions with the banking system operated as a powerful expansionary influence on the money supply during the first and last quarters of the year. Increases in non-Governmental savings, except during the third quarter, tended to contract the money supply. However, the contraction in time and savings deposits during the third quarter was negligible.

I (b) Turnover Rates

In 1964, although the increase in domestic liquidity was smaller than in 1963, aggregate non-bank private sector deposits (demand, time and savings) showed a larger increase than in 1963. This increase in private sector deposits was accompanied by an increase in the monthly average turnover rates of deposits held with commercial banks.

The monthly average of deposits held with the Post Office Savings Bank and the Ceylon Savings Bank was respectively Rs. 18.9 million and Rs. 2.6 million more than in the previous year. Turnover rates of these deposits remained stable at 0.021 and 0.015.

The average volume of private sector time and savings deposits with commercial banks showed an increase of Rs. 68.5 million in 1964 over the previous year. As a rate of increase, this amounted to 15.8 per cent. The turnover rate of these deposits increased from 0.17 to 0.18, an increase of 5.9 per cent. Data on the turnover rates of time and savings deposits with commercial banks are available separately for the nine months commencing from April, 1964. The turnover rate of time deposits for the nine months averaged 0.23 and of savings deposits 0.10. The turnover of savings deposits with commercial banks was more than five times as rapid as the turnover of savings deposits with the Post Office Savings Bank.

According to end year figures, non-governmental demand deposits recorded an increase of Rs. 91.3 million or 13.5 per cent in 1964. However, the average monthly level of demand deposits was only Rs. 45.5 million or 6.9 per cent higher than in the previous year. The average monthly turnover rate of demand

deposits also rose from 1.72 to 1.82, an increase of 5.8 per cent for the year, compared to a decline of 5.0 per cent in 1963. The higher turnover of demand deposits is of significance because the deposit component of the money supply rose appreciably in 1964, as compared with 1963. The average level of the money supply, which includes both currency and demand deposits held by the public, was also Rs. 100 million or 6.9 per cent higher than in 1963; the income velocity of money (the G. N. P. at current factor cost prices expressed as a ratio of the money supply) declined from 4.65 to 4.61 in 1964.

I (c) Time and Savings Deposits

The total volume of private sector time and savings deposits¹ increased by Rs. 72.5 million to Rs. 993.2 million in 1964; an increase of 7.9 per cent as compared with an increase of Rs. 78.4 million or 9.3 per cent in the previous year. The ratio of time and savings deposits to private sector liquid assets decreased fractionally from 31.2 per cent in 1963 to 30.9 per cent in 1964.

The increase in private sector time and savings deposits reflected largely an increase of Rs 52.5 million in time and savings deposits with commercial banks; time deposits increasing by Rs. 24.2 million and savings deposits by Rs. 28.3 million. Savings deposits held with the Post Office Savings Bank and the Ceylon Savings Bank also recorded increases of Rs. 17.9 million or 4.8 per cent and Rs 2.1 million or 2.7 per cent, respectively.

The table below gives figures of time and savings deposits with commercial banks in the last five years.

TABLE II (E) 9
Time & Savings Deposits of Commercial
Banks in last five years.

	Rupees million								
	1960	1961	1962	1963	1964	Change 1960/61	Change 1961/62	Change 1962/63	Change 1963/64
Time deposits*	243.2	233.1	285.5	334.0	357.6	-10.1	+52.4	+48.5	+23.6
Savings deposits	129.0	130.6	140.9	165.2	193.5	+ 1.6	+10.3	+24.3	+28.3
Total	372.2	363.8	426.4	499.2	551.1	- 8.5	+62.6	+72.8	+51.9

Source: Central Bank of Ceylon

*Time deposits shown in this table include time deposits held by the Government. As at 31st December, 1964, Government time deposits amounted to Rs 30.6 million.

The large increase in these deposits in the last 3 years is striking. Figures available to the Central Bank also reveal that as at December 1963, 63 per cent of time deposits with commercial banks were owned by the business sector, comprising financial institutions, plantation companies, trading

1. i.e. deposits with the Post Office Savings Bank and the Ceylon Savings Bank, and time and savings deposits of government corporations, co-operative institutions and other private sector constituents with commercial banks.

establishments etc. The average size of a time deposit account was Rs. 43,605. In contrast, savings deposits were almost exclusively personal and averaged Rs. 1,316.¹

The large increase in time and savings deposits of commercial banks in the last three years is of significance from the point of view of monetary control. Attention was focussed in the Annual Report for 1963 on the large increase in time and savings deposits and the simultaneous increase in turnover rates. This increase is of relevance from the point of view of money supply, which as currently defined, does not include time and savings deposits held by the public. It is also of significance from the point of view of credit control. The reserve requirements of the Central Bank impose differential rates in respect of time and savings deposits as against demand deposits.^{2 & 3}

(d) Government Bonds

As indicated in Table II (E) 1, the total volume of Government bond holdings of the private sector increased by Rs. 59.1 million or 13.2 per cent to Rs. 505.7 million in 1964. Government bonds as a ratio of secondary liquid assets rose from 30.9 per cent in 1963 to 31.7 per cent in 1964, and as a ratio of aggregate private sector liquid assets from 15.1 per cent to 15.7 per cent.

A breakdown of the increase in Government bond holdings by ownership categories was given in Table II (E) 2 in examining the growth of liquidity. The increase of Rs. 59.1 million in private sector bond holdings represented largely contributions to new issues.

The Insurance Corporation increased its Government bond holdings by Rs. 35.1 million and private insurance companies by Rs. 4.9 million. Trusts and benevolent, pension and provident funds increased their holdings by Rs. 16.8 million in 1964.

(e) Interest Rates

The rate of interest paid on deposits held with the Post Office Savings Bank was raised from 2 per cent to 2.4 per cent with effect from 1st January 1964. Apart from this increase, the general structure of deposit rates remained unchanged.

1. For further information reference may be made to A Study of Bank Deposits 1956/63 appearing in the May 1964 issue of the Central Bank Bulletin.
2. Currently prevailing reserve ratios are as follows.
 General reserve requirement (a) 12 per cent in respect of demand deposits
 (b) 5 per cent in respect of time and savings deposits.
 Special reserve requirement — 38% of any increase in demand deposits above the level as at close of business on 1st February 1961.
3. The ratio of demand deposits to total deposits was as high as 88.9 per cent in 1950. In September 1956 the percentage was 78.1 and declined steadily with only minor interruptions to 58.9 per cent in December 1963.
 (A Study of Bank Deposits 1956/63, Central Bank Bulletin May, 1964.)
4. Excluding the Employees' Provident Fund.

A general upward movement in the pattern of lending rates of commercial banks was discernible between April and August 1964. Some banks had earlier raised their minimum rates. Now the increase became more general. The minimum rate in respect of advances granted against shares of joint stock companies increased from 5 per cent to $6\frac{1}{2}$ per cent in April 1964. The minimum rate on advances secured by Government securities also rose from $3\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent. The minimum rate in respect of bills purchased and discounted rose from $3\frac{3}{4}$ per cent to $4\frac{1}{2}$ per cent in August 1964. However, the minimum rate on advances secured by miscellaneous securities declined from 5 per cent to $4\frac{1}{2}$ per cent in August.

The maximum lending rates of commercial banks on some categories of advances also tended to increase in 1964. The maximum rate of interest on advances secured by miscellaneous securities, and on unsecured advances rose from 8 per cent to 9 per cent in April 1964.

The rate at which the Central Bank purchases Treasury bills from the Government was reduced from 2.80 per cent to 0.76 per cent with effect from 1st August, 1964. This reduction did not reflect any change in money market conditions. It was merely a measure designed to ease the burden on the Government of servicing the national debt.

2. Commercial Banking

The increase of Rs. 92.0 million in bank credit to the private sector in 1964 was substantial though not as much as in 1963. The expansion in the branch network was limited to the People's Bank. Bank of Ceylon increased its lending to the private sector almost as much as People's Bank, though it did not open any new offices in 1964. In contrast, foreign banks contracted their lending moderately to about the level prevailing as at the end of December 1962.

2. (a) Branch Network

The distribution of bank offices, and total deposits between Ceylonese, British, Indian and Pakistani banks for the period 1962-1964 is shown below in Table II (E) 10.

TABLE II (E) 10
Distribution of Bank Offices and
Deposits 1962-1964

	Total			Ceylonese Banks			British Banks			Indian and Pakistani 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.	%
1962	73	1,182	100	57	683	58	12	429	36	4	70	6
1963	83	1,301	100	67	801	61	12	412	32	4	88	7
1964	88	1,447	100	72	943	65	12	415	29	4	90	6

Source: Central Bank of Ceylon

Only 5 new bank offices were opened in 1964 and all 5 were branches of the People's Bank. These new offices were located in Bandarawela, Kalutara, Ragala, Talawakelle and Vavuniya. 4 of the 5 new offices were opened in towns where no banking facilities existed previously.

The total number of banking offices within the island stood at 88 at the end of 1964, compared with 46 at the end of 1960. Of the 88 offices in existence at the end of 1964, 72 bank offices were operated by Ceylonese banks, and of 62 bank offices located outside Colombo, Bank of Ceylon and the People's Bank operated 56 branches. The rapid increase in bank offices outside Colombo may be gauged from the fact that as at end of 1960, there were only 26 bank offices located outside Colombo.

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

Changes in financial resources of commercial banks and their utilisation between 1961 and 1964 are shown in Table II (E) 11 below.

TABLE II (E) 11
Changes in Banks' Resources and their
Utilisation 1961/1964

	Rupees Million			
	1961	1962	1963	1964
<i>Sources of Funds</i>				
1. Government Sector	—	84.8	14.8	28.7
Increase in borrowing ..	—	5.0	—	—
Reduction of holdings of government paper ..	—	—	5.5	—
Increase in deposits ..	—	79.8	9.3	2.9
Decrease in other short-term assets ..	—	—	—	25.8
2. Increase in Borrowings from Central Bank ..	—	—	37.9	—
3. Domestic private sector ..	80.0	125.0	115.3	154.9
Increase in deposits ..	—	82.4	109.9	143.8
Increase in reserves, paid up capital etc, ..	8.8	7.5	5.4	4.4
Increase in other liabilities ..	71.2	—	—	—
Decrease in other assets ..	—	35.1	—	6.7
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	183.6
<i>Utilization of funds</i>				
1. Government Sector ..	35.5	71.4	25.8	5.4
Reduction of borrowings ..	2.0	—	—	5.0
Increase in holdings of government paper ..	21.4	71.4	—	0.4
Withdrawal of deposits ..	12.1	—	—	—
Increase in short term credit to government ..	—	—	25.8	—
2. Reduction of Borrowings from Central Bank ..	0.4	20.6	—	18.8
3. Domestic Private Sector ..	89.4	88.1	150.4	93.1
Withdrawal of deposits ..	21.2	—	—	—
Increase in advances ..	19.0	41.2	136.9	92.0
Reduction of other liabilities ..	—	46.9	1.5	1.1
Increase in other assets ..	49.2	—	12.0	—
4. Foreign Sector ..	2.9	4.2	1.3	22.1
Reduction of borrowings ..	0.6	3.5	0.6	0.8
Withdrawal of deposits ..	2.3	0.7	0.7	0.1
Increase in foreign balances ..	—	—	—	21.2
5. Increase in Domestic cash items ..	—	30.6	—	43.7
Total increase in resources utilized ..	128.2	214.9	177.5	183.1

Source: Central Bank of Ceylon.

The increase in aggregate working resources of commercial banks in 1964 was slightly higher than in 1963, and amounted to Rs. 183.6 million. Deposits of the private sector accounted for Rs. 143.8 million of this increase. In 1963, the increase in deposits amounted to only Rs. 109.9 million. Miscellaneous assets of banks, classified as other assets, declined by Rs. 6.7 million. The accrual from Government deposits was negligible. However the repayment in 1964 of the short-term loan of Rs. 25.8 million extended to the government in the previous December added to the resources of commercial banks.

Advances to the private sector, amounting to Rs. 92.0 million, accounted for the largest share in the utilization of these resources in 1964, as in 1963. Rs. 22.1 million, was held in the form of working balances abroad, while a further Rs. 43.7 million went into domestic cash reserves of commercial banks. Indebtedness to the Central Bank was reduced by Rs 18.8 million in contrast to the large increase in the previous year.

2 (c) Structure of Banking Liabilities

Table II (E) 12 gives details of the distribution of commercial bank assets and liabilities from 1953.

Total liabilities of commercial banks rose by Rs 130 million or 8.5 per cent from Rs. 1,528.4 million to Rs. 1,658.4 million in 1964, compared with Rs. 148.8 million or 10.8 per cent in 1963. The increase in total liabilities was largely the outcome of a substantial expansion of Rs. 146.2 million in deposit liabilities which was partially counteracted by a reduction of Rs. 18.8 million and Rs. 5 million in commercial bank indebtedness to the Central Bank and the Central Government respectively. The increase in aggregate deposits was reflected in the ratio of deposits to total liabilities which rose from 85.1 per cent to 87.3 per cent in 1964.

Deposits accruing to commercial banks from all sources rose by Rs. 146.2 million or 11.2 per cent to Rs. 1447.5 million in 1964. The change in deposits during the year assumed a pattern different from that of the previous year. In 1963 the increase of Rs. 72.8 million in time and savings deposits exceeded the increase of Rs. 46 million in demand deposits. In contrast, in 1964 demand deposits rose by Rs. 94.3 million from Rs. 802.1 million to Rs. 896.4 million, while time and savings deposits increased by Rs. 51.9 million to Rs. 551.1 million. The rapid increase in demand deposits temporarily arrested the change in the maturity distribution of commercial bank deposits towards longer-term deposits. Expressed as a ratio of aggregate deposits, demand deposits rose fractionally from 61.6 per cent in 1963 to 61.9 per cent in 1964. Further, the large deposit accrual to commercial banks came almost entirely from non-Governmental sources. Government deposits with commercial banks increased slightly by Rs. 2.9 million, but the ratio of government deposits to aggregate commercial bank deposits declined from 12.1 per cent to 11.1 per cent in 1964.

It is observed from Table II (E) 10 under the section on the Branch Network, that the increase in deposits accrued almost entirely to Ceylonese banks.¹

1. In terms of the Finance Act of 1961, the opening of new accounts by Ceylon citizens and Ceylonese companies is confined with effect from 27th July 1961 to the following institutions; Bank of Ceylon, People's Bank, Ceylon Savings Bank, Ceylon Post Office Savings Bank or any bank registered as a society under the Co-operative Societies Ordinance.

TABLE 2 (E) 12
Distribution of Assets and Liabilities of Commercial Banks
(Average of monthly figures)

Rupees Million

		1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	End of Period	
														Dec. 1963	Dec. 1964
Cash on hand and deposits at Central Bank	..														
(Inclusive of statutory reserve requirements)	..	128	106	149	148	139	119	116	132	148	186	164	182	170	214
Foreign balances	..	44	55	112	116	72	50	52	58	54	55	44	49	32	54
Treasury bills	..	55	60	51	39	34	16	24	28	51	89	128	73	104	94
Bills discounted and other short-term assets	..	65	73	94	93	100	116	119	115	122	136	114	126	164	131
Total liquid assets	..	292	294	406	396	345	301	311	333	375	466	450	430	471	493
Total investments (1)	..	235	221	245	291	308	296	285	284	290	303	313	330	318	329
Total loans and overdrafts	..	182	208	244	273	340	363	395	430	435	477	495	633	545	652
Demand deposits (2)	..	573	562	675	731	721	661	655	657	677	829	789	853	801	896
Time and Savings deposits	..	102	126	190	206	240	263	300	340	359	380	460	535	499	551
Total deposits	..	677	689	869	941	965	926	955	998	1036	1209	1250	1389	1301	1447
Ratio of—	..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits	..	22.3	18.9	22.1	20.2	19.3	18.0	17.7	20.1	21.9	22.4	20.8	21.3	21.2	23.9
Cash to total deposits	..	18.9	15.4	17.1	15.7	14.4	12.9	12.1	13.2	14.3	15.4	13.1	13.1	13.1	14.8
Foreign balances to total deposits	..	6.5	8.0	12.9	12.3	7.4	5.4	5.4	5.8	5.2	4.5	3.5	3.5	2.5	3.7
Treasury bills to total deposits	..	8.1	8.7	5.9	4.1	3.5	1.7	2.5	2.8	4.9	7.4	10.2	5.3	8.0	6.5
Commercial bills discounted to total deposits	..	9.6	10.6	10.8	9.9	10.3	12.5	12.5	11.5	11.8	11.2	9.1	9.1	12.6	9.0
Liquid assets to demand deposits	..	50.9	52.3	60.1	54.2	47.9	45.5	47.5	50.7	55.4	56.2	57.0	50.4	58.8	55.0
Liquid assets to total deposits	..	43.1	42.7	46.7	42.1	35.8	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.2	34.1
Investments to total deposits	..	34.7	32.1	28.2	30.9	31.7	32.0	29.8	28.5	28.0	25.1	25.0	23.8	24.4	22.7
Loans and overdrafts to total deposits	..	26.9	30.2	28.1	29.0	35.2	39.2	41.4	43.1	42.0	39.4	39.6	45.6	41.9	45.1

Source: Central Bank of Ceylon.

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

Rs. 142 million of the increase of Rs. 146 million went to swell the resources of Ceylonese banks (distributed rather evenly between Bank of Ceylon and People's Bank) while Rs 5 million went into the foreign banks. Generally, the extension of banking facilities would contribute towards channeling a portion of the increase in the money supply into the banking system.

Table II (E) 13 based on half yearly surveys conducted by the Central Bank, analyses private sector deposits held with commercial banks according to principal ownership categories. All categories of deposit holders, except plantations, increased their deposits in 1964. Rs. 81 million or 68 per cent of the increase in deposits was owned by individuals, unlike in the previous year when the larger share of the increase was owned by trading institutions. Trading institutions, other businesses, and non business institutions also recorded moderate increases in their deposit holdings. Plantation deposits, as in preceding periods, continued to decline. The ratio of plantation sector deposits to total private sector deposits held with commercial banks fell from 10.3 per cent in 1963 to 8.0 per cent in 1964.

TABLE II (E) 13
Ownership of Deposits

Rupees million

Owner	Demand		Time		Savings		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Financial Institutions:								
December, 1963 ..	46.7	7.0	64.9	21.8	5.4	3.3	117.0	10.4
June, 1964 ..	49.5	7.1	65.3	19.7	6.4	3.6	121.1	10.1
December, 1964 ..	41.1	5.7	71.6	22.0	8.2	4.2	120.9	9.7
Plantations:								
December, 1963 ..	76.3	11.5	38.8	13.0	0.7	0.4	115.8	10.3
June, 1964 ..	68.5	9.9	31.6	9.6	0.4	0.2	100.5	8.4
December 1964 ..	68.4	9.4	31.3	9.6	0.4	0.2	100.1	8.0
Trading:								
December, 1963 ..	146.5	22.1	40.2	13.5	1.6	1.0	188.2	16.7
June, 1964 ..	127.4	18.4	51.5	15.6	2.7	1.5	181.5	15.1
December, 1964 ..	166.1	22.8	37.6	11.6	3.9	2.0	207.5	16.7
Other Business:								
December, 1963 ..	72.3	10.9	45.2	15.1	4.0	2.4	121.5	10.8
June, 1963 ..	112.6	16.2	32.0	9.7	2.6	1.5	147.3	12.2
December 1964 ..	76.5	10.5	54.6	16.8	1.5	0.8	132.7	10.7
Local Authorities:								
December, 1963 ..	29.9	4.5	17.5	5.9	0.3	0.2	47.7	4.2
June, 1964 ..	24.2	3.5	34.0	10.3	0.2	0.1	58.4	4.9
December, 1964 ..	26.8	3.7	27.2	8.4	0.2	0.1	54.2	4.3
Non-Business Institutions								
December, 1963 ..	50.6	7.6	33.4	11.2	2.9	1.8	86.9	7.7
June, 1964 ..	63.4	9.1	46.2	14.0	3.3	1.9	112.9	9.4
December, 1964 ..	74.8	10.3	22.5	6.9	3.4	1.8	100.7	8.1
Individuals:								
December, 1963 ..	240.7	36.3	58.2	19.5	149.3	90.9	448.3	39.8
June, 1964 ..	248.5	35.8	70.1	21.2	162.0	91.2	480.6	40.0
December, 1964 ..	273.3	37.6	80.4	24.7	76.0	90.9	529.7	42.5
Total:								
December, 1963 ..	662.9	100.0	298.3	100.0	164.2	100.0	1125.4	100.0
June, 1964 ..	694.1	100.0	330.7	100.0	177.6	100.0	1202.4	100.0
December, 1964 ..	727.0	100.0	325.1	100.0	193.6	100.0	1245.8	100.0

Source: Central Bank of Ceylon.

2 (d) Structure of Bank Assets

Table II (E) 12 sets out the distribution of assets and liabilities of commercial banks.

The increase of Rs. 130 million in total assets of commercial banks was accounted for mainly by an increase of Rs. 106.8 million or 19.6 per cent in their total loans and overdrafts. Commercial banks increased their portfolios of long-term government securities by Rs. 10.9 million or by 3.4 per cent. Cash assets and foreign balances also rose by Rs. 43.7 million and Rs. 21.2 million respectively, while treasury bills declined by Rs. 10.5 million, and commercial bills and other short term assets of commercial banks contracted by Rs. 33 million in 1964.

Although the total volume of commercial bank liquid assets recorded a moderate increase in 1964, the ratio of liquid assets to aggregate deposits declined from 36.2 per cent to 34.1 per cent. The ratio of bill holdings (treasury bills and commercial bills) to total deposits also declined from 20.6 per cent to 15.5 per cent. However cash assets included in liquid assets, increased from 13.1 per cent to 14.8 per cent of total deposits. The ratio of loans and overdrafts to total deposits increased markedly from 41.9 per cent to 45.1 per cent in the year under review. Though commercial banks increased their portfolios of long-term government securities, the ratio of investments to total deposits declined from 24.4 per cent to 22.7 per cent.

2 (e) Bank credit to the private sector¹

After an initial decline of Rs. 8.7 million in January, bank credit to the private sector increased consistently until July 1964. From then onwards bank advances declined steadily until December, apart from a slight increase in November. The total increase in bank credit to the private sector during the year was Rs. 92.0 million, compared with Rs. 136.9 million during the previous year.

TABLE II (E) 14
Commercial Bank Advances - December 1963/ December 1964

	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. '63	Dec. '64	Change	Dec. '63	Dec. '64	Change	Dec. '63	Dec. '64	Change
(a) Cash items in process of collection*	79.6	73.3	- 6.3	2.5	1.2	- 1.3	82.1	74.5	- 7.6
(b) Local bills	—	—	—	...	...	...	...	...	...
(c) Import bills	28.4	49.8	+21.4	37.4	27.9	- 9.5	65.8	77.8	+12.0
(d) Export bills	11.1	13.8	+2.7	61.7	39.8	- 21.9	72.8	53.6	-19.2
(e) Overdrafts	119.7	170.5	+50.8	212.2	201.8	- 10.4	331.9	372.3	+40.4
(f) Loans	174.6	226.8	+52.2	38.4	52.6	+14.2	213.0	279.4	+66.4
Total	413.4	534.2	+120.8	352.2	323.3	- 28.9	765.6	857.6	+92.0

Source: Central Bank of Ceylon.

* This category contains only a small element of inter-bank debt represented in cheques sent for collection. It consists mainly of very short-term advances granted to co-operatives for the finance of purchases of foodstuffs under the Guaranteed Price Scheme.

¹ Private Sector is defined to include all privately owned enterprises, government corporations, co-operative institutions, semi government institutions and local government bodies

The decline in January, consisted mainly of a decline in export bills and short term advances for the purchase of food stuffs under the Guaranteed Price Scheme. However, the latter type of advances as usual showed a marked increase in the months of May, June and July when the main harvest is brought in. Import bills showed an increase for the year as a whole, but this increase did not reflect any marked seasonal changes. Loans and overdrafts showed a general upward trend. Export bills actually declined during the year.

The ratio of advances extended by Ceylonese banks to the total of advances by all banks rose appreciably from 54.0 per cent to 62.3 per cent in 1964.

TABLE II (E) 15

Breakdown by sub-sectors of total loans and overdrafts
given to the private sector in 1964.

				Rupees Million.
	December 1963	June 1964	December 1964	Change Dec. 63 — Dec. 64
1. Privately owned enterprises and Individuals	502.3	563.3	560.8	+ 58.5
2. Government Corporations	11.2	17.1	33.8	+ 22.6
3. Co-operative Institutions	31.4	51.8	57.1	+ 25.7
Total	544.9	632.2	651.7	+106.8

Source: Central Bank of Ceylon.

From the above table, it would be observed that loans and overdrafts to enterprises privately owned and to individuals increased by Rs. 58.5 million to Government corporations by Rs. 22.6 million and to co-operatives by Rs. 25.7 million. Loans and overdrafts to private enterprises and individuals decreased in the second half of the year whereas loans and overdrafts to Government Corporations and to the co-operatives¹ increased mainly in the second half of the year.

From Table II (E) 16 it is observed that in 1964 the increase in bank advances was largely for commercial, industrial and financial purposes. Consumption and agricultural advances too increased moderately, whereas the residual category of 'other' purposes contracted.

The increase of Rs. 36.6 million for commercial purposes consisted of increases in credit for import trading and wholesale and retail trading. The increase in credit for financial purposes consisted entirely of an increase in

1 Loans and overdrafts to co-operatives do not include short-term advances given for the purchase of paddy and other foodstuffs under the Guaranteed Price Scheme and classified under cash items in process of collection in Table II (E) 14.

'investment loans'. Agricultural loans increased by Rs. 3.2 million. Within industrial advances the increase was in credit to engineering and building industries which took Rs. 10.5 million. The residual category 'other industries' accounted for Rs. 12.6 million of the increase. Credit for 'consumption' purposes increased by Rs. 12.3 million,

TABLE II (E) 16

*Advances classified by Purpose and according to Maturity

Rupees Million

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 1963	1963	196.0	43.4	182.4	40.4	73.2	16.2	451.6	65.4
	June 1964	1964	200.8	41.1	210.1	43.0	77.1	15.8	488.1	63.5
	December 1964	1964	245.3	50.2	173.8	35.6	69.1	14.2	488.2	62.4
B. Financial	December 1963	1963	18.7	26.3	26.1	36.7	26.4	37.1	71.1	10.3
	June 1964	1964	32.2	37.4	26.5	30.8	27.2	31.6	86.0	11.2
	December 1964	1964	26.5	29.1	30.0	32.9	34.6	38.0	91.1	11.6
C. Agricultural	December 1963	1963	5.9	23.0	5.7	22.2	14.2	55.2	25.7	3.7
	June 1964	1964	8.8	27.8	7.1	22.3	15.8	49.7	31.8	4.1
	December 1964	1964	6.3	21.8	7.9	27.3	14.7	50.9	28.9	3.7
D. Industrial	December 1963	1963	8.6	19.8	16.7	38.5	18.0	41.5	43.4	6.3
	June 1964	1964	17.1	26.7	23.0	35.9	24.0	37.4	64.1	8.3
	December 1964	1964	24.8	34.4	20.1	27.9	27.2	37.7	72.1	9.2
E. Consumption	December 1963	1963	7.7	21.0	10.0	27.3	19.0	51.9	36.6	5.3
	June 1964	1964	7.9	20.8	11.2	29.5	18.9	49.7	38.0	4.9
	December 1964	1964	12.0	24.5	15.0	30.7	21.9	44.8	48.9	6.4
F. Other Loans	December 1963	1963	29.7	48.0	7.1	11.5	25.1	40.5	61.9	9.0
	June 1964	1964	32.8	53.9	8.3	13.6	19.8	32.6	60.8	7.9
	December 1964	1964	25.0	47.6	9.2	17.5	18.4	35.0	52.5	6.7
G. Total	December 1963	1963	266.6	38.6	247.9	35.9	175.9	25.5	690.4	100.0
	June 1964	1964	299.6	39.0	286.3	37.2	182.8	23.8	768.7	100.0
	December 1964	1964	339.9	43.5	255.9	32.7	185.9	23.8	781.7	100.0

Source: Central Bank of Ceylon.

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

The maturity distribution of commercial bank advances also underwent some change in favour of short-term credits. As a ratio of total advances, loans for periods less than 6 months increased from 38.6 per cent in 1963 to 43.5 per cent in 1964. The ratio of loans with maturities ranging from 6 to 30 months declined from 35.9 per cent in 1963, to 32.7 per cent in 1964, and of loans with maturities over 30 months declined from 25.5 per cent to 23.8 per cent,

TABLE II (E) 17

Advances* by type of Security

Type of Security	December 31 st, 1963		June 30th, 1964		December 31st, 1964	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary Bills ..	141.5	20.5	147.9	19.2	154.7	19.8
Government Securities ..	5.9	0.8	7.5	1.0	9.6	1.2
Shares of joint-stock companies	18.6	2.7	17.9	2.3	20.3	2.6
Time and Savings deposits and other cash deposits including cash value of life policies	30.9	4.5	35.9	4.7	34.0	4.3
Stock in Trade	200.6	29.0	236.8	30.8	210.2	26.9
Inmovable property ..	68.8	10.0	67.2	8.7	73.9	9.5
Others	133.5	19.3	138.1	18.0	202.1	25.9
Unsecured	90.7	13.1	117.4	15.3	76.8	9.8
Total ..	690.4	100.0	768.7	100.0	781.7	100.0

Source: Central Bank of Ceylon.

*Excludes cash items in process of collection.

Commercial bank advances to the private sector are classified in the table above, according to type of security. Bank advances against all types of security increased in 1964. Unsecured advances which increased by Rs. 26.7 million by June fell by Rs. 40.6 million by December giving a decline of approximately Rs. 14 million for the year. There was a significant increase in the residual category "other securities." The increase of Rs. 69 million in this category reflects a 6.6 per cent increase from 19.3 percent to 25.9 per cent of this item as a proportion of total advances.

Commercial bank advances classified by rate of interest, are shown in the table below.

TABLE II (E) 18
Advances* by Rate of Interest

Rate of Interest					Dec. 31st 1963		June 30th 1964		Dec. 31st 1964	
					Amt Rs Mn	% of Total	Amt Rs Mn	% of Total	Amt Rs Mn	% of Total
Below	2½	4.8	0.8	7.0	1.0	4.0	0.5			
	2½	0.3	...	...	...	...	...
	3	1.4	0.2	0.6	0.1	0.9	0.1			
	3½	15.3	2.5	18.0	2.5	2.2	0.3			
	4	2.0	0.3	5.0	0.7	3.7	0.5			
	4½	10.7	1.7	13.5	1.9	38.2	5.2			
	5	52.0	8.4	66.8	9.4	54.6	7.5			
	5½	12.3	2.0	22.8	3.2	14.2	1.9			
	6	273.3	44.2	315.9	44.6	299.2	40.9			
	6½	27.9	4.5	29.8	4.2	23.5	3.2			
	7	169.6	27.4	156.2	22.1	209.2	28.6			
	7½	5.8	0.9	8.2	1.2	7.2	1.0			
	8 and above ..	43.3	7.0	64.2	9.1	75.0	10.2			
Total ..					618.8	100.0	708.0	100.0	732.0	100.0

Source: Central Bank of Ceylon.

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

The larger share of advances granted during the year was at interest rates of 6 and 7 per cent. Loans granted at rates of $4\frac{1}{2}$ per cent, and 8 per cent and above also showed considerable increases. The representative rate of interest for all advances continued to remain at 6 per cent, although the ratio of advances granted at this rate to total commercial bank advances declined from 44.2 per cent in 1963 to 40.9 per cent in 1964. The proportion of loans granted at comparatively high rates of interest also tended to increase. Loans carrying interest of over 6 per cent increased from Rs. 247 million to Rs. 315 million between 1963 and 1964, and the ratio of these loans to total advances rose from 39.8 per cent to 43.0 per cent.

A striking feature of the increase in credit to the private sector in 1964 is that the increase was limited to the first seven months of the year. However, credit to Government corporations continued to increase in the latter part of the year. A change in the method of financing the short-term credit requirements of government corporations from Treasury advances to commercial bank advances, was envisaged in the Budget Speech of the Finance Minister.

In 1964, both exports and imports were higher than in 1963. Yet both export bills and other advances for export trading declined over the year taken as a whole. Import bills and other advances for import trading increased markedly. Advances against stock in trade increased by a fairly large amount mid-year, but declined in the second half of the year. As at December 1964, advances against this type of security was only a modest amount above the level as at December 1963. The increase in credit for imports in the classification of bank advances by purpose, and the increase in advances against stocks of goods in the classification by type of security are likely to relate to the same transactions. The bunching of imports resulting from the issue of import licences on a half yearly basis may account for the increase in credit for imports, as also the fact that in 1964 imports were higher than in 1963.

Unsecured loans increased by a large amount mid-year but declined below the level prevailing as at the end of December 1963, by the end of 1964. However, advances classified under the residual category 'other' by type of security shows a very large increase in the second half of the year.

3. Savings and Long-term Credit Institutions

Lending operations of long-term credit institutions, other than commercial banks, are shown in Table II (E) 19

TABLE II (E) 19
Lending Operations of Long-term Credit Institutions

	Rupees Thousand							
	1961		1962		1963		1964	
	Loans granted	Amount out standing	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	7,231	27,802
Ceylon Savings Bank	2,435	10,302	2,801	11,635	3,428	13,387	3,935	15,619
Agricultural & Industrial Credit Corporation	2,905	30,706	2,477	29,874	3,338	29,501	5,774	31,018
State Mortgage Bank	5,442	56,994	2,553	55,785	3,135	55,119	3,532	54,662
Loan Board	2,284	11,937	1,660	12,309	1,033	12,204	1,107	12,113
National Housing Department***†	13,880	n.a.	9,799	n.a.	9,208	n.a.	3,914	n.a.
Total	31,264	130,870	22,845	132,444	22,006	133,283	25,493	141,214

*Includes equity investments.

**Financial year October-September

†Includes Departmental schemes.

Source: Central Bank of Ceylon.

The total volume of loans granted by specialised financial institutions rose by Rs. 3.5 million to Rs. 25.5 million in 1964. The Development Finance Corporation, Agricultural and Industrial Credit Corporation, the State Mortgage Bank and the Ceylon Savings Bank increased their loans, but loans extended by the National Housing Department declined considerably. The total loans outstanding of all institutions referred to above, amounted to Rs. 141.2 million in 1964 compared with Rs. 133.3 million in 1963.

TABLE II (E) 20
Savings Deposits & Savings Certificates

	Rupees Million		
	December 1963	December 1964	Change Dec. '63/Dec. '64
Post Office Savings Bank	375.5	393.4*	+ 17.9*
Ceylon Savings Bank	77.2	79.3*	+ 2.1*
Commercial Banks (Time & Savings Deposits) **	499.2	551.1	+ 51.9
Savings Certificates outstanding	34.4	37.4	+ 3.0
Total	986.3	1,061.2*	+ 74.9*

* Provisional

** Includes Government deposits.

Source: Central Bank of Ceylon

The total volume of savings certificates, savings deposits with the Post Office Savings Bank and the Ceylon Savings Bank, and time and savings deposits held with commercial banks increased by Rs. 74.9 million or 7.6 per cent in 1964. The increase in savings during the previous year was Rs. 89.3 million or 9.9 per cent. Time and savings deposits with commercial banks rose by Rs. 51.9 million, while deposits with the Post Office Savings Bank also rose by Rs. 17.9 million. The total collections received by the Employees' Provident Fund amounted to Rs. 60.9 million in 1964.