

(C) MONETARY AND BANKING TRENDS

In 1965, monetary expansion was less than in the two previous years. Gross bank credit to the private sector¹ increased only by Rs. 4.2 million in contrast to increases of Rs. 62.8 million in 1964² and Rs. 136.9 million in 1963. Commercial bank credit to Government increased by Rs. 92.3 million, while Central Bank credit to Government declined by Rs. 10.7 million. This is in sharp contrast to 1964 when the increase in commercial bank credit to Government was only Rs. 3.6 million while Central Bank credit to Government increased by as much as Rs. 130 million. The overall increase in credit extended by the banking system to the Government in 1965 was Rs. 81.6 million, which was substantially less than the increase of Rs. 133.6 million in 1964. Net foreign assets owned by the banking system, including transfers to the Central Bank of Government-owned foreign assets, increased by Rs. 79.7 million; but excluding such transfers the increase - for the first time since 1956 - amounted to Rs. 49.6 million.

The pattern of monetary expansion in 1965 shows three distinct differences from the pattern of 1963 and 1964. Whereas in those two previous years monetary expansion took place in spite of substantial declines in the foreign assets of the banking system, in 1965 the expansion was due in some measure to an increase in the net external assets held by the banking system. Secondly, while monetary expansion in 1963 and 1964 was caused substantially by commercial bank credit expansion to the private sector, in 1965 this factor had only a very minor effect. Thirdly, while in 1963 and 1964 Central Bank credit to Government was a major expansionary factor, in 1965, the effect of this factor was contractionary. In sum, the somewhat mild monetary expansion in 1965 was accounted for by increases in external banking assets and commercial bank credit to the private sector and an increase in commercial bank credit to the Government sector, compensated to some extent by a decline in Central Bank credit to the Government.³

Liquidity in the non-bank private sector

Total liquid assets of the non-bank private sector amounted to Rs. 3,466.5 million as at the end of December 1965, showing an increase of Rs. 243.2 million or 7.5 per cent. In 1964, the corresponding increase was

- 1 Private sector is here defined to include Government Corporations, local authorities Co-operative 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 The increase in bank credit (including export bills) to the private sector was given at Rs. 92.0 million in the Annual Report for 1964. This figure has now been revised because the figure of Government import bills purchased as at the end of December 1964, had been incorrectly reported under credit to the private sector.
- 3 As from 28th May 1965, the Central Bank raised the Bank rate from 4 to 5 per cent. Lending rates of all commercial banks were immediately adjusted upwards in sympathy with the rise in Bank Rate. With effect from 15th June, the Central Bank also introduced a system of credit rationing intended to limit the total increase in bank credit to a rate more in keeping with the increase in the real national product.

Rs. 273.9 million or 9.3 per cent. Primary liquid assets increased by Rs. 93.8 million in 1965, as against an increase of Rs. 115.8 million in 1964. Secondary liquid assets increased by Rs. 149.3 million as against an increase of Rs. 158.1 million in the previous year. Consequently the ratio of primary liquid assets to total liquid assets declined slightly from 50.3 per cent in 1964 to 49.5 per cent in 1965.

Table II (C) 1 below shows that currency held by the public amounted to Rs. 901.4 million, at the end of 1965, reflecting an increase of Rs 48.4 million or 5.7 per cent as against an increase of Rs. 24.6 million or 3.0 per cent in 1964. On the other hand, the increase in demand deposits held by the public by Rs. 45.5 million or 5.9 per cent to Rs 814.3 million was significantly lower than in 1964 when the corresponding increase was Rs. 91.1 million or 13.4 per cent. From Table II (C) 3 in Section 1 (a) below on the money supply it is observed, however, that there was hardly any change in the ratio of demand deposits to money supply, which was 47.5 per cent in 1965, as compared with 47.4 per cent in 1964. Deposits with the Ceylon Savings Bank and the Post Office Savings Bank together with time and savings deposits of commercial banks increased by Rs. 65.5 million (6.5 per cent) to Rs. 1,069.9 million at the end of December 1965. In 1964 the increase in the volume of deposits of these institutions amounted to Rs 83.7 million or 9.1 per cent. Savings certificates and Treasury bills held by the public increased by Rs. 4.4 million and Rs. 4.3 million respectively. Government bonds totalling Rs. 586.7 million constituted the largest single type of secondary liquid asset held by the non-bank private sector and recorded an increase of Rs. 81.0 million or 16.0 per cent as against an increase of Rs. 59.1 million or 13.2 per cent in 1964. Government bonds accounted for 33.3 per cent of the increase in aggregate liquid assets held by the private sector in 1965. Of this increase, Rs. 42 million was accounted for by the Insurance Corporation while trusts, benevolent, pension and provident funds (excluding the Employees' Provident Fund) accounted for a large part of the balance. Holdings of tax reserve certificates contracted by Rs. 5.4 million or 13.0 per cent during the year.

From the foregoing analysis it is observed that demand deposits held by the public did not increase greatly in 1965 and that there was no marked change in the preference of the public as between primary and secondary liquid assets. The growth in secondary liquid assets too did not reflect any marked change in public preference for different types of secondary liquid assets as compared with 1964.

TABLE II (C) 1

Total Liquid Assets of the Non-Bank Private Sector

1963-1965

Description	Amount (Rupees Million)			Percentage of G.N.P. (a)		
	1963	1964	1965	1963	1964	1965
1. Primary Liquid Assets						
(a) Notes and coins ..	828.4	853.0	901.4	12.3	12.0	12.2
(b) Demand deposits ..	677.7	768.8	814.3	10.1	10.8	11.0
Total ..	1506.0	1621.8	1715.7	22.4	22.8	23.2
Percentage change ..		+7.7	+5.8			
2. Secondary Liquid Assets						
(a) Savings deposits with commercial banks ..	165.2	193.5	223.9	2.5	2.7	3.0
(b) Savings deposits with Post Office Savings Bank ..	375.5	402.3	418.3*	5.6	5.6	5.7
(c) Savings deposits with Ceylon Savings Bank ..	77.2	81.6	84.2*	1.1	1.1	1.1
(d) Time deposits with commercial banks ..	302.8	327.0	343.5	4.5	4.6	4.6
(e) Foreign balances of residents ..	15.9	12.0	11.5*	0.2	0.2	0.2
(f) Savings certificates ..	34.4	37.4	41.8	0.5	0.5	0.6
(g) Treasury bills ..	0.5	0.5	4.8	...	...	0.1
(h) Tax Reserve certificates ..	25.3	41.5	36.1	0.4	0.6	0.5
(i) Government bonds ..	446.6	505.7	586.7	6.6	7.1	7.9
Total ..	1443.4	1601.5	1,750.8*	21.5	22.5	23.7
Percentage change ..		+10.9	+9.3			
3. Total Private Sector Liquid Assets ..	2949.4	3223.3	3,466.5*	43.9	45.3	46.9
Percentage change ..		+ 9.3	+7.5			
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.	886.6	1022.9	1229.9	13.2	14.4	16.6

(a) At current factor cost prices.

Source: Central Bank of Ceylon,

* Provisional.

TABLE II (C) 2

Changes in total private sector deposits with commercial banks analysed by ownership categories

				Rupees Million		
				1964	1965	Total
1.	Non-bank financial institutions	..	..	+ 3.9	+ 1.2	+ 5.1
2.	Plantations	..	..	- 15.7	+ 12.9	- 2.8
3.	Trading institutions	..	..	+ 19.3	+ 8.7	+ 28.0
4.	Other business	..	..	+ 11.2	+ 20.7	+ 31.9
5.	Local authorities	..	..	+ 6.5	- 11.5	- 5.0
6.	Non-business institutions	..	..	+ 13.8	- 24.3	- 10.5
7.	Individuals	..	..	+ 81.4	+ 60.6	+ 142.0
Total				+ 120.4	+ 68.3	+ 188.7

Source: Central Bank of Ceylon.

Table II (C) 2 above gives the figures of private sector deposits by ownership categories on the basis of the survey data collected by the Central Bank. As in the preceding year, in 1965 too the largest increase in deposits amounting to Rs. 60.6 million was by "individuals". Deposits of plantations increased by Rs. 12.9 million as compared with a contraction of Rs. 15.7 million in 1964. This was probably due to the moratorium on the remittance of dividends imposed in July 1964 which, though relaxed somewhat in August 1965, was operative throughout 1965. The deposits of trading institutions showed a moderate increase of Rs. 8.7 million compared with an increase of Rs. 19.3 million in 1964. The increase in deposits of the category 'other business' by Rs. 20.7 million was larger than in the previous year. Deposits of local authorities and non-business institutions however, showed a substantial contraction.

1. (a) Money Supply

The money supply as at the end of December 1965 was Rs. 1,715.7 million showing an increase of Rs. 93.8 million or 5.8 per cent for the year. In 1964 the corresponding increase was Rs. 115.8 million or 7.7 per cent and in 1963 Rs. 163.3 million or 12.2 per cent. The smaller increase in the money supply in 1965 as compared with 1964 and 1963 was reflected in the ratio of the increase in money supply to the increase in total liquid assets of the non-bank private sector which was 55 per cent in 1963, 42 per cent in 1964 and 38.5 per cent in 1965. The ratio in 1965 may be compared to the ratio of 37 per cent in 1962, in which year the money supply rose by 4.2 per cent, a moderate increase as compared with 1963 and 1964.

TABLE II (C) 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	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	1506.0
1964	853.0	52.6	768.8	47.4	1621.8
1965	901.4	52.5	814.3	47.5	1715.7

Source: Central Bank of Ceylon

In the Annual Report for 1964, attention was drawn to the reversal in the tendency of the public to hold an increasing proportion of the money supply in currency rather than in demand deposits. Attention was also drawn to the significant change in the composition of currency held between June and December 1964. Table II (C) 3 above shows that in 1965, the ratio of currency to total money supply at 52.5 per cent remained almost the same as in 1964. But the composition of currency held underwent a marked change during the course of 1965. From Table II (C) 4 below, it may be noted that between end May and end December 1964, notes of Rs. 100 denomination declined sharply by Rs. 130 million whereas notes of Rs. 50 and Rs. 10 denominations increased by Rs. 12 million and Rs. 102 million respectively. In contrast, in the year 1965, while total currency liabilities of the Central Bank increased by Rs. 70.7 million, the circulation of notes of the denominations of Rs. 5 and Rs. 10 contracted by Rs. 44.8 million, whereas notes of the denominations Rs. 100 and Rs. 50 increased by Rs. 71.5 million and Rs. 39.5 million respectively. The change from notes of higher denominations to lower denominations experienced in 1964 seems to have been largely reversed in 1965. This seems to confirm the

TABLE II (C) 4
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	December	148.4	148.4	237.6	40.1	644.6
1961	December	211.9	180.3	254.6	42.1	763.8
1962	December	238.2	186.8	241.9	42.8	789.4
1963	December	275.3	236.7	257.6	46.5	900.9
1964	May	298.0	246.5	257.4	47.8	937.6
1964	December	168.4	258.3	359.5	55.5	932.1
1965	December	239.9	297.8	319.7	50.5	1,002.8

Source: Central Bank of Ceylon

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

observation made in the Annual Report for 1964, that "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". This observation cannot, however, be confirmed with certainty because it is possible that a substantial proportion of currency notes of the larger denominations were held to facilitate transactions contracted in cash to avoid liability to the debits tax. It is of interest to note that the operation of the Bank debits tax introduced in 1957, coincided with a period of steady fall in the ratio of demand deposits to total money supply. The Bank debits tax was withdrawn with effect from 1st October 1965, but it is yet too early to examine the effect of the withdrawal of the debits tax on the composition of the money supply.

Table II (C) 5 sets out on a sectoral basis factors affecting the money supply during the period 1960/65. This sectoral classification identifies the changes originating from the operations of the Government sector and the private sector with the banking system and also from changes in the net external assets held by the banking system. Significant differences are observed in the sectoral origin of changes in the money supply in 1965. The principal cause of monetary expansion in the 5 years prior to 1965 had been the continued increase in the borrowings of the government from the banking system; mostly from the Central Bank and to a lesser degree from commercial banks. In 1963 and 1964 large increases in bank credit to the private sector added to the monetary expansion. This expansion was moderated by the continued increase in time and savings deposits with the banking system, with the exception of the year 1961, and by the depletion of foreign assets held by the banking system.

In 1965 the operations of the government sector continued to be expansionary though to a smaller degree than in the previous year. Central Bank credit to the government however, recorded a decline. Central Bank holdings of government and government guaranteed securities contracted by Rs 38.7 million as against an increase of Rs 123.2 million in 1964; but provisional advances of the Central Bank to the Government increased by Rs 28 million, limiting the decline in the volume of total Central Bank credit to the Government in 1965 to Rs 10.7 million. On the other hand, commercial bank credit made available to the Government increased by Rs 92.3 million as against an increase of Rs 3.6 million in 1964. This large increase in 1965 is accounted for mainly by the increase in government import bills held amounting to Rs 59.5 million as against an increase of Rs 3.3 million in 1964. Commercial bank credit to the private sector (excluding export bills) increased by only Rs 11.0 million as compared with an increase of Rs 82.6 million in 1964. In 1965 time and savings deposits increased substantially as in the previous year but net external banking assets had for the first time since 1956, an expansionary impact of Rs 79.7 million which figure, however, includes the purchase value of Rs. 30.1 million of foreign securities acquired by the Central Bank from Government institutions. Total monetary expansion for the year at Rs 93.8 million was the lowest since 1962. The main development which contained monetary

TABLE II (C) 5
Changes in the Money Supply

Rupees Million

Factors Affecting Money Supply	1959 to 1960		1960 to 1961		1961 to 1962		1962 to 1963		1963 to 1964		1964 to 1965	
	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) ..	—	170.2	—	78.6	—	91.1	—	53.2	16.9*	—	79.7**	—
2. Private Sector††												
(a) Commercial bank credit to Co-operative Institutions ..	—	—	—	—	—	—	—	—	—	—	—	6.9
(b) Commercial bank credit to other private sector constituents† ..	31.5	—	12.5	—	42.2	—	124.2	—	82.6	—	10.1	—
(c) Time and savings deposits of Co-operative institutions ..	—	—	—	—	—	—	—	—	—	—	—	2.1
(d) Time and savings deposits of other private sector constituents ..	—	63.8	9.2	—	—	50.2	—	63.4	—	52.5	—	46.2
(e) Other liabilities and accounts (net) of commercial banks ..	—	8.7	—	28.8	—	0.7	8.1	—	—	4.9	—	20.2
Government Corporations												
(f) Commercial bank credit to Government Corporations ..	—	—	—	—	—	—	—	—	—	—	7.8	—
(g) Time and savings deposits of Government Corporations with commercial banks ..	—	—	—	—	—	—	—	—	—	—	1.4	—
3. Government Sector												
(a) Commercial banks' holdings of Treasury bills, Government and Government guaranteed securities and Government import bills ..	6.0	—	21.4	—	71.3	—	20.4	—	3.6	—	92.3	—
(b) Central Bank's holdings of Treasury bills and Government and Government guaranteed securities ..	224.3	—	140.8	—	175.9	—	139.5	—	123.2	—	—	38.7
(c) Central Bank's provisional advances ..	21.9	—	1.9	—	3.0	—	7.0	—	6.8	—	28.0	—
(d) Central Bank's other liabilities and accounts (net) ..	—	19.3	—	9.1	—	18.6	—	10.7	—	54.8†	—	4.5
(e) Government deposits with banking system and cash balances with the Treasury and Kachcheries ..	8.0	—	9.4	—	—	76.1	—	8.3	—	2.9	—	10.0
4. Adjustments for items in transit ..	1.4	—	1.0	—	—	1.7	—	0.2	—	2.3	3.2	—
Total expansionary/contractionary factors ..	293.1	262.0	196.2	116.5	292.4	238.4	299.2	135.8	233.1	117.4	222.5	128.6
Change in Money Supply ..	+31.1		+79.8		+54.0		+163.3		+115.8		+93.8	

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. When allowance is made for this transaction, net external banking assets actually declined by Rs. 36.4 million during the year.

** Includes foreign assets with a face value of Rs. 30.1 million purchased by the Central Bank from Government institutions in May 1965. When allowance is made for this transaction net external banking assets reflect an increase of Rs. 49.6 million. The payment to Government institutions was made in rupees and it exerted a direct expansionary effect on the money supply.

† 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.

†† Data in respect of co-operative institutions and Government Corporations are available separately only for the period 1964/1965. These data for earlier periods are included under "other private sector constituents."

TABLE II (C) 6

The Money Supply

Rupees Million

End of Period	1960	1961	1962	1963	1964	1965	% Change (1961 over 1960)	% Change (1962 over 1961)	% Change (1963 over 1962)	% Change (1964 over 1963)	% Change (1965 over 1964)
January	1,180	1,207	1,426	1,347	1,468	1,615	+ 2.3	+18.1	— 5.5	+ 9.0	+10.0
February	1,192	1,193	1,561	1,369	1,501	1,582	+ 0.1	+30.8	—12.3	+ 9.6	+ 5.4
March	1,194	1,210	1,635	1,385	1,505	1,585	+ 1.3	+35.1	—15.3	+ 8.7	+ 5.3
April	1,165	1,306	1,448	1,400	1,534	1,601	+12.1	+10.9	— 3.3	+ 9.6	+ 4.4
May	1,163	1,219	1,317	1,431	1,547	1,645	+ 4.8	+ 8.0	+ 8.6	+ 8.1	+ 6.3
June	1,170	1,221	1,298	1,448	1,550	1,650	+ 4.4	+ 6.3	+11.5	+ 7.0	+ 6.4
July	1,150	1,223	1,277	1,447	1,543	1,693	+ 6.3	+ 4.4	+13.3	+ 6.6	+ 9.7
August	1,161	1,231	1,270	1,474	1,529	1,674	+ 6.0	+ 3.2	+16.1	+ 3.7	+ 9.5
September	1,181	1,261	1,294	1,499	1,549	1,675	+ 6.8	+ 2.6	+15.8	+ 3.3	+ 8.1
October	1,212	1,248	1,317	1,505	1,592	1,687	+ 3.0	+ 5.5	+14.3	+ 5.8	+ 6.0
November	1,219	1,251	1,307	1,533	1,603	1,677	+ 2.6	+ 4.5	+17.3	+ 4.6	+ 4.6
December	1,209	1,289	1,343	1,506	1,622	1,716	+ 6.6	+ 4.2	+12.2	+ 7.7	+ 5.8

Source: Central Bank of Ceylon

expansion in 1965 was the relatively small increase in commercial bank credit to the private sector.

In the first quarter of 1965, the money supply contracted markedly by Rs 36.9 million but in each of the subsequent quarters the money supply expanded though irregularly. The money supply was at its lowest for the year in February when it reached a figure of Rs 1,581.9 million, reflecting a decline of Rs 39.9 million below the level at December 1964. From Table II (C) 7 it is observed that the source of monetary contraction in the first quarter of the year was largely the fall in external banking assets and a reduction in the net government debt held by the banking system. On the other hand, in the second and third quarters of the year, external banking assets recorded substantial increases while the operations of the government with the banking system were also expansionary. Gross bank credit to the private sector contracted substantially in the third quarter of the year while the increase in time and savings deposits contributed significantly to the contractionary factors. This was reflected in the money supply which reached a mid-year peak in July of Rs 1,692.7 million and declined in the last two months of the 3rd quarter. The money supply increased in October but declined in November and increased again in December. The fourth quarter taken as a whole showed a large increase in the money supply, accounted for mainly by the increase in the net government debt held by the banking system and the increase in commercial bank credit to the private sector. External banking assets, however, declined markedly and together with the substantial increase in time and savings deposits moderated the impact of the expansionary factors.

TABLE II (C) 7
Analysis of Quarterly Change in Money Supply

	Rupees Million				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
External Banking Assets (net)	- 37.3	+ 57.3	+ 96.8	- 37.1	+ 79.7
Government Operations †	- 30.6	+ 34.0	+ 2.7	+ 65.5	+ 71.6
Credit to Private Sector *	- 3.1	+ 7.4	- 33.1	+ 31.9	+ 3.2
Time and savings deposits of Private Sector *	- 10.9	- 5.6	- 5.4	- 26.4	- 48.3
Credit to Government Corporations	+ 25.3	- 26.2	+ 5.0	+ 3.6	+ 7.8
Time and savings deposits of Government Corporations	+ 19.4	- 8.9	- 20.1	+ 11.1	+ 1.4
Change in Money Supply	- 36.9	+ 64.9	+ 24.9	+ 41.0	+ 93.8

Source: Central Bank of Ceylon.

† Includes cash balances of the Government with the Treasury which are of negligible magnitude, and also of deposits of the Government with the banking system.

* Includes co-operative institutions.

1. (b) Turnover Rates

The increase in aggregate non-bank private sector deposits¹ in 1965 was not as large as in 1964. The average monthly turnover rate of these deposits, which had risen in 1964, showed a slight decline in 1965.

¹ Consists of savings deposits with the Post Office Savings Bank, Ceylon Savings Bank and time and savings deposits with the commercial banks.

Demand deposits held by the public with the commercial banks increased by Rs 38.1 million or 5.0 per cent as against an increase of Rs 91.3 million or 13.5 per cent in 1964. But in 1965 the turnover rate of demand deposits declined by 1.6 per cent from 1.82 in 1964 to 1.79 in 1965. The increase in time and savings deposits of the public with commercial banks on the other hand was greater than in 1964; but the average monthly turnover rate of time deposits increased infinitesimally to 0.24 while the rate on savings deposits declined very slightly to 0.08.

The change in turnover rates of deposits with the Ceylon Savings Bank and the Post Office Savings Bank was negligible.

The decline in turnover rates of non-bank private sector deposits as a whole was slight. It does not seem unreasonable to infer from this and the absence of any marked change in the public's preference for the different categories of liquid assets that expectations of the public with regard to prices have not changed significantly over the year.

1. (c) Time and Savings Deposits

An important feature of the increase in domestic liquidity in the recent past was the steady growth of time and savings deposits with the commercial banks, the Post Office Savings Bank and the Ceylon Savings Bank. The increase of Rs 65.5 million or 6.5 per cent in the time and savings deposits of these institutions which totalled Rs 1,069.9 million in 1965, was somewhat lower than the increase of Rs. 83.7 million or 9.1 per cent recorded in 1964.

Time and savings deposits with the commercial banks increased by Rs 46.9 million and accounted for 71.6 per cent of the total increase in time and savings deposits. Post Office Savings Bank's deposits increased by Rs 16 million, and balances with the Ceylon Savings Bank by Rs 2.6 million. The rates of expansion in deposits were lower than in the previous year in the case of all three institutions.

Table II (C) 8 shows the time and savings deposits with commercial banks for the last five years.

TABLE II (C) 8
Time and Savings Deposits of Commercial Banks in last five years.

	Rupees Million								
	1961	1962	1963	1964	1965	Change 61/62	Change 62/63	Change 63/64	Change 64/65
Time Deposits *	233.1	285.5	334.0	357.6	382.8	+52.4	+48.5	+23.6	+25.2
Savings Deposits	130.6	140.9	165.2	193.5	223.9	+10.3	+24.3	+28.3	+30.4
Total	363.8	426.4	499.2	551.1	606.7	+62.6	+72.8	+51.9	+55.6

Source: Central Bank of Ceylon.

* Includes Government time deposits. On 31st December 1965 Government time deposits held with commercial banks amounted to Rs. 39.3 million.

Total time and savings deposits with the commercial banks recorded larger increases in the last four years. Out of the total private sector time deposits with commercial banks 63 per cent was held by the business sector¹, and 23 per cent by individuals. Ninety one per cent of the savings deposits with commercial banks was owned by individuals.

1. (d) Government Bonds

The Table II (C) 9 below gives the figures of total Government bonds held and the increase in Government bonds in 1964 and 1965 in terms of ownership categories. The Employees' Provident Fund took the largest share of the increase in Government bonds in 1965, as in 1964, but semi-Government savings institutions continued to be the largest holder of Government bonds. Though the commercial banks were the second largest group holding Government bonds, the increase in their holdings in 1965 was only Rs.2.4 million. Trusts, benevolent, pension and provident fund investments in Government bonds increased by Rs 32.5 million. The Ceylon Insurance Corporation held Rs 97.0 million in Government bonds as at the end of 1965, reflecting an increase of Rs. 42.0 million over the year. Private insurance companies had Rs. 133.9 million invested in Government securities, but the increase amounted to only Rs. 4.7 million for the year. Sinking funds of the Government and other Government funds accounted for 20.4 per cent of the total of Government bonds held in 1965 and 26.1 per cent of the increase for the year. The Employees' Provident Fund, the Insurance Corporation and semi-Government savings institutions accounted for 42.9 per cent of the total Government bonds held in 1965 and for 58 per cent of the increase for the year. The overwhelming predominance of these institutions in the market for Government bonds has a great bearing on both the level and structure of rates of interest on Government bonds of varying maturities. Government bonds held by individuals showed an increase of Rs. 3.9 million or 21.2 per cent in 1965. Since the total volume of Government bonds held by individuals is about one per cent of the total outstanding, this increase is without market significance. Yet it is an indication of the revival in the confidence of the private investor.

TABLE II (C) 9
Ownership of Government Bonds

	Rupees Million				
	1963	1964	1965	Change	
				1963/64	1964/65
1. Banking system* ..	311.1	322.5	324.9	+ 11.4	+ 2.4
2. Government, Departmental and other official funds ..	99.9	115.4	120.9	+ 15.5	+ 5.5
3. National Housing and Public Debt Sinking Funds ..	227.4	269.0	331.3	+ 41.6	+ 62.3
4. Employees' Provident Fund ..	239.3	303.5	373.4	+ 64.2	+ 69.9
5. Trusts, Benevolent, Pension and Provident Funds ..	239.7	256.5	289.0	+ 16.8	+ 32.5
6. Insurance Corporation ..	19.9	55.0	97.0	+ 35.1	+ 42.0
7. Insurance Companies ..	124.3	129.2	133.9	+ 4.9	+ 4.7
8. Semi-Government Savings Institutions ..	414.1	443.6	482.4	+ 29.5	+ 38.8
9. Individuals ..	17.9	18.4	22.3	+ 0.5	+ 3.9
10. Other ..	44.8	46.5	44.6	+ 1.7	- 1.9
Total ..	1,738.5	1,959.6	2,219.6	+221.1	+260.0

Source: Central Bank of Ceylon.

* This item includes Government bonds held by the Central Bank, which amounted to Rs. 11.5 million in 1963, and Rs. 8 million for the years 1964 and 1965.

¹ Business sector is defined to include, financial institutions, plantations, trading and other business accounts.

1. (e) Interest Rates

The Central Bank raised its lending rate to commercial banks (Bank Rate) from 4 per cent to 5 per cent with effect from 28th May, 1965. In June all lending rates of commercial banks moved up in sympathy. The minimum rates charged for loans secured by shares of joint stock companies, stock in trade, and immovable property were raised to 7 per cent. The minimum rate charged in respect of unsecured loans was raised by as much as 2 per cent to 7 per cent. Except for the minimum rate of $5\frac{1}{2}$ per cent against Government securities and 5 per cent rate against the residual category of other loans, a minimum rate of 7 per cent was in operation for all types of other bank loans. Maximum rates charged for loans against shares of joint stock companies, stock in trade and the category of other loans were raised as high as 9 per cent. On representations made by exporters, the Central Bank used its powers of moral suasion to induce commercial banks to reduce their rates on advances secured by export stocks.

The discount rate on commercial bills alone remained unaffected by the rise in the bank rate.

As a sequel to the increased cost of borrowing at the Central Bank, the commercial banks raised their call money rate by 0.25 per cent to 3 per cent.

In November the People's Bank raised its savings deposit rate to 3 per cent and its fixed deposit rate for amounts up to Rs. 25,000 to $3\frac{1}{2}$ per cent. Rates for amounts over Rs. 25,000 were also raised.

On 31. 5. 65 the State Mortgage Bank raised its maximum rate for development loans to 7.0 per cent and non-development loans to 8.0 per cent. The Agricultural and Industrial Credit Corporation too adjusted its lending rates by raising its minimum rate to 6.5 per cent on 1. 8. 65.

The deposit rates of the Post Office Savings Bank and Ceylon Savings Bank remained unchanged over the year.

Since 1962 the tender rate in respect of Treasury bills has been stable at 2.80 per cent. From July 1965 onwards, there has been a noticeable upward movement in the Treasury bill rate and in the last three months of the year, the weighted average rate for monthly issues was 3 per cent. The rate paid to the Central Bank in respect of its purchases of Treasury bills was raised from 0.76 per cent to 1.0 per cent with effect from August, 1965.

The rate in respect of Government loans with a maturity of over 20 years remained unchanged at $4\frac{1}{2}$ per cent and was below the Bank rate of 5 per cent from 28th May 1965 onwards. Traditionally, the former rate has been above Bank Rate in the past. It is unlikely, however, that the volume of funds forthcoming for investment in Government bonds would decline in the near future as a consequence.

2. Commercial Banking

The increase in gross bank credit to the private sector by Rs 4.2 million as at the end of 1965 was the lowest on record for the past four years. The ratio of liquid assets to demand deposits increased substantially from 55 per cent to 62.8 per cent. The two Ceylonese banks accounted for the expansion of credit whereas the activities of the foreign banks resulted in an overall contraction of credit. Ceylonese banks held 66 per cent of total bank deposits in 1965.

2. (a) Branch Net work

The distribution of bank offices and total deposits between Ceylonese British, Indian and Pakistani banks for the period 1962-65 is shown below in the Table II (C) 10.

TABLE II (C) 10
Distribution of Bank Offices and Deposits 1962-1965

	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
1965	97	1,546	100	81	1,023	66	12	431	28	4	92	6

Source: Central Bank of Ceylon

At the end of the year under review, a total of 97 bank offices were operating in Ceylon. The British, Indian and Pakistani banks accounted for 16 offices and the balance 81 were offices of the Ceylonese banks. Of the 97 bank offices, 69 were located outside Colombo. Peoples Bank had a total of 48 offices of which eight were opened during the year under review. These new branch offices were located at Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Yatiyantota, Kilinochchi and at the Secretariat in Colombo. The Bank of Ceylon opened one new office which was located within the city of Colombo.

The Peoples Bank has made an effort to make available banking facilities to the rural farmer engaged in the cultivation of paddy and other non-export crops with its scheme of rural banks which was operated on a pilot scale. In 1964, eight¹ co-operative societies had been chosen in association with the Co-operative Department to function as rural banks,² but only three of them were actually established as rural banks in that year; by July 1965 all eight societies were functioning as rural banks.

¹ Of the eight, seven were multi-purpose co operatives while one was a credit society

² Rural banks were empowered to accept savings deposits from the public as well as from members. They also had access to credit facilities from the Peoples Bank to augment the resources available to the societies for lending to their members. The recovery of loans was supervised by the Peoples Bank.

2. (b) Financial Resources - Sources and Utilisation

Table II (C) 11 is an analysis of the changes in the financial resources of the commercial banks and their utilisation.

TABLE II (C) 11

Yearly Changes in Bank's Resources and their Utilisation 1962-1965

Rupees Million

	1962	1963	1964	1965
<i>Sources of Funds</i>				
1. Government Sector	84.8	14.8	2.9	11.8
Increase in borrowing	5.0	—	—	—
Reduction of holdings of Government paper	—	5.5	—	—
Increase in deposits	79.8	9.3	2.9	11.8
2. Increase in Borrowings from Central Bank	—	37.9	—	—
3. Domestic private sector	125.0	115.3	154.9	148.8
Increase in deposits	82.4	109.9	143.8	85.0
Increase in reserves, paid up capital etc.	7.5	5.4	4.4	9.1
Increase in other liabilities	—	—	—	54.7
Decrease in other assets	35.1	—	6.7	—
4. Foreign Sector	5.6	8.2	—	11.5
Increase in borrowings	—	—	—	1.2
Increase in deposits	—	—	—	1.3
Reduction of foreign balances	5.6	8.2	—	9.0
5. Reduction of domestic cash items	—	1.1	—	—
Total increase in resources	215.4	177.3	157.8	172.1
<i>Utilisation of Funds</i>				
1. Government Sector	71.4	25.8	8.7	92.3
Reduction of borrowings	—	—	5.0	—
Increase in holdings of Government paper	71.4	—	0.4	32.8
Increase in short-term credit to Government	—	25.8	3.3	59.5
2. Reduction of Borrowings from Central Bank	20.6	—	18.8	12.8
3. Domestic Private Sector	88.1	150.4	63.9	47.9
Increase in advances	41.2	136.9	62.8	4.2
Reduction of other liabilities	46.9	1.5	1.1	—
Increase in other assets	—	12.0	—	43.7
4. Foreign Sector	4.2	1.3	22.1	—
Reduction of borrowings	3.5	0.6	0.8	—
Withdrawal of deposits	0.7	0.7	0.1	—
Increase in foreign balances	—	—	21.2	—
5. Increase in Domestic cash items	30.6	—	43.7	18.7
Total increase in resources utilised	214.9	177.5	157.2	171.7

Source: Central Bank of Ceylon

Aggregate resources of commercial banks increased by Rs. 172.1 million in 1965. The increase was largely due to an increase of private sector deposits by Rs. 85.0 million and their other liabilities which include a considerable volume of

margins against letters of credit. Paid up capital, undistributed profits and reserves of the banks increased by Rs. 9.1 million. Government deposits with the commercial banks increased by Rs. 11.8 million as compared with an increase of Rs. 2.9 million in 1964.

The increased resources of the banks were utilized partly to finance the trading operations of the Government. Commercial bank investments in Government paper increased by Rs. 32.8 million and their short term credit to the government increased by Rs. 59.5 million.

Bank advances to the private sector absorbed only Rs. 4.2 million of the increase in resources. Their miscellaneous assets classified as other assets increased by Rs. 43.7 million. Indebtedness to the Central Bank was reduced by Rs. 12.8 million and an additional Rs. 18.7 million was used to improve their cash assets.

2. (b) Structure of Banking Liabilities

Table II (C) 12 is a summary of the distribution of commercial bank assets and liabilities for the period 1954 - 1965.

Total assets/liabilities of commercial banks increased by Rs. 156.0 million or 9.4 per cent from Rs. 1,658.4 million to Rs. 1,814.4 million in 1965 as against an increase of Rs. 130.0 million or 8.5 per cent in 1964. Increases of Rs. 98.3 million in total deposits, Rs. 54.7 million in their other liabilities and a contraction of Rs. 7.3 million in inter-bank borrowings broadly explains the overall increase in total liabilities of commercial banks. The increase in total deposit liabilities at 6.8 per cent was considerably lower than the increase of 11.2 per cent in 1964. In 1964 the increase in demand deposits was greater than the increase in time and savings deposits. In the year under review a reversal of this relationship has been seen indicating a noticeable public preference for interest bearing deposits.

The bulk of the increase in deposits were those of private sector constituents. Demand deposits of private sector constituents including Government Corporations and Co-operative institutions increased by Rs. 38.1 million. Time and savings deposits of private sector constituents including Government Corporations and Co-operative institutions increased by Rs. 46.9 million. Government demand deposits with the commercial banks increased by Rs. 3.1 million and its time deposits by Rs. 8.7 million.

Table II (C) 13 is a classified summary of the principal ownership categories of private sector deposits held by commercial banks, on the basis of half yearly surveys regularly carried out by the Central Bank.

TABLE II (C) 12
Distribution of Assets and Liabilities of Commercial Banks

Average of monthly figures

													Rupees Million	
	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	End of Period	
													Dec. 1964	Dec. 1965
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements)	106	149	148	139	119	116	132	148	186	164	182	224	214	233
Foreign balances	55	112	116	72	50	52	58	54	55	44	49	55	54	45
Treasury bills	60	51	39	34	16	24	28	51	89	128	73	89	94	127
Bills discounted	73	94	93	100	116	119	115	122	136	114	126	173	131	185
Total liquid assets	294	406	396	345	301	311	333	375	466	450	430	541	493	590
Total investments ¹	221	245	291	308	296	285	284	290	303	313	330	329	329	329
Total loans and overdrafts	208	244	273	340	363	395	430	435	477	495	633	669	652	665
Demand deposits ²	562	675	731	721	661	655	657	677	829	789	853	917	896	939
Time and savings deposits	126	190	206	240	263	300	340	359	380	460	535	572	551	607
Total deposits	689	869	941	965	926	955	998	1036	1209	1250	1389	1490	1447	1546
Ratio of	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits	18.9	22.1	20.2	19.3	18.0	17.7	20.1	21.9	22.4	20.8	21.3	24.4	23.9	24.8
Cash to total deposits	15.4	17.1	15.7	14.4	12.9	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.8	15.1
Foreign balances to total deposits	8.0	12.9	12.3	7.4	5.4	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.7	2.9
Treasury bills to total deposits	8.7	5.9	4.1	3.5	1.7	2.5	2.8	4.9	7.4	10.2	5.3	6.0	6.5	8.2
Commercial bills discounted to total deposits	10.6	10.8	9.9	10.3	12.5	12.5	11.5	11.8	11.2	9.1	9.1	11.6	9.0	12.0
Liquid assets to demand deposits	52.3	60.1	54.2	47.9	45.5	47.5	50.7	55.4	56.2	57.0	50.4	59.0	55.0	62.8
Liquid assets to total deposits	42.7	46.7	42.1	35.8	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.3	34.1	38.2
Investments to total deposits	32.1	28.2	30.9	31.7	32.0	29.8	28.5	28.0	25.1	25.0	23.8	22.1	22.7	21.3
Loans and overdrafts to total deposits	30.2	28.1	29.0	35.2	39.2	41.4	43.1	42.0	39.4	39.6	45.6	44.9	45.1	43.0

Source: Central Bank of Ceylon

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

(2) Exclude domestic inter-bank deposits.

TABLE II (C) 13
Ownership of Deposits
(as at end of period)

Ratna Pragasam

20/4/66.

Rupees Million

Owner	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial Institutions								
December, 1964 ..	41.1	5.7	71.6	22.0	8.2	4.2	120.9	9.7
June, 1965 ..	42.0	5.9	60.4	19.9	7.2	3.5	109.6	9.0
December, 1965 ..	45.4	5.9	69.0	21.3	7.7	3.4	122.1	9.3
Plantations:								
December, 1964 ..	68.4	9.4	31.3	9.6	0.4	0.2	100.1	8.0
June, 1965 ..	62.4	8.8	26.3	8.7	0.3	0.1	89.1	7.3
December 1965 ..	78.2	10.2	34.6	10.7	0.3	0.1	113.0	8.6
Trading:								
December, 1964 ..	166.1	22.8	37.6	11.6	3.9	2.0	207.5	16.7
June, 1965 ..	161.4	22.8	60.2	19.8	3.0	1.4	224.7	18.4
December 1965 ..	158.8	20.7	54.2	16.7	3.2	1.4	216.2	16.5
Other Business								
December, 1964 ..	76.5	10.5	54.6	16.8	1.5	0.8	132.7	10.7
June, 1965 ..	101.3	14.3	39.4	13.0	2.2	1.1	143.0	11.7
December 1965 ..	104.5	13.7	46.5	14.3	2.4	1.1	153.4	11.7
Local Authorities:								
December, 1964 ..	26.8	3.7	27.2	8.4	0.2	0.1	54.2	4.3
June, 1965 ..	22.1	3.1	25.5	8.4	0.2	0.1	47.8	3.9
December, 1965 ..	17.5	2.3	25.0	7.7	0.2	0.1	42.7	3.2
Non-Business Institutions:								
December, 1964 ..	74.8	10.3	22.5	6.9	3.4	1.8	100.7	8.1
June, 1965 ..	39.3	5.6	19.7	6.5	3.6	1.7	62.6	5.1
December, 1965 ..	52.3	6.8	19.6	6.0	4.5	2.0	76.4	5.8
Individuals:								
December, 1964 ..	273.3	37.6	80.4	24.7	176.0	90.9	529.7	42.5
June, 1965 ..	278.2	39.3	72.2	23.8	191.7	92.0	542.1	44.5
December, 1965 ..	308.7	40.3	75.6	23.3	205.9	91.8	590.3	44.9
Total:								
December, 1964 ..	727.0	100.0	325.1	100.0	193.6	100.0	1245.8	100.0
June, 1965 ..	706.9	100.0	303.7	100.0	208.3	100.0	1218.9	100.0
December, 1965 ..	765.3	100.0	324.5	100.0	224.3	100.0	1314.1	100.0

Source: Central Bank of Ceylon

Bank deposits of all categories of holders, except local authorities and non-business institutions increased in 1965. At the end of the year financial institutions, plantations, trading and other business categories that could be classified as the business sector held 46 per cent of the total private sector bank deposits. Non-business institutions and individuals together accounted for 50.7 per cent and local authorities held 3.2 per cent of the total.

Individuals held the largest volume of deposits. Their demand deposits increased by Rs. 35.4 million and savings deposits by Rs 29.9 million. However, time deposits of individuals contracted by Rs. 4.8 million. Plantation deposits which had a tendency to decline during the past few years increased in 1965. Demand and time deposits of plantations increased by Rs. 9.8 million and Rs. 3.3 million respectively, but their savings deposits declined fractionally by Rs. 0.1 million. Demand and savings deposits of trading accounts tended to contract, but time deposits in this category increased sizeably by Rs. 16.6 million. Demand deposits classified under other business accounts increased by Rs. 28 million but time deposits declined by Rs 8.1 million.

2. (d) Structure of Bank Assets

Table 11 (C) 12 above is a summary of the distribution of assets and liabilities of the commercial banks, with the significant categories of banks' assets, expressed as percentages of total deposits and/or demand deposits.

In 1965 the commercial banks maintained a high degree of liquidity. Over the December 1964/December 1965 period their total liquid assets increased by Rs. 97 million from Rs. 493 million to Rs. 590 million. Cash on hand and deposits with the Central Bank increased by Rs. 19 million and the ratio of cash to demand deposits stood at 24.8 per cent. Foreign balances of commercial banks declined by Rs. 9.0 million. Commercial bills purchased and discounted increased by Rs. 54 million and it constituted 12.0 per cent of the total deposit liabilities. Treasury bills held by commercial banks represented 8.2 per cent of their total deposits, and over the year it reflected an increase of Rs. 33.0 million. The ratio of total liquid assets to demand deposits at 62.8 per cent was the highest on record for the last ten years. The ratio of liquid assets to total deposits was 38.2 per cent, and the high degree of liquidity signified by these two ratios is only an indication of the under-utilised resources of the banking system in 1965.

Commercial bank investments in Government bonds remained stable at Rs. 329 million. Their loans and overdrafts increased by only Rs. 13 million in 1965 whereas in 1964 the increase was Rs. 106.8 million. The ratio of loans and overdrafts to total deposits declined from 45.1 per cent as at the end of December 1964 to 43.0 per cent as at end of December 1965.

2. (e) Commercial bank credit to the private sector

Commercial bank credit to the private sector increased in the first five months of the year except in the month of March. In the seven months from June, there were increases in the months of July, October, November and December. For the year as a whole gross bank credit to the private sector increased by Rs. 4.2 million.

Table II (C) 14 is a classification of bank credit to the private sector by type of advance.

The decline, in purchased cash items in process of collection in 1965 is accounted for by the decline in the outstanding advances granted for the purchase of paddy and other food crops under the Guaranteed Price Scheme consequent to the partial failure of the Yala crop. The speeding up of repayments of these advances by the Commissioner of Agrarian Services, consequent to representations made also contributed to this decline. Though import bills increased marginally by Rs. 1.1 million in 1965, the average monthly value of import bills in 1965 amounted to Rs. 45.2 million as against an average monthly value of Rs. 59.2 million in 1964. This was undoubtedly a reflection of the marked decline in the value of imports in 1965 as compared with 1964. Export bills declined by Rs. 6.5 million in 1965 though the value of exports increased substantially as compared with 1964 in which year too export bills had shown a decline of Rs. 19.2 million whereas the value of exports was markedly above the 1963 level. Loans and overdrafts increased by only Rs. 13 million as compared with an increase of Rs. 106.8 million in 1964.

TABLE II (C) 14

Commercial Bank Advances to the private sector

December 1964—December 1965

Rupees Million

	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. 1964	Dec. 1965	Change	Dec. 1964	Dec. 1965	Change	Dec. 1964	Dec. 1965	Change
(a) Cash items in process of collection*	73.3	69.7	— 3.6	1.2	1.4	+ 0.2	74.5	71.1	— 3.4
(b) Local bills	—	—	—	—	—	—	—	—	—
(c) Import bills	20.7	27.0	+ 6.3	27.9	22.7	— 5.2	48.6	49.7	+ 1.1
(d) Export bills	13.8	11.6	— 2.2	39.8	35.5	— 4.3	53.6	47.1	— 6.5
(e) Overdrafts	170.5	174.2	+ 3.7	201.8	208.8	+ 7.0	372.3	383.0	+ 10.7
(f) Loans	226.8	243.4	+ 16.6	52.6	38.3	— 14.3	279.4	281.7	+ 2.3
Total	505.2	525.8	+ 20.6	323.3	306.8	— 16.5	828.5	832.7	+ 4.2

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.

Within this increase in 1965, loans and overdrafts to the Government Corporations increased by Rs. 7.8 million and co-operative institutions by Rs. 5.6 million.

Figures of bank advances classified according to purposes and maturity distribution are given in Table II (C) 15. In using this data, it is necessary to exercise more than the usual degree of caution because of difficulties in classifying advances granted to firms engaged in more than one trade, by purpose, e. g. firms engaged in both industry and commerce or commerce and agriculture. Besides, advances which are said to be for a certain purpose by the borrower may be used for quite a different purpose, particularly when credit restrictions are imposed.

The decline in total bank advances for commercial purposes by Rs. 13.7 million is the net result of contractions of Rs. 10.5 million in export credit, Rs. 20 million in import credit and increases of Rs. 8.7 million in credit for wholesale and retail trading and Rs. 8.1 million in the residual category of other commercial loans. Credit for industrial purposes increased by Rs. 1.7 million. Agricultural loans defined to include credit for the cultivation of tea, rubber, coconut, livestock and for dairy farming increased by Rs. 5.9 million. Credit for tea plantations increased by Rs. 2.3 million and for rubber increased by Rs. 1.6 million. Consumer loans recorded an increase of Rs. 15.8 million and other loans increased by Rs. 1.0 million.

Table II (C) 15

Advances* Classified by Purpose and according to maturity

(As at end of period)

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	1964	216.2	47.1	173.8	37.9	69.1	15.1	459.1	61.0
	June	1965	180.5	41.0	187.2	42.5	72.8	16.5	440.5	57.9
	December	1965	183.4	41.2	182.1	40.9	80.0	18.0	445.4	58.4
B. Financial	December	1964	26.5	29.1	30.0	32.9	34.6	38.0	91.1	12.1
	June	1965	37.4	40.9	23.9	26.1	30.3	33.1	91.5	12.0
	December	1965	29.6	32.6	26.5	29.2	34.6	38.1	90.8	11.9
C. Agricultural	December	1964	6.3	21.9	7.9	27.4	14.7	51.0	28.8	3.8
	June	1965	6.0	20.1	9.0	30.1	14.9	49.8	29.9	3.9
	December	1965	8.6	24.8	13.6	39.2	12.4	35.7	34.7	4.5
D. Industrial	December	1964	24.8	34.4	20.1	27.9	27.2	37.7	72.1	9.6
	June	1965	28.9	33.0	26.0	29.7	32.6	37.3	87.5	11.5
	December	1965	29.6	40.1	21.3	28.9	22.9	31.0	73.8	9.7
E. Consumption	December	1964	12.0	24.5	15.0	30.7	21.9	44.8	48.9	6.5
	June	1965	7.2	13.3	19.3	35.5	27.7	51.0	54.3	7.1
	December	1965	10.9	16.8	19.9	30.8	33.9	52.4	64.7	8.5
F. Other Loans	December	1964	25.0	47.6	9.2	17.5	18.4	35.0	52.5	7.0
	June	1965	26.9	47.4	12.4	21.8	17.5	30.8	56.8	7.5
	December	1965	25.1	46.9	9.9	18.5	18.4	34.4	53.5	7.0
G. Total	December	1964	310.8	41.3	255.9	34.0	185.9	24.7	752.5	100.0
	June	1965	286.9	37.7	277.8	36.5	195.8	25.7	760.5	100.0
	December	1965	287.2	37.6	273.5	35.8	202.2	26.5	762.9	100.0

Source: Central Bank of Ceylon

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

Commercial bank advances are classified by type of securities in Table II (C) 16. Advances secured by documentary bills, Government securities, shares of joint stock companies stock in trade and immovable property declined in 1965. Loans secured by documentary bills increased fractionally and those secured by government securities declined by Rs. 5.0 million. Loans against stock in trade declined by Rs. 7.8 million. Advances secured by time and savings deposits and life policies increased significantly by 16.9 million as compared with a mild increase of Rs 3.1 million in 1964. Loans secured by other types of securities increased by Rs 6.7 million and unsecured loans increased by Rs 8.5 million.

TABLE II (C) 16

Advances* by Type of Security

	December 31st, 1964		June 30th, 1965		December 31st, 1965	
	Amount	% of	Amount	% of	Amount	% of
	Rs. Mn.	Total	Rs. Mn.	Total	Rs. Mn.	Total
Documentary bills ..	125.8	16.7	121.8	16.0	126.6	16.6
Government securities ..	9.6	1.3	7.1	0.9	4.6	0.6
Shares of joint-stock companies ..	20.3	2.7	21.0	2.8	18.0	2.4
Time and Savings deposits and other cash deposits including cash value of life policies ..	34.0	4.5	39.8	5.2	50.9	6.7
Stock in Trade ..	210.2	27.9	203.9	26.8	202.4	26.5
Immovable property ..	73.9	9.8	80.4	10.6	66.4	8.7
Others ..	202.1	26.9	202.0	26.6	208.8	27.4
Unsecured ..	76.6	10.2	84.4	11.1	85.1	11.1
Total ..	752.5	100.0	760.5	100.0	762.9	100.0

Source: Central Bank of Ceylon

* Exclude cash items in process of collection.

Table II (C) 17 gives a classification of bank advances by rate of interest. In May 1965 the Bank Rate was raised from 4 to 5 per cent and all lending rates of commercial banks moved up in sympathy. Consequent to the increase in the Bank Rate the advances granted at rates between $4\frac{1}{2}$ -6 percent declined appreciably during the second half of the year. In December 1964, 5.4 per cent of the total bank advances were at $4\frac{1}{2}$ per cent but by December 1965 it had declined to 1.2 per cent of the total advances. The category of advances bearing a 6 per cent rate which amounted to Rs. 299.2 million or 42.6 per cent of total advances in December 1964, declined to Rs. 6.2 million or 0.8 per cent by December 1965. Advances bearing rates of interest of $6\frac{1}{2}$ per cent and above increased from Rs. 537.8 million or 75.8 per cent at the end of June to Rs. 584.4 million or 81.2 per cent at the end of December 1965 but the most significant increase was recorded in advances bearing interest at $6\frac{1}{2}$ per cent.

Though commercial bank credit to the private sector did not increase significantly in 1965, there were certain changes within the categories of credit classified by type of advance, purpose, type of security and by rate of interest which are of significance. Import bills purchased increased marginally but bank credit granted for import purposes declined by Rs. 20.0 million. Advances granted against stock in trade increased. Both export bills purchased and loans and overdrafts for export purposes declined though total exports increased—a relationship also observed in 1964.

TABLE II (C) 17
Advances* by Rate of Interest

Rate of Interest			December 31st 1964		June 30th 1965		December 31st 1965	
			Amount	% of	Amount	% of	Amount	% of
			Rs. Mn.	Total	Rs. Mn.	Total	Rs. Mn.	Total
Below	2½	..	4.0	0.6	4.3	0.6	4.4	0.6
	2½	..	—	—	1.0	0.1	0.1	...
	3	..	0.9	0.1	0.2	...	0.2	...
	3½	..	2.2	0.3	1.3	0.2	1.4	0.2
	4	..	3.7	0.5	5.6	0.8	3.7	0.5
	4½	..	38.2	5.4	31.2	4.4	8.8	1.2
	5	..	25.5	3.6	43.0	6.1	22.3	3.1
	5½	..	14.2	2.0	4.8	0.7	31.6	4.4
	6	..	299.2	42.6	80.6	11.4	62.2	8.6
	6½	..	23.5	3.3	9.2	1.3	130.8	18.2
	7	..	209.2	29.8	349.6	49.2	235.3	32.7
	7½	..	7.2	1.0	34.2	4.8	52.3	7.3
	8 and above	..	75.0	10.7	144.8	20.4	166.0	23.1
Total			702.8	100.0	709.8	100.0	719.2	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.

Lending operations of the State sponsored savings and long-term credit institutions are shown in Table II (C) 18.

TABLE II (C) 18
Lending Operations of Long-term Credit Institutions

Rupees Thousand

	1962		1963		1964		1965	
	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding
Development Finance Corporation* ..	3,555	22,841	1,864	23,072	7,231	27,802	4,010	28,316
Ceylon Savings Bank ..	2,801	11,635	3,428	13,387	3,935	15,528	2,846	16,345
Agricultural & Industrial Credit Corporation ..	2,477	29,874	3,338	29,231	5,774	31,018	4,942	32,424
State Mortgage Bank ..	2,553	55,785	3,135	55,119	3,532	54,662	3,942	54,681
Loan Board ..	1,660	12,309	1,033	12,204	1,107	12,113	540	11,411
National Housing Department**† ..	9,799	n.a.	9,208	n.a.	3,914	n.a.	8,972	n.a.
Total ..	22,845	132,444	22,006	133,013	25,493	141,123	25,252	143,177

Source: Central Bank of Ceylon

* Includes equity investments

** Financial year October/September

† Includes departmental schemes

Loans granted by the savings and long-term credit institutions contracted fractionally in 1965 and the total volume of credit granted by them during the year amounted to Rs. 25,252,000. Along with an investment of Rs. 200,000 in equities of development projects, the total volume of credit extended by the Development Finance Corporation during 1965 amounted to Rs. 4,010,000. Every institution reported in the Table II (C) 18 except the State Mortgage Bank and the National Housing Department contracted its credit operations during the year. None of these credit institutions - namely the Development Finance Corporation, Agricultural and Industrial Credit Corporation and State Mortgage Bank raised new capital during the year.

TABLE II (C) 19
Savings Deposits and Savings Certificates

			Rupees Million
	December 1964	December 1965	Change Dec. 1964/ Dec. 1965
Post Office Savings Bank ..	402.3	418.3*	+ 16.0*
Ceylon Savings Bank	81.6	84.2*	+ 2.6*
Commercial Banks (Time and Savings Deposits)**	551.1	606.7	+ 55.6
Savings Certificates outstanding ..	37.4	41.8	+ 4.4
Total	1,072.4	1,151.0*	+ 78.6*

Source: Central Bank of Ceylon

* Provisional

** Includes government deposits.

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 rose by Rs. 78.6 million or by 7.3 per cent in 1965, compared to an increase of 8.7 per cent in 1964. Time and savings deposits with commercial banks rose by Rs. 55.6 million. Deposits with the Post Office Savings Bank and the Ceylon Savings Bank increased by Rs. 16.0 million; and Rs. 2.6 million respectively. Total collections of the Employees' Provident Fund during the year amounted to Rs. 63.9 million reflecting an increase of Rs. 3 million over the previous year.