

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

The year under review recorded a marked expansion in the money supply, which rose by Rs. 183.1 million or 9.3 per cent compared with an increase of Rs. 83.5 million or 4.5 per cent in 1970. The increase in absolute terms was the highest recorded since 1950; the rate of increase was the highest since 1963. The average monthly level of money supply in the year was 6.7 per cent higher than in the previous year.

The expansion in the money supply in 1971 took place wholly in the first half of the year. Table II (D) 1 shows that, following a decline of Rs. 24 million in January, the money supply rose substantially each month until June; large increases of Rs. 77 million and Rs. 51 million were recorded in March and April respectively. The total expansion in the first half of the year amounted to Rs. 183 million. This rapid increase in the first half of the year was checked in July when money supply declined by Rs. 16 million. Though there were some increases in the following three months, there was a substantial decline of Rs. 35 million in November followed by a smaller increase of Rs. 10 million in December. In the second half of the year as a whole, the money supply showed no increase, the level being Rs. 2,150 million at the end of June as well as at the end of December.

A striking feature of monetary expansion in 1971 was the marked reversal of the pattern of expansion since the mid-fifties; whereas in these years upto 1969 (with the exception of 1964 and 1965) monetary expansion occurred inspite of substantial declines in the net external assets of the banking system,¹ the expansion in 1971 was brought about entirely by an increase in these assets. The increase in the money supply in the year was in fact less than the increase in the net external banking assets which amounted to Rs. 200.5 million and which was the highest increase recorded since 1955. The lower increase in money supply was due to the contractionary influence exerted by the operations of the domestic sectors (the Government and the private sector) taken together. While the Government's operations with the banking system resulted in an expansion of Rs. 54.1 million, it was more than offset by the contractionary influence of Rs. 76.2 million emanating from the operations of the private sector.

The year under review also shows another noteworthy feature, namely, the much less recourse to the banking system by the Government; in fact, the expansion of Rs. 54.1 million originating from the Government was the lowest since 1956. The contraction of Rs. 76.2 million arising from the operations of the private sector was the largest ever recorded. In sum, the creation of domestic credit by the banking system which was predominantly responsible for the

1. The decline in 1970 was negligible at Rs. 1.5 million; it may therefore be said that the current pattern had its beginnings in that year.

TABLE II (D) 1

The Money Supply

Amounts in Rupees Million

End of Period	1966	1967	1968	1969	1970	1971	% Change (1967 over 1966)	% Change (1968 over 1967)	% Change (1969 over 1968)	% Change (1970 over 1969)	% Change (1971 over 1970)
January	1,693	1,598	1,792	1,883	1,872	1,943	- 5.6	+ 12.1	+ 5.1	- 0.6	+ 3.8
February	1,674	1,687	1,793	1,880	1,884	1,973	+ 0.8	+ 6.3	+ 4.8	+ 0.2	+ 4.7
March	1,666	1,817	1,831	1,911	1,932	2,050	+ 9.1	+ 0.8	+ 4.4	+ 1.1	+ 6.1
April	1,675	1,781	1,857	1,917	1,942	2,101	+ 6.3	+ 4.3	+ 3.2	+ 1.3	+ 8.2
May	1,698	1,723	1,869	1,900	1,974	2,120	+ 1.5	+ 8.5	+ 1.7	+ 3.9	+ 7.4
June	1,692	1,731	1,857	1,918	1,990	2,150	+ 2.3	+ 7.3	+ 3.3	+ 3.7	+ 8.0
July	1,757	1,718	1,831	1,872	1,983	2,134	- 2.2	+ 6.6	+ 2.2	+ 5.9	+ 7.6
August	1,702	1,678	1,839	1,880	2,017	2,143	- 1.4	+ 9.6	+ 2.2	+ 7.3	+ 6.2
September	1,681	1,700	1,850	1,885	2,066	2,149	+ 1.1	+ 8.8	+ 1.9	+ 9.6	+ 4.0
October	1,682	1,761	1,889	1,891	2,068	2,175	+ 4.7	+ 7.3	+ 0.1	+ 9.4	+ 5.2
November	1,655	1,787	1,896	1,902	1,927	2,140	+ 8.0	+ 6.1	+ 0.3	+ 1.3	+ 11.0
December	1,659	1,808	1,913	1,883	1,967	2,150	+ 9.0	+ 5.8	- 1.6	+ 4.5	+ 9.3
Monthly Average	1,686	1,732	1,851	1,893	1,969	2,102	+ 2.7	+ 6.9	+ 2.3	+ 4.0	+ 6.7

Source: Central Bank of Ceylon

growth in money supply since the mid-fifties had a contractionary influence in 1971 when the increase in the money supply occurred wholly under the influence of the external sector.

The effect of the sizeable expansion in the money supply, viewed against an increase in the national product of only 0.9 per cent would have been to exert severe pressure on prices which, as measured by the available Consumers Price Index (with all its limitations) rose by nearly 6 per cent in the year. The pressure on prices appears however to have been abated to some extent by a decline in the velocity of circulation of money. The only available indicator of the change in the velocity is the rate of turnover of demand deposits held by the public, the monthly average of which fell by 12.6 per cent in 1971.

1. (b) Factors affecting money supply

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

As has been indicated already, the predominant expansionary influence on the money supply in 1971 was the surplus on external payments. The balance of payments on current account, however, showed a deficit of Rs. 303.7 million. There was in addition a deficit of Rs. 4.7 million in private capital movements, while official capital repayments amounted to Rs. 96.2 million. If the entire deficit on these transactions were financed by the banking system a contractionary effect on the money supply of Rs. 404.6 million would have resulted. This potential contractionary influence was however much more than offset by the Government's receipts of foreign aid amounting to Rs. 570.8 million and a net increase of Rs. 33.0 million in short-term credit. The net expansionary effect of the external sector on the money supply was therefore Rs. 200.5 million, which stands in marked contrast to the contraction of Rs. 1.5 million in 1970.

The improvement in the international indebtedness position of the banking system was reflected in an increase in external assets and, more markedly, in a decline in external liabilities. The international reserve of the Central Bank rose by Rs. 44.2 million, reflecting an increase of Rs. 37.9 million in cash and balances abroad and an increase of Rs. 6.4 million in the holdings of foreign government securities, the latter arising wholly on account of revaluation. The external assets of the commercial banks also rose by Rs. 34.7 million. The external liabilities of the Central Bank declined by Rs. 128.0 million. Purchases from the International Monetary Fund in 1971 amounted to Rs. 83.4 million, while repurchases were Rs. 139.2 million; thus the balances of the I.M.F. with the Central Bank, allowing also for the payment of service charges, declined by Rs. 41.0 million. The Central Bank's borrowings from banks and other institutions abroad were also reduced by Rs. 77.7 million. The external liabilities of the commercial banks, on the other hand, rose by Rs. 6.5 million, resulting in a net reduction of Rs. 121.5 million in the external liabilities of the banking system.

The Government's operations in 1971 exerted an expansionary impact of Rs. 54.1 million on the money supply, which was Rs. 51.1 million lower than in the previous year. The increase in the Government's indebtedness to the banking

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

Rupees Million

Factors affecting Money Supply	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		End 1970 to End 1971	
	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)	-	196.3	-	91.5	-	115.7	-	299.6	-	1.5	200.5	-
2. Private sector†	137.2	79.6	106.5	133.1	264.1	165.4	226.0	193.8	219.4	238.3	152.6	228.8
(a) Commercial bank credit to co-operative institutions ..	25.8	-	7.3	-	18.5	-	19.9	-	146.3	-	-	3.4
(b) Commercial bank credit to other private sector constituents ..	33.5	-	87.8	-	155.0	-	136.2	-	-	42.0	84.1	-
(c) Time and savings deposits of co-operative institutions ..	-	2.3	-	1.4	-	1.5	-	2.9	-	7.6	-	11.9
(d) Time and savings deposits of other private sector constituents ..	-	65.3	-	49.5	-	100.8	-	144.4	-	188.7	-	132.0
(e) Other liabilities and accounts (net) of commercial banks ..	-	12.0	-	31.0	-	40.9	-	35.7	-	-	-	81.5
(f) Commercial bank credit to government corporations ..	27.7	-	11.4	-	90.6	-	69.9	-	43.2	-	62.3	-
(g) Time and savings deposits of government corporations ..	50.2	-	-	51.2	-	22.2	-	10.8	17.5	-	6.2	-
3. Government Sector	207.5	125.5	266.9	-	306.9	184.5	243.1	7.6	349.8	244.6	181.8*	127.7
(a) Commercial banks' holdings of treasury bills, government and government guaranteed securities and government import bills ..	-	62.6	74.4	-	-	114.9	4.9	-	193.4	-	52.8	-
(b) Cash items purchased on government account	-	-	-	-	-	-	8.2	-	0.7	-	-	3.5
(c) Central Bank's holdings of treasury bills and government and government guaranteed securities	155.9	-	109.9	-	269.4	-	112.0	-	126.2	-	-	19.7
(d) Central Bank's advances	26.4	-	12.7	-	37.5	-	-	7.6	29.5	-	61.0	-
(e) Central Bank's other liabilities and accounts (net) ..	25.2	-	13.9	-	-	0.2	46.1	-	-	120.4	-	104.5
(f) Government deposits with banking system and cash balances with the Treasury and Kachcheries	-	62.9	56.0	-	-	69.4	71.9	-	-	124.2	68.0*	-
4. Adjustments for items in transit	-	0.1	-	0.1	0.2	-	1.7	-	-	1.1	4.7	-
Total Expansionary/Contractionary factors	344.7	401.5	373.4	224.7	571.2	465.6	470.8	501.0	569.2	485.5	539.6*	356.5
Change in Money Supply	-	-56.8	-	+148.7	-	+105.6	-	-30.1	-	+83.5	-	+183.1*

† The outstanding value of export bills discounted is included under external banking assets.

* Provisional.

Source: Central Bank of Ceylon

system of Rs. 90.6 million was Rs. 259.2 million lower than in 1970. The Central Bank's holdings of government paper declined by Rs. 19.7 million while provisional advances rose by Rs. 61.0 million. Thus, the government's debt to the Central Bank rose in 1971 by Rs. 41.3 million which was less than a third of the increase in the previous year. The increase in commercial bank credit to the Government of Rs. 49.3 million too was much lower than the increase of Rs. 194.1 million in 1970. The increase in commercial bank credit in 1971 consisted of increases of Rs. 39.4 million in treasury bills, Rs. 11.3 million in government and government guaranteed securities, and Rs. 2.4 million in government import bills, offset slightly by a decrease of Rs. 3.5 million in short-term credit to the Government in the form of cheques etc., purchased on government account. The Government also drew its cash balances down by Rs. 68.0 million in 1971 in contrast to an accumulation of Rs. 124.2 million in the previous year. The total expansionary effect of Rs. 158.6 million thus created by the increase in credit to the Government from the banking system and by the drawing down of the Government's cash balances was offset substantially by an increase of Rs. 104.5 million in 'other liabilities and accounts (net)' of the Central Bank, so that the net expansionary effect on the money supply attributable to the government sector was Rs. 54.1 million.

Bank credit to the private sector (including co-operatives and public corporations) increased in 1971 by Rs. 143.0 million, as compared with a slightly higher increase of Rs. 147.5 million in 1970. Credit to co-operative institutions, which showed a record increase of Rs. 146.3 million in 1970, declined in the year under review by Rs. 3.4 million. While the outstanding amount of bank credit to the co-operatives under the Agricultural Credit Scheme rose by Rs. 22.6 million, advances against the purchase of goods receipts in respect of the sale of paddy to the Government under the Guaranteed Price Scheme declined by Rs. 68.2 million. Other credit to co-operatives rose by Rs. 42.2 million. The decline in goods receipt advances, which rose by Rs. 144.3 million in the previous year, was due mainly to the prompt settlement of these advances by the Government in 1971. The average monthly level of these advances at Rs. 128.3 million was Rs. 30.1 million higher than the average for the year 1970.

Commercial bank credit to government corporations rose by Rs. 62.3 million, compared with an increase of Rs. 43.2 million in 1970. The larger increase in 1971 may be attributable to the increase in the number of public corporations as well as to an enlargement of the scope of operations of the existing corporations. Bank credit to the rest of the private sector, which declined by Rs. 42.0 million in 1970, rose in 1971 by Rs. 84.1 million.¹ A larger part of the increase, amounting to nearly Rs. 49.0 million, occurred in the last month of the year. As against this expansion of credit by Rs. 84.1 million to the private sector (excluding government corporations and co-operatives), its time and savings deposits with commercial banks increased by Rs. 132.0 million.

1. Included in the increase of Rs. 84.1 million is an increase of about Rs. 20 million in credit outstanding to a public corporation which until recently operated as a private concern and continues to be so regarded pending the completion of certain legal formalities. Thus, the increase in credit to the private sector proper may be said to be about Rs. 64 million.

The expansionary effect on the money supply of the increase in credit to the private sector (including government corporations and co-operatives) was very nearly offset by the accumulation of time and savings deposits by this sector with the commercial banks. These deposits increased by Rs. 137.7 million as compared with a larger increase of Rs. 178.8 million in 1970. Co-operatives accounted for only Rs. 11.9 million of this increase, while the deposits of government corporations declined by Rs. 6.2 million. The increase of Rs. 81.5 million in 'other liabilities and accounts (net)' of the commercial banks exerted a further contractionary influence, so that the net contractionary effect on the money supply attributable to the private sector amounted to Rs. 76.2 million.

To summarise, the growth in the money supply and the factors affecting it are reminiscent of the pattern which prevailed in the early fifties where the money supply tended to rise sharply, primarily under the influence of the external sector. The much smaller recourse to the banking system by the Government was also a salient feature in 1971. The larger volume of non-bank market borrowings arising mainly as a consequence of the demonetisation exercise of October 1970 and the increase in foreign finance, were the major factors contributing to the reduction in the Government's reliance on the banking system. The negative impact on the money supply of the operations of the private sector (including public corporations and the co-operatives) is indicative of the considerable slack in the activities of that sector. The slack in the private sector proper may be attributed to such factors as the foreign exchange constraint, the encroachment into its field in the year by the public corporations and perhaps the uncertainty arising from the potential expansion of the corporation sector. The public corporations, while admittedly being themselves subject to the foreign exchange constraint, were not fully geared to fill the void created by the reduced role of the private sector proper. Other factors, like the insurgency, would also have affected the activities of the private sector as a whole. The economy thus grew at only 0.9 per cent in the year and viewed against this rate of growth, the expansion of 9.3 per cent in the money supply was significantly high.

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 years 1969-1971.

The total liquid assets of the non-bank private sector rose by Rs. 537.8 million or 10.8 per cent, reflecting an increase of Rs. 183.1 million or 9.3 per cent in primary liquid assets and an increase of Rs. 354.7 million or 11.8 per cent in secondary liquid assets. While the increase in primary liquid assets in 1971 was more than double the increase of Rs. 83.5 million or 4.4 per cent in the previous year, the increase in secondary liquid assets was significantly lower than the increase of Rs. 392.2 million or 15.0 per cent in 1970. Yet, the share of secondary liquid assets in total liquid assets rose from 60.5 per cent at the end of 1970 to 61.0 per cent at the end of 1971.

A disappointing feature of the change in primary liquid assets in 1971 is that almost the entire increase in these assets took the form of currency. The Annual Report for the year 1970, commenting on the markedly increasing public preference for currency relative to demand deposits observed in the previous

decade or so, pointed out that the demonetisation exercise of October 1970 had the effect of checking the trend and of reducing the proportion of the currency component in the money supply. In 1971, however, the earlier trend had manifested itself again as seen from the fact that currency as ratio of money supply rose more or less steadily from 47.6 per cent at the end of 1970 to 51.9 per cent at the end of 1971. It is indeed disconcerting that as much as Rs. 180.8 million of the Rs. 183.1 million increase in the money supply in 1971 should have taken the form of currency. Apart from the usual factors influencing the currency holdings of the public, it may also have been due to the operation of the Bank Debits tax since October 1970. The insignificant increase in demand deposits was also accompanied by a decline of 12.6 per cent in the average monthly turn-over rate of these deposits, which might serve to emphasise the influence of the Bank Debits tax.

TABLE II (D) 3

Total Liquid Assets of the Non-Bank Private Sector

Description	Amount (Rupees Million)			Percentage of G.N.P. ^(a)		
	1969	1970	1971	1969	1970	1971
1. Primary liquid assets						
(a) Notes and coins	1,083.9	935.1	1,115.9*	10.1	8.0	9.4
(b) Demand deposits	799.2	1,031.5	1,033.8	7.4	8.9	8.7
Total	1,883.1	1,966.6	2,149.7*	17.5	16.9	18.2
Percentage change	- 1.6	+4.4	+ 9.3			
2. Secondary liquid assets						
(a) Savings deposits with commercial banks	375.1	534.4	614.4	3.5	4.6	5.2
(b) Savings deposits with Post Office Savings Bank	490.5	594.4	608.8*	4.6	5.1	5.1
(c) Savings deposits with Ceylon Savings Bank	102.4	113.3	188.4*	0.9	1.0	1.6
(d) Time deposits with commercial banks	594.3	613.8	671.4	5.5	5.3	5.7
(e) Foreign balances of residents	—	—	—	—	—	—
(f) Savings certificates	86.3	73.1	66.0*	0.8	0.6	0.6
(g) Treasury bills	15.4	12.7	13.3	0.1	0.1	0.1
(h) Tax reserve certificates	15.8	43.5	53.1	0.1	0.4	0.4
(i) Government bonds	937.4	1,024.2	1,148.7	8.7	8.8	9.7
Total	2,617.2	3,009.4	3,364.1*	24.3	25.9	28.4
Percentage change	+9.6	+15.0	+11.8			
3. Total private sector liquid assets	4,500.3	4,976.0	5,513.8*	41.9	42.8	46.6
Percentage change	+4.7	+10.6	+10.8			
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	2,026.5	2,168.9	2,735.6	18.8	18.7	23.1

Source: Central Bank of Ceylon

(a) At current factor cost prices

* Provisional

The last year's Report also drew attention to the sharp reduction in the share of the larger denominations in the currency issue brought about by the demonetisation. In 1971 however, the share of the larger denominations rose steadily and notes of the denominations of Rs. 100 and Rs. 50 formed 57.1 per cent of the total currency issue at the end of the year as against 47.0 per cent at the end of 1970.

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

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	
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	47.6	1,031.5	52.4	1,966.6
1971	1,115.9*	51.9*	1,033.8	48.1	2,149.7*

*Provisional

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*
1957	116.5	116.7	155.8	29.9	475.1
1958	157.5	143.6	184.0	33.7	578.3
1959	174.5	152.1	193.5	36.2	621.3
1960	148.4	148.4	237.6	40.1	644.6
1961	211.9	180.3	254.6	42.1	763.8
1962	238.2	186.8	241.9	42.8	789.4
1963	275.3	236.7	257.6	46.5	900.9
1964	168.4	258.3	359.5	55.5	932.1
1965	239.9	297.8	319.7	50.5	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
1971	421.1	312.9	353.1	70.7	1,285.1

Source: Central Bank of Ceylon

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

Table II (D) 6 shows that the change in demand deposits in 1971 was characterised by an increase in the deposits of the business sector, offset partly by a decrease in the deposits of the non-business sector. In the business sector, demand deposits of manufacturing establishments rose substantially by Rs. 39.7 million, following an increase of Rs. 26.6 million in 1970; their share in total deposits also rose from 10.0 per cent at the end of 1970 to 13.9 per cent at the end of 1971. Demand deposits of trading institutions, on the other hand, registered a pronounced decline of Rs. 38.6 million in contrast to an increase of Rs. 76.6 million in 1970; their share in total deposits consequently fell from 18.8 per cent at the end of 1970 to 14.8 per cent at the end of 1971. Demand deposits of financial institutions and 'other business' rose by Rs. 2.9 million and Rs. 9.1 million respectively, compared with increases of Rs. 14.2 million and Rs. 25.5 million in the previous year. Demand deposits of plantations, which fell by Rs. 6.7 million in 1970, rose by Rs. 4.4 million in 1971. Demand deposits of local authorities also registered a substantial increase of Rs. 14.5 million as compared with an increase of Rs. 1.1 million in 1970, while those of individuals and non-business institutions fell by Rs. 22.3 million and Rs. 0.9 million respectively. The decline in the deposits of individuals is in marked contrast to the previous year when they rose by Rs. 74.7 million; their share in total demand deposits fell from 41.0 per cent at the end of 1970 to 38.4 per cent at the end of 1971.

Time and savings deposits with the commercial banks accounted for nearly 40 per cent of the increase in the secondary liquid assets of the non-bank private sector. The increase of Rs. 12.5 million in time deposits compares with an increase of Rs. 10.5 million in 1970. Savings deposits with commercial banks, which recorded a very sharp increase of Rs. 164.1 million in 1970 mainly as a consequence of the demonetisation, rose by Rs. 78.8 million in 1971. The most pronounced increase in time deposits with commercial banks in 1971 was in those of individuals. These deposits rose by Rs. 27.8 million, compared with increases of Rs. 11.2 million in 1970 and Rs. 0.6 million in 1969. Time deposits of 'other business' establishments also showed a substantial increase of Rs. 18.6 million, while those of trading institutions rose by Rs. 7.6 million. Time deposits of all the other categories declined in the year.

A notable feature in the growth of secondary liquid assets in 1971 was the substantial increase in the deposits with the Ceylon Savings Bank. These deposits were growing very slowly until 1970, the increase in any year not exceeding Rs. 10 million the most; the increase in 1971 amounted to Rs. 75.1 million. The relatively insignificant increase in the deposits with the Post Office Savings Bank in 1971, despite the substantially higher rate of interest paid on them with effect from January 1971, is probably indicative of the depositors' preference of the liquidity of deposits to their yield. The unprecedented increase of nearly Rs. 104 million in deposits with the Post Office Savings Bank in 1970 as a consequence of the demonetisation arose from the fact that the Bank had a much wider geographical coverage than the commercial banks and the Ceylon Savings Bank. The rate of interest payable on the Bank's deposits was doubled from 3.6 per cent to 7.2 per cent in January 1971. (The rate paid by the Ceylon Savings Bank

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	%
Financial Institutions								
December 1970 ..	56.1	5.7	135.3	24.0	16.3	3.0	207.7	10.0
March 1971 ..	55.1	5.7	131.5	23.3	18.7	3.4	205.3	9.9
June 1971 ..	55.9	5.8	131.0	24.0	18.3	3.2	205.3	9.9
September 1971 ..	47.8	4.9	126.6	22.3	18.1	3.1	192.5	9.1
December 1971 ..	59.0	5.9	123.1	21.4	18.8	3.1	200.9	9.2
Plantations								
December 1970 ..	56.8	5.8	42.1	7.5	0.3	0.1	99.2	4.8
March 1971 ..	89.1	9.2	42.8	7.6	0.4	0.1	132.3	6.4
June 1971 ..	64.4	6.7	37.5	6.9	0.4	0.1	102.3	4.9
September 1971 ..	66.8	6.9	30.4	5.4	0.2	...	97.4	4.6
December 1971 ..	61.2	6.2	30.4	5.3	0.5	0.1	92.2	4.2
Trading								
December 1970 ..	185.1	18.8	94.6	16.8	6.4	1.2	286.1	13.7
March 1971 ..	172.7	17.9	97.4	17.2	7.2	1.3	277.3	13.3
June 1971 ..	176.8	18.4	97.9	17.9	8.1	1.4	282.9	13.6
September 1971 ..	150.8	15.6	119.7	21.1	8.6	1.5	279.1	13.2
December 1971 ..	146.5	14.8	102.2	17.8	9.9	1.6	258.7	11.9
Manufacturing Establishments								
December 1970 ..	98.9	10.0	41.7	7.4	0.4	0.1	141.0	6.8
March 1971 ..	109.7	11.3	39.8	7.0	0.2	...	149.8	7.2
June 1971 ..	98.3	10.2	24.3	4.5	0.1	...	122.6	5.9
September 1971 ..	116.8	12.0	30.5	5.4	0.5	...	147.8	7.0
December 1971 ..	138.6	13.9	32.0	5.6	3.0	0.5	173.6	8.0
Other Business								
December 1970 ..	107.0	10.9	50.7	9.0	8.2	1.5	165.9	8.0
March 1971 ..	109.1	11.3	54.7	9.7	8.8	1.6	172.5	8.3
June 1971 ..	110.9	11.5	49.2	9.0	11.0	1.9	171.1	8.2
September 1971 ..	126.8	13.1	55.4	9.8	7.2	1.2	189.4	9.0
December 1971 ..	116.1	11.7	69.3	12.0	9.6	1.6	195.0	8.9
Local Authorities								
December 1970 ..	16.9	1.7	12.2	2.2	0.2	...	29.3	1.4
March 1971 ..	18.4	1.9	12.1	2.1	0.2	...	30.8	1.5
June 1971 ..	21.3	2.2	12.4	2.3	0.2	...	33.9	1.6
September 1971 ..	26.2	2.7	12.3	2.2	0.3	...	38.8	1.8
December 1971 ..	31.4	3.2	11.7	2.0	0.3	...	43.4	2.0
Non-Business Institutions								
December 1970 ..	59.7	6.1	54.2	9.6	7.8	1.5	121.7	5.8
March 1971 ..	58.1	6.0	53.2	9.4	7.5	1.4	118.8	5.7
June 1971 ..	61.6	6.4	55.8	10.2	7.7	1.3	125.0	6.0
September 1971 ..	62.1	6.4	46.1	8.1	7.3	1.3	115.6	5.5
December 1971 ..	58.8	5.9	46.6	8.1	8.2	1.3	113.6	5.2
Individuals								
December 1970 ..	403.6	41.0	132.4	23.5	496.0	92.6	1,032.0	49.5
March 1971 ..	354.2	36.6	133.2	23.6	503.5	92.1	991.0	47.7
June 1971 ..	373.4	38.8	137.2	25.2	526.4	92.0	1,037.1	49.9
September 1971 ..	372.4	38.4	146.3	25.8	534.3	92.7	1,053.1	49.8
December 1971 ..	381.3	38.4	160.2	27.8	564.0	91.8	1,105.5	50.6
Total								
December 1970 ..	984.1	100.0	563.1	100.0	535.6	100.0	2,082.8	100.0
March 1971 ..	966.5	100.0	564.9	100.0	546.5	100.0	2,077.9	100.0
June 1971 ..	962.6	100.0	545.3	100.0	572.2	100.0	2,080.1	100.0
September 1971 ..	969.7	100.0	567.3	100.0	576.5	100.0	2,113.7	100.0
December 1971 ..	993.0	100.0	575.6	100.0	614.4	100.0	2,183.0	100.0

Source: Central Bank of Ceylon

was also raised from 4 per cent to 7 per cent). The substantially higher rate of interest paid in 1971 had not resulted in a significant increase in the volume of deposits with the Post Office Savings Bank, though it may have helped the Bank to retain the deposits which accrued during the demonetisation exercise. The commercial banks, on the other hand, were paying only $4\frac{1}{2}$ per cent on savings deposits in 1971 but were able to achieve a substantial increase in savings deposits, amounting to Rs. 80 million as compared with an increase of only about Rs. 14 million with the Post Office Savings Bank. The poor performance of the Bank may thus be attributable to the lesser liquidity of its deposits arising from the more rigid withdrawal formalities. While depositors have thus shown a preference for liquidity to yield, they also seem to have taken advantage of the higher yield as seen in the substantial increase in the deposits with the Ceylon Savings Bank, where withdrawal formalities are less rigid. The increase in deposits with the Ceylon Savings Bank would probably have been much more but for its limited geographical coverage. These facts serve to emphasise that higher interest rates by themselves cannot contribute much to the mobilisation of savings; the liquidity of deposits seem to have a greater influence on depositors. The value of savings certificates held by the public continues to decline, probably due to the fact that the rate paid on these certificates has not been revised yet in line with the rates payable on the Post Office Savings Bank and the Ceylon Savings Bank deposits.

A striking development in the last two years has been the significant increase in the private sector's claims on the Government. In 1970, 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. 58.9 million in 1969. In 1971, the increase in the total holdings amounted to Rs. 134.7 million; the increase in the treasury bill holdings was negligible at Rs. 0.6 million, while holdings of government bonds and tax reserve certificates rose by Rs. 124.5 million and Rs. 9.6 million respectively. The increase of Rs. 124.5 million in government bonds compares with an increase of Rs. 86.8 million in 1970. The Insurance Corporation, whose holdings of government bonds increased by Rs. 65.1 million, accounted for more than half the increase in the total value of government bonds held by the private sector; the increase in the holdings of the Corporation in 1970 amounted to Rs. 45.9 million. Trusts, benevolent, pension and provident funds (other than the Employees' Provident Fund) increased their holdings of government bonds by Rs. 60.1 million, as compared with Rs. 38.2 million in 1970. The holdings of the others declined by Rs. 0.7 million.

To summarise, there has been a significant growth in the secondary liquid assets of the non-bank private sector in recent years, which was more marked in 1970 and 1971. A salient feature in these two years has been the increasing share of claims on the Government in the total secondary liquid assets of the private sector; the increase in claims on the Government, which amounted to 25.6 per cent of the increase in total secondary liquid assets in 1969 and 28.5 per cent in 1970, formed 38 per cent in 1971. However, holdings of government claims continue to be confined almost wholly to institutional investors. Taking

all the financial assets of the non-bank private sector together, the ratio of such assets to gross national product was 46.6 per cent in 1971 as against 42.8 per cent in 1970.

1. (d) Interest Rates

The Bank rate remained unchanged at $6\frac{1}{2}$ per cent in 1971. The Central Bank's rate of interest on advances against usance promissory notes in respect of commercial and production loans also remained at $6\frac{1}{2}$ per cent. There were no changes in the rates of interest on the Central Bank's refinance facilities from the Medium and Long-term Credit Fund, with the exception of the rates on refinance granted for the modernisation of tea factories and/or construction of new tea factories, which were raised in January from 5 per cent to 6 per cent on refinance to cover local costs and from 7 per cent to 8 per cent on refinance to cover foreign exchange costs. The rate on refinance for the promotion or development of agriculture and industry and that for the promotion or development of trade, commerce or business continued to remain at $6\frac{1}{2}$ per cent and $7\frac{1}{2}$ per cent respectively. The Central Bank's refinance rate under the Agricultural Credit Scheme remained at $1\frac{1}{2}$ per cent and the rate on advances to commercial banks in respect of their advances to co-operatives for financing 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 per cent.

There were no changes in the lending rates of commercial banks except for the rate on inter-bank call loans which moved up from $4\frac{1}{2}$ per cent to 5 per cent in July 1971. The maximum and minimum rates on bills purchased continued to be 10 per cent and $6\frac{1}{2}$ per cent respectively. The maximum and minimum rates on advances against government securities and shares of joint-stock companies also remained unchanged at $9\frac{1}{2}$ per cent and $6\frac{1}{2}$ per cent and, 11 and 9 per cent respectively. In the case of advances against stock in trade the maximum and minimum rates were 12 per cent and $8\frac{1}{2}$ per cent respectively, while those on loans secured by immovable property remained at 11 and 8 per cent respectively. The maximum rate charged on advances against other types of securities and on unsecured loans was 12 per cent, and their minimum rates were $6\frac{1}{2}$ per cent and $8\frac{1}{2}$ per cent respectively.

The deposit rates of commercial banks also remained unchanged during 1971. The rate paid by commercial banks on savings deposits was $4\frac{1}{2}$ per cent. In the case of time deposits, the rate payable on deposits of under Rs. 5,000 varied between $4\frac{1}{2}$ per cent and $5\frac{1}{4}$ per cent depending on maturity, while the rate on those between Rs. 5,000 and Rs. 25,000 varied between $4\frac{1}{4}$ and $5\frac{1}{2}$ per cent. For amounts of Rs. 25,000 and over the rate ranged between 5 per cent and $5\frac{1}{4}$ per cent. Thus the highest rate of interest obtainable on time deposits with commercial banks continued to be $5\frac{1}{4}$ per cent.

The Post Office Savings Bank and the Ceylon Savings Bank raised their rates on savings deposits in January from 3.6 per cent and 4.0 per cent to 7.2 per cent and 7.0 per cent respectively. The rate on fixed deposits for a period of one year, paid by the Ceylon Savings Bank, was also raised from $4\frac{1}{2}$ per cent to $7\frac{1}{2}$ per cent.

The State Mortgage Bank raised its rate on loans granted for the modernisation or construction of tea factories with funds provided under the Central Bank refinance scheme, from $8\frac{1}{2}$ per cent to $9\frac{1}{2}$ per cent in February. The rate on loans granted for the cultivation of non-traditional agricultural export commodities (under the Central Bank refinance scheme) was also raised from $8\frac{1}{2}$ to $9\frac{1}{2}$ per cent in February. The rate of interest on loans for dairy farming, pig-keeping, sheep and poultry farming granted on the security of land (outside the Central Bank refinance scheme) moved up from $10\frac{1}{2}$ per cent to $11\frac{1}{2}$ per cent in June; the rate on these loans on personal guarantee was raised from 11 per cent to 12 per cent in the same month. The rate of interest charged on loans granted for the promotion or development of agriculture (outside the Central Bank refinance scheme) was raised from $10\frac{1}{2}$ per cent to $11\frac{1}{2}$ per cent in June. The rate on loans for house construction and other development purposes was also raised from 10 per cent to $10\frac{1}{2}$ per cent in February and to $11\frac{1}{2}$ per cent in June. All the other rates remained unchanged in 1971.

The rates of interest on loans granted by the Agricultural and Industrial Credit Corporation remained unchanged during the year. The Corporation charged 9 per cent on loans for development purposes against the security of immovable property and 10 per cent against movable property. The rates charged on loans for non-development purposes were 10 per cent in respect of those secured by immovable property and 12 per cent for those secured by movable property. The rate charged by the Development Finance Corporation also remained unchanged at $9\frac{1}{2}$ per cent and $10\frac{1}{2}$ per cent. The Ceylon Savings Bank also continued to charge 10 per cent on loans for building purposes and 12 per cent on loans for other purposes.

The treasury bill rate which stood at 4.76 per cent in December 1970 remained unchanged until June 1971, when it moved up to 4.77 per cent. Thereafter, it rose to 5.00 per cent in July and remained unchanged at this level for the rest of the year. The interest rate on government securities remained at 9 per cent, but the securities were issued for 10-12 years as against 5-7 years in 1970.

2. (a) Commercial Banking - Principal Trends

In the year under review, almost the entire increase in the money supply took the form of currency impairing thereby the possible accrual of resources to the commercial banks through a growth in demand deposits. The growth in time and savings deposits was also lower than in the previous year but it must be noted that the increase in these deposits in 1970 was unusually large because of the demonetisation. The slower growth in deposits, however, did not affect the banks because demands on their resources were not heavy during the year. This is indicated by the higher ratio of liquid assets to total deposits; the monthly average ratio was 36.0 per cent as against 30.8 per cent in 1970. Cash as ratio of total deposits was also higher at 15.0 per cent as against 12.7 per cent in the previous year. The commercial banks' reliance on resources from the Central Bank was also on average lower than in 1970.

2. (b) Branch Network

The distribution of bank offices and of deposits with banks between Ceylonese and foreign banks for the period 1963-71 is given in Table II (D) 7.

The total number of branches of the commercial banks increased by 24 in the year, as compared with an increase of 10 in 1970; 10 of the increase in 1971 arose however from the taking over of Co-operative Provincial Banks by the People's Bank, so that new branches set up in the year amounted to 14. The People's Bank opened 8 of these new branches, as compared with 6 in 1970; these branches were located in Medawachchiya, Gangodawila, Kotikawatte, Marandagahamula, Rambukkana, Valaichchenai, Piliyandala and the Colombo Port. Three new branches were opened by the Bank of Ceylon, in Moratuwa (Idama), Kayts, and Matale. In addition, the Bank of Ceylon also opened 19 Kachcheri offices, which are however not included in the total number of branches shown as having been opened in the year, as these offices merely took over the duties of the Kachcheri Shroffs. The Hatton National Bank also opened three offices in Maskeliya, Pussellawa and Gampola.

TABLE II (D) 7
Distribution of Bank Offices* and Deposits, 1963-1971

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
1970	165	2,394	100	152	1,831	76	9	472	20	4	91	4
1971	189	2,516	100	176	1,951	77	9	471	19	4	94	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.
- * Excludes Kachcheri branches opened in 1971.

The share of the Ceylonese banks in total deposits increased from 76 per cent at the end of 1970 to 77 per cent at the end of 1971. This increase came at the expense of the British banks whose share declined from 20 per cent to 19 per cent, while the Indian and Pakistani banks continued to maintain their share of 4 per cent. While the Ceylonese banks continued to account for more than 90 per cent of the total increase in savings deposits they also claimed, in contrast to the previous years, nearly 75 per cent of the total increase in time deposits. Foreign banks accounted for more than 85 per cent of the decline in total demand deposits.

The average size of demand deposits of the private sector for all banks declined from Rs. 5,470 at the end of 1970 to Rs. 5,289 at the end of 1971. Savings deposits too declined in average size from Rs. 1,086 to Rs. 1,019; time deposits, on the other hand, increased in average size from Rs. 34,837 to Rs. 37,821.

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 1960-1971 are shown in Table II (D) 8.

TABLE II (D) 8

Selected Items of Assets and Liabilities of Commercial Banks.

Average of Monthly figures.

Rupees Million.

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970*	1971	End of Period	
													Dec. 1970	Dec. 1971
Cash on hand and deposits at Central bank (inclusive of statutory reserve requirements) ..	132	148	186	164	182	224	233	218	247	250	248	369	371	378
Foreign balances ..	58	54	55	44	49	55	62	57	72	63	36	51	44	70
Treasury bills ..	28	51	89	128	73	89	124	80	102	50	41	308	281	321
Bills discounted ..	115	122	136	114	126	173	175	198	252	241	275	158	144	152
Total liquid assets ..	333	375	466	450	430	541	594	553	673	604	600	886	841	921
Total investments** ..	284	290	303	313	330	329	330	300	278	275	263	373	362	373
Total loans and overdrafts ..	430	435	477	495	633	669	682	809	1,000	1,240	1,391	1,490	1,403	1,613
Demand deposits† ..	657	677	829	789	853	917	949	914	955	945	958	1,219	1,225	1,199
Time and savings deposits ..	340	359	380	460	535	572	631	649	798	915	989	1,238	1,169	1,317
Total deposits ..	998	1,036	1,209	1,250	1,389	1,490	1,580	1,564	1,755	1,863	1,948	2,458	2,394	2,516
Ratio of ..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	20.1	21.9	22.4	20.8	21.3	24.4	24.5	23.8	25.9	26.4	25.9	30.3	30.3	31.5
Cash to total deposits ..	13.2	14.3	15.4	13.1	13.1	15.0	14.7	13.9	14.1	13.4	12.7	15.0	15.5	15.0
Foreign balances to total deposits ..	5.8	5.2	4.5	3.5	3.5	3.7	3.9	3.6	4.1	3.4	1.8	2.1	1.8	2.8
Treasury bills to total deposits ..	2.8	4.9	7.4	10.2	5.3	6.0	7.8	5.1	5.8	2.7	2.1	12.5	11.7	12.8
Commercial bills discounted to total deposits ..	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.7	14.4	12.9	14.1	6.4	6.0	6.0
Liquid assets to demand deposits ..	50.7	55.4	56.2	57.0	50.4	59.0	62.6	60.5	70.5	63.9	62.6	72.7	68.6	76.8
Liquid assets to total deposits ..	33.4	36.2	38.5	36.0	31.0	36.3	37.6	35.4	38.3	32.4	30.8	36.0	35.1	36.6
Investments to total deposits ..	28.5	28.0	25.1	25.0	23.8	22.1	20.9	19.2	15.8	14.8	13.5	15.2	15.1	14.8
Loans and overdrafts to total deposits ..	43.1	42.0	39.4	39.6	45.6	44.9	43.2	51.7	57.0	66.6	71.4	60.6	58.6	64.1

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 figures 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.

Total assets/liabilities of commercial banks increased by Rs. 353.1 million in 1971 as against a record increase of Rs. 557.7 million in the previous year. Of the increase in liabilities in 1971, Rs. 122.2 million was in the form of deposits; while deposits of the private sector increased by Rs. 144.6 million, the Government's deposits fell by Rs. 22.4 million. Capital and reserves of the commercial banks rose by Rs. 24.6 million, as against an increase of Rs. 17.8 million in 1970. Borrowings from the Central Bank rose by Rs. 24.4 million as against an increase of Rs. 4.3 million in the previous year, and borrowings from banks abroad, which declined by Rs. 7.9 million in 1970 also rose by Rs. 7.0 million. 'Other liabilities' of the commercial banks showed a record increase of Rs. 185.0 million; the increase in 1970 was Rs. 57.9 million.

On the assets side, loans and advances of the banks increased by Rs. 217.8 million as against a decline of Rs. 112.0 million in the previous year. Import bills held by the banks, which declined sharply by Rs. 172.8 million in 1970, fell further in 1971 by Rs. 1.2 million. Overdrafts recorded the largest increase of Rs. 132.6 million, while loans and export bills also rose by Rs. 77.2 million and Rs. 9.0 million respectively.

The liquidity position of the banks improved considerably in the year. While the increase in cash holdings (including statutory reserves) over the year was only Rs. 7.1 million, the monthly average ratio of cash holdings to total deposits rose from 12.7 in 1970 to 15.0 per cent in 1971. Among other liquid assets, the monthly average of treasury bill holdings rose from 2.1 per cent of total deposits in 1970 to 12.5 per cent in 1971, while commercial bills declined from a monthly average of 14.1 per cent of total deposits to 6.4 per cent. Foreign balances rose from 1.8 per cent of total deposits to 2.1 per cent. Thus, the monthly average ratio of liquid assets to total deposits rose from 30.8 per cent in 1970 to 36.0 per cent in 1971.

The slack in the demand for bank credit in the year is also reflected in the monthly level of loans and overdrafts which on average declined to 60.6 per cent of total deposits from 71.4 per cent in 1970. The slack in demand led, apart from the improvement in liquidity, to an increase in the banks' investment portfolios; the ratio of investments to total deposits rose from a monthly average of 13.5 per cent in 1970 to 15.2 per cent in the year under review.

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

The yearly changes in commercial banks' resources and their utilisation for the period 1968-71 are indicated in Table II (D) 9.

Whereas in 1970 the transactions of the private sector (including government corporations and the co-operatives) with the commercial banks released substantial resources for utilisation in the government sector, in the year under review the private sector was just self-financing in its transactions with the banks. The government sector utilised Rs. 75.1 million of the increase in commercial banks' resources in 1971, which was reflected in increases of Rs. 50.4 million and Rs. 2.4 million in the banks' holdings of government paper and government import bills respectively, and a decrease of Rs. 22.3 million in the government's

TABLE II (D) 9

Yearly Changes in Bank Resources and their Utilisation 1968 - 1971

Rupees Million

	1968	1969	1970	1971
Sources of Funds				
1. Government Sector	150.9	83.0	215.5	3.5
Reduction in holdings of government paper	—	83.0	—	—
Increase in deposits	25.9	—	73.7	—
Decrease in import bills	125.0	—	141.8	—
Decrease in short term credit(1)	—	—	—	3.5
2. Central Bank	2.3	89.3	4.3	39.8
Increase in borrowings	—	84.3	4.3	24.5
Decrease in reserves	2.3	5.0	—	15.3
3. Government Corporations	—	—	44.7	27.8
Increase in deposits	—	—	44.7	27.8
Decrease in advances	—	—	—	—
4. Co-operatives	0.6	—	19.0	21.8
Increase in deposits	0.6	—	19.0	18.4
Decrease in advances	—	—	—	3.4
5. Other Domestic Private Sector	167.1	132.9	363.4	98.8
Increase in deposits	167.1	132.9	341.9	98.8
Decrease in advances and investments	—	—	21.5	—
6. Inter-bank(2)	62.5	35.8	77.6	209.6
Increase in capital and reserves	6.1	14.5	17.8	24.6
Decrease in fixed and other assets	—	0.1	—	—
Increase in 'other' liabilities	52.4	21.2	57.9	185.0
Inter-bank transactions (net)	4.0	—	1.9	—
Decrease in till cash	—	—	—	—
7. Foreign Sector	7.3	27.6	9.1	7.0
Increase in borrowings	7.1	3.0	—	7.0
Increase in deposits	0.2	—	0.7	—
Decrease in foreign balances	—	24.6	8.4	—
Total Increase in resources	390.7	368.6	733.6	408.3
Utilisation of Funds				
1. Government Sector	10.1	100.4	335.6	75.1
Increase in holdings of government paper	10.1	—	335.0	50.4
Decrease in deposits	—	4.3	—	22.3
Increase in government import bills	—	87.9	—	2.4
Increase in short term credit(1)	—	8.2	0.6	—
2. Central Bank	14.8	—	88.3	—
Decrease in borrowings	14.8	—	—	—
Increase in reserves	—	—	88.3	—
3. Government Corporations	115.5	85.4	43.1	62.3
Decrease in deposits	24.9	15.5	—	—
Increase in advances	90.6	69.9	43.1	62.3
4. Co-operatives	18.5	23.8	146.3	—
Decrease in deposits	—	3.9	—	—
Increase in advances	18.5	19.9	146.3	—
5. Other Domestic Private Sector	181.8	142.1	—	84.1
Decrease in deposits	—	—	—	—
Increase in advances and investments	181.8	142.1	—	84.1
6. Inter-bank(2)	39.4	15.7	112.3	151.4
Decrease in capital and reserves	—	—	—	—
Increase in fixed and other assets	17.6	—	88.1	128.2
Decrease in 'other' liabilities	—	—	—	—
Inter-bank transactions (net)	—	0.8	—	0.8
Increase in till cash	21.8	14.9	24.2	22.4
7. Foreign Sector	10.6	1.0	7.9	35.1
Decrease in borrowings	—	—	7.9	—
Decrease in deposits	—	1.0	—	0.4
Increase in foreign balances	10.6	—	—	34.7
Total Increase in resources utilised	390.7	368.4	733.5	408.0

Source: Central Bank of Ceylon.

(1) This item relates to cheques, 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.

deposits with the banks. In the previous year, the increase in the government sector's utilisation of commercial banks' resources amounting to Rs. 335.6 million took almost entirely the form of an increase in the banks' holdings of government paper. The accretion of resources to the commercial banks from the government sector in 1971 was insignificant at Rs. 3.5 million when compared with an accretion of Rs. 215.5 million in 1970. There was thus a net flow of Rs. 71.6 million from the commercial banks to the government sector in 1971, as compared with a flow of Rs. 120.1 million in the previous year.

In the private sector, the co-operatives contributed Rs. 21.8 million to the increase in banks' resources by increasing their deposits and decreasing their advances, in marked contrast to the previous year when they increased their utilisation of banks' resources by Rs. 146.3 million while contributing only Rs. 19.0 million to the increase in banks' resources. The net increase in the flow of banks' resources to government corporations in 1971 amounted to Rs. 34.5 million, which took the form of an increase of Rs. 62.3 million in banks' advances to corporations offset by an increase of Rs. 27.8 million in the deposits of the corporations with the banks. In 1970, government corporations had increased their utilisation of banks' resources to the extent of Rs. 43.1 million by way of advances but had provided the banks with 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, while increasing their utilisation of banks' resources by Rs. 84.1 million in the form of advances in 1971, contributed Rs. 98.8 million to the increase in the banks' resources in the form of an increase in deposits. The net flow of resources from the rest of the private sector to the banks thus amounted to Rs. 14.7 million, as compared with a flow in the previous year of 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.

Taking the private sector as a whole, the increase in the utilisation of banks' resources in 1971 amounted to Rs. 146.4 million while the increase in resources made available to the banks by the sector was slightly higher at Rs. 148.4 million. In the previous year, while the utilisation of banks' resources amounted to Rs. 189.4 million, the accrual of resources to the banks from the sector amounted to Rs. 427.1 million indicating a net flow of Rs. 237.7 million from the sector to the banks.

In contrast to the previous year in which there was a net accrual of Rs. 1.2 million to the banks from the foreign sector, in 1971 there was a net flow of Rs. 28.1 million from the banks to the foreign sector arising from an increase of Rs. 34.7 million in foreign balances offset by an increase of Rs. 7.0 million in foreign borrowings. The resources accruing from within the domestic commercial banking system amounted to Rs. 209.6 million in 1971 while utilisation within the system amounted to Rs. 151.4 million. In the previous year, the utilisation of resources within the system exceeded accrual by Rs. 34.7 million.

The Central Bank contributed Rs. 39.8 million to the increase in the resources of the commercial banks in 1971, in contrast to the previous year when there was a net flow of Rs. 84.0 million from the commercial banks to the

Central Bank. Refinance provided by the Central Bank in respect of the Agricultural Credit Scheme in 1971 rose by Rs. 9.0 million while that in respect of the Guaranteed Price Scheme declined by Rs. 4.1 million. Refinance under the Medium and Long term Credit Fund rose by Rs. 4.8 million and other advances by Rs. 14.9 million. In addition, the decline in total demand deposits enabled the commercial banks to reduce their reserves with the Central Bank by Rs. 15.3 million.

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

The increase in bank credit to the private sector in the year amounted to Rs. 152.4 million, of which Rs. 62.3 million went to the corporations and Rs. 90.1 million to the rest of the private sector. The demand for bank credit in 1971 was only felt in a few months of the year and in fact more than half the increase of Rs. 152.4 million took place in the last month. Credit to corporations showed a substantial increase in April and relatively smaller increases in July and December; in the rest of the year there was generally a slack in the demand for credit from the corporations. More than a third of the increase in credit to the corporations in the year occurred in the last month of the year. Bank credit to the co-operatives rose substantially from March to May and again in October; over the year as a whole, however, credit to the co-operatives declined by Rs. 3.4 million. More than 50 per cent of the increase in credit to the rest of the private sector took place in December, while substantial increases were also recorded in January, April and September.

TABLE II (D) 10
Commercial Bank Advances to the Private Sector*

Rupees Million									
	Ceylonese Banks			Foreign Banks			All Banks		
	Dec. 1970	Dec. 1971	Change	Dec. 1970	Dec. 1971	Change	Dec. 1970	Dec. 1971	Change
(1) Cash items in process of collection**	171.3	106.8	- 64.5	0.2	1.4	+ 1.2	171.4	108.2	- 63.2
(2) Local bills	16.1	25.0	+ 8.9	20.8	8.3	- 12.5	36.9	33.3	- 3.6
(3) Import bills	32.1	37.3	+ 5.2	74.4	78.3	+ 3.9	106.5	115.5	+ 9.0
(4) Export bills	342.9	431.9	+ 89.0	245.8	289.8	+ 44.0	588.7	721.7	+ 133.0
(5) Overdrafts	731.4	818.7	+ 87.3	82.8	72.7	- 10.1	814.2	891.4	+ 77.2
(6) Loans									
Total	1293.8	1419.8	+ 126.0	423.9	450.4	+ 26.5	1717.7	1870.1	+ 152.4

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.

The increase in bank credit in the year was mainly in the form of loans and overdrafts, in contrast to the previous year when the major part of the increase was in cash items in process of collection. Overdrafts recorded the largest increase of Rs. 133.0 million in 1971, of which Rs. 68.9 million went to the corporations and Rs. 64.1 million to the rest of the private sector. The outstanding amount of loans increased in the year by Rs. 77.2 million of which the increase in loans under the Agricultural Credit Scheme amounted to Rs. 22.6 million; of the balance, while loans to the corporations declined by Rs. 14.0 million, those to the rest of the private sector rose by Rs. 68.6 million.

Import bills of the private sector held by the banks declined by Rs. 3.6 million in 1971, while their holdings of export bills rose by Rs. 9.0 million. Cash items in process of collection declined markedly by Rs. 63.2 million, due to the decline of Rs. 68.2 million in goods receipt advances relating to the sale of paddy to the Government under the Guaranteed Price Scheme; other cash items rose by Rs. 5.0 million.

Table II (D) 11 gives a classification of banks' advances by purpose 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 is carried out on a quarterly basis and it covers advances to the private sector, including government corporations in the form of loans and overdrafts, export bills and import bills but exclude cash items in process of collection.

A striking feature of the changes in the structure of bank advances in 1971 was the declining share of the advances for industrial and agricultural purposes in the total advances. Advances for industrial purposes have been increasing rapidly in the years up to 1970; the increases in 1968 and 1969 amounted to Rs. 112.6 million and Rs. 155.6 million respectively. These advances, which accounted for only 12.2 per cent of total advances at the end of 1967 rose sharply to 25.6 per cent at the end of 1969. The rate of increase in these advances slackened considerably in 1970, when the increase amounted to Rs. 28.7 million and the share in total advances was 26.9 per cent. In 1971, though the increase in absolute terms was somewhat higher at Rs. 37.1 million, the share of industrial advances in the total declined to 25.7 per cent.

Of the increase of Rs. 37.1 million in advances for industrial purposes in 1971, government corporations absorbed Rs. 30.1 million leaving Rs. 7.0 million to the rest of the private sector. Industrywise, the largest increase in advances went to 'other industries' (Rs. 80.0 million), followed by the Engineering and Building trades (Rs. 12.5 million). Chemical products accounted for the largest decrease of Rs. 35.2 million, while advances to the textile industry also declined substantially by Rs. 20.7 million. The changes in advances to the other categories of industrial borrowers were not very significant. A detailed breakdown of advances for industrial purposes outstanding at the end of each quarter of 1971 is given in Table II (D) 12.

TABLE II (D) 11

Commercial Banks' Advances* Classified by
Purpose & According to Maturity

Rs. million

			Short-term (below 1 year)		Medium-term (1 to 5 years)		Long-term (over 5 years)		Total	
			(1)	(2) (1) as % of (7)	(3)	(4) (3) as % of (7)	(5)	(6) (5) as % of (7)	(7)	(8) (7) as % of Total
A. Commercial										
December	1970	..	502.4	78.0	104.6	16.2	36.8	5.7	643.9	41.7
March	1971	..	512.8	78.5	104.6	16.0	36.1	5.5	653.4	41.2
June	1971	..	533.7	77.5	120.9	17.6	34.1	4.9	688.7	42.6
September	1971	..	572.7	79.0	119.2	16.4	33.3	4.6	725.3	43.5
December	1971	..	596.8	79.1	125.8	16.7	31.5	4.2	754.1	42.8
B. Financial										
December	1970	..	74.8	54.5	33.3	24.2	29.2	21.3	137.3	8.9
March	1971	..	70.0	53.4	32.9	25.1	28.2	21.5	131.1	8.3
June	1971	..	73.0	55.1	32.7	24.7	26.7	20.2	132.4	8.2
September	1971	..	72.1	55.0	30.7	23.4	28.3	21.6	131.1	7.9
December	1971	..	67.2	54.1	30.2	24.3	26.8	21.6	124.1	7.0
C. Agricultural										
December	1970	..	91.8	45.2	85.6	42.2	25.6	12.6	203.0	13.1
March	1971	..	99.4	47.5	84.4	40.4	25.2	12.0	209.1	13.2
June	1971	..	101.4	50.5	78.2	39.0	21.0	10.5	200.7	12.4
September	1971	..	104.0	52.3	74.8	37.6	20.0	10.1	198.8	11.9
December	1971	..	125.8	55.5	82.6	36.4	18.3	8.1	226.7	12.9
D. Industrial										
December	1970	..	197.0	47.3	151.5	36.4	67.4	16.2	416.0	26.9
March	1971	..	200.7	47.1	162.0	38.0	63.1	14.8	425.8	26.8
June	1971	..	211.5	49.1	158.1	36.7	60.7	14.1	430.3	26.6
September	1971	..	195.5	46.4	167.9	39.9	57.7	13.7	421.0	25.2
December	1971	..	225.5	49.8	170.9	37.7	56.8	12.5	453.1	25.7
E. Consumption										
December	1970	..	22.1	22.3	50.9	51.4	26.1	26.3	99.1	6.4
March	1971	..	24.8	22.4	57.9	52.3	27.8	25.1	110.6	7.0
June	1971	..	25.6	22.6	62.2	54.9	25.4	22.4	113.2	7.0
September	1971	..	30.1	24.2	66.4	53.5	27.6	22.2	124.1	7.4
December	1971	..	35.1	25.5	72.7	52.8	29.7	21.6	137.5	7.8
F. Other Loans										
December	1970	..	21.4	47.7	18.2	40.5	5.3	11.8	44.9	2.9
March	1971	..	25.3	44.9	23.7	42.0	7.4	13.1	56.4	3.5
June	1971	..	22.2	43.1	24.5	47.6	4.9	9.5	51.5	3.2
September	1971	..	37.3	54.7	25.5	37.4	5.3	7.8	68.2	4.1
December	1971	..	28.3	41.9	34.0	50.4	5.2	7.7	67.5	3.8
G. Total										
December	1970	..	909.6	58.9	444.0	28.7	190.5	12.3	1,544.1	100.0
March	1971	..	933.2	58.8	465.5	29.3	187.8	11.8	1,586.5	100.0
June	1971	..	967.4	59.8	476.7	29.5	172.7	10.7	1,616.8	100.0
September	1971	..	1,011.7	60.6	484.6	29.0	172.3	10.3	1,668.5	100.0
December	1971	..	1,078.7	61.2	516.2	29.3	168.3	9.5	1,763.1	100.0

Source: Central Bank of Ceylon.

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

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

Rs. Million

	Amount outstanding as at end of period				
	December 1970	March 1971	June 1971	September 1971	December 1971
1. Textiles ..	86.8	81.2	89.7	71.3	66.1
Government corporations ..	21.2	15.5	24.7	8.5	4.1
Other ..	65.6	65.7	65.0	62.9	62.0
2. Metal Products ..	42.5	48.1	38.9	40.9	37.3
Government corporations ..	14.7	17.7	14.5	14.6	15.2
Other ..	27.8	30.4	24.4	26.3	22.1
3. Chemical Products ..	58.0	54.3	54.6	56.7	22.8
Government corporations ..	38.6	38.0	37.8	36.8	...
Other ..	19.4	16.3	16.8	19.9	22.8
4. Footwear and Leather Products ..	6.6	6.7	7.7	9.2	8.0
Government corporations ..	4.7	5.1	5.5	5.8	5.7
Other ..	1.9	1.7	2.1	3.5	2.3
5. Biscuits and Confectionery ..	6.7	7.1	4.8	4.0	4.3
Government corporations ..	—	—	—	—	—
Other ..	6.7	7.1	4.8	4.0	4.3
6. Processing of Tea, Rubber and Coconut ..	29.0	31.9	33.8	37.4	35.8
Government corporations ..	—	—	—	—	—
Other ..	29.0	31.9	33.8	37.4	35.8
7. Engineering and Building Trades ..	50.9	61.6	60.5	60.1	63.4
Government corporations ..	12.1	22.9	23.3	23.6	23.8
Other ..	38.8	38.7	37.2	36.5	39.6
8. Other Industries ..	135.5	134.7	140.1	141.3	215.5
Government corporations ..	68.8	56.5	61.0	74.2	141.3
Other ..	66.7	78.2	79.1	67.0	74.2
Total ..	416.0	425.8	430.3	421.0	453.1
Government corporations ..	160.1	155.7	166.9	163.5	190.2
Other ..	255.9	270.1	263.4	257.5	262.9

Source: Central Bank of Ceylon.

Advances for agricultural purposes rose by Rs. 23.7 million in the year but their share in total advances declined from 13.1 per cent at the end of 1970 to 12.9 per cent at the end of 1971. The increase in advances for agricultural purposes in 1970 was Rs. 26.4 million. While in 1970 more than half the increase in agricultural advances were for the major export crops, the increase in advances for these crops in 1971 was insignificant at Rs. 2.6 million. The increase in advances for paddy production in 1971 amounted to Rs. 17.3 million as against an increase of Rs. 4.9 million in the previous year. Advances for the other agricultural crops, including livestock and dairy farming rose by Rs. 3.7 million as compared with an increase of Rs. 6.9 million in 1970.

Advances for commercial purposes rose from 41.7 per cent of total advances at the end of 1970 to 42.8 per cent at the end of 1971. In absolute terms, these advances rose by Rs. 110.2 million, accounting for a little more than 50 per

cent of the increase of Rs. 219.0 million in total advances; these advances declined by Rs. 24.8 million in 1970. Among advances for commercial purposes, those for export trading rose by Rs. 32.6 million as against a decline of Rs. 2.4 million in 1970, while advances for import trading, which declined sharply by Rs. 48.3 million in 1970, rose by Rs. 28.8 million. Advances for wholesale and retail trading also recorded a substantial increase of Rs. 30.7 million in 1971, in contrast to a decline of Rs. 3.2 million in the previous year. Other commercial advances, which increased by Rs. 29.0 million in 1970, registered a smaller increase of Rs. 18.3 million in 1971.

Advances for financial purposes, which fell by Rs. 1.3 million in 1970, declined further by Rs. 13.2 million in 1971. Advances to financial institutions accounted for almost the entire decrease of Rs. 13.2 million. The share of all financial advances in total advances declined from 8.9 per cent at the end of 1970 to 7.0 per cent at the end of 1971.

In sharp contrast to the years in the recent past, advances for consumption purposes rose by Rs. 38.4 million in 1971; the increases in 1969 and 1970 were Rs. 3.5 million and Rs. 0.3 million respectively. Loans for consumer durables rose by Rs. 18.4 million and those for other personal needs by Rs. 20.1 million. The residual category of 'other loans' also rose substantially by Rs. 22.6 million in 1971; the increases in 1969 and 1970 were only Rs. 7.9 million and Rs. 1.5 million respectively. In the face of the reduced demand for credit from the productive sectors of the economy, the banks increased their consumption and 'other loans' by an unprecedented Rs. 61.0 million.

Maturity-wise, long-term advances of the banks which amounted to 12.3 per cent of total advances at the end of 1970 declined markedly to 9.5 per cent at the end of 1971; short and medium-term advances rose from 58.9 per cent and 28.7 per cent to 61.2 per cent and 29.3 per cent respectively. Of the medium and long-term advances of Rs. 684.5 million outstanding at the end of December 1971, the largest share of 33.3 per cent was claimed by the industrial group, followed by the commercial group (23.0 per cent), the consumption group (15.0 per cent), the agricultural group (14.7 per cent), the financial group (8.3 per cent) and the 'other loans' group (5.7 per cent).

Advances classified by rate of interest are shown in Table II (D) 13. The largest concentration of advances continued to be at 9 per cent. However, while the relative weight of advances at 7 to 9 per cent showed little change in the year, advances at over 9 per cent rose from 16.1 per cent of total advances at the end of December 1970 to 19.3 per cent at the end of December 1971 probably reflecting the increase in consumption and 'other' loans in the year; advances at rates of less than 7 per cent fell correspondingly from 9.6 per cent to 5.4 per cent.

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

Rate of Interest (Percent)	December 31st 1970		March 31st 1971		June 30th 1971		September 30th 1971		December 31st 1971	
	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 ..	2.8	0.2	7.5	0.5	8.1	0.5	5.0	0.3	4.2	0.3
3½ ..	3.8	0.3	4.6	0.3	4.6	0.3	2.8	0.2	1.8	0.1
4 ..	3.1	0.2	0.9	0.1	1.1	0.1	1.3	0.1	1.6	0.1
4½ ..	2.0	0.1	2.1	0.1	2.1	0.1	1.9	0.1	2.2	0.1
5 ..	26.8	1.9	36.0	2.4	36.5	2.4	30.6	2.0	42.6	2.6
5½ ..	3.1	0.2	4.0	0.3	4.2	0.3	2.6	0.2	2.4	0.1
6 ..	51.0	3.5	45.8	3.1	34.7	2.3	30.0	1.9	30.9	1.9
6½ ..	46.4	3.2	41.6	2.8	45.5	3.0	39.8	2.6	36.8	2.2
7 ..	231.2	16.1	254.6	17.2	260.0	17.1	274.2	17.7	275.4	16.7
7½ ..	140.4	9.8	116.2	7.8	146.1	9.6	135.8	8.8	148.2	9.0
8 ..	166.9	11.6	181.2	12.2	162.2	10.7	181.6	11.7	187.3	11.4
8½ ..	254.7	17.7	246.5	16.6	262.4	17.3	269.5	17.4	279.8	17.0
9 ..	274.9	19.1	282.1	19.0	277.2	18.2	263.8	17.0	316.7	19.2
9½ ..	52.0	3.6	67.2	4.5	77.1	5.1	93.9	6.1	91.8	5.6
10 ..	85.6	5.9	93.9	6.3	101.1	6.6	102.0	6.6	99.8	6.1
10½ ..	7.8	0.5	9.2	0.6	8.6	0.6	12.4	0.8	12.9	0.8
11 ..	37.1	2.6	35.4	2.4	35.9	2.4	37.1	2.4	36.0	2.2
11½ ..	6.5	0.5	0.5	...	0.4	...	0.6	...	0.9	...
12% and over ..	42.7	3.0	52.6	3.5	52.4	3.4	62.4	4.0	76.6	4.6
Total ..	1,438.9	100.0	1,482.1	100.0	1,520.2	100.0	1,547.5	100.0	1,647.9	100.0

Source: Central Bank of Ceylon.

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

Advances classified by type of security are shown in Table II(D) 14. The most significant feature was the substantial increase of Rs. 71.9 million in advances secured by pro-notes, bonds and usance notes; their weight in total advances went up from 13.3 per cent to 15.8 per cent. This again can be explained by the substantial increase in consumption and 'other loans' in the year. Advances against stock-in-trade and against guarantees also rose substantially by Rs. 71.9 million and Rs. 62.6 million respectively; their share in total advances rose from 18.7 per cent and 19.0 per cent respectively to 20.5 per cent and 20.2 per cent. Advances against trust receipts and against shares of joint stock companies, and the share of both in total advances, declined in the year.

TABLE II (D) 14

Advances* By Type of Security

	December 31st 1970		March 31st 1971		June 30th 1971		September 30th 1971		December 31st 1971	
	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 ..	136.1	8.8	132.2	8.3	142.3	8.8	163.3	9.8	147.1	8.3
Government securities ..	22.9	1.5	21.1	1.3	22.7	1.4	24.0	1.4	28.8	1.6
Shares of joint-stock companies ..	24.5	1.6	24.0	1.5	24.4	1.5	27.8	1.7	22.8	1.3
Time and savings deposits including cash value of life policies ..	50.1	3.2	49.9	3.1	51.3	3.2	51.3	3.1	52.8	3.0
Stock in trade ..	289.0	18.7	301.2	19.0	307.7	19.0	351.8	21.1	361.9	20.5
Immovable property ..	196.1	12.7	187.6	11.8	198.2	12.3	190.3	11.4	201.1	11.4
Guarantees ..	293.9	19.0	320.2	20.2	335.1	20.7	338.9	20.3	356.5	20.2
Trust receipts ..	118.6	7.7	112.4	7.1	108.3	6.7	93.0	5.6	106.3	6.0
Hire-purchase agreements ..	22.3	1.4	20.9	1.3	18.3	1.1	17.1	1.0	14.5	0.8
Plant and machinery ..	9.0	0.6	9.9	0.6	9.2	0.6	9.8	0.6	11.6	0.7
Tractors and motor vehicles ..	59.7	3.9	61.4	3.9	61.0	3.8	59.4	3.6	67.6	3.8
Pro-notes, bonds and usance notes ..	206.1	13.3	230.5	14.5	221.7	13.7	230.3	13.8	278.0	15.8
Other secured ..	52.2	3.4	58.2	3.7	48.3	3.0	65.3	3.9	70.8	4.0
Unsecured ..	63.5	4.1	57.0	3.6	68.3	4.2	46.0	2.8	43.4	2.5
Total ..	1,544.1	100.0	1,586.5	100.0	1,616.8	100.0	1,668.5	100.0	1,763.1	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.

There was a marked decline in the total loans granted by these institutions, from Rs. 63.3 million in 1970 to Rs. 34.0 million in 1971. The loans granted by the Development Finance Corporation, which increased rapidly each year until 1970, showed the largest decline of nearly Rs. 21 million in 1971. The loans granted by all the other institutions in 1971 were also significantly lower than in the previous year. The sharp decline in the activities of all these institutions is probably indicative of the unfavourable investment climate in the private sector.

TABLE II (D) 15

Lending Operations of Long-term Credit Institutions

Rs. Thousand

	1968		1969		1970		1971	
	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding	Loans granted	Amount outstanding
1. Development Finance Corporation (a) ..	7,273	31,716	19,561	47,982	27,082	70,920	6,439	71,422
2. Ceylon Savings Bank ..	4,386	19,943	3,671	20,921	4,563	22,803	3,082	23,517
3. Agricultural & Industrial Credit Corporation ..	3,285	30,288	4,322	31,090	4,719	31,552	3,296	31,108
4. State Mortgage Bank ..	6,623	57,816	8,597	61,943	9,456	66,995	6,900	68,757
5. Loan Board ..	1,076	10,758	1,212	10,920	2,459	11,858	1,926	12,570
6. National Housing Dept.(b) ..	14,355	113,960	11,663	118,867	15,056	127,386	12,370	131,667
Total ..	36,998	264,481	49,026	291,723	63,335	331,514	34,013	339,041

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 1968-71 exclude loans granted to building societies.

Table II (D) 16 summarises the movements in savings deposits and savings certificates in 1970 and 1971.

TABLE II (D) 16

Savings Deposits and Savings Certificates

Rupees Million

	December 1969	December 1970	December 1971	Change December 1970/71
Post Office Savings Bank ..	490.5	594.4	608.8 (a)	+ 14.4
Ceylon Savings Bank ..	102.4	113.3	188.4*	+ 75.1*
Commercial banks (Time and Savings deposits)** ..	985.6	1,168.6	1,317.3	+148.7
Savings Certificates ..	86.3	73.1	66.0 (b)	- 7.1
Total ..	1,664.8	1,949.4	2,180.5*	+231.1*

Source: Central Bank of Ceylon.

* Provisional

** Include government deposits.

(a) Figure for October

(b) Figure for November

The total contributions received in 1971 by the Employees' Provident Fund amounted to Rs. 162.6 million as compared with Rs. 106.8 million in the previous year.

4. Hire-purchase Finance Companies

The Annual Report for 1970 presented for the first time the results of the quarterly surveys conducted by the Central Bank on the operations of hire-purchase finance companies in Ceylon. As pointed out then, the results obtained from the analysis of the survey returns are tentative as the response to the survey from the smaller companies, in particular, is not quite satisfactory. The main features of the operations of the hire-purchase finance companies as revealed by the surveys as at the end of each quarter from June 1970 to June 1971 are presented in Tables II (D) 17 and 18.

TABLE II (D) 17

Operations of Hire-purchase finance companies

		Rs Million				
		As at 30th June 1970	As at 30th Sept. 1970	As at 31st Dec. 1970	As at 31st March 1971	As at 30th June 1971
1. Deposits	..	58.8	74.0	75.2	75.3	70.8
2. Hire-purchase business outstanding	..	84.4	106.4	99.0	96.0	81.6
3. Loans outstanding	..	19.4	19.0	19.7	19.2	18.8

Source: Central Bank of Ceylon.

TABLE II (D) 18

Hire-Purchase Finance Companies—Sources of Finance

(as % of total liabilities)

		As at 30th June 1970	As at 30th Sept. 1970	As at 31st Dec. 1970	As at 31st March 1971	As at 30th June 1971
1. Capital Accounts	..	24.0	25.2	25.8	26.6	24.4
2. Deposits	..	48.0	49.1	52.5	53.6	55.2
3. Borrowings	..	20.8	18.3	13.9	12.1	11.9
4. Other liabilities	..	7.2	7.4	7.8	7.7	8.5

Source: Central Bank of Ceylon.

The outstanding deposits of the public with the hire-purchase finance companies rose from Rs. 58.8 million at the end of June 1970 to Rs. 75.3 million at the end of March 1971, but declined thereafter to Rs. 70.8 million at the end of June 1971. However, public deposits increasingly constitute the major source of

finance to these companies; the share of these deposits in the total liabilities of the companies rose from 48.0 per cent at the end of June 1970 to 55.2 per cent at the end of June 1971. Borrowings of the companies (mostly from commercial banks), which accounted for 20.8 per cent of total liabilities at the end of June 1970, declined to 11.9 per cent at the end of June 1971. The competition for public deposits in 1971 appears to have been somewhat keener, in response to the marked increase in the deposit rates of the Ceylon Savings Bank and the Post Office Savings Bank. As a consequence, the rates paid by some of the larger companies on deposits for terms exceeding one year rose from 10-12 per cent to 12-14 per cent per annum, while the smaller companies continued to offer even higher rates.

The volume of hire-purchase business outstanding rose sharply from Rs. 84.4 million at the end of June 1970 to Rs. 106.4 million at the end of the following quarter but has thereafter tended to decline steadily to Rs. 81.6 million at the end of June 1971. Almost the entirety of hire-purchase business transacted continues to be in respect of motor vehicles and agricultural machinery; financing of industrial machinery, household durables etc., is still insignificant. Interest on hire-purchase, including finance and other charges, ranged between 12 and 20 per cent per annum; as these are flat rates the effective rates will be much higher.

The outstanding business of the hire-purchase finance companies in the form of loans showed little variations in the period. Interest rates on loans ranged from 10 to 18 per cent per annum.

Overall, the activities of the hire-purchase finance companies, which expanded quite rapidly in the past few years, have suffered a set-back since the third quarter of 1970. This is, however, in line with the tendency in the rest of the financial system and may be attributed basically to the slack in the activities of the private sector.

5. Central Banking

The Central Bank's assets/liabilities increased by Rs. 122.8 million or 3.7 per cent in 1971, consisting of an increase of Rs. 44.2 million in the international reserve and an increase of Rs. 78.6 million in domestic assets. The increase in the international reserve was reflected mainly in the Bank's cash and balances abroad. The increase in domestic assets consisted of increases of Rs. 61.0 million in provisional advances to the Government, Rs. 19.7 million in advances to commercial banks and Rs. 17.6 million in 'other assets and accounts', offset partly by a decrease of Rs. 19.7 million in the Bank's holdings of government and government-guaranteed securities. The increase in the domestic assets of the Central Bank thus arose mainly on account of an expansion of credit to the Government.

On the liabilities side, the external liabilities of the Central Bank declined in the year by Rs. 128.1 million, comprising of reductions of Rs. 77.7 million in borrowings abroad and Rs. 50.4 million in the deposits of international organisations. Domestic liabilities of the Bank, on the other hand, rose sharply by Rs. 250.9 million mainly on account of an increase of Rs. 194.7 million in the

currency issue and an increase of Rs. 106.3 million in 'other liabilities and accounts'; deposits of the Government, government agencies and institutions, and the commercial banks declined by Rs 37.1 million, Rs. 5.0 million and Rs. 19.0 million respectively, while the capital accounts rose by Rs. 1.0 million.

As indicated in the Annual Reports for the last two years, the Central Bank has been following a policy of maintaining a ceiling on its net domestic assets, as a measure designed to achieve a regulated monetary expansion. In 1971, the Central Bank sought to maintain the increase in the net domestic assets of the banking system as a whole within a certain limit. Net domestic assets of the banking system, for this purpose, consist of the Central Bank's special loans and provisional advances to Government, its holdings of government and government-guaranteed securities and treasury bills, and its 'other assets and accounts'; the commercial banks' cash items in process of collection, their holdings of government securities, treasury bills and commercial paper (excluding export bills), their loans and overdrafts, and their fixed and other assets; less Government deposits with both the Central Bank and the commercial banks, the deposits with the Central Bank of government agencies and institutions, 'other deposits' with the Central Bank and 'other liabilities' of both the Central Bank and the commercial banks. The net domestic assets of the banking system thus defined, which stood at Rs. 3945.5 million as on 31st December 1970 rose to Rs. 4149.4 million as on 31st December 1971.

As a measure aimed at restraining the increase in the net domestic assets of the commercial banks, the ceilings on bank credit which were in force in the past few years were continued in 1971, with some modifications being effected towards the end of the year. The modifications provide for a new base date and for the inclusion of medium and long-term loans to industry and agriculture (which were thereto exempt from the ceilings) in the items of bank credit subject to the ceilings. The new ceilings are Rs. 357 million for government corporations and Rs. 1218 million for the rest of the private sector. The actual amounts of credit outstanding at the end of December 1970 and December 1971 are shown in Table II (D) 19.

Excluding medium and long-term loans from the items under the ceiling as at the end of 1971 for purpose of analysis on a comparable basis, total credit under the ceiling rose by Rs. 161.3 million in 1971, while total credit outside the ceiling (including the medium and long-term loans as at end of 1971) declined by Rs. 9.1 million. In the previous year while credit under the ceiling declined by Rs. 85.0 million, credit outside the ceiling rose by Rs. 252.8 million. The decline in credit outside the ceiling in 1971 is due to the sharp reduction in Goods Receipts advances, which accounted for the bulk of the increase in such credit in 1970.

Refinance loans granted by the Central Bank from the Medium and Long-term Credit Fund in 1971 amounted to Rs. 18.0 million, as against Rs. 22.3 million in 1970. Of this, Rs. 15.3 million was granted under the tea factory modernisation project, the foreign currency component of which is financed by the Asian Development Bank; Rs. 13.7 million of this amount was

Table II (D) 19

Commercial Bank Credit to the Private Sector

(Amounts outstanding at the end of month)

		Rs. Million	
		December 1970	December 1971
A. Credit Under the Ceiling			
I. Government Corporations		220.0	359.2
1. Cash items in process of collection	..	4.5	3.9
2. Import bills	..	9.1	17.1
3. Loans	..	105.5	85.4
4. Medium and long-term loans for Industry and Agriculture*	..	—	83.1
5. Overdrafts	..	100.8	169.7
II. Other Private Sector		929.6	1,168.9
1. Cash items in process of collection	..	13.8	19.4
2. Import bills	..	27.8	16.2
3. Loans	..	400.1	447.2
4. Medium and long-term loans for Industry and Agriculture*	..	—	134.1
5. Overdrafts	..	487.9	551.9
Total credit under the ceiling	..	1,149.6	1,528.1
B. Credit outside the Ceiling			
I. Government Corporations		77.0	—
1. Medium and long-term loans for Industry and Agriculture*	..	77.0	—
II. Other Private Sector		491.1	341.8
1. Export bills	..	106.5	115.5
2. Loans under the Agricultural Credit Scheme	..	79.2	101.8
3. Goods receipt advances	..	153.1	84.9
4. Marketing advances to co-operatives	..	2.3	7.6
5. Tea factory modernisation loans	..	26.2	32.0
6. Medium and long-term loans for Industry & Agriculture*	..	123.8	—
Total credit outside the ceiling	..	568.1	341.8
C. All credit to Private Sector		1,717.7	1,870.1

Source: Central Bank of Ceylon.

* Medium and long-term loans for Industry and Agriculture, which remained outside the ceilings were brought under the ceilings with effect from November, 1971.

utilised by the commercial banks and Rs. 1.7 million by other credit institutions. Refinance loans granted for industrial and agricultural purposes amounted to Rs. 2.6 million, of which Rs. 1.2 million was obtained by the Development Finance Corporation, Rs. 1.0 million by the commercial banks, and Rs. 0.4 million by the State Mortgage Bank.

Credits totalling Rs. 27.1 million were made to the Medium and Long-term Credit Fund in 1971, of which Rs. 15.0 million was transferred from the General Reserve of the Central Bank while repayments on loans granted earlier amounted to Rs. 12.1 million. The balance in the Fund at the end of December 1971 amounted to Rs. 14.4 million. The amount outstanding at the end of December 1971 on total refinance loans granted from the Fund since its inception was Rs. 60.7 million.

6. Banking Development

The National Savings Bank was established in August, 1971.¹ The bill for the setting up of the National Development Bank is expected to be finalised shortly. A draft bill prepared by the Ministry of Finance for the establishment of the Agricultural Development Bank is being examined by the Central Bank. On a proposal by the Ministry of Finance to set up an Export-Import Bank, a committee in which the Central Bank is represented is engaged in preparing the necessary legislation.

The draft legislation to amend the Monetary Law Act to provide for a Deposit Insurance Scheme on the lines suggested by the Central Bank is under review.

The proposed amendments to the Bank of Ceylon Ordinance and the People's Bank Act, to enable the two banks to play a wider and more effective role in financing economic activity, have been approved by the Government. The necessary legislation is under preparation by the Legal Draftsman.

A draft bill to control the activities of hire-purchase and finance companies in Ceylon has been prepared and is being reviewed by the Central Bank.

A scheme of insurance, covering defects in title in respect of immovable property mortgaged as security against loans given by banks and other financial institutions, has been introduced by the Insurance Corporation of Ceylon.

1. The Bank commenced operations on 16th March, 1972.