

(E) MONETARY AND BANKING DEVELOPMENTS**I. (a) Money Supply—Principal Trends**

In 1974 the money supply increased by Rs. 168 million or 6.0 per cent as compared to the increase of Rs. 297 million or 12.0 per cent in the previous year. Even though the end year figure for 1974 shows a modest rate of increase of 6.0 per cent, the monthly average level of the money supply was 18.1 per cent above the corresponding level for 1973. The money supply expansion in 1974 as against 1973 shows a relatively lower rate of growth because the comparison has been made with an unusually high level of the money supply at the end of 1973. In addition to this the money supply declined substantially towards the end of 1974.

Table II (E) I shows the level of money supply on a monthly basis during the period 1970—74. It could be observed that 1974 was characterized by a substantial rise in the monthly rates of increase in the money supply. The money supply rose very rapidly in the first quarter of the year particularly in March when it increased by as much as Rs. 224.9 million or by 25.7 percent compared to the same month in the previous year. This was the largest increase for any one month in 1974 and was mainly due to heavy government borrowing from the Central Bank, government corporations having increasing recourse to commercial bank credit, and by commercial bank financing of purchases under the Guaranteed Price Scheme which reaches a peak normally in June of each year. During April, the money supply fell by Rs. 137 million which was the largest monthly decline during the year. In the second quarter the rate of the money supply expansion was lower as compared to the first quarter but the absolute level was higher than at the same time in the previous year. The expansion in the money supply in the third quarter although lower than in the first quarter, was higher than the expansion in the second quarter. In September the money supply reached the highest level for the year and was due to a rise in net external banking assets and a fall in government cash balances. In the final quarter, with a rapid fall in net external assets of the banking system and a reduction in government borrowings from the banking system, the money supply fell substantially and in December 1974 was 6.0 per cent above the level in December 1973.

The pattern of fluctuation in the money supply in 1974 differed substantially from that of the previous year. In 1973 the money supply reached a very high level in June mainly due to the financing of paddy purchases under the Guaranteed Price Scheme. The money supply reached another peak in December of that year because of an increase in cultivation loans to farmers from commercial banks and a rise in government borrowing from the banking system. The variation in the money supply in 1974 was not due to seasonal factors like the increase in agricultural credit during the Maha season but to the non-seasonal credit needs of government corporations and other private sector customers. It has been already indicated that the rapid increase in the money supply in March was due largely to the increased credit granted to the corporations and the government. As against this, due to the slower rate of purchases by the Food Commissioner's Department which had to use its go-downs to stock imported rice, the seasonal decline in the volume of credit

TABLE II (E) 1
The Money Supply

Amounts in Rupees Million

| End of Period | | | | | 1970 | 1971 | 1972 | 1973 | 1974 | % Change (1971 over 1970) | % Change (1972 over 1971) | % Change (1973 over 1972) | % Change 1974 over 1973) |
|-----------------|----|----|----|----|-------|-------|---------|-------|-------|------------------------------------|------------------------------------|------------------------------------|-----------------------------------|
| January | .. | .. | .. | .. | 1,872 | 1,943 | 2,102 | 2,323 | 2,770 | + 3.8 | + 8.2 | +10.5 | +19.2 |
| February | .. | | | .. | 1,884 | 1,973 | 2,086 | 2,242 | 2,805 | + 4.7 | + 5.7 | + 7.5 | +25.1 |
| March | .. | .. | .. | .. | 1,932 | 2,050 | 2,104 | 2,410 | 3,030 | + 6.1 | + 2.6 | +14.5 | +25.7 |
| April | .. | .. | .. | .. | 1,942 | 2,101 | 2,152 | 2,464 | 2,893 | + 8.2 | + 2.4 | +14.5 | +17.4 |
| May | .. | | .. | .. | 1,974 | 2,120 | 2,144 | 2,436 | 2,801 | + 7.4 | + 1.1 | +13.6 | +15.0 |
| June | .. | .. | .. | .. | 1,990 | 2,15 | 2,161 | 2,499 | 2,925 | + 8.0 | + 0.5 | +15.6 | +17.0 |
| July | .. | .. | .. | .. | 1,983 | 2,134 | 2,110 | 2,444 | 2,974 | + 7.6 | — 1.1 | +15.8 | +21.7 |
| August | .. | .. | .. | .. | 2,017 | 2,143 | 2,155 | 2,483 | 2,997 | + 6.2 | + 0.6 | +15.2 | +20.7 |
| September | .. | .. | .. | .. | 2,066 | 2,149 | 2,340 | 2,600 | 3,126 | + 4.0 | + 8.9 | +11.1 | +20.2 |
| October | .. | .. | .. | .. | 2,068 | 2,175 | n. a. * | 2,612 | 3,114 | + 5.2 | n. a. * | n. a. * | +19.2 |
| November | .. | .. | .. | .. | 1,927 | 2,140 | n. a. * | 2,663 | 3,008 | +11.0 | n. a. * | n. a. * | +13.0 |
| December | .. | .. | .. | .. | 1,967 | 2,149 | 2,481 | 2,778 | 2,946 | + 9.3 | +15.4 | +12.0 | + 6.0 |
| Monthly Average | .. | .. | .. | .. | 1,969 | 2,102 | 2,183 | 2,496 | 2,949 | + 6.7 | + 4.4 | +13.0 | +18.1 |

Source: Central Bank of Ceylon.

*Figures are not available due to the strike by the employees of the commercial banks

which is associated with the repayment of advances against paddy purchases was slower in 1974 than in 1973. Had the normal pattern of repayments of advances taken place in 1974, in the third quarter there would have been a slower rate of growth in the money supply.

In addition to these factors the fluctuation in the money supply in 1974 differed from the previous year because the customary expansion in the money supply that takes place in the fourth quarter of the year as a result of government financial transactions did not occur. In fact, the operations of the government sector contributed significantly to the decline in the level of the money supply in the last quarter. The changes in the net external assets of the banking system were also important in determining the movements of money supply in 1974. In the first quarter, the fall in net external assets tended to dampen the expansionary effects of domestic credit creation, while in the last quarter this factor reinforced the contraction in credit. In the second and third quarters, the impact of the changes in external assets on the money supply was not significant. Yet, another factor that tended to influence the level of money supply in 1974 as compared to 1973 was the ceiling on domestic credit that came into effect in May 1974.

I. (b) Factors affecting Money Supply

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

In 1974 Sri Lanka recorded the highest ever deficit on current account in her balance of payments. However aid inflows and foreign credit though higher than the previous year were sufficient only to finance two third of the current account deficit, the remaining gap had to be financed by the running down of external assets and by incurring additional external bank liabilities. This led to a decline in the external banking assets (net) of Rs. 179.2 million, bringing about a contraction of the money supply by a like amount. On the other hand in 1973, an increase in external banking assets contributed towards an expansion in the money supply of Rs. 350.3 million. The decrease in the external banking assets (net) during 1974, was seen in a decline in the foreign assets (net) of the Central Bank by Rs. 278.9 million and an increase in the net foreign exchange holdings of the commercial banks by Rs. 99.7 million. The decline in the net foreign assets of the Central Bank was mainly reflected in an increase in the deposits of international organisations with the Bank by Rs. 201.7 million, an increase in borrowings abroad by Rs. 16.7 million and a decrease in cash and balances held abroad by Rs. 66.4 million. The decline in the net foreign assets of the Central Bank would have been greater in 1974 had it not been for the increase in suppliers and short term credits which are non-bank foreign liabilities. While the net foreign assets of the Central Bank declined heavily during the year, the net foreign exchange holdings of the commercial banks increased by Rs. 99.7 million. The latter was largely reflected in commercial bank's holdings of export bills by Rs. 101.8 million, a decline in their cash held with banking institutions abroad marginally by Rs. 4.5 million and a decrease in their borrowings abroad by Rs. 3.4 million. The large expansion in the volume of export bills held by the commercial banks was due to the enhanced prices of Sri Lanka's exports in 1974. Other factors which tended to

TABLE II (E) 2

Changes in the Money Supply and Underlying Factors

Rupees Million

| Factors affecting Money Supply | End 1969 to End 1970 | | End 1970 to End 1971 | | End 1971 to End 1972* | | End 1972* to End 1973 | | End 1973 to End 1974 | |
|--|-------------------------|---------------------------|-------------------------|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|-------------------------|---------------------------|
| | 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) | — | 1.5 | 200.5 | — | 80.4 | — | 350.3 | — | — | 179.2 |
| 2. Private Sector+ | 219.4 | 238.3 | 152.6 | 228.8 | 455.4 | 332.9 | 349.7 | 160.8 | 1,071.7 | 538.5 |
| (a) Commercial bank credit to co-operative institutions .. | 146.3 | — | — | 3.4 | 90.7 | — | — | 9.9 | 189.1 | — |
| (b) Commercial bank credit to other private sector constituents .. | — | 42.0 | 84.1 | — | 132.5 | — | 131.5 | — | 241.1 | — |
| (c) Time and savings deposits of co-operative institutions .. | — | 7.6 | — | 11.9 | — | 1.7 | — | 6.7 | — | 5.4 |
| (d) Time and savings deposits of other private sector constituents .. | — | 188.7 | — | 132.0 | — | 234.2 | 114.2 | — | — | 219.8 |
| (e) Other liabilities and accounts (net) of commercial banks .. | 12.4 | — | — | 81.5 | — | 97.0 | 94.6 | — | — | 292.2 |
| (f) Commercial bank credit to government corporations .. | 43.2 | — | 62.3 | — | 203.6 | — | — | 144.2 | 641.5 | — |
| (g) Time and savings deposits of government corporations .. | 17.5 | — | 6.2 | — | 28.6 | — | 9.4 | — | — | 21.1 |
| 3. Government Sector | 349.8 | 244.6 | 181.2 | 127.7 | 441.8 | 293.6 | 186.1 | 435.2 | 99.5 | 360.8 |
| (a) Commercial banks' holdings of Treasury bills, government and government guaranteed securities and government import bills .. | 193.4 | — | 52.8 | — | 52.9 | — | — | 246.3 | — | 112.9 |
| (b) Cash items purchased on government account .. | 0.7 | — | — | 3.5 | 76.5 | — | — | 44.7 | 0.1 | — |
| (c) Central Bank's holdings of Treasury bills and government and government guaranteed securities .. | 126.2 | — | — | 19.7 | 189.3 | — | 81.6 | — | 57.6 | — |
| (d) Central Bank's advances | 29.5 | — | 61.0 | — | 22.0 | — | 36.5 | — | 41.8 | — |
| (e) Central Bank's other liabilities and accounts (net) .. | — | 120.4 | — | 104.5 | 101.1 | — | — | 144.2 | — | 128.1 |
| (f) Government deposits with banking system and cash balances with the Treasury and Kachcheries .. | — | 124.2 | 67.4 | — | — | 293.6 | 68.0 | — | — | 119.8 |
| 4. Adjustments for items in transit | — | 1.1 | 4.7 | — | — | 19.2 | 6.5 | — | 75.1 | — |
| Total Expansionary/Contractionary factors | 569.2 | 485.5 | 539.0 | 356.5 | 977.6 | 645.7 | 892.6 | 596.0 | 1,246.3 | 1,078.5 |
| Change in Money Supply | + 83.5 | | + 182.5 | | + 332.0 | | + 296.6 | | + 167.8 | |

Source: Central Bank of Ceylon

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

* The end December 1972 figures are distorted as a result of the strike by the employees of the commercial banks which began on 1st September 1972 and ended on 17th December 1972.

increase these assets were the high discount rates abroad which induced the commercial banks to carry these bills to maturity without converting them into cash and the extension of the encashment facilities of these bills from four to six months.

The increased credit needs of the private sector inclusive of government corporations and cooperative institutions brought about a net expansion in the money supply of Rs. 533.2 million. In the previous year the expansionary effect of this sector's operations on the money supply was Rs. 188.9 million. Within the private sector the principal cause of the monetary expansion was the unprecedented level of borrowings by government corporations which increased by Rs. 641.5 million. However, the rise in their holdings of time and savings deposits by Rs. 21.1 million with the banks marginally reduced the net expansion to Rs. 620.4 million. In 1973 the operations of government corporations brought about a contraction of Rs. 134.8 million. Substantial increases in the prices of imports of corporations, the financing of large stocks of raw materials and the need to finance operating losses of some corporations were responsible for this phenomenal increase in bank credit to them.

Commercial bank credit to other private sector customers increased by Rs. 241.1 million during 1974. However, time and savings deposits owned by the other private sector customers also increased by Rs. 219.8 million containing the net expansion within the sector to Rs. 21.3 million. In 1973 the increase in credit to other private sector brought about a monetary expansion of Rs. 245.7 million which includes substantial reduction in their holdings of time and savings deposits. It is worth nothing that although the increase in demand for credit from this category of bank customers nearly doubled during 1974, it was largely offset by an increase in their holdings of time and savings deposits.

Borrowings by cooperative institutions from the commercial banks increased by Rs. 189.1 million during the year while their time and savings deposits with the banks increased by Rs. 5.4 million, resulting in a net expansion of Rs. 183.7 million. Commercial bank credit to the cooperative institutions rose sharply because of the government decision to increase cultivation loans to farmers and on account of the large volume of loans for purchases under the Guaranteed Price Scheme which was outstanding at the end of the year.

As in the previous year, financial transactions in the government sector in 1974 resulted in a net contraction in the money supply of Rs. 261.3 million as compared to Rs. 249.1 million in 1973. Government borrowings from the Central Bank increased by Rs. 99.4 million while accommodation from the commercial banks was reduced by Rs. 112.8 million. The contraction resulting from the latter was further reinforced by a very substantial increase in government deposits with the banking system and its cash balances with the Treasury and the Kachcheries by Rs. 119.8 million. Movements in the other liabilities and accounts (net) of the Central Bank also constituted a contractionary influence which amounted to Rs. 128.1 million. On the whole, government budgetary operations were contractionary because the government had access to non-inflationary sources of finance during the year particularly from savings institutions, to finance the net cash operating deficit in the budget.

TABLE II (E) 3

Total Liquid Assets of the Non-Bank Private Sector

| Description | Amounts (Rupees Million) | | | | Percentage of G.N.P. (a) | | | |
|--|--------------------------|--------------|--------------|--------------|--------------------------|--------------|--------------|--------------|
| | 1971 Dec. | 1972 Dec. | 1973 Dec. | 1974 Dec. | 1971 Dec. | 1972 Dec. | 1973 Dec. | 1974 Dec. |
| 1. Primary liquid assets | | | | | | | | |
| (a) Notes and coins | 1,115.3 | 1,202.3 | 1,436.7 | 1,539.3 | 9.5 | 9.5 | 9.5 | 7.8 |
| (b) Demand deposits | 1,033.8 | 1,278.8 | 1,341.0 | 1,406.3 | 8.8 | 10.1 | 8.8 | 7.1 |
| Total | 2,149.1 | 2,481.1 | 2,777.7 | 2,945.6 | 18.2 | 19.6 | 18.3 | 15.0 |
| Percentage change | + 0.3 | + 15.1 | + 11.9 | + 6.0 | | | | |
| 2. Secondary liquid assets | | | | | | | | |
| (a) Savings deposits with commercial banks | 614.4 | 609.6 | 748.8 | 856.5 | 5.2 | 4.8 | 4.9 | 4.3 |
| (b) Savings deposits with Post Office Savings Bank | 659.5 | — | — | — | 5.6 | — | — | — |
| (c) Savings deposits with Ceylon Savings Bank (1) | 197.7 | — | — | — | 1.7 | — | — | — |
| (d) Savings deposits with National Savings Bank | — | 913.0* | 988.8* | 1,170.4* | — | 7.2* | 6.5* | 5.9* |
| (e) Time deposits with commercial banks | 671.4 | 914.4 | 627.4 | 766.0 | 5.7 | 7.3 | 4.1 | 3.9 |
| (f) Time deposits with National Savings Bank | — | 53.6 | 102.3 | 171.1 | — | 0.4 | 0.7 | 0.9 |
| (g) Foreign balances of residents | — | — | — | — | — | — | — | — |
| (h) Savings Certificates | 65.3 | 65.2 | 98.0 | 106.9 | 0.6 | 0.5 | 0.6 | 0.5 |
| (i) Treasury bills | 13.3 | 10.0 | 5.8 | 4.7 | 0.1 | .. | .. | .. |
| (j) Tax reserve certificates | 53.1 | 61.7 | 55.9 | 51.7 | 0.4 | 0.5 | 0.4 | 0.3 |
| (k) Government bonds | 1,148.7 | 1,248.6 | 1,368.0 | 1,492.6 | 9.7 | 9.9 | 9.0 | 7.6 |
| Total | 3,423.4 | 3,876.1 | 3,996.0 | 4,619.9 | 29.0 | 30.6 | 26.4 | 23.5 |
| Percentage change | + 6.2 | + 8.4 | + 3.6 | + 15.6 | | | | |
| 3. Total private sector liquid assets | 5,572.5 | 6,357.2* | 6,773.7* | 7,565.5* | 47.3 | 50.2* | 44.7* | 38.4* |
| Percentage change | + 3.8 | + 10.9 | + 6.8 | + 11.7 | | | | |
| 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 | 2,735.6 | 3,117.7 | 3,759.7 | 4,456.4 | 23.2 | 24.6 | 24.8 | 22.6 |

* Provisional

(1) Includes fixed deposits

(a) At current factor cost prices

Source: Central Bank of Ceylon.

In summary, the monetary expansion of 6 per cent that took place in 1974 is mainly attributable to the very high level of borrowings by government corporations. Although the other private sector also borrowed large amount during the year, its contribution to the monetary expansion was small in comparison, due to the large increase in the time and savings deposits of the other private sector customers. Both the external sector and the government sector brought about contractions but in terms of magnitudes these were small and inadequate to offset the large expansion caused by the government corporations.

I. (c) Liquidity in the non bank private sector

The distribution of primary and secondary liquid assets of the non bank private sector during the period 1971—74 is shown in table II (E) 3.

In 1974 the total liquid assets of the non bank private sector increased by Rs. 791.8 million or 11.7 per cent compared with Rs. 416.5 million or 6.8 per cent in 1973. A noteworthy change evident in this expansion is the modest increase of Rs. 167.9 million or 6.0 per cent in primary liquid assets (Notes, coins and demand deposits) and the substantial growth—amounting to Rs. 623.9 million or 15.6 per cent of secondary liquid assets. This development contrasts with the trend that prevailed over the previous two years when larger increases were recorded in primary liquidity.

A disappointing feature of the change in primary liquid assets however, is that over 60 per cent of the increase took place in the form of notes and coins held by the public. Consequently, the currency component in primary liquidity increased to 52.3 per cent while demand deposits declined correspondingly (Table II (E) 4). The growing public preference for currency relative to demand deposits that prevailed for a number of years in the past was checked with the demonetization exercise of 1970. Since then however, the trend has re-emerged with the exception of 1972. This situation is disconcerting also for the reason that the number of branch offices of commercial banks providing current account facilities have more than doubled from 204 in 1972 to 457 in 1974. Apart from the usual factors influencing the public preference for currency, the Bank Debits Tax and the prevalent inflationary situation may have accelerated this tendency.

With the increase in the currency component of primary liquid assets there has occurred a concurrent change in the share of notes of Rs. 100 and Rs. 50 denominations as shown in table II (E) 5. Recent years have witnessed the progressive increase in this share which, in 1974 constituted 67 per cent of the currency issue.

As noted earlier, the larger increase in 1974 was in secondary liquid assets. Of the increase of Rs. 623.9 million, Rs. 496.7 million or nearly 75 per cent was in the form of time and savings deposits almost equally shared by the commercial banks and the National Savings Bank. Holdings of government bonds and savings certificates increased by Rs. 124.6 million and Rs. 8.6 million respectively. Tax reserve certificates which usually show a high degree of volatility, declined by Rs. 4.2 million in 1974 while Treasury bill holdings of the public declined further by Rs. 1.1 million.

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 | |
| 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 |
| 1972 | 1,202.3 | 48.5 | 1,278.8 | 51.5 | 2,481.1 |
| 1973 | 1,436.7 | 51.7 | 1,341.0 | 48.3 | 2,777.7 |
| 1974 | 1,539.3 | 52.3 | 1,406.3 | 47.7 | 2,945.6 |

Source: Central Bank of Ceylon.

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* | |
| 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 | |
| 1974 | 778.2 | 439.8 | 373.6 | 82.4 | 1,829.0 | |

Source: Central Bank of Ceylon.

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

An important feature of the growth in secondary liquid assets is the substantial increase in the time and savings deposits. This reveals that the branch expansion of commercial banks as well as the National Savings Bank has been successful in mobilising increased savings although the former has not led to a similar increase in demand deposits. It may also be noted that time and savings deposits at the National Savings Bank carry higher interest rates while interest earnings on time and savings deposits are exempt from income tax upto Rs. 1,000 per annum per individual to a limit of six individuals per family.

Table II (E) 6 shows the distribution of deposits with banks by broad ownership categories. In 1974 the total private sector deposits with commercial banks increased by Rs. 201.4 million. Over half of this increase amounting to Rs. 107.2 million took place in the form of savings deposits while time deposits increased by Rs. 55.7 million. The increase in demand deposits amounted to Rs. 38.5 million. The increase in total deposits classified according to ownership between the business sector (comprising financial institutions, plantations, trading and manufacturing establishments and other business) and the non-business sector (consisting of local authorities, non-business institutions and individuals) amounted to Rs. 62.5 million and Rs. 139.0 million respectively.

The share of demand deposits held by the business sector declined in 1974 from 60.0 to 58.0 per cent while its share of time deposits increased from 57.4 to 62.1 per cent. In the business sector trading, manufacturing and other business accounted for 47.8 per cent of demand deposits. The financial institutions continued to hold the largest single share of demand deposits amounting to 21.1 per cent while manufacturing and other business had 24.2 per cent. As in 1973 the non-business sector accounted for 93 per cent of savings deposits. Within the non-business sector 50.4 per cent of all deposits amounting to Rs. 1,371.1 million was held by individuals compared with 49.3 per cent or Rs. 1,240.4 million, in 1973. Of this total, 32.9 per cent of demand deposits, 28.3 per cent of time deposits and 91.5 per cent of savings deposits were held by individuals.

1. (d) Interest Rates

The structure of interest rates underwent little change during 1974. The only notable changes in the lending rates of commercial banks were increases of one-half to one per cent in the maximum rates of interest on secured advances by two banks, and of one and half per cent on unsecured advances, by one bank. Deposit rates of commercial banks, deposit and lending rates of major credit and savings institutions and the bank rate remained unchanged.

The structure of interest rates was maintained relatively stable during the year partly because rising interest costs would have tended to impose additional difficulties on production and export activities. More important, with the imposition of a ceiling on commercial bank lending as from 24th May which forbade commercial banks to lend except for purposes of production and export financing, the Central Bank resorted directly to restricting the availability of credit instead of relying on increasing the cost of credit to deter borrowing.

TABLE II (E) 6
Ownership of Demand, Time and Savings Deposits of the Private Sector
with Commercial Banks (as at end of period)

Amount in Rupees Million.

| Ownership | Demand | | Time | | Savings | | Total | |
|-------------------------------------|---------|-------|--------|-------|---------|-------|---------|-------|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Financial Institutions | | | | | | | | |
| December 1973 | 60.4 | 4.7 | 103.5 | 21.9 | 23.9 | 3.2 | 187.7 | 7.5 |
| March 1974 | 68.5 | 4.6 | 105.7 | 21.7 | 23.0 | 3.0 | 197.2 | 7.2 |
| June 1974 | 65.4 | 5.1 | 99.4 | 19.5 | 27.7 | 3.4 | 192.5 | 7.4 |
| September 1974 | 65.5 | 4.6 | 100.2 | 19.2 | 25.1 | 3.1 | 190.8 | 6.9 |
| December 1974 | 55.7 | 4.2 | 111.3 | 21.1 | 20.4 | 2.4 | 187.4 | 6.9 |
| Plantations | | | | | | | | |
| December 1973 | 62.4 | 4.8 | 34.6 | 7.3 | 0.3 | ... | 97.3 | 3.9 |
| March 1974 | 80.5 | 5.4 | 30.9 | 6.4 | 1.1 | ... | 112.5 | 4.1 |
| June 1974 | 78.5 | 6.1 | 38.2 | 7.5 | 0.6 | 0.1 | 117.4 | 4.5 |
| September 1974 | 77.5 | 5.4 | 40.1 | 7.7 | 0.6 | 0.1 | 118.2 | 4.3 |
| December 1974 | 79.6 | 6.0 | 40.5 | 7.7 | 0.7 | 0.1 | 120.8 | 4.4 |
| Trading | | | | | | | | |
| December 1973 | 282.0 | 21.8 | 51.2 | 10.8 | 16.6 | 2.2 | 349.8 | 13.9 |
| March 1974 | 385.3 | 26.1 | 51.8 | 10.6 | 17.0 | 2.2 | 454.1 | 16.6 |
| June 1974 | 239.1 | 18.5 | 51.8 | 10.2 | 18.8 | 2.3 | 309.7 | 11.9 |
| September 1974 | 316.9 | 22.1 | 56.1 | 10.8 | 18.5 | 2.3 | 391.5 | 14.1 |
| December 1974 | 222.5 | 16.7 | 48.4 | 9.2 | 27.0 | 3.2 | 297.9 | 11.0 |
| Manufacturing Establishments | | | | | | | | |
| December 1973 | 187.6 | 14.5 | 22.7 | 4.8 | 0.8 | 0.1 | 211.1 | 8.4 |
| March 1974 | 234.9 | 15.9 | 32.1 | 6.6 | 1.1 | ... | 268.1 | 9.8 |
| June 1974 | 168.1 | 13.0 | 44.5 | 8.7 | 1.3 | 0.2 | 213.8 | 8.2 |
| September 1974 | 210.9 | 14.7 | 42.7 | 8.2 | 1.7 | 0.2 | 255.3 | 9.2 |
| December 1974 | 208.8 | 15.6 | 64.7 | 12.2 | 1.6 | 0.2 | 275.1 | 10.1 |
| Other Business | | | | | | | | |
| December 1973 | 183.5 | 14.2 | 59.4 | 12.6 | 11.0 | 1.5 | 253.9 | 10.1 |
| March 1974 | 218.3 | 14.8 | 58.3 | 12.0 | 9.5 | 1.3 | 286.1 | 10.5 |
| June 1974 | 197.4 | 15.3 | 71.8 | 14.1 | 9.2 | 1.1 | 278.4 | 10.7 |
| September 1974 | 203.3 | 14.2 | 76.0 | 14.6 | 10.2 | 1.2 | 289.5 | 10.4 |
| December 1974 | 207.3 | 15.5 | 63.3 | 12.0 | 10.5 | 1.2 | 281.1 | 10.3 |
| Local Authorities | | | | | | | | |
| December 1973 | 46.9 | 3.6 | 26.2 | 5.5 | 0.3 | ... | 73.4 | 2.9 |
| March 1974 | 47.5 | 3.2 | 24.8 | 5.1 | 0.3 | ... | 72.7 | 2.7 |
| June 1974 | 45.5 | 3.5 | 24.9 | 4.9 | 0.3 | ... | 70.7 | 2.7 |
| September 1974 | 44.1 | 3.1 | 24.9 | 4.8 | 0.2 | ... | 69.2 | 2.5 |
| December 1974 | 45.6 | 3.4 | 22.9 | 4.3 | 0.3 | ... | 68.8 | 2.5 |
| Non Business Institutions | | | | | | | | |
| December 1973 | 64.0 | 4.9 | 28.1 | 5.9 | 11.7 | 1.6 | 103.8 | 4.1 |
| March 1974 | 57.7 | 3.9 | 36.3 | 7.5 | 12.9 | 1.7 | 106.9 | 3.9 |
| June 1974 | 63.1 | 4.9 | 31.2 | 6.1 | 12.9 | 1.6 | 107.3 | 4.1 |
| September 1974 | 75.1 | 5.2 | 29.9 | 5.7 | 12.2 | 1.5 | 117.1 | 4.2 |
| December 1974 | 76.4 | 5.7 | 27.8 | 5.3 | 12.5 | 1.5 | 116.7 | 4.3 |
| Individuals | | | | | | | | |
| December 1973 | 409.3 | 31.6 | 146.9 | 31.1 | 684.2 | 91.4 | 1,240.4 | 49.3 |
| March 1974 | 385.0 | 26.0 | 146.4 | 30.1 | 698.2 | 91.5 | 1,229.6 | 45.1 |
| June 1974 | 435.9 | 33.7 | 147.1 | 28.9 | 738.5 | 91.2 | 1,321.4 | 50.6 |
| September 1974 | 439.9 | 30.7 | 151.4 | 29.0 | 752.3 | 91.6 | 1,343.6 | 48.4 |
| December 1974 | 438.6 | 32.9 | 149.5 | 28.3 | 783.0 | 91.5 | 1,371.1 | 50.4 |
| Total | | | | | | | | |
| December 1973 | 1,296.0 | 100.0 | 472.7 | 100.0 | 748.8 | 100.0 | 2,517.5 | 100.0 |
| March 1974 | 1,477.7 | 100.0 | 486.4 | 100.0 | 763.1 | 100.0 | 2,727.2 | 100.0 |
| June 1974 | 1,293.0 | 100.0 | 508.8 | 100.0 | 809.4 | 100.0 | 2,611.2 | 100.0 |
| September 1974 | 1,433.1 | 100.0 | 521.3 | 100.0 | 820.9 | 100.0 | 2,775.2 | 100.0 |
| December 1974 | 1,334.5 | 100.0 | 528.4 | 100.0 | 856.0 | 100.0 | 2,718.9 | 100.0 |

Source: Central Bank of Ceylon.

2. (a) Commercial banking—principal trends

Resources available to commercial banks through deposits increased significantly in 1974 compared with a decline that occurred during the earlier year. The increase took place on account of rise in demand deposits as well as time and savings deposits. The latter had declined in 1973. These were supplemented by a similar increase in other liabilities which too had declined during the earlier year. Resources generated within the banking system mainly through increase in paid up capital reserve fund and undistributed profits increased during the year. Nevertheless the demand for credit from commercial banks have reached such proportions during the year that these enhanced resources were unable to meet the entire requirements. The banks, therefore, had to rely increasingly on borrowings from the Central Bank to meet the resource gap.

The commercial banks were subject to a ceiling on bank credit imposed in May 1974. The effect of this and several years of selective credit control is evident in a change in the purposewise pattern of credit towards essential purposes as against consumption.

2. (b) Structure of bank assets and liabilities

The assets/liabilities of commercial banks increased by Rs. 1,074.6 million in 1974¹. On the liabilities side the largest increase amounting to Rs. 386.7 million occurred in the form of deposits. Here, the increase of time and savings deposits was sharper totalling Rs. 249.0 million and the balance in demand deposits. Borrowings show the next largest increase amounting to Rs. 369.7 million. Borrowings from the Central Bank accounts for this entire increase whereas foreign borrowings in fact declined by Rs. 3 million. The resources available to commercial banks were further enhanced by incurring other liabilities amounting to Rs. 277.9 million. The increase in paid-up capital, reserve fund and undistributed profits by banks also contributed to the rise in liabilities though on a modest scale, amounting to Rs. 43.4 million during the year under review.

Among the assets, the largest increase was in loans and advances amounting to Rs. 1,044.6 million. The major proportion of these were in the form of loans which totalled Rs. 716.4 million; Rs. 152.5 million in overdrafts and the balance of Rs. 175.8 million in the form of export and import bills purchased and discounted. As indicated earlier the substantial increase in loans and overdrafts during the year reflected largely the credit extended to government corporations and to a lesser extent to co-operative societies.

In other items, notable increases in assets were recorded in cash items in process of collection amounting to Rs. 130.9 million, cash in hand amounting to Rs. 73.1 million and fixed and other assets totalling Rs. 29.1 million. Items in process of collection comprise credit extended to finance purchases under the Guaranteed Price Scheme.

¹ See appendix III—Table No. 17

TABLE II (E) 7

Selected Items of Assets and Liabilities of Commercial Banks.

Average of Monthly figures.

Amount in Rupees million

| | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 * | 1971 | *** 1972 1st 8 Months | 1973 | 1974 | End of Period | |
|--|-------|-------|-------|-------|-------|-------|--------|-------|--------------------------------|-------|-------|---------------|--------------|
| | | | | | | | | | | | | Dec. 1973 | Dec. 1974 |
| Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements) .. | 182 | 224 | 233 | 218 | 247 | 250 | 248 | 369 | 382 | 483 | 591 | 703 | 775 |
| Foreign balances .. | 49 | 55 | 62 | 57 | 72 | 63 | 36 | 51 | 57 | 66 | 93 | 95 | 90 |
| Treasury bills .. | 73 | 89 | 124 | 80 | 102 | 50 | 41 | 308 | 269 | 132 | 58 | 154 | 60 |
| Bills discounted .. | 126 | 173 | 175 | 198 | 252 | 241 | 275 | 158 | 153 | 231 | 403 | 254 | 429 |
| Total liquid assets .. | 430 | 541 | 594 | 553 | 673 | 604 | 600 | 886 | 861 | 912 | 1,145 | 1,206 | 1,354 |
| Total investments** .. | 330 | 329 | 330 | 300 | 278 | 275 | 263 | 373 | 377 | 360 | 335 | 348 | 329 |
| Total loans and overdrafts .. | 633 | 669 | 682 | 809 | 1,000 | 1,240 | 1,391 | 1,490 | 1,630 | 1,861 | 2,464 | 1,998 | 2,867 |
| Demand deposits+ .. | 853 | 917 | 949 | 914 | 955 | 945 | 958 | 1,219 | 1,213 | 1,434 | 1,723 | 1,745 | 1,894 |
| Time and savings deposits .. | 535 | 572 | 631 | 649 | 798 | 915 | 989 | 1,238 | 1,328 | 1,346 | 1,520 | 1,412 | 1,661 |
| Total deposits .. | 1,389 | 1,490 | 1,580 | 1,564 | 1,755 | 1,863 | 1,948 | 2,458 | 2,543 | 2,785 | 3,249 | 3,169 | 3,555 |
| Ratio of .. | % | % | % | % | % | % | % | % | % | % | % | % | % |
| Cash to demand deposits .. | 21.3 | 24.4 | 24.5 | 23.8 | 25.9 | 26.4 | 25.9 | 30.3 | 31.5 | 33.7 | 34.3 | 40.3 | 40.9 |
| Cash to total deposits .. | 13.1 | 15.0 | 14.7 | 13.9 | 14.1 | 13.4 | 12.7 | 15.0 | 15.0 | 17.3 | 18.2 | 21.2 | 21.8 |
| Foreign balances to total deposits .. | 3.5 | 3.7 | 3.9 | 3.6 | 4.1 | 3.4 | 1.8 | 2.1 | 2.2 | 2.4 | 2.9 | 3.0 | 2.5 |
| Treasury bills to total deposits .. | 5.3 | 6.0 | 7.8 | 5.1 | 5.8 | 2.7 | 2.1 | 12.5 | 10.6 | 4.7 | 1.8 | 4.9 | 1.7 |
| Commercial bills discounted to total deposits .. | 9.1 | 11.6 | 11.1 | 12.7 | 14.4 | 12.9 | 14.1 | 6.4 | 6.0 | 8.3 | 12.4 | 8.0 | 12.1 |
| Liquid assets to demand deposits .. | 50.4 | 59.0 | 62.6 | 60.5 | 70.5 | 63.9 | 62.6 | 72.7 | 71.0 | 63.6 | 66.4 | 69.1 | 71.5 |
| Liquid assets to total deposits .. | 31.0 | 36.3 | 37.6 | 35.4 | 38.3 | 32.4 | 30.8 | 36.0 | 33.9 | 32.7 | 35.2 | 38.1 | 38.1 |
| Investments to total deposits .. | 23.8 | 22.1 | 20.9 | 19.2 | 15.8 | 14.8 | 13.5 | 15.2 | 14.8 | 12.9 | 10.3 | 11.0 | 9.3 |
| Loans and overdrafts to total deposits .. | 45.6 | 44.9 | 43.2 | 51.7 | 57.0 | 66.6 | 71.4 | 60.6 | 64.1 | 66.8 | 75.8 | 63.0 | 80.6 |

Source: Central Bank of Ceylon

* On account of the distortion in the pattern of assets and liabilities of the commercial banks in the last 3 months of 1970 as a result of the demonetisation of Rs. 100 and Rs. 50 notes the 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 the strike of commercial bank employees during that period.

+ Exclude domestic inter-bank deposits.

A noteworthy change that has taken place in 1974 was the sharp decline in the commercial bank holdings of government paper. During the past several years the bank holdings of Treasury bills and other government securities remained at a very high level. In contrast by December 1974 the value of Treasury bills held amounted to only Rs. 59.6 million showing a decline of Rs. 94.0 million and government securities totalled Rs. 325.1 million reflecting a decline of Rs. 19.2 million. This was largely the result of their having to finance a large volume of credit to government corporations and co-operative societies which carried more attractive rates of return.

2. (c) Sources of funds and their utilisation

Table II (E) 8 provides data on commercial bank resources and their utilisation during the period 1969—74.

The volume of resources that the commercial banks were called upon to provide in 1974 remained at an unusually high level amounting to Rs. 1282.8 million.

As noted earlier, the main source of expansion in credit was the government corporation sector and to a lesser extent the co-operatives. In meeting the emerging resource gap, the Central Bank provided the largest volume of funds to the commercial banks, while the government sector and interbank operations and to a lesser extent other domestic private sector transactions met the balance requirements.

In 1974 the government sector provided Rs. 198.0 million of commercial bank resources consisting of a Rs. 113.2 million reduction in the holdings of government paper which almost entirely consisted of Treasury bills and an increase in government deposits amounting to Rs. 84.8 million. As against this, the demand for credit from the government sector declined to an insignificant level of Rs. 0.3 million which resulted in a net inflow of funds to the commercial banks totalling Rs. 197.7 million. However, the largest volume of funds was provided by the Central Bank amounting to Rs. 449.5 million almost entirely in the form of Central Bank accommodation. The volume of deposits with the commercial banks, which largely determined the scale of bank lending, grew at a modest rate compared with the sharp rise in the credit needs. Thus the banks were forced to draw heavily from the Central Bank while at the same time reducing their holdings of liquid assets such as Treasury bills.

As in the past, the other domestic private sector operations resulted in a net resource availability amounting to Rs. 39.9 million. Although the advances and investments of this sector increased to Rs. 241.2 million the concurrent increase in deposits to Rs. 281.1 million resulted in the net credit surplus.

Funds accruing from within the banking system amounted to Rs. 321.3 million while utilisation within the system amounted to Rs. 110.0 million. This resulted in a net availability of Rs. 210.4 million to be utilised for lending purposes as against a net deficit of Rs. 26.2 million in 1973. The increased availability of funds in 1974 arose largely from the unusually large increase in other liabilities of the banks as well as the rise in their capital and reserves. In the use of resources within the banking system net interbank transactions and till cash showed the largest increases.

Foreign sector transactions followed the usual pattern when a net amount of Rs. 99.4 million was used largely to meet the increase in foreign balances.

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

| Rupees Million | | | | | |
|---|---------------------------|---------------------------|----------------------------|----------------------------|---------------------------|
| | Dec. 1969 to Dec. 1970 | Dec. 1970 to Dec. 1971 | Dec. 1971 to Dec. 1972* | Dec. 1972* to Dec. 1973 | Dec. 1973 to Dec. 1974 |
| Sources of Funds | | | | | |
| 1. Government Sector .. | 215.5 | 3.5 | 315.5 | 290.8 | 198.0 |
| Reduction in holdings of government paper .. | — | — | — | 237.8 | 113.2 |
| Increase in deposits .. | 73.7 | — | 315.5 | — | 84.8 |
| Decrease in import bills .. | 141.8 | — | — | 8.3 | — |
| Decrease in short term credit (1) .. | — | 3.5 | — | 44.7 | — |
| 2. Central Bank .. | 4.3 | 39.8 | — | 118.4 | 449.5 |
| Increase in borrowings .. | 4.3 | 24.5 | — | 118.4 | 447.5 |
| Decrease in reserves .. | — | 15.3 | — | — | 2.0 |
| 3. Government Corporations .. | 44.7 | 27.8 | 27.6 | 232.8 | 15.2 |
| Increase in deposits .. | 44.7 | 27.8 | 27.6 | 88.6 | 15.2 |
| Decrease in advances .. | — | — | — | 144.2 | — |
| 4. Co-operatives .. | 19.0 | 21.8 | 51.5 | 9.9 | 17.3 |
| Increase in deposits .. | 19.0 | 18.4 | 51.5 | — | 17.3 |
| Decrease in advances .. | — | 3.4 | — | 9.9 | — |
| 5. Other Domestic Private Sector .. | 383.9 | 98.8 | 359.8 | — | 281.1 |
| Increase in deposits .. | 341.9 | 98.8 | 359.8 | — | 281.1 |
| Decrease in advances & investments .. | 42.0 | — | — | — | — |
| 6. Inter-bank (2) .. | 77.6 | 209.6 | 512.9 | 434.6 | 321.3 |
| Increase in capital and reserves .. | 17.8 | 24.6 | 7.7 | 8.7 | 43.4 |
| Decrease in fixed and other assets .. | — | — | — | 358.8 | — |
| Increase in "Other" liabilities .. | 57.9 | 185.0 | 505.2 | — | 277.9 |
| Inter-bank transactions (net) .. | 1.9 | — | — | 43.0 | — |
| Decrease in till cash .. | — | — | — | 24.1 | — |
| 7. Foreign Sector .. | 0.7 | 7.0 | 76.0 | 22.8 | 0.5 |
| Increase in borrowings .. | — | 7.0 | 72.1 | — | — |
| Increase in deposits .. | 0.7 | — | 3.9 | — | 0.5 |
| Decrease in foreign balances .. | — | — | — | 22.8 | — |
| Total increase in resources | 745.7 | 408.3 | 1343.3 | 1109.3 | 1282.9 |
| Utilisation Of Funds | | | | | |
| 1. Government Sector .. | 335.6 | 75.1 | 129.4 | 68.7 | 0.3 |
| Increase in holdings of government paper .. | 335.0 | 50.4 | 46.8 | — | — |
| Decrease in deposits .. | — | 22.3 | — | 68.7 | — |
| Increase in government import bills .. | — | 2.4 | 6.1 | — | 0.2 |
| Increase in short term credit (1) .. | 0.6 | — | 76.5 | — | 0.1 |
| 2. Central Bank .. | 88.3 | — | 121.3 | 239.7 | — |
| Decrease in borrowings .. | — | — | 82.5 | — | — |
| Increase in reserves .. | 88.3 | — | 38.8 | 239.7 | — |
| 3. Government Corporations .. | 43.1 | 62.3 | 203.6 | — | 641.4 |
| Decrease in deposits .. | — | — | — | — | — |
| Increase in advances .. | 43.1 | 62.3 | 203.6 | — | 641.4 |
| 4. Co-operatives .. | 146.3 | — | 90.7 | 25.3 | 189.1 |
| Decrease in deposits .. | — | — | — | 25.3 | — |
| Increase in advances .. | 146.3 | — | 90.7 | — | 189.1 |
| 5. Other Domestic Private Sector .. | — | 84.1 | 132.5 | 240.3 | 241.2 |
| Decrease in deposits .. | — | — | — | 108.8 | — |
| Increase in advances & investments .. | — | 84.1 | 132.5 | 131.5 | 241.2 |
| 6. Inter-bank (2) .. | 112.3 | 151.4 | 530.1 | 462.0 | 110.9 |
| Decrease in capital and reserves .. | — | — | — | — | — |
| Increase in fixed and other assets .. | 88.1 | 128.2 | 415.8 | — | 29.1 |
| Decrease in "other" liabilities .. | — | — | — | 462.0 | — |
| Inter-bank transactions (net) .. | — | 0.8 | 42.9 | — | 8.7 |
| Increase in till cash .. | 24.2 | 22.4 | 71.4 | — | 73.1 |
| 7. Foreign Sector .. | 20.1 | 35.1 | 135.3 | 73.6 | 99.9 |
| Decrease in borrowings .. | 7.9 | — | — | 70.0 | 3.0 |
| Decrease in deposits .. | — | 0.4 | — | 3.6 | — |
| Increase in foreign balances .. | 12.2 | 34.7 | 135.3 | — | 96.9 |
| Total increase in resources utilised | 745.7 | 408.0 | 1342.9 | 1109.6 | 1282.8 |

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.
- * Figures relating to 1972 should be interpreted with caution since these may be distorted due to the strike of commercial bank employees during the period September—December 1972.

2 (d) Commercial Bank Credit to the Private Sector.

Commercial bank credit to the private sector (including government corporations and co-operative institutions) increased by Rs. 1,172.8 million or by 49.6 per cent as shown in Table II (E) 9. Bank credit to government corporations accounted for Rs. 641.5 million of this increase while the credit for co-operative institutions accounted for Rs. 189.1 million. The credit extended by foreign banks to the private sector declined by Rs. 74.4 million mainly due to a reduction in their overdrafts. The Sri Lanka banks on the other hand increased credit in all forms by Rs. 1,247.3 million. This reflects increased borrowings by government corporations and co-operative institutions who bank exclusively with Sri Lanka banks.

The increase in credit to government corporations arose from many factors. The principal among these were the increased prices of their imports, the tendency to build up stocks and the financing of current operating losses of some of the corporations. Although credit needs of other private sector customers also increased owing to the higher price of imports, the extent of their bank borrowing was of a lower order than that of the corporations. The increase in bank credit to co-operatives was mainly for the financing of purchases under the Guaranteed Price Scheme and for cultivation loans. The enhanced guaranteed price of paddy as well as the lower rate of repayment of these advances accounted for their high level. In the case of cultivation loans, the raising of the limits for these loans by commodities, extending the coverage of crops for which loans are granted and the inclusion of those who were earlier ineligible for loans on account of defaults contributed to the increase in this type of credit. As mentioned earlier, the lower rate of repayment of cultivation loans tended to raise the volume of these loans outstanding at the end of the year.

The factors that operated to increase the demand for credit by the private sector is well reflected in each category of advances. For instance the increase in cash items in the process of collection was mainly due to the increased credit needs to finance purchases under the Guaranteed Price Scheme. Although the volume of purchases of paddy by the Paddy Marketing Board was lower in 1974, the higher purchase price accounted for the increased demand for advances for this purpose. The value of import bills held by banks increased by Rs. 73.7 million and this entire increase was on account of imports by government corporations. The value of export bills held by the banks increased by Rs. 101.8 million during the year. As indicated earlier, higher prices for Sri Lanka's exports in 1974 and the extension of the period of encashment of these bills accounted for this increase. As in the previous year a further reason for the high value of export bills was the high discount rate that prevailed abroad which discouraged the commercial banks from converting these assets into cash and balances held abroad.

The total volume of loans and overdrafts increased by Rs. 149.9 million and Rs 716.5 million respectively. The increase in overdrafts was small in magnitude as well as in proportion to the total increase of both these types of advances. This was due to the ceiling on commercial bank credit that was imposed in May 1974. Had it not been for this ceiling, total advances would have increased by a larger amount,

TABLE II (E) 9

Commercial Bank Advances to the Private Sector*

Rupees Million

| | Sri Lanka Banks | | | Foreign Banks | | | All Banks | | |
|---|-----------------|--------------|-------------------------------|---------------|--------------|-------------------------------|--------------|--------------|-------------------------------|
| | Dec. 1973 | Dec. 1974 | Change Dec' 73/ Dec' 74 | Dec. 1973 | Dec. 1974 | Change Dec' 73/ Dec' 74 | Dec. 1973 | Dec. 1974 | Change Dec' 73/ Dec' 74 |
| 1. Cash items in process of collection** .. | 109.6 | 238.8 | + 129.2 | 3.1 | 4.8 | + 1.7 | 112.7 | 243.6 | + 130.9 |
| 2. Local bills | — | — | — | — | — | — | — | — | — |
| 3. Import bills | 42.1 | 119.9 | + 77.8 | 8.2 | 4.2 | — 4.0 | 50.4 | 124.1 | + 73.7 |
| 4. Export bills | 78.9 | 178.8 | + 99.9 | 123.1 | 125.0 | + 1.9 | 202.0 | 303.8 | + 101.8 |
| 5. Overdrafts | 527.0 | 784.1 | + 257.1 | 342.7 | 235.5 | —107.2 | 869.7 | 1019.6 | + 149.9 |
| 6. Loans | 1040.7 | 1724.0 | + 683.3 | 86.9 | 120.1 | + 33.2 | 1127.6 | 1844.1 | + 716.5 |
| Total | 1798.3 | 3045.6 | + 1247.3 | 564.0 | 489.6 | — 74.4 | 2362.4 | 3535.2 | + 1172.8 |

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 commodities under the Guaranteed Price Scheme.

TABLE II (E) 10

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

Amount in 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 1973 | 769.0 | 79.5 | 179.2 | 18.5 | 19.4 | 2.0 | 967.7 | 43.2 |
| March 1974 | 1,042.0 | 83.9 | 183.3 | 14.7 | 17.2 | 1.4 | 1,242.4 | 46.0 |
| June 1974 | 1,108.6 | 84.0 | 193.2 | 14.6 | 17.7 | 1.3 | 1,319.5 | 46.2 |
| September 1974 | 1,177.5 | 83.5 | 215.1 | 15.2 | 18.1 | 1.3 | 1,410.6 | 47.6 |
| December 1974 | 1,320.9 | 85.5 | 203.7 | 13.2 | 19.7 | 1.3 | 1,544.2 | 47.0 |
| B. Financial | | | | | | | | |
| December 1973 | 66.8 | 54.3 | 38.3 | 31.1 | 18.0 | 14.6 | 123.0 | 5.5 |
| March 1974 | 72.6 | 55.5 | 40.9 | 31.3 | 17.3 | 13.2 | 130.8 | 4.8 |
| June 1974 | 57.8 | 52.7 | 35.9 | 32.7 | 15.9 | 14.5 | 109.7 | 3.8 |
| September 1974 | 63.7 | 56.6 | 34.6 | 30.8 | 14.1 | 12.5 | 112.5 | 3.8 |
| December 1974 | 75.2 | 60.7 | 34.6 | 27.9 | 13.9 | 11.2 | 123.8 | 3.8 |
| C. Agricultural | | | | | | | | |
| December 1973 | 228.5 | 67.0 | 103.5 | 30.3 | 9.2 | 2.7 | 341.2 | 15.2 |
| March 1974 | 272.4 | 68.2 | 117.5 | 29.5 | 9.3 | 2.3 | 399.3 | 14.8 |
| June 1974 | 252.9 | 69.1 | 104.0 | 28.4 | 9.0 | 2.5 | 365.9 | 12.8 |
| September 1974 | 266.3 | 71.1 | 98.7 | 26.4 | 9.4 | 2.5 | 374.4 | 12.6 |
| December 1974 | 281.8 | 69.0 | 116.9 | 28.6 | 10.0 | 2.4 | 408.6 | 12.4 |
| D. Industrial | | | | | | | | |
| December 1973 | 335.1 | 64.8 | 123.5 | 23.9 | 58.0 | 11.2 | 516.7 | 23.1 |
| March 1974 | 449.5 | 75.0 | 93.2 | 15.6 | 56.4 | 9.4 | 599.1 | 22.2 |
| June 1974 | 612.0 | 81.5 | 83.2 | 11.1 | 55.7 | 7.4 | 751.0 | 26.3 |
| September 1974 | 515.0 | 72.7 | 110.0 | 15.5 | 83.6 | 11.8 | 708.7 | 23.9 |
| December 1974 | 628.4 | 74.4 | 133.1 | 15.8 | 82.9 | 9.8 | 844.4 | 25.7 |
| E. Housing | | | | | | | | |
| December 1973 | 3.7 | 4.9 | 42.8 | 56.2 | 29.7 | 39.1 | 76.1 | 3.4 |
| March 1974 | 5.1 | 5.9 | 48.0 | 55.3 | 33.6 | 38.7 | 86.8 | 3.2 |
| June 1974 | 5.8 | 6.4 | 48.8 | 53.9 | 36.0 | 39.7 | 90.6 | 3.2 |
| September 1974 | 6.2 | 6.2 | 51.6 | 51.7 | 42.1 | 42.1 | 99.9 | 3.4 |
| December 1974 | 8.2 | 7.4 | 55.1 | 49.8 | 47.3 | 42.8 | 110.6 | 3.4 |
| F. Consumption | | | | | | | | |
| December 1973 | 70.0 | 50.4 | 61.8 | 44.5 | 7.1 | 5.1 | 138.9 | 6.2 |
| March 1974 | 87.4 | 55.3 | 61.2 | 38.7 | 9.5 | 6.0 | 158.1 | 5.8 |
| June 1974 | 67.4 | 47.6 | 68.5 | 48.4 | 5.7 | 4.0 | 141.6 | 5.0 |
| September 1974 | 69.3 | 47.4 | 70.4 | 48.2 | 6.5 | 4.4 | 146.2 | 4.9 |
| December 1974 | 70.4 | 49.0 | 68.1 | 47.4 | 5.1 | 3.6 | 143.6 | 4.4 |
| G. Others | | | | | | | | |
| December 1973 | 40.0 | 52.3 | 26.4 | 34.5 | 10.1 | 13.2 | 76.5 | 3.4 |
| March 1974 | 45.0 | 52.2 | 30.9 | 35.8 | 10.3 | 12.0 | 86.2 | 3.2 |
| June 1974 | 40.7 | 51.3 | 28.9 | 36.4 | 9.8 | 12.3 | 79.4 | 2.8 |
| September 1974 | 66.1 | 58.6 | 35.2 | 31.2 | 11.5 | 10.2 | 112.8 | 3.8 |
| December 1974 | 68.3 | 60.1 | 32.9 | 28.9 | 12.5 | 11.0 | 113.7 | 3.5 |
| H. Total | | | | | | | | |
| December 1973 | 1,513.2 | 67.5 | 575.5 | 25.7 | 151.5 | 6.8 | 2,240.2 | 100.0 |
| March 1974 | 1,974.0 | 73.0 | 575.0 | 21.3 | 153.7 | 5.7 | 2,702.7 | 100.0 |
| June 1974 | 2,145.3 | 75.1 | 562.4 | 19.7 | 150.0 | 5.2 | 2,857.7 | 100.0 |
| September 1974 | 2,164.1 | 73.0 | 615.6 | 20.8 | 185.3 | 6.2 | 2,965.0 | 100.0 |
| December 1974 | 2,453.2 | 74.6 | 644.4 | 19.6 | 191.4 | 5.8 | 3,289.0 | 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 | | | | |
|-----|--|--|------------|-----------|----------------|---------------|
| | | December 1973 | March 1974 | June 1974 | September 1974 | December 1974 |
| 1. | Food Beverages & Tobacco .. | 10.8 | 10.7 | 11.9 | 86.5 | 55.7 |
| | Government Corporations .. | 1.0 | 0.5 | 0.6 | 73.3 | 42.5 |
| | Others .. | 9.8 | 10.2 | 11.3 | 13.2 | 13.2 |
| 2. | Textiles .. | 71.1 | 119.5 | 213.5 | 206.3 | 278.8 |
| | Government Corporations .. | 18.7 | 61.4 | 155.5 | 125.4 | 186.4 |
| | Others .. | 52.3 | 58.1 | 58.0 | 81.0 | 92.5 |
| 3. | Wearing Apparel & Leather Industries .. | 23.0 | 23.4 | 23.1 | 27.0 | 24.1 |
| | Government Corporations .. | 5.7 | 5.5 | 5.8 | 5.4 | 6.1 |
| | Others .. | 17.3 | 17.9 | 17.3 | 21.6 | 18.0 |
| 4. | Wood & Wood Products including Furniture .. | 11.4 | 13.1 | 8.3 | 4.0 | 8.4 |
| | Government Corporations .. | 9.5 | 10.9 | 5.2 | 1.1 | 4.8 |
| | Others .. | 1.9 | 2.2 | 3.1 | 2.9 | 3.6 |
| 5. | Paper & Paper Products .. | 19.9 | 19.4 | 34.3 | 21.0 | 39.5 |
| | Government Corporations .. | 14.3 | 13.9 | 28.1 | 13.7 | 30.9 |
| | Others .. | 5.6 | 5.5 | 6.2 | 7.3 | 8.5 |
| 6. | Rubber & Plastic Products .. | 18.3 | 19.3 | 21.2 | 18.7 | 16.9 |
| | Government Corporations .. | 2.0 | 1.7 | 4.3 | 1.7 | 1.3 |
| | Others .. | 16.3 | 17.6 | 16.9 | 17.1 | 15.7 |
| 7. | Chemicals, Petroleum & Coal .. | 34.0 | 23.2 | 48.0 | 29.7 | 80.3 |
| | Government Corporations .. | 15.6 | 1.2 | 33.0 | 16.8 | 63.2 |
| | Others .. | 18.5 | 22.0 | 15.0 | 12.9 | 17.2 |
| 8. | Non-Metallic Mineral Products except Petroleum & Coal .. | 4.4 | 8.7 | 10.0 | 11.2 | 13.3 |
| | Government Corporations .. | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| | Others .. | 4.2 | 8.4 | 9.8 | 11.2 | 13.1 |
| 9. | Basic Metal Products .. | 23.3 | 23.9 | 19.9 | 26.7 | 32.5 |
| | Government Corporations .. | 12.3 | 11.6 | 11.0 | 13.8 | 21.6 |
| | Others .. | 11.0 | 12.3 | 8.9 | 12.9 | 10.8 |
| 10. | Fabricated Metal Products, Machinery & Transport Equipment .. | 13.4 | 20.7 | 15.5 | 14.2 | 16.9 |
| | Government Corporations .. | 3.4 | 3.3 | 1.9 | — | — |
| | Others .. | 10.0 | 17.4 | 13.6 | 14.2 | 16.9 |
| 11. | Processing of Tea, Rubber & Coconut .. | 36.3 | 34.8 | 37.0 | 36.4 | 34.1 |
| | Government Corporations .. | — | 0.1 | 0.1 | 0.1 | 0.1 |
| | Others .. | 36.3 | 34.7 | 36.9 | 36.3 | 34.0 |
| 12. | Processing of Other Agricultural Commodities .. | 8.7 | 6.8 | 3.6 | 3.6 | 4.5 |
| | Government Corporations .. | 5.1 | 3.3 | — | — | — |
| | Others .. | 3.7 | 3.5 | 3.6 | 3.6 | 4.5 |
| 13. | Engineering & Building Trades .. | 60.5 | 72.4 | 87.8 | 81.0 | 81.4 |
| | Government Corporations .. | 20.0 | 19.7 | 28.2 | 30.8 | 31.7 |
| | Others .. | 40.6 | 52.7 | 59.6 | 50.2 | 49.7 |
| 14. | Mining & Fishing .. | 21.0 | 24.5 | 27.5 | 31.6 | 31.1 |
| | Government Corporations .. | 12.0 | 17.0 | 19.9 | 21.9 | 22.3 |
| | Others .. | 9.1 | 7.5 | 7.7 | 9.8 | 8.8 |
| 15. | Other Industries .. | 160.7 | 178.6 | 189.3 | 110.6 | 126.9 |
| | Government Corporations .. | 97.8 | 104.8 | 117.9 | 32.2 | 39.6 |
| | Others .. | 62.9 | 73.8 | 71.3 | 78.4 | 87.2 |
| | Total .. | 516.7 | 599.1 | 751.0 | 708.7 | 844.4 |
| | Government Corporations .. | 217.5 | 255.3 | 411.9 | 336.1 | 450.7 |
| | Others .. | 299.2 | 343.8 | 339.1 | 372.5 | 393.7 |

Source: Central Bank of Ceylon

TABLE II (E) 12
Advances* by Rate of Interest

| Rate of Interest (Per cent) | | | | 31st December 1973 | | 31st March 1974 | | 30th June 1974 | | 30th September 1974 | | 31st December 1974 | |
|--------------------------------|-----------|----|----|-----------------------|---------------|--------------------|---------------|-------------------|---------------|------------------------|---------------|-----------------------|---------------|
| | | | | 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 | .. | .. | 8.9 | 0.4 | 6.9 | 0.3 | 7.8 | 0.3 | 6.4 | 0.2 | 7.8 | 0.3 |
| | 3½ | .. | .. | 2.7 | 0.1 | 2.9 | 0.1 | 3.0 | 0.1 | 3.2 | 0.1 | 4.1 | 0.1 |
| | 4 | .. | .. | 3.5 | 0.2 | 3.0 | 0.1 | 3.3 | 0.1 | 3.3 | 0.1 | 5.0 | 0.2 |
| | 4½ | .. | .. | 7.5 | 0.4 | 7.6 | 0.3 | 2.7 | 0.1 | 3.0 | 0.1 | 2.1 | 0.1 |
| | 5 | .. | .. | 66.2 | 3.2 | 67.6 | 2.8 | 66.5 | 2.6 | 53.4 | 2.0 | 62.0 | 2.1 |
| | 5½ | .. | .. | 1.3 | 0.1 | 1.2 | ... | 0.8 | ... | 1.2 | ... | 1.0 | ... |
| | 6 | .. | .. | 28.3 | 1.4 | 31.8 | 1.3 | 27.8 | 1.1 | 25.0 | 0.9 | 24.6 | 0.8 |
| | 6½ | .. | .. | 23.8 | 1.2 | 41.4 | 1.7 | 23.1 | 0.9 | 23.2 | 0.9 | 31.7 | 1.1 |
| | 7 | .. | .. | 233.9 | 11.4 | 244.0 | 10.0 | 240.1 | 9.4 | 250.1 | 9.4 | 220.3 | 7.4 |
| | 7½ | .. | .. | 183.9 | 9.0 | 290.3 | 12.0 | 473.4 | 18.4 | 531.9 | 20.0 | 755.2 | 25.3 |
| | 8 | .. | .. | 255.0 | 12.5 | 263.7 | 10.9 | 270.6 | 10.5 | 287.4 | 10.8 | 312.3 | 10.5 |
| | 8½ | .. | .. | 359.9 | 17.6 | 390.3 | 16.1 | 367.7 | 14.3 | 351.4 | 13.2 | 376.6 | 12.6 |
| | 9 | .. | .. | 244.3 | 11.9 | 286.6 | 11.8 | 287.2 | 11.1 | 276.3 | 10.4 | 292.4 | 9.8 |
| | 9½ | .. | .. | 161.9 | 7.9 | 236.0 | 9.7 | 237.8 | 9.3 | 238.0 | 8.9 | 242.9 | 8.1 |
| | 10 | .. | .. | 157.6 | 7.7 | 184.2 | 7.6 | 193.2 | 7.5 | 217.5 | 8.2 | 239.8 | 8.0 |
| | 10½ | .. | .. | 24.5 | 1.2 | 27.9 | 1.1 | 26.8 | 1.0 | 25.5 | 1.0 | 38.0 | 1.3 |
| | 11 | .. | .. | 42.7 | 2.1 | 41.3 | 1.7 | 42.8 | 1.7 | 38.2 | 1.4 | 38.7 | 1.3 |
| | 11½ | .. | .. | 7.0 | 0.3 | 10.8 | 0.4 | 9.4 | 0.4 | 11.0 | 0.4 | 9.2 | 0.3 |
| | 12 & over | .. | .. | 233.1 | 11.4 | 290.2 | 11.9 | 282.4 | 11.0 | 318.4 | 11.9 | 322.9 | 10.8 |
| Total | | | | 2,046.1 | 100.0 | 2,427.7 | 100.0 | 2,566.2 | 100.0 | 2,664.4 | 100.0 | 2,986.8 | 100.0 |

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

Source: Central Bank of Ceylon

Table 11 (E) 13

Advances* by Type of Security

| | 31st December 1973 | | 31st March 1974 | | 30th June 1974 | | 30th September 1974 | | 31st December 1974 | |
|---|--------------------|--------------|-----------------|--------------|----------------|--------------|---------------------|--------------|--------------------|--------------|
| | 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 | 244.0 | 10.9 | 430.1 | 15.9 | 368.6 | 12.9 | 388.2 | 13.1 | 420.2 | 12.8 |
| Government Securities | 63.5 | 2.8 | 66.6 | 2.5 | 75.6 | 2.6 | 74.2 | 2.3 | 71.2 | 2.2 |
| Shares of Joint-Stock Companies | 17.9 | 0.8 | 18.2 | 0.7 | 17.8 | 0.6 | 17.0 | 0.6 | 17.1 | 0.5 |
| Time & Savings deposits and other cash deposits including cash value of life policies | 79.3 | 3.5 | 91.6 | 3.4 | 81.3 | 2.8 | 83.5 | 3.1 | 90.5 | 2.7 |
| Stock in Trade | 467.8 | 20.9 | 479.0 | 17.7 | 505.4 | 17.7 | 491.1 | 18.4 | 504.9 | 15.3 |
| Immovable Property | 217.1 | 9.7 | 215.0 | 8.0 | 230.3 | 8.1 | 243.5 | 9.1 | 257.3 | 7.8 |
| Guarantees | 315.5 | 14.1 | 346.0 | 12.8 | 337.0 | 11.8 | 360.2 | 13.5 | 393.8 | 11.9 |
| Trust Receipts | 180.3 | 8.0 | 255.9 | 9.5 | 495.3 | 17.3 | 514.0 | 19.3 | 654.3 | 19.9 |
| Hire-Purchase agreements | 21.4 | 1.0 | 19.1 | 0.7 | 22.3 | 0.8 | 24.1 | 0.9 | 23.6 | 0.7 |
| Plant and machinery | 15.0 | 0.7 | 15.6 | 0.6 | 12.9 | 0.4 | 13.9 | 0.5 | 11.1 | 0.3 |
| Tractors and Motor Vehicles | 69.2 | 3.1 | 75.5 | 2.8 | 69.9 | 2.4 | 59.0 | 2.2 | 66.9 | 2.0 |
| Pro-notes, bonds and Usance notes | 311.2 | 13.9 | 406.2 | 15.0 | 366.7 | 12.8 | 392.8 | 14.7 | 438.5 | 13.3 |
| Other Secured | 188.4 | 8.4 | 216.7 | 8.0 | 215.2 | 7.5 | 251.0 | 9.4 | 269.8 | 8.2 |
| Unsecured | 49.5 | 2.2 | 67.2 | 2.5 | 59.4 | 2.1 | 52.4 | 2.0 | 69.7 | 2.1 |
| Total | 2,240.2 | 100.0 | 2,702.7 | 100.0 | 2,857.7 | 100.0 | 2,965.0 | 100.0 | 3,289.0 | 100.0 |

Source: Central Bank of Ceylon

*Exclude cash items in process of collection

Table II (E) 10 provides data on commercial bank advances to the private sector by purpose and maturity. Excluding items in process of collection these credits increased progressively over the four quarters to record an increase amounting to Rs. 1048.8 million for the year. More than half of this increase amounting to Rs. 576.5 million had been for commercial purposes while a significant increase amounting to Rs. 327.7 million or 31.2 per cent was for industrial financing. Bank credit for purposes of housing too increased during the year but its relative share remained the same as in 1973 whereas for financial, agricultural and consumption purposes, though the amount of bank advances increased, their relative share in the total advances declined.

The maturity pattern of the advance was heavily weighted towards short term credit which accounted for 74.6 per cent of the advances to the private sector. In 1973 the corresponding share was 67.5 per cent. Consequent upon the increase in the share of short term credit, the proportion of medium and long term loans declined from 25.7 to 19.6 and 6.8 to 5.8 per cent respectively. A detailed breakdown of commercial bank advances for industrial purposes outstanding at the end of each quarter since 1973 is given in Table II (E) 11. The total advances on this basis increased by Rs. 327.7 million in 1974, of this amount 63.4 per cent or Rs. 207.7 million was claimed by the textile industry while food, beverages and tobacco and chemicals, petroleum and coal industries together accounted for 27.8 per cent or Rs. 91.2 million. Credit to most other sectors increased during the year though at a moderate rate except for wood and wood products, rubber and plastic products processing of tea, rubber and coconut and other agricultural commodities and the category of industries classified as 'other' all of which reduce the level of borrowings from commercial banks. In the distribution of increased bank credit of Rs. 327.7 million, government corporations accounted for Rs. 233.2 million or 71.2 per cent while the private sector accounted for the balance. Advances classified by rate of interest are shown in Table II (E) 12. The highest concentration of advances amounting to Rs. 755.2 million or 25 per cent of the total was at $7\frac{1}{2}$ per cent. At the end of 1973 the largest share was at $8\frac{1}{2}$ per cent. The bias towards the $7\frac{1}{2}$ per cent interest rates is evident since the second quarter of the year. During 1974 the share of loans granted below 7 per cent of interest and above 9 per cent declined from 7.0 per cent to 4.7 per cent and 30.6 per cent to 29.8 per cent respectively. On the other hand, loans granted at rates of 7 to 9 per cent increased from 62.4 to 65.6 per cent.

2 (e) Branch network

The distribution of bank offices and of deposits with commercial banks between Sri Lanka and foreign banks for the period 1964—74 is given in Table II (E) 14.

There was a substantial growth in branch expansion in 1974 when the number of commercial bank offices increased by 154 as against 99 in 1973. Out of the 154 the Bank of Ceylon accounted for 124 of the new branches of which 123 were Agricultural Service Centre offices. The total number of such branches at the end of the year thus increased to 202. The district-wise distribution of these offices is given in table II (E) 14-A. The other branch office of this bank was opened in Manipay.

TABLE II (E) 14

Distribution of Bank Offices* and Deposits 1964—1974

| Year | Total | | | Sri Lanka Banks | | | British Banks | | | Indian & Pakistani Banks | | |
|------|----------------|----------------|-----|-----------------|----------------|----|----------------|----------------|----|--------------------------|----------------|---|
| | No. of offices | Deposits | | No. of offices | Deposits | | No. of offices | Deposits | | No. of offices | Deposits | |
| | | Amount Rs. mn. | % | | Amount Rs. mn. | % | | Amount Rs. mn. | % | | Amount Rs. mn. | % |
| 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 | 3,277 | 100 | 191 | 2,707 | 82 | 9 | 471 | 14 | 4 | 99 | 3 |
| 1973 | 303 | 3,169 | 100 | 293 | 2,584 | 82 | 6 | 487 | 15 | 4 | 98 | 3 |
| 1974 | 457 | 3,555 | 100 | 449 | 3,036 | 85 | 4 | 407 | 11 | 4 | 112 | 3 |

Note: The reduction in the number of British banks in 1969, 1970, 1973 and 1974 was on account of:-

1. The conversion of the Eastern Bank Ltd., into a Ceylonese bank in 1969.
2. Reconstruction of the Hatton Bank and two branches of the National & 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.
4. The Hatton National Bank's taking over of the Assets and Liabilities of Mercantile Bank Ltd. with effect from 1st April, 1974. Consequently two offices of the Mercantile Bank were vested with Hatton National Bank.

* Exclude Kachcheri branches opened in 1971 and 1972.

The People's Bank opened 22 new branch offices compared with 11 during the previous year, bringing the total number of its offices to 153. The 22 new offices were at Akurana, Alawwa, Buttala, Dambulla, Deniyaya, Dickwella, Diyatalawai, Hasalaka, Hettiploa, Hikkaduwa, Kamburupitiya, Kebitigollewa, Kochchikade, Makandura, Matara, Naula, Nuwara Eliya, Panadura, Pettah, Suduwella, Velvettiturai and Wellawatta.

The Hatton National Bank increased the number of its offices to 22 of which eight were opened in 1974. These were in Badulla, Galle, Kahawatta, Kebitigollewa, Kurunegala, Trincomalee and two branches in Colombo—Queen Street and Pettah. The two in Colombo were in fact the offices of the Mercantile Bank taken over by the Hatton National Bank. This was also the reason for the reduction in the number of British banks from six to four.

The Commercial Bank of Ceylon increased the number of its offices to nine when they opened two new branch offices in Kollupitiya and Wellawatta during the course of the year under review.

TABLE II (E) 14—A

The Distribution of Agricultural Service Centre Branches of the Bank of Ceylon

| District | Opened during the year 1974 | Total |
|------------------|-----------------------------|-------|
| 1. Amparai | 2 | 2 |
| 2. Anuradhapura | 13 | 32 |
| 3. Badulla | 3 | 3 |
| 4. Batticaloa | 3 | 3 |
| 5. Colombo | 7 | 11 |
| 6. Galle | 13 | 19 |
| 7. Hambantota | 1 | 5 |
| 8. Jaffna | 9 | 9 |
| 9. Kalutara | 9 | 11 |
| 10. Kandy | 11 | 23 |
| 11. Kegalle | — | 7 |
| 12. Kurunegala | 15 | 21 |
| 13. Mannar | 3 | 3 |
| 14. Matale | 8 | 17 |
| 15. Matara | 6 | 7 |
| 16. Moneragala | 4 | 6 |
| 17. Nuwara Eliya | 1 | 2 |
| 18. Polonnaruwa | 6 | 8 |
| 19. Puttalam | 2 | 3 |
| 20. Ratnapura | 2 | 3 |
| 21. Trincomalee | 3 | 5 |
| 22. Vavuniya | 2 | 2 |
| Total | 123 | 202 |

Source: Central Bank of Ceylon.

A marked expansion in the branch network of the National Savings Bank also took place in 1974. The number of its offices opened during the year amounted to

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

Rs. Thousand

| | 1970 | | 1971 | | 1972 | | 1973 | | 1974 | |
|--|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|
| | Loans granted | Amounts out-standing | Loans granted | Amounts out-standing | Loans granted | Amounts out-standing | Loans granted | Amounts out-standing | Loans granted | Amounts out-standing |
| 1. Development Finance Corporation (a) .. | 27,082 | 70,920 | 6,439 | 71,422 | 2,832 | 66,168 | 13,593 | 71,088 | 13,605 | 73,627 |
| 2. Cylon Savings Bank (b) .. | 4,563 | 22,803 | 3,082 | 23,517 | 3,848 | 24,698 | 4,285 | 25,990 | 7,247 | 29,640 |
| 3. Agricultural & Industrial Credit Corporation .. | 4,719 | 31,552 | 3,296 | 31,108 | 1,751 | 29,839 | 1,049 | 28,295 | 1,927 | 27,789 |
| 4. State Mortgage Bank .. | 9,456 | 66,995 | 6,900 | 68,757 | 4,202* | 69,113 | 6,393 | 70,541 | 7,966 | 70,002 |
| 5. Loan Board .. | 2,459 | 11,858 | 1,926 | 12,570 | 1,351 | 12,825 | 1,755 | 13,494 | 1,503 | 13,633 |
| 6. National Housing Dept. (c) .. | 15,056 | 127,386 | 12,370 | 131,667 | 12,616 | 133,440 | 12,423 | 140,310 | 28,373 | 160,589 |
| Total .. | 63,335 | 331,514 | 34,013 | 339,041 | 26,600 | 336,083 | 39,498 | 349,718 | 60,621 | 375,280 |

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. From 1973 the financial year was put on a calendar year basis.

13 making a total of 19 offices. These 13 were established in Ambalantota, Chilaw, Hingurakgoda, Kalutara, Kandy, Kegalle, Kekirawa, Kilinochchi, Kuliapitiya, Kurunagala, Matale, Negombo and Ratnapura.

The total deposits with commercial banks increased by Rs. 386.0 million or 12.2 per cent during the year. Of this, 85 per cent was held with Sri Lanka banks as against 82 per cent in 1973. In the composition of deposits the demand deposit holdings of Sri Lanka banks increased from 81.5 per cent to 84.1 per cent while time and savings deposits increased more from 81.5 per cent to 86.8 per cent. In all these changes the British banks recorded a corresponding decline in their deposit holdings while the Indian and Pakistani banks continued to maintain their share. The rapid expansion in the Sri Lanka banks in 1974 is the main reason for the sharp increase in their deposits. The reduction in the number of offices of the British banks—where two offices of the Mercantile Bank were taken over by the Hatton National Bank—is largely responsible for the fall in the share of deposits held by them.

3. Savings and Long term Credit Institutions

Statistics of lending operations of state sponsored savings and lending institutions are provided in table II (E) 15. Lending by these institutions recorded a marked increase in 1974 amounting to Rs. 21.1 million. The department of National Housing which increased its lendings by Rs. 16.0 million accounts for a major proportion of the rise. It may be noted that as shown earlier in table II (E) 10 lending by commercial banks for purposes of housing also increased significantly in 1974. Loans granted by the National Savings Bank also increased considerably during the year from Rs. 4.3 million to Rs. 7.2 million. The lendings of the Development Finance Corporation, the Agricultural and Industrial Credit Corporation and the State Mortgage Bank were also higher during the year though to a lesser extent. There was a marginal decline in the loans of the Loan Board.

TABLE II (E) 16

Savings Deposits and Savings Certificates

| | December 1972 | December 1973 | December 1974 | Rupees Million | |
|--|------------------|------------------|------------------|-------------------|----------|
| | | | | Change 1972/73 | 1973/74 |
| National Savings Bank (1) (2) | 966.6* | 1,146.9* | 1,341.5* | + 180.3* | + 194.6 |
| Commercial banks (time and savings deposits) (3) | 1,525.0** | 1,411.8 | 1,660.8 | -113.2** | + 249.0 |
| National Savings Bank Savings Certificates (2) | 65.2 | 98.0 | 106.9 | + 32.8 | + 8.9 |
| Total | 2,556.8* | 2,656.7* | 3,109.2* | + 99.9* | + 452.5* |

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) Includes government deposits.

* These figures are subject to revision.

** End December 1972 figures are distorted owing to the strike by employees of the commercial banks.

Table II (E) 16 summarises the movements in savings deposits and savings certificates between the years 1972—74.

A remarkable increase in savings deposits and savings certificates amounting to Rs. 452.5 million took place in 1974. This is the largest increase recorded in recent years. A noteworthy feature of the change is the sharp rise in the time and savings deposits of commercial banks by Rs. 249.0 million. The growth in economic activity in the rural sector stemming from the higher market prices for their products and the ability of the commercial banks to mobilise these new savings through an expanded net work of branches would explain this increase in deposits.

The National Savings Bank too more than doubled the number of its branch offices in 1974 and continued to offer additional incentives to attract savings. As a consequence, this institution was able to enhance the level of deposits by Rs. 194.6 million. Its savings certificates too recorded a modest increase during the year.

The total contributions received by Employees' Provident Fund amounted to Rs. 208.9 million in 1974 compared to Rs. 188.3 million in 1973.

4. Hire Purchase Finance Companies

The operations and sources of finance of hire purchase companies are shown in Table II (E) 17 and II (E) 18.

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

| | As at 31st Dec. 1973 | As at 31st March 1974 | As at 30th June 1974 | As at 30th Sept. 1974 | As at 31st Dec. 1974 |
|---------------------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| 1. Deposits .. | 104.0 | 116.8 | 114.6 | 110.1 | 105.0 |
| 2. Hire-purchase business outstanding | 86.7 | 93.7 | 84.5 | 84.0 | 74.9 |
| 3. Loans outstanding .. | 22.3 | 24.8 | 23.2 | 21.7 | 19.8 |

Source: Central Bank of Ceylon.

* Provisional.

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

| | As at 31st Dec. 1973 | As at 31st March 1974 | As at 30th June 1974 | As at 30th Sept. 1974 | As at 31st Dec. 1974 |
|-------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| 1. Capital Accounts .. | 17.4 | 18.0 | 18.6 | 17.4 | 15.9 |
| 2. Deposits .. | 62.9 | 62.6 | 62.4 | 63.7 | 63.5 |
| 3. Borrowings .. | 13.6 | 11.4 | 11.7 | 11.3 | 14.2 |
| 4. Other liabilities .. | 6.1 | 8.0 | 7.2 | 7.5 | 6.4 |
| Total .. | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Ceylon

* Provisional

5. Central Banking

The assets and liabilities of the Central Bank increased by Rs. 410.1 million or 8.8 per cent in 1974¹. The largest single factor that contributed to the increase in assets was loans given to commercial banks which showed a marked increase of Rs. 446.5 million. The unprecedented scale of demand for commercial bank credit mainly by government corporations compelled these banks to seek increased Central Bank accommodation. The Central Bank's provisional advances to the government also contributed to the growth in domestic assets. But this amounted to Rs. 39.1 million which was marginally above the increase that took place in 1973. Besides provisional advances, government and government guaranteed securities also rose by Rs. 55.6 million. An otherwise sharp expansion in the assets from these three factors was moderated to some extent by the decline in other domestic assets and accounts amounting to Rs. 75.4 million. It was further reduced by the decline in the international reserve of the Central Bank by Rs. 60.4 million. As in the past, the change in the cash and balances abroad accounted for the entire decline in the international reserve while holdings of Special Drawing Rights increased by Rs. 6.1 million to Rs. 86.0 million. The higher level of holdings of SDR's arose from the need to meet the reconstitution requirements as laid down by the International Monetary Fund where 30 per cent of daily average allocation of SDR's has to be maintained unused and partly, from the change in the exchange value of the Sri Lanka Rupee arising from frequent realignments that took place during 1974.

On the liabilities side, the higher volume of deposits held and the increase in the currency issue accounted for a major proportion of the change. The main contributory factor for the rise in deposits was the net increase in drawings from the International Monetary Fund which accounted for Rs. 164.2 million of the increase. These were mostly drawings under the newly established 'Oil Facility'. Apart from the increase in deposits of international organisations and foreign governments totalling Rs. 201.6 million the deposits of the government and those classified under the 'Other' category increased by Rs. 40.0 million. On the other hand the change in the volume of deposits held by the commercial banks and government agencies and institutions together accounted for a decline of Rs. 78.2 million. The net result of all these changes was an increase in deposits held by the Central Bank amounting to Rs. 163.4 million. The currency issue of the Central Bank also increased by Rs. 176.0 million compared with Rs. 203.3 million in 1973. The rest of the expansion in liabilities is accounted for by the growth in other liabilities by Rs. 53.0 million, borrowings from abroad amounting to Rs. 16.7 million together with a Rs. 1 million rise in the capital accounts.

Refinance loans granted under the Medium and Long term Credit Fund of the Central Bank amounted to Rs. 8.9 million as against Rs. 12.1 million in 1973. Out of this, loans under the Tea Factory Modernisation Project amounted to Rs. 5.9 million while loans for industrial and agricultural purposes were Rs. 0.95 million and Rs. 50,000 respectively. Almost the entire amount granted under the Tea Factory Modernisation project was to commercial banks while all the loans for industrial and agricultural purposes were granted to the Development Finance Corporation and the State Mortgage Bank respectively. The total loans granted to these two institutions amounted Rs 3.1 million of which Rs. 2.9 million was to the Development Finance Corporation.

¹ See appendix III table 18

During the early part of the year the Central Bank continued to rely on the major instruments of monetary policy which had been in use in the preceding year and before. These included a Bank rate of $6\frac{1}{2}$ per cent, minimum reserve requirement ratios of 12 per cent against demand deposits, five per cent against time and savings deposits, in addition to special reserve ratios of 28—38 per cent on any increments in demand deposits. The commercial banks had also been restrained from increasing credit for non-essential purposes.

Despite these credit restrictions a situation developed in the early part of the year where a substantial expansion of commercial bank lending became nevertheless necessary for financing the credit needs of government corporations as well as for seasonal production purposes. The Central Bank, accordingly, had to provide the commercial banks with substantially large volume of funds at the prevailing Bank rate. At the same time the need to restrict an excessive growth in credit and money supply was increasingly realised. The Central Bank accordingly imposed a ceiling on commercial bank credit on 24th May 1974. The banks were requested not to exceed their volume of lending over the level prevailing on 24th May 1974 and not to lend for purposes other than for production needs and export financing. The ceiling was still in force by the end of the year.