

(E) MONETARY AND BANKING DEVELOPMENTS

Due to a strike by commercial bank employees in the last quarter of 1972, monetary and banking data for that period as well as for early 1973, contain distortions and this precludes a meaningful analysis of monetary developments in the calendar year 1973 in comparison with the preceding year. Even after the strike had ended there were distortions in the data for the first few months of 1973.

For the purpose of a meaningful analysis of the monetary developments in the period from end-August, 1972 to end-December, 1973 it is considered best to break this period into two sub-periods. The first sub period covers the twelve months ending in August, 1973 and is compared with the corresponding period in 1972, which is free of distortions arising from the strike. The second sub-period covers the last four months of 1973. Since the strike by commercial bank employees had taken place in the corresponding four months of 1972, it is not possible to analyse meaningfully the monetary developments in this sub-period in relation to the developments in 1972.

1. Money Supply - Principal Trends

In the twelve months ending in August, 1973 the money supply increased by Rs. 327.7 million or 15.2 per cent compared to an increase of only Rs. 12.5 million or 0.6 per cent in the twelve months ending in August, 1972. The distortions resulting from the strike were no longer present by August, 1973 and the higher rate of monetary expansion that took place thereafter until the end of the year can only be ascribed to an increased demand for money.

During the period of the bank strike from end-August to mid-December, 1972 the disruption of normal banking activities led to a very large increase in the money supply. The suspension of normal clearing arrangements resulted in a substantial increase in the money supply.

In the first two months of 1973, the money supply declined substantially by Rs. 239.0 million or by 9.6 per cent. Although the money supply falls during these two months in every year, the decline in 1973 was more pronounced as the money supply which had reached a very high level by the end of 1972 due to the strike was moving downwards with the resumption of normal banking operations. At the end of the first quarter of 1973, the money supply was Rs. 2410 million which is less than the level it had reached at the end of December 1972.

In the second quarter of 1973, the money supply increased rapidly to a seasonal peak of Rs. 2499 million in June. This is mainly attributable to the increase in credit given for the purchase of paddy under the Guaranteed Price Scheme. Although as in the previous years the money supply increased seasonally in June, July and August of 1973, the size of these increases was on the average, in excess of 15 per cent over the corresponding months of the previous year. The sharp increase in money supply in these months was due to the increase in net external banking assets as a result of a slight improvement in the overall balance of payments position.

TABLE II (E) 1
The Money Supply

Amounts in Rupees Million

End of Period..	1969	1970	1971	1972	1973	% Change (1970 over 1969)	% Change (1971 over 1970)	% Change (1972 over 1971)	% Change (1973 over 1972)
January	1,883	1,872	1,943	2,102	2,323	- 0.6	+ 3.8	+ 8.2	+ 10.5
February	1,880	1,884	1,973	2,086	2,242	+ 0.2	+ 4.7	+ 5.7	+ 7.5
March	1,911	1,932	2,050	2,104	2,410	+ 1.1	+ 6.1	+ 2.6	+ 14.5
April	1,917	1,942	2,101	2,152	2,464	+ 1.3	+ 8.2	+ 2.4	+ 14.5
May	1,900	1,974	2,120	2,144	2,436	+ 3.9	+ 7.4	+ 1.1	+ 13.6
June	1,918	1,990	2,150	2,161	2,499	+ 3.7	+ 8.0	+ 0.5	+ 15.6
July	1,872	1,983	2,134	2,110	2,444	+ 5.9	+ 7.6	- 1.1	+ 15.8
August	1,880	2,017	2,143	2,155	2,483	+ 7.3	+ 6.2	+ 0.6	+ 15.2
September	1,885	2,066	2,149	2,340	2,600	+ 9.6	+ 4.0	+ 8.9	+ 11.1
October	1,891	2,068	2,175	n.a.*	2,612	+ 9.4	+ 5.2	n.a.*	n.a.*
November	1,902	1,927	2,140	n.a.*	2,663	+ 1.3	+11.0	n.a.*	n.a.*
December	1,883	1,967	2,149	2,481	2,778	+ 4.5	+ 9.3	+15.4	+ 12.0
Monthly Average	1,893	1,969	2,102	2,183	2,496	+ 4.0	+ 6.7	+ 4.4	+ 13.0

* Figures not available due to a strike by Commercial Banks employees.

Source: Central Bank of Ceylon

In the second sub-period, from end-August to end-December 1973, the money supply increased by Rs. 295 million or by 11.9 per cent which is a lower rate of expansion than in the twelve month period ending in August 1973. Unlike earlier in the year particularly in the months of January, February, and May 1973 when the money supply declined, in each of the months beginning in August and ending in December 1973 there were increases in the money supply. In the last quarter of every year money supply tends to increase seasonally due to government financial operations. This seasonal factor was operative in 1973 and was strengthened by the increased level of credit given for cultivation purposes in the last quarter of the year.

Factors affecting money supply

The factors underlying changes in the money supply are given in table II (E) 2.

In the twelve months ending August 1973, the principal factor contributing to the increase in money supply was the increase of Rs. 270.3 million in the net external banking assets. In the twelve months ending in August 1972, the expansionary effect of net external banking assets was only Rs. 43.4 million.

The increase in the net external assets of the banking system comprised an increase in the net foreign assets of the Central Bank by Rs. 216.7 million and in the net foreign exchange holdings of the commercial banks by Rs. 53.6 million. The increase in Central Bank's net foreign assets was largely reflected in a reduction in borrowings abroad by Rs. 141.7 million and an increase in the Bank's holdings of cash and balances abroad of Rs. 48.3 million. The net foreign exchange holdings of the commercial banks, on the other hand, increased mainly with an increase of Rs. 71.6 million in their holdings of export bills and a reduction in their cash holdings with banks abroad of Rs. 20.3 million. The increase in interest rates abroad during this time discouraged some commercial banks from discounting export bills abroad and holding the proceeds in the form of cash balances abroad. The large holding of export bills by the commercial banks was also the result of an increase in the value of exports arising from improved prices for Sri Lanka's exports.

In the year ending in August, 1973 the operations of the private sector (inclusive of government corporations and co-operative institutions) caused an expansion in the money supply of Rs. 198.4 million while in the year ending August 1972, the expansion from this sector was Rs. 143.4 million. Commercial bank credit to government corporations rose by Rs. 67.0 million while bank credit to "other private sector" customers and co-operative institutions increased by Rs. 102.2 million and Rs. 30.4 million respectively. Export bills are excluded from this because for the analysis of factors affecting the money supply, export bills are included under net external banking assets. Although the increase in credit granted to the private sector was lower by Rs. 54.2 million compared to the year ending in August 1972, the expansionary impact arising out of the operations of this sector was Rs. 55.0 million higher in the year to August, 1973. This was the result of a decline in time and savings deposits with the

TABLE II (E) 2
Changes in the Money Supply and Underlying Factors

Rupees Million

Factors affecting Money Supply	End 1968 to End 1969		End 1969 to End 1970		End 1970 to End 1971		End Aug. 1971 to End Aug. 1972		End Dec. 1971 to End Aug. 1972		End Aug. 1972 to End Aug. 1973		End Aug. 1973 to End Dec. 1973	
	Expansionary Factors	Contractionary Factors	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) .. .. .	..	299.6	..	1.5	200.5	..	..	46.1	43.4	..	270.3	..	117.0	..
2. Private sector†	226.0	193.8	219.4	238.3	152.6	228.8	265.5	122.1	144.7	33.7	238.2	39.8	122.4	120.6
(a) Commercial bank credit to co-operative institutions ..	..	19.9	..	146.3	..	3.4	99.1	..	83.2	..	30.4	..	..	33.0
(b) Commercial bank credit to other private sector constituents ..	136.2	..	..	42.0	84.1	..	117.7	..	41.3	..	102.2	..	120.4	..
(c) Time and savings deposits of co-operative institutions ..	..	2.9	..	7.6	..	11.9	..	6.1	..	1.1	..	5.0	..	2.4
(d) Time and savings deposits of other private sector constituents ..	..	144.4	..	188.7	..	132.0	..	107.0	..	30.1	..	33.3	..	56.5
(e) Other liabilities and accounts (net) of commercial banks ..	..	35.7	12.4	..	..	81.5	..	9.0	14.2	..	..	1.5	..	15.1
(f) Commercial bank credit to government corporations ..	69.9	..	43.2	..	62.3	..	37.0	..	6.0	..	67.0	..	..	13.6
(g) Time and savings deposits of government corporations ..	..	10.8	17.5	..	6.2	..	11.7	..	..	2.5	38.6	..	2.0	..
3. Government Sector	243.1	7.6	349.8	244.6	181.2	127.7	89.0	177.9	68.2	215.9	134.8	278.4	298.2	107.6
(a) Commercial banks' holdings of Treasury bills, government and government guaranteed securities and government import bills ..	4.9	..	193.4	..	52.8	..	..	29.3	..	55.7	..	165.2	27.6	..
(b) Cash items purchased on government account ..	8.2	..	0.7	..	..	3.5	..	7.0	6.7	..	9.8	..	15.4	..
(c) Central Bank's holdings of Treasury bills and government and government guaranteed securities ..	112.0	..	126.2	..	..	19.7	87.6	..	61.5	..	..	22.4	231.8	..
(d) Central Bank's advances ..	..	7.6	29.5	..	61.0	..	1.4	..	..	47.9	83.0	..	23.4	..
(e) Central Bank's other liabilities and accounts (net) ..	46.1	..	..	120.4	..	104.5	..	113.6	..	82.9	42.0	..	..	2.2
(f) Government deposits with banking system and cash balances with the Treasury and Kachcherries ..	71.9	..	..	124.2	67.4	..	..	28.0	..	29.4	..	90.8	..	105.4
4. Adjustments for items in transit	1.7	..	..	1.1	4.7	..	4.3	..	..	0.7	2.6	..	..	14.6
Total Expansionary/Contractionary factors ..	470.8	501.0	569.2	485.5	539.0	356.5	358.8	346.1	256.3	250.3	645.9	318.2	537.6	242.8
Change in Money Supply .. .. .	..	-30.1	..	+83.5	..	+182.5	..	+12.5	..	+6.0	..	+327.7	..	+294.9

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

Source: Central Bank of Ceylon

commercial banks belonging to the private sector by Rs. 0.3 million compared to a substantial increase of Rs. 101.4 million in these deposits in the year to August, 1972. In fact, it can be seen that had the growth of these deposits in the year to August, 1973 proceeded at the same rate as in the previous year, the net expansion arising from this sector would have been less than what it was.

In the twelve months ending in August, 1973 government sector activities caused a contraction of Rs. 143.6 million on the money supply. In the year to August, 1972 the contraction was lower at Rs. 88.9 million. The government's debt to the banking system declined by Rs. 94.8 million in the year ending August, 1973. The Central Bank's holdings of government and government guaranteed securities fell by Rs. 22.4 million while its advances to the government increased by Rs. 83.0 million. The commercial banks' holdings of government paper declined by Rs. 155.4 million mainly due to a reduction in their holdings of Treasury bills by Rs. 135.3 million and government securities by Rs. 27.3 million. Commercial banks' claims on the government, however, increased by Rs. 9.8 million on account of their purchases of cash items on behalf of the government. An unusual feature of the impact of government financial operations on the money supply during this period was a substantial increase of Rs. 90.8 million in government's deposits with the banking system and its cash balances. The government financed expenditure by recourse to advances from the Central Bank while accumulating its deposits and cash balances and retiring Treasury bills with the commercial banks and the Central Bank. Apart from the expansionary effect that arose from a reduction in the "other liabilities and accounts (net)" of the Central Bank, government financial operations brought about a substantial contractionary effect on the money supply. As the analysis presented here is not on a calendar year basis, the normal seasonal expansion associated with government financial operations in the last quarter of each year is not included. On the other hand in the first eight months of each year there is a seasonal contraction because government's revenue exceeds its expenditure.

In the period from end-August, 1973 to end-December, 1973, the money supply increased by Rs. 294.9 million principally due to an expansion arising from operations in the government sector which amounted to Rs. 298.2 million, (excluding a change in "other liabilities and accounts (net)" of the Central Bank of Rs. 2.2 million). This expansion was largely the net result of an increase in the Central Bank's holding of government and government guaranteed securities of Rs. 231.8 million and an increase in the commercial bank holdings of these securities of Rs. 27.6 million, offset by an increase in government's deposits with the banking system and its cash balances by Rs. 105.4 million. Within this sector, an expansionary impact of Rs. 15.4 million also arose from commercial banks' purchases of cash items on account of the government. In contrast to the contraction resulting from government operations on the money supply witnessed in the year to August 1973, the remaining months of the year saw a substantial expansion resulting from the financial operations of this sector because in the last quarter of each year the increase in government expenditure in relation to revenue, results in a seasonal expansion of the money

supply. In contrast to the period analysed earlier, the government's borrowings from the banking system in the last four months of the year was in the form of security issues rather than advances from the Central Bank.

The external sector continued to exert an expansionary effect on the money supply in the last four months of 1973. The net external banking assets increased by Rs. 117.0 million, increasing at a higher monthly rate of Rs. 29.2 million compared to a rate of increase of Rs. 22.5 million in the year ending in August 1973. Net foreign assets of the Central Bank increased by Rs. 56.3 million while net foreign exchange holdings of the commercial banks increased by Rs. 60.8 million. The increase in the net foreign assets of the Central Bank was largely reflected in an increase in its cash and balances held abroad by Rs. 136.0 million and a reduction in deposits held by international organizations of Rs. 18.8 million, partly offset by an increase in the Bank's borrowings abroad by Rs. 100.5 million. The Central Bank's borrowings abroad increased in the four months ending December 1973, compared to the twelve months ending August 1973, when these borrowings decreased substantially. But, in comparison with the previous period the rate of accumulation of cash and balances abroad as well as their magnitude was higher. The increase in the net foreign exchange holdings of the commercial banks consisted mainly of an increase in their cash and balances abroad by Rs. 47.0 million and in export bills by Rs. 18.2 million. In comparison to the previous period the last four months of 1973, saw a larger accumulation of cash and balances held by commercial banks abroad, and a smaller increase in export bills.

The operations of the private sector which produced a substantial expansionary impact on the money supply in the year ending August, 1973 was considerably reduced in the last four months of 1973; it amounted only to Rs. 1.8 million. In this period commercial bank credit to "other private sector" customers increased by Rs. 120.4 million, while credit to co-operative institutions and government corporations declined by Rs. 33.0 million and Rs. 13.6 million, respectively. Credit to co-operative institutions fell seasonally and was largely associated with the repayment of loans taken under the Guaranteed Price Scheme. The reduction in bank credit to government corporations in this period is ascribed to the high level of bank borrowings by these institutions in the year ending August, 1973 by which time their major credit requirements had been met. The net change in bank credit granted to the private sector (inclusive of co-operative institutions and government corporations) amounted to Rs. 73.8 million, which was partly offset by an increase in the time and savings deposits of the "other private sector" customers by Rs. 56.5 million and of co-operative institutions by Rs. 2.4 million respectively. The volume of these deposits owned by government corporations declined marginally by Rs. 2.0 million and exerted an expansionary effect on money supply.

In contrast to the year ending August, 1973 when time and savings deposits declined, the increase in these deposits in the last four months of 1973, shows that these deposits have begun to increase at a rate comparable to that in the year ending August 1972.

TABLE II (E) 3

Total Liquid Assets of the Non-Bank Private Sector
(as at the end of month)

Description	Amounts (Rupees Million)						Percentage of G.N.P. (a)							
	1970 Dec.	1971 August	1971 Dec.	1972 August	1972 Dec.	1973 August	1973 Dec.	1970 Dec.	1971 August	1971 Dec.	1972 August	1972 Dec.	1973 August	1973 Dec.
1. Primary liquid assets														
(a) Notes and coins	935.1	1,122.1	1,115.3	1,157.4	1,202.3	1,321.0	1,436.7	8.0	9.5	9.4	9.1	9.5	8.7	9.5
(b) Demand deposits	1,031.5	1,020.5	1,033.8	997.7	1,278.8	1,161.8	1,341.0	8.9	8.6	8.7	7.9	10.1	7.7	8.8
Total	1,966.6	2,142.6	2,149.1	2,155.1	2,481.1	2,482.8	2,777.7	16.9	18.1	18.2	17.0	19.6	16.4	18.3
Percentage change	+ 4.4	+8.9	+0.3	+0.3	+15.1	+0.1	+11.9							
2. Secondary liquid assets														
(a) Savings deposits with commercial banks	534.4	574.6	614.4	635.3	609.6	696.2	748.8	4.6	4.9	5.2	5.0	4.8	4.6	4.9
(b) Savings deposits with Post Office Savings Bank	594.4	605.4	659.5	—	—	—	—	5.1	5.1	5.6	—	—	—	—
(c) Savings deposits with Ceylon Savings Bank(1)	113.3	160.6	197.7	—	—	—	—	1.0	1.4	1.7	—	—	—	—
(d) Savings deposits with National Savings Bank	—	—	—	843.2	913.0*	954.4*	988.8*	—	—	—	6.7*	7.2*	6.3	6.5
(e) Time deposits with commercial banks	613.8	643.5	671.4	684.2	914.4	623.2	627.4	5.3	5.4	5.7	5.4	7.3	4.1	4.1
(f) Time deposits with National Savings Bank	—	—	—	43.9	53.6	82.5	102.3	—	—	—	0.3	0.4	0.5	0.7
(g) Foreign balances of residents	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(h) Savings Certificates	73.1	66.8	65.3	62.0	65.2	96.8	98.0	0.6	0.6	0.6	0.5	0.5	0.6	0.6
(i) Treasury bills	12.7	12.2	13.3	13.1	10.0	7.6	5.8	0.1	0.1	0.1	0.1	...	...	...
(j) Tax reserve certificates	43.5	45.4	53.1	53.5	61.7	56.2	55.9	0.4	0.4	0.4	0.4	0.5	0.4	0.4
(k) Government bonds	1,024.2	1,115.7	1,148.7	1,239.2	1,248.6	1,339.2	1,368.0	8.8	9.4	9.7	9.8	9.9	8.8	9.0
Total	3,009.4	3,224.2	3,423.4	3,574.4	3,876.1	3,856.1	3,996.0	25.9	27.3	28.9	28.2	30.6	25.4	26.4
Percentage change	+15.0	+7.1	+6.2	+4.4	+ 8.4	+0.3	+ 3.6							
3. Total private sector liquid assets	4,976.0	5,366.8	5,572.5	5,729.5	6,357.2*	6,338.9*	6,773.7*	42.8	45.4	47.1	45.2	50.2	41.8	44.7
Percentage change	+10.6	+7.8	+3.8	+2.8	+10.9	+0.2	+ 6.8							
Not included above are holdings of treasury bills and government bonds by such financial institutions as the Post Office Savings Bank, Ceylon Savings Bank, National Savings Bank, Employees Provident Fund, etc. amounting to	2,168.9	2,594.7	2,735.6	3,060.0	3,117.7	3,565.3	3,759.7	18.7	21.9	23.1	24.2	24.6	23.5	24.8

* Provisional

(1) Includes fixed deposits

(a) At current factor cost prices

Source: Central Bank of Ceylon

Liquidity in the non-bank private sector

Table II (E) 3 presents the distribution of primary and secondary liquid assets of the non-bank private sector for the period 1970-1973.

In the year ending August, 1973 total liquid assets of the non-bank private sector increased by Rs. 609.4 million or 10.6 per cent compared to an increase of Rs. 362.7 million or 6.8 per cent in the year ending August 1972. The increase in the liquidity in this sector in the earlier year, arose from a larger increase in secondary liquid assets, while in the latter year it arose from a larger increase in primary liquid assets. In the year ending August, 1973 primary liquid assets increased by Rs. 327.7 million or 15.2 per cent while secondary liquid assets increased by Rs. 281.7 million or 7.9 per cent. The substantially higher rate of increase in money supply in the later year, was responsible for the large increase in the primary assets component of total liquid assets owned by this sector. The increase in primary liquid assets consisted of an increase in currency holdings by Rs. 163.6 million and in demand deposits by Rs. 164.1 million. In the year ending in August, 1973, in contrast to the trend in the last three years, demand deposits of this sector increased at a higher rate than its currency holdings. As a result, the currency ratio fell from 53.7 per cent to 53.2 per cent as shown in table II (E) 4.

TABLE II (E) 4
Components of the Money Supply

Amount 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	
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 ..	1,115.3	51.9	1,033.8	48.1	2,149.1
August 1972 ..	1,157.4	53.7	997.7	46.3	2,155.1
August 1973 ..	1,321.0	53.2	1,161.8	46.8	2,482.8
December 1973 ..	1,436.7	51.7	1,341.0	48.3	2,777.7

Source: Central Bank of Ceylon

The increase in secondary liquid assets of the sector was mainly reflected in increases in time deposits and government bonds. The time deposits in the National Savings Bank increased by Rs. 38.6 million while those in the commercial banks declined by Rs. 61.0 million. The increase in time deposits with the National Savings Bank arose out of higher interest rates on these deposits and the granting of an income tax exemption for interest earned

on both time and savings deposits with the bank up to Rs. 1000 per annum per individual, to a limit of six individuals per family. Savings certificates issued by the National Savings Bank increased by Rs. 34.8 million in the year ending August 1973. A large part of this increase was associated with a tax exemption given on savings deposits and savings certificates upto 31st March, 1973. The holdings of government bonds by the non-bank private sector increased by Rs. 100.0 million, while the holdings of government paper by the commercial banks declined during this period.

In the last four months of 1973, the total liquid assets of the non-bank private sector increased by Rs. 434.8 million or 6.8 per cent. This increase comprised an increase of Rs. 294.9 million in primary liquid assets and an increase of Rs. 139.9 million in secondary liquid assets. As in the twelve months reviewed above, this period also saw a larger increase in primary liquid assets compared to secondary liquid assets.

The increase in the currency component of the money supply as shown on a calendar year basis in table II (E) 5 was accompanied by an increase in the share of notes of larger denominations. Notes of the denominations of Rs. 100 and Rs. 50 which together formed 57.1 per cent of the currency issue at the end of December, 1971, increased to 60.9 per cent at the end of August, 1972 and increased further to 65.2 per cent at the end of December, 1973.

TABLE II (E) 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*
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
1972	532.4	351.4	353.9	74.9	1,444.8
1973	657.9	420.2	359.8	76.6	1,653.0

Source: Central Bank of Ceylon

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

Table II (E) 6 shows the ownership of commercial bank deposits of the private sector. As a result of the strike since the private data for the third quarter of 1972 are not available and those for the last quarter of that year are distorted, the analysis of changes in the ownership of deposits given here is on the basis of the second quarter of that year and 1973.

In the year ending June, 1973 total deposits belonging to the private sector with commercial banks increased by Rs. 91.3 million. Demand deposits increased by Rs. 128.1 million, while savings deposits increased by Rs. 38.6 million. On the other hand, time deposits with the commercial banks fell by Rs. 75.3 million.

The increase in demand deposits classified broadly according to ownership between the business sector (comprising financial institutions, plantations, trading and manufacturing establishments and other business) and the non-business sector (comprising local authorities, non-business institutions and individuals) increased by Rs. 108.1 million and Rs. 20.0 million respectively. Within the business sector, the increase in demand deposits was distributed between manufacturing and other business firms. Demand deposits owned by financial institutions, plantations and trading establishments fell during this period. In the non-business sector all the ownership categories showed increases.

Time deposits held by the non-bank private sector decreased during the period mainly on account of the decreases in those deposits held by the business sector. In the non-bank private sector there were substantial declines in time deposits owned by trading establishments and "other" business which amounted to Rs. 34.1 million and Rs. 13.5 million respectively. Time deposits held by the non-business sector also showed a net decline and this was mostly confined to non-business institutions and to individuals. The net decline in time deposits with the commercial banks was due to the movement of these deposits from the commercial banks to the National Savings Bank which offered higher interest rates and attractive tax concessions.

In the year ending June, 1973 the increase in savings deposits of the non-bank private sector was largely confined to deposits owned by individuals, which accounted for 74.3 per cent of the increase. Although the commercial banks continued to pay lower interest rates on savings deposits compared to the National Savings Bank there was no discernable shift in these deposits to the latter institution.

Interest rates

There were no changes in interest rates in the period under review. The last change in interest rates took place in May 1972 when the interest rate on savings certificates issued by the National Savings Bank was raised from 5 to 11 per cent.

2. Commercial Banking - Principal Trends

In the year ending August, 1973 the resources of the commercial banks increased substantially due to an increase in deposits of "other private sector" customers. In contrast to the first eight months of 1972 which was analysed in the previous report, in the period under review, there was a much larger expansion in the money supply, of which the demand deposit component increased by a larger proportion than currency. As a result the commercial banks had access to a larger amount of resources compared to the year ending August 1972. The increase

TABLE II (E) 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								
June 1972 ..	60.1	6.1	114.9	20.5	19.3	3.0	194.3	8.9
December 1972 ..	78.2	6.8	106.3	21.4	19.4	3.2	203.9	9.0
March 1973 ..	75.1	7.0	106.6	21.9	19.6	3.1	201.4	9.1
June 1973 ..	59.4	5.4	106.0	21.8	15.6	2.3	181.0	8.0
September 1973 ..	53.6	4.4	101.7	20.9	21.6	3.1	176.9	7.4
Plantations								
June 1972 ..	51.9	5.3	21.3	3.8	0.6	0.1	73.9	3.4
December 1972 ..	64.7	5.6	20.0	4.4	0.2	...	87.0	3.8
March 1973 ..	59.1	5.5	27.6	5.7	0.3	...	87.0	3.9
June 1973 ..	49.1	4.4	26.4	5.4	5.6	0.8	81.1	3.6
September 1973 ..	61.2	5.1	31.0	6.4	0.3	...	92.5	3.9
Trading								
June 1972 ..	195.5	20.0	90.3	16.1	11.5	1.8	297.4	13.7
December 1972 ..	207.6	17.9	78.0	15.7	14.0	2.3	299.6	13.2
March 1973 ..	167.9	15.6	70.1	14.4	14.5	2.3	252.4	11.5
June 1973 ..	184.4	16.7	56.2	11.5	19.9	2.9	260.5	11.5
September 1973 ..	260.2	21.6	54.7	11.2	17.7	2.5	332.6	13.9
Manufacturing Establishments								
June 1972 ..	109.1	11.2	38.1	6.8	3.5	0.5	150.8	6.9
December 1972 ..	189.7	16.4	30.0	6.0	2.5	0.4	222.2	9.8
March 1973 ..	179.7	16.6	29.9	6.1	3.1	0.5	212.6	9.7
June 1973 ..	199.9	18.1	43.3	8.9	0.8	0.1	244.1	10.8
September 1973 ..	190.9	15.8	43.0	8.8	1.4	0.2	235.3	9.8
Other Business								
June 1972 ..	116.1	11.9	71.7	12.8	9.2	1.4	197.1	9.0
December 1972 ..	132.2	11.4	60.2	12.1	9.6	1.6	201.9	8.9
March 1973 ..	134.4	12.5	58.8	12.1	9.4	1.5	202.7	9.2
June 1973 ..	148.0	13.4	58.2	12.0	10.6	1.6	216.8	9.5
September 1973 ..	140.8	11.7	60.2	12.4	9.9	1.4	210.9	8.8
Local Authorities								
June 1972 ..	34.4	3.5	12.1	2.2	0.2	...	46.8	2.1
December 1972 ..	41.9	3.6	11.3	2.3	0.2	...	53.4	2.4
March 1973 ..	43.7	4.0	12.7	2.6	0.6	0.1	57.0	2.6
June 1973 ..	46.8	4.2	18.0	3.7	0.3	...	65.1	2.9
September 1973 ..	46.9	3.9	23.5	4.8	0.3	...	70.7	2.9
Non-Business Institutions								
June 1972 ..	62.7	6.4	47.3	8.4	8.2	1.3	118.2	5.4
December 1972 ..	67.8	5.9	37.4	7.5	8.7	1.4	113.9	5.0
March 1973 ..	74.1	6.9	36.6	7.5	9.0	1.4	119.7	5.4
June 1973 ..	65.7	5.9	29.3	6.0	9.7	1.4	104.6	4.6
September 1973 ..	60.3	5.0	30.7	6.3	11.9	1.7	102.9	4.3
Individuals								
June 1972 ..	347.7	35.6	166.0	29.5	586.2	91.8	1,099.9	50.5
December 1972 ..	374.3	32.4	151.2	30.5	555.0	91.0	1,080.5	47.8
March 1973 ..	344.8	31.9	144.4	29.7	578.0	91.1	1,067.3	48.5
June 1973 ..	352.3	31.9	149.1	30.6	614.9	90.8	1,116.3	49.2
September 1973 ..	391.2	32.4	141.3	29.1	636.1	91.0	1,168.6	48.9
Total								
June 1972 ..	977.6	100.0	561.8	100.0	638.8	100.0	2,178.3	100.0
December 1972 ..	1,156.4	100.0	496.5	100.0	609.6	100.0	2,262.5	100.0
March 1973 ..	1,078.9	100.0	486.8	100.0	634.5	100.0	2,200.2	100.0
June 1973 ..	1,105.7	100.0	486.5	100.0	677.4	100.0	2,269.6	100.0
September 1973 ..	1,205.2	100.0	486.2	100.0	699.1	100.0	2,390.5	100.0

Source: Central Bank of Ceylon

in deposits, was mostly confined to demand deposits, while time and savings deposits owned by the private sector declined slightly over the period. The ratio of liquid assets of commercial banks to their total deposits fell from 32.3 per cent at the end of August, 1972 to 30.7 per cent at the end of August, 1973. This was the result of a large increase in demand deposits and a much smaller increase in the liquid assets of commercial banks. Over the twelve months ending August, 1973, the ratios of cash to demand and to total deposits increased from 28.8 per cent to 32.2 per cent and from 13.5 per cent to 16.4 per cent, respectively. The large monetary expansion seen during these twelve months and the fact that credit to the private sector did not increase to offset the reduced level of borrowing by the government, in sum, led to the large increase in commercial bank investible funds.

The last four months of 1973 was also characterized by an increase in resources accruing to the commercial banks. Both government and private sector deposits with the commercial banks increased substantially. In contrast to the year ending in August, 1973 the last four months of 1973 saw a sharp increase in "other liabilities (net)" of the commercial banks.

Structure of bank assets and liabilities

Total assets/liabilities of commercial banks increased by Rs. 221.5 million during the year ending August, 1973 compared to an increase of Rs. 321.9 million in the year ending in August 1972. On the liabilities side, this increase is mainly reflected in a rise in total deposits by Rs. 211.2 million. Within this category, demand deposits increased by Rs. 206.9 million, while time and savings deposits increased marginally by Rs. 4.3 million. During the year, domestic inter-bank borrowings declined by Rs. 7.1 million as commercial banks came to command a larger quantum of resources.

On the assets side, cash increased by Rs. 108.4 million, of which Rs. 66.5 million was due from the Central Bank. The latter increase was largely reflected in an increase in demand deposits on which higher reserve ratios than for savings deposits are applicable. Cash items in the process of collection increased by Rs. 18.9 million in the year ending in August, 1973. Bills purchased and discounted increased by Rs. 73.7 million. This increase was largely associated with export bills, the total value of which increased due to improved conditions in Sri Lanka's export trade. A reduction in investments by Rs. 162.4 million, was mainly due to a reduction in Treasury bills held by commercial banks. Loans and overdrafts increased by Rs. 117.0 million and Rs. 68.2 million, respectively and were smaller in magnitude compared to the year ending August, 1972.

During the last four months of 1973, total assets/liabilities of the commercial banks increased by Rs. 543.4 million, compared to the increase of Rs. 221.5 million in the year ending August, 1973. A substantial increase in demand deposits amounting to Rs. 351.4 million and an increase of Rs. 54.4 million in time and savings deposits combined with an increase in other liabilities by Rs. 135.1 million accounted for most of the increase in total liabilities.

TABLE II (E) 7
Selected Items of Assets and Liabilities of Commercial Banks.
Average of Monthly figures.

Rupees Million.

	1963	1964	1965	1966	1967	1968	1969	1970*	1971	1972 *** 1st 8 Months	1973	End of Period		
												Aug. 1972	Aug. 1973	Dec. 1973
Cash on hand and deposits at Central bank (inclusive of statutory reserve requirements) ..	164	182	224	233	218	247	250	248	369	382	483	344	452	703
Foreign balances ..	44	49	55	62	57	72	63	36	51	57	66	67	48	95
Treasury bills ..	128	73	89	124	80	102	50	41	308	269	132	263	127	154
Bills discounted ..	114	126	173	175	198	252	241	275	158	153	231	149	222	254
Total liquid assets ..	450	430	541	594	553	673	604	600	886	861	912	823	849	1,206
Total investments** ..	313	330	329	330	300	278	275	263	373	377	360	327	350	348
Total loans and overdrafts ..	495	633	669	682	809	1,000	1,240	1,391	1,490	1630	1,861	1681	1,817	1,998
Demand deposits† ..	789	853	917	949	914	955	945	958	1,219	1213	1,434	1194	1,402	1,745
Time and savings deposits ..	460	535	572	631	649	798	915	989	1,238	1328	1,346	1353	1,357	1,412
Total deposits ..	1,250	1,389	1,490	1,580	1,564	1,755	1,863	1,948	2,458	2543	2,785	2551	2,763	3,169
Ratio of ..	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	20.8	21.3	24.4	24.5	23.8	25.9	26.4	25.9	30.3	31.5	33.7	28.8	32.2	40.3
Cash to total deposits ..	13.1	13.1	15.0	14.7	13.9	14.1	13.4	12.7	15.0	15.0	17.3	13.5	16.4	21.2
Foreign balances to total deposits ..	3.5	3.5	3.7	3.9	3.6	4.1	3.4	1.8	2.1	2.2	2.4	2.6	1.7	3.0
Treasury bills to total deposits ..	10.2	5.3	6.0	7.8	5.1	5.8	2.7	2.1	12.5	10.6	4.7	10.3	4.6	4.9
Commercial bills discounted to total deposits ..	9.1	9.1	11.6	11.1	12.7	14.4	12.9	14.1	6.4	6.0	8.3	5.8	8.0	8.0
Liquid assets to demand deposits ..	57.0	50.4	59.0	62.6	60.5	70.5	63.9	62.6	72.7	71.0	63.6	68.9	60.6	69.1
Liquid assets to total deposits ..	36.0	31.0	36.3	37.6	35.4	38.3	32.4	30.8	36.0	33.9	32.7	32.3	30.7	38.1
Investments to total deposits ..	25.0	23.8	22.1	20.9	19.2	15.8	14.8	13.5	15.2	14.8	12.9	14.8	12.7	11.0
Loans and overdrafts to total deposits ..	39.6	45.6	44.9	43.2	51.7	57.0	66.6	71.4	60.6	64.1	66.8	65.1	65.8	63.0

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, and private securities

*** Figures for September to December 1972 are not included due to a strike of commercial bank employees during that period.

† Exclude domestic inter-bank deposits.

On the assets side, the largest increase seen in the last four months of 1973 was in cash due from the Central Bank, which amounted to Rs. 260.5 million. Loans and overdrafts increased by Rs. 84.0 million and Rs. 67.7 million, respectively.

Sources of funds and their utilization.

Changes in commercial bank resources and their utilization in the period 1970-1973 are shown in table II (E) 8.

During the period end-August, 1972 to end-August, 1973, there was a net inflow of resources to commercial banks from the government sector amounting to Rs. 201.7 million. A reduction in government borrowings from the banking system of Rs. 163.1 million and an increase in government deposits with the commercial banks of Rs. 46.4 million, were the main factors that were responsible for this inflow. A reduction in commercial banks holdings of Treasury bills by Rs. 135.3 million accounted for a large part of the decline in the level of government borrowings.

There was a net inflow of funds into the commercial banks from the "other domestic private sector" of Rs. 47.4 million which was brought about by an increase in deposits owned by this sector of Rs. 149.6 million and an increase in borrowings by this sector of Rs. 102.2 million.

Government corporations borrowed Rs. 67.1 million from commercial banks while their deposits with the banks increased by Rs. 6.5 million, thus leading to a net outflow of resources from the commercial banks to those institutions. Co-operative institutions too, utilized a large amount of commercial bank funds in the form of advances amounting Rs. 30.5 million, while the increase in their deposits with the banks was only Rs. 6.5 million.

The commercial banks increased their borrowings from the Central Bank by Rs. 36.8 million and their reserves with the Central Bank increased by Rs. 66.5 million due to the increase in demand deposits.

Capital and reserves of commercial banks which constitute a source of funds, increased by Rs. 20.6 million. An increase in till cash by Rs. 41.0 million and an increase in inter-bank (net) transactions by Rs. 45.4 million accounted almost fully for the utilization of inter-bank funds. Commercial banks foreign balances increased by Rs. 52.3 million while their foreign borrowings as a source of funds was insignificant.

In the last four months of 1973 too, there was a net inflow of funds into the commercial banks from the government sector. Although the government borrowed up to Rs. 27.6 million from the commercial banks, its deposits with the commercial banks increased by Rs. 161.2 million. The operations of the "other domestic sector" also led to a net accrual of resources to the banks, as a result of a larger increase in deposits belonging to them compared to the increase in their borrowings from the commercial banks. Commercial banks' net claims on the Central Bank increased by Rs. 248.1 million as a result of a substantial increase in their reserves with the Central Bank, comprising deposits of Rs 260.5 million less borrowings from the Central Bank of Rs. 12.4 million.

TABLE II (E) 8
Changes in Bank Resources and their Utilisation

Rupees Million

	Dec.1969to Dec. 1970	Dec.1970to Dec. 1971	Dec.1971to Aug, 1972	Aug1972to Aug. 1973	Aug. 1973 toDec.1973
Sources of Funds					
1. Government Sector ..	215.5	3.5	95.0	211.5	161.2
Reduction in holdings of government paper ..	—	—	55.4	163.1	—
Increase in deposits ..	73.7	—	39.3	46.4	161.2
Decrease in import bills ..	141.8	—	0.3	2.0	—
Decrease in short term credit(1) ..	—	3.5	—	—	—
2. Central Bank ..	4.3	39.8	48.5	36.8	12.4
Increase in borrowings ..	4.3	24.5	—	36.8	12.4
Decrease in reserves ..	—	15.3	48.5	—	—
3. Government Corporations ..	44.7	27.8	26.1	6.5	97.2
Increase in deposits ..	44.7	27.8	26.1	6.5	83.6
Decrease in advances ..	—	—	—	—	13.6
4. Co-operatives ..	19.0	21.8	—	9.6	50.2
Increase in deposits ..	19.0	18.4	—	9.6	17.2
Decrease in advances ..	—	3.4	—	—	33.0
5. Other Domestic Private Sector ..	383.9	98.8	—	149.6	134.6
Increase in deposits ..	341.9	98.8	—	149.6	134.6
Decrease in advances and investments ..	42.0	—	—	—	—
6. Inter - bank(2) ..	77.6	209.6	116.3	20.6	149.3
Increase in capital and reserves ..	17.8	24.6	7.0	20.6	—
Decrease in fixed and other assets ..	—	—	69.0	—	—
Increase in "other" liabilities ..	57.9	185.0	—	—	135.1
Inter - bank transactions (net) ..	1.9	—	40.3	—	5.2
Decrease in till cash ..	—	—	—	—	9.0
7. Foreign Sector ..	0.7	7.0	4.5	0.1	4.1
Increase in borrowings ..	—	7.0	—	—	3.7
Increase in deposits ..	0.7	—	—	0.1	0.4
Decrease in foreign balances ..	—	—	4.5	—	—
Total Increase in resources ..	745.7	408.3	290.4	434.7	609.0
Utilisation of Funds					
1. Government Sector ..	335.6	75.1	6.7	9.8	43.1
Increase in holdings of government paper ..	335.0	50.4	—	—	27.6
Decrease in deposits ..	—	22.3	—	—	—
Increase in government import bills ..	—	2.4	—	—	0.1
Increase in short term credit(1) ..	0.6	—	6.7	9.8	15.4
2. Central Bank ..	88.3	—	13.4	66.5	260.5
Decrease in borrowings ..	—	—	13.4	—	—
Increase in reserves ..	88.3	—	—	66.5	260.5
3. Government Corporations ..	43.1	62.3	5.9	67.1	—
Decrease in deposits ..	—	—	—	—	—
Increase in advances ..	43.1	62.3	5.9	67.1	—
4. Co - operatives ..	146.3	—	83.8	30.5	—
Decrease in deposits ..	—	—	0.6	—	—
Increase in advances ..	146.3	—	83.2	30.5	—
5. Other Domestic Private Sector ..	—	84.1	74.5	102.2	120.4
Decrease in deposits ..	—	—	33.2	—	—
Increase in advances and investments ..	—	84.1	41.3	102.2	120.4
6. Inter - bank(2) ..	112.3	151.4	105.4	105.5	119.9
Decrease in capital and reserves ..	—	—	—	—	11.2
Increase in fixed and other assets ..	88.1	128.2	—	17.3	108.7
Decrease in "other" liabilities ..	—	—	90.1	1.8	—
Inter - bank transactions (net) ..	—	0.8	—	45.4	—
Increase in till cash ..	24.2	22.4	15.3	41.0	—
7. Foreign Sector ..	20.1	35.1	0.4	53.7	64.8
Decrease in borrowings ..	7.9	—	0.2	1.4	—
Decrease in deposits ..	—	0.4	0.2	—	—
Increase in foreign balances ..	12.2	34.7	—	52.3	64.8
Total increase in resources utilised ..	745.7	408.0	290.1	435.3	608.7

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.

Commercial bank credit to the private sector

Commercial bank credit to the private sector increased by Rs 269.0 million or 13.5 per cent in the year ending August, 1973, compared to an increase of Rs. 233.6 million or 13.2 per cent in the year ending August, 1972. In the year under review, loans increased by Rs. 117.0 million and overdrafts by Rs. 67.1 million. The "other private sector" customers and government corporations received a substantial proportion of loans and overdrafts compared to the co-operative institutions which accounted for only Rs. 9.8 million of the increase in these two categories of credit. Cultivation loans which figure prominently in the borrowings by co-operative institutions are mostly taken in the last quarter of each year, and therefore the small increase in the borrowings by these institutions was due to the absence of this seasonal demand for credit in the period being reviewed.

Export bills discounted by the commercial banks increased substantially by Rs. 71.6 million in the year to August, 1973, compared to a decline of Rs. 21.5 million in the year to August, 1972. As was pointed out earlier, higher interest rates abroad and improved trade conditions, accounted for large holdings of export bills by commercial banks in this period. Holdings of import bills by commercial banks, on the other hand, increased by a relatively small amount of Rs. 5.0 million. Commercial banks which held import bills to the value of Rs. 161.4 million at the end of December, 1972, had reduced these holdings by Rs. 104.7 million by the end of February, 1973 and by August held only Rs. 37.0 million. This rapid decline in the holdings of import bills was due to the resumption of normal banking business; banks had come to hold a large amount of import bills during the strike period. By August, 1973 the holdings of these bills had returned to normal levels.

Cash items in the process of collection, increased by Rs. 9.1 million in the year ending in August 1973. Although changes associated with the establishment of the Paddy Marketing Board in January, 1972, had increased the magnitude of this item in commercial bank credit to the private sector through the shifting of the part of the burden of financing paddy stocks from the government budget to bank credit, the increase was a modest one. This arises from the fact that finance for the purchases of paddy under the Guaranteed Price Scheme reach a peak in May and June of each year, and by August the contribution of this item to the increase in total credit falls. Similarly in the last quarter of each year the same seasonal factor leads to a decline in the absolute magnitude of cash items in the process of collection.

In the last four months of 1973, bank credit to the private sector increased by Rs. 95.8 million and showed a higher monthly average rate of increase compared to the twelve months reviewed in the earlier section. The increase in loans was Rs. 84.0 million and overdrafts Rs. 68.2 million but despite this the monthly rate of increase in overdrafts was higher than that for loans. The value of export bills discounted increased by Rs. 18.2 million and that of import bills by Rs. 13.4 million. The most significant change in the level of commercial bank credit to the private sector in the last four months of 1973 was

TABLE II (E) 9
Commercial Bank Advances to the Private Sector*

Rupees Million

	Sri Lanka Banks					Foreign Banks					All Banks				
	Aug. 1972	Aug. 1973	Dec. 1973	Change Aug. 72/ Aug. 73	Change Aug. 73/ Dec. 73	Aug. 1972	Aug. 1973	Dec. 1973	Change Aug. 72/ Aug. 73	Change Aug. 73/ Dec. 73	Aug. 1972	Aug. 1973	Dec. 1973	Change Aug. 72/ Aug. 73	Change Aug. 73/ Dec. 73
1. Cash items in process of collection**	190.7	199.4	109.6	+ 8.7	- 89.8	0.6	1.1	3.1	+ 0.5	+ 2.0	191.3	200.4	112.7	+ 9.1	- 87.7
2. Local bills	0.3	-	-	- 0.3	-	0.8	0.3	-	- 0.5	- 0.3	1.1	0.3	-	- 0.8	- 0.3
3. Import bills	26.0	31.0	42.1	+ 5.0	+ 11.1	6.0	6.0	8.2	-	+ 2.2	32.0	37.0	50.4	+ 5.0	+ 13.4
4. Export bills	36.9	60.1	78.9	+ 23.2	+ 18.8	75.3	123.7	123.1	+48.4	- 0.6	112.2	183.8	202.0	+ 71.6	+ 18.2
5. Overdrafts	437.3	466.8	527.0	+ 29.5	+ 60.2	297.1	334.6	342.7	+37.5	+ 8.1	734.4	801.5	869.7	+ 67.1	+ 68.2
6. Loans	843.6	965.8	1040.7	+122.2	+ 74.9	83.1	77.7	86.9	- 5.4	+ 9.2	926.6	1043.6	1127.6	+117.0	+ 84.0
Total	1534.8	1723.1	1798.3	+188.3	+ 75.2	462.8	543.4	564.0	+80.6	+20.6	1997.6	2266.6	2362.4	+269.0	+ 95.8

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 substantial decline in the cash items in the process of collection by Rs. 87.7 million. As commented upon earlier, it resulted from a decrease in advances for paddy purchases under the Guaranteed Price Scheme, which is a seasonal feature characteristic of this time of the year.

Table II (E) 10 gives a classification of commercial bank advances by purpose and maturity. The data included in these tables are collected by quarterly returns received from the commercial banks. Due to the strike by commercial bank employees in September, 1972, banks were not able to furnish the data for the quarter ending in September of that year. An analysis based on the comparison of the first two quarters of 1972 and 1973, was therefore considered appropriate.

Commercial bank advances to the private sector (the total of commercial bank credit to the private sector less cash items in the process of collection) increased by Rs. 231.2 million in the year ending June, 1973. Advances for commercial purposes increased by Rs. 158.1 million, thus raising their share in total advances from 40.5 to 43.7 per cent. Although the advances for industrial purposes increased by Rs. 54.7 million, their share in total advances declined from 27.3 per cent to 26.9 per cent. The share of advances for consumption purposes increased by 0.1 per cent owing to the increase in the level of these advances by Rs. 21.1 million. Advances for financial purposes fell by Rs. 4.2 million and their share in total advances also fell by 1.0 per cent. Advances for agricultural purposes increased by 1.9 million but their share in total advances fell by 1.4 per cent. The category of advances classified as 'other' advances fell during the year under review, both in absolute amount and as a share of total advances.

The maturity pattern of advances to the private sector changed in the year ending June, 1973 as a result of an increase in the share of short-term advances in total advances by 2.7 per cent being accompanied by declines in the shares of medium and long-term advances by 1.3 per cent and 1.4 per cent, respectively. The resultant shortening in the maturity of commercial bank advances was associated with the large increase in advances for commercial purposes compared to advances for all other purposes.

A detailed breakdown of commercial bank advances for industrial purposes is given in table II (E) 11. The increase in advances for this purpose amounted to Rs. 54.7 million in the year to June, 1973. This increase was shared almost equally between government corporations and private sector industrialists. Although the largest share of the increase went to 'other' industries, this must be interpreted with caution as it is a residual category. Textile, engineering and construction industries claimed a significant amount of the increase in advances for industrial purposes. Advances to the chemical products industry showed the largest decline during this period.

Advances classified by rate of interest are shown in table II (E) 12. The largest concentration was at $8\frac{1}{2}$ per cent in the year ending in June 1973, as was also the case in the year ending in June 1972. The share of advances granted

TABLE II (E) 10

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

Amount 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										
June	1972	..	564.3	78.8	123.3	17.2	28.2	3.9	715.9	40.5
December	1972	..	835.4	84.2	129.9	13.1	26.6	2.7	991.9	45.7
March	1973	..	695.9	81.3	131.7	15.4	27.9	3.3	855.6	42.3
June	1973	..	701.3	80.2	144.3	16.5	28.4	3.2	874.0	43.7
September	1973	..	810.1	81.8	153.4	15.5	26.2	2.6	989.8	46.8
B. Financial										
June	1972	..	69.0	56.3	30.0	24.5	23.5	19.2	122.6	6.9
December	1972	..	76.0	57.4	32.2	24.3	24.1	18.2	132.3	6.1
March	1973	..	70.7	54.8	36.3	28.1	21.9	17.0	129.0	6.4
June	1973	..	57.8	48.8	39.4	33.3	21.1	17.8	118.4	5.9
September	1973	..	52.8	43.4	42.0	34.5	26.9	22.1	121.7	5.8
C. Agricultural										
June	1972	..	138.8	59.8	77.9	33.5	15.5	6.7	232.2	13.1
December	1972	..	142.0	57.2	91.2	36.8	15.0	6.0	248.1	11.4
March	1973	..	136.0	56.0	92.8	38.2	14.1	5.8	242.9	12.0
June	1973	..	118.6	50.7	102.4	43.7	13.1	5.6	234.1	11.7
September	1973	..	139.0	56.2	89.5	36.2	19.1	7.7	247.5	11.7
D. Industrial										
June	1972	..	256.4	53.1	168.9	35.0	57.2	11.8	482.6	27.3
December	1972	..	345.7	61.0	164.9	29.1	56.2	9.9	566.9	26.1
March	1973	..	348.3	61.9	158.3	28.1	56.4	10.0	563.0	27.8
June	1973	..	332.9	62.0	148.1	27.6	56.3	10.5	537.3	26.9
September	1973	..	324.9	63.7	126.5	24.8	58.8	11.5	510.3	24.1
E. Consumption										
June	1972	..	39.9	27.8	75.7	52.7	28.1	19.5	143.7	8.1
December	1972	..	48.6	32.1	76.7	50.7	25.9	17.1	151.2	7.0
March	1973	..	51.9	32.7	80.8	50.9	25.9	16.3	158.7	7.8
June	1973	..	51.0	30.9	87.7	53.2	26.0	15.8	164.8	8.2
September	1973	..	53.4	33.8	77.8	49.2	27.0	17.1	158.2	7.5
F. Other Loans										
June	1972	..	26.8	38.4	37.7	54.0	5.4	7.7	69.8	3.9
December	1972	..	36.3	46.8	35.8	46.1	5.4	7.0	77.6	3.6
March	1973	..	33.2	44.0	36.6	48.5	5.6	7.4	75.4	3.7
June	1973	..	30.3	43.6	33.5	48.2	5.7	8.2	69.5	3.5
September	1973	..	40.1	46.5	40.6	47.0	5.6	6.5	86.3	4.1
G. Total										
June	1972	..	1,095.2	62.0	513.6	29.1	158.0	8.9	1,766.9	100.0
December	1972	..	1,484.0	68.4	530.7	24.5	153.3	7.1	2,168.0	100.0
March	1973	..	1,336.0	66.0	536.7	26.5	151.9	7.5	2,024.6	100.0
June	1973	..	1,291.9	64.7	555.5	27.8	150.7	7.5	1,998.1	100.0
September	1973	..	1,420.4	67.2	529.7	25.1	163.7	7.7	2,113.8	100.0

Source: Central Bank of Ceylon.

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

TABLE II (E) 11

Commercial Banks' Advances for Industrial Purposes

Rs. Million.

					Amount outstanding as at end of period				
					June 1972	Decem- ber 1972	March 1973	June 1973	Septem- ber 1973
1.	Textiles	..	..	..	94.1	112.8	146.6	113.4	104.5
	Government corporations	..	..	..	28.6	42.1	66.3	36.7	32.8
	Other	..	..	..	65.5	70.7	80.3	76.8	71.7
2.	Metal Products	..	..	..	38.1	42.8	40.3	41.7	36.8
	Government corporations	..	..	..	14.5	16.4	15.6	18.0	17.1
	Other	..	..	..	23.6	26.5	24.7	23.6	19.7
3.	Chemical Products	..	..	..	57.0	26.8	31.7	27.9	29.3
	Government corporations	..	..	..	34.0	4.3	4.0	4.3	7.0
	Other	..	..	..	22.9	22.5	27.7	23.6	22.3
4.	Footwear and Leather Products	..	..	..	8.9	9.5	9.1	8.0	8.3
	Government corporations	..	..	..	5.8	6.0	5.5	4.8	5.2
	Other	..	..	..	3.1	3.5	3.6	3.2	3.0
5.	Biscuits and Confectionery	..	..	..	2.5	4.2	4.0	3.1	1.7
	Government corporations	..	..	..	—	—	—	—	—
	Other	..	..	..	2.5	4.2	4.0	3.1	1.7
6.	Processing of Tea, Rubber and Coconut	..	..	..	43.3	40.4	42.4	43.9	39.9
	Government corporations	..	..	..	—	—	—	—	—
	Other	..	..	..	43.3	40.4	42.4	43.9	39.9
7.	Engineering and Building Trades	..	..	..	63.1	68.0	68.1	72.9	60.8
	Government corporations	..	..	..	21.4	21.7	20.7	20.7	20.0
	Other	..	..	..	41.7	46.3	47.4	52.2	40.8
8.	Other Industries	..	..	..	175.5	262.3	220.8	226.0	229.0
	Government corporations	..	..	..	94.2	168.9	126.5	140.6	140.7
	Other	..	..	..	81.3	93.4	94.3	85.4	88.3
	Total	..	..	..	482.6	566.9	563.0	537.3	510.3
	Government corporations	..	..	..	198.6	259.3	238.5	225.2	222.8
	Other	..	..	..	284.0	307.5	324.4	311.8	287.5

Source: Central Bank of Ceylon.

TABLE II (E) 12

Advances* by Rate of Interest

Rate of Interest (Per cent)				30th June 1972		31st December 1972		31st March 1973		30th June 1973		30th September 1973	
				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	..	..	6.1	0.4	13.6	0.7	8.7	0.5	8.1	0.4	7.3	0.4
	3¾	..	..	2.1	0.1	2.2	0.1	2.2	0.1	2.4	0.1	2.7	0.1
	4	..	..	2.0	0.1	2.1	0.1	2.3	0.1	5.9	0.3	3.2	0.2
	4½	..	..	2.0	0.1	2.0	0.1	1.9	0.1	1.7	0.1	1.8	0.1
	5	..	..	45.7	2.7	47.4	2.4	45.4	2.4	38.6	2.1	42.8	2.2
	5½	..	..	3.0	0.2	1.7	0.1	4.1	0.2	2.6	0.1	1.3	0.1
	6	..	..	27.8	1.7	26.6	1.3	25.5	1.4	29.4	1.6	27.3	1.4
	6½	..	..	29.9	1.8	31.7	1.6	28.0	1.5	30.3	1.6	28.1	1.5
	7	..	..	265.5	16.0	253.2	12.8	263.2	14.1	256.8	14.0	250.5	13.1
	7½	..	..	143.4	8.6	252.2	12.8	216.2	11.6	195.1	10.6	198.9	10.4
	8	..	..	192.6	11.6	207.1	10.5	194.3	10.4	195.5	10.6	195.4	10.2
	8½	..	..	282.1	17.0	329.0	16.6	313.7	16.8	299.9	16.3	339.6	17.8
	9	..	..	274.1	16.5	294.6	14.9	284.0	15.2	279.7	15.2	256.8	13.4
	9½	..	..	113.8	6.8	181.5	9.2	118.6	6.3	139.3	7.6	140.7	7.4
	10	..	..	126.8	7.6	165.7	8.4	167.4	9.0	144.4	7.9	158.6	8.3
	10½	..	..	10.0	0.6	10.2	0.5	12.2	0.7	11.6	0.6	16.6	0.9
	11	..	..	36.3	2.2	37.6	1.9	38.2	2.0	36.4	2.0	40.5	2.1
	11½	..	..	1.8	0.1	1.7	0.1	2.3	0.1	2.9	0.2	4.9	0.3
	12	..	..	97.7	5.9	117.4	5.9	139.5	7.5	154.4	8.4	193.7	10.1
	Total	..	..	1,662.7	100.0	1,977.7	100.0	1,867.7	100.0	1,835.2	100.0	1,910.8	100.0

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

Source: Central Bank of Ceylon.

TABLE II (E) 13

Advances* By Type of Security

	30th June 1972		31st December 1972		31st March 1973		30th June 1973		30th September 1973	
	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	143.2	8.1	351.9	16.2	211.8	10.5	210.6	10.5	242.8	11.5
Government securities	30.9	1.7	35.3	1.6	26.9	1.3	62.9	3.1	60.3	2.8
Shares of joint-stock companies ..	21.3	1.2	21.3	1.0	19.5	1.0	18.3	0.9	20.1	0.9
Time and savings deposits and other cash deposits including cash value of life policies ..	60.6	3.4	56.9	2.6	64.5	3.2	66.1	3.3	77.5	3.7
Stock in trade	339.1	19.2	381.5	17.6	413.9	20.4	404.3	20.2	456.6	21.6
Immovable property	219.1	12.4	216.4	10.0	212.9	10.5	202.4	10.1	213.4	10.1
Guarantees	358.9	20.3	380.9	17.6	352.9	17.4	322.5	16.1	306.3	14.5
Trust receipts	115.7	6.5	154.5	7.1	190.6	9.4	188.4	9.4	185.5	8.8
Hire-purchase agreements	15.3	0.9	20.8	1.0	24.0	1.2	24.0	1.2	22.2	1.0
Plant and machinery	14.8	0.8	16.4	0.8	16.8	0.8	17.5	0.9	17.6	0.8
Tractors and motor vehicles	59.6	3.4	68.7	3.2	61.4	3.0	62.1	3.1	64.5	3.0
Pro-notes, bonds and usance notes ..	260.5	14.7	270.9	12.5	270.3	13.3	255.1	12.8	239.0	11.3
Other secured	86.8	4.9	99.0	4.6	112.6	5.6	119.0	6.0	157.8	7.5
Unsecured	40.9	2.3	93.6	4.3	46.4	2.3	44.8	2.2	50.1	2.4
Total	1,766.9	100.0	2,168.0	100.0	2,024.6	100.0	1,998.1	100.0	2,113.8	100.0

* Exclude cash items in process of collection.

Source: Central Bank of Ceylon.

at interest rates below 7 per cent decreased from 7.1 per cent to 6.3 per cent during this year. Advances granted at interest rates between 7 and 9 per cent fell from 69.7 per cent to 66.7 per cent. The proportion of loans granted at interest rates above 9 per cent increased from 23.2 per cent to 26.7 per cent.

Branch network

The distribution of bank offices and of deposits with the commercial banks between Sri Lanka and foreign banks for the period 1963-73 is given in table II (E) 14.

On a calendar year basis, the total number of branches of commercial banks increased by 99 in 1973 as compared to an increase of 15 in 1972. Of the 99 new offices, 83 were opened by Bank of Ceylon and consisted of 79 agriculture service centre branches and four main branches. The four main branches were located at Galle (Bazaar Branch), Kilinochchi, Oruwela and Bentota.

TABLE II (E) 14

Distribution of Bank Offices* and Deposits 1963-73

Year	Total			Sri Lanka Banks			British Banks			Indian & Pakistani Bank		
	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
1971	189	2,516	100	176	1,951	77	9	471	19	4	94	4
1972**	204	2,551	100	191	2,020	79	9	441	17	4	90	4
1972	204	3,277	100	191	2,707	82	9	471	14	4	99	3
1973**	303	2,763	100	293	2,214	80	6	458	17	4	91	3
1973	303	3,169	100	293	2,584	82	6	487	15	4	98	3

Note: The reduction in the number of British banks in 1969, 1970 and 1973 was on account of:-

1. The conversion of the Eastern Bank Ltd. into a Ceylonese bank in 1969.
2. Reconstruction of the Hatton National Bank and two branches of the National and Grindlays Bank to form the Hatton National Bank in 1970.
3. The Commercial Bank of Ceylon Ltd., acquired three branches of the Mercantile Bank Ltd. in 1973.

* Exclude Kachcheri branches opened in 1971 and 1972.

** The figures for deposits are as at the end of August.

People's Bank opened 11 branches in Bandaragama, Wilgamuwa, Eravur, Nikaweratiya, Kalpitiya, Grandpass, Nildandahinna, Rattota, Rakwana, Hakmana and Udugama. The Hatton National Bank opened four offices in Bandarawela, Wellawatta, Ratnapura and Negombo. The Commercial Bank of Ceylon opened one office in Matara and took over 3 branches of Mercantile Bank - in Jaffna, Kandy and Galle. As a result, the total number of branch offices belonging to the Mercantile Bank declined to 2 offices as at end of the year.

The National Savings Bank opened 3 branches - in Matara, Anuradhapura and Jaffna in 1973. Its number of branches amounted to 6 at the end of the year.

The share of Ceylonese banks in total deposits rose from 79 per cent at the end of August, 1972 to 82 per cent at the end of December, 1973 while the shares of British, and Indian and Pakistani banks declined from 17 per cent to 15 per cent and from 4 per cent to 3 per cent respectively. The share of demand deposits held with Sri-Lanka's banks increased from 78.7 per cent to 81.5 per cent and the share of time and savings deposits held by them increased from 79.6 per cent to 81.5 per cent, over the period end-August 1972 to end-December 1973.

The average size of demand deposits owned by the private sector with all banks rose from Rs. 5,027 at the end of June 1972 to Rs. 5,814 at the end of June 1973. Meanwhile the average size of time deposits increased from Rs. 36,918 to Rs. 44,233. On the other hand, the average size of savings deposits declined, from Rs. 1,060 to Rs. 935.

3. Savings and Long-term Credit Institutions

Statistics of lending operations of State-sponsored savings and lending institutions are shown in table II (E) 15. The total volume of loans granted by these institutions increased by Rs. 12.9 million in 1973, compared to a decline of Rs. 7.4 million in 1972. Loans granted by the Development Finance Corporation increased by Rs. 10.8 million and accounted for the largest share of the increase. Loans granted by the State Mortgage Bank, the National Savings Bank and the Loan Board increased marginally while those granted by the Agricultural and Industrial Credit Corporation and the National Housing Department declined.

TABLE II (E) 15

Lending Operations of Long-term Credit Institutions

Rs. Thousand

	1969		1970		1971		1972		1973	
	Loans granted	Amounts outstanding	Loans granted	Amounts outstanding	Loans granted	Amounts outstanding	Loans granted	Amounts outstanding	Loans granted	Amounts outstanding
1. Development Finance Corporation (a)	19,561	47,982	27,082	70,920	6,439	71,422	2,832	66,168	13,593	71,088
2. Ceylon Savings Bank (b) ..	3,671	20,921	4,563	22,803	3,082	23,517	3,848	24,698	4,285	25,990
3. Agricultural & Industrial Credit Corporation	4,322	31,090	4,719	31,552	3,296	31,108	1,751	29,839	1,049	28,295
4. State Mortgage Bank ..	8,597	61,943	9,456	66,995	6,900	68,757	4,202*	69,113	6,393	70,541
5. Loan Board ..	1,212	10,920	2,459	11,858	1,926	12,570	1,351	12,825	1,755	13,494
6. National Housing Dept.(c) ..	11,663	118,867	15,056	127,386	12,370	131,667	12,616	133,440	12,423	140,310
Total ..	49,026	291,723	63,335	331,514	34,013	339,041	26,600	336,083	39,498	349,718

Source: Central Bank of Ceylon.

* Figures relating to September, October and November are not included due to the strike of the Bank employees.

(a) Include equity investments.

(b) The National Savings Bank took over the assets and liabilities of the Ceylon Savings Bank with effect from 1.4.1972

(c) 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 1969-72 exclude loans granted to building societies. In 1973 the financial year was put on a calendar year basis. Figures of loans granted in 1973 represents those to individuals only.

Table II (E) 16 summarises the movements in savings deposits and savings certificates on a calendar year basis for the period 1971 to 1973.

TABLE II (E) 16
Savings Deposits and Savings Certificates

	Rupees Million				
	December 1971	December 1972	December 1973	Change	
				1971/72	1972/73
Post Office Savings Bank ..	659.5	—	—		
Ceylon Savings Bank(1) ..	197.7	—	—		
National Savings Bank(1)(2)	—	966.6*	1,091.1*	+ 109.4*	+ 124.5*
Commercial banks (time and savings deposits)(3) ..	1,317.3	1,353.1**	1,357.4**	+ 35.8	+ 4.3
Savings Certificates ..	65.3	65.2	98.0	- 0.1	+ 32.8
Total ..	2,239.8	2,384.9*	2,546.5*	+ 145.1*	+ 161.6*

Source: Central Bank of Ceylon.

(1) Includes fixed deposits.

(2) National Savings Bank took over the assets and liabilities of Post Office Savings Bank, Ceylon Savings Bank and Savings Certificates Fund with effect from 1st April, 1972.

(3) Include government deposits.

* These figures are subject to revision.

** As at end August.

As described earlier, the most significant feature of the movements in savings deposits and savings certificates in 1973 has been the increase in savings deposits and savings certificates issued by the National Savings Bank. This increase was due to the higher interest rates paid and the income tax concessions granted to its deposit and savings certificate holders. The interest received by individuals on savings certificates issued and purchased on or before 31st March, 1973 was exempt from income tax without any upper limit. Interest upto a total of Rs. 1000 per individual in respect of time and savings deposits and savings certificates issued on or after 1st April, 1973 was also exempted from income tax. In the case of a family, this exemption was limited to six individuals. These concessions, however, were available only to individuals and excluded companies, bodies of persons, etc.

The marginal increase in commercial banks' savings and time deposits by Rs. 4.3 million in 1973 compared to an increase of Rs. 35.8 million between 1971 and 1972 arose from the more attractive terms offered to savers by the National Savings Bank.

The total contributions received by the Employees Provident Fund amounted to Rs. 188.3 million as compared to Rs. 176.6 million in 1972.

4. Hire Purchase Companies

Tables II (E) 17 and II (E) 18, show in summary form, the operations and sources of finance of hire purchase companies. These data have been obtained from quarterly returns sent to them. However, on account of the very poor response to the questionnaires addressed to them, the data may not be representative of their operations.

TABLE II (E) 17
Operations of Hire-purchase Finance Companies

Rs. Million					
	As at 30th June 1972	As at 30th Sept. 1972	As at 31st Dec. 1972	As at 31st March 1973	As at 30th June 1973
1. Deposits ..	100.7	105.9	105.5	105.7	97.8*
2. Hire-purchase business outstanding ..	92.4	95.6	95.0	95.7	77.2*
3. Loans outstanding ..	25.6	28.4	25.2	27.3	25.7*

* Provisional.

Source: Central Bank of Ceylon.

TABLE II (E) 18
Hire-Purchase Finance Companies—Sources of Finance
(as a % of total liabilities)

	As at 30th June 1972	As at 30th Sept. 1972	As at 31st Dec. 1972	As at 31st March 1973	As at 30th June 1973
1. Capital Accounts ..	20.8	21.4	19.3	18.9	19.2*
2. Deposits ..	60.0	59.0	60.1	59.4	60.7*
3. Borrowings ..	9.6	9.9	11.0	13.1	12.3*
4. Other liabilities ..	9.6	9.7	9.6	8.6	7.7*
	100.0	100.0	100.0	100.0	100.0

* Provisional.

Source: Central Bank of Ceylon

5. Central Banking

The Central Bank's assets/liabilities increased by Rs. 490.5 million in the year ending in August 1973. Of this increase, other assets and accounts amounted to Rs. 421.4 million. Loans given to commercial banks declined by Rs. 38.6 million. Although Central Bank's holdings of government and government guaranteed securities decreased by Rs. 22.4 million during this year, its provisional advances to the government increased by Rs. 83.0 million. Cash and balances held by the Central Bank abroad increased by Rs. 48.3 million.

On the liabilities side, the largest increase was seen in other liabilities which amounted to Rs. 375.4 million. The currency issue which increased by Rs. 199.3 million also contributed to the increase in total liabilities. Deposits of the commercial banks and of the government held with the Central Bank, increased by Rs. 31.6 million and Rs. 49.4 million, respectively. A substantial decrease in the Bank's borrowings abroad of Rs. 141.7 million helped to contain the overall increase in liabilities.

In the last four months of 1973 Central Bank's assets/liabilities rose by Rs. 437.1 million. The increase in assets took place largely on account of an increased level of lending to the government. Its holdings of government paper increased by Rs. 231.8 million while its provisional advances to the government increased by Rs. 23.4 million. On the liabilities side, an increase in commercial banks' deposits with the Central Bank of Rs. 269.8 million accounted for most of the increase in total liabilities. Overall liabilities of the Central Bank increased by Rs. 200.8 million, while its liabilities in the form of notes and coins in circulation increased by Rs. 106.5 million. Compared to the increase in government's deposits seen in the twelve months ending August, 1973 these deposits declined by Rs. 55.5 million in the last four months of 1973.

Refinance loans granted by the Central Bank from the Medium and Long term Credit Fund amounted to Rs. 12.1 million in 1973. Of this amount Rs. 11.3 million was granted under the tea factory modernization project. Refinance loans granted for industrial and agricultural purposes amounted to Rs. 62,500. A refinance loan of Rs. 0.8 million was also given to the tourist industry. As in the previous year, loans for agricultural and industrial purposes were obtained by the State Mortgage Bank and the Development Finance Corporation while the commercial banks did not make use of this facility for agricultural and industrial purposes. However, the commercial banks accounted for Rs. 11.1 million of the loans granted for the tea factory modernization project. During the year, Rs. 16.0 million was credited to the Fund from repayments of loans. The balance in the Fund as at the end of December 1973 was Rs. 21.4 million. The amount outstanding at the end of December 1972 on total refinance loans granted from the Fund since its inception was Rs. 53.7 million.

Monetary policy remained unchanged since 1, April, 1972 when a selective policy measure was introduced. With effect from that date, commercial banks were asked to refrain from increasing credit for non-essential purposes such as consumption, speculative stock building etc., over the level of such credit as on 31, March, 1972. A bank rate of 6½ percent and the minimum reserve requirement ratios already in force against demand, savings and time deposits with commercial banks continued to serve as the instruments of general credit policy during the period up to December, 1973.

The Central Bank continued to watch monetary and credit developments closely but felt that no changes in policy measures were necessary in view of the particular manner in which the monetary expansion took place during this period. The expansion in money supply arose largely out of increases in (net) external banking assets which were reversible both on account of the outstan-

ding foreign short term obligations and the expected increases in the payments for imports. As the increase in credit to the private sector was largely for productive purposes and was not appreciably large in magnitude additional restrictions were not required. The ceiling on non-essential credit to this sector was sufficient to prevent commercial bank credit from expanding into undesirable channels.