

(D) MONETARY AND BANKING DEVELOPMENTS**1. (a) Money Supply-Principal Trends**

Between the end of December 1967 and the end of December 1968 the money supply increased by Rs 105.6 million or 5.8 per cent. The average monthly level of money supply in 1968 was 6.9 per cent higher than in the previous year. This increase in the average monthly level of money supply was slightly higher than the average rate of increase in the years 1959-1965. A significant aspect of money supply in 1968 was that it rose less rapidly than real national product, whereas in the period 1959-1965 the rate of increase in money supply was, on the average, in excess of the rate of growth of real product.

Table II (D) 1 shows the end-of-month figures of money supply for the years 1963-1968. Subsequent to a fall of Rs 15.7 million in January 1968 the money supply maintained almost a constant level in February, but increased by Rs 76.8 million in the next three months mainly under the influence of credit creation to the private sector and, to a somewhat smaller extent, on account of an increase in credit to the Government. In the months of June and July, however, money supply fell by Rs 38.1 million chiefly as a result of a decline in outstanding bank credit to the private sector. The expansionary tendency reasserted itself in August, and, although during the last five months of the year money supply increased by Rs 81.8 million, the average monthly rate of increase during these five months was smaller than that in the three months March-May. The dominant expansionary influence during the latter part of the year was expansion of credit to the private sector.

During the year under review there was not only an increase in the creation of new money but also an increase in the rate of utilisation of the means of payment. This was reflected in an increase in the income velocity of money as measured by the ratio of Gross National Product at current factor cost prices to the money supply. This ratio rose from 4.7 in 1967 to 5.3 in 1968. Further evidence of this development is found in the increase in the turnover rate of demand deposits. After a decline over the past three years, the average monthly turnover rate of demand deposits rose markedly from 1.60 in 1967 to 2.06 in 1968.

Although the expansionary pressures on money supply were substantially greater in 1968 than in the previous year, they were restrained to a considerable extent by the contractionary influences of an unfavourable balance of payments, an increase in the public's holdings of financial assets of secondary liquidity and an accumulation of cash balances by the Government. The contractionary effect of the adverse balance of payments was felt throughout the year except in the months of February, July, and September. Time and savings deposits with commercial banks rose continuously during the year except in December.

1 (b) Factors affecting money supply

An analysis of the causal factors affecting money supply is presented in Table II (D) 2.

TABLE II (D) 1

The Money Supply

Amounts in Rupees Million

End of Period			1963	1964	1965	1966	1967	1968	% Change (1964 over 1963)	% Change (1965 over 1964)	% Change (1966 over 1965)	% Change (1967 over 1966)	% Change (1968 over 1967)
January	..	..	1,347	1,468	1,615	1,693	1,598	1,792	+ 9.0	+10.0	+ 4.8	- 5.6	+ 12.1
February	..	..	1,369	1,501	1,582	1,674	1,687	1,793	+ 9.6	+ 5.4	+ 5.8	+ 0.8	+ 6.3
March	..	..	1,385	1,505	1,585	1,666	1,817	1,831	+ 8.7	+ 5.3	+ 5.1	+ 9.1	+ 0.8
April	..	..	1,400	1,534	1,601	1,675	1,781	1,857	+ 9.6	+ 4.4	+ 4.6	+ 6.3	+ 4.3
May	..	..	1,431	1,547	1,645	1,698	1,723	1,869	+ 8.1	+ 6.3	+ 3.2	+ 1.5	+ 8.5
June	..	..	1,448	1,550	1,650	1,692	1,731	1,857	+ 7.0	+ 6.4	+ 2.5	+ 2.3	+ 7.3
July	..	..	1,447	1,543	1,693	1,757	1,718	1,831	+ 6.6	+ 9.7	+ 3.8	- 2.2	+ 6.6
August	..	..	1,474	1,529	1,674	1,702	1,678	1,839	+ 3.7	+ 9.5	+ 1.7	- 1.4	+ 9.6
September	..	..	1,499	1,549	1,675	1,681	1,700	1,850	+ 3.3	+ 8.1	+ 0.4	+ 1.1	+ 8.8
October	..	..	1,505	1,592	1,687	1,682	1,761	1,889	+ 5.8	+ 6.0	- 0.3	+ 4.7	+ 7.3
November	..	..	1,533	1,603	1,677	1,655	1,787	1,896	+ 4.6	+ 4.6	- 1.3	+ 8.0	+ 6.1
December	..	..	1,506	1,622	1,716	1,659	1,808	1,913	+ 7.7	+ 5.8	- 3.3	+ 9.0	+ 5.8
Monthly Average	..	..	1,445	1,545	1,650	1,686	1,732	1,851	+ 6.9	+ 6.8	+ 2.2	+ 2.7	+ 6.9

Source: Central Bank of Ceylon

TABLE II (D) 2
Changes in the Money Supply and Underlying Factors
 (Based on end-year figures)

Rupees Million

Factors affecting Money Supply	1962 to 1963		1963 to 1964**		1964 to 1965**		1965 to 1966**		1966 to 1967**		1967 to 1968	
	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)	—	53.2	16.9*	—	79.8†	—	—	196.3	—	91.5	—	115.7
2. Private sector††	133.1	63.4	82.6	57.1	19.2	75.4	137.2	79.6	105.6	133.1	264.1	165.5
(a) Commercial bank credit to other private sector constituents‡	125.0	—	82.6	—	10.0	—	—	—	86.9	—	155.0	—
(b) Commercial bank credit to Co-operative Institutions	—	—	—	—	—	6.9	25.8	—	7.3	—	18.5	—
(c) Time and Savings deposits of Co-operative Institutions	—	—	—	—	—	2.1	—	2.3	—	1.4	—	1.5
(d) Time and Savings deposits of other private sector constituents	—	63.4	—	52.2	—	46.2	—	65.3	—	49.5	—	99.9
(e) Other liabilities and accounts (net) of commercial banks	8.1	—	—	4.9	—	20.2	—	12.0	—	31.0	—	40.9
Government Corporations	—	—	—	—	—	—	—	—	—	—	—	—
(f) Commercial bank credit to Government Corporations	—	—	—	—	7.8	—	27.7	—	11.4	—	90.6	—
(g) Time and Savings deposits of Government Corporations with Commercial banks	—	—	—	—	1.4	—	50.2	—	—	51.2	—	23.2
3. Government Sector	166.2	19.0	133.6	58.0	120.3	53.2	207.5	125.5	267.8	—	306.9	184.5
(a) Commercial banks' holdings of Treasury Bills, Government and Government guaranteed Securities and Government Import Bills	19.7	—	3.6	—	92.3	—	—	62.6	75.3	—	—	114.9
(b) Central Bank's holdings of Treasury Bills and Government and Government Guaranteed Securities	139.5	—	123.2	—	—	38.7	155.9	—	109.9	—	269.4	—
(c) Central Bank's advances	7.0	—	6.8	—	28.0	—	26.4	—	12.7	—	37.5	—
(d) Central Bank's other liabilities and accounts (net)	—	10.7	—	54.8§	—	4.5	25.2	—	13.9	—	—	0.2
(e) Government deposits with banking system and cash balances with the Treasury and Kachcheries	—	8.3	—	3.2	—	10.0	—	62.9	56.0	—	—	69.4
4. Adjustments for items in transit	—	0.2	—	2.3	3.2	—	—	0.1	—	0.1	0.2	—
Total Expansionary/Contractionary factors	299.3	135.8	233.1	117.4	222.5	128.6	344.7	401.5	373.4	224.7	571.2	465.7
Change in Money Supply	+163.3		+115.8		+93.8		-56.8		+148.7		+105.6	

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. 53.3 million of the increase in Central Bank 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.

Differences between these figures and corresponding figures published in earlier Annual Reports are due to revisions.

Over the year as a whole the external sector exerted a substantial contractionary influence on money supply. This was a continuation of the trend which commenced with the deterioration in the country's balance of payments in 1957. The balance of payments deficit on current account in 1968 was considerably bigger than in the previous year. On account of the larger amounts of commodity and project aid received during 1968 the entire increase in this deficit did not need to be financed by a drawing down of external banking assets or an accumulation of external banking liabilities. Thus, although the balance of payments deficit on current account amounted to Rs 346 million, the contractionary effect of this deficit on the money supply was restricted to Rs 115.7 million representing an increase in external banking liabilities, net of a small increase in external banking assets.

The international reserve of the Central Bank, which was already at a low level at the beginning of the year, declined further by Rs 24.8 million during 1968. External liabilities of the Central Bank increased by Rs 120.9 million. The chief component of this increase was the increase of Rs 174.2 million in foreign exchange liabilities to the International Monetary Fund arising out of drawings under the Compensatory Financing Scheme and the Third Standby Agreement, less repurchases. Liabilities to foreign countries under bilateral payments agreements were reduced by Rs 23.5 million during the year mainly by a settlement of outstanding balances. The Central Bank's borrowings from banks abroad, which stood at Rs 57.1 million at the end of 1967, were completely repaid at the beginning of 1968, but a fresh borrowing of Rs 28.6 million was made in December. External liabilities of commercial banks also increased by Rs 7.3 million in 1968, but this increase was more than offset by an accumulation of Rs 37.4 million in their external assets.

While the external sector exerted a contractionary pressure on money supply, there were stronger countervailing expansionary pressures emanating from government finance and credit expansion to the private sector. As in the previous year the Government's fiscal operations proved to be the larger expansionary influence. However, the expansionary effect attributable to the government sector in 1968, at Rs 122.4 million, was less than half of that in 1967. The reduced resort to bank financing in 1968 was made possible mainly by the increased resources available to the Government as a result of a larger accrual of counterpart funds and the added revenue from the Foreign Exchange Entitlement Certificate Scheme which came into operation in May.

During the year under review the Government's indebtedness to the Central Bank rose by Rs 306.9 million, consisting of an increase of Rs 269.4 million in the Central bank's holdings of government and government guaranteed securities, Rs 35.0 million in provisional advances and Rs 2.5 million in special loans. This substantial increase in indebtedness to the Central Bank was incurred partly in order to reduce Government's indebtedness to commercial banks on account of the large volume of government import bills accumulated during the previous year. Commercial banks' holdings of these bills were reduced by Rs 125.0 million in 1968. Commercial banks' holdings of government and government guaranteed securities increased by Rs 10.1 million.

Thus, the net increase in the Government's indebtedness to the banking system in 1968 amounted to Rs 192.0 million. This was slightly lower than the corresponding figure for the previous year when the Government increased its indebtedness to both the Central Bank and the commercial banks. The diminished expansionary effect of the Government's fiscal operations in 1968 was also reflected in a net accumulation of Rs 69.4 million in the Government's cash balances, mainly in the form of counterpart funds, in contrast to a net drawing down of Rs 56.0 million in cash balances in the previous year.

The increase in bank credit to the private sector (including government corporations) amounted to Rs 264.1 million in 1968. This was more than twice the corresponding figure for the previous year, and was, in fact, the largest increase so far recorded both in absolute and percentage terms. The increased amounts of credit created during 1968 were utilised by co-operatives, government corporations and, particularly, by other borrowers in the private sector. The rising credit needs of all these classes of borrowers were the result of increasing economic activity in the private sector, especially in agriculture and manufacturing, stemming from the intensification of agricultural production and increased industrial activity.

The outstanding amount of bank credit to cooperative societies under the Agricultural Credit Scheme increased by Rs 14.7 million between the end of 1967 and the end of 1968. Goods receipt advances to cooperatives also increased by Rs 7.2 million during this period reflecting the larger volume of purchases of paddy by the Government under the Guaranteed Price Scheme towards the end of the year. Bank credit to government corporations rose by Rs 90.6 million. The major part of this increase occurred in the latter half of the year when commercial banks took over from the Government the financing of the working capital requirements of government corporations. A certain portion of the increase in bank credit to corporations was occasioned by the larger volume of imports by corporations towards the end of the year.

Commercial bank credit to other borrowers in the private sector rose by Rs 155.0 million in the amounts outstanding between the end of 1967 and the end of 1968. Loans increased by Rs 77.9 million, overdrafts by Rs 70.3 million and import bills by Rs 18.4 million, while commercial banks' holdings of cash items in process of collection declined by Rs 11.7 million. The additional financial resources created by the increase in loans and overdrafts were mainly for the industrial and commercial sectors though there were also increases in credit to other sectors.

Although commercial bank credit to the private sector expanded by Rs 264.1 million in the year under review, the expansionary effect on money supply attributable to this sector was only Rs 98.6 million. This was because the expansionary influence of the increase in credit was offset to the extent of Rs 124.6 million by an increase in time and savings deposits of this sector with the commercial banks. Time and savings deposits of government corporations increased by Rs 23.2 million and those of other private sector constituents by Rs 101.4 million. There was also an increase of Rs 40.9 million in "other liabilities" (net) of commercial banks which helped to offset the expansionary influence of the increase in credit to the private sector.

In brief, there were diverse influences operating on money supply during 1968 producing a net monetary expansion. Although the external sector exerted a contractionary effect amounting to Rs. 115.7 million, the expansionary pressures emanating from the financial operations of the government and private sectors were strong enough to offset this contractionary influence. The increase in the Government's indebtedness to the banking system, amounting to Rs. 192.0 million, was smaller than in the previous year and its expansionary impact on money supply was further softened by the accumulation of Rs. 69.4 million in Government's cash balances. The increase in credit to the private sector reached a peak in 1968 at Rs. 264.1 million, but the expansionary effect of this development was limited by the accumulation of time and savings deposits with banks. Thus, in both the internal sources of monetary expansion - viz. the financial operations of the government and private sectors - the high expansionary potential of credit creation by the banking system was contained by offsetting contractionary influences within these sectors. Taking into account also the contractionary effect of the external sector, the resultant increase in money supply amounted to Rs. 105.6 million during the year.

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

There was an increase in financial assets of the private sector in 1968. Table II (D) 3 sets out the distribution of primary and secondary liquid assets of the non-bank private sector for the period 1966 — 1968. Besides the increase of Rs. 105.6 million in primary liquid assets, consisting of currency and demand deposits, there was also an increase of Rs. 252.3 million in secondary liquid assets over the level at the end of 1967. The increase in secondary liquid assets was much larger in 1968 than in the previous year. At the end of the year, therefore, the proportion of secondary liquid assets in total liquid assets had risen to 55.5 per cent from 54.1 per cent a year earlier.

Of the two types of primary liquid assets there was an increase in the proportion represented by currency. The Annual Reports of the past few years have drawn attention to the increasing preference of the public for currency relative to demand deposits. Table II (D) 4, which indicates this rising trend, shows the further increase in the currency ratio to total money supply in 1968 to 55.7 per cent which is the highest end-year figure on record. Associated with this rising trend in the currency ratio has been a relative increase in the issue of larger denominations of currency. From Table II (D) 5 it can be seen that the issue of notes of Rs. 100/- has been increasing faster, since 1965, than the issue of notes of Rs. 5/- and Rs. 10/- and Rs. 50/- and even faster than the total currency issue each year.

The brief decline in the currency ratio in 1964 and 1965 which was accompanied by a corresponding decline in the issue of Rs. 100 notes relative to notes of smaller denominations had led to observations in the Annual Reports of those years that this reversal in trend could be ascribed at least partly to the impact on public expectations of 'measures directed against tax evasion and

TABLE II (D) 3

Total Liquid assets of the Non-bank Private Sector

Description	Amount (Rupees Million)			Percentage of G.N.P. ^(a)		
	(b) 1966	1967	1968	(b) 1966	1967	1968
1. Primary liquid assets						
(a) Notes and Coins	882.5	979.9	1,066.2	11.5	11.9	10.9
(b) Demand deposits	776.4	827.7	847.0	10.1	10.1	8.6
Total	1,658.9	1,807.6	1,913.2	21.5	22.0	19.5
Percentage change		+ 9.0	+ 5.8			
2. Secondary liquid assets						
(a) Savings deposits with commercial banks	243.3	271.7	319.6	3.2	3.3	3.3
(b) Savings deposits with Post Office Savings Bank	438.4	450.6	463.0*	5.7	5.5	4.7
(c) Savings deposits with Ceylon Savings Bank	91.2	93.2	96.9*	1.2	1.1	1.0
(d) Time deposits with commercial banks	341.2	414.9	491.7	4.4	5.0	5.0
(e) Foreign balances of residents	7.3	13.2	15.7*	0.1	0.2	0.2
(f) Savings certificates	56.5	78.7	91.3	0.7	1.0	0.9
(g) Treasury bills	13.5	6.2	11.5	0.2	0.1	0.1
(h) Tax reserve certificates	30.0	24.1	23.9	0.4	0.3	0.2
(i) Government bonds	705.7	783.0	874.3	9.2	9.5	8.9
Total	1,927.1	2,135.6	2,387.9*	25.0	26.0	24.3
Percentage change		+10.8	+11.8			
3. Total Private Sector Liquid Assets	3,586.0	3,943.2	4,301.1*	46.6	47.9	43.8
Percentage change		+10.0	+9.1			
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. amounting to	1,447.9	1,639.6	1,859.1	18.8	19.9	18.9

Source: Central Bank of Ceylon

(a) At current factor cost prices.

(b) Differences between these figures and corresponding figures published in earlier Annual Reports are due to revisions.

* Provisional

TABLE II (D) 4
Components of the Money Supply

Rupees Million					
End of Period	Currenry held by public		Demand deposits held by public		Total Money Supply
	Amount	As % of Total Money Supply	Amount	As % of Total Money Supply	
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
1967	979.9	54.2	827.7	45.8	1,807.6
1968	1,066.2	55.7	847.0	44.3	1,913.2

Source : Central Bank of Ceylon.

TABLE II (D) 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*
1955	113.7	88.0	145.7	28.2	425.0
1956	114.9	97.7	148.0	30.0	443.4
1957	116.5	116.7	155.8	29.9	475.1
1958	157.5	143.6	184.0	33.7	578.3
1959	174.5	152.1	193.5	36.2	621.3
1960	148.4	148.4	237.6	40.1	644.6
1961	211.9	180.3	254.6	42.1	763.8
1962	238.2	186.8	241.9	42.8	789.4
1963	275.3	236.7	257.6	46.5	900.9
1964	168.4	258.3	359.5	55.5	932.1
1965	239.9	297.8	319.7	50.5	1002.8
1966	272.0	292.9	288.2	48.6	993.7
1967	316.2	313.1	296.3	51.3	1072.8
1968	393.7	330.6	299.5	55.3	1181.9

Source : Central Bank of Ceylon.

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

hoarding of undeclared assets in the form of currency notes of high denominations'. The resumption of the upward movement of the ratio in 1966 and in 1967 was attributed to the receding of fears caused by these measures and to the prevalence of hoarding and possibly tax evasion.

The foregoing observations might appear to be confirmed by changes which have occurred in the ownership pattern of demand deposits which reveal a significant decline in the level and proportion of total demand deposits held by trading institutions. It is in this sector, in which black market activities increased following price controls, import curbs and supply shortages, that the demand for currency in order to conceal transactions and profits and to evade taxes would have primarily occurred. It is significant that time deposits of private trading firms did not increase either, while those of government trading corporations increased appreciably.

Another possible explanation for the rise in the use of currency relative to bank deposits after 1966 may lie in the income increases in the rural areas arising from higher production and better prices. Wage payments in the new rural employments and payments for the procurement of paddy and other agricultural produce are made predominantly in currency. Although bank deposits by the rural population have increased as a result of a rise in incomes, this increase was only a small proportion of the total increase in deposits in the banking sector indicating the increased use of currency notes as hoardings.

The rising proportion of the currency component of the money supply meant that demand deposits did not increase *pari passu* with the money supply. Of the total increase of Rs. 105.6 million in the money supply, only Rs. 19.3 million represented the increase in demand deposits. Again, while the average end-of-month level of money supply was 6.9 per cent higher than in 1967, the average end-of-month level of demand deposits, at Rs. 827.4 million, was only Rs. 16.3 million or 2.0 per cent higher than in 1967. The turnover rate of demand deposits, however, recorded an unprecedented increase in 1968. The average monthly turnover rate in 1968 was 2.06 as compared to 1.60 in 1967, showing a rise of 28.7 per cent. The monthly turnover rates were consistently greater in 1968 than in the corresponding months of the previous year and were particularly high in the latter half of the year.

Table II (D) 6 shows broad ownership categories of deposits with banks, obtained from the Central Bank's half-yearly survey of deposits and advances. The demand deposits of plantations showed the largest increase among the categories of owners shown in this table. After a decline experienced in 1966 and 1967, these deposits increased by Rs. 19.2 million in 1968 and accounted for 9.4 per cent of total demand deposits at the end of the year. The other category in the business sector whose demand deposits increased during the year was that of manufacturing establishments. The demand deposits of these institutions rose by Rs. 15.7 million and their share in total deposits rose correspondingly to 8.8 per cent at the end of the year.

Besides the fall in demand deposits of trading institutions, which has already been referred to, there were also decreases in those of financial institutions and other business institutions. In the non-business sector there was an increase of Rs. 9.2 million in demand deposits of individuals and an increase of Rs. 2.7 million in those of non-business institutions.

TABLE II (D) 6
Ownership of Demand, Time & Savings Deposits
with Commercial Banks

(as at end of period)

Amount in Rs. Million

Owner	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial Institutions								
December 1967 ..	53.2	6.7	69.4	17.8	12.1	4.4	134.6	9.2
June 1968 ..	49.3	6.3	87.8	18.7	11.1	3.8	148.1	9.6
December 1968 ..	47.9	6.0	90.7	19.6	12.1	3.8	150.7	9.5
Plantations								
December 1967 ..	55.9	7.0	34.3	8.8	0.2	0.1	90.4	6.2
June 1968 ..	68.8	8.9	32.9	7.0	0.3	...	102.1	6.6
December 1968 ..	75.1	9.4	35.8	7.8	0.3	0.1	111.2	7.0
Trading								
December 1967 ..	159.3	20.0	76.1	19.5	3.8	1.4	239.2	16.4
June 1968 ..	151.2	19.5	116.6	24.8	4.2	1.4	272.1	17.7
December 1968 ..	137.1	17.2	107.0	23.2	4.2	1.3	248.3	15.7
Manufacturing Establishments								
December 1967 ..	54.6	6.9	24.8	6.4	0.2	0.1	79.6	5.5
June 1968 ..	63.0	8.1	30.2	6.4	0.5	0.2	93.6	6.1
December 1968 ..	70.3	8.8	27.0	5.8	0.4	0.1	97.7	6.2
Other Business								
December 1967 ..	101.1	12.7	29.7	7.6	3.0	1.1	133.8	9.2
June 1968 ..	87.4	11.2	45.1	9.6	3.4	1.2	136.0	8.8
December 1968 ..	89.9	11.3	35.2	7.6	2.6	0.8	127.7	8.1
Local Authorities								
December 1967 ..	23.8	3.0	20.6	5.3	0.3	0.1	44.8	3.1
June 1968 ..	15.6	2.0	16.6	3.5	0.5	0.2	32.7	2.1
December 1968 ..	19.0	2.4	14.7	3.2	0.6	0.2	34.3	2.2
Non-business Institutions								
December 1967 ..	43.7	5.5	37.9	9.7	4.5	1.6	86.1	5.9
June 1968 ..	42.1	5.4	35.3	7.5	4.6	1.6	81.9	5.3
December 1968 ..	46.4	5.8	30.6	6.6	5.7	1.8	82.8	5.2
Individuals								
December 1967 ..	303.5	38.2	97.1	24.9	248.1	91.1	648.7	44.5
June 1968 ..	293.9	38.5	105.0	22.4	268.7	91.6	672.6	43.7
December 1968 ..	312.7	39.2	120.6	26.1	294.0	91.9	727.3	46.0
Total								
December 1967 ..	795.1	100.0	389.8	100.0	272.2	100.0	1457.2	100.0
June 1968 ..	776.3	100.0	469.6	100.0	293.3	100.0	1539.2	100.0
December 1968 ..	798.4	100.0	461.7	100.0	319.9	100.0	1580.1	100.0

Source: Central Bank of Ceylon

Among secondary liquid assets of the public, time and savings deposits with commercial banks showed the largest increase in 1968. The increase in savings deposits amounted to Rs. 47.9 million as compared to one of Rs. 28.4 million in 1967. The increase in time deposits, at Rs. 76.8 million, was

somewhat higher than in the previous year. The relatively rapid accumulation of secondary liquid assets of the public in recent years can be demonstrated by the change in the ratio of time and savings deposits with the commercial banks to the money supply. During the years 1962-1965 this ratio increased by about one percentage point every year from 30 per cent in 1962 to 33 per cent in 1965. In the next three years the growth of time and savings deposits accelerated with the ratio rising to 35 per cent in 1966, 38 per cent in 1967 and 42 per cent in 1968.

There were increases in time deposits of almost all categories of owners. Time deposits of trading institutions increased by Rs. 30.9 million, thus more than offsetting the fall in their demand deposits. The increase in time deposits in this category was entirely in government corporations, while those of private trading firms declined. Financial institutions increased their holdings of time deposits by Rs. 21.3 million in 1968. A good portion of this increase may be attributed to the larger investments in time deposits by private provident and pension funds. There were smaller increases in time deposits of plantations, manufacturing establishments and other business institutions.

In the non-business sector there were decreases of Rs. 5.9 million and Rs. 7.3 million, respectively, in the time deposits of local authorities and non-business institutions. The time deposits of individuals, on the other hand, recorded an increase of Rs. 23.5 million in 1968, following an increase of only Rs. 8.5 million in 1967.

The personal sector increased its holdings not only of time deposits but also of savings deposits with commercial banks. Savings deposits of individuals with commercial banks rose by Rs. 45.9 million in 1968, accounting for almost the entire increase in savings deposits of the private sector with commercial banks.

The very impressive increases in time and savings deposits with commercial banks over the past two years point to the large potential available for the mobilisation of financial resources of the private sector in the context of rising money incomes. Interest rates paid on these deposits went up in 1967 and in 1968. It is difficult to say to what extent this acted as an incentive to greater saving out of current income, but it is likely to have induced the switching of demand deposits and other financial assets into time deposits. Certain tax concessions which were introduced in 1966 were withdrawn by the 1968/69 budget, but this took effect only from August 1968. It is also significant that there was an expansion in savings deposits as well as in time deposits of individuals and that rural areas, which experienced an appreciable rise in money incomes, contributed increasingly to this expansion. Pension and provident funds also appear to find time deposits an increasingly attractive form of investment.

The growing importance of individuals and savings institutions such as provident funds in the structure of ownership of time and savings deposits with commercial banks was partly responsible for the greater stability of these deposits in 1968. The increase in these deposits was more or less gradual over the year

and was not subject to any considerable fluctuation. The average monthly level of time deposits increased from Rs. 383.4 million in 1967 to Rs. 488.8 million in 1968. The average monthly level of savings deposits increased from Rs. 250.2 million to Rs. 294.3 million. The turnover rates of these deposits showed only slight changes in 1968. The turnover rate of savings deposits increased marginally from 0.08 in 1967 to 0.09 in 1968 while that of time deposits declined from 0.21 to 0.20.

Deposits with the Post Office Savings Bank and the Ceylon Savings Bank also showed an encouraging increase in 1968 after the sluggish behaviour in the previous year. New deposits with the Post Office Savings Bank amounted to Rs. 117.8 million which was nearly Rs. 12 million more than the deposits in each of the years 1966 and 1967. Withdrawals, amounting to Rs. 105.5 million, were almost at the same level as in the two previous years. Thus their turnover rate declined slightly. The improvement in deposits with the Post Office Savings Bank should largely be attributed to the increase in rural incomes. Mention is made elsewhere to a parallel increase in deposits with cooperative societies which function as rural banks.

The value of savings certificates held by the private sector increased by Rs. 12.6 million in 1968 as compared to an increase of Rs. 22.2 million in the previous year. The smaller increase in 1968 may be explained by the withdrawal of tax relief, as announced in the budget speech for 1968/1969 in August. The increase occurred almost entirely in the first seven months of the year.

The non-bank private sector's holdings of government bonds rose by Rs. 91.3 million in 1968. The Insurance Corporation's holdings of government securities rose by Rs. 48.1 million. The holdings of trusts, benevolent, pension and provident funds (other than the Employees' Provident Fund) increased by Rs. 36.4 million, while those of insurance companies increased by Rs. 3.8 million. Government securities held by individuals increased only by Rs. 2.0 million and accounted for 4.8 per cent of total government securities held by the non-bank private sector. Thus, institutional holders continued to be the predominant element in the ownership structure of government bonds.

The salient features of the growth and pattern of the private sector's liquid assets may now be summarised. There has been a significant growth in both primary and secondary liquid assets of the public in recent years, with a tendency for the latter to increase faster than the former. Changes in the pattern of secondary liquid assets of the public indicate that an increasing proportion of the growth of these assets took the form of claims against the banks as opposed to claims against the Government. The smaller increase in the latter, especially government bonds, is a reflection of the restrained growth in the demand for them, a demand that is confined to institutional investors who need to keep a small portfolio of these less liquid assets or who, like the Insurance Corporation, are statutorily enjoined to invest their surplus funds in government securities. Taking all financial assets of the public together, a characteristic common to developing economies can be observed: with economic development there has been a gradual rise in the ratio of financial assets to national income.

1. (d) Interest Rates

There was a general upward movement in interest rates in 1968. The Bank Rate was increased from 5 per cent to $5\frac{1}{2}$ per cent on May 6, 1968. The rates of interest on the Central Bank's refinance facilities to credit institutions under the Medium and Long term Credit Fund were also raised in November: the rate in respect of loans for the promotion or development of agriculture or industry was increased from 3 per cent to 4 per cent and the rate in respect of loans for the promotion or development of trade or commerce from 5 per cent to $5\frac{1}{2}$ per cent. In regard to refinance loans for the construction or modernisation of tea factories, the Central Bank's refinance rates were fixed at 5 per cent in respect of loans to cover local costs and 7 per cent in respect of loans to cover foreign exchange costs. The Central Bank's refinance rate under the Agricultural Credit Scheme remained unchanged at $1\frac{1}{2}$ per cent.

Consequent on the increase in Bank Rate, commercial banks' lending rates moved up in May. The minimum rate charged on loans against government securities rose from $5\frac{1}{2}$ per cent to $5\frac{3}{4}$ per cent and the maximum rate from 8 to $8\frac{1}{2}$ per cent. The minimum rate on loans secured by shares of joint-stock companies remained unaltered but the maximum rate went up from 9 per cent to $9\frac{1}{2}$ per cent. The minimum rate on loans secured by stock in trade increased from 6 per cent to 7 per cent, and the maximum rate from 9 per cent to $9\frac{1}{2}$ per cent. On loans secured by immovable property, the minimum rate rose from $6\frac{1}{2}$ per cent to 7 per cent, while the maximum rate remained unchanged at $9\frac{1}{2}$ per cent. The minimum and maximum rates on loans against other types of security moved up from 5 per cent to $5\frac{1}{2}$ per cent and from 10 per cent to 11 per cent, respectively. The minimum rate on unsecured advances remained unchanged at 7 per cent while the maximum rate rose from 9 per cent to 10 per cent.

Most banks increased the interest rate paid on fixed deposits of less than Rs. 25,000 for periods up to 12 months by one half of a percentage point in May; the maximum rate on these deposits has since then been $3\frac{1}{2}$ per cent. The interest rate on fixed deposits of Rs. 25,000 and over, for 48 months, went up by three quarters of a percentage point during the year; the maximum rate on these deposits stood at $4\frac{1}{4}$ per cent at the end of December. The maximum interest rate paid by commercial banks on savings deposits went up from 3 per cent to $3\frac{1}{4}$ per cent in July while the minimum rate remained unaltered at 3 per cent.

The Treasury Bill rate, which stood at 3.20 per cent in December 1967, rose gradually to 3.24 per cent in March 1968 and to 3.54 per cent in June. It stabilised itself at 3.64 per cent in the months July - December.

The interest rate on government securities with a maturity of over 20 years was raised from $4\frac{1}{2}$ per cent to $5\frac{1}{2}$ per cent in May. This was the first increase in this rate since June 1963.

2. (a) Commercial Banking - Principal Trends

As in the previous year, commercial banks experienced an increase in resources through an increase in deposits of the public. Recourse to borrowing from the Central Bank, however, was reduced during the year.

The expansion of deposits with the commercial banks was the more remarkable in that it occurred despite a slowing down of branch expansion and in the absence of any intensified campaign for deposit mobilisation. There were, however, some increases in interest rates which may have acted as an incentive to the growth of fixed and savings deposits. The increase in deposits should also be attributed to the increase in incomes and the cumulative effect of monetary expansion in past years.

The demand for commercial bank credit was high in the first half of the year and increased again towards the end of the year. In spite of the rise in interest rates, indications were that there was a substantial expansion in credit requirements. Commercial banks undertook the financing of an increasing proportion of the working capital requirements of government corporations and also engaged more actively in the field of medium and long-term financing of industry and agriculture.

In the use of resources, in contrast to the previous year, the commercial banks' lending operations were concentrated in the private sector with an accompanying decline in short-term credit to the Government. The expansion of credit to the private sector reached a peak in 1968. Although the liquidity position of commercial banks declined as a result of these operations, it was still maintained at a satisfactorily high level as represented by an average monthly ratio of 38.3 per cent of liquid assets to total deposits.

2. (b) Branch Network

The distribution of bank offices and of deposits with banks between Ceylonese and foreign banks for the period 1963-1968 is given in Table II D(7).

TABLE II (D) 7
Distribution of Bank Offices and Deposits 1963-1968

Year	Total			Ceylonese Banks			British Banks			Indian & Pakistani Banks		
	No. of Offi- ces	Deposits		No. of Offi- ces	Deposits		No. of Offi- ces	Deposits		No. of Offi- ces	Deposits	
		Amount Rs. Mn.	%		Amount Rs. Mn.	%		Amount Rs. Mn.	%		Amount Rs. Mn.	%
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
1967	133	1,637	100	117	1,157	71	12	404	25	4	76	5
1968	141	1,808	100	125	1,329	73	12	409	23	4	71	4

Source: Central Bank of Ceylon.

During the year under review the total number of branch offices in the island increased by eight and stood at 141 at the end of the year. Of the eight new offices, seven were opened by the People's Bank and one by the Bank of Ceylon. The new offices were located in Batticaloa, Wennappuwa, Weligama, Borella, Veyangoda, Ratmalana, Ruwanwella and Nugegoda.

Although the number of branches opened in 1968 was smaller than in the previous year, the increase in deposits with banks was somewhat larger. The increase in bank deposits amounted to Rs. 171.4 million and was almost entirely in Ceylonese banks. The share of the Ceylonese banks in total deposits with commercial banks rose from 71 per cent at the end of 1967 to 73 per cent at the end of 1968. The restrictions imposed by the Finance Act, 1961 on the opening of new accounts with banks other than the Bank of Ceylon and People's Bank continued to be effective throughout the year under review. Although an amending Act was passed by Parliament in August enabling the Minister of Finance to approve the opening of accounts with these other banks, up to the end of the year no other bank was approved for this purpose.*

2 (c) Structure of Bank Liabilities

A summary of the distribution of commercial banks' consolidated assets and liabilities for the period 1957-1968 is presented in Table II(D) 8.

Total assets/liabilities of the commercial banks rose by Rs. 219.8 million in 1968. This represents an increase of 10.3 per cent as compared to one of 15 per cent in the previous year. This increase consisted, on the liabilities side, predominantly of an increase of deposits: total deposits with commercial banks rose by Rs. 171.4 million during the year. The commercial banks reduced their borrowings from the Central Bank by Rs. 12.8 million. Domestic inter-bank borrowings also declined by Rs. 4.4 million. Liabilities to foreign banks, however, increased by Rs. 7.1 million. Capital and reserves of commercial banks increased by Rs. 6.1 million, while other liabilities increased by Rs. 52.4 million.

It is significant that the increase in financial resources of the banks originated principally in the increase in deposits and that commercial banks were in a position to reduce their reliance on recourse to the Central Bank. It is also noteworthy that the increase in deposits was mostly in the form of time and savings deposits of the private sector. These deposits accounted for as much as Rs. 124.6 million of the increase of Rs. 171.4 million in total deposits. Deposit liabilities to the Government, almost wholly in the form of demand deposits, increased by 25.9 million.

2 (d) Structure of Bank Assets

The increase in commercial banks' assets in 1968 was accompanied by a change in composition towards the less liquid end of the assets structure. Loans and overdrafts increased by an amount only slightly smaller than that of the increase in total assets. The cash position of commercial banks improved somewhat during the year: total holdings of cash (including statutory reserves) increased by Rs. 19.5 million and the ratio of cash to demand deposits rose from 24.5 per cent at the end of 1967 to 25.3 per cent at the end of 1968. Other liquid assets, however, decreased by a greater amount. Import bills

* By a Gazette notification of February 28, 1969 two banks, the Chartered Bank and the Eastern Bank, were declared approved banks for this purpose.

TABLE II (D) 8
Distribution of Assets and Liabilities of Commercial Banks.
Average of Monthly figures.

Rupees Million.

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	End of Period	
													Dec. 1967	Dec. 1968
Cash on hand and deposits at Central bank (inclusive of statutory reserve requirements) ..	139	119	116	132	143	186	164	182	224	233	218	247	229	248
Foreign balances ..	72	50	52	58	54	55	44	49	55	62	57	72	66	77
Treasury bills ..	34	16	24	28	51	89	128	73	89	124	80	102	109	111
Bills discounted ..	100	116	119	115	122	136	114	126	173	175	198	252	289	225
Total liquid assets ..	345	301	311	333	375	466	450	430	541	594	553	673	693	661
Total investments* ..	308	296	285	284	290	303	313	330	329	330	300	278	270	278
Total loans and overdrafts ..	340	363	395	430	435	477	495	633	669	682	809	1000	864	1,098
Demand Deposits† ..	721	661	655	657	677	829	789	853	917	949	914	955	936	979
Time and Savings deposits ..	240	263	300	340	359	380	460	535	572	631	649	798	701	826
Total deposits ..	965	926	955	998	1,036	1,209	1,250	1,389	1,490	1,580	1,564	1,755	1,637	1,808
Ratio of ..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	19.3	18.0	17.7	20.1	21.9	22.4	20.8	21.3	24.4	24.5	23.8	25.9	24.5	25.3
Cash to total deposits ..	14.4	12.9	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.7	13.9	14.1	14.0	13.7
Foreign balances to total deposits ..	7.4	5.4	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.9	3.6	4.1	4.0	4.3
Treasury bills to total deposits ..	3.5	1.7	2.5	2.8	4.9	7.4	10.2	5.3	6.0	7.8	5.1	5.8	6.7	6.1
Commercial bills discounted to total deposits ..	10.3	12.5	12.5	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.7	14.4	17.6	12.4
Liquid assets to demand deposits ..	47.9	45.5	47.5	50.7	55.4	56.2	57.0	50.4	59.0	62.6	60.5	70.5	74.0	67.5
Liquid assets to total deposits ..	35.8	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.3	37.6	35.4	38.3	42.3	36.6
Investments to total deposits ..	31.7	32.0	29.8	28.5	28.0	25.1	25.0	23.8	22.1	20.9	19.2	15.8	16.5	15.4
Loans and overdrafts to total deposits ..	35.2	39.2	41.4	43.1	42.0	39.4	39.6	45.6	44.9	43.2	51.7	57.0	52.8	60.7

*Government and government guaranteed securities, private securities and Central Bank issues.

†Exclude domestic inter-bank deposits.

Source: Central Bank of Ceylon.

declined by Rs. 91.2 million resulting from a fall of Rs. 125.0 million in government import bills held by banks and increases of Rs. 18.4 million and Rs. 15.4 million in those of the private sector and of government corporations, respectively. Export bills increased by Rs. 26.8 million.

The decline in liquid assets led to a fall in the ratio of liquid assets to total deposits from 42.3 per cent at the end of 1967 to 36.6 per cent at the end 1968. Since, however, import bills were at a high level during the major part of the year and declined only in the last four months, the average ratio of liquid assets to total deposits was higher than in 1967. The ratio of loans and overdrafts to total deposits recorded an increase both in the monthly average as well as in end-year positions. On the average this ratio was 6 percentage points higher than in 1967; at the end of 1968 it stood at 60.7 per cent, the highest end-year position so far recorded.

TABLE II (D) 9

Yearly Changes in Bank Resources and their Utilisation 1965-1968

Rupees Million				
	1965	1966*	1967*	1968
Sources of Funds				
1. Government Sector	11.8	62.7	62.3	150.9
Reduction of holdings of Government paper ..	—	14.7	64.3	—
Increase in deposits	11.8	—	—	25.9
Decrease in short term credit to Government ..	—	48.0	—	125.0
2. Increase in borrowings from Central Bank ..	—	36.4	59.3	—
3. Domestic Private sector	148.8	34.2	242.0	201.4
Increase in deposits	85.0	—	153.4	142.9
Increase in reserves, paid up capital etc. ..	9.1	16.0	7.3	6.1
Increase in other liabilities	54.7	18.2	81.3	52.4
4. Foreign sector	11.5	0.7	1.0	7.3
Increase in borrowings	1.2	0.7	—	7.1
Increase in deposits	1.3	—	1.0	0.2
Reduction in foreign balances	9.0	—	—	—
5. Reduction of domestic cash items	—	40.1	—	—
Total increase in resources	172.1	174.1	366.6	359.6
Utilization of Funds				
1. Government Sector	92.3	28.1	157.7	10.1
Increase in holdings of Government paper ..	32.8	—	—	10.1
Increase in short-term credit to Government ..	59.5	—	139.5	—
Withdrawal of deposits	—	28.1	18.2	—
2. Reduction of borrowings from Central Bank ..	12.8	—	—	12.8
3. Domestic private sector	47.9	129.3	164.5	308.6
Increase in advances	4.2	92.1	104.8	291.0
Increase in other assets	43.7	22.1	57.9	17.6
Increase in private securities	—	—	1.8	—
Withdrawal of deposits	—	15.1	—	—
4. Foreign sector	—	17.0	7.3	10.6
Reduction of borrowings	—	—	0.9	—
Withdrawal of deposits	—	1.6	—	—
Increase in foreign balances	—	15.4	6.4	10.6
5. Increase in domestic cash items	18.7	—	36.2	19.5
Total increase in resources utilized	171.7	174.4	365.7	361.6

Source : Central Bank of Ceylon.

* Differences between these figures and corresponding figures published in earlier Annual Reports are due to revisions.

2 (e) Sources of Funds and their Utilisation

The government sector's transactions with commercial banks in 1968, in contrast to the previous year, released substantial resources for the expansion of credit to the private sector over and above what could be sustained on the basis of the increase in deposits of the private sector. Thus, while in 1967 the increase in banks' resources arising from the accumulation of the private sector's deposits was utilised to provide increased short-term credit to the Government, in 1968 it was the private sector which utilised by far the larger part of the banks' resources which increased on account of both an increase in the latter's deposits as well as a reduction in Government's indebtedness to the commercial banks. Also in contrast to the previous year commercial banks did not have increased recourse to borrowing from the Central Bank for resources. In fact banks were in a position to apply part of their increased resources in 1968 towards a reduction of their borrowings from the Central Bank.

The resources of banks released by a reduction in short-term credit to the Government amounted to Rs. 125 million and represented the repayment of government import bills which had accumulated heavily in the previous year. In addition, an increase of Rs. 25.9 million in resources originating in this sector became available to commercial banks in 1968 as a result of an increase in the Government's deposits. This was the first annual increase in the Government's deposits with commercial banks since 1965. The increase of Rs. 10.1 million in commercial banks' holdings of government and government guaranteed securities and treasury bills represents the only utilisation of commercial banks' resources attributable to the Government sector in 1968.

New resources created in 1968 by the domestic private sector itself amounted to Rs. 201.4 million and were mainly in the form of deposits with commercial banks. The increase in these deposits, at Rs. 142.9 million, was only slightly smaller than in the previous year. There was also an increase of Rs. 6.1 million in capital and reserves of commercial banks and a further increase of Rs. 52.4 million in 'other' liabilities of commercial banks.

The total utilisation of commercial banks' resources by the private sector in 1968, at Rs. 308.6 million, was much higher than in previous years. This utilisation of banks' resources took predominantly the form of an increase in advances amounting to Rs. 291 million which was more than twice the figure recorded for 1967 and more than thrice that for 1966.

The contribution of the foreign sector to commercial banks' resources amounted to Rs. 7.3 million and came about almost entirely by an increase in liabilities of banks in Ceylon to correspondent and branch banks abroad. This contribution to resources was, however, more than offset by a rise of Rs. 10.6 million in the foreign balances of banks in Ceylon.

A small portion (Rs. 19.5 million) of the increased resources of commercial banks was absorbed by an increase in holdings of domestic cash items. This represents the increase in the cash holdings of the banks.

2 (f) Bank Credit to the Private Sector

The outstanding amount of commercial bank credit to the private sector increased by Rs. 291.0 million between the end of 1967 and the end of 1968. The increase was particularly large in the first five months of the year. In June there was a slight decline in outstanding credit as a result of repayment of loans under the Agricultural Credit Scheme and of certain advances to government corporations. In July there was a larger decline on account of a further repayment of agricultural loans and also of advances to co-operatives for the purchase of paddy under the Guaranteed Price Scheme. Although there was a further decline in these categories of credit in August, there was a small increase in total credit to the private sector in that month chiefly as a result of an increase in advances to government corporations.

The rest of the year witnessed a general expansion of credit. Agricultural loans increased with the commencement of the new Maha cultivation season. Credit to corporations increased as a result of both new advances and the transfer of the financing of their short term capital requirements from the Government to the commercial banks. Credit to other private sector borrowers too increased, mainly for industrial and commercial purposes. A ceiling on credit to the private sector operated during the last three months of the year and the actual increase in credit in this period was within the ceilings.

Table II (D) 10 shows the changes in the amount of credit outstanding between the end of 1967 and the end of 1968.

TABLE II (D) 10
Commercial Bank Advances to the Private Sector*
December 1967 - December, 1968

		Rupees Million								
		Ceylonese Banks			Foreign Banks			All Banks		
		Dec. 1967	Dec. 1968	Change	Dec. 1967	Dec. 1968	Change	Dec. 1967	Dec. 1968	Change
(a) Cash items in process of collection**	..	55.5	51.3	- 4.2	1.4	1.2	- 0.2	56.9	52.5	- 4.4
(b) Local Bills	..	..	..	..	..	0.1	+ 0.1	..	0.1	+ 0.1
(c) Import Bills	..	32.9	60.0	+ 27.1	22.7	29.4	+ 6.7	55.6	89.4	+ 33.8
(d) Export Bills	..	10.3	18.7	+ 8.4	43.1	61.5	+ 18.4	53.4	80.2	+ 26.8
(e) Overdrafts	..	183.4	227.7	+ 39.3	230.5	270.0	+ 39.5	418.9	497.8	+ 78.9
(f) Loans	..	385.8	538.6	+ 152.8	59.0	62.0	+ 3.0	444.8	600.7	+ 155.9
Total	..	672.9	896.3	+ 223.4	356.7	424.2	+ 67.5	1029.6	1320.6	+ 291.0

Source: Central Bank of Ceylon

* Includes Government Corporations.

** 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 and purchased cash items.

Cash items in process of collection declined by Rs. 4.4 million during the year. Goods receipt advances reached a peak during the year in the month of June on account of heavy purchases of paddy under the Guaranteed Price Scheme. Although they declined during the rest of the year, the figure of advances outstanding at the end of December was Rs. 7.2 million higher than that of the previous year. Other cash items in process of collection declined by Rs. 11.7 million in 1968.

There was an increase of Rs. 26.8 million in holdings of export bills largely concentrated in the foreign banks. Export bills were excluded from the operation of the credit ceilings.

The value of import bills of the private sector held by banks rose by Rs. 33.8 million in 1968. Rs. 15.4 million of this increase represented the increase in import bills of government corporations. The increase in banks' holdings of import bills occurred mainly in the latter half of the year.

The increase in loans and overdrafts constituted the most important component of the expansion of commercial bank advances to the private sector. Loans increased by Rs. 155.9 million, almost entirely in the Ceylonese banks. Overdrafts increased by Rs. 78.9 million, in nearly equal parts in the Ceylonese and foreign banks. Rs. 61.1 million of the increase in loans and Rs. 14.1 million of the increase in overdrafts were for government corporations. Loans to co-operative institutions rose by Rs. 16.8 million. Loans to other borrowers in the private sector rose by Rs. 77.9 million and overdrafts by Rs. 70.3 million.

A classification of bank advances by purpose¹ and maturity is given in Table II (D) 11. The statistics presented in this table are prepared from the Central Bank's survey of Deposits and Advances and relate to advances to the private sector (including government corporations) in the form of export bills, import bills, loans and overdrafts.

The largest increase in advances of banks was for commercial purposes. The increase in this category of advances amounted to Rs. 144.4 million during the year, nearly equally divided between export trading and import trading. Advances for wholesale and retail trading increased by Rs. 17.1 million, offset by a slightly bigger decline in advances for other commercial purposes.

1. Certain improvements were effected in the classification of advances, in the survey of 30th June, 1968. As a result certain advances, the nature of the purpose of which was not clearly defined in earlier surveys, have now been properly identified and allocated to the appropriate categories of 'purpose'. Since a corresponding revision could not be made in the classification of advances as at 31st December, 1967, the magnitudes of changes in some categories of advances shown in Table II (D) 11 should partly be attributed to the improvement in the statistical classification as at 30th June, 1968. These statistical improvements do not, however, affect the total advances. But it should be noted that the classification of advances is based more on the type of borrower than on the exact purpose to which such advances may be put to.

TABLE II (D) 11

Advances* Classified by Purpose & According to Maturity

Rs. million

		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	1967	206.1	41.1	200.1	39.9	94.7	18.9	500.9	51.3
June	1968	217.9	37.4	253.3	43.5	110.9	19.1	582.1	51.4
December	1968	286.3	44.4	227.3	35.2	131.7	20.4	645.3	50.9
B. Financial									
December	1967	36.9	35.5	35.0	33.7	32.0	30.8	103.9	10.6
June	1968	52.3	37.7	39.6	28.6	46.7	33.7	138.6	12.2
December	1968	47.2	34.3	36.6	26.6	53.8	39.1	137.5	10.8
C. Agricultural									
December	1967	27.7	27.0	52.4	51.2	22.3	21.8	102.4	10.5
June	1968	13.0	12.8	62.7	61.7	25.9	25.5	101.6	9.0
December	1968	24.5	18.6	75.2	57.1	31.8	24.2	131.6	10.4
D. Industrial									
December	1967	60.7	51.0	29.1	24.4	29.2	24.5	119.1	12.2
June	1968	88.6	47.8	36.3	19.6	60.4	32.6	185.2	16.4
December	1968	111.6	50.1	42.7	19.2	68.5	30.7	222.8	17.6
E. Consumption									
December	1967	29.5	30.5	25.9	26.8	41.2	42.6	96.6	9.9
June	1968	12.6	14.7	27.9	32.7	44.9	52.6	85.4	7.5
December	1968	14.2	14.9	32.9	34.5	48.1	50.5	95.3	7.5
F. Other Loans									
December	1967	23.2	43.6	17.1	32.1	12.8	24.1	53.2	5.4
June	1968	3.8	9.7	19.8	50.4	15.7	39.9	39.3	3.5
December	1968	4.3	12.1	17.1	48.2	14.1	39.7	35.5	2.8
G. Total									
December	1967	384.1	39.3	359.6	36.8	232.4	23.8	976.1	100.0
June	1968	388.3	34.3	439.5	38.8	304.5	26.9	1,132.3	100.0
December	1968	488.1	38.5	431.8	34.0	348.0	27.4	1,268.0	100.0

Source : Central Bank of Ceylon

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

Advances for industrial purposes rose by Rs. 103.7 million. Advances to manufacturing establishments increased by Rs. 81.9 million, nearly a third of which was for government industrial corporations. Advances for the processing of tea, rubber and coconut products increased by Rs. 12.4 million, while those for the engineering and building trades increased by Rs. 8.2 million. The percentage share of the category of industrial advances in the total rose from 12.2 at the end of 1967 to 17.6 at the end of 1968.

Advances for agricultural purposes rose by Rs. 29.2 million. This includes the increase of Rs. 14.7 million in net credit outstanding under the new Agricultural Credit Scheme between the end of December 1967 and 1968. The value of loans granted for the Maha 1968/1969 season and which was outstanding at the end of December 1968, however, was smaller than the value of Maha 1967/68 loans outstanding at the end of December 1967. The increase in credit outstanding between the two dates is explained by the amount of Yala 1968 loans which had not been repaid by the end of the year. The operation of the scheme is described in greater detail in a later section. Besides the increase in credit for the cultivation of paddy and other subsidiary crops under this scheme, there were also increases in credit for other agricultural crops, but credit for tea and rubber cultivation declined slightly during the year. The share of advances for agriculture in total advances, at 10.4 per cent at the end of December, showed very little change from that of the previous December.

Advances for financial purposes rose by Rs. 33.7 million during the year. This consisted of advances to finance companies, and also to other borrowers for the purpose of investing in real estate and shares. Their share in total advances, at 10.8 per cent at the end of the year, recorded a slight increase over the position at the end of 1967.

Consumption loans declined somewhat during the year and accounted for only 7.5 per cent of total advances at the end of 1968 as compared to 9.9 per cent a year earlier. There was actually an increase in advances for the purchase of consumer durables but advances for other personal needs declined by a greater magnitude. Advances in the residual category of 'other loans' declined by Rs. 17.7 million in 1968, nearly halving their share in total advances from 5.4 per cent to 2.8 per cent.

The term structure of commercial bank advances, which had been practically unaltered for some years, showed some change in 1968. The ratio of long-term (over 30 months) advances to total advances rose from 23.8 per cent to 27.4 per cent while the shares of short-term (under 6 months) and medium-term (6-30 months) advances declined slightly. The increasing importance of long-term advances was reflected in all categories of loans.

A classification of advances by rates of interest is shown in Table II(D) 12.

Table II (D) 12
Advances* by Rate of Interest

Rate of Interest	December 31st 1967		June 30th 1968		December 31st 1968	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Below 2½	4.9	0.5	5.3	0.5	15.1	1.3
2½	1.8	0.2	0.1	...	0.5	...
3	0.3	...	0.1	...	0.1	...
3½	1.0	0.1	1.2	0.1	4.6	0.4
4	1.8	0.2	1.0	0.1	2.7	0.2
4½	12.3	1.3	2.7	0.3	2.8	0.2
5	29.1	3.1	28.0	2.6	22.8	1.9
5½	32.8	3.5	17.4	1.6	16.2	1.4
6	60.4	6.5	104.9	9.9	121.8	10.3
6½	156.7	16.9	49.9	4.7	96.9	8.2
7	261.4	28.3	308.4	29.1	232.4	19.6
7½	106.8	11.5	262.4	24.8	300.6	25.4
8	167.0	18.0	161.5	15.2	209.7	17.7
8½	11.8	1.3	35.5	3.3	50.4	4.3
9	59.4	6.4	53.0	5.0	69.2	5.8
Over 9	17.4	1.9	28.4	2.7	37.3	3.1
Total	925.1	100.0	1059.9	100.0	1183.3	100.0

Source: Central Bank of Ceylon.

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

The biggest share of advances belonged to the range of interest rates between 6½ per cent to 8 per cent; advances in this range accounted for 70.9 per cent of total advances as compared to 74.7 per cent in 1967. Within this group the largest concentration was at the rate of 7½ per cent, while in the previous year the concentration was at the rate of 7 per cent. The decrease in the relative weight of this modal group was accompanied by an increase in the importance of higher rates. The ratio of advances at rates of 8½ per cent and above rose from 9.6 per cent in 1967 to 13.2 per cent in 1968. Among interest rates below the modal group there was also a shift to the rate of 6 per cent. While the relative weight of advances in the group of rates of 6 per cent and less increased only marginally from 15.4 per cent to 15.7 per cent, within the group there was a larger increase in the importance of advances at 6 per cent with a corresponding decline in that of advances at lower rates.

A classification of advances by types of security is shown in Table II (D) 13.

The increase in advances against documentary bills is a reflection of the rise in the banks' holdings of import and export bills, already noted. Loans secured by government securities and by shares of joint stock companies increased only slightly, but their share in total advances declined somewhat during the year. Although time and savings deposits increased during the year, they were not used increasingly as security for advances. The value of advances secured by time and savings deposits and the cash value of life policies declined slightly in absolute amount and as a percentage of total advances.

TABLE II (D) 13
Advances* by Type of Security

	December 31st 1967		June 30th 1968		December 31st 1968	
	Amount Rs. mn.	% of Total	Amount Rs. mn.	% of Total	Amount Rs. mn.	% of Total
Documentary bills ..	132.2	13.5	141.7	12.5	183.0	14.4
Government securities ..	14.8	1.5	24.6	2.2	16.8	1.3
Shares of joint stock companies ..	17.8	1.8	19.3	1.7	20.9	1.6
Time and savings deposits and other cash deposits including cash value of life policies ..	51.3	5.3	56.4	5.0	50.2	4.0
Stock in trade ..	200.4	20.5	276.1	24.4	268.1	21.1
Immovable property ..	102.3	10.5	112.0	9.9	121.6	9.6
Others ..	371.5	38.1	433.0	38.2	542.5	42.8
Unsecured ..	85.6	8.8	69.1	6.1	64.8	5.1
Total ..	976.1	100.0	1132.3	100.0	1268.0	100.0

Source: Central Bank of Ceylon.

*Exclude cash items in process of collection.

Loans secured by stock-in-trade increased by Rs. 67.7 million and their weight in total advances went up marginally from 20.5 per cent to 21.1 per cent. Loans secured by immovable property increased by Rs. 19.3 million, but their share in total advances declined slightly from 10.5 per cent to 9.6 per cent. Advances against all other types of security rose by Rs. 171.0 million and their share in the total increased from 38.1 per cent to 42.8 per cent. Unsecured advances declined during the year and they accounted for only 5.1 per cent of the total at the end of the year.

2 (g) Extended Credit Scheme and Rural Banks

The People's Bank provides credit facilities to remote rural areas through selected co-operative societies, under the Extended Credit Scheme. The People's Bank lends funds to the selected cooperative societies which in turn re-lend these funds to their members for specified purposes such as agricultural production, animal husbandry, cottage industries, the construction, renovation and extension of houses, debt redemption, electrification, consumption and emergencies.

During 1968, the number of societies operating this scheme increased from 60 to 69. The overdraft limits given by the People's Bank decreased from Rs. 1.90 million to Rs. 1.84 million. The actual utilisation of these overdrafts facilities also decreased from Rs. 1.29 million to Rs. 1.16 million at the end of 1968.

The scheme of rural banks which was inaugurated in 1964 witnessed a rapid expansion in 1968. Under this scheme selected multi-purpose co-operative societies accept savings and fixed deposits from members and non-members and

extend loans for specified purposes to members. Additional resources for lending are made available to rural banks by means of overdraft facilities with the People's Bank who also provide managerial assistance where necessary. The specified purposes of loans, the extent of loans and the conditions of repayment are the same as in the Extended Credit Scheme.

Seventeen rural banks were opened in 1968 bringing their total number to 44 at the end of 1968. During the year the number of savings accounts with rural banks increased from 8,792 to 17,359 while the amount of savings deposits increased from Rs. 1.3 million to Rs. 3.1 million. The average savings deposit increased from Rs. 148/- to Rs. 179/-. The number of fixed deposits increased from 41 to 287 and the amount from Rs. 65,381/- to Rs. 222,614/-. The average fixed deposit decreased from Rs. 1,595/- to Rs. 776/-. The total of savings and fixed deposits increased from Rs. 1.4 million to Rs. 3.3 million.

The total amount loaned for the same purposes as under the Extended Credit Scheme, as analysed in Table II(D) 14, increased from Rs. 2.03 million to Rs. 3.76 million. The number of loans increased from 2,897 in 1967 to 5,586 in 1968, resulting in the average loan decreasing from Rs. 701/- in 1967 to Rs. 673/- in 1968.

Table II (D) 14

Rural Banks' Loans by Purpose as at 31st December, 1968

Purpose	Amount (Rupees)	Percent of Total
Production of which	1,010,280	26.9
Agriculture	844,802	22.5
Animal husbandry	75,082	2.0
Cottage industries	90,396	2.4
Housing	1,334,229	35.5
Debt Redemption	1,006,675	26.8
Trade	214,449	5.7
Consumption	71,621	1.9
Electrification	7,313	0.2
Others	112,695	3.0
Total	3,757,262	100.0

Source : Central Bank of Ceylon.

Although there was an increase both in the amount of deposits and in advances, the sharp increase in deposits more than offset the increase in advances resulting in a drop in rural bank's dependence on the People's Bank's resources.

In addition to the loans referred to above, rural banks engaged in pawn-broking to the extent of Rs. 958,982/- on 9,507 transactions at the end of 1968 compared to Rs. 633,214 of pawn-broking on 6,598 transactions at the end of 1967. This business is done by the rural banks as agents of the People's Bank.

2. (h) The New Agricultural Credit Scheme

The new Agricultural Credit Scheme is reviewed here from its commencement in September 1967 till December 1968. The main features of the Scheme are:-

- (a) The People's Bank lends to co-operative societies at 5 per cent per annum; co-operative societies in turn lend to their members at a maximum of 9 per cent per annum. If a loan is not repaid in time either by the member or by the co-operative society, a rate of 3 per cent per annum is charged in addition to the above rates.

The People's Bank also lends to co-operative societies through six Co-operative Banks. Co-operative Banks pay an interest rate of $3\frac{1}{2}$ per cent per annum for funds so borrowed and repaid within the stipulated period. An additional 5 per cent per annum interest is charged for overdue loans. The guarantee fee of half of 1 per cent referred to below, and the amount in default are shared equally by the Co-operative Banks and the People's Bank.

- (b) The Central Bank refinances the People's Bank to the full extent of funds lent under this scheme.
- (c) Co-operative societies pledge a usance note for funds borrowed and in turn have as security from farmers the right to withhold the rice ration of the farmer and the members of his household, till the sum lent is fully repaid by the value of the ration coupons. A measure of rice so surrendered has been valued at one rupee.
- (d) On behalf of the government, the Central Bank, guarantees loans to the extent of meeting 75 per cent of the amount in default. A fee of half of 1 per cent of the amount lent is charged for this guarantee.
- (e) Each farmer was entitled to a loan of Rs. 220/- per acre in Maha 1967/68 and Yala 1968 and Rs. 262/- per acre in Maha 1968/69 to a maximum of a ten acre holding. The loan is released in three stages.

The Scheme for paddy loans is analysed in terms of the Maha 1967/68, Yala 1968 and Maha 1968/69 seasons. During the Year under review the period for the repayment of loans taken in Maha 1967/68 season lapsed, while a substantial proportion of Yala 1968 loans was due for repayment. Loans for Maha 1968/69 commenced in the last quarter of the year. Loans given for subsidiary crops are analysed from the commencement of loans in October 1967 to December, 1968.

Paddy Loans Maha 1967/1968

Maha 1967/68 paddy loans were given at the rate of Rs. 220/- per acre to a maximum of a ten acre holding per farmer. This sum was released in three stages. In the first stage, the aggregate sum required for ploughing, seed paddy (where a cash loan is required), transplanting or row seeding and weeding at a maximum of Rs. 137/- per acre was advanced. The second stage of loan

was paid by the People's Bank direct to the Assistant Commissioner of Agrarian Services for supplies of fertilizer, seed paddy, and agro-chemicals to societies. Funds at the rate of Rs. 25/- per acre were released for harvesting purposes at the third stage.

Although a sum of Rs. 78.12 million was approved by the People's Bank only Rs. 61.41 million was actually utilised by co-operative societies. This short-fall in the farmers' utilisation of credit was perhaps due to an over estimate of credit requirements and due to some farmers' dislike of hypothecating rice ration books.

The amount of loans disbursed, the method and extent of recovery, the amount of loans whose repayment period was extended on account of crop failure and the extent of default are summarised in Table II (D) 15.

TABLE II (D) 15.

Loans, Recoveries and Extension of Paddy Loans Maha 1967/68

	Rupees Million	Percent of total released to societies	
Amount released to Cooperative Societies ..	61.4	100.0	
Amount voluntarily repaid by members ..	42.6	69.4	
Amount recovered through rice ration coupons ..	4.6 (a)	7.5	
Total recoveries ..	47.2		76.9
Amount of loans extended due to crop failure ..	3.0 (b)	4.9	
Amount of loans in default ..	11.2	18.2	

Sources: 1. People's Bank;

2. Dept. of Co-operative Development

(a) Only Rs. 2.6 million had been actually credited to societies' accounts with branches of the People's Bank as at 31.12.68.

(b) These figures are only until 15.12.68.

Voluntary repayments were 69.4 per cent of all loans, while recovery through rice ration coupons comprised 7.5 per cent, thus making a total recovery rate of 76.9 per cent of total loans disbursed. The difficulties of repayment consequent on crop failure were treated differently from non-repayment for reasons of negligence or wilful default. Therefore, where delay in repayment was caused by crop damage or failure, the loan was extended for repayment in three equal instalments over the next three seasons. As a result of crop failure 4.9 per cent of loans was extended to be repaid during the three subsequent seasons. When allowance is made for loan extensions the proportion actually in default is 18.2 per cent of the total. Judging from the trend of repayments and the possibility of recovery through rice ration coupons, it is likely that a substantial amount in default would eventually be recovered through rice ration coupons. Although this scheme administered by a commercial bank is not strictly operated on commercial lines the hypothecation of the rice ration coupons as a guarantee against all loans taken ensures a high proportion of recovery.

In the previous year when the scheme was operated by the Department of Agrarian Services, only 45.9 per cent of the funds disbursed was recovered. The amount of voluntary repayment in Maha 1967/68 was Rs. 42.6 million of a total amount of Rs. 61.4 million lent, compared to a repayment of Rs. 14.8 million of Rs. 32.3 million lent for both Maha and Yala seasons in 1966/67.

The recoveries in 1966/67 were depressed due to lower purchases under the Guaranteed Price Scheme. However, in other years when the purchases under the Guaranteed Price Scheme were more effective as the guaranteed price was higher than the market price, it was possible to recover loans from G.P.S. payments. This together with corporate responsibility insisted upon between 1953/54 to 1962/63, accounted for a total recovery of 75 per cent of funds lent by the Department of Agrarian Services between 1947/48 to 1966/67. In a context where the guaranteed price for paddy is not higher than the market price and where the insistence of corporate responsibility is considered unfair as non-defaulting farmers are deprived of loans because of their defaulting counterparts, the withholding of rice rations has provided a means of securing a high level of repayment. This is of special significance because the bulk of farmers do not either own land or have proper land title that could be offered as security.

Apart from the surrender of rice ration books hypothecated for Maha loans, defaulters of Maha 1967/68 were not entitled to borrow until the full amount of the loan had been recovered in this manner. If the failure to repay is certified as being due to farmer's inability to dispose of his crop, the loan for the next season will not be denied to him. Where such telescoping of the of two seasons occurred the first stage of loan was granted but the subsequent stages of the loan were released only on repayment of the earlier loans.

The general impression that crop failure accounts for a low level of recovery of paddy loans is not vindicated by the experience during Maha 1967/68. Only 4.9 per cent of loans had not been repaid because of crop failure, while as much as 18.2 per cent has to be accounted for by other reasons. This can be seen clearly from the district-wise default levels indicated in Table II (D) 16 column 12 which excludes as defaults loans extended for crop failure.

The district-wise analysis of recoveries in Table II (D) 16 discloses a high level of voluntary recovery in Nuwara Eliya, Kandy, Polonnaruwa, Jaffna, Badulla, Mannar and Matara, while recoveries in Galle, Amparai, Trincomalee, Kurunegala, Puttalam and Anuradhapura were particularly poor.

The main reasons for not achieving a higher level of voluntary repayment were the following:-¹

- (a) There was a tendency among some farmers to consider loans as outright grants and therefore not to consider it obligatory to repay them. Their recent experience of an amnesty where the Department of Agrarian Services waived all unrepaid loans granted before October

1. This information has been obtained from a survey on default conducted by the Central Bank and supplemented with information from the People's Bank and the Department of Co-operative Development.

TABLE II (D) 16

District-wise Analysis of Loans, Recoveries, Extensions and Defaults - Maha 67/68 (Paddy).

	Total amount approved	Amount utilised by Societies	Amount repaid voluntarily by Societies	Amount repaid in rice ration coupons	Total amount repaid (3) + (4)	Loans extended	Amount in default	Amount repaid voluntarily as % of amt. utilised (3) as % of (2)	Amount repaid in ration books as % of amt. utilised (4) as % of (2)	Total percentage of Recoveries (6) (7)	Loans extended as % of amt. utilised (6) as % of (2)	Amount in default as % of amount utilised by societies (7) as % of (2)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	In Rupees Thousands							Percentages				
Colombo-Kalutara	690	485	373	11	384	-	101	76.9	2.3	79.2	-	20.8
Kandy	2404	2014	1853	47	1900	4	110	92.0	2.3	94.3	0.2	5.5
Matale	1075	834	628	155	783	-	51	75.3	18.6	93.9	-	6.1
Nuwara Eliya	479	438	413	9	422	-	16	94.3	2.0	96.3	-	3.7
Galle	2485	1836	848	1	849	103	884	46.2	-	46.2	5.6	48.1
Matara	2695	1400	1163	44	1207	234	-	83.1	3.1	86.2	16.7	-
Hambantota	3605	3124	2301	403	2704	149	271	73.7	12.9	86.6	4.8	8.7
Jaffna	3990	3438	3089	225	3314	42	82	89.8	6.6	96.4	1.2	2.4
Mannar	3453	2794	2393	119	2512	9	273	85.6	4.3	89.9	0.3	9.8
Vavuniya	4279	4279	3324	468	3792	148	339	77.7	10.9	88.6	3.5	7.9
Batticaloa	6688	5246	3897	675	4572	-	674	74.3	12.9	87.2	-	12.8
Amparai	9339	5817	3175	721	3896	-	1921	54.6	12.4	67.0	-	33.0
Trincomalee	4523	4679	2227	1025	3252	-	827	54.6	25.1	79.7	-	20.3
Kurunegala	7866	6263	3564	73	3637	248	2378	56.9	1.2	58.1	3.9	38.0
Puttalam	2036	1529	731	108	839	298	392	47.8	7.1	54.9	19.5	23.6
Anuradhapura	12001	8701	4852	146	4998	259	3444	55.8	1.6	57.4	3.0	39.6
Polonnaruwa	5312	4528	4093	51	4144	33	351	90.4	1.1	91.5	0.7	7.8
Badulla	2078	1472	1255	77	1332	-	140	85.3	5.2	90.5	-	9.5
Monaragala	1613	1103	869	46	915	-	188	78.8	4.2	83.0	-	17.0
Ratnapura	1641	1397	1099	121	1220	58	119	78.7	8.6	67.3	4.2	8.5
Kegalla	742	635	452	63	515	84	36	71.2	9.9	81.1	13.2	5.7
Total	78,158	61,412	42,599	4,588	47,187	1,669	12,597	69.4	7.4	76.8		

* These figures are at 30. 10. 68. Figures for Kalutara, Batticaloa, Amparai and Trincomalee were not available.

Sources :- People's Bank
Department of Co-operative Development
Ministry of Agriculture and Food.

1958, amounting to Rs 5.8 million, has been largely responsible for this. Furthermore, habitual defaulters of the earlier schemes had also been given credit in the Maha 1967/68 season without any consideration of the causes for default.

- (b) Certain farmers have also shown a preference for the repayment of loans through rice ration coupons as against cash repayments. This is due to the valuation of rice ration coupons at Re. 1/- per measure which is higher than the guaranteed price for paddy.¹ Further, the repayments through rice ration coupons is spread over a long period. The recovery, through rice ration coupons which was expected to act as a disincentive may have actually had the opposite effect. However, this method of repayment cannot be resorted to indefinitely as the total amount borrowed has to be repaid prior to securing a loan in a subsequent season. The size of family and number of ration coupons determine the duration of repayment.
- (c) The credit limits were determined on a national basis rather than on the basis of regional requirements. The need for credit in certain areas being less than the amounts obtainable under this scheme there was a tendency among farmers to use borrowed funds for other purposes. In some other cases marginal increases in production have not been commensurate with marginal increases in costs of inputs due to unfavourable technical or institutional factors. These institutional factors include unsatisfactory tenure conditions which leave the tenant farmer with too low a return from additional expenditure incurred. This factor is significant in the wet zone and in particular in up-country areas.
- (d) The existing indebtedness to other creditors results in these creditors collecting repayments due to them on the threshing field leaving the farmer without an adequate balance to repay the co-operative society.
- (e) There were also instances where some co-operative societies have used funds for other purposes such as contract work or for business activities of the society. The amounts not utilised by members or those repaid by them to societies were used for such purposes. Either because of the illiquidity of the societies or because of the unprofitability of the uses to which the funds had been put, these funds have not been repaid to the bank.²
- (f) One of the fundamental weaknesses of the scheme was the inadequate supervision of loans given by co-operative societies. This weakness is responsible for several of the defects mentioned earlier.

1. At Re. 1/- per measure the value of a bushal of paddy is Rs. 15.60 as against the Guaranteed Price of Rs. 14 00.

2. For instance, in the Trincomalee District 69 Co-operative Societies have failed to return a sum of Rs. 263,400 already recovered from members.

Under the present arrangements the government as distinct from the People's Bank bears seventy five per cent of the default minus half per cent of total funds lent accruing as the guarantee fee. On the performance of the scheme for Maha 1967/68, as at the end of December 1968, the amount borne by the government is around Rs. 8 million on a total loan disbursement of Rs. 61.41 million. But this amount would decrease over time as further voluntary recoveries and amounts recovered through rice ration coupon are credited.

Yala 1968 Paddy Loans

The extent of loans approved and the amount utilised in Yala 1968 are significantly smaller than in Maha 1967/68. Although the physical acreage cultivated in Yala was a little over half that of Maha 1967/68, the amount of credit approved and utilised was less than a fifth of the corresponding amount for Maha 1967/68.

This substantial decrease can be attributed to several reasons. The amnesty given to previous defaulters had increased the number of persons both eligible and willing to borrow in Maha 1967/68 while in Yala 1968, defaulters of Maha 1967/68 were not eligible to borrow. Some others may have been dissuaded from borrowing owing to the needs for hypo-thecation of rice ration books. It is likely that many borrowers did not expect the Government to insist on the surrender of rice ration coupons till the loan is fully repaid as has been done. Generally, credit needs are less in Yala as farmers commence the season during the period of their highest liquidity. This general phenomenon must have been reinforced more strongly in Yala 1968 by the particularly favourable Maha crop reported in most parts of the country.

The recovery level was significantly more satisfactory. Of Rs. 11.05 million utilised by societies Rs. 6.28 million or 56.9 per cent had been recovered at the end of December 1968.¹ Of the total amount Rs. 4.7 million due, only Rs. 0.67 million or 6 per cent of total funds lent are overdue. These defaults are mainly concentrated in the two districts of Matara and Hambantota which account for Rs. 0.62 million of default. The default rate in Matara is at present 37 per cent of funds utilised. This was likely to have been caused by the frequent flood damage particularly in the Nilwala ganga basin. The indications so far point to a much higher level of recovery than in Maha 1967/68.

Maha 1968/69 Paddy Loans

The amount of funds lent per acre was revised upwards from Rs. 220/- per acre to Rs. 262/- per acre with effect from Maha 1968/1969. This revision was occasioned by increases in costs of fertilizer and ploughing rates. The loan of Rs. 25/- for harvesting has been done away with, but a loan of Rs. 25/- for pesticides has been introduced. This loan is also to be released in three stages.

1. At the end of January 1969, the amount of voluntary recovery had increased to Rs. 7.68 million or 68 per cent of total loans disbursed. The amount overdue at this date was Rs. 0.98 million or 9 per cent of total loans disbursed.

The first instalment is paid in cash at the commencement of cultivation, the second instalment is paid direct to the Commissioner of Agrarian Services for fertilizer supplied, while the third instalment is paid in cash three weeks after the application of the society has been recommended by the co-operative inspector. The amounts released by purpose and stages are summarised below.

TABLE II (D) 17
Credit Limit per Acre by Purpose and Stage of Release

<u>1st Stages</u>	Purpose	Rs per acre
	Seed Paddy	32.00
	Ploughing	60.00
	Pesticides	25.00
	Total 1st Stage	<u>117.00</u>
<u>2nd Stage</u>	Fertilizer	95.00
	Total 2nd Stage	<u>95.00</u>
<u>3rd Stage</u>	Hand weeding	25.00
	Transplanting or row seeding	25.00
		<u>50.00</u>
Total all Stages		<u>262.00</u>

Despite an increase in the amount given per acre the total amount of funds released for Maha 1968/69 has declined in comparison with Maha 1967/68. At the end of December 1968, of Rs. 51.4 million approved, Rs. 36.3 million had been utilised. This suggests that the area serviced by loans in the current Maha season is about 70 per cent of the area serviced in Maha 1967/68. This estimate is arrived at on two assumptions. First, that all funds approved would ultimately be utilised and second, that the amount of funds used per acre is in the same proportion in Maha 1968/69 as in Maha 1967/68. This decline is perhaps largely accounted for by the withholding of credit to defaulters. Some successful farmers may have also achieved a level of financial independence enabling them to use their own funds for cultivation.

At the end of December 1968, Rs. 0.79 million or 2.2 per cent of funds lent had been recovered.

Subsidiary Crops

Credit is also given under this scheme for the cultivation of vegetables, chillies, red onions, bombay onions and potatoes. The amounts granted, the period of repayment, and purpose of loan vary with each crop. In the case of loans for vegetable cultivation the amount loaned also varies with the location of cultivation. Unlike in the case of paddy loans, however, the amount is not released in stages unless specifically requested. The amounts given for subsidiary crops and the purpose for which they are released are summarised in Table II (D) 18.

During the period 1st October 1967 to 31st December 1968, Rs. 8.84 million was loaned for subsidiary crops. The breakdown of this sum by crops is given in the Table II (D) 19.

TABLE II (D) 18

Rate and Conditions o Loans for Subsidiary Crops

Crop	Rate	Period of Loan Days	Break-up by Purpose and Cash or Kind basis
Chillies (rainfed)	Rs. 125/- per acre Maximum 5 acres	270	In Cash - (a) Ploughing & land preparation 40/- (b) Transplanting 50/- <u>90/-</u>
Chillies (irrigated)	Rs. 200/- per $\frac{1}{4}$ acre Maximum 5 acres	270	In Kind Fertilizer & Agro-chemicals 35/- In Cash (a) Ploughing & Land preparation, transplanting & weeding 150/- In Kind Fertilizer & Agro-chemicals 50/-
Red Onions	Rs. 200/- per $\frac{1}{4}$ acre Maximum 5 acres	180	In Cash Seed Onions 100/- In Kind Fertilizer & Agro-chemicals 100/- <u>200/-</u>
Bombay Onions	Rs. 200/- per $\frac{1}{4}$ acre Maximum 5 acres	210	In Cash Seeds & Nursery 100/- In Kind Fertilizer or Agro-chemicals 100/-
Potatoes	Rs. 175/- per $\frac{1}{8}$ acre. Initially for $\frac{1}{8}$ acre & progressively increased by $\frac{1}{8}$ acre per season to maximum 5 acres.	180	In Cash Labour Expenses 20/60 In Kind or Cash Seed Potatoes (2 cwts) 134/40 In kind Fertilizer (1 cwt). 20/- Rs. <u>175/-</u>

VEGETABLES - To a maximum of one acre

Region

Nuwara Eliya	Rs. 1000/-
Badulla, Welimada, Kandy & Matale	750/-
Negombo, Chilaw & Puttalam	650/-
Ratnapura	600/-
Kurunegala	500/-
Other Area	500/-

Leeks	240	} Varies with crop
Beans	90	
Other Vegetables	150	

Source: People's Bank.

TABLE II (D) 19

Breakdown of loans for Subsidiary Crops by Corp

(Form last October 1967 to 31st December 1968)

Rupees Thousands		
Crop	Amount	Percent of total
Red Onions	3,412	38.6
Chillies	2,674	30.2
Potatoes	2,158	24.4
Vegetables	593	6.7
Bombay Onions	5	0.1
	8,842	100.0

Source: People's Bank

The level of voluntary recovery for subsidiary crops at 68.4 per cent is around the same level as voluntary repayments of paddy loans. The withholding of rice ration coupons of defaulters was not resorted to in the case of subsidiary crops. The loans and recovery position for subsidiary crops is summarised in Table II (D) 20.

TABLE II (D) 20

Loans and Recoveries of Loans for Subsidiary Crops

Rupees Million			
		Loans granted from 1. 10. 67 to 30. 9. 68	Loans granted from 1. 10. 68 to 31. 12. 68
Amount granted .. ..	.. ..	5.59	3.20
Amount recovered .. ..	.. ..	3.83	0.02
Amount in default .. ..	.. ..	1.07	—
Amount due (not in default) .. ..	.. ..	.69	3.20
Percent of recoveries .. ..	.. ..	68.4%	—
Percent of default .. ..	.. ..	19.1%	—
Percent outstanding .. ..	.. ..	12.5%	—

Source: People's Bank

The district-wise position displays wider variations than in the case of paddy loans. For instance, all loans have been repaid in Kalutara, Moneragala and Polonnaruwa districts while in Jaffna recoveries are 92.4 per cent. Significant recoveries of over 70 per cent were made in Colombo and Kandy districts. On the other hand, less than 25 per cent recoveries have been made in eight districts. It is not possible to relate the recovery rate with the performance of subsidiary crops by districts due to the paucity of data available. Furthermore, in the absence of cropwise recovery figures no direct relationship between loans granted for certain crops and the rate of default can be established. In Matale, Amparai, and Anuradhapura all defaults, and in Hambantota, Kurunegala and Puttalam a substantial proportion of defaults has been of loans given for chillie

TABLE II (D) 21

District-wise Analysis of Loans Granted for Subsidiary Food Crops During the period 1. 9. 67 - 30. 9. 68

District	Chillies	Red onions	Potatoes	Vegetables	Total amount granted	Amount Recovered	Amount in Default	Amount due but not in default	Amount recovered as a percent of total amount granted (6) as % of (5)	Amount in default as a percent of total amount granted (7) as % of (5)	Amount due but not in default as a percent of total amount granted (8) as % of (5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	In Rupees Hundreds								percentages		
Colombo ..	—	—	—	50	50	38	12	—	76.0	24.0	—
Kalutara ..	—	—	—	158	158	158	—	—	100.0	—	—
Kandy ..	46	—	—	992	1038	794	64	180	76.4	6.2	17.4
Matale ..	37	—	—	—	37	9	—	28	24.3	—	75.7
Nuwara Eliya ..	—	—	373	—	1348	901	154	293	66.8	11.4	21.8
Galle ..	—	—	—	198	198	46	152	—	23.2	76.8	—
Matara ..	—	—	—	—	—	—	—	—	—	—	—
Hambantota ..	1885	241	—	—	2126	440	788	898	20.6	37.1	42.3
Jaffna ..	6732	18427	2260	—	27419	25346	1681	455	92.4	5.9	1.7
Mannar ..	—	—	—	—	—	—	—	—	—	—	—
Vavuniya ..	437	3	10	—	450	88	147	—	19.5	32.7	47.8
Batticalo ..	—	—	—	—	—	—	—	215	—	—	—
Ampara ..	285	—	—	—	285	94	159	32	32.9	55.9	11.2
Trincomalee ..	480	484	—	—	964	502	171	291	52.0	17.7	30.3
Kurunegala ..	924	18	—	20	962	144	469	349	14.9	48.7	36.4
Puttalam ..	3713	56	—	84	3853	461	3134	259	11.9	81.3	6.8
Anuradhapura ..	4156	—	—	—	4156	763	3388	—	18.4	81.6	—
Polonnaruwa ..	123	—	—	—	123	123	—	—	100.0	—	—
Badulla ..	265	50	9402	1684	11401	7865	380	3156	68.9	3.3	27.8
Monaragala ..	274	—	—	—	274	274	—	—	100.0	—	—
Ratnapura ..	308	690	—	96	1094	240	49	805	21.9	4.5	73.6
Kegalle ..	—	—	—	—	—	—	—	—	—	—	—
Total	19665	19969	12045	4257	55936	38291	10685	6960	68.4	19.1	12.5

Source: Pepole's Bank

cultivation. The district-wise recovery levels of paddy loans and loans for subsidiary crops follow a similar pattern suggesting the basic weakness of the credit disbursing agency-the co-operative societies. The district-wise analysis of loans given between 1st October 1967 and 30th September 1968 is given in Table II (D) 21

As a part of the economic research programme, the Central Bank proposes to undertake statistical surveys specially designed to obtain data on indebtedness and credit needs of the rural Sector.

3. Savings and Long-term Credit Institutions

Table II (D) 22 shows the lending operations of the state sponsored savings and lending institutions.

TABLE II (D) 22
Lending Operations of Long-term Credit Institutions

		Rs. Thousand							
		1965		1966		1967		1968	
		Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding
Development Finance Corporation (a)	..	4,010	28,316	4,540	29,052	3,150	29,154	7,273	31,716
Ceylon Savings Bank	..	2,845	16,366	2,249	16,371	3,880	17,715	4,386	19,943
Agricultural & Industrial Credit Corporation	..	4,941	32,424	3,933	32,367	2,565	31,119	3,285	30,288
State Mortgage Bank	..	3,942	54,681	4,959	55,319	4,812	55,453	6,623	57,816
Loan Board	..	540	11,411	833	10,970	1,225	11,047	1,076	10,758
National Housing Dept. (b)	..	5,138	71,536	16,861	84,196	25,585	105,485	14,355	113,960
Total		21,416	214,734	33,375	228,275	41,217	249,973	36,998	264,481

Source : Central Bank of Ceylon.

(a) Include 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 1965-68 exclude loans granted to building societies.

Differences between these figures and corresponding figures published in earlier Annual Reports are due to revisions.

In contrast with the expanding trend of the two years 1966 and 1967 the total lending of the savings and long-term credit institutions contracted in 1968 by Rs. 4.2 million. This was the net result of a sharp fall in loans granted by the National Housing Department and increases of smaller magnitudes in the loans granted by other long-term credit institutions.

The sharp decline of Rs. 11.2 million in the amount of loans by the National Housing Department which occurred in spite of a larger increase in its resources than in previous years, through the issue of debentures, could be partly explained by an appreciable increase in the Department's own construction activity, the figures for which are not included in the above table.

Of the general increase in the loans granted by the other institutions, loans by the Development Finance Corporation, which had declined in 1967, registered a significant increase in 1968. During the year the Corporation's resources were strengthened by the grant of a \$4 million line of credit by the International Bank for Reconstruction and Development. Imports financed under this line of credit were exempted from the requirements of the Foreign Exchange Entitlement Certificate Scheme but were subject to a licence fee of 20 per cent. The Corporation also made use of refinance facilities under the Central Bank's Medium and Long-term Credit Fund.

The increase of Rs. 1.8 million in the amount of loans by the State Mortgage Bank could be attributed to the enlarging of its powers and the scope of its lending by legislation in May 1968. Some increases also occurred in the volume of loans granted by the Ceylon Savings Bank and the Agricultural and Industrial Credit Corporation while there was a slight decrease in the loans by the Loan Board.

Table II (D) 23 summarises the movements in savings deposits and savings certificates in 1968. As in the previous year, time and savings deposits with commercial banks accounted for the increase in savings in these forms in 1968. The increases in savings deposits with the Post Office Savings Bank and the Ceylon Savings Bank were higher in 1968, while the value of savings certificates increased by a smaller amount than in the previous year. Total collections of the Employees' Provident Fund in 1968 amounted to Rs. 87.1 million, as compared to Rs. 74.4 million in 1967.

TABLE II (D) 23
Savings Deposits and Savings Certificates

Rupees Million			
	December 1967	December 1968	Change December 1967/ December 1968
Post Office Savings Bank ..	450.6	463.0*	+ 12.4
Ceylon Savings Bank ..	93.2	96.9*	+ 3.7
Commercial Banks (time and savings deposits)** ..	700.8	826.2	+ 125.4
Savings Certificates outstanding ..	78.7	91.3	+ 12.6
Total ..	1,323.3	1,477.4*	+ 154.1

Source: Central Bank of Ceylon.

* Provisional.

** Includes government deposits.