

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

In 1970 the money supply increased by Rs. 83.5 million, or 4.5 per cent, in contrast to the decline of Rs. 30.1 million, or 1.6 per cent, in the previous year. The average monthly level of money supply in 1970 was 4.0 per cent higher than in the previous year.

The increase in money supply shown by a comparison of the end-year levels does not reflect adequately the real trends in monetary expansion during the course of the year. As can be seen from Table II (D) 1, subsequent to a fall of Rs. 11.0 million in January, the money supply increased steadily until October, except for the small decline of Rs. 6.5 million in July. Between the end of December 1969 and the end of October 1970 the increase in money supply amounted to Rs. 184.4 million or 9.8 per cent. The average monthly level of money supply in the first ten months of 1970 at Rs. 1973 million was also higher than the average of Rs. 1968 million for the year as a whole.

The major factor behind the increase in the money supply in the first ten months of the year has been the expansion of bank credit to the Government. Increase in bank credit to the private sector also contributed to the expansion, though it was mild in relation to the expansionary influence of the increase in bank credit to the Government.

The high rate of monetary expansion in the first ten months of the year was brought to a halt and, in fact, reversed in November mainly as a consequence of the demonetisation of currency notes of the denominations of Rs. 100 and Rs. 50 on 25th October, 1970. The money supply fell sharply by Rs. 140.9 million in November, as a result of the demonetisation. Government cash balances improved considerably while bank credit to Government declined, thus causing a marked contraction in the money supply in November. This trend was reversed in December when, largely as a result of government operations, the money supply rose again by Rs. 39.9 million or 2.1 per cent.

The substantial increase in money supply over the first ten months of the year also appears to have been accompanied by an increase in the velocity of circulation. The average monthly rate of turnover of demand deposits of the public for the period, which is only a partial indicator of the change in velocity, rose by 6.2 per cent over the monthly average for 1969. The average for the last two months of 1970, however, was 21.2 per cent lower than the average for the first ten months. This, considered with the decline in money supply, might indicate a possible reduction in the volume of transactions during the last two months of the year.

**1 (b) Factors affecting money supply**

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

**TABLE II (D) 1**  
**The Money Supply**

End of Period	Amounts in Rupees Million										
	1965	1966	1967	1968	1969	1970	% Change (1966 over 1965)	% Change (1967 over 1966)	% Change (1968 over 1967)	% Change (1969 over 1968)	% Change (1970 over 1969)
January .. ..	1,615	1,693	1,598	1,792	1,883	1,872	+ 4.8	- 5.6	+ 12.1	+ 5.1	- 0.6
February .. ..	1,582	1,674	1,687	1,793	1,880	1,884	+ 5.8	+ 0.8	+ 6.3	+ 4.8	+ 0.2
March .. ..	1,585	1,666	1,817	1,831	1,911	1,932	+ 5.1	+ 9.1	+ 0.8	+ 4.4	+ 1.1
April .. ..	1,601	1,675	1,781	1,857	1,917	1,942	+ 4.6	+ 6.3	+ 4.3	+ 3.2	+ 1.3
May .. ..	1,645	1,698	1,723	1,869	1,900	1,974	+ 3.2	+ 1.5	+ 8.5	+ 1.7	+ 3.9
June .. ..	1,650	1,692	1,731	1,857	1,918	1,990	+ 2.5	+ 2.3	+ 7.3	+ 3.3	+ 3.7
July .. ..	1,693	1,757	1,718	1,831	1,872	1,983	+ 3.8	- 2.2	+ 6.6	+ 2.2	+ 5.9
August .. ..	1,674	1,702	1,678	1,839	1,880	2,017	+ 1.7	- 1.4	+ 9.6	+ 2.2	+ 7.3
September .. ..	1,675	1,681	1,700	1,850	1,885	2,066	+ 0.4	+ 1.1	+ 8.8	+ 1.9	+ 9.6
October .. ..	1,687	1,682	1,761	1,889	1,891	2,068	- 0.3	+ 4.7	+ 7.3	+ 0.1	+ 9.4
November .. ..	1,677	1,655	1,787	1,896	1,902	1,927	- 1.3	+ 8.0	+ 6.1	+ 0.3	+ 1.3
December .. ..	1,716	1,659	1,808	1,913	1,883	1,967	- 3.3	+ 9.0	+ 5.8	- 1.6	+ 4.5
Monthly Average .. ..	1,650	1,686	1,732	1,851	1,893	1,968	+ 2.2	+ 2.7	+ 6.9	+ 2.3	+ 4.0

Source: Central Bank of Ceylon

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

Rupees Million

Factors affecting Money Supply	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		End 1969 to End 1970	
	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) .. .. .	79.8†	-	-	196.3	-	91.5	-	115.7	-	299.6	-	1.5
2. Private sector†† .. .. .	19.2	75.4	137.2	79.6	105.6	133.1	264.1	165.5	226.0	193.8	219.4	238.3
(a) Commercial bank credit to co-operative institutions .. .. .	-	6.9	25.8	-	7.3	-	18.5	-	19.9	-	146.3	-
(b) Commercial bank credit to other private sector constituents .. .. .	10.0	-	33.5	-	86.9	-	155.0	-	136.2	-	-	42.0
(c) Time and savings deposits of co-operative institutions .. .. .	-	2.1	-	2.3	-	1.4	-	1.5	-	2.9	-	7.6
(d) Time and savings deposits of other private sector constituents .. .. .	-	46.2	-	65.3	-	49.5	-	99.9	-	144.4	-	188.7
(e) Other liabilities and accounts (net) of commercial banks .. .. .	-	20.2	-	12.0	-	31.0	-	40.9	-	35.7	-	12.4
(f) Commercial bank credit to government corporations .. .. .	7.8	-	27.7	-	11.4	-	90.6	-	69.9	-	43.2	-
(g) Time and savings deposits of government corporations .. .. .	1.4	-	50.2	-	-	51.2	-	23.2	-	10.8	17.5	-
3. Government Sector .. .. .	120.3	53.2	207.5	125.5	267.8	-	306.9	184.5	243.1	7.6	349.8	244.6
(a) Commercial banks' holdings of treasury bills, government and government guaranteed securities and government import bills .. .. .	92.3	-	-	62.6	75.3	-	-	114.9	4.9	-	193.4	-
(b) Cash items purchased on government account .. .. .	-	-	-	-	-	-	-	-	8.2	-	0.7	-
(c) Central Bank's holdings of treasury bills and government and government guaranteed securities .. .. .	-	38.7	155.9	-	109.9	-	269.4	-	112.0	-	126.2	-
(d) Central Bank's advances .. .. .	28.0	-	26.4	-	12.7	-	37.5	-	-	7.6	29.5	-
(e) Central Bank's other liabilities and accounts (net) .. .. .	-	4.5	25.2	-	13.9	-	-	0.2	46.1	-	-	120.4
(f) Government deposits with banking system and cash balances with the Treasury and Kachcheries .. .. .	-	10.0	-	62.9	56.0	-	-	69.4	71.9	-	-	124.2
4. Adjustments for items in transit .. .. .	3.2	-	-	0.1	-	0.2	0.2	-	1.7	-	-	1.1
Total Expansionary/Contractionary factors .. .. .	222.5	128.6	344.7	401.5	373.4	224.7	571.2	465.7	470.8	501.0	569.2	485.5
Change in Money Supply .. .. .	+93.8		-56.8		+148.7		+105.6		-30.1		+83.5	

Source: Central Bank of Ceylon

† 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.

The major expansionary influence on money supply in 1970 was the Government's fiscal operations, which exerted a net expansionary impact of Rs. 105.2 million as compared with a net expansionary impact of Rs. 235.5 million in 1969. In the first ten months of 1970, however, the expansion caused by government financial operations was Rs. 165.6 million. In the next two months, due to the increased resources available to the Government as a consequence of the demonetisation, the expansionary effects were considerably reduced. In 1970 Government's cash balances improved by Rs. 124.2 million in contrast to the drawing-down of Rs. 71.9 million in 1969. Over the first ten months of 1970, however, Government cash balances showed a rather modest increase of Rs. 25.1 million.

The increase in the Government's indebtedness to the banking system in 1970 was Rs. 232.3 million higher than in the previous year. The Central Bank's holdings of Government paper rose by Rs. 126.2 million while advances increased by Rs. 29.5 million, resulting in a total increase of Rs. 155.7 million in Government's debt to the Central Bank. Government increased its borrowings from the Central Bank mainly to reduce the accumulated goods receipt advances granted by the commercial banks for the purchase of paddy under the Guaranteed Price Scheme.

In contrast to a small increase of Rs. 13.1 million in 1969, there was a sharp expansion in commercial bank credit to the Government of Rs. 194.1 million in 1970. This increase consisted of increases of Rs. 236.4 million in treasury bills, Rs. 98.5 million in government and government guaranteed securities and Rs. 0.7 million in short-term credit in the form of cheques etc. purchased on government account, offset by a decrease of Rs. 141.8 million in government import bills.

The total expansionary effect of Rs. 349.8 million thus created by an increase in credit to the Government from the banking system was offset partly by a rise of Rs. 124.2 million in Government's cash balances and an increase of Rs. 120.4 million in 'other liabilities and accounts (net)' of the Central Bank, resulting in a net expansion in the government sector of Rs. 105.2 million.

The increase in bank credit to the private sector in 1970 amounted to Rs. 147.5 million and was appreciably lower than the increase of Rs. 226.0 million in 1969. Credit to co-operative institutions showed a record increase of Rs. 146.3 million, consisting of an increase of Rs. 144.3 million in goods receipt advances for the sale of paddy to the Government under the Guaranteed Price Scheme, an increase of Rs. 5.4 million under the Agricultural Credit Scheme and a decrease of Rs. 3.4 million in other credit. The substantial increase in advances against goods receipts in 1970, in contrast to the decline of Rs. 11.6 million in 1969, was largely due to the increased volume of purchases of paddy under the Guaranteed Price Scheme. The quantity of paddy purchased rose from 14.0 million bushels in 1969 to 26.4 million bushels in 1970.

Commercial bank credit to government corporations increased by Rs. 43.2 million in 1970 as compared with an increase of Rs. 69.9 million in the previous year. The increase in 1970 consisted of an increase of Rs. 49.8 million in loans

and overdrafts, a decrease of Rs. 3.8 million in banks' holdings of import bills and a decrease of Rs. 2.9 million in cash items purchased. A greater part of the increase in loans and overdrafts, amounting to Rs. 38.0 million, was in the form of medium and long-term loans.

Bank credit to the rest of the private sector, which has been increasing progressively in the recent past, declined by Rs. 42.0 million in the year under review. The outstanding level of such credit increased in the first two months of the year, followed by substantial decreases in March and April; there were no marked changes during the rest of the year.

The item of bank credit which showed the largest decrease was holdings of inward bills which declined from Rs. 55.0 million at the end of December 1969 to Rs. 27.8 million at the end of December 1970, accounting for over 60 per cent of the decrease in total bank credit to the private sector (excluding government corporations and co-operatives). This may suggest that the decline in bank credit to this sector may have been due mainly to the more stringent import restrictions imposed in 1970. Overdrafts too declined, by Rs. 13.5 million, while loans increased slightly by Rs. 2.1 million.

In addition to the contraction of Rs. 42.0 million in credit, there was also an increase of Rs. 188.7 million in the time and savings deposits of the private sector (excluding government corporations and co-operatives) with the commercial banks as against an increase of Rs. 144.4 million in 1969.

The expansionary effect on money supply of the increase in credit to the private sector (including government corporations and co-operatives) was more than offset by the time and savings deposits accumulated by this sector with the commercial banks. These deposits increased by Rs. 178.8 million as compared with an increase of Rs. 158.1 million in 1969. A large part of this increase in 1970 may be attributed to the demonetisation under which the public were obliged to deposit with commercial banks some of their currency holdings. The increase in time and savings deposits of the private sector up to the end of September 1970 amounted to Rs. 30.8 million only. Taking into account the expansionary impact of the decrease of Rs. 12.4 million in 'other liabilities and accounts (net)' of commercial banks, the operations of the private sector in 1970 resulted in a net contractionary effect of Rs. 18.9 million on money supply. In the first ten months of the year, however, the operations of the private sector were expansionary to the extent of Rs. 37.6 million.

In contrast to the previous years in the recent past, the contractionary effect of the external payments deficit in 1970 was extremely small. The balance of payments deficit on current account of Rs. 393.1 million, which was appreciably lower than the deficit of Rs. 796.9 million in 1969, was financed almost wholly by the Government's receipts of foreign aid and a net increase in short-term credit. Thus, the contractionary effect of this deficit on money supply was restricted to Rs. 1.5 million.

The international reserve of the Central Bank rose by Rs. 28.8 million in 1970, in contrast to the decline of Rs. 70.3 million in the previous year. The external assets of the commercial banks also rose by Rs. 12.1 million as against a decline of Rs. 18.9 million in 1969. External liabilities of the banking system rose by Rs. 42.4 million, wholly reflected in an increase in borrowings by the Central Bank from banks abroad. The increase of Rs. 155.6 million in such borrowings was offset substantially by a decrease of Rs. 106.1 million in the Central Bank's liabilities to international organisations. While drawings from the International Monetary Fund were Rs. 56.6 million, repayments amounted to Rs. 160.7 million. The service charges on drawings from the International Monetary Fund amounted to Rs. 19.3 million. Other liabilities, mainly balances due to foreign countries under payments agreement accounts maintained by the Central Bank, were reduced by Rs. 21.2 million.

Thus, it was the operations of the government sector which were solely responsible for the net increase of Rs. 83.5 million in money supply. This increase in money supply, as measured by the change between end-year levels, works out to an increase of 4.5 per cent over the previous year, as against a growth of 3.9 per cent in gross national product. But, as has already been pointed out, the rate of monetary expansion during the course of the year is not adequately reflected by the change in money supply as measured by end-year figures. The rate of expansion during the first ten months of the year was quite marked. //

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

Table II (D) 3 presents the distribution of primary and secondary liquid assets of the non-bank private sector for the period 1968-70.

While the primary liquid assets rose by Rs. 83.5 million, or 4.5 per cent, over the level at the end of 1969, total liquid assets rose by Rs. 451.8 million or 10.0 per cent. The substantial increase in total liquid assets was made possible because of an increase of Rs. 368.3 million, or 14.1 per cent, in secondary liquid assets, principally in the form of savings deposits with the commercial banks and the Post Office Savings Bank; government bonds and tax reserve certificates also rose appreciably. At the end of 1970, secondary liquid assets formed 60.3 per cent of total liquid assets as against 58.2 per cent a year earlier. This increase in secondary liquid assets may almost wholly be attributed to the demonetisation. At the end of September 1970, secondary liquid assets were 57.1 per cent of total liquid assets.

An extremely significant aspect of the change in primary liquid assets was the considerable increase in the proportion represented by demand deposits, in sharp contrast to the markedly increasing preference of the public for currency relative to demand deposits observed in the past decade or so. At the end of 1970, demand deposits formed 52.5 per cent of total primary liquid assets (money supply) as against 42.4 per cent at the end of 1969. This again is wholly attributable to the demonetisation; at the end of September 1970, demand deposits amounted to only 43.3 per cent of the money supply.

TABLE II (D) 3

## Total Liquid Assets of the Non-Bank Private Sector

Description	Amount (Rupees Million)			Percentage of G.N.P. <sup>(a)</sup>		
	1968	1969	1970	1968	1969	1970
1. Primary liquid assets						
(a) Notes and coins .. ..	1,066.2	1,083.9	935.1	10.9	10.1	8.1
(b) Demand deposits .. ..	847.0	799.2	1,031.5	8.6	7.4	8.8
Total .. ..	1,913.2	1,883.1	1,966.6	19.5	17.5	16.9
Percentage change .. ..	+ 5.8	- 1.6	+ 4.5			
2. Secondary liquid assets						
(a) Savings deposits with commercial banks .. ..	319.6	375.1	534.3	3.3	3.5	4.6
(b) Savings deposits with Post Office Savings Bank .. ..	473.3	490.5	574.2†	4.8	4.6	4.9
(c) Savings deposits with Ceylon Savings Bank .. ..	100.3	102.3	108.9*	1.0	0.9	0.9
(d) Time deposits with commercial banks .. ..	491.7	594.3	613.8	5.0	5.5	5.3
(e) Foreign balances of residents .. ..	0.9	—	—	...	—	—
(f) Savings certificates .. ..	91.3	86.3	73.8*	0.9	0.8	0.6
(g) Treasury bills .. ..	11.5	15.4	12.7	0.1	0.1	0.1
(h) Tax reserve certificates .. ..	23.9	15.8	43.5	0.2	0.1	0.4
(i) Government bonds .. ..	874.3	937.4	1,024.2	8.9	8.7	8.8
Total .. ..	2,386.8	2,617.1	2,935.4*	24.3	24.3	25.7
Percentage change .. ..	+12.4	+9.6	+14.1			
3. Total private sector liquid Assets .. ..	4,300.0	4,500.2	4,952.0*	43.8	41.9	42.7
Percentage change .. ..	+9.4	+4.7	+10.0			
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 .. ..	1,859.1	2,026.5	2,168.9	18.9	18.8	18.7

Source: Central Bank of Ceylon

(a) At current factor cost prices

\* Provisional

† Figure for November.

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

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	
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
1970	935.1	47.5	1,031.5	52.4	1,966.6

Source: Central Bank of Ceylon

TABLE II (D) 5

## Currency Composition by Denominations of Rs. 100, 50, 10 &amp; 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	1,002.8
1966	272.0	292.9	288.2	48.6	993.7
1967	316.2	313.1	296.3	51.3	1,072.8
1968	393.7	330.6	299.5	55.3	1,181.9
1969	435.7	322.9	293.7	54.1	1,212.7
1970	252.0	261.0	384.4	71.4	1,090.4

Source: Central Bank of Ceylon

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



The Annual Reports of the past few years have also drawn attention to the increasing share of larger denominations in the total currency issue. This trend in the currency holdings of the public was also observed in 1970 up to the end of May; holdings of currency notes of the denominations of Rs. 100 and Rs. 50 together increased by Rs. 63.5 million while the total currency issue increased by Rs. 80.2 million. Between May and July there was a fairly steady decline in the holdings of these currency notes, possibly in anticipation of government measures (like demonetisation) directed against tax evasion and hoarding of currency notes of high denominations. The share of the Rs. 100 and Rs. 50 denominations in the total currency issue dropped from 63.6 percent at the end of May to 58.7 percent at the end of July. The volume of these currency notes began to increase gradually thereafter, but was drastically reduced at the end of November with the demonetisation.

The sharp reduction in the share of currency in the money supply and in the share of larger denominations in the currency issue are welcome developments but it is yet too early to say whether they can be maintained as permanent features of the country's monetary system.

Table II (D) 6 shows the distribution of deposits of the private sector with banks by broad categories of ownership.

Demand deposits of trading institutions increased markedly by Rs. 76.6 million, in contrast to the decline of Rs. 28.6 million in 1969. The share of demand deposits of trading institutions in total demand deposits, which declined by 8.8 percentage points in the three years ended December, 1969, rose by 4.6 percentage points to 18.8 percent at the end of December, 1970. Demand deposits of individuals also rose similarly by Rs 74.7 million, although their share in total demand deposits declined from 43.1 per cent at the end of December, 1969 to 41.0 per cent at the end of December, 1970. Demand deposits of 'other business' institutions rose by Rs. 25.5 million, those of manufacturing establishments by Rs. 26.6 million and those of financial institutions by Rs 14.2 million. Demand deposits of the plantations declined by Rs 6.7 million while those of the other categories rose moderately.

Time and savings deposits with commercial banks accounted for nearly 50 per cent of the increase in secondary liquid assets of the public in 1970. Time deposits, which increased by Rs. 102.6 million in 1969, showed only a modest increase of Rs 19.5 million in 1970. Savings deposits, on the other hand, increased by Rs 159.2 million in 1970 as against an increase of Rs. 55.5 million in the previous year. The slower growth of time deposits in 1970 may have been due to such factors as the increase in the holdings of government claims by the non-bank private sector and the increase in public deposits with hire purchase finance companies. Although the growth of time deposits was slow in 1970, the stability of these deposits was maintained. The turnover rate of time deposits decreased from a monthly average of 0.19 in 1969 to 0.18 in 1970; the turnover rate of savings deposits remained unchanged at 0.09. The substantial increase in savings deposits with commercial banks may be largely attributable to the demonetisation.

TABLE II (D) 6

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

Amount in Rs. Million.

Ownership	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Financial Institutions</b>								
December 1969 ..	41.9	5.5	122.5	22.2	14.1	3.8	178.5	10.6
March 1970 ..	42.4	5.6	127.0	23.4	14.5	3.7	184.0	10.9
June 1970 ..	48.6	5.9	125.1	24.9	14.7	3.5	188.3	10.8
September 1970 ..	54.3	6.3	121.5	23.6	14.1	3.2	189.9	10.4
December 1970 ..	56.1	5.7	135.3	24.0	16.3	3.0	207.7	10.0
<b>Plantations</b>								
December 1969 ..	63.5	8.3	53.8	9.7	0.3	0.1	117.6	7.0
March 1970 ..	70.9	9.3	52.9	9.7	0.3	0.1	124.1	7.3
June 1970 ..	59.7	7.3	36.5	7.3	0.3	0.1	96.6	5.6
September 1970 ..	61.9	7.2	38.3	7.4	0.4	0.1	100.6	5.5
December 1970 ..	56.8	5.8	42.1	7.5	0.3	0.1	99.2	4.8
<b>Trading</b>								
December 1969 ..	108.5	14.2	126.0	22.8	5.0	1.3	239.5	14.2
March 1970 ..	119.7	15.8	93.9	17.3	5.0	1.3	218.6	12.9
June 1970 ..	138.4	16.9	85.5	17.0	5.1	1.2	229.1	13.2
September 1970 ..	158.2	18.3	85.3	16.6	5.4	1.2	248.9	13.7
December 1970 ..	185.1	18.8	94.6	16.8	6.4	1.2	286.1	13.7
<b>Manufacturing Establishments</b>								
December 1969 ..	72.3	9.5	38.0	6.9	0.2	0.1	110.6	6.6
March 1970 ..	62.0	8.2	39.8	7.3	0.3	0.1	102.1	6.0
June 1970 ..	63.6	7.8	42.1	8.4	0.2	...	105.9	6.1
September 1970 ..	85.4	9.9	42.6	8.3	0.3	0.1	128.3	7.1
December 1970 ..	98.9	10.0	41.7	7.4	0.4	0.1	141.0	6.8
<b>Other Business</b>								
December 1969 ..	81.5	10.7	41.9	7.6	2.6	0.7	125.9	7.5
March 1970 ..	88.1	11.6	48.9	9.0	3.7	0.9	140.7	8.3
June 1970 ..	93.6	11.5	38.0	7.6	4.9	1.2	136.6	7.9
September 1970 ..	89.8	10.4	37.6	7.3	5.7	1.3	133.1	7.3
December 1970 ..	107.0	10.9	50.7	9.0	8.2	1.5	165.9	8.0
<b>Local Authorities</b>								
December 1969 ..	15.8	2.1	13.3	2.4	0.2	0.1	29.2	1.7
March 1970 ..	12.7	1.7	12.5	2.3	0.2	0.1	25.4	1.5
June 1970 ..	11.2	1.4	11.7	2.3	0.2	...	23.2	1.3
September 1970 ..	14.3	1.6	12.0	2.3	0.2	...	26.5	1.5
December 1970 ..	16.9	1.7	12.2	2.2	0.2	...	29.3	1.4
<b>Non-Business Institutions</b>								
December 1969 ..	50.3	6.6	35.9	6.5	6.3	1.7	92.6	5.5
March 1970 ..	50.8	6.7	41.4	7.6	5.9	1.5	98.1	5.8
June 1970 ..	52.9	6.5	43.9	8.7	6.3	1.5	103.0	5.9
September 1970 ..	54.5	6.3	48.4	9.4	6.3	1.4	109.2	6.0
December 1970 ..	59.7	6.1	54.2	9.6	7.8	1.5	121.7	5.8
<b>Individuals</b>								
December 1969 ..	328.9	43.1	121.2	21.9	342.7	92.2	792.8	47.0
March 1970 ..	311.9	41.1	126.1	23.2	357.7	92.3	795.8	47.1
June 1970 ..	348.2	42.7	119.0	23.7	386.6	92.4	853.8	49.2
September 1970 ..	345.4	40.0	129.3	25.1	408.7	92.7	883.4	48.5
December 1970 ..	403.6	41.0	132.4	23.5	496.0	92.6	1032.0	49.5
<b>Total</b>								
December 1969 ..	762.7	100.0	552.6	100.0	371.5	100.0	1,686.8	100.0
March 1970 ..	758.6	100.0	542.5	100.0	387.7	100.0	1,688.8	100.0
June 1970 ..	816.3	100.0	501.9	100.0	418.4	100.0	1,736.6	100.0
September 1970 ..	863.9	100.0	515.0	100.0	441.1	100.0	1,820.0	100.0
December 1970 ..	984.1	100.0	563.1	100.0	535.6	100.0	2,082.8	100.0

Source: Central Bank of Ceylon

The increase in time deposits with the commercial banks was reflected mainly in the deposits of financial institutions (mainly Provident Funds) and non-business institutions. Time deposits of individuals also rose while the deposits of other categories declined or showed only very small increases. The most substantial decline occurred in the time deposits of trading institutions. The increase in saving deposits was almost entirely in holdings of individuals.

Among the savings held by the public with official institutions, deposits with Post Office Savings Bank increased substantially by Rs. 83.7 million, due almost wholly to the demonetisation. Savings deposits with the Ceylon Savings Bank rose by Rs 6.6 million while savings certificates declined by Rs 12.5 million. The decline in savings certificates may have been due to the fact that the rate of interest paid on them has remained unchanged for some years, while the rates on savings deposits with commercial banks, Ceylon Savings Bank and the Post Office Savings Bank have been raised from time to time, in the last few years.

The total increase in deposits with official institutions would not have been significant but for the demonetisation. This is possibly due to the severe competition faced by them from deposit-taking financial institutions in the private sector and from commercial banks.

In 1970, there was a significant increase in the holdings of government claims by the private sector. The total holdings of treasury bills, tax reserve certificates and government bonds rose by Rs. 111.8 million as compared with an increase of Rs 60.7 million in 1969. While the holdings of treasury bills declined by Rs 2.7 million, tax reserve certificates and government bonds rose by Rs 27.7 million and Rs 86.8 million respectively. The Insurance Corporation, whose holdings of government bonds increased by Rs 45.9 million, accounted for more than half the increase in the private sector's holdings. Trusts, benevolent, pension and provident funds (other than the Employees' Provident Fund) increased their holdings of government bonds by Rs 38.2 million as compared to Rs 26.0 million in 1969. The holdings of others declined by Rs 2.1 million.

To summarise, there has been a significant growth in the secondary liquid assets of the public in 1970. The proportion of the increase in secondary liquid assets which took the form of claims against Government, was higher than in the previous years. The increase in the non-bank private sector's holdings of government claims in 1970 amounted to 30.2 per cent of the total increase in secondary liquid assets as against 25.6 per cent in the previous year. However, the holding of government claims, especially government bonds, continue to be confined almost wholly to institutional investors. Taking all financial assets of the public together, the ratio of such assets to gross national product was 42.7 per cent as against 41.9 per cent in 1969.

#### 1. (d) Interest Rates

On January 11, 1970 Bank rate was raised from  $5\frac{1}{2}$  to  $6\frac{1}{2}$  percent. The Central Bank's rate of interest on advances against usance promissory notes relating to commercial and production loans also moved up to  $6\frac{1}{2}$  percent. 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 January 1970; the rate on loans for the promotion or development of agriculture and industry was raised from  $5\frac{1}{2}$  percent to  $6\frac{1}{2}$  percent and the rate in respect of loans for the promotion or development of trade, commerce or business, from  $6\frac{1}{2}$  percent to  $7\frac{1}{2}$  percent. The rates of interest on re-finance loans granted for the modernisation of tea factories and/or construction of new tea factories remained unchanged at 5 per cent for loans to cover local costs and 7 per cent for loans to cover foreign exchange costs. The Central Bank's refinance rate under the Agricultural Credit Scheme remained unchanged at  $1\frac{1}{2}$  percent, while the rate on advances to commercial banks in respect of advances to co-operatives to finance the purchase of paddy under the Guaranteed Price Scheme and for the purchase, sale or storage of locally grown agricultural products continued to be 3 percent in 1970.

With the increase in Bank rate all the lending rates of commercial banks increased in January, 1970. The minimum and maximum rates on advances against government securities moved up from  $5\frac{3}{4}$  percent to 7 percent and from  $8\frac{1}{2}$  percent to  $9\frac{1}{2}$  percent, respectively. The maximum rate on bills purchased increased from 9 percent to 10 percent and the minimum rate from  $5\frac{3}{4}$  percent to  $6\frac{1}{2}$  percent. In the case of loans against stock-in-trade the maximum rate rose from 11 percent to 12 percent and the minimum rate from  $7\frac{1}{2}$  percent to  $8\frac{1}{2}$  percent. The maximum and minimum rates on loans against shares of joint-stock companies and immovable property rose by one percentage point, from 10 percent to 11 percent and 7 percent to 8 percent respectively. The maximum rates on advances against other types of securities increased from 11 percent to 12 percent and the minimum rate from 6 percent to  $6\frac{1}{2}$  percent. The minimum rate on unsecured loans also went up from  $7\frac{1}{2}$  percent to  $8\frac{1}{2}$  percent and the maximum rate from 11 percent to 12 percent.

All commercial banks put up their deposit rates in January, 1970. The rate paid on savings deposits went up from  $3\frac{3}{4}$  percent to  $4\frac{1}{2}$  percent. The rates on time deposits for all periods rose by three quarters of a percentage point. Deposits were classified by size into three categories for this purpose, viz., under Rs 5,000, Rs 5,000 and above but under Rs. 25,000 and Rs. 25,000 and over. The rates on these classes of deposits were ranged at intervals of a quarter percentage point. Thus, the rate payable for periods in excess of 36 months was  $5\frac{1}{4}$  percent on deposits of under Rs. 5,000/-,  $5\frac{1}{2}$  percent on deposits of Rs. 5,000/- and over but under Rs. 25,000 and  $5\frac{3}{4}$  percent 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's rate on fixed deposits remained unaltered during the year at 3 percent, for deposits from 3 to 6 months,  $3\frac{1}{2}$  percent for deposits of 6 to 9 months, 4 percent for deposits of 9 to 11 months  $4\frac{1}{2}$  percent for deposits of 12 months, while the minimum fixed deposit accepted also remained at Rs. 25,000. The rate payable on saving deposits rose from  $3\frac{1}{2}$  percent to 4 percent in January 1970. The rate on saving deposits with the Post Office Savings Bank went up from 3.0 percent to 3.6 percent in January.

The lending rates of long-term credit institutions were also changed in 1970. The Agricultural and Industrial Credit Corporation raised its rate on loans for development purposes secured by immovable property from  $7\frac{1}{2}$  percent to  $8\frac{1}{2}$  percent in February 1970 and then to 9 percent in October 1970. Since February 1970 the Agricultural and Industrial Credit Corporation has charged 10 percent on loans for development purposes secured by movable property. The rate on other loans, secured by immovable property, was put up from  $8\frac{1}{2}$  percent to  $9\frac{1}{2}$  percent in February 1970, and then to 10 percent in October 1970, and for those loans in this category secured by movable property, the rate was fixed at 12 percent in February 1970. The lending rate of the Ceylon Savings Bank was raised in November 1970 from a flat rate of 7 per cent to 10 percent in the case of building loans and to 12 percent for other loans. In January, the Development Finance Corporation raised its lending rate on loans refinanced by the Central Bank from  $8\frac{1}{2}$  percent to  $9\frac{1}{2}$  percent; the rate on all other loans was raised from  $9\frac{1}{2}$  percent to 10 percent in the same month. The rate on foreign currency loans was also raised from 10 percent to  $10\frac{1}{2}$  percent. The interest rates charged by the State Mortgage Bank on loans under the tea re-planting scheme, which started in May 1969, remained unaltered at 5 percent for loans secured by land and 7 percent for loans against other types of security. The interest rates on all other loans of this institution were increased in January 1970, the maximum rate moving up from  $9\frac{1}{2}$  to 10 percent.

The treasury bill rate, which stood at 4.10 percent in December 1969 moved up to 4.12 percent in January 1970, to 4.64 percent in February and further to 4.76 percent in March and since then it has remained unchanged at this level. The interest rates on government securities were also raised in 1970. The rate on bonds with a maturity of over 21 years was raised from  $5\frac{1}{2}$  percent to  $6\frac{1}{2}$  percent in January, while 12 to 15 year bonds were issued from March 1970 with an interest rate at  $6\frac{1}{2}$  percent. The rate on 5 to 7 year bonds moved up from  $4\frac{1}{2}$  percent to 9 percent in November.

## 2 (a) Commercial Banking - Principal Trends

In 1970, money supply increased by Rs. 83.5 million while currency in the hands of the public declined by Rs. 148.8 million, thus increasing resources at the disposal of the commercial banks. The decline in the currency holdings of the public, however, occurred only during the last three months of the year, as a result of demonetisation. In the first nine months of the year, the increase in money supply amounting to Rs. 182.9 million was accompanied by an increase of Rs. 86.8 million in currency holdings.

Demands on the resources of the commercial banks increased during the first eight months, mainly from the Government and the co-operatives. The banks therefore had increased recourse to borrowing from the Central Bank; the monthly average of the outstanding level of such borrowings for the first eight months was Rs. 225.0 million as compared with an average of Rs. 124.1 million for the corresponding period in the previous year. With the considerable improvement in their liquidity position arising mainly from the demonetisation and the settlement in September by the Government of a substantial

portion of the goods receipt advances granted to the co-operatives, commercial banks were able to reduce their indebtedness to the Central Bank; the outstanding level of such borrowings declined from Rs. 265.1 million at the end of August to Rs. 148.8 million at the end of December.

## 2 (b) Branch Network

The distribution of bank offices and of bank deposits between Ceylonese and foreign banks for the period 1963-70 is given in Table II (D) 7.

TABLE II (D) 7

### Distribution of Bank Offices and Deposits 1963-1970

Year	Total			Ceylonese Banks			British Banks			Indian & Pakistani Banks		
	No. of Offices	Deposits		No. of Offices	Deposits		No. of Offices	Deposits		No. of Offices	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
1970	165	2,394	100	152	1,831	76	9	472	20	4	91	4

Source: Central Bank of Ceylon.

Note: The reduction in the number of British banks in 1969 & 1970 was on account of:

1. The conversion of the Eastern Bank Ltd. into a Ceylonese bank in 1969
2. The reconstitution of the Hatton Bank and two branches of the National & Grindlays Bank to form the Hatton National Bank in 1970.

Branch expansion slackened somewhat during 1970; the total number of commercial bank offices increased by 10 to 165 at the end of 1970 as compared with an increase of 14 in the previous year. The People's Bank opened 6 branches and these were located in Ratnapura, Katugastota, Kantalai, Moratuwa, Giriulla and Pugoda. Three new branches were opened by the Bank of Ceylon in Beruwala, Kadawata and Colombo. The newly constituted Hatton National Bank, formed by the amalgamation of the Hatton Bank and two branches of the National & Grindlays Bank, also opened an office in Colombo.

Although all the foreign banks operating in Ceylon (except Habib Bank) are now allowed to open new Ceylonese accounts, the share of Ceylonese banks in total deposits increased from 73 per cent at the end of 1969 to 76 per cent at the end of 1970. The share of the British banks declined from 23 per cent to 20 per cent in the same period; this is partly due to the amalgamation of two branches of the National & Grindlays Bank with the Hatton Bank, to constitute the Hatton National Bank.

As in the previous year, a very large part of the increase in time deposits with commercial banks was in deposits with foreign banks. On the other hand, the Ceylonese banks accounted for nearly 90 per cent of the total increase in demand deposits and for more than 90 per cent of the total increase in savings deposits.

The average size of demand deposits for all banks increased from Rs. 5,370 at the end of 1969 to Rs. 6,383 at the end of 1970. Savings deposits too increased in average size from Rs. 999 to Rs. 1,079, while the average size of time deposits declined from Rs. 44,952 to Rs. 39,149.

## 2 (c) Structure of Bank Assets and Liabilities

Statistics of selected items of the consolidated assets and liabilities of the commercial banks for the period 1959-1970 are shown in Table II (D) 8.

Total assets/liabilities of commercial banks increased by Rs. 557.7 million in 1970 as compared with an increase of Rs. 221.8 million in the previous year. The increase in liabilities consisted mainly of an increase of Rs. 476.9 million in deposit liabilities; deposits of the private sector increased by Rs. 403.2 million while government deposits increased by Rs. 73.7 million. Capital and reserves of the commercial banks and their 'other liabilities' also increased by Rs. 17.8 million and Rs. 57.9 million respectively. Borrowings from the Central Bank rose by Rs. 4.3 million while borrowings from banks abroad declined by Rs. 7.9 million.

The substantial increase in deposit liabilities was due largely to the demonetisation; between December 1969 and September 1970 the increase in deposit liabilities amounted to Rs. 179.6 million. The smaller increase in borrowings from the Central Bank may again be mainly attributable to the increased deposit resources available to the commercial banks as a consequence of the demonetisation. Between December 1969 and August 1970, borrowings from the Central Bank increased by Rs. 115.0 million. In September, however, with the repayment by the commercial banks of the re-finance loans granted to them by the Central Bank against their loans for purchases of paddy under the Guaranteed Price Scheme, their outstanding borrowings from the Central Bank were reduced sharply by Rs. 209.1 million. In October, as a result of large drawings of new Rs. 100 and Rs. 50 notes in connection with the demonetisation, the banks' borrowings from the Central Bank recorded an abnormal increase of Rs. 336.8 million. With the surrender to the Central Bank of the demonetised currency notes, the outstanding level of borrowings declined by Rs. 278.1 million at the end of November.

On the assets side, loans of commercial banks declined, for the first time since 1952, by Rs. 112.0 million; the increase in 1969 amounted to Rs. 336.5 million. The decrease of Rs. 172.8 million in the volume of import bills held by the banks was largely responsible for this decline. The decline in import bills was mainly due to the retirement of government import bills which have been accumulating with the commercial banks for some time. Commercial bank

TABLE II (D) 8

## Selected Items of Assets and Liabilities of Commercial Banks.

Average of Monthly figures.

Rupees Million.

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970*	End of Period	
													Dec. 1969	Dec. 1970
Cash on hand and deposits at Central bank (inclusive of statutory reserve requirements) ..	116	132	148	186	164	182	224	233	218	247	250	248	258	371
Foreign balances ..	52	58	54	55	44	49	55	62	57	72	63	36	52	44
Treasury bills ..	24	28	51	89	128	73	89	124	80	102	50	41	45	281
Bills discounted ..	119	115	122	136	114	126	173	175	198	252	241	275	297	144
Total liquid assets ..	311	333	375	466	450	430	541	594	553	673	604	600	652	840
Total investments** ..	285	284	290	303	313	330	329	330	300	278	275	263	263	362
Total loans and overdrafts ..	395	430	435	477	495	633	669	682	809	1,000	1,240	1,391	1,363	1,403
Demand deposits† ..	655	657	677	829	789	853	917	949	914	955	945	958	928	1,225
Time and savings deposits ..	300	340	359	380	460	535	572	631	649	798	915	989	986	1,169
Total deposits ..	955	998	1,036	1,209	1,250	1,389	1,490	1,580	1,564	1,755	1,863	1,948	1,917	2,394
Ratio of ..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	17.7	20.1	21.9	22.4	20.8	21.3	24.4	24.5	23.8	25.9	26.4	25.9	27.8	30.3
Cash to total deposits ..	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.7	13.9	14.1	13.4	12.7	13.5	15.5
Foreign balances to total deposits ..	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.9	3.6	4.1	3.4	1.8	2.7	1.8
Treasury bills to total deposits ..	2.5	2.8	4.9	7.4	10.2	5.3	6.0	7.8	5.1	5.8	2.7	2.1	2.3	11.7
Commercial bills discounted to total deposits ..	12.5	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.7	14.4	12.9	14.1	15.5	6.0
Liquid assets to demand deposits ..	47.5	50.7	55.4	56.2	57.0	50.4	59.0	62.6	60.5	70.5	63.9	62.6	70.3	68.6
Liquid assets to total deposits ..	32.6	33.4	36.2	38.5	36.0	31.0	36.3	37.6	35.4	38.3	32.4	30.8	34.0	35.1
Investments to total deposits ..	29.8	28.5	28.0	25.1	25.0	23.8	22.1	20.9	19.2	15.8	14.8	13.5	13.7	15.1
Loans and overdrafts to total deposits ..	41.4	43.1	42.0	39.4	39.6	45.6	44.9	43.2	51.7	57.0	66.6	71.4	71.1	58.6

Source: Central Bank of Ceylon.

\* On account of the distortion in the pattern of assets and liabilities of the commercial banks in the last 3 months of 1970 as a result of the demonetisation of Rs. 100 and Rs. 50 notes the averages in this column have been worked out on the figures from January to September.

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

† Exclude domestic inter-bank deposits.



holdings of government import bills were reduced by Rs.141.8 million in 1970. The outstanding volume of overdrafts too declined, by Rs. 36.9 million, while loans and export bills increased by Rs. 77.2 million and Rs. 20.6 million, respectively.

Over the year as a whole the cash position of commercial banks improved considerably; total cash holdings (including statutory reserves) increased by Rs. 112.5 million between December 1969 and December 1970 and formed 15.5 per cent of total deposits at the end of December 1970 as against 13.5 per cent a year earlier. The substantial increase in cash holdings was due to the abnormally high level of cash holdings recorded for the last three months of the year as an effect of the demonetisation. The average monthly level of cash holdings in the first nine months of the year has been lower than that of the previous year, as may be seen from Table II (D) 8; the average monthly ratio of cash to total deposits in the first nine months has also been lower at 12.7 per cent compared to 13.4 per cent in 1969.

The total liquid assets of the commercial banks increased by Rs. 188 million and the ratio of liquid assets to total deposits increased from 34.0 per cent at the end of December 1969 to 35.1 per cent at the end of December 1970. The increase in liquid assets consisted of an increase of Rs. 112.5 million in cash holdings, an increase of Rs. 236.5 million in treasury bills offset partly by decreases of Rs. 152.2 million and Rs. 8.4 million in bills discounted and in foreign balances, respectively.

The substantial increase in treasury bill holdings of the commercial banks, from 2.3 per cent of total deposits at the end of December 1969 to 11.7 per cent at the end of December 1970, was again mainly a consequence of increased resources with the banks after demonetisation. The monthly average of treasury bill holdings for the first nine months of the year was Rs. 41 million, or 2.1 per cent of total deposits as compared with an average of Rs. 50 million, or 2.7 per cent of total deposits in 1969. The substantial decrease in bills discounted, as has already been explained, was due to the retirement of government import bills which have been accumulating with the commercial banks for some time.

Thus, the liquidity position of the commercial banks, which was more than comfortable during the last three months of the year, was subject to considerable strain during the first nine months. The monthly average level of loans and overdrafts for the first nine months of 1970 amounted to 71.4 per cent of total deposits as compared with 66.6 per cent in 1969. The banks had to run down their investment portfolios, from a monthly average of 14.8 per cent of total deposits in 1969 to 13.5 per cent in the first nine months of 1970; with the improvement in their liquidity position in the last three months, the ratio moved up to 15.1 per cent at the end of December 1970. Loans and overdrafts as ratio of total deposits declined to 58.6 per cent at the end of December, 1970.

## 2 (d) Sources of Funds and their Utilisation

In contrast to the previous year, the transactions of the private sector with the commercial banks in 1970 released substantial resources for utilisation in the government sector. The Government's demand for commercial banks'

resources increased substantially in relation to the previous year; the banks were able to meet this increased demand with the resources released by the private sector. The commercial banks' recourse to borrowing from the Central Bank was also reduced considerably in the year.

In the private sector, the co-operatives utilised a markedly increased amount of banks' resources but made little contribution to the growth of banks' resources. The increase in the flow of resources to the co-operatives amounted to Rs. 146.3 million and was reflected solely in an increase in advances. Their contribution to banks' resources, in the form of increase in deposits, amounted to Rs. 19.0 million. Government corporations utilized banks' resources to the extent of Rs. 43.1 million by way of advances but provided a slightly higher level of resources in the form of an increase of Rs. 44.7 million in deposits. The rest of the private sector provided the banks with an increase in resources amounting to Rs. 363.4 million, consisting of an increase of Rs. 341.9 million in deposits and a decrease of Rs. 21.5 million in advances and investments.

The government sector utilized Rs. 335.6 million of the increase in commercial banks' resources, almost wholly in the form of an increase in holdings of government paper by the commercial banks amounting to Rs. 335.0 million. This is in contrast to the previous year when the holdings of government paper declined by Rs. 83.0 million. The accretion of commercial banks' resources from the government sector amounted to Rs. 215.5 million, consisting of an increase of Rs. 73.7 million in deposits and a decrease of Rs. 141.8 million in import bills. There was thus a net flow of Rs. 120.1 million from the commercial banks to the government sector.

The net increase in resources accruing to the banks from the foreign sector amounted to Rs. 1.2 million in 1970 as compared with a net increase of Rs. 26.6 million in 1969. While resources accruing from within the domestic commercial banking system amounted to Rs. 77.6 million, the utilization of resources within the system exceeded accrual by Rs. 34.7 million. The utilisation took the form mainly of an increase in 'fixed and other assets'.

The increase in the commercial banks' resources accruing to the Central Bank, in the form of an increase in reserves, amounted to Rs. 88.3 million while the increase in resources obtained by the banks from the Central Bank amounted to Rs. 4.3 million. This is in contrast to the previous year when the resources obtained by the banks from the Central Bank amounted to Rs. 89.3 million, consisting of an increase of Rs. 84.3 million in borrowings and a decrease of Rs. 5.0 million in reserves.

For the year as a whole the general picture presented here is one in which the commercial banks have been able to meet the demands on them from the Government and the co-operatives, from the resources made available to the banks by the rest of the private sector. The latter resources were adequate and the banks had little need to borrow from the Central Bank in contrast to the previous year when they had to resort to substantial borrowings to augment their resources. The position was different in the first half of the year when the Central Bank and 'Other Domestic Private Sector' provided the major part of the increase in resources utilized by the co-operatives and government corporations.

TABLE II (D) 9

## Yearly Changes in Bank Resources and their Utilisation 1967 - 1970

Rupees Million

	1967	1968	1969	1970
<b>Sources of Funds</b>				
1. <b>Government Sector</b> .. .. .	64.3	150.9	83.0	215.5
Reduction in holdings of government paper ..	64.3	—	83.0	—
Increase in deposits .. .. .	—	25.9	—	73.7
Decrease in import bills .. .. .	—	125.0	—	141.8
Decrease in short term credit(1) .. .. .	—	—	—	—
2. <b>Central Bank</b> .. .. .	59.3	2.3	89.3	4.3
Increase in borrowings .. .. .	59.3	—	84.3	4.3
Decrease in reserves .. .. .	—	2.3	5.0	—
3. <b>Government Corporations</b> .. .. .	93.5	—	—	44.7
Increase in deposits .. .. .	93.5	—	—	44.7
Decrease in advances .. .. .	—	—	—	—
4. <b>Co-operatives</b> .. .. .	9.9	0.6	—	19.0
Increase in deposits .. .. .	9.9	0.6	—	19.0
Decrease in advances .. .. .	—	—	—	—
5. <b>Other Domestic Private Sector</b> .. .. .	50.0	167.1	132.9	363.4
Increase in deposits .. .. .	50.0	167.1	132.9	341.9
Decrease in advances and investments .. .. .	—	—	—	21.5
6. <b>Inter-bank(2)</b> .. .. .	108.3	62.5	35.8	77.6
Increase in capital and reserves .. .. .	7.3	6.1	14.5	17.8
Decrease in fixed and other assets .. .. .	—	—	0.1	—
Increase in 'other' liabilities .. .. .	81.3	52.4	21.2	57.9
Inter-bank transactions (net) .. .. .	—	4.0	—	1.9
Decrease in till cash .. .. .	19.7	—	—	—
7. <b>Foreign Sector</b> .. .. .	1.0	7.3	27.6	9.1
Increase in borrowings .. .. .	—	7.1	3.0	—
Increase in deposits .. .. .	1.0	0.2	—	0.7
Decrease in foreign balances .. .. .	—	—	24.6	8.4
<b>Total increase in resources</b> .. .. .	386.3	390.7	368.6	733.6
<b>Utilization of Funds</b>				
1. <b>Government Sector</b> .. .. .	157.7	10.1	100.4	335.6
Increase in holdings of government paper ..	—	10.1	—	335.0
Decrease in deposits .. .. .	18.2	—	4.3	—
Increase in government import bills .. .. .	139.5	—	87.9	—
Increase in short term credit(1) .. .. .	—	—	8.2	0.6
2. <b>Central Bank</b> .. .. .	55.9	14.8	—	88.3
Decrease in borrowings .. .. .	—	14.8	—	—
Increase in reserves .. .. .	55.9	—	—	88.3
3. <b>Government Corporations</b> .. .. .	11.4	115.5	85.4	43.1
Decrease in deposits .. .. .	—	24.9	15.5	—
Increase in advances .. .. .	11.4	90.6	69.9	43.1
4. <b>Co-operatives</b> .. .. .	7.3	18.5	23.8	146.3
Decrease in deposits .. .. .	—	—	3.9	—
Increase in advances .. .. .	7.3	18.5	19.9	146.3
5. <b>Other Domestic Private Sector</b> .. .. .	87.9	181.8	142.1	—
Decrease in deposits .. .. .	—	—	—	—
Increase in advances and investments .. .. .	87.9	181.8	142.1	—
6. <b>Inter-bank(2)</b> .. .. .	58.7	39.4	15.7	112.3
Decrease in capital and reserves .. .. .	—	—	—	—
Increase in fixed and other assets .. .. .	57.7	17.6	—	88.1
Decrease in 'other' liabilities .. .. .	—	—	—	—
Inter-bank transactions (net) .. .. .	1.0	—	0.8	—
Increase in till cash .. .. .	—	21.8	14.9	24.2
7. <b>Foreign Sector</b> .. .. .	7.3	10.6	1.0	7.9
Decrease in borrowings .. .. .	0.9	—	—	7.9
Decrease in deposits .. .. .	—	—	1.0	—
Increase in foreign balances .. .. .	6.4	10.6	—	—
<b>Total increase in resources utilised</b> .. .. .	386.2	390.7	368.4	733.5

Source: Central Bank of Ceylon.

(1) This item relates to cheque, money orders etc. purchased on government account.

(2) This 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 into corporations, co-operatives and the rest of the private sector.

## 2 (e) Bank Credit to the Private Sector

The very sharp increase of Rs. 137.6 million in cash items in process of collection accounted for the major part of the increase in commercial bank credit to the private sector. In the previous year, this item showed a decline of Rs. 18.7 million. The substantial increase in 1970 was due wholly to the increase of Rs. 144.3 million in goods receipts advances for the purchase of paddy under the guaranteed price scheme.

Loans granted by the commercial banks increased by Rs. 77.2 million of which Rs. 71.3 million was in the form of medium and long-term loans. Overdrafts, on the other hand, declined by Rs. 36.6 million. While export bills showed an increase of Rs. 20.6 million, import bills declined by Rs. 31.0 million.

TABLE II (D) 10  
Commercial Bank Advances to the Private Sector\*  
December 1969 - December, 1970

	Rupees Million								
	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. 1969	Dec. 1970	Change	Dec. 1969	Dec. 1970	Change	Dec. 1969	Dec. 1970	Change
(a) Cash items in process of collection**	33.1	171.2	+138.1	0.8	0.2	- 0.6	33.8	171.4	+137.6
(b) Local Bills	..	..	..	..	..	..	..	..	..
(c) Import Bills	35.0	16.1	- 18.9	32.9	20.8	-12.1	67.9	36.9	- 31.0
(d) Export Bills	25.0	32.1	+ 7.1	60.8	74.4	+13.6	85.9	106.5	+ 20.6
(e) Overdrafts	379.1	342.9	- 36.2	246.2	245.8	- 0.4	625.3	588.7	- 36.6
(f) Loans	637.9	731.4	+ 93.5	99.2	82.8	-16.4	737.0	814.2	+ 77.2
Total	1110.1	1293.7	+183.6	439.9	424.0	-15.9	1549.9	1717.7	+167.8

Source: Central Bank of Ceylon.

\* Include 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.

Table II (D) 11 gives a classification of the advances of commercial banks, 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. The survey covers advances to the private sector, including government corporations, in the form of loans and overdrafts, export bills and import bills but excludes cash items in process of collection.

TABLE II (D) 11

## Advances\* Classified by Purpose &amp; According to Maturity

Rs. million

			Short-term		Medium-term		Long-term		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	1969	271.4	40.6	277.0	41.4	120.3	18.0	668.7	44.2
	March	1970	292.1	44.1	252.2	38.1	118.4	17.9	662.6	43.2
	June	1970	277.9	42.8	255.7	39.4	115.4	17.8	648.9	41.5
	September	1970	517.0	79.9	90.8	14.0	39.2	6.1	647.0	42.0
	December	1970	502.4	78.0	104.6	16.2	36.8	5.7	643.9	41.7
B.	Financial									
	December	1969	47.1	34.0	45.2	32.6	46.3	33.4	138.6	9.2
	March	1970	52.0	37.6	42.0	30.4	44.3	32.0	138.3	9.0
	June	1970	60.2	41.1	37.5	25.6	48.6	33.2	146.4	9.4
	September	1970	78.4	53.7	38.2	26.1	29.5	20.2	146.0	9.5
	December	1970	74.8	54.5	33.3	24.2	29.2	21.3	137.3	8.9
C.	Agricultural									
	December	1969	25.6	14.5	105.2	59.6	45.8	25.9	176.6	11.7
	March	1970	40.4	20.0	106.1	52.4	55.8	27.6	202.3	13.2
	June	1970	24.1	12.9	106.6	57.2	55.5	29.8	186.2	11.9
	September	1970	88.3	47.7	69.6	37.5	27.5	14.8	185.3	12.0
	December	1970	91.8	45.2	85.6	42.2	25.6	12.6	203.0	13.1
D.	Industrial									
	December	1969	158.5	40.9	82.0	21.2	146.8	37.9	387.3	25.6
	March	1970	147.9	38.1	82.5	21.3	157.2	40.5	387.7	25.3
	June	1970	177.1	39.5	76.1	17.0	194.8	43.5	448.1	28.7
	September	1970	202.7	48.0	150.7	35.7	68.8	16.3	422.2	27.4
	December	1970	197.0	47.3	151.5	36.4	67.4	16.2	416.0	26.9
E.	Consumption									
	December	1969	15.4	15.6	32.7	33.1	50.7	51.3	98.8	6.5
	March	1970	16.3	16.9	30.4	31.5	49.6	51.3	96.6	6.3
	June	1970	14.7	16.0	29.6	32.2	47.5	51.7	91.9	5.9
	September	1970	22.1	22.6	46.4	47.5	29.2	29.9	97.7	6.3
	December	1970	22.1	22.3	50.9	51.4	26.1	26.3	99.1	6.4
F.	Other Loans									
	December	1969	3.8	8.8	24.1	55.5	15.6	35.9	43.4	2.9
	March	1970	11.9	25.6	18.1	38.9	16.4	35.3	46.5	3.0
	June	1970	10.6	25.1	15.1	35.7	16.5	39.1	42.2	2.7
	September	1970	21.2	48.3	17.9	40.8	4.8	10.9	43.8	2.8
	December	1970	21.4	47.7	18.2	40.5	5.3	11.8	44.9	2.9
G.	Total									
	December	1969	521.7	34.5	566.2	37.4	425.5	28.1	1,513.5	100.0
	March	1970	560.8	36.6	531.3	34.6	441.8	28.8	1,534.1	100.0
	June	1970	564.7	36.1	520.6	33.3	478.4	30.6	1,563.7	100.0
	September	1970	929.6	60.3	413.5	26.8	199.0	12.9	1,542.1	100.0
	December	1970	909.6	58.9	444.0	28.7	190.5	12.3	1,544.1	100.0

Source: Central Bank of Ceylon.

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

Note: Commencing the survey as at end September, 1970, the definitions of short, medium and long terms which were, below 6 months, 6 to 30 months and over 30 months respectively, were changed to, below 1 year, 1 to, 5 years and over 5 years, respectively.

Advances for agricultural purposes rose from 11.7 per cent of total advances at the end of 1969 to 13.1 per cent at the end of 1970, while advances for industrial purposes rose from 25.6 per cent to 26.9 per cent. On the other hand, advances for commercial and financial purposes declined from 44.2 per cent and 9.2 per cent to 41.7 per cent and 8.9 per cent, respectively. Advances for consumption purposes showed a slight change while 'other loans' retained the same share in total advances as at the end of 1969. In absolute terms, the increase of Rs. 30.6 million in total advances was made up mainly of an increase of Rs. 28.7 million in industrial advances, an increase of Rs. 26.4 million in agricultural advances and a decrease of Rs. 24.8 million in advances for commercial purposes.

The increase of Rs. 28.7 million in advances to the industrial sector stands in marked contrast to the increase of Rs. 155.6 million in 1969. These advances increased sharply by Rs. 60.8 million in the second quarter of 1970 but declined by Rs. 32.1 million in the last two quarters. Of the increase of Rs. 28.7 million in the year, government corporations absorbed Rs. 7.5 million while other borrowers in the private sector accounted for the balance of Rs. 21.2 million. Industry-wise, the largest increase went to 'other industries' (Rs. 16.9 million) followed by chemical products (Rs. 8.0 million), processing of tea, rubber and coconut (Rs. 7.0 million) and metal products (Rs. 6.8 million). Textile industries, which accounted for the largest increase of Rs. 46.9 million in 1969, showed a decrease of Rs. 8.4 million. The changes in the advances for the other groups of industries were not significant. A detailed breakdown of advances for industrial purposes outstanding at the end of each quarter of 1970 and the last quarter of 1969 is given in Table II (D) 12.

Among advances for commercial purposes, those for import trading declined steadily through the year by Rs. 48.3 million as compared with a decline of Rs. 16.8 million in 1969. Advances for export trading and for wholesale and retail trading also fell by Rs. 2.4 million and Rs. 3.2 million respectively, as compared with increases of Rs. 18.0 million and Rs. 7.7 million respectively in 1969. Other commercial advances increased by Rs. 29.0 million as against an increase of Rs. 31.1 million in 1969.

More than half the increase of Rs. 26.4 million in advances for agricultural purposes were for export crops, the increase in such advances being Rs. 14.6 million as against Rs. 8.5 million in 1969. The increase in advances for paddy production amounted to Rs. 4.9 million as against Rs. 14.0 million in 1969. Advances for the other agricultural crops including livestock and dairy farming rose by Rs. 6.9 million as compared with an increase of Rs. 13.8 million in the previous year.

Advances for financial purposes declined by Rs. 1.3 million while advances for consumption purposes increased slightly by Rs. 0.3 million. The residual category of 'other loans' showed an increase of Rs. 1.5 million.

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

Rs. Million

	Amount outstanding as at end of				
	December 1969	March 1970	June 1970	September 1970	December 1970
1. Textiles .. ..	95.2	93.7	115.1	98.1	86.8
Government corporations ..	35.7	26.3	44.0	29.8	21.2
Other .. ..	59.5	67.5	71.1	68.3	65.6
2. Metal Products .. ..	35.7	35.6	39.1	43.0	42.5
Government corporations ..	13.3	12.7	12.7	14.6	14.7
Other .. ..	22.5	23.0	26.5	28.4	27.8
3. Chemical Products .. ..	50.0	51.9	61.5	58.5	58.0
Government corporations ..	30.3	30.0	39.9	39.2	38.6
Other .. ..	19.7	21.9	21.6	19.3	19.4
4. Footwear and Leather Products ..	6.8	6.4	6.8	6.2	6.6
Government corporations ..	4.5	4.5	5.0	4.4	4.7
Other .. ..	2.3	1.9	1.8	1.8	1.9
5. Biscuits and Confectionery .. ..	8.3	7.2	6.4	6.4	6.7
Government corporations ..	—	—	—	—	—
Other .. ..	8.3	7.2	6.4	6.4	6.7
6. Processing of Tea, Rubber and Coconut ..	22.0	22.2	25.0	29.0	29.0
Government corporations ..	—	—	—	—	—
Other .. ..	22.0	22.2	25.0	29.0	29.0
7. Engineering and Building Trades ..	50.5	51.5	52.2	50.9	50.9
Government corporations ..	11.8	10.0	13.7	10.2	12.1
Other .. ..	38.7	41.5	38.5	40.7	38.8
8. Other Industries .. ..	118.6	119.1	141.7	130.1	135.5
Government corporations ..	57.0	60.6	75.4	64.9	68.8
Other .. ..	61.6	58.5	66.3	65.2	66.2
Total .. ..	387.3	387.7	448.1	422.2	416.0
Government corporations ..	152.6	144.0	190.6	163.0	160.1
Other .. ..	234.7	243.7	257.5	259.2	255.9

Source: Central Bank of Ceylon.

At the end of 1969, short-term, medium-term and long-term advances amounted to 34.5 per cent, 37.4 per cent and 28.1 per cent respectively of the total advances of the commercial banks. With the re-defining of these terms as indicated in the footnote to Table II (D) 11, the proportion of medium-term and long-term advances fell to 28.7 per cent and 12.3 per cent respectively, while the proportion of short-term advances rose correspondingly to 58.9 per cent.

Of the long-term advances of Rs. 190.5 million outstanding at the end of 1970, the largest share amounting to 35.4 per cent was claimed by the industrial group, followed by commercial (19.3 per cent), financial (15.3 per cent), consumption (13.7 per cent), agricultural (13.4 per cent) and 'other loans (2.7 per cent).

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

TABLE II (D) 13

Advances\* by Rate of Interest

Rate of Interest (Percent)	December 31st 1969		March 31st 1970		June 30th 1970		September 30th 1970		December 31st 1970	
	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 4½ ..	21.4	1.5	22.8	1.5	16.9	1.1	8.6	0.6	11.7	0.8
5 ..	22.0	1.5	26.2	1.8	26.9	1.8	20.7	1.5	26.8	1.9
5½ ..	21.0	1.5	3.1	0.2	3.6	0.2	3.2	0.2	3.1	0.2
6 ..	211.7	14.8	87.6	6.0	85.3	5.8	48.9	3.4	51.0	3.5
6½ ..	132.0	9.3	47.1	3.2	49.6	3.4	52.2	3.7	46.4	3.2
7 ..	108.0	7.6	176.1	12.0	194.2	13.2	224.8	15.8	231.2	16.1
7½ ..	302.9	21.2	160.7	11.0	159.6	10.9	149.0	10.5	140.4	9.8
8 ..	316.5	22.2	184.0	12.6	163.7	11.1	173.4	12.2	166.9	11.6
8½ ..	62.1	4.4	229.9	15.7	255.4	17.4	232.8	16.4	254.7	17.7
9 ..	142.5	10.0	319.5	21.8	312.2	21.2	289.2	20.4	274.9	19.1
9½ ..	11.0	0.8	46.0	3.1	50.5	3.4	53.3	3.8	52.0	3.6
10 ..	26.6	1.9	64.5	4.4	72.0	4.9	77.9	5.5	85.6	5.9
10½ ..	22.1	1.5	12.5	0.8	10.9	0.7	10.7	0.7	7.8	0.5
11 ..	25.6	1.8	38.4	2.6	36.4	2.5	36.3	2.6	37.1	2.6
11½ ..	...	...	0.7	...	1.6	0.1	0.5	...	6.5	0.5
12% and over ..	1.4	0.1	45.2	3.1	30.8	2.1	38.7	2.7	42.7	3.0
Total ..	1,426.7	100.0	1,464.3	100.0	1,469.6	100.0	1,420.2	100.0	1,438.9	100.0

Source: Central Bank of Ceylon

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

With the increase in Bank rate at the beginning of the year, there has been a substantial increase in the proportion of advances granted at higher rates of interest. Advances at interest rates of 8½ per cent and over, which accounted for 20.5 per cent of total advances at the end of 1969, rose to 52.9 per cent at the end of 1970. The largest concentration of advances was at 9 per cent, while a year earlier the concentration was at 8 per cent.

A classification of advances by types of security is shown in Table II (D) 14.

The decline in advances against documentary bills, trust receipts and stock in trade may be attributable to the more stringent import restrictions imposed during the year. Advances secured by government securities, shares of joint-stock companies increased somewhat, while there was a notable decline in advances secured by time and savings deposits and other cash deposits. Advances against immovable property, tractors and motor vehicles, pro notes, bonds and usance notes increased significantly.



TABLE II (D) 14  
Advances\* By Type of Security

	December 31st 1969		March 31st 1970		June 30th 1970		September 30th 1970		December 31st 1970	
	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 ..	147.0	9.7	143.2	9.3	148.8	9.5	163.3	10.6	136.1	8.8
Government securities ..	18.0	1.2	17.9	1.2	19.4	1.2	15.3	1.0	22.9	1.5
Shares of joint-stock-companies ..	19.8	1.3	23.2	1.5	24.9	1.6	24.7	1.6	24.5	1.6
Time and savings deposits including cash value of life policies ..	73.6	4.9	50.7	3.3	47.8	3.1	47.0	3.0	50.1	3.2
Stock in trade ..	315.2	20.8	315.4	20.6	308.9	19.7	288.4	18.7	289.0	18.7
Immovable property ..	167.9	11.1	177.0	11.5	186.5	11.9	187.3	12.1	196.1	12.7
Guarantees ..	283.9	18.8	290.3	18.9	303.0	19.4	281.4	18.2	293.9	19.0
Trust receipts	139.2	9.2	104.9	6.8	129.0	8.2	94.2	6.1	118.6	7.7
Hire-purchase agreements ..	32.4	2.1	30.8	2.0	28.9	1.8	28.3	1.8	22.3	1.4
Plant and machinery	6.6	0.4	7.6	0.5	8.1	0.5	9.3	0.6	9.0	0.6
Tractors and motor vehicles ..	33.1	2.2	39.0	2.5	37.9	2.4	60.3	3.9	59.7	3.9
Pro-notes, bonds and usance notes ..	169.3	11.2	210.5	13.7	216.3	13.8	232.5	15.1	206.1	13.3
Other secured ..	54.0	3.6	61.9	4.0	44.1	2.8	53.6	3.5	52.2	3.4
Unsecured ..	53.4	3.5	61.4	4.0	60.0	3.8	56.5	3.7	63.5	4.1
Total ..	1,513.5	100.0	1,534.1	100.0	1,563.7	100.0	1,542.1	100.0	1,544.1	100.0

Source: Central Bank of Ceylon.

\* Exclude cash items in process of collection.

### 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.

The total loans granted by these institutions amounting to Rs. 62.4 million was Rs. 13.4 million higher than in the previous year. The increase in the loans disbursed by the Development Finance Corporation accounted for nearly 50 per cent of the total increase. In contrast to the previous year, loans granted by the National Housing Department also showed an increase of Rs. 3.4 million. There were also increases in the loans of the Ceylon Savings Bank, Agricultural and Industrial Credit Corporation and the Loan Board, while loans granted by the State Mortgage Bank declined slightly.

Of the sum of Rs.27.1 million disbursed by the Development Finance Corporation, Rs. 4.3 million was in foreign currency loans financed by drawings on the lines of credit arranged with the International Bank for Reconstruction and Development. Rupee assistance amounting to Rs. 22.8 million was provided by the Corporation by drawing Rs. 10.0 million from the Central Bank's Medium and Long-term Credit Fund, Rs. 7.9 million by way of overdraft/loans from its bankers and Rs. 4.9 million from its own funds.

TABLE II (D) 15  
Lending Operations of Long-term Credit Institutions

Rs. Thousand

	1967		1968		1969		1970	
	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding
1. Development Finance Corporation (a)	3,150	29,154	7,273	31,716	19,561	47,982	27,083	70,920
2. Ceylon Savings Bank	3,880	17,715	4,386	19,943	3,671	20,921	4,563	22,803
3. Agricultural & Industrial Credit Corporation	2,565	31,119	3,285	30,288	4,322	31,090	4,719	31,838*
4. State Mortgage Bank	4,812	55,453	6,623	57,816	8,597	61,943	8,548*	66,987*
5. Loan Board	1,225	11,047	1,076	10,758	1,212	10,920	2,459	11,858
6. National Housing Dept.(b)	25,585	105,485	14,355	113,960	11,663	118,867	15,056	127,386
Total	41,217	249,973	36,998	264,481	49,026	291,723	62,428	331,792

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 buildings societies only. The figures of outstanding amounts for the years 1967-70 exclude loans granted to building societies.

\* Provisional

Table II (D)16 summarises the movements in savings deposits and savings certificates in 1969 and 1970.

TABLE II (D) 16  
Savings Deposits and Savings Certificates

Rupees Million

	December 1968	December 1969	December 1970	Change December 1969/70
Post Office Savings Bank	473.3	490.5	574.2(a)	+ 83.7
Ceylon Savings Bank	100.3	102.3	108.9(b)	+ 6.6
Commercial banks (Time and Savings deposits)**	826.2	985.6	1,168.6	+183.0
Savings Certificates	91.3	86.3	73.8(b)	- 12.5
Total	1,491.1	1,664.7	1,925.5	+260.8

Source: Central Bank of Ceylon.

(a) Figure for November

(b) Provisional

\*\* Include Government deposits.

The total contributions received in 1970 by the Employees' Provident Fund amounted to Rs. 106.8 million as compared to Rs. 91.9 million in the previous year.

#### 4. Hire-Purchase Finance Companies

The Central Bank has been conducting a survey on the operations of hire-purchase finance companies in Ceylon. The main features of their operations as revealed by the survey for the last two quarters of 1969 and the first two quarters of 1970 are presented in Table II (D) 17. It must however be noted that there are a few gaps and inconsistencies in the survey returns of some companies and the results obtained from the analysis of the survey returns are therefore tentative.

TABLE II (D) 17  
Operations of Hire-purchase finance companies

		Rs Million			
		As at 30th Sept. 1969	As at 31st Dec. 1969	As at 31st March 1970	As at 30th June 1970
1.	Deposit liabilities ..	43.2	50.1	54.0	58.8
2.	Hire-purchase business outstanding ..	71.9	79.4	75.1	84.4
3.	Loans outstanding ..	13.1	16.5	17.9	19.4

Source: Central Bank of Ceylon.

The outstanding deposits of the public with hire-purchase finance companies rose by Rs. 15.6 million, or 36.1 per cent, between the end of September 1969 and the end of June 1970. The survey also indicates that public deposits, as ratio of total liabilities, have risen from about 42 per cent at the end of September 1969 to about 48 per cent at the end of June 1970. These companies have been able to secure a substantial volume of deposits from the public on the basis of attractive interest rates; the survey revealed that the larger companies pay 10 to 12 per cent per annum on deposits for terms exceeding one year, while some of the smaller companies offer even higher rates.

In credit operations, hire-purchase financing predominates with an outstanding amount of Rs. 84.4 million at the end of June 1970, having risen by 17.4 per cent from Rs. 71.9 million at the end of September 1969. Almost the entirety of hire-purchase business transacted was in respect of motor vehicles and agricultural machinery; financing of industrial machinery, household durables etc., account for less than 1 per cent of the outstanding volume of hire-purchase business. Interest on hire-purchase, including finance and other charges, ranges between 12 and 20 per cent per annum. (These interest rates are 'flat' rates; the effective rates will be much higher).

Loans are granted by only a few companies. Outstanding loans increased by nearly 50 per cent, from Rs. 13.1 million at the end of September 1969 to Rs. 19.4 million at the end of June 1970. Interest rates on loans range from 10 to 15 per cent per annum.

## 5. Central Banking

In the year under review the Central Bank's assets/liabilities recorded an increase of Rs. 148.3 million or 4.7 per cent. The increase in assets consisted of an increase of Rs. 119.5 million in domestic assets and an increase of Rs. 28.8 million in the international reserve.

The increase in domestic assets consisted of an increase of Rs. 126.2 million in government and government guaranteed securities, an increase of Rs. 25.8 million in provisional advances to the Government and an increase of Rs. 3.7 million in special loans to Government, offset partly by a decrease of Rs. 34.9 million in 'other assets and accounts' and a decrease of Rs. 1.3 million\* in advances to commercial banks. It was the provision of additional financial resources to the Government that contributed to the expansion in the domestic assets of the Central Bank.

On the liabilities side, an increase of Rs. 155.6 million in borrowings from banks abroad offset partly by a decline of Rs. 106.1 million in the deposits of international organisations resulted in a net increase of Rs. 49.5 million in external liabilities. The increase of Rs. 98.8 million in domestic liabilities was made up mainly of an increase of Rs. 87.4 million in the deposits of commercial banks, an increase of Rs. 48.0 million in government deposits and an increase of Rs. 82.0 million in 'other liabilities and accounts', offset partly by a decrease of Rs. 122.3 million in the currency issue. The decline in the currency issue was mainly a consequence of the demonetisation.

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 Central Bank's loans and advances to commercial banks (except advances provided under the Agricultural Credit scheme and the Guaranteed Price Scheme), less Government deposits and the balance in foreign government accounts with the Central Bank. The net domestic assets thus defined, which stood at Rs. 2,054.1 million on December 31, 1969 rose to Rs. 2,115.2 million as on December 31, 1970.

There was no change in the credit policy of the Central Bank which was described in the Annual Reports for 1968 and 1969, except for the increase in the Bank rate referred to earlier. The ceilings on commercial bank credit, as revised in June 1969, continued to be in force in 1970. 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. 1023 million, respectively. The actual amounts of credit outstanding at the end of December 1969 and December 1970 are shown in Table II (D) 18.

\* Excludes an increase of Rs. 5.6 million in 1970 in advances granted from the Medium and Long term Credit Fund to the commercial banks. In the balance sheet of the Central Bank the balances in the Medium and Long term Credit Fund are included under 'other liabilities and accounts'; consequently advances granted from the Fund are not reflected in the item 'advances to others' (commercial banks) in the balance sheet.

Table II (D) 18

## Commercial Bank Credit to the Private Sector

(Amounts outstanding at the end of month)

	Rs. Million	
	December 1969	December 1970
<b>A. Credit Under the Ceiling</b>		
i. Government corporations .. .. .	214.7	220.0
ii. Other private sector		
1. Advances for exports, to rist promotion and tea production .. .. .	235.1	235.7
2. Other advances .. .. .	712.2	652.3
3. Import bills .. .. .	55.0	27.8
4. Local bills .. .. .	17.6	13.8
Total credit to 'Other private sector' under the ceiling .. .. .	1,019.9	929.6
Total credit to government corporations and 'Other private sector' under the ceiling .. .. .	1,234.6	1,149.6
<b>B. Credit Outside the Ceiling</b>		
1. Export bills .. .. .	85.9	106.5
2. Loans under the Agricultural Credit Scheme .. .. .	73.8	79.2
3. Goods receipt advances .. .. .	8.8	153.1
4. Marketing advances to co-operatives .. .. .	1.0	2.3
5. Tea factory modernisation loans .. .. .	16.3	26.2
6. Medium and long-term loans for Industry & Agriculture		
Government corporations .. .. .	39.0	77.0
Other .. .. .	90.5	123.8
Total credit outside the ceiling .. .. .	315.3	568.1
All credit to Private Sector .. .. .	1,549.9	1,717.7

Source: Central Bank of Ceylon.

While credit under the ceiling declined by Rs. 85.0 million between December 1969 and December 1970, credit outside the ceiling rose by Rs 252. 8 million, resulting in an increase of Rs. 167. 8 million in total credit to the private sector. The increase in goods receipt advances for the purchase of paddy under the Guaranteed Price Scheme, at Rs. 144. 3 million, accounted for the bulk of the increase in credit outside the ceiling, followed by an increase of Rs. 71. 3 million in medium and long-term loans for industry and agriculture. All the other items of credit outside the ceiling too showed moderate increases.

Refinance loans granted to commercial banks and other credit institutions from the Medium and Long-term Credit Fund during 1970 amounted to Rs. 22. 3 million, as against Rs. 34. 7 million in 1969. This amount includes Rs. 10. 5 million granted as refinance loans to commercial banks under the tea factory modernisation project, the foreign currency component of which is financed by the Asian Development Bank. Refinance loans granted for industrial purposes were Rs. 11. 5 million, a very large part of which, amounting to Rs. 10.0 million, was obtained by the Development Finance Corporation. Commercial banks utilised industrial refinance loans amounting to only Rs 1.5 million in 1970, as against Rs. 13.5 million in 1969.

No transfers were made to the Medium and Long-term Credit Fund from the General Reserve during 1970. The amount outstanding at the end of December 1970 on total refinance loans granted from the Fund from its inception was Rs. 54.8 million. The balance in the Fund at the end of December 1970 amounted to Rs. 5.3 million.

## 6. Banking Development

According to the Budget Speech for 1970/71 the Government intends to implement most of the proposals referred to in the Annual Report for 1969.

The National Savings Bank will be set up shortly. The State Mortgage Bank and the Agricultural and Industrial Credit Corporation will be amalgamated into what would be known as the Agricultural Development Bank, to provide credit for agricultural purposes only. The National Development Bank will also be established, the chief function of which will be to provide medium and long-term credit for industrial, agricultural and commercial development in the public sector. It will be a wholly owned subsidiary of the Central Bank.

The legislation governing the Bank of Ceylon and the People's Bank will be amended to enable the two banks to play a wider and more effective role in financing economic activity. The Monetary Law Act is also to be amended to provide for a Deposit Insurance Scheme. The act will be further amended to co-ordinate policy on the location and establishment of new branches of commercial banks. The establishment of bank branches thereafter will be with the approval of the Monetary Board.

The Hon. Minister of Finance has also announced his intention to set up an Export-Import Bank, primarily to service the export of non-traditional goods and to provide services for persons who do not normally have access to the commercial banks. These functions will be directed not so much towards the development programme in agriculture, industry or commerce but to the facilitation of the movements of goods, such as export credit guarantees not handled by the larger institutions. The possibility of the Bank engaging itself in the search for new export outlets and market research both in Ceylon and abroad on behalf of its clientele is also envisaged.

In 1970, the Central Bank formulated proposals for the regulation and control of the activities of hire-purchase and finance companies in Ceylon, in order to ensure the efficacy of general monetary policy, provide for regulatory equity in the treatment of competing groups of financial institutions and to ensure the liquidity and solvency of such institutions to protect the interests of depositors. The proposals have been accepted by the Government and the bill to give effect to them is to be drafted shortly.

Proposals to amend the Trust Receipts Ordinance No. 12 of 1947 (Cap. 86) in order to provide for the financing of domestic trade through trust receipt facilities have been finalised and a draft bill is before the Government.