

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

The money supply declined by Rs. 30.1 million between the end of December 1968 and the end of December 1969. This change was brought about chiefly by the marked contractionary effect of the country's external deficit which was felt almost throughout the year. Expansion of credit by the banking system to the Government and the private sector, however, rose considerably during the year. In several months of the year, domestic credit expansion was large enough to offset the contractionary influence of the external sector and to result in modest increases in the money supply. Over the year as a whole, the deterioration in the balance of payments was strong enough to cause a decline in the money supply.

End-of month figures of the money supply for the period 1964-69 are presented in Table II (D) 1. It can be seen from this table that, although there was a decline in the money supply in 1969 as reflected by end-December figures, the average monthly level of money supply in 1969 was 2.3 per cent higher than in the previous year. This figure, compared to the corresponding figure of 6.9 per cent for 1968, may be an indicator of a substantial slackening of expansionary tendencies.

The effect of this slow down in the growth of money supply on the economy can, however, be properly assessed only when viewed against the demand for money arising from the expansion in monetary expenditures of all kinds. It is not possible, in the absence of the necessary data, to make anything like an accurate appraisal of demand forces. Some estimate can, however, be made of the direction of change in the demand for money. The increase of 5.7 per cent in the real national product in 1969, for instance, would have resulted in an equivalent increase in the demand for money, assuming no change in income velocity of money. Moreover, the increasing monetisation of the economy would have produced a further increase in the demand for money. Since the money supply did not increase proportionately with the national product, and the average price level actually rose, it may be presumed that the velocity of circulation of money increased appreciably.

There are no statistical measures to gauge the exact changes in the velocity of circulation. Nevertheless, a partial indicator of the change in the velocity of at least one component of the money supply can be obtained from the turnover rate of demand deposits of the public. The average monthly rate of turnover of these deposits rose nearly 9.7 per cent in 1969.

1. (b) Factors affecting money supply

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

The contractionary effect of the external payments deficit in 1969 was the largest so far recorded. The balance of payments deficit on current account was Rs. 762.1 million, more than twice that of the previous year. In addition,

TABLE II (D) 1

The Money Supply

Amounts in Rupees Million

End of Period			1964	1965	1966	1967	1968	1969	% Change (1965 over 1964)	% Change (1966 over 1965)	% Change (1967 over 1966)	% Change (1968 over 1967)	% Change (1969 over 1968)
January	..	..	1,468	1,615	1,693	1,598	1,792	1,883	+10.0	+ 4.8	- 5.6	+ 12.1	+ 5.1
February	..	..	1,501	1,582	1,674	1,687	1,793	1,880	+ 5.4	+ 5.8	+ 0.8	+ 6.3	+ 4.8
March	..	..	1,505	1,585	1,666	1,817	1,831	1,911	+ 5.3	+ 5.1	+ 9.1	+ 0.8	+ 4.4
April	..	..	1,534	1,601	1,675	1,781	1,857	1,917	+ 4.4	+ 4.6	+ 6.3	+ 4.3	+ 3.2
May	..	..	1,547	1,645	1,698	1,723	1,869	1,900	+ 6.3	+ 3.2	+ 1.5	+ 8.5	+ 1.7
June	..	..	1,550	1,650	1,692	1,731	1,857	1,918	+ 6.4	+ 2.5	+ 2.3	+ 7.3	+ 3.3
July	..	..	1,543	1,693	1,757	1,718	1,831	1,872	+ 9.7	+ 3.8	- 2.2	+ 6.6	+ 2.2
August	..	..	1,529	1,674	1,702	1,678	1,839	1,880	+ 9.5	+ 1.7	- 1.4	+ 9.6	+ 2.2
September	..	..	1,549	1,675	1,681	1,700	1,850	1,885	+ 8.1	+ 0.4	+ 1.1	+ 8.8	+ 1.9
October	..	..	1,592	1,687	1,682	1,761	1,889	1,891	+ 6.0	- 0.3	+ 4.7	+ 7.3	+ 0.1
November	..	..	1,603	1,677	1,655	1,787	1,896	1,902	+ 4.6	- 1.3	+ 8.0	+ 6.1	+ 0.3
December	..	..	1,622	1,716	1,659	1,808	1,913	1,883	+ 5.8	- 3.3	+ 9.0	+ 5.8	- 1.6
Monthly Average	..	..	1,545	1,650	1,686	1,732	1,851	1,893	+ 6.8	+ 2.2	+ 2.7	+ 6.9	+ 2.3

Source: Central Bank of Ceylon

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

Factors affecting Money Supply		Rupees Million											
		End 1963 to End 1964		End 1964 to End 1965		End 1965 to End 1966		End 1966 to End 1967		End 1967 to End 1968		End 1968 to End 1969	
		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)	.. ..	16.9*	—	79.8†	—	—	196.3	—	91.5	—	115.7	—	299.6
2. Private sector††	.. ..	82.6	57.1	19.2	75.4	137.2	79.6	105.6	133.1	264.1	165.5	226.0	193.8
(a) Commercial bank credit to co-operative institutions	.. ..	—	—	—	6.9	25.8	—	7.3	—	18.5	—	19.9	—
(b) Commercial bank credit to other private sector constituents §	.. ..	82.6	—	10.0	—	33.5	—	86.9	—	155.0	—	136.2	—
(c) Time and savings deposits of co-operative institutions	.. ..	—	—	—	2.1	—	2.3	—	1.4	—	1.5	—	2.9
(d) Time and savings deposits of other private sector constituents	.. ..	—	52.2	—	46.2	—	65.3	—	49.5	—	99.9	—	144.4
(e) Other liabilities and accounts (net) of commercial banks	.. ..	—	4.9	—	20.2	—	12.0	—	31.0	—	40.9	—	35.7
(f) Commercial bank credit to government corporations	.. ..	—	—	7.8	—	27.7	—	11.4	—	90.6	—	69.9	—
(g) Time and savings deposits of government corporations with commercial banks	.. ..	—	—	1.4	—	50.2	—	—	51.2	—	23.2	—	10.8
3. Government Sector	.. ..	133.6	58.0	120.3	53.2	207.5	125.5	267.8	—	306.9	184.5	243.1	7.6
(a) Commercial banks' holdings of treasury bills, government and government guaranteed securities and government import bills	.. ..	3.6	—	92.3	—	—	62.6	75.3	—	—	114.9	4.9	—
(b) Cash items purchased on government account	.. ..	—	—	—	—	—	—	—	—	—	—	8.2	—
(c) Central Bank's holdings of treasury bills and government and government guaranteed securities	.. ..	123.2	—	—	38.7	155.9	—	109.9	—	269.4	—	112.0	—
(d) Central Bank's advances	.. ..	—	6.8	—	28.0	—	26.4	—	12.7	—	37.5	—	7.6
(e) Central Bank's other liabilities and accounts (net)	.. ..	—	54.8§	—	4.5	25.2	—	13.9	—	—	0.2	46.1	—
(f) Government deposits with banking system and cash balances with the Treasury and Kachcheries	.. ..	—	3.2	—	10.0	—	62.9	56.0	—	—	69.4	71.9	—
4. Adjustments for items in transit	.. ..	—	2.3	3.2	—	—	0.1	—	0.1	0.2	—	1.7	—
Total Expansionary/Contractionary factors	.. ..	233.1	117.4	222.5	128.6	344.7	401.5	373.4	224.7	571.2	465.7	470.8	501.0
Change in Money Supply	.. ..	—	+115.8	—	+93.8	—	-56.8	—	+148.7	—	+105.6	—	-30.1

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 1963/64 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.

there was a deficit of Rs. 10.4 million in private capital movements, while official capital repayments amounted to Rs. 77.0 million. If the entire deficit on these transactions were financed by the banking system a contractionary effect of nearly Rs. 850 million on the money supply would have resulted. In fact, however, this potentially large contractionary influence was considerably moderated by the Government's receipts of foreign aid amounting to Rs. 362.0 million and a net increase of Rs. 163.9 million in short term credit. The net contractionary effect of the external sector on the money supply was, therefore, Rs. 299.6 million.

The deterioration in the international indebtedness position of the banking system was reflected in a fall in external assets and, more markedly, in an increase in external liabilities. The international reserve of the Central Bank declined by Rs. 70.3 million, while the external assets of the commercial banks fell by Rs. 18.9 million. External liabilities of the banking system rose by Rs. 210.4 million, almost entirely in borrowings by the Central Bank. Drawings from the International Monetary Fund in 1969 amounted to Rs. 77.5 million, while repayments were Rs. 86.9 million. Allowing also for the payment of service charges, the IMF's accounts with the Central Bank rose by Rs. 8.7 million. The Central Bank's borrowings from banks and other institutions abroad increased by Rs. 227.3 million. Other liabilities, mainly balances due to foreign countries under payments agreement accounts maintained by the Central Bank, were reduced by Rs. 27.6 million.

The expansionary impact of Government's operations in 1969 was Rs. 113.1 million larger than in the previous year. The Government drew down its cash balances by Rs. 71.9 million in 1969 in contrast to an accumulation of Rs. 69.4 million in the previous year. However, the increase in the Government's indebtedness to the banking system was Rs. 74.5 million lower than in 1968. The Central Bank's holdings of government paper increased by Rs. 112.0 million, while provisional advances decreased by Rs. 7.6 million. Thus, the Government's indebtedness to the Central Bank increased by Rs. 104.4 million which was nearly a third of the increase in the previous year. However, in contrast to the decline of Rs. 114.9 million in credit from the commercial banks to the Government in 1968, there was an expansion of Rs. 13.1 million in 1969. The major constituent of this expansion was the increase of Rs. 87.9 million in government import bills, following a decrease in the previous year. There was also an increase of Rs. 8.2 million in short term credit to the Government in the form of cheques etc, purchased on government account. The commercial banks, on the other hand, reduced their investments in treasury bills by Rs. 65.9 million and in government and government guaranteed securities by Rs. 17.1 million. Taking account of the decline of Rs. 46.1 million in other liabilities (net) of the Central Bank, the expansionary effect on the money supply attributable to the government sector was Rs. 235.5 million.

Bank credit to the private sector expanded by Rs. 226.0 million in 1969 as compared to the record increase of Rs. 264.1 million in the previous year. Ceilings on credit to the private sector (with some exemptions) already in force at the beginning of the year were extended, with certain modifications, to be in

operation throughout the year. Ceilings on credit to corporations were imposed in the middle of the year. Credit to co-operatives for agricultural purposes continued to be outside the ceilings and there was a bigger increase in this credit in 1969 than in the previous year. Credit to government corporations and the rest of the private sector recorded smaller increases than in 1968.

The outstanding amount of bank credit to co-operative societies under the Agricultural Credit Scheme rose by Rs. 14.7 million in 1969. The increase occurred in the last quarter of the year with the disbursement of credit for the Maha 1969/70 season. It should, however, be noted that this credit is essentially of a short term nature and the increase in the amount outstanding over the two years in which the scheme has been in operation is not due to any increase in the amounts granted over the seasons, but rather to the increasing amounts not repaid. Advances to co-operatives against the purchase of goods receipts in respect of the sale of paddy to the Government under the Guaranteed Price Scheme declined by Rs. 11.6 million. This was the result of a fall in purchases of paddy under the scheme in 1969; the fall was particularly marked in the latter half of the year. Other credit to co-operatives rose by Rs. 16.8 million.

Advances by commercial banks to government corporations increased by Rs. 69.9 million. While banks' holdings of import bills of corporations declined by Rs. 18.0 million, loans and overdrafts increased by Rs. 80.5 million and cash items purchased increased by Rs. 7.4 million. Almost the entire increase in advances went to industrial corporations, including an increase of Rs. 31.4 million in medium and long term advances. The major part of the increase in credit to corporations occurred in the first five months of the year before the imposition of credit ceilings.

Bank credit to the rest of the private sector increased by Rs. 136.2 million in 1969 compared to Rs. 155.0 million in the previous year. There were substantial increases in the first two months of the year, followed by some reduction in the credit outstanding over the next four-month period. The revised ceilings permitted a further limited increase in credit from June; there was some expansion in credit in the second half of the year. Over the year, loans and overdrafts rose by Rs. 151.9 million, while import bills and cash items purchased fell by Rs. 3.6 million and Rs. 14.4 million, respectively. The largest single component of the increase in loans and overdrafts was in those to the industrial sector. There was also a substantial increase in credit to the export and agricultural sectors and smaller increases in credit for consumption and financial purposes. As against this expansion of credit by Rs. 136.2 million to the private sector (excluding government corporations and co-operatives) its time and savings deposits with commercial banks increased by Rs. 144.4 million.

The expansionary effect of the increase in credit to the private sector was alleviated to a great extent by the accumulation of time and savings deposits by the private sector with commercial banks. As compared to an increase of Rs. 124.6 million in 1968, these deposits increased by Rs. 158.1 million in 1969. Government corporations accounted for only Rs. 10.8 million of this increase

TABLE II (D) 3

Total Liquid Assets of the Non-Bank Private Sector

Description	Amount(Rupees Million)			Percentage of G.N.P. ^(a)		
	1967	1968	1969	1967	1968	1969
1. Primary liquid assets						
(a) Notes and Coins	979.9	1,066.2	1,083.9	11.9	10.9	10.0
(b) Demand deposits	827.7	847.0	799.2	10.1	8.6	7.4
Total	1,807.6	1,913.2	1,883.1	22.0	19.5	17.4
Percentage change		+ 5.8	- 1.6			
2. Secondary liquid assets						
(a) Savings deposits with commercial banks	271.7	319.6	375.1	3.3	3.3	3.5
(b) Savings deposits with Post Office Savings Bank	450.6	473.3	489.7*	5.5	4.8	4.5
(c) Savings deposits with Ceylon Savings Bank	93.2	100.3	98.8*	1.1	1.0	0.9
(d) Time deposits with commercial banks	414.9	491.7	594.3	5.0	5.0	5.5
(e) Foreign balances of residents	0.6	0.9	—	...	...	—
(f) Savings certificates	78.7	91.3	86.6*	1.0	0.9	0.8
(g) Treasury bills	6.2	11.5	15.4	0.1	0.1	0.1
(h) Tax reserve certificates	24.1	23.9	15.8	0.3	0.2	0.1
(i) Government bonds	783.0	874.3	937.4	9.5	8.9	8.7
Total	2,123.0	2,386.8	2,613.1*	25.8	24.3	24.2
Percentage change		+12.4	+9.5*			
3. Total Private Sector Liquid Assets	3,930.6	4,300.0	4,496.2*	47.8	43.8	41.6
Percentage change		+9.4	+4.6*			
Not included above are holdings of Treasury bills and Government bonds by such financial institutions as the Post Office Savings Bank, Ceylon Savings Bank, Employees' Provident Fund etc. amounting to	1,639.6	1,859.1	2,026.5	19.9	18.9	18.7

Source: Central Bank of Ceylon

(a) At current factor cost prices

* Provisional

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

and co-operatives for Rs. 2.9 million. The increase of 'other' liabilities (net) of commercial banks by Rs. 35.7 million also helped to reduce the expansionary effect of the increase in bank credit to the private sector. The net expansionary effect on money supply attributable to the private sector in 1969 was therefore Rs. 32.2 million which was less than a third of that in the previous year.

To summarise, the most important aspect of the factors affecting the course of the money supply in 1969 was the contractionary impact of the external sector. There was a large expansionary impact emanating from the Government sector. The expansionary effect of the private sector was considerably abated. As a net result of these influences, the growth in the money supply, as measured by the change in the monthly average, slowed down appreciably between 1968 and 1969. As measured by the change between end-year levels, the money supply recorded a contraction of 1.6 per cent in 1969.

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

Although the money supply declined by 1.6 per cent in 1969, total liquid assets of the public rose by 4.6 per cent. This expansion was made possible because of a 9.5 per cent increase in secondary liquid assets, principally in the form of time and savings deposits with commercial banks.

A significant aspect of the change in primary liquid assets was the increase in currency holdings of the public in contrast to a decrease in demand deposits. Currency held by the public at the end of December 1969 was Rs. 17.7 million higher than the level twelve months earlier. The proportion of the currency component of the money supply had, therefore, risen from 55.7 per cent to 57.6 per cent in the course of the year.

The components of the money supply and the currency composition are shown in Tables II (D) 4 and II (D) 5.

In regard to the denominations of currency notes and coins, the public's holdings of Rs. 100/- notes rose faster than total currency issue. Thus the share of Rs. 100/- notes in the total rose by 2.6 percentage points in 1969, while the shares of Rs. 50/- and Rs. 10/- notes fell by 1.4 and 1.1 percentage points respectively. The proportion of Rs. 5/- notes and of notes and coins of smaller denominations remained almost unchanged as between the end of 1968 and the end of 1969.

The change in demand deposits in 1969 was characterised by a decline in deposits of the business sector, offset only in part by a rise in deposits of the non-business sector. Table II (D) 6 shows the distribution of deposits with banks by broad ownership categories.

The most pronounced decline in demand deposits was in those of trading institutions. These deposits fell by Rs. 28.6 million, after declining by Rs. 22.2 million in 1968 and Rs. 9.6 million in 1967. During the three years ended December 1969, the share of demand deposits of trading institutions in total

TABLE II (D) 4

Components of the Money Supply

Rupees Million

End of Period	Currency held by public		Demand deposits held by public		Total Money Supply
	Amount	As % of Total Money Supply	Amount	As % of Total Money Supply	
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
1969	1,083.9	57.6	799.2	42.4	1,883.1

Source: Central Bank of Ceylon

TABLE II (D) 5

Currency Composition by Denominations of Rs. 100, 50, 10 & 5

Rupees Million

End of Period	Rs. 100	Rs. 50	Rs. 10	Rs. 5	Currency Issue*
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	253.3	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
1969	435.7	322.9	293.7	54.1	1212.7

Source: Central Bank of Ceylon

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

demand deposits declined by 8.8 percentage points to 14.2 per cent. Demand deposits of plantations contracted by Rs. 11.6 million in 1969, those of financial institutions by Rs. 6.0 million and of other business by Rs. 8.4 million. Demand deposits of manufacturing establishments rose by a modest Rs. 2.0 million, following an increase of Rs. 15.7 million in the previous year. In the non-business sector, demand deposits of institutions increased by Rs. 3.9 million, while those of individuals recorded a large increase of Rs. 16.2 million.

Time and savings deposits with commercial banks accounted for nearly 70 per cent of the increase in secondary liquid assets of the public in 1969. Since this expansion occurred in a period of contraction in the money supply, the ratio of time and savings deposits to the money supply climbed rapidly from 42.4 per cent to 51.5 per cent in twelve months. Indeed, it seems quite likely that a part of the increase in time and savings deposits was the result of conversion of idle demand deposits. This process might have been helped by the gradual tightening of monetary measures. The rise in interest rates on time and savings deposits would have acted as a stimulus to shift from idle demand deposits to time and savings deposits. In October 1969 there were increases of a half to three quarters of a percentage point in these rates following one of a quarter percentage point in May 1968. It is noteworthy that there was no drop in the stability of these deposits. The turnover rate of time deposits in fact decreased marginally from a monthly average of 0.20 in 1968 to 0.19 in 1969; the turnover rate of savings deposits remained unchanged at 0.09.

It is significant that the increase in time deposits was concentrated in the business sector while its demand deposits were falling. The time deposits of financial institutions (mainly provident funds) rose markedly, while those of plantations, trading institutions, manufacturing establishments and other business too increased substantially. Rs. 10 million of the increase in time deposits of trading institutions was in those of government corporations. The contribution of government corporations other than trading corporations to the increase in time deposits was negligible. Time deposits of individuals recorded only an insignificant increase, but the increase in savings deposits was almost entirely in holdings of individuals.

Among the savings held by the public with official institutions, deposits with the Post Office Savings Bank showed an increase of Rs. 16.4 million, while deposits with the Ceylon Savings Bank declined by Rs. 1.5 million and savings certificates by Rs. 4.7 million. Although withdrawals from the Post Office Savings Bank were heavier, especially in the second half of the year, than in 1968, fresh deposits during the year increased sufficiently to cause an increase in the balance outstanding at the end of 1969. The Post Office Savings Bank's interest rate on deposits had been lagging behind other deposit rates and was raised from 2.4 per cent to 3 per cent in January 1969. The Ceylon Savings Bank's rate on savings deposits was unchanged, but the rates on fixed deposits were raised by half a percentage point. The rate on savings certificates remained unchanged during the year. There is no doubt that all three savings media had to face severe competition from deposit-taking financial institutions in the

TABLE II (D) 6

**Ownership of Demand, Time & Savings Deposits with
Commercial Banks (as at end of period)**

Amounts in Rs. Million

Ownership	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial Institutions								
December 1968 ..	47.9	6.0	90.7	19.6	12.1	3.8	150.7	9.5
March 1969 ..	48.9	6.3	109.8	22.7	12.4	3.7	171.1	10.8
June 1969 ..	45.1	5.8	112.9	21.5	13.2	3.8	171.2	10.4
September 1969 ..	53.2	6.6	112.7	21.2	14.6	4.1	180.5	10.7
December 1969 ..	41.9	5.5	122.5	22.2	14.1	3.8	178.5	10.6
Plantations								
December 1968 ..	75.1	9.4	35.8	7.8	0.3	0.1	111.2	7.0
March 1969 ..	69.4	9.0	37.5	7.8	0.4	0.1	107.4	6.8
June 1969 ..	65.4	8.4	53.5	10.2	0.3	0.1	119.2	7.3
September 1969 ..	64.7	8.1	48.5	9.1	0.3	0.1	113.5	6.7
December 1969 ..	63.5	8.3	53.8	9.7	0.3	0.1	117.6	7.0
Trading								
December 1968 ..	137.1	17.2	107.0	23.2	4.2	1.3	248.3	15.7
March 1969 ..	132.8	17.2	106.7	22.1	4.3	1.3	243.8	15.4
June 1969 ..	128.3	16.5	125.3	23.9	4.7	1.4	258.3	15.7
September 1969 ..	116.1	14.5	119.4	22.5	4.6	1.3	240.1	14.2
December 1969 ..	108.5	14.2	126.0	22.8	5.0	1.3	239.5	14.2
Manufacturing Establishments								
December 1968 ..	70.3	8.8	27.0	5.8	0.4	0.1	97.7	6.2
March 1969 ..	63.8	8.3	30.9	6.4	0.3	0.1	95.1	6.0
June 1969 ..	74.1	9.6	36.5	7.0	0.3	0.1	110.9	6.7
September 1969 ..	86.6	10.8	38.9	7.3	0.3	0.1	125.8	7.4
December 1969 ..	72.3	9.5	38.0	6.9	0.2	0.1	110.6	6.6
Other Business								
December 1968 ..	89.9	11.3	35.2	7.6	2.6	0.8	127.7	8.1
March 1969 ..	85.4	11.1	36.2	7.5	2.2	0.7	123.9	7.8
June 1969 ..	79.6	10.3	33.4	6.4	2.2	0.6	115.2	7.0
September 1969 ..	84.2	10.5	39.2	7.4	2.6	0.7	126.0	7.5
December 1969 ..	81.5	10.7	41.9	7.6	2.6	0.7	125.9	7.5
Local Authorities								
December 1968 ..	19.0	2.4	14.7	3.2	0.6	0.2	34.3	2.2
March 1969 ..	17.2	2.2	15.2	3.1	0.6	0.2	33.1	2.1
June 1969 ..	14.2	1.8	14.8	2.8	0.2	0.1	29.2	1.8
September 1969 ..	15.9	2.0	14.5	2.7	2.8	0.8	33.1	2.0
December 1969 ..	15.8	2.1	13.3	2.4	0.2	0.1	29.2	1.7
Non-business Institutions								
December 1968 ..	46.4	5.8	30.6	6.6	5.7	1.8	82.8	5.2
March 1969 ..	47.9	6.2	27.8	5.8	5.2	1.6	80.9	5.1
June 1969 ..	45.8	5.9	29.3	5.6	5.7	1.7	80.8	4.9
September 1969 ..	49.7	6.2	40.5	7.6	5.3	1.5	95.5	5.7
December 1969 ..	50.3	6.6	35.9	6.5	6.3	1.7	92.6	5.5
Individuals								
December 1968 ..	312.7	39.2	120.6	26.1	294.0	91.9	727.3	46.0
March 1969 ..	305.9	39.7	118.6	24.6	302.5	92.2	726.9	45.9
June 1969 ..	323.3	41.7	118.7	22.6	317.1	92.3	759.1	46.2
September 1969 ..	332.4	41.4	116.8	22.0	325.1	91.4	774.3	45.8
December 1969 ..	328.9	43.1	121.2	21.9	342.7	92.2	792.8	47.0
Total								
December 1968 ..	798.4	100.0	461.7	100.0	319.9	100.0	1,580.1	100.0
March 1969 ..	771.4	100.0	482.7	100.0	328.0	100.0	1,582.1	100.0
June 1969 ..	775.8	100.0	524.4	100.0	343.7	100.0	1,643.9	100.0
September 1969 ..	802.8	100.0	530.4	100.0	355.5	100.0	1,688.7	100.0
December 1969 ..	762.7	100.0	552.6	100.0	371.5	100.0	1,686.8	100.0

Source: Central Bank of Ceylon

private sector and from commercial banks which increased their rates on deposits in the course of the year. The removal of tax concessions in August 1968 is also believed to have seriously affected the public's propensity to hold savings certificates.

Another disappointing feature of the private sector's holdings of financial assets was the reduction in its contribution to government securities. The private non-bank sector's purchases of securities at Rs. 63.2 million was the lowest on record since 1965. The Insurance Corporation, which accounted for somewhat more than half the increase in this sector's holdings of government securities since 1964, reduced its purchases from Rs. 48.1 million in 1968 to Rs. 40.3 million in 1969. Trusts, benevolent, pension and provident funds (other than the Employees' Provident Fund) decreased their purchases from Rs. 36.4 million in the previous year to Rs. 26.0 million in 1969. The holdings of others actually declined during the year. The holdings of individuals, for instance, declined by Rs. 3.5 million in contrast to the increase of Rs. 2.1 million in the previous year.

The developments noted above in respect of the public's holdings of liquid financial assets are in conformity with trends of recent years, but perhaps with an accentuation of certain aspects. There was a continuing growth in secondary liquid assets, but the slight retardation in that growth was in keeping with the decline in the money supply. The overall position, therefore, was one of a mild slackening in the pace of accumulation of financial assets in the form of claims on official and banking institutions. It is possible, however, that the private non-bank sector's holdings of claims within the sector increased on account of the operations of non-bank financial intermediaries. It is indeed very likely that the deceleration in the growth of claims on the Government was, at least in part, the result of competition from such intermediaries in the private sector.

I (d) Interest Rates

There was no change in the Bank Rate in 1969; it remained at $5\frac{1}{2}$ per cent as fixed 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 raised in August 1969: the rate in respect of loans for the promotion or development of agriculture and industry was raised from 4 per cent to $5\frac{1}{2}$ per cent and the rate in respect of loans for the promotion or development of trade or commerce from $5\frac{1}{2}$ per cent to $6\frac{1}{2}$ per cent. The Central Bank's refinance rates on the modernisation or construction of tea factories remained unchanged 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 also remained unchanged at $1\frac{1}{2}$ per cent.

There were a few changes in the lending rates of commercial banks in the course of the year. There was no change in rates on advances against government securities; the minimum rate was 5 per cent and the maximum rate was $8\frac{1}{2}$ per cent. The minimum and maximum rates on bills purchased were

unaltered at $5\frac{1}{2}$ per cent and 9 per cent, respectively, since February. In the case of loans against stock-in-trade, however, the maximum rate moved up from $9\frac{1}{2}$ per cent to 11 per cent in June and the minimum rate from 7 per cent to $7\frac{1}{2}$ per cent in October. The maximum rate on loans against shares of joint-stock companies and immovable property rose from $9\frac{1}{2}$ per cent to 10 per cent but the minimum rate was unchanged at 7 per cent. The minimum rate on other types of security increased from $5\frac{1}{2}$ per cent to 6 per cent in October, while the maximum rate remained unchanged at 11 per cent. The minimum rate on unsecured loans went up from 7 per cent to $7\frac{1}{2}$ per cent in October and the maximum rate from 10 per cent to 11 per cent in June.

All commercial banks put up their deposit rates in October 1969. The rate paid on savings deposits went up by half a percentage point from $3\frac{1}{4}$ per cent to $3\frac{3}{4}$ per cent. The increases in rates on time deposits varied from a half to three quarters of a percentage point. The rates on deposits for periods up to 24 months were raised by a half percentage point, while the rates on deposits for periods in excess of 36 months were raised by three quarters of a percentage point. The differentials in the rates payable on deposits of varying sizes were also maintained in this general upward movement of deposit rates. Deposits were classified into three categories of size for this purpose, viz., under Rs. 5000/-; Rs. 5000/- and above but under Rs. 25,000; Rs. 25,000 and over. The rates on these classes of deposits were ranged at intervals of a quarter percentage point. Thus, for example, the rate payable for periods in excess of 36 months was $4\frac{1}{2}$ per cent on deposits of under Rs. 5000/-, $4\frac{3}{4}$ per cent on deposits of Rs. 5000/- and over but under Rs. 25,000/- and 5 per cent on deposits of Rs. 25,000/- and over. The last mentioned rate was the highest rate obtainable on time deposits with commercial banks.

The Ceylon Savings Bank raised the rates payable on fixed deposits by a half percentage point in November. Under a scheme instituted in 1968 fixed deposits are accepted by the Ceylon Savings Bank only in amounts of Rs. 25,000/- or above. The rates on these deposits were raised from $2\frac{1}{2}$ per cent to 3 per cent for deposits from 3 to 6 months, from 3 per cent to $3\frac{1}{2}$ per cent for deposits of 6 to 9 months, from $3\frac{1}{2}$ per cent to 4 per cent for deposits of 9 to 11 months and from 4 per cent to $4\frac{1}{2}$ per cent for deposits of 12 months. The rate payable on savings deposits remained unchanged at $3\frac{1}{2}$ per cent. The rate on savings deposits with the Post Office Savings Bank went up from 2.4 per cent to 3 per cent in January.

The lending rates of long-term lending institutions underwent some changes in 1969. The rates charged by the Agricultural and Industrial Credit Corporation were raised in February from 6.5 per cent to 7.5 per cent on loans for development purposes and from 7.5 per cent to 8.5 per cent on other loans. The State Mortgage Bank instituted a scheme in May for loans for the replanting of tea lands. The interest rates were fixed at 5 per cent for loans secured by land and 7 per cent for loans against other types of security. The interest rates on all other loans of the State Mortgage Bank were increased in November, the maximum rate moving up from $8\frac{1}{2}$ to $9\frac{1}{2}$ per cent. The Development

Finance Corporation raised its lending rate on loans refinanced by the Central Bank from 6 per cent to $8\frac{1}{2}$ per cent in August; the rate on all other loans was raised from 7 per cent to $9\frac{1}{2}$ per cent. The rate on foreign currency loans was 10 per cent throughout 1969.

The Treasury Bill rate, which stood at 3.64 per cent since July, 1968 moved up to 3.69 per cent in October 1969, to 4.02 per cent in November and further to 4.10 per cent in December. There was no change in the interest rate paid on issues of government securities. The rate on securities with a maturity of over 20 years remained at $5\frac{1}{2}$ per cent as fixed in May 1968.

2 (a) Commercial Banking - Principal Trends

There was a fall in the money supply despite an increase in currency in circulation. Thus the possible accrual of resources to commercial banks through a growth in demand deposits was impaired. Banks were, however, able to mobilise a greater volume of time and savings deposits than in the previous year. Demands on commercial banks' resources increased both from the private sector and from the Government in 1969. Commercial banks had, therefore, to rely on resources from the Central Bank for bridging the gap between the demand for credit and the availability of funds from deposits and internal sources.

Commercial banks were subject to ceilings on credit expansion to the private sector. As in the previous year, there was a seasonal slack in credit expansion to the private sector towards the end of the third quarter. Over the year as a whole, the demand for credit tended to increase, especially towards the end of the year. Banks, however, maintained the expansion of credit within the limits laid down by the ceilings. Banks were also able to achieve a change in the purpose-wise pattern of credit, although it is too early to say whether this change will be maintained.

2 (b) Branch Network

The distribution of bank offices and of deposits with banks between Ceylonese and foreign banks for the period 1963-69 is given in Table II (D) 7

TABLE II (D) 7

Distribution of Bank Offices and Deposits 1963-1969

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
1969	155	1,917	100	140	1,405	73	11	437	23	4	74	4

Source: Central Bank of Ceylon.

Branch expansion in 1969 was faster than in the previous year; the total number of branch offices of commercial banks increased by 14 to 155 at the end of 1969. The Bank of Ceylon opened eight new branches, as compared to only one in 1968. These were located at Nattandiya, Dehiwela, Kuliyapitya, Chunnakam, Horana, Maharagama, Tangalla and Eheliyagoda. Six new branch offices were opened by the People's Bank in Narammala, Nattandiya, Alutgama, Eheliyagoda and the University Campus, Colombo. One of the British banks operating in Ceylon, the Eastern Bank, was converted into a Rupee company with majority Ceylonese ownership and started functioning under the new name of the Commercial Bank of Ceylon Ltd from November, 1969.

All the foreign banks operating in Ceylon (except Habib Bank) obtained the approval of the Minister of Finance to open new Ceylonese accounts under the Finance (Amendment) Act of 1968. With the removal of restrictions imposed by the Finance Act of 1961 on the opening of new Ceylonese accounts, the foreign banks were able to arrest the declining trend in their share of total deposits with commercial banks. Although there was a reduction of one in the number of foreign banks operating in Ceylon in 1969, the share of deposits with foreign banks remained unaltered at 27 per cent between the beginning and the end of the year.

The increase of Rs. 102.6 million in time deposits with commercial banks was referred to earlier as being largely concentrated in the business sector. This increase occurred predominantly in bank branches operating in Colombo; nearly two-thirds of the increase was in deposits with foreign banks. In the case of savings deposits—held mainly by individuals—nearly 90 per cent of the total increase was in deposits with Ceylonese banks; a little more than 12 per cent of the increase in the total was accounted for by bank branches in rural areas (defined here as areas other than under municipalities and urban councils). The decrease in demand deposits was almost entirely in urban areas with the major part occurring in deposits with Ceylonese banks. The decline of Rs. 32.1 million in demand deposits with Ceylonese banks was however more than offset by an increase of Rs. 108.8 million in time and savings deposits.

The average size of demand deposits for all banks fell from Rs. 6,237/- to Rs. 5,370/- between the end of 1968 and the end of 1969. The average size of savings deposits rose slightly from Rs. 984/- to Rs. 999/-. Time deposits, however, increased in average size from Rs. 41,726/- to Rs. 44,952/-.

2. (c) Structure of Bank Assets and Liabilities

Statistics of selected items of commercial banks' consolidated assets and liabilities for the period 1958-1969 are shown in Table II (D) 8.

Total assets/liabilities of commercial banks increased by Rs. 221.8 million in 1969. Rs. 108.6 million of the increase in liabilities was in the form of deposits; the private sector's deposits rose by Rs. 113.5 million, while the Government's deposits fell by Rs. 4.3 million. The commercial banks increased their borrowings from the Central Bank by Rs. 84.3 million, in contrast to a

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

	Rupees Million.												End of Period	
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Dec. 1968	Dec. 1967
Cash on hand and deposits at Central bank (inclusive of statutory reserve requirements) ..	119	116	132	148	186	164	182	224	233	218	247	250	248	258
Foreign balances ..	50	52	58	54	55	44	49	55	62	57	72	63	77	52
Treasury bills ..	16	24	28	51	89	128	73	89	124	80	102	50	111	45
Bills discounted ..	116	119	115	122	136	114	126	173	175	198	252	241	225	297
Total liquid assets ..	301	311	333	375	466	450	430	541	594	553	673	604	661	652
Total investments* ..	296	285	284	290	303	313	330	329	330	300	278	275	278	263
Total loans and overdrafts ..	363	395	430	435	477	495	633	669	682	809	1,000	1,240	1,098	1,363
Demand deposits† ..	661	655	657	677	829	789	853	917	949	914	955	945	979	928
Time and savings deposits ..	263	300	340	359	380	460	535	572	631	649	798	915	826	986
Total deposits ..	926	955	998	1,036	1,209	1,250	1,389	1,490	1,580	1,564	1,755	1,863	1,808	1,917
Ratio of ..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	18.0	17.7	20.1	21.9	22.4	20.8	21.3	24.4	24.5	23.8	25.9	26.4	25.3	27.8
Cash to total deposits ..	12.9	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.7	13.9	14.1	13.4	13.7	13.5
Foreign balances to total deposits ..	5.4	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.9	3.6	4.1	3.4	4.3	2.7
Treasury bills to total deposits ..	1.7	2.5	2.8	4.9	7.4	10.2	5.3	6.0	7.8	5.1	5.8	2.7	6.1	2.3
Commercial bills discounted to total deposits ..	12.5	12.5	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.7	14.4	12.9	12.4	15.5
Liquid assets to demand deposits ..	45.5	47.5	50.7	55.4	56.2	57.0	50.4	59.0	62.6	60.5	70.5	63.9	67.5	70.3
Liquid assets to total deposits ..	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.3	37.6	35.4	38.3	32.4	36.6	34.0
Investments to total deposits ..	32.0	29.8	28.5	28.0	25.1	25.0	23.8	22.1	20.9	19.2	15.8	14.8	15.4	13.7
Loans and overdrafts to total deposits ..	39.2	41.4	43.1	42.0	39.4	39.6	45.6	44.9	43.2	51.7	57.0	66.6	60.7	71.1

Source: Central Bank of Ceylon.

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

†Exclude domestic inter-bank deposits.

reduction of Rs. 14.8 million in the previous year. Borrowings from banks abroad rose by Rs. 3.0 million. Capital and reserves of commercial banks increased by Rs. 14.5 million and other liabilities rose by Rs. 21.2 million.

On the assets side, advances of commercial banks increased by Rs. 336.5 million, of which Rs. 264.5 million was in the form of loans and overdrafts. The liquidity position of commercial banks was subject to considerable strain during the year as indicated by the liquidity ratios. The monthly average ratio of cash holdings (including statutory reserves) to total deposits declined from 14.1 per cent in 1968 to 13.4 per cent in 1969. This was partly the reflection of the lower reserve requirements owing to the change in the composition of deposits which resulted from a reduction in demand deposits and an increase in time and savings deposits. Among other liquid assets, there were substantial declines in commercial banks' holdings of treasury bills, foreign balances and cash items in process of collection. Although banks' holdings of commercial bills increased as between end-year positions, their monthly average declined over the year. All these developments operated to reduce the monthly average ratio of total liquid assets to total deposits from 38.3 per cent in 1968 to 32.4 per cent in 1969.

One of the ways in which commercial banks attempted to meet the demand for advances was by a reduction in their investments in government and government guaranteed securities. The monthly average ratio of these investments to total deposits fell by one percentage point to 14.8 per cent between 1968 and 1969. Over the ten-year period 1960-69, this ratio has been nearly halved. The ratio of loans and overdrafts to total deposits in 1969 was, on the average, almost ten percentage points higher than in the previous year.

2 (d) Sources of Funds and their Utilisation

It would be evident from the discussion of the changes in commercial banks' assets and liabilities that the demand for their resources in 1969 tended to outstrip the growth of deposits and the increase in internal resources. The demand for funds emanating from the private sector was in keeping with a growing trend apparent from 1966. The pressure on banks' resources was relieved by the availability of deposits of this sector, the operation of credit ceilings which limited the increase in the supply of bank credit to the private sector and the availability of refinance facilities from the Central Bank for specified purposes. The Government's demand for commercial banks' resources has been subject to wide annual swings. In 1969, there was a substantial increase in contrast to the sharp decline in the previous year. Taking the entire resource picture into consideration, it will be seen that commercial banks had to resort to increased borrowing from the Central Bank to augment their resources in 1969 in contrast to the previous year when they were able to reduce borrowings.

In the private sector, co-operatives and government corporations utilised banks' resources both by obtaining an increased amount of advances as well as by drawing down their deposits; they, therefore, made no contribution to the growth of banks' resources. The flow of resources to government corporations

amounted to Rs. 85.4 million, comprising an increase of Rs. 69.9 million in advances and a decrease of Rs. 15.5 million in deposits. Similarly, banks' advances to co-operatives rose by Rs. 19.9 million and the co-operatives withdrew their deposits with banks to the extent of Rs. 3.9 million. The rest of the private sector utilised Rs. 142.1 million of banks' resources in 1969 as compared to Rs. 181.8 million in the previous year. In contrast to the corporations and co-operatives, however, the rest of the private sector provided resources to commercial banks to the extent of Rs. 132.9 million in 1969 as a result of an increase in its deposits.

The government sector utilised Rs. 100.4 million of commercial banks' resources, mainly in the form of an increase of government import bills held by banks. This was a reversal of the previous year's position when commercial banks' holdings of government import bills fell by Rs. 125 million. Table II (D) 9 shows Rs. 83.0 million as resources created by the reduction in banks' holdings of government paper. Of this figure, however, Rs. 65.9 million represents the reduction in treasury bills held by banks. Since the holdings of Treasury bills by the Central bank rose by a greater amount during the year, the reduction in commercial banks' holdings of treasury bills could be regarded as equivalent to a creation of resources by the Central Bank for commercial banks. The accretion of commercial banks' resources from the government sector would, on this basis amount to Rs. 17.1 million which represents the reduction in banks' holdings of government bonds.

The banks also experienced a net increase of Rs. 26.6 million in resources from the foreign sector. This arose from a reduction of Rs. 24.6 million in their foreign balances and an increase of Rs. 3.0 million in borrowings from banks abroad, offset to the extent of Rs. 1.0 million by a decrease of deposits of foreign banks. There was also a net addition of Rs. 20.1 million to resources from within the domestic commercial banking system. This increase consisted chiefly of increases of Rs. 14.5 million in capital and reserves and Rs. 21.1 million in 'other' liabilities (net), offset by a utilisation of Rs. 14.9 million for building up till cash.

The resources obtained by commercial banks from the Central Bank amounted to Rs. 89.3 million. Refinance provided by the Central Bank in respect of the Agricultural Credit Scheme and the Guaranteed Price Scheme actually declined by Rs. 10.1 million. Refinance provided under the Medium and Long-term Credit Fund rose by Rs. 21.7 million and other advances to commercial banks increased by Rs. 72.7 million. In addition, the decline in demand deposits enabled commercial banks to reduce their reserves with the Central Bank by Rs. 5.0 million in 1969.

2 (e) Bank Credit to the Private Sector

The increase of Rs. 229.3 million in commercial bank credit to the private sector in 1969 was mainly in the form of loans and overdrafts. The outstanding amount of loans under the Agricultural Credit Scheme was on the average higher than in the previous year but remained at relatively low levels in the months

TABLE II (D) 9

Yearly Changes in Bank Resources and their Utilisation 1966 - 1969

Rupees Million

	1966	1967	1968	1969
Sources of Funds				
1. Government Sector	64.2	64.3	150.9	83.0
Reduction in holdings of Government paper ..	14.6	64.3	—	83.0
Increase in deposits	—	—	25.9	—
Decrease in import bills	49.6	—	125.0	—
Decrease in short term credit	—	—	—	—
2. Central Bank	86.3	59.3	2.3	89.3
Increase in borrowings	36.4	59.3	—	84.3
Decrease in reserves	49.9	—	2.3	5.0
3. Government Corporations	—	93.5	—	—
Increase in deposits	—	93.5	—	—
Decrease in advances	—	—	—	—
4. Co-operatives	1.2	9.9	0.6	—
Increase in deposits	1.2	9.9	0.6	—
Decrease in advances	—	—	—	—
5. Other Domestic Private Sector	34.1	50.0	167.1	132.9
Increase in deposits	34.1	50.0	167.1	132.9
Decrease in advances and investments	—	—	—	—
6. Inter-bank	34.2	108.3	62.5	35.8
Increase in capital and reserves	16.0	7.3	6.1	14.5
Decrease in fixed and other assets	—	—	—	0.1
Increase in 'other' liabilities	18.2	81.3	52.4	21.2
Inter-bank transactions (net)	—	—	4.0	4.0
Decrease in till cash	—	19.7	—	—
7. Foreign Sector	0.7	1.0	7.3	27.6
Increase in borrowings	0.7	—	7.1	3.0
Increase in deposits	—	1.0	0.2	—
Decrease in foreign balances	—	—	—	24.6
Total increase in resources	220.7	386.3	390.7	368.6
Utilization of Funds				
1. Government Sector	28.2	157.7	10.1	100.4
Increase in holdings of Government paper ..	—	—	10.1	—
Decrease in deposits	28.2	18.2	—	4.3
Increase in government import bills	—	139.5	—	87.9
Increase in short term credit	—	—	—	8.2
2. Central Bank	—	55.9	14.8	—
Decrease in borrowings	—	—	14.8	—
Increase in reserves	—	55.9	—	—
3. Government Corporations	78.2	11.4	115.5	85.4
Decrease in deposits	50.5	—	24.9	15.5
Increase in advances	27.7	11.4	90.6	69.9
4. Co-operatives	25.8	7.3	18.5	23.8
Decrease in deposits	—	—	—	3.9
Increase in advances	25.8	7.3	18.5	19.9
5. Other Domestic Private Sector	38.8	87.9	181.8	142.1
Decrease in deposits	—	—	—	—
Increase in advances and investments	38.8	87.9	181.8	142.1
6. Inter-bank	32.5	58.7	39.4	15.7
Decrease in capital and reserves	—	—	—	—
Increase in fixed and other assets	22.1	57.7	17.6	—
Decrease in 'other' liabilities	—	—	—	—
Inter-bank transactions (net)	0.6	1.0	—	0.8
Increase in till cash	9.8	—	21.8	14.9
7. Foreign Sector	17.0	7.3	10.6	1.0
Decrease in borrowings	—	0.9	—	—
Decrease in deposits	1.6	—	—	1.0
Increase in foreign balances	15.4	6.4	10.6	—
Total increase in resources utilised	220.5	386.2	390.7	368.4

Source: Central Bank of Ceylon.

note:— The method of presentation followed in this table differs in certain respects from that followed in the table published in earlier Annual Reports, as indicated below.

Government Sector: The item shown as 'short term credit' in earlier reports is now broken up into 'government import bills' and 'short term credit'; the latter relates to cheques, money orders etc. purchased on government account.

Central-Bank: Changes in reserves with the Central Bank were shown in earlier Reports under 'domestic cash items' but are shown here as a separate item under 'Central Bank'.

Private Sector: The 'domestic private sector' shown in earlier Reports is now broken up into 'Corporations', 'Co-operatives' and 'Other domestic private sector'.

Inter-Bank: This new item shows all changes in assets/liabilities arising out of transactions within the commercial banking system. Although some of the transactions resulting in changes in 'other' liabilities of banks are with the private sector, they are shown here owing to the difficulty of allocating changes in this composite item to corporations, co-operatives and the rest of the private sector.

June to September when there were repayments of the Maha 68/69 loans; in the last three months of the year there was an increase owing to the disbursement of loans for the Maha 69/70 season. Medium and long term loans for industry and agriculture, exempted from the operation of credit ceilings, increased almost throughout the year. Loans and overdrafts to government corporations increased steadily during the year. Loans and overdrafts to the rest of the private sector tended to decline in the months February to June but to rise in the second half of the year, especially in the last two months.

TABLE II (D) 10

Commercial Bank Advances to the Private Sector*

December 1968 - December, 1969

Rupees Million

	Ceylonese Banks†			Foreign Banks			All Banks		
	Dec. 1968	Dec. 1969	Change	Dec. 1968	Dec. 1969	Change	Dec. 1968	Dec. 1969	Change
(a) Cash items in process of collection**	51.3	33.1	- 18.2	1.2	0.8	- 0.4	52.5	33.8	- 18.7
(b) Local Bills	—	—	—	0.1	—	- 0.1	0.1	—	- 0.1
(c) Import Bills	60.0	35.0	- 25.0	29.4	32.9	+ 3.5	89.4	67.9	- 21.5
(d) Export Bills	18.7	25.0	+ 6.3	61.5	60.8	- 0.7	80.2	85.9	+ 5.7
(e) Overdrafts	227.7	379.1	+151.4	270.0	246.2	-23.8	497.8	625.3	+127.5
(f) Loans	538.6	637.9	+ 99.3	62.0	99.2	+37.2	600.7	737.0	+136.3
Total	896.3	1110.1	+213.8	424.2	439.9	+15.7	1320.6	1549.9	+229.3

Source: Central Bank of Ceylon.

* Includes government corporations.

** This category consists of cheques, money orders etc sent for collection and short term advances granted to co-operatives for the financing of purchases of foodstuffs under the Guaranteed Price Scheme.

† Figures for December 1969 include advances of Commercial Bank of Ceylon Ltd which functioned as a foreign bank (the Eastern Bank) till November 1969

Import bills of corporations held by banks reached a peak in May, but declined thereafter; over the year as a whole they decreased by Rs. 18.0 million. Import bills of the rest of the private sector showed monthly fluctuations of small magnitudes, falling by Rs. 3.6 million over the year.

Cash items in process of collection declined by Rs. 18.7 million. Goods receipt advances increased from Rs. 20.4 million at the end of December 1968 to a peak of Rs. 79.2 million at the end of June 1969. During the second half of the year they fell steadily to reach a level of Rs. 8.8 million at the end of December. Other cash items in process of collection declined by Rs. 14.4 million in the year.

Table II (D) 11 gives a classification of banks' advances, by purposes and maturity. The statistics presented in this table have been prepared from the Central Bank's Survey of Deposits and Advances of commercial banks. This survey was carried out on a quarterly basis for the first time in 1969 and the statistics are therefore presented on this basis. The survey covers advances 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)	(3)	(4)	(5)	(6)	(7)	(8)
				(1)as % of (7)		(3)as % of (7)		(5)as % of (7)		(7) as % of Total
A. Commercial										
December	1968	..	286.3	45.5	213.6	34.0	128.7	20.5	628.7	49.6
March	1969	..	293.5	44.9	225.4	34.5	134.1	20.5	653.0	48.3
June	1969	..	256.1	41.7	230.4	37.5	127.6	20.8	614.1	45.5
September	1969	..	259.0	39.7	279.6	42.9	113.6	17.4	652.3	46.3
December	1969	..	271.4	40.6	277.0	41.4	120.3	18.0	668.7	44.2
B. Financial										
December	1968	..	47.2	34.6	36.6	26.8	52.8	38.7	136.5	10.8
March	1969	..	45.1	32.9	43.3	31.6	48.6	35.5	137.0	10.1
June	1969	..	51.9	36.9	40.4	28.7	48.3	34.4	140.6	10.4
September	1969	..	49.9	35.9	42.7	30.8	46.3	33.4	138.8	9.8
December	1969	..	47.1	34.0	45.2	32.6	46.3	33.4	138.6	9.2
C. Agricultural										
December	1968	..	15.6	11.1	92.8	66.1	31.8	22.7	140.3	11.1
March	1969	..	23.3	15.2	94.7	61.6	35.6	23.2	153.6	11.4
June	1969	..	21.9	14.5	90.2	59.8	38.9	25.8	150.9	11.2
September	1969	..	16.5	11.5	85.2	59.5	41.6	29.0	143.3	10.2
December	1969	..	25.6	14.5	105.2	59.6	45.8	25.9	176.6	11.7
D. Industrial										
December	1968	..	120.5	52.0	42.7	18.4	68.5	29.6	231.7	18.3
March	1969	..	142.4	52.8	36.5	13.5	91.0	33.7	269.9	20.0
June	1969	..	145.8	46.9	73.7	23.7	91.3	29.4	310.8	23.0
September	1969	..	147.7	43.7	86.9	25.7	103.3	30.6	338.0	24.0
December	1969	..	158.5	40.9	82.0	21.2	146.8	37.9	387.3	25.6
E. Consumption										
December	1968	..	14.2	14.9	32.9	34.5	48.1	50.5	95.3	7.5
March	1969	..	12.0	12.7	34.0	35.9	48.6	51.4	94.6	7.0
June	1969	..	15.3	15.9	31.3	32.6	49.4	51.5	95.9	7.1
September	1969	..	15.0	15.7	31.4	32.9	49.2	51.5	95.5	6.8
December	1969	..	15.4	15.6	32.7	33.1	50.7	51.3	98.8	6.5
F. Other Loans										
December	1968	..	4.3	12.1	17.1	48.2	14.1	39.7	35.5	2.8
March	1969	..	8.9	20.1	20.8	46.9	14.6	33.0	44.3	3.3
June	1969	..	5.8	15.9	18.3	50.1	12.4	34.0	36.5	2.7
September	1969	..	6.0	14.4	21.9	52.6	13.6	32.7	41.6	2.9
December	1969	..	3.8	8.8	24.1	55.5	15.6	35.9	43.4	2.9
G. Total										
December	1968	..	488.1	38.5	435.8	34.4	344.1	27.1	1,268.0	100.0
March	1969	..	525.2	38.8	454.7	33.6	372.5	27.5	1,352.4	100.0
June	1969	..	496.7	36.8	484.2	35.9	367.8	27.3	1,348.8	100.0
September	1969	..	494.2	35.1	547.7	38.9	367.6	26.1	1,409.5	100.0
December	1969	..	521.7	34.5	566.2	37.4	425.5	28.1	1,513.5	100.0

Source : Central Bank of Ceylon.

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

the private sector, including government corporations, in the form of loans and overdrafts, export bills and import bills and excludes cash items in process of collection.

The most striking feature of the changes in the structure of bank advances in 1969 was the increase in the importance of advances for industrial purposes. Out of a total increase of Rs. 245.5 million in banks' advances Rs. 155.6 million was in advances to borrowers in the industrial sector. The share of industrial advances in the total, therefore, rose from 18.3 per cent at the end of 1968 to 25.6 per cent at the end of 1969.

As between government corporations and other borrowers in the private sector, Rs. 81.6 million of industrial advances were absorbed by corporations and Rs. 74.0 million by others. Industrywise, the largest slices of the increase in industrial advances went to the textile industries (Rs. 46.9 million), metal products industries (Rs. 13.7 million) and chemical products industries (Rs. 36.6 million). There were smaller increases in advances to other industries and a very small decline in advances to the engineering and building trades. A detailed breakdown of advances for industrial purposes outstanding at the end of each quarter of 1969 is given in Table II (D) 12.

TABLE II (D) 12
Commercial Banks' Advances for Industrial Purposes

		Rupees million				
		Amount outstanding as at end of				
		December 1968	March 1969	June 1969	September 1969	December 1969
1. Textiles	..	48.3	66.4	74.8	80.4	95.2
Government corporations	..	17.3	25.4	32.0	32.5	35.7
Other	..	30.9	41.0	42.8	47.9	59.5
2. Metal Products	..	22.0	21.6	22.5	31.0	35.7
Government corporations	..	7.4	8.5	8.3	11.1	13.3
Other	..	14.6	13.1	14.2	19.9	22.5
3. Chemical Products	..	13.4	13.7	25.5	27.6	50.0
Government corporations	..	0.2	...	13.0	13.8	30.3
Other	..	13.2	13.7	12.5	13.8	19.7
4. Footwear and Leather Products	..	4.1	4.5	3.8	5.9	6.8
Government corporations	..	2.7	3.0	2.1	4.2	4.5
Other	..	1.4	1.5	1.7	1.7	2.3
5. Biscuits and Confectionery	..	5.7	6.0	4.7	7.2	8.3
Government corporations	..	—	—	—	—	—
Other	..	5.7	6.0	4.7	7.2	8.3
6. Processing of tea, rubber and coconut	..	13.4	14.0	16.0	18.0	22.0
Government corporations	..	—	—	—	—	—
Other	..	13.4	14.0	16.0	18.0	22.0
7. Engineering and building trades	..	51.4	57.0	57.4	55.4	50.5
Government corporations	..	9.7	10.0	12.1	10.9	11.8
Other	..	41.7	47.0	45.3	44.5	38.7
8. Other Industries	..	73.5	86.6	105.9	112.3	188.6
Government corporations	..	33.7	35.2	56.5	58.7	57.0
Other	..	39.8	51.4	49.5	53.6	61.6
Total	..	231.7	269.9	310.8	338.0	387.3
Government corporations	..	71.0	82.2	124.0	131.2	152.6
Other	..	160.7	187.7	186.8	206.8	234.7

Source: Central Bank of Ceylon

Among commercial advances, those for import trading declined by Rs. 16.8 million in contrast to the increase of Rs. 75.5 million in 1968. The decline was especially marked in the first three quarters of the year but there was an increase in the last quarter of the year. Advances to export trading rose by Rs. 18.0 million as compared to Rs. 58.0 million in the previous year. Export bills held by banks rose substantially in the months July-October, but declined in the last two months of the year to reach a level of only Rs. 5.7 million higher than at the end of 1968. The decline towards the end of the year may partly be explained by the increased rediscounting of export bills abroad from October. Advances for wholesale and retail trading rose by Rs. 7.7 million. Other commercial advances increased by Rs. 31.1 million.

Advances for agricultural purposes rose by Rs. 36.3 million which was slightly less than the rise in the previous year. The share of agricultural advances in total advances rose slightly from 11.1 per cent to 11.7 per cent in the course of the year. The increase in advances for export crops was smaller than in the previous year. Credit to domestic agriculture increased more than in the previous year. The outstanding amount of cultivation loans for paddy and subsidiary food crops covered by the Agricultural Credit Scheme increased by Rs. 14.7 million. As explained elsewhere, this increase does not represent a gross increase in loans disbursed during the year but an increase in outstanding amounts not repaid from the inception of the scheme. Advances for other domestic agriculture including dairy farming rose by Rs. 13.8 million in 1969.

Advances for financial purposes increased only Rs. 2.1 million as compared to Rs. 32.6 million in 1968. Advances to financial institutions showed an increase of Rs. 9.4 million, while other advances for financial purposes fell by Rs. 7.4 million. The share of all financial advances in total advances declined from 10.8 per cent to 9.2 per cent.

Loans for consumer durables increased by Rs. 5.7 million and for other personal needs decreased by Rs. 2.2 million; there was a decline of Rs. 1.3 million in these two items in the previous year. The residual category of 'other' loans showed an increase of Rs. 7.9 million in contrast to a decrease of Rs. 17.7 million in 1968.

Advances classified by rate of interest are shown in Table II (D)13 and by type of security in Table II (D) 14.

TABLE II (D) 13
Advances* by Rate of Interest

Rate of Interest (Per cent)	December 31st 1968		March 31st 1969		June 30th 1969		September 30th 1969		December 31st 1969	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Below 3½	15.7	1.3	5.3	0.4	3.5	0.3	5.2	0.4	5.4	0.4
3½	4.6	0.4	12.7	1.0	12.8	1.0	4.8	0.4	8.9	0.6
4	2.7	0.2	2.6	0.2	3.3	0.3	3.6	0.3	4.5	0.3
4½	2.8	0.2	2.5	0.2	2.4	0.2	2.2	0.2	2.6	0.2
5	22.8	1.9	24.0	1.9	21.6	1.7	17.7	1.4	22.0	1.5
5½	16.2	1.4	11.1	0.9	8.7	0.7	15.5	1.2	21.0	1.5
6	121.8	10.3	136.9	10.7	155.4	12.3	187.1	14.3	211.7	14.8
6½	96.9	8.2	94.0	7.3	102.4	8.1	104.9	8.0	132.0	9.3
7	232.4	19.6	271.7	21.2	260.0	20.5	225.2	17.2	108.0	7.6
7½	300.6	25.4	267.0	20.9	238.9	18.9	281.2	21.5	302.9	21.2
8	209.7	17.7	203.2	15.9	193.0	15.2	202.9	15.5	316.5	22.2
8½	50.4	4.3	97.8	7.6	95.0	7.5	82.0	6.3	62.1	4.4
9	69.2	5.8	100.1	7.8	105.5	8.3	98.8	7.6	142.5	10.0
9½	37.3**	3.1	20.2	1.6	10.2	0.8	9.3	0.7	11.0	0.8
10	n. a.	n. a.	15.9	1.2	31.1	2.5	29.5	2.3	26.6	1.9
10½	n. a.	n. a.	13.2	1.0	13.4	1.1	19.3	1.5	22.1	1.5
11	n. a.	n. a.	1.9	0.1	7.8	0.6	16.7	1.3	25.6	1.8
11½	n. a.	n. a.	...	...	—	—	...	...	...	...
12% and over	n. a.	n. a.	...	...	1.3	0.1	0.4	...	1.4	0.1
Total	1,183.3	100.0	1,280.3	100.0	1,266.5	100.0	1,306.4	100.0	1,426.7	100.0

Source: Central Bank of Ceylon.

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

** Includes advances given at rates over 9½ per cent

TABLE II (D) 14
Advances* by Type of Security

Security	December 31st 1968†		March 31st 1969		June 30th 1969		September 30th 1969		December 31st 1969	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary bills ..	183.0	14.4	155.2	11.5	150.0	11.1	159.1	11.3	147.0	9.7
Government securities	16.8	1.3	14.8	1.1	19.8	1.5	45.1	3.2	47.2	3.1
Shares of joint-stock companies ..	20.9	1.6	21.4	1.6	21.8	1.6	22.7	1.6	19.8	1.3
Time and savings deposits and other cash deposits inclu- ding cash value of life policies ..	50.2	4.0	57.5	4.2	59.1	4.4	57.3	4.1	73.6	4.9
Stock in trade ..	268.1	21.1	296.8	21.9	273.7	20.3	300.3	21.3	315.2	20.8
Immovable property ..	121.6	9.6	143.2	10.6	151.6	11.2	159.7	11.3	167.9	11.1
Guarantees ..	n.a.	n.a.	240.2	17.8	246.5	18.3	245.5	17.4	254.7	16.8
Trust receipts ..	n.a.	n.a.	144.0	10.6	151.3	11.2	119.5	8.5	139.2	9.2
Hire-purchase agreements ..	n.a.	n.a.	20.5	1.5	26.1	1.9	27.4	1.9	32.4	2.1
Plant and machinery	n.a.	n.a.	3.2	0.2	4.5	0.3	5.7	0.4	6.6	0.4
Tractors and motor vehicles ..	n.a.	n.a.	26.4	1.9	27.8	2.1	30.6	2.2	33.1	2.2
Pro-notes, bonds and usage notes ..	n. a.	n. a.	129.0	9.5	128.8	9.5	134.6	9.5	169.3	11.2
Other secured ..	542.5	42.8	37.8	2.8	42.7	3.2	52.3	3.7	54.0	3.6
Unsecured ..	64.8	5.1	62.4	4.6	45.0	3.3	49.8	3.5	53.4	3.5
Total	1,268.0	100.0	1,352.4	100.0	1,348.8	100.0	1,409.5	100.0	1,513.5	100.0

Source: Central Bank of Ceylon

* Exclude cash items in process of collection

† Advances against guarantees, trust receipts, hire purchase agreements, plant and machinery etc. are included in 'other secured'.

3. Savings and Long-term Credit Institutions

Statistics of the lending operations of the state sponsored savings and lending institutions are presented in Table II (D) 15.

TABLE II (D) 15

Lending Operations of Long - term Credit Institutions

Institution	Rs. Thousand							
	1966		1967		1968		1969	
	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding
Development Finance Corporation (a)	4,540	29,052	3,150	29,154	7,273	31,716	19,561	47,982
Ceylon Savings Bank	2,249	16,371	3,890	17,715	4,386	19,943	3,671	20,921
Agricultural & Industrial Credit Corporation	3,933	32,367	2,565	31,119	3,285	30,288	4,322	30,963*
State Mortgage Bank	4,959	55,319	4,812	55,453	6,623	57,816	8,597	61,943
Loan Board	833	10,970	1,225	11,047	1,076	10,758	1,212	10,920
National Housing Dept. (b)	16,861	84,196	25,585	105,485	14,355	113,960	11,663	118,867
Total	33,375	228,275	41,217	249,973	36,998	264,481	49,026	291,596

Source: Central Bank of Ceylon.

The amount outstanding as at end September 1969.

Following a decline in 1968, the total value of loans granted by these institutions recorded a substantial increase in 1969. The rise in the loans disbursed by the Development Finance Corporation accounted for the largest part of this increase; there were also increases in the loans of the Agricultural and Industrial Credit Corporation and the State Mortgage Bank. The loans of the National Housing Department and the Ceylon Savings Bank declined.

Of the sum of Rs. 19.5 million disbursed by the Development Finance Corporation in 1969, Rs. 8.3 million was in foreign currency assistance financed by drawings on the first line of credit of \$ 4 million arranged with the International Bank for Reconstruction and Development in the previous year. Rupee assistance amounting to Rs. 11.2 million was provided by the Corporation by drawing Rs. 9.5 million from the Central Bank's Medium and Long term Credit Fund and Rs. 1.7 million from its own funds. In order to augment its resources, the Corporation has negotiated a second line of credit with the International Bank for Reconstruction and Development in a sum of \$ 8 million.

Loans granted by the State Mortgage Bank amounted to Rs. 8.6 million in comparison to Rs. 6.6 million in 1968. The majority of these loans were for housing purposes. The resources of the Bank were increased by an increased utilisation of overdraft facilities.

Loans granted by the Agricultural and Industrial Credit Corporation amounted to Rs. 4.3 million in 1969, in comparison to Rs 3.3 million in the previous year.

Table II (D) 16 summarises the movement in savings deposits and savings certificates in the years 1968 and 1969.

TABLE II (D) 16
Savings Deposits and Savings Certificates

Rupees Million				
	December 1967	December 1968	December 1969	Change December '68/ December '69
Post Office Savings Bank ..	450.6	473.3	489.7*	+ 16.4
Ceylon Savings Bank ..	93.2	100.3	98.8*	— 1.5
Commercial banks (Time and Savings deposits)** ..	700.8	826.2	985.6	+159.4
Savings Certificates outstanding ..	78.7	91.3	86.6*	— 4.7
Total ..	1,323.3	1,491.1	1,660.7*	+169.6*

Source: Central Bank of Ceylon

* Provisional

** Includes Government deposits

The total contributions received in 1969 by the Employees' Provident Fund amounted to Rs 91.9 million, as compared to Rs 87.1 million in the previous year.

4. Central Banking

The Central Bank's assets/liabilities rose by Rs. 219.5 million, or 7.4 per cent, in 1969. The provision of finance for the country's balance of payments deficit was reflected in a decline in the international reserve and an increase in external liabilities of the Central Bank. While the deposit liabilities of the Central Bank to the Government were reduced, the creation of additional financial resources for the Government led to an expansion in the Central Bank's domestic assets. Increased lending to the commercial banks was also responsible for part of the increase in the Central Bank's domestic assets. The currency issue rose by Rs. 30.8 million. Deposits of commercial banks with the Central Bank fell by Rs. 5.1 million.

As the international reserve of the Central Bank had already reached a low level in the previous year the Central Bank had to borrow substantial sums of foreign exchange to bridge the external payments gap. Thus, while the Central Bank's international reserve fell by Rs. 70.3 million, short-term borrowings from banks and credit institutions abroad rose by Rs. 227.3 million. Liabilities to the International Monetary Fund increased by Rs. 8.7 million. Other external liabilities declined by Rs. 27.6 million.

Of the increase in domestic assets of the Central Bank, Rs. 104.5 million represented the increase in Government's indebtedness to the Central Bank. The Central Bank's advances to commercial banks rose by Rs. 60.9 million. Other miscellaneous assets of the Central Bank rose by Rs. 124.5 million.

The Government's deposits with the Central Bank were drawn down by Rs. 65.6 million in 1969. 'Other' liabilities of the Central Bank rose by Rs. 51.6 million.

The Central Bank continued to follow a policy of maintaining a ceiling on its net domestic assets as a measure designed to achieve a regulated monetary expansion. Net domestic assets, for this purpose, consist of special loans and provisional advances to the Government, the Central Bank's holdings of government and government guaranteed securities and treasury bills and the Central Bank's loans and advances to commercial banks (except for advances provided under the Agricultural Credit Scheme and the Guaranteed Price Scheme) less Government's deposits and the balance in foreign governments' accounts with the Central Bank.

The net domestic assets which stood at Rs. 1,868.8 million on December 31, 1968 rose to Rs. 2,054.1 million as on December 31, 1969.

The Central Bank's credit policy in force at the beginning of the year and the principles underlying this policy have been described in the Annual Report for 1968. Briefly, the objectives of this policy were to limit the expansion of commercial bank credit to the private sector for specified purposes while permitting a more liberal expansion for selected essential purposes and placing no restriction on certain other high priority sectors.

The ceilings imposed in October 1968 sought to limit the expansion of credit by the commercial banks to the private sector to 8 per cent of the level as at the end of August or September 1968, whichever was higher. The items of credit covered by the ceiling were import bills, local bills and loans and overdrafts other than advances to government corporations, loans under the Agricultural Credit Scheme, advances to co-operatives for marketing, goods receipts advances under the Guaranteed Price Scheme, and loans under the tea factory modernisation project. Banks were allowed to increase pre-shipment credit for exports by a further 7 per cent over the total credit to the private sector as at the base date. Commercial banks were also asked not to increase credit for inessential purposes such as consumption and speculative stock building. From the beginning of February 1969, medium and long-term loans (that is, for periods over 3 years) to industry and agriculture were also exempted from the ceiling.

The amount of credit outstanding at the base date for all banks, calculated on the above basis, was Rs. 868 million. The ceiling was therefore Rs. 937 million, permitting an increase of 8 per cent amounting to Rs. 69 million over the base figure. A further increase of 7 per cent amounting to Rs. 61 million was permissible if this increase was in credit to the export sector. The figures of actual credit as at the inception of the ceiling and at the end of May 1969, when they were revised, are given in Table II (D) 17.

TABLE II (D) 17

Commercial Bank Credit to the Private Sector
October 1968 and May 1969

(Amounts Outstanding as at end of month)

		Rupees Million	
		October 1968	May 1969
A.	Credit covered by the ceiling		
1.	Advances for exports	861.1	191.8
2.	Other advances	654.4	674.8
3.	Import bills	64.4	43.2
4.	Local bills	4.1	23.3
	Total credit under the ceiling	891.0	933.1
B.	Credit exempted from the ceiling		
1.	Export bills	87.8	76.2
2.	Loans under Agricultural Credit Scheme	45.7	57.4
3.	Goods receipts advances	22.2	59.4
4.	Marketing advances to co-operatives	4.2	5.4
5.	Tea factory modernisation loans	5.7	8.1
6.	Medium and long-term loans for agriculture and industry*	—	70.9
7.	Advances to government corporations	174.6	245.3
8.	Cash items in process of collection	45.7	—
	Total credit outside the ceiling	385.9	522.7
	All credit to private sector	1,276.9	1,455.8

Source: Central Bank of Ceylon.

*The figure for medium and long-term loans for industry and agriculture for October 1968 was Rs. 37.3 million and is included in 'Other advances' under the ceiling (Item A2) as these loans were exempted from the ceiling only in February 1969.

From June 1, 1969 the ceilings were revised to permit an increase of 7 per cent in advances over the amount outstanding as at a new base date (April 29, 1969). A further 7 per cent increase was permitted for advances for the finance of exports and for tourist promotion: advances for tea production; were included in the category eligible for this facility from July 1969. From June 16, 1969 a separate ceiling was imposed on advances to government corporations, permitting an increase of 7 per cent over the amount of total credit outstanding to the private sector (including corporations) as at April 29, 1969. These ceilings were to be in force till the end of December.

The base figures of credit under the revised ceilings were Rs. 217 million for government corporations and Rs. 955 million for the rest of the private sector. The corresponding ceilings were Rs. 272 million and Rs. 1,023 million, respectively. The actual amounts of credit outstanding at the end of June and December 1969 are shown in Table II (D) 18.

TABLE II (D) 18
Commercial Bank Credit to the Private Sector,
June 1969 and December 1969.

(Amounts outstanding at the end of month)

Rupees Million		
	June 1969	December 1969
A. Credit covered by the ceiling		
I. Government corporations ..	241.1	253.7
II. Other private sector		
1. Advances for exports, and tourist promotion* ..	189.8	235.1
2. Other advances ..	671.1	712.2
3. Import bills ..	37.8	55.0
4. Local bills ..	23.7	17.6
Total credit to other private sector under ceiling ..	922.4	1,019.9
Total credit to government corporations and other private sector under ceiling ..	1,163.5	1,273.6
B. Credit exempted from the ceiling		
1. Export bills ..	82.7	85.9
2. Loans under Agricultural Credit Scheme ..	54.3	73.8
3. Goods receipt advances ..	79.2	8.8
4. Marketing Advances to co-operatives ..	3.0	1.0
5. Tea factory modernisation loans ..	9.7	16.3
6. Medium and long-term loans for industry and agriculture ..	68.2	90.5
Total credit outside ceiling ..	297.1	276.3
All credit to private sector ..	1,460.6	1,549.9

Source: Central Bank of Ceylon.

*The figure for December 1969 includes Rs. 35.4 million of advances for tea production. These advances were included in the category eligible for an additional 7 per cent increase from July 1969.

It will be observed from the figures in Table II (D) 17 & II (D) 18 that from the inception of the ceilings in November 1968 up to the revision of the ceilings at the end of May, out of a total increase of Rs. 178.9 million in credit to the private sector, Rs. 42.1 million was in items covered by the ceiling, while Rs. 136.8 million was in credit exempted from the ceiling. However, it must be noted that the increase in the latter was very largely accounted for by advances to government corporations and medium and long-term advances to industry and agriculture.

The increase in advances to government corporations was brought under control by the imposition of a ceiling on them from June 1969. The increase in these advances in the months of July to December 1969 amounted to only Rs. 12.6 million, Medium and long-term advances for industry and agriculture, although exempted from the ceiling, rose more slowly in these months than in the earlier period. The total increase in credit to the private sector after the revision of the ceilings up to the end of 1969 was Rs. 89.3 million. This was the result of increases in credit (both to corporations and to the rest of the private sector) covered by the ceilings (Rs. 110.1 million) offset by a small decline in items exempted from the ceiling. The increases in credit covered by the ceilings, however, were within the upper limits laid down.

Commercial banks and other credit institutions made greater use of refinance facilities under the Medium and Long-term Credit Fund of the Central Bank in 1969 than in earlier years. Refinance loans granted from the Fund amounted to Rs. 34.7 million as compared to Rs. 5.2 million in 1968. This amount includes Rs. 10.9 million granted as refinance loans under the tea factory modernisation project, the foreign currency component of which is financed by the Asian Development Bank; Rs. 10.6 million of this amount was utilised by the commercial banks and Rs. 0.3 million by other credit institutions. Commercial banks also obtained refinance loans amounting to Rs. 13.5 million in respect of loans for industrial purposes. The Development Finance Corporation was granted Rs. 9.4 million in refinance loans for industrial purposes. Refinance loans for agricultural purposes were much smaller at Rs. 0.9 million, obtained almost entirely by commercial banks.

Credits totalling Rs. 30 million were made to the Fund in the course of 1969. The amount outstanding at the end of December 1969 on the total refinance loans granted from the Fund from its inception was Rs. 40.3 million.

5. Banking Development

Of the matters referred to in the Annual Report for 1968, the proposals to reorganise the Ceylon State Mortgage Bank and the Agricultural and Industrial Credit Corporation were finalised and a bill to establish the National Savings Bank was tabled in Parliament in August 1969. Proposals for amending the Agricultural and Industrial Credit Corporation Ordinance and for further amending the Ceylon State Mortgage Bank Ordinance with a view to enlarging the scope of activities of these two Government Agencies, were finalised by the Central Bank and submitted to the Government. As a matter of urgency the Central Bank initiated a proposal to amend the Agricultural and Industrial Credit Corporation Ordinance in order to enable that institution to borrow under the refinance scheme. This proposal was given effect to by the Agricultural and Industrial Credit Corporation Act No. 5 of 1970. The Central Bank also finalised proposals for amending the People's Bank Act. These proposals are now before the Government.

The proposal to introduce a scheme of deposit insurance was finalised and the draft bill is to be taken up in 1970. It is expected that the scheme will benefit the network of rural banks sponsored by the People's Bank.

The proposal for the establishment of a development bank has been finalised and a draft bill providing for the establishment of the National Development Bank of Ceylon has been submitted to Government.

After an exhaustive examination of the Report of the Bank of Ceylon Commission (Sessional Paper No. XXVII of 1968) the Central Bank submitted proposals to the Hon'ble Minister of Finance for amending the Bank of Ceylon Ordinance and other legislative enactments with a view to making that Bank a more dynamic intermediary in financing the development of commerce and industry. Proposals for amending the People's Bank Act on the basis of the recommendations of the People's Bank Commission were finalised and submitted to Government.

On the instructions of the Cabinet, the Central Bank assisted the Ministry of Education and Cultural Affairs in formulating a scheme for the grant of loans, scholarships and studentships to university students. Draft legislation has been prepared and it is expected that the proposals will be implemented in 1970.

At the request of some banks, the Central Bank examined the feasibility of amending the Trust Receipts Ordinance No. 12 of 1947 (Cap. 86) in order to provide for the financing of domestic trade through trust receipt facilities. These proposals are due to be finalised shortly and it is expected that recommendations would be made for the introduction of additional provisions in the Ordinance in order to enable banks to finance domestic trade, particularly in regard to the products of the newly developed industrial sector.

During the year, the Central Bank organised preliminary training courses in project appraisal for two batches of officers. This was made possible through the assistance of the Central Banking Service of the International Monetary Fund which made available the service of an advisor on industrial credit.