

(C) MONETARY AND BANKING TRENDS

After a continuous expansion commencing in 1958, the money supply recorded a contraction of Rs. 56·8 million in 1966. In earlier Annual Reports attention was drawn to the tendency for money supply to expand in the face of declining external assets. Thus, during the years 1958—1964, although external banking assets contracted as a result of the deterioration in the balance of payments, the money supply expanded considerably because expansionary factors operating on the money supply in those years — chiefly the inflationary financing of the Government's budget deficits and the growth in bank credit to the private sector — were strong enough to more than offset the contractionary effect emanating from the fall in external assets. A notable change took place in 1965 when the expansionary impact of the budget was considerably reduced by confining the financing of the deficit largely to non-bank sources. Nevertheless, the money supply recorded an increase in that year too — though at a much slower rate than in previous years — principally due to an improvement in external assets.

The improvement in the balance of payments situation did not, however, continue into the year 1966 and there was a sharp decline in external banking assets during the year. This had a powerful contractionary effect on the money supply. The combined effect of this and other contractionary factors was only partly offset by certain expansionary factors, the most important of which was an increased recourse to borrowing from the banking system by the Government. Consequently, the money supply declined to a level of Rs. 1,658·9 million at the end of 1966 from Rs. 1,715·7 million as at the end of the previous year. Table II (C) 1 gives monthly figures of money supply for 1966 and for the preceding five years.

The decline in money supply was not uniform through the year. After a decline of Rs. 49·4 million in the first three months of the year, it increased by Rs. 90·6 million in the next four months to reach a peak level of Rs. 1,756·9 million at the end of July. The last five months of the year were characterized by a sharp declining trend in money supply. Thus, although there was an appreciable contraction in money supply during the year as a whole, the average level of money supply in 1966 was higher than that in the previous year. The monthly average of money supply for 1966 was Rs. 1,686 million which was Rs. 36 million higher than the corresponding average for 1965. This, together with the fact that the contraction in money supply was concentrated in the last few months of the year, may be one reason why there were no marked deflationary conditions in the economy and prices remained relatively stable during the year under review.

1. (a) Factors affecting money supply

Causal factors responsible for changes in money supply are analysed in Table II (C) 2. The factors affecting money supply are classified here according to the operations with the banking system of major economic sectors. It can be observed from this table that the overseas sector was the major source of contraction

TABLE II (C) I

The Money Supply

Rupees Million

End of Period	1961	1962	1963	1964	1965	1966	% Change (1962 over 1961)	% Change (1963 over 1962)	% Change (1964 over 1963)	% Change (1965 over 1964)	% Change (1966 over 1965)
January	1,207	1,426	1,347	1,468	1,615	1,693	+ 18.1	— 5.5	+ 9.0	+ 10.0	+ 4.8
February	1,193	1,561	1,369	1,501	1,582	1,674	+ 30.8	— 12.3	+ 9.6	+ 5.4	+ 5.8
March	1,210	1,635	1,385	1,505	1,585	1,666	+ 35.1	— 15.3	+ 8.7	+ 5.3	+ 5.1
April	1,306	1,448	1,400	1,534	1,601	1,675	+ 10.9	— 3.3	+ 9.6	+ 4.4	+ 4.6
May	1,219	1,317	1,431	1,547	1,645	1,698	+ 8.0	+ 8.6	+ 8.1	+ 6.3	+ 3.2
June	1,221	1,298	1,448	1,550	1,650	1,692	+ 6.3	+ 11.5	+ 7.0	+ 6.4	+ 2.5
July	1,223	1,277	1,447	1,543	1,693	1,757	+ 4.4	+ 13.3	+ 6.6	+ 9.7	+ 3.8
August	1,231	1,270	1,474	1,529	1,674	1,702	+ 3.2	+ 16.1	+ 3.7	+ 9.5	+ 1.7
September	1,261	1,294	1,499	1,549	1,675	1,681	+ 2.6	+ 15.8	+ 3.3	+ 8.1	+ 0.4
October	1,248	1,317	1,505	1,592	1,687	1,682	+ 5.5	+ 14.3	+ 5.8	+ 6.0	— 0.3
November	1,251	1,307	1,533	1,603	1,677	1,655	+ 4.5	+ 17.3	+ 4.6	+ 4.6	— 1.3
December	1,289	1,343	1,506	1,622	1,716	1,659	+ 4.2	+ 12.2	+ 7.7	+ 5.8	— 3.3

Source: Central Bank of Ceylon.

TABLE II (C) 2
Changes in the Money Supply

Factors affecting Money Supply	1960 to 1961		1961 to 1962		1962 to 1963		1963 to 1964		1964 to 1965		1965 to 1966	
	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) ...	—	78.6	—	91.1	—	53.2	16.9*	—	79.7**	—	—	196.3
2. Private Sector † ...	21.7	28.8	42.2	50.9	132.3	63.4	82.6	57.4	19.3	75.4	138.7	79.7
(a) Commercial bank credit to other private sector constituents† ...	12.5	—	42.2	—	124.2	—	82.6	—	10.1	—	42.6	—
(b) Commercial bank credit to Co-operative institutions ...	—	—	—	—	—	—	—	—	—	6.9	25.8	—
(c) Time and Savings deposits of Co-operative institutions ...	—	—	—	—	—	—	—	—	—	2.1	—	2.3
(d) Time and Savings deposits of other private sector constituents ...	9.2	—	—	50.2	—	63.4	—	52.5	—	46.2	—	65.4
(e) Other liabilities and accounts (net) of commercial banks ...	—	28.8	—	0.7	8.1	—	—	4.9	—	20.2	—	12.0
Government Corporations ...	—	—	—	—	—	—	—	—	—	—	—	—
(f) Commercial bank credit to Government corporations ...	—	—	—	—	—	—	—	—	7.8	—	20.1	—
(g) Time and savings deposits of Government corporations with commercial banks ...	—	—	—	—	—	—	—	—	1.4	—	50.2	—
3. Government Sector ...	173.5	9.1	250.2	94.7	166.9	19.0	133.6	57.7	120.3	53.2	207.5	126.9
(a) Commercial banks' holdings of Treasury Bills, Government and Government guaranteed securities and Government import bills ...	21.4	—	71.3	—	20.4	—	3.6	—	92.3	—	—	64.2
(b) Central Bank's holdings of Treasury Bills and Government and Government guaranteed securities ...	140.8	—	175.9	—	139.5	—	123.2	—	—	38.7	155.9	—
(c) Central Bank's provisional advances ...	1.9	—	3.0	—	7.0	—	6.8	—	28.0	—	26.4	—
(d) Central Bank's other liabilities and accounts (net) ...	—	9.1	—	18.6	—	10.7	—	54.8††	—	4.5	25.2	—
(e) Government deposits with banking system and cash balances with the Treasury and Kachcheries ...	9.4	—	—	76.1	—	8.3	—	2.9	—	10.0	—	62.7
4. Adjustments for items in transit ...	1.0	—	—	1.7	—	0.2	—	2.3	3.2	—	—	0.1
Total expansionary/contractionary factors ...	196.2	116.5	292.4	238.4	299.2	135.8	233.1	117.4	222.5	128.6	346.2	403.0
Change in Money Supply ...	+79.8		+54.0		+163.3		+115.8		+93.8		—56.8	

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.

††Data in respect of Co-operative institutions and Government corporations are available separately only from the period 1964/65. These data for earlier periods are included under "other private sector constituents."

†††Rs. 53.8 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.

in money supply during the year under review. External banking assets fell by Rs. 196·3 million acting as a potent force in effecting a fall in the country's money supply. The government sector contributed Rs. 80·6 million towards limiting this contractionary influence, while a further expansionary effect of Rs. 59 million came from the private sector.

The worsening of the country's international balance of payments stemmed from the sharp decline in export earnings while import expenditures increased. The resulting deterioration in the external payments position was reflected in the international reserve of the Central Bank which declined by Rs. 189·2 million during the year. In addition, the Central Bank's external liabilities increased by Rs. 78·6 million. These movements were moderated to some extent by a rise of Rs. 21·4 million in the external assets of commercial banks. The contractionary effect on the money supply of the total change in external banking assets amounted to Rs. 196·3 million.

The most significant fact which emerges from the analysis presented in Table II (C) 2 regarding the manner in which Government operations affected the money supply is the increase in the Central Bank's holdings of Treasury Bills, Government and Government guaranteed securities by Rs. 155·9 million in contrast to a decline of Rs. 38·7 million in 1965. The volume of credit extended by the Central Bank to the Government was further increased by a rise of Rs. 26·4 million in provisional advances. A contractionary effect of Government operations during the year was the accumulation of cash balances amounting to Rs. 62·7 million which was considerably higher than in the previous three years. This was entirely due to a rise in special counterpart funds of the Government.¹ An equally large contractionary effect came from the reduction of commercial bank credit to the Government sector. After a continuous increase in the commercial banks' holdings of Treasury Bills, Government and Government guaranteed securities and Government import bills for several years, the trend was reversed in 1966 when these holdings were reduced by Rs. 64·2 million. The net effect on money supply of the Government sector's operations was an expansion of Rs. 80·6 million.

In the private sector there was an expansion of bank credit to co-operative institutions, Government corporations and other private constituents. Credit to co-operative institutions rose by Rs. 25·8 million in 1966 as against a decrease of Rs. 6·9 million in the previous year. The increases in credit to Government corporations and other private constituents were Rs. 20·1 million and Rs. 42·6 million, respectively, compared to the corresponding figures of Rs. 7·8 million and Rs. 10·1 million in 1965. The combined expansionary impact of the increase of bank credit in these categories was Rs. 88·5 million which, nevertheless, was appreciably less than the peak figure of Rs. 124·2 million in 1963. In addition to obtaining an increased volume of credit from the banking system, the Government corporations drew down their time deposits with banks by Rs. 50·2 million, thereby

¹ Commercial banks are required to pay the rupee equivalent of goods imported under the commodity aid programme into a special counterpart fund of the Government with the Central Bank of Ceylon.

adding to the expansionary impact on money supply. All these expansionary influences were to some extent moderated by a growth of Rs. 65.4 million in time and savings deposits of other private sector constituents. The net effect on money supply of the private sector's operations with the banking system was an expansion of Rs. 59 million.

The combined effect of the operations of these three sectors on the money supply was a decline of Rs. 56.8 million made up of a decline in external banking assets of Rs. 196.3 million offset partly by an expansion in net lending to the Government sector of Rs. 80.6 million and in net lending to the private sector of Rs. 59 million.

1. (b) Liquidity in the non-bank private sector.

The two components of money supply — currency and demand deposits — are also the two most liquid financial assets of the public. Demand deposits are less liquid than cash, especially in a less developed economy, and changes in the composition of money supply are caused by a number of economic and non-economic factors which affect the pattern of liquidity preferences of the public. The following table shows the composition of Ceylon's money supply from 1953.

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	1,072.9
1956	401.1	35.6	725.7	64.4	1,126.8
1957	434.9	41.8	605.2	58.2	1,040.1
1958	529.8	49.2	546.9	50.8	1,076.8
1959	565.0	48.0	612.7	52.0	1,177.7
1960	595.3	49.2	613.6	50.8	1,208.9
1961	692.2	53.8	596.4	46.2	1,288.6
1962	712.6	53.1	630.0	46.9	1,342.7
1963	828.4	55.0	677.7	45.0	1,506.0
1964	853.0	52.6	768.8	47.4	1,621.8
1965	901.4	52.5	814.3	47.5	1,715.7
1966	882.5	53.2	776.4	46.8	1,658.9

Source : Central Bank of Ceylon.

In earlier Annual Reports it has been mentioned that there has been an increasing tendency for the public to hold currency in recent years. As Table II (C) 3 above reveals, the ratio of currency to total money supply has been rising markedly

since 1958 and has been consistently above 50 per cent since 1960. In 1964 and 1965 there was a slight fall in this ratio from the 55 per cent level reached in 1963. In 1966, the ratio increased slightly to 53.2 per cent from 52.5 per cent in 1965. The monthly average, however, shows no significant departure from the pattern in 1965.

The money supply constitutes only the primary liquid assets of the public. Besides cash and demand deposits the public also holds certain forms of secondary liquid assets. These are mainly savings deposits, time deposits and holdings of various types of Government paper. Although these financial assets do not constitute means of payment, they can be converted into money more or less readily. A proper understanding of the monetary situation, therefore, requires that changes in money supply are viewed along with changes in secondary liquid assets of the public. Table II (C) 4 below shows the distribution of primary and secondary liquid assets for the years 1964 to 1966.

TABLE II (C) 4
Total Liquid Assets of the Non-Bank Private Sector
1964 — 1966

Description	Amount (Rupees Million)			Percentage of G.N.P.(a)		
	1964	1965	1966	1964	1965	1966
1. Primary Liquid Assets						
(a) Notes and coins ...	853.0	901.4	882.5	11.8	12.1	11.7
(b) Demand deposits ...	768.8	814.3	776.4	10.6	10.9	10.3
Total ...	1621.8	1715.7	1658.9	22.4	23.1	22.0
Percentage change ...		+ 5.8	- 3.3			
2. Secondary Liquid Assets						
(a) Savings deposits with commercial banks ...	193.5	223.9	243.7	2.7	3.0	3.2
(b) Savings deposits with Post Office Savings Bank ...	402.3	427.1	428.9*	5.6	5.7	5.7
(c) Savings deposits with Ceylon Savings Bank ...	81.6	86.6	88.7*	1.1	1.2	1.2
(d) Time deposits with commercial banks ...	327.0	343.5	341.2	4.5	4.6	4.5
(e) Foreign balances of residents ...	12.0	11.5	7.3*	0.2	0.2	0.1
(f) Savings certificates ...	37.4	41.8	56.5	0.5	0.6	0.7
(g) Treasury Bills ...	0.5	4.8	13.5	...	0.1	0.2
(h) Tax reserve certificates ...	41.5	36.1	30.0	0.6	0.5	0.4
(i) Government bonds ...	505.7	583.7	705.7	7.0	7.9	9.4
Total ...	1601.5	1762.0	1915.5*	22.2	23.7	25.4
Percentage change ...		+ 10.0	+ 8.7			
3. Total Private Sector						
Liquid Assets ...	3223.3	3477.7	3574.4*	44.6	46.8	47.5
Percentage change ...		+ 7.9	+ 2.8			
Not included above are holdings of Treasury Bills and Government bonds by Government financial institutions e.g. Post Office Savings Bank, Ceylon Savings Bank, Employees' Provident Fund, etc. ...	1022.9	1220.9	1447.9	14.2	16.5	19.2

(a) At current factor cost prices.

*Provisional.

Source: Central Bank of Ceylon.

It is observed from this table that while primary liquid assets declined by Rs. 56.8 million during the year 1966, there was a more than compensatory rise of Rs. 153.5 million in secondary liquid assets. Total liquid assets therefore increased from Rs. 3,477.7 million at the end of 1965 to Rs. 3,574.4 million at the end of 1966. This represents an increase of only 2.8 percent as compared to one of 7.9 percent in the previous year. The ratio of secondary liquid assets to total liquid assets advanced to 53.6 percent from 50.7 percent in 1965. In the following paragraphs an attempt is made to describe the salient features of changes in some of the more important components of the liquid assets structure.

The increasing proportion of notes of higher denominations in the currency composition, referred to in the last Annual Report, continued to manifest itself in 1966 too. As can be seen from Table II (C) 5 below, although the total currency issue had declined during the year, the value of Rs. 100/- notes increased by Rs. 32 million, while the value of Rs. 50/- notes declined only slightly.

TABLE II (C) 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	December	148.4	148.4	237.6	40.1	644.0
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	275.8	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	55.3	932.1
1965	December	239.9	297.8	319.7	56.5	1,002.8
1966	December	272.0	292.9	288.2	48.6	993.7

Source: Central Bank of Ceylon.

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

In earlier Annual Reports it was suggested that changes in the holdings of Rs. 100 notes may, at least partly, be associated with changing attitudes towards tax evasion. Thus, the considerable reduction in the volume of these holdings in 1964 was attributed to 'expectations regarding measures directed against tax evasion and the hoarding of undeclared assets in the form of currency notes of higher denominations'. It is possible that the reversion to a high level of holding of Rs. 100 notes is due to the receding of these fears in 1966. It is notable that the volume of Rs. 100 notes reached nearly the same level in 1966 as in 1963.

Demand deposits of the public with the commercial banks are shown in the following Table II(C) 6 (along with time and savings deposits) classified by broad ownership categories. The data presented in this table are from the Central Bank's half-yearly surveys of bank deposits and advances.

TABLE II (C) 6

Ownership of Demand, Time and Savings Deposits

with Commercial Banks

(as at end of period)

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
December, 1965 ...	45.4	5.9	69.0	21.3	7.7	3.4	122.1	9.3
December, 1966 ...	45.0	6.1	55.3	17.5	9.7	4.0	110.0	8.5
Plantations								
December, 1964 ...	68.4	9.4	31.3	9.6	0.4	0.2	100.1	8.0
December, 1965 ...	78.2	10.2	34.6	10.7	0.3	0.1	113.0	8.6
December, 1966 ...	59.7	8.1	38.8	12.3	98.5	7.6
Trading								
December, 1964 ...	166.1	22.8	37.6	11.6	3.9	2.0	207.5	16.7
December, 1965 ...	158.8	20.7	54.2	16.7	3.2	1.4	216.2	16.5
December, 1966 ...	168.0	23.0	51.0	16.1	4.0	1.6	223.9	17.3
Other Business								
December, 1964 ...	76.5	10.5	54.6	16.8	1.5	0.8	132.7	10.7
December, 1965 ...	104.5	13.7	46.5	14.3	2.4	1.1	153.4	11.7
December, 1966 ...	82.6	11.3	32.6	10.3	2.8	1.1	118.0	9.1
Local Authorities								
December, 1964 ...	26.8	3.7	27.2	8.4	0.2	0.1	54.2	4.3
December, 1965 ...	17.5	2.3	25.0	7.7	0.2	0.1	42.7	3.2
December, 1966 ...	22.9	3.1	15.6	4.9	0.6	0.2	39.1	3.0
Non-Business Institutions								
December, 1964 ...	74.8	10.3	22.5	6.9	3.4	1.8	100.7	8.1
December, 1965 ...	52.3	6.8	19.6	6.0	4.5	2.0	76.4	5.8
December, 1966 ...	55.6	7.6	34.7	11.0	4.5	1.8	94.8	7.3
Individuals								
December, 1964 ...	273.3	37.6	80.4	24.7	176.0	90.9	529.7	42.5
December, 1965 ...	308.7	40.3	75.6	23.3	205.9	91.8	590.3	44.9
December, 1966 ...	299.0	40.7	88.6	28.0	222.2	91.1	609.8	47.1
Total								
December, 1964 ...	727.0	100.0	325.1	100.0	193.6	100.0	1245.8	100.0
December, 1965 ...	765.3	100.0	324.5	100.0	224.3	100.0	1314.1	100.0
December, 1966 ...	733.7	100.0	316.6	100.0	243.8	100.0	1294.1	100.0

Demand deposits of individuals in the private sector and of institutions belonging to the category 'other business' recorded a decline during the year, in line with the decline in total demand deposits. Demand deposits of plantations also were drawn down during the year, following an accumulation in the previous year. This change was probably caused, among other factors, by the increased remittances in 1966 of profits and dividends which had been held up in 1965 due to the operation of the moratorium. The increase in demand deposits of trading institutions may be partly accounted for by the sizeable profits made by the wholesale and retail trade and by local manufacturers in the prevailing supply and demand conditions for many consumption goods.

An encouraging feature of the movement of secondary liquid assets was the increase in savings deposits with commercial banks. The bulk of these deposits consists of holdings of individuals. Total savings deposits of the private sector with the commercial banks increased by Rs. 19.8 million during the year, reaching a level of Rs. 243.7 million at the end of 1966. Almost the entirety of this increase was in savings deposits of individuals.

Time deposits showed a contrary movement to that of savings deposits. Time deposits of the private sector with the commercial banks declined from Rs. 324.5 million at the end of 1965 to Rs. 316.6 million at the end of 1966. This decline was reflected in the deposits of most categories of institutional holders, while the deposits of individuals (which form only a small part of the total) increased by Rs. 13 million. Apart from the deposits of the different categories of holders in the private sector shown in Table II (C) 6, time deposits are also held by the Government with the commercial banks. The volume of these deposits too declined by Rs. 21.7 million in 1966.

There was no significant change in the savings deposits with the Post Office Savings Bank and the Ceylon Savings Bank. Savings deposits with the Post Office Savings Bank, which had been increasing steadily in recent years, recorded only a rise of Rs. 1.8 million from Rs. 427.1 million at the end of 1965. Savings deposits with the Ceylon Savings Bank showed a rise of Rs. 2.1 million from the 1965 level of Rs. 86.6 million.

The expansion in the holdings of Government bonds by the private sector was the largest component of the increase in its secondary liquid assets during the year. The increase in these holdings amounted to Rs. 119.0 million out of the total increase of Rs. 156.9 million in secondary liquid assets. The holdings of Government bonds by individuals accounted for only Rs. 14.5 million of this increase. The holdings of the Insurance Corporation rose by Rs. 47.3 million and those of trusts, benevolent, pension and provident funds (excluding the Employees' Provident Fund) also increased by Rs. 49.1 million.

It can be seen from the above analysis that although there was no fundamental change in the composition of primary liquid assets during the year under review, there was a marked increase in the proportion of total financial assets held by the private sector in the form of secondary liquid assets.

1. (c) Government Bonds

Besides the government bonds held by the different categories of owners in the private sector mentioned above, large amounts of government bonds are also held by the banking system and by various government and semi-government agencies and institutions. A complete classification of the ownership of government bonds is presented in Table II (C) 7. The value of holdings of each class of owner as at the end of each of the years 1964 — 1966 is given in this table together with the changes in these holdings during the years 1965 and 1966.

TABLE II (C) 7
Ownership of Government Bonds

Rupees Million

	1964	1965	1966	Change	
				1964/65	1965/66
1. Banking system* ...	322.5	324.9	324.5	+ 2.4	— 0.4
2. Government, Departmental and other official funds ...	115.4	120.9	124.9	+ 5.5	+ 4.0
3. National Housing and Public Debt sinking funds ...	269.0	331.3	429.2	+ 62.3	+ 97.9
4. Semi-Govt Savings Institutions ...	443.6	482.4	545.1	+ 38.8	+ 62.7
5. Employees' Provident Fund ...	303.5	373.4	455.3	+ 69.9	+ 81.9
6. Trusts, Benevolent, Pension and Provident Funds ...	256.5	289.0	338.1	+ 32.5	+ 49.1
7. Insurance Corporation ...	55.0	97.0	144.3	+ 42.0	+ 47.3
8. Insurance Companies ...	129.2	133.9	140.2	+ 4.7	+ 6.3
9. Individuals ...	18.4	22.3	36.8	+ 3.9	+ 14.5
10. Other ...	46.5	44.6	46.3	— 1.9	+ 1.7
Total ...	1,959.6	2,219.6	2,584.6	+260.0	+365.0

Source : Central Bank of Ceylon..

* This item includes Government bonds held by the Central Bank, which amounted to Rs. 8 million for the years 1964, 1965 & 1966.

The largest share of the increase in government bonds during the year 1966 was taken up by the National Housing and Public Debt Sinking Funds whose holdings rose by Rs. 97.9 million. The holdings of government bonds by the Employees' Provident Fund increased by Rs. 81.9 million as compared to an increase of Rs. 69.9 million in the previous year. By the end of 1966 the Employees' Provident Fund was the largest single institutional holder of government bonds. Semi-government savings institutions increased their portfolio of government bonds by Rs. 62.7 million during the year. Trusts, benevolent, pension and provident funds, other than the Employees' Provident Fund, increased their holdings of Government bonds by Rs. 49.1 million.

It will thus be seen that institutional investors continued to dominate the market for government bonds as in earlier years. The increase in government bond holdings of individuals amounted to only Rs. 14.5 million. Although this was only a small portion of the total increase of Rs. 365 million in government bonds, the rate of increase in this item was much higher in 1966 than in the past few years presumably due to the substantial tax reliefs given for investment in Government bonds.

1. (d) Turnover Rates

The monthly average level of demand deposits of the public with the commercial banks in 1966 was higher than in the previous year. It amounted to Rs. 805.7 million which represents a 6.8 per cent increase from the monthly average of 1965. The monthly average turnover rate of these deposits, however, declined by 8.4 per cent from 1.79 in 1965 to 1.64 in 1966. This change in the turnover rate of the deposit component of the money supply was also reflected in a change in the same direction in the income velocity of money. The latter, measured as the ratio of national income at current factor cost prices to the average level of total money supply, declined from 4.51 in 1965 to 4.46 in 1966.

In the case of time and savings deposits with commercial banks, there was a decline in the turnover rate of the former while the turnover rate of the latter remained stable at the 1965 level. The monthly average level of time deposits amounted to Rs. 359.4 million in 1966 as compared to Rs. 329.7 million in 1965, while the monthly average turnover rate declined by 12.5 per cent from 0.24 to 0.21. The monthly average level of savings deposits with commercial banks was Rs. 239.0 million which was 14.7 per cent higher than in 1965, but their average monthly turnover rate remained unchanged at 0.08. The combined turnover rate of time and savings deposits with commercial banks declined by 6.2 per cent.

The turnover rates of savings deposits with the Post Office Savings Bank and the Ceylon Savings Bank, which had declined in the previous year, recorded an increase in 1966. The average monthly level of deposits with the Post Office Savings Bank, amounting to Rs. 427.3 million, was considerably higher than in 1965, and their turnover rate increased somewhat from .019 to .020. The average level of deposits with the Ceylon Savings Bank in 1966 was Rs. 87.2 million as compared to Rs. 82.9 million in 1965. The turnover rate of these deposits increased by 21.4 per cent from .014 to .017.

1 (e) Interest Rates

The Bank Rate remained at 5% as fixed on the 28th May, 1965.

The minimum and maximum rates charged by commercial banks in 1966 remained unaltered from those which became effective consequent to the rise in Bank Rate in the previous year. The minimum rate on loans secured by Government securities was $5\frac{1}{2}$ per cent and the maximum rate was 7 per cent. On loans secured by stock in trade the minimum rate was 6 per cent while the maximum rate was 9 per cent. In the case of loans secured by company shares and by immovable property the minimum rate was 7 per cent, while the maximum rate was 9 per cent for the former and $9\frac{1}{2}$ per cent for the latter. For loans secured by the residual category of 'other' types of security, the rates varied from a minimum of 5 per cent to a maximum of 9 per cent. The rates on unsecured loans varied from 7 per cent to 9 per cent.

With effect from the 6th April, 1966, the rates of interest charged by the Central Bank to credit institutions on refinance loans from the Medium and Long term Credit Fund was reduced to 3 per cent per annum for the promotion or development of industry and agriculture and 5 per cent per annum for the promotion or development of trade, commerce or business. In regard to the former class of loans, the 3 per cent rate was to be effective on condition that the credit institutions which availed themselves of this facility do not charge more than 6 per cent on the loans granted by them to their customers and for which they seek refinance from the Central Bank. In the case of loans granted by such institutions for the purchase of tea machinery and construction of new tea factories, where the Tea Controller meets part of the interest payable on such loans,¹ however, the rate of interest on refinance loans will be 5 per cent provided that the credit institutions which avail themselves of this facility do not charge more than 8 per cent on the loans granted by them to their customers and for which they seek refinance from the Central Bank. Total loans granted by the Central Bank from the Medium and Long-term Credit Fund during the year 1966 amounted to Rs. 2.6 million.

There was no change in the Treasury Bill rate in 1966. The weighted average rate for monthly issues continued to be 3 per cent as in the last three months of 1965. The rate in respect of Government loans with a maturity of over 20 years also remained unchanged at 4½ per cent in 1966.

2. Commercial Banking

Commercial bank credit to the private sector, which increased by a small amount in 1965, assumed larger proportions in 1966. The increase of Rs. 93.7 million in 1966 was, however, below the peak level of Rs. 136.9 million reached in 1963. The resources for commercial bank credit creation to the private sector in 1966 came mainly from a contraction of credit to the Government sector. The liquidity position of commercial banks was generally as high as in the previous year, but showed a decline in the last month of the year.

2. (a) Branch Net Work

The distribution of bank offices and total deposits between Ceylonese, British, Indian and Pakistani banks for the period 1962-1966 is shown in Table II (C) 8.

During the year under review eight new bank offices were opened, seven by the People's Bank and one by the Bank of Ceylon. The new offices were located in Homagama, Main Street, Colombo, Kahatagasdigiliya, Maho, Nawalapitiya, Warakapola, Kelaniya and Borella. Six of the eight new offices were opened in areas where no banking facilities existed earlier.

The total number of banking offices within Ceylon increased to 105 at the end of 1966 compared to 73 at the end of 1962. Of the 105 branches, 16 belong to foreign interests while the remaining 89 belong to the Bank of Ceylon and the People's Bank.

1. Under a Scheme instituted to subsidise the interest payable by borrowers on loans for the purchase of tea machinery and construction of new tea factories, the Tea Controller bears half the interest on such loans taken by the private sector and the full interest on loans taken by co-operative societies, out of the Tea Subsidy Fund established under the Tea Subsidy Act. of 1958.

TABLE II (C) 8
Distribution of Bank Offices and Deposits 1962-1966

Year	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
1966	105	1,502	100	89	1,003	67	12	419	28	4	80	5

Source : Central Bank of Ceylon

2. (b) Structure of Banking Liabilities

Table II (C) 9 presents a summary of the distribution of bank assets and liabilities for the period 1955/1966.

Total assets/liabilities of the commercial banks increased from Rs. 1,814.4 million as at 30th December, 1965 to Rs. 1,846.4 million as at 30th December, 1966. This represents an increase of 1.8 per cent as compared to an increase of 9.4 per cent in 1965. This increase took place in spite of a fall of Rs. 44.1 million in total deposit liabilities of the commercial banks because the increases of Rs. 41.2 million in inter-bank borrowing, Rs. 16.0 million in paid-up capital and reserve funds and Rs. 18.2 million in other liabilities more than counterbalanced the fall in deposits. The ratio of total deposits to total liabilities declined from 85.2 per cent in 1965 to 81.3 per cent in 1966.

There were some changes in the composition of deposit liabilities during the year. Government deposits which constituted 11.1 per cent of total deposits in 1965 recorded a larger contraction than private deposits (including deposits of Government corporations and co-operative institutions). Of the total fall of Rs. 44.1 million in deposit liabilities of banks, Rs. 28.2 million was due to the contraction of Government deposits, mainly time deposits. The ratio of Government deposits to total deposits was consequently reduced from 11.1 per cent in 1965 to 9.6 per cent in 1966. The contraction of Rs. 15.1 million in private deposits was the net result of a contraction of Rs. 32.6 million in demand deposits and an expansion of Rs. 17.5 million in time and savings deposits. The ratio of demand deposits to total deposit liabilities declined slightly from 60.7 per cent in 1965 to 59.9 per cent in 1966. Changes in the distribution of bank deposits among different categories of owners in the private sector are shown in Table II (C) 6.

2. (c) Structure of Bank Assets

Movements of the more important categories of the assets of commercial banks also are given in Table II (C) 9.

TABLE II (C) 9

Distribution of Assets and Liabilities of Commercial Banks

(Average of monthly figures)

													Rupees Million	
	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	End of Period	
													Dec. 1965	Dec. 1966
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements) ...	149	148	139	119	116	132	148	186	164	182	224	238	233	192
Foreign balances ...	112	116	72	50	52	58	54	55	44	49	55	62	45	60
Treasury bills ...	51	39	34	16	24	28	51	89	128	73	89	124	127	116
Bills discounted ...	94	93	100	116	119	115	122	136	114	126	173	175	185	128
Total liquid assets ...	406	396	345	301	311	333	375	466	450	430	541	594	590	496
Total investments ⁽¹⁾ ...	245	291	308	296	285	284	290	303	313	330	329	330	329	325
Total loans and overdrafts ...	244	273	340	363	395	430	435	477	495	633	669	682	665	730
Demand deposits ⁽²⁾ ...	675	731	721	661	655	657	677	829	789	853	917	949	939	898
Time and Savings deposits ...	190	206	240	263	300	340	359	380	460	535	572	631	607	603
Total deposits ...	869	941	965	926	955	998	1,036	1,209	1,250	1,389	1,490	1,580	1,546	1,502
Ratio of ...	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ...	22.1	20.2	19.3	18.0	17.7	20.1	21.9	22.4	20.8	21.3	24.4	24.5	24.8	21.4
Cash to total deposits ...	17.1	15.7	14.4	12.9	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.7	15.1	12.8
Foreign balances to total deposits ...	12.9	12.3	7.4	5.4	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.9	2.9	4.0
Treasury bills to total deposits ...	5.9	4.1	3.5	1.7	2.5	2.8	4.9	7.4	10.2	5.3	6.0	7.8	8.2	7.7
Commercial bills discounted to total deposits ...	10.8	9.9	10.3	12.5	12.5	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.0	8.5
Liquid assets to demand deposits ...	60.1	54.2	47.9	45.5	47.5	50.7	55.4	56.2	57.0	50.4	59.0	62.6	62.8	55.2
Liquid assets to total deposits ...	46.7	42.1	35.8	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.3	37.6	38.2	38.0
Investments to total deposits ...	28.2	30.9	31.7	32.0	29.8	28.5	28.0	25.1	25.0	23.8	22.1	20.9	21.3	21.6
Loans and overdrafts to total deposits ...	28.1	29.0	35.2	39.2	41.4	43.1	42.0	39.4	39.6	45.6	44.9	43.2	43.0	48.6

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

Source : Central Bank of Ceylon.

Viewed from end-of-year positions, there was an apparent change in the liquidity structure of bank assets in 1966. The ratio of liquid assets to demand deposits which stood at 62·8 per cent as at the end of 1965 declined to 55·2 per cent at the end of 1966. The ratio of liquid assets to total deposits similarly declined from 38·2 per cent to 33 per cent. This was caused mainly by a contraction in cash on hand and deposits with the Central Bank, in bills discounted and, to a smaller extent, by a fall in Treasury Bill holdings. Of the less liquid assets, loans and overdrafts outstanding increased by Rs. 65 million, thereby raising their ratio to total deposits from 43·0 per cent at the end of 1965 to 48·6 per cent at the end of 1966.

A comparison of monthly averages, however, does not bear out the same change in the liquidity structure of bank assets. The average monthly holdings of the different types of liquid assets in 1966 were nearly the same as in the previous year. The monthly average ratio of all liquid assets to demand deposits in 1966 amounting to 62·6 per cent was in fact somewhat higher than the corresponding figure of 59·0 per cent for the previous year. A fall in liquidity occurred only in the month of December. Over the year as a whole, therefore, the liquidity position of the banks remained more or less the same as in 1965.

2. (d) Sources of Funds and their Utilisation

It has already been mentioned that the commercial banks' credit operations mitigated the effect on money supply of the contractionary impact caused by the substantial decline in external banking assets. The total amount of loans and advances extended by the commercial banking system to the private sector increased by Rs. 93·7 million in 1966 as against Rs. 4·2 million in 1965. This is significant not only because the increase of credit by the commercial banks was high when compared with that in the previous year but also because the credit expansion occurred inspite of a decline in the total volume of deposits held by the public. In the absence of an expansion of deposits held by the public, credit expansion is possible either by a diversion of resources originally held in liquid form or by borrowing from other sources like the Central Bank. This emerges clearly from an analysis of the ways in which the commercial banks raised resources for credit creation in 1966.

The Table II (C) 10 shows that the most important single source of funds for the increase in resources of the commercial banks was the Government sector. The commercial banks ran down their holdings of Government paper and also reduced their short-term loans to Government. The holdings of Government paper declined by Rs. 14·7 million in contrast to an increase of Rs. 32·8 million in 1965. Short-term credit to the government was reduced by Rs. 49·6 million as against an increase of Rs. 59·5 million in the previous year. This reversal of the trend in commercial bank lending to the government sector had other repercussions apart from changing the pattern of resource utilisation of the commercial banks. It necessitated an expansion of credit by the Central Bank to the Government sector by increasing its holding of Government paper and by extending a

larger volume of provisional loans. This has already been referred to in the section on factors affecting money supply.

The Central Bank was the other source of increase in commercial banks' resources in 1966. The increase in the Central Bank's lending to the commercial banks amounted to Rs. 36.4 million. A further increase in commercial banks' resources resulted from a reduction of Rs. 40.1 million in their domestic cash items.

TABLE II (C) 10
Yearly changes in Banks' Resources and their Utilisation 1963 - 1966

Rupees Million

	1963	1964	1965	1966
<i>Sources of Funds</i>				
1. Government Sector ...	14.8	2.9	11.8	64.3
Increase in borrowing ...	—	—	—	—
Reduction of holdings of Government paper ...	5.5	—	—	14.7
Increase in deposits ...	9.3	2.9	11.8	—
Decrease in short-term credit to Government ...	—	—	—	49.6
2. Increase in borrowings from Central Bank ...	37.9	—	—	36.4
3. Domestic private sector ...	115.3	154.9	148.8	34.2
Increase in deposits ...	109.9	143.8	85.0	—
Increase in reserves, paid-up capital etc. ...	5.4	4.4	9.1	16.0
Increase in other liabilities ...	—	—	54.7	18.2
Decrease in other assets ...	—	6.7	—	—
4. Foreign Sector ...	8.2	—	11.5	0.7
Increase in borrowings ...	—	—	1.2	0.7
Increase in deposits ...	—	—	1.3	—
Reduction of foreign balances ...	8.2	—	9.0	—
5. Reduction of domestic cash items ...	1.1	—	—	40.1
Total increase in resources ...	177.3	157.8	172.1	175.7
<i>Utilisation of Funds</i>				
1. Government Sector ...	25.8	8.7	92.3	28.2
Reduction of borrowings ...	—	5.0	—	—
Increase in holdings of Government paper ...	—	0.4	32.8	—
Increase in short-term credit to Government ...	25.8	3.3	59.5	—
Withdrawal of deposits ...	—	—	—	28.2
2. Reduction of Borrowings from Central Bank ...	—	18.8	12.8	—
3. Domestic Private Sector ...	150.4	63.9	47.9	130.9
Increase in advances ...	136.9	62.8	4.2	93.7
Reduction of other liabilities ...	1.5	1.1	—	—
Increase in other assets ...	12.0	—	43.7	22.1
Withdrawal of deposits ...	—	—	—	15.1
4. Foreign Sector ...	1.3	22.1	—	17.0
Reduction of borrowings ...	0.6	0.8	—	—
Withdrawal of deposits ...	0.7	0.1	—	1.6
Increase in foreign balances ...	—	21.2	—	15.4
5. Increase in domestic cash items ...	—	43.7	18.7	—
Total increase in resources utilised ...	177.5	157.2	171.7	176.1

Source : Central Bank of Ceylon.

In the years up to 1966 there had been an increase in the private sector's deposits with the commercial banks. In 1963 total deposits increased by Rs. 109.9 million, and in 1964 and 1965 they increased by Rs. 143.8 million and Rs. 85.0 million respectively. In 1966 this trend was reversed when total deposits declined by Rs. 15.1 million, reflecting the general decline in money supply. Nevertheless, there was an increase in the resources of the commercial banks originating from the domestic private sector amounting to Rs. 34.2 million. This increase, which is comparatively small compared to those in previous years, came in the form of an increase in capital reserves and an increase in other liabilities.

The largest share of the increased resources of the commercial banks went to the private sector in 1966. Thus, while the total increase of Rs. 176.1 million in resources utilised in 1966 was only slightly higher than that in the previous year, as much as Rs. 130.9 million of this increase went to the private sector as against only Rs. 47.9 million in the previous year. The percentage of the increased resources of commercial banks utilised by the private sector therefore rose sharply from 27.9 per cent in 1965 to 74.3 per cent in 1966, while the corresponding percentage for the government sector declined from 53.7 per cent to 16.0 per cent. The increased resources of the commercial banks were also utilised to increase their foreign assets by Rs. 17.0 million.

2. (e) Bank Credit to the Private Sector

Of the increase of Rs. 130.9 million in resources of commercial banks utilised by the private sector, Rs. 93.7 million was in the form of increased credit to customers in the private sector, while the rest was accounted for by an increase of Rs. 22.1 million in 'other assets' of the banks and a reduction of Rs. 15.1 million in their deposit liabilities to the private sector. There was a continuous increase in bank credit over the year except in the months of February, August, October and November. The average monthly figure of commercial bank credit to the private sector in 1966 was higher than the corresponding figure for 1965 by Rs. 45 million.

Table II (C) 11 shows a breakdown of the major categories of commercial bank credit outstanding at the end of the years 1965 and 1966.

Cash items in the process of collection recorded a substantial increase during 1966 reaching a figure of Rs. 107.1 million at the end of the year. This increase was almost entirely in the Ceylonese banks and consists largely of short-term advances to co-operative institutions for the purpose of financing purchases under the Guaranteed Price Scheme. This increase in credit was concentrated largely in the harvest months of April-July.

The value of the holdings of import bills of commercial banks as at the end of 1966 showed a decline of Rs. 12.8 million from the position as at the end of the

TABLE II (C) 11

Commercial Bank Advances to the Private Sector
December 1965 — December 1966

Rupees Million

	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. 1965	Dec. 1966	Change	Dec. 1965	Dec. 1966	Change	Dec. 1965	Dec. 1966	Change
(a) Cash items in process of collection*	69.7	105.3	+35.6	1.4	1.8	+ 0.4	71.1	107.1	+36.0
(b) Local bills	—	—	—	—	—	—	—	—	—
(c) Import bills	27.0	22.6	— 4.4	22.7	14.3	— 8.4	49.7	36.9	—12.8
(d) Export bills	11.6	11.5	— 0.1	35.5	40.9	+ 5.4	47.1	52.4	+ 5.3
(e) Overdrafts	174.2	166.4	— 7.8	208.8	225.5	+16.7	383.0	391.9	+ 8.9
(f) Loans	243.4	303.8	+60.4	38.3	34.3	— 4.0	281.7	338.1	+56.4
Total	525.8	609.6	+83.8	306.8	316.7	+ 9.9	832.7	926.4	+93.7

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.

previous year. However, the holdings of these bills in the first four months of 1966 were considerably large, and the monthly average for the year was slightly higher than that for the previous year. The monthly figures of holdings of export bills were, on the average, lower than in 1965.

The outstanding overdrafts of commercial banks increased by Rs. 8.9 million during the year. This was the net result of an increase of Rs. 16.7 million in the overdrafts of foreign banks and a decrease of Rs. 7.8 million in those of local banks.

The largest contribution to the increase in commercial bank credit was in loans extended to the private sector. The outstanding loans in this category increased by Rs. 56.4 million during the year. Of this increase Rs. 39.9 million was the increase in loans to government corporations, while Rs. 17.2 million was the increase in loans to other customers in the private sector; loans to co-operative institutions fell by Rs. 0.7 million.

There was an increase of Rs. 65.3 million in commercial bank loans and overdrafts in 1966. In the prevailing economic conditions of 1966 an expansion of credit would have been most beneficial if it were directed towards productive purposes. An analysis of commercial bank credit expansion by purpose would therefore be instructive. Table II (C) 12 gives a distribution of bank advances by purpose.

TABLE II (C) 12

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) (1) as % of 7	(3)	(4) (3) as % of 7	(5)	(6) (5) as % of 7	(7)	(8) (7) as % of Total
A. Commercial	December 1965		183.4	41.2	182.1	40.9	80.0	18.0	445.4	58.4
	June 1966		177.1	38.5	199.5	43.4	83.2	18.1	459.9	58.5
	December 1966		158.8	36.7	188.4	43.5	85.6	19.8	433.2	52.7
B. Financial	December 1965		29.6	32.6	26.5	29.2	34.6	38.1	90.8	11.9
	June 1966		30.3	31.9	34.2	36.0	30.5	32.1	95.0	12.1
	December 1966		30.2	31.6	35.3	36.9	30.2	31.5	95.7	11.6
C. Agricultural	December 1965		8.6	24.8	13.6	39.2	12.4	35.7	34.7	4.5
	June 1966		9.8	25.1	14.5	37.2	14.8	37.9	39.0	5.0
	December 1966		8.7	21.5	17.7	43.8	13.9	34.4	40.4	4.9
D. Industrial	December 1965		29.6	40.1	21.3	28.9	22.9	31.0	72.8	9.7
	June 1966		22.7	29.9	25.4	33.5	27.8	36.6	75.9	9.6
	December 1966		67.4	54.0	30.8	24.7	26.5	21.2	124.7	15.2
E. Consumption	December 1965		10.9	16.8	19.9	30.8	33.9	52.4	64.7	8.5
	June 1966		10.4	16.2	23.9	37.3	29.8	46.5	64.1	8.1
	December 1966		15.1	20.1	27.0	35.9	33.1	44.0	75.2	9.1
F. Other Loans	December 1965		25.1	46.9	9.9	18.5	18.4	34.4	53.5	7.0
	June 1966		23.4	44.3	12.7	24.1	16.7	31.6	52.8	6.7
	December 1966		21.6	40.7	17.5	33.0	13.9	26.2	53.0	6.4
G. Total	December 1965		287.2	37.6	273.5	35.8	202.2	26.5	762.9	100.0
	June 1966		273.7	34.8	310.1	39.4	202.8	25.8	786.6	100.0
	December 1966		301.8	36.7	316.8	38.5	203.6	24.8	822.2	100.0

Source : Central Bank of Ceylon.

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

The outstanding volume of loans granted for industrial purposes rose by Rs. 50.9 million and the percentage of these loans in the total therefore increased markedly from 9.7 per cent at the end of 1965 to 15.2 per cent at the end of 1966. Outstanding agricultural loans increased by Rs. 5.7 million during the year. The outstanding amount of loans granted for commercial purposes declined by Rs. 12.2 million and their share in total loans correspondingly fell from 58.4 per cent to 52.7 per cent during the year. There was an increase of Rs. 4.9 million in the outstanding amount of financial loans. There was also an increase of Rs. 10.5 million in the outstanding value of consumption loans, but this was less than the increase in the previous year.

The increase in the category of industrial loans may be considered an encouraging feature of the credit expansion of 1966. In Ceylon, more than half the loans of the commercial banks are customarily granted for commercial purposes. The reduction in loans in this category in 1966 would be accounted for by the decline in trade.

TABLE II (C) 13

Advances* by Rate of Interest

Rate of Interest	December 31st 1965		June 30th 1966		December 31st 1966	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Below 2½	4.4	0.6	7.8	1.0	5.1	0.7
2½	0.1	...	0.4	0.1	0.2	...
3	0.2	...	0.2	...	0.2	...
3½	1.4	0.2	1.4	0.2	1.3	0.2
4	3.7	0.5	3.5	0.5	4.7	0.6
4½	8.8	1.2	8.5	1.1	5.7	0.7
5	22.3	3.1	25.1	3.4	25.7	3.3
5½	31.6	4.4	27.8	3.8	27.1	3.5
6	62.2	8.6	63.1	8.5	66.1	8.6
6½	130.8	18.2	155.8	21.0	119.7	15.5
7	235.3	32.7	224.4	30.3	212.4	27.5
7½	52.3	7.3	60.1	8.1	112.8	14.6
8	114.5	15.9	116.7	15.8	138.7	18.0
8½	4.2	0.6	4.4	0.6	5.5	0.7
9 and above	47.3	6.6	41.8	5.5	46.6	6.1
Total	719.2	100.0	740.5	100.0	771.7	100.0

Source : Central Bank of Ceylon.

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

In 1965, out of the total loans granted, 18.6 per cent was given at interest rates of 6 per cent or less. In 1966 this percentage declined to 17.6 per cent. This represents an increase in the proportion of loans granted at higher rates of interest. This push towards high interest rates is confirmed by an examination of the proportion of loans granted at rates up to 7 per cent. In 1965, 69.5 per cent of the total volume of loans granted by the commercial banks was given at interest rates of 7 per cent or less. In 1966, the proportion granted at the same interest rates went down to 60.6 per cent of the total loans. In other words, in 1965, 30.5 per cent of the total loans was given at interest rates above 7 per cent; in 1966 the percentage given at the same interest rates went up to 39.4 per cent.

A classification of commercial bank advances by type of security is given in Table II (C) 14.

TABLE II (C) 14

Advances* by Type of Security

Type of security	December 31st, 1965		June 30th, 1966		December 31st, 1966	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary bills ...	126.6	16.6	122.8	15.6	124.0	15.1
Government Securities	4.6	0.6	6.7	0.9	7.2	0.9
Shares of joint stock companies ...	18.0	2.4	18.3	2.3	14.5	1.8
Time and Savings deposits and other cash deposits including cash value of life policies ...	50.9	6.7	56.5	7.2	54.4	6.6
Stock-in-trade ...	202.4	26.5	195.4	24.8	192.1	23.4
Immovable Property ...	66.4	8.7	76.6	9.7	90.7	11.0
Others ...	208.8	27.4	223.7	28.4	260.0	31.6
Unsecured ...	85.1	11.1	86.4	11.0	79.4	9.7
Total ...	762.9	100.0	786.6	100.0	822.2	100.0

Source : Central Bank of Ceylon.

* Exclude cash items in process of collection.

The relative position of stock in trade as a security item declined in 1966 ; the value of loans granted against this security declined by Rs. 10.3 million while the percentage position changed from 26.5 per cent to 23.4 per cent. The holdings of documentary bills fell by Rs. 2.6 million and the percentage position declined from 16.6 per cent to 15.1 per cent. This can be considered to be a reflection of the slack in the country's foreign trade. The position of immovable property as a commercial bank security improved during the year under review. The volume of loans granted to the private sector, by accepting immovable property as security, went up by Rs. 24.3 million while the relative percentage position improved from 8.7 per cent to 11.0 per cent. The volume of loans granted against unclassified forms of security increased by Rs. 51.2 million, while their percentage position improved from 27.4 per cent to 31.6 per cent during the year.

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) - 15.

The total amount of loans granted by the savings and long-term credit institutions in 1966 was Rs. 33.4 million, showing an increase of Rs. 12.0 million over the previous year, mainly in loans by the National Housing Department. There were also increases in loans by the State Mortgage Bank

TABLE II (C) 15

Lending Operations of Long-term Credit Institutions

Rupees Thousand

	1963		1964		1965		1966	
	Loans granted	Amount out-standing	Loans granted	Amount out-standing	Loans granted	Amount out-standing	Loans granted	Amount out-standing
Development Finance Corporation								
(a)								
Ceylon Savings Bank	1,864	23,072	7,231	27,802	4,010	28,316	4,540	29,052
Agricultural & Industrial Credit Corporation	3,428	18,387	3,985	15,528	2,845	16,366	2,246	16,871
State Mortgage Bank	3,388	29,231	5,774	31,018	4,942	32,424	3,983	32,342
Loan Board	3,135	55,119	3,532	54,662	3,942	54,681	4,959	55,319
National Housing Department(b)	1,133	12,217	1,107	12,113	540	11,411	838	10,970
	5,236	71,068	2,762	70,621	5,138	71,536	16,861	84,196
Total	18,134	204,994	24,341	211,744	21,417	214,734	33,372	228,250

Source : Central Bank of Ceylon.

(a) Includes equity investments.

(b) Figures relate to financial year October/September. Figures of loans granted represent those granted to individuals and building societies only. The figures of outstanding amounts for the years 1963/1966 exclude loans granted to building societies.

and the Development Finance Corporation, while the loans by the Agricultural and Industrial Credit Corporation and the Ceylon Savings Bank were less than in the previous year.

TABLE II (C) 16

Savings Deposits and Savings Certificates

Rupees Million

	December 1965	December 1966	Change Dec. 1965/ Dec 1966
Post Office Savings Bank	427.1	428.9*	+ 1.8*
Ceylon Savings Bank	86.6	88.7*	+ 2.1*
Commercial banks (Time and Savings Deposits)**	606.7	602.6	- 4.1
Savings Certificates outstanding	41.8	56.5	+ 14.7
Total	1,162.2	1,176.7*	+ 14.5*

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 with commercial banks increased by Rs. 14·5 million, or 1·2 per cent during 1966 as compared to 8·4 per cent in 1965.

Savings deposits with the Post Office Savings Bank and the Ceylon Savings Bank increased by Rs. 3·9 million while time and savings deposits with the commercial banks declined by Rs. 4·1 million. The amount of savings certificates outstanding increased by Rs. 14·7 million as compared to an increase of Rs. 4·4 million in 1965. Total collections of the Employees' Provident Fund during the year amounted to Rs. 68·1 million reflecting an increase of Rs. 4·2 million over the previous year.