

(C.) MONETARY AND BANKING DEVELOPMENTS**1. (a) Money Supply**

The money supply at the end of December, 1967, at Rs. 1,807.6 million, was Rs. 148.7 million, or 9 per cent, higher than its level a year before. However, the average monthly level of money supply in 1967, at Rs. 1,732.3 million, was only 2.7 per cent higher than that in the previous year, when it was Rs. 1,686.3 million. This compares with the position during 1966 when the average monthly level of money supply was 2.2 per cent above that of the previous year.

The increase in money supply did not occur at a uniform pace during the year under review. As can be seen from Table II (C) 1, in the month of January, there was a continuation of the sharp declining trend of money supply characteristic of the last five months of the previous year. In February and March, there was an abnormal expansion of money supply mainly as a result of a strike of employees of commercial banks. With the normalisation of banking services following the end of the strike, the money supply started declining in the month of April. By the end of August, the money supply had dropped to a level which was only slightly higher than that at the beginning of the year. The last four months of the year, however, were marked by a substantial increase in money supply amounting to a monthly average of Rs. 32.5 million in contrast to the sharp decline in money supply recorded in the corresponding period of the previous year. This divergence in the experience of the two years was the result of the large expansionary effect of Government's fiscal operations in the last four months of 1967 in contrast to the heavy contractionary effect of declining external banking assets in the corresponding period of 1966.

The difference in the course of money supply between the two years 1966 and 1967 was reflected in a change in the relative weights of the expansionary and contractionary factors affecting the volume of money in the hands of the public. While the country's balance of international payments continued to be unfavourable, its contractionary influence on money supply in 1967 was less than half of that in 1966. Government's fiscal operations, however, exerted a larger expansionary impact on money supply in 1967 than in the previous year. The financial operations of the private sector with the banking system produced a small net contractionary effect on money supply compared to a substantial expansionary effect in 1966.

1. (b) Factors affecting money supply¹

An analysis of the causal factors affecting money supply is presented in Table II (C) 2. It can be observed that, of the operations of the three major economic sectors shown in this table, it was the operations of the Government sector that were solely responsible for the monetary expansion in the year under review. The magnitude of the expansionary impact of Government's fiscal operations was in fact larger than the net increase in money supply. This sizeable expansionary impact was softened by the contractionary influences emanating from the external sector and, to a smaller extent, from the private sector.

It has been mentioned in earlier Annual Reports that the continuing expansionary effect of Government finance of the last few years was reduced in 1965, by confining the financing of the Government's cash deficit in that year largely to non-inflationary sources. In 1966, although the amount of Government borrowing from non-bank sources remained high, the Government's cash deficit increased

¹ The analysis which follows is based on the changes as between end of 1966 and end of 1967 figures.

TABLE II (C) I

The Money Supply

Amounts in Rupees Million

End of Period	1962	1963	1964	1965	1966	1967	% Change (1963 over 1962)	% Change (1964 over 1963)	% Change (1965 over 1964)	% Change (1966 over 1965)	% Change (1967 over 1966)
January ...	1,426	1,347	1,468	1,615	1,693	1,598	— 5.5	+ 9.0	+10.0	+ 4.8	— 5.6
February ...	1,561	1,369	1,501	1,582	1,674	1,687	—12.3	+ 9.6	+ 5.4	+ 5.8	+ 0.8
March ...	1,635	1,385	1,505	1,585	1,666	1,817	—15.3	+ 8.7	+ 5.3	+ 5.1	+ 9.1
April ...	1,448	1,400	1,534	1,601	1,675	1,781	— 3.3	+ 9.6	+ 4.4	+ 4.6	+ 6.3
May ...	1,317	1,431	1,547	1,645	1,698	1,723	+ 8.6	+ 8.1	+ 6.3	+ 3.2	+ 1.5
June ...	1,298	1,448	1,550	1,650	1,692	1,731	+11.5	+ 7.0	+ 6.4	+ 2.5	+ 2.3
July ...	1,277	1,447	1,543	1,693	1,757	1,718	+13.3	+ 6.6	+ 9.7	+ 3.8	— 2.2
August ...	1,270	1,474	1,529	1,674	1,702	1,678	+16.1	+ 3.7	+ 9.5	+ 1.7	— 1.4
September ...	1,294	1,499	1,549	1,675	1,681	1,700	+15.8	+ 3.3	+ 8.1	+ 0.4	+ 1.1
October ...	1,317	1,505	1,592	1,687	1,682	1,761	+14.3	+ 5.8	+ 6.0	— 0.3	+ 4.7
November ...	1,307	1,533	1,603	1,677	1,655	1,787	+17.3	+ 4.6	+ 4.6	— 1.3	+ 8.0
December ...	1,343	1,506	1,622	1,716	1,659	1,808	+12.2	+ 7.7	+ 5.8	— 3.3	+ 9.0
Monthly average ...	1,374	1,445	1,545	1,650	1,686	1,732	+ 5.2	+ 6.9	+ 6.8	+ 2.2	+ 2.7

Source : Central Bank of Ceylon.

TABLE II (C) 2
Changes in the Money Supply

Rupees Million											
Factors affecting Money Supply											
1961 to 1962		1962 to 1963		1963 to 1964 [§]		1964 to 1965 [§]		1965 to 1966 [§]		1966 to 1967	
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)	—	91.1	—	53.2	16.9*	—	79.8†	—	196.3	—	91.5
2. Private sector††	42.2	50.9	132.3	63.4	82.6	57.1	19.2	75.4	137.2	79.6	133.1
(a) Commercial bank credit to other private sector constituents [§]	42.2	—	124.2	—	82.6	—	10.0	—	33.5	—	85.1
(b) Commercial bank credit to Co-operative Institutions	—	—	—	—	—	—	—	6.9	25.8	—	7.3
(c) Time and Savings deposits of Co-operative Institutions	—	—	—	—	—	—	—	2.1	—	2.3	1.4
(d) Time and Savings deposits of other private sector constituents	—	50.2	—	63.4	—	52.2	—	46.2	—	65.3	49.5
(e) Other liabilities and accounts (net) of commercial banks	—	0.7	8.1	—	4.9	—	20.2	—	12.0	—	31.0
Government corporations	—	—	—	—	—	—	—	—	—	—	—
(f) Commercial bank credit to Government Corporations	—	—	—	—	—	7.8	—	27.7	—	11.4	—
(g) Time and Savings deposits of Government Corporations with commercial banks	—	—	—	—	—	—	1.4	—	50.2	—	51.2
3. Government Sector	250.2	94.7	166.9	19.0	133.6	58.0	120.3	53.2	207.5	125.5	269.6
(a) Commercial banks' holdings of Treasury bills, Government and Government guaranteed Securities and Government Import Bills	71.3	—	20.4	—	3.6	—	92.3	—	—	62.6	77.1
(b) Central Bank's holdings of Treasury Bills and Government and Government Guaranteed Securities	175.9	—	139.5	—	123.2	—	—	38.7	155.9	—	109.9
(c) Central Bank's advances	3.0	—	7.0	—	6.8	—	28.0	—	26.4	—	12.7
(d) Central Bank's other liabilities and accounts (net)	—	18.6	—	10.7	—	54.8**	—	4.5	25.2	—	13.9
(e) Government deposits with banking system and cash balances with the Treasury and Kachcheries	—	76.1	—	8.3	—	3.2	—	10.0	—	62.9	56.0
4. Adjustments for items in transit	—	1.7	—	0.2	—	2.3	3.2	—	—	0.1	0.1
Total Expansionary/Contractionary factors	292.4	238.4	299.2	135.8	233.1	117.4	222.5	128.6	344.7	401.5	373.4
Change in Money Supply	...	...	...	...	...	...	...	...	...	...	...
	+54.0	+163.3	+115.8	+93.8	—56.8	+148.7					

Source: Central bank of Ceylon

*Includes foreign assets with a face value of Rs. 53.3 million purchased by the Central Bank from government institutions in February, 1964. When allowance is made for this transaction net external banking assets actually declined by Rs. 36.4 million during the year.

†Includes foreign assets with a face value of Rs. 30.1 million purchased by the Central Bank from government institutions in May, 1965. When allowance is made for this transaction net external banking assets reflect an increase of Rs. 49.6 million. The payment to government institutions, was made in rupees and it exerted a direct expansionary effect on the money supply.

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

§Data in respect of Co-operative institutions and government corporations are available separately only from the period 1964/65. These data for earlier periods are included under 'other private sector constituents'.

**Rs. 53.3 million of the increase in Central Bank liabilities to government institutions represents the issue of Central Bank's securities of equal value to government institutions. However, there was no net creation of money on this account.

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

considerably and fresh recourse to borrowing from the banking system was resorted to. The same tendency continued to manifest itself in the year 1967 too. An expansion of credit from the banking system was necessary to meet the expanding financial needs of the Government. In addition, there was a substantial utilisation of Government's cash balances. The financial needs of the Government was in part due to building up of food stocks.

Whereas in the previous year the increase in Government's borrowing from the banking system took the form of an increase in indebtedness to the Central Bank, offset in part by a reduction in indebtedness to the commercial banks, in the year 1967 there were increases of substantial amounts in indebtedness to both the Central Bank and the commercial banks. The Central Bank's holdings of government and government-guaranteed securities rose by Rs. 109.9 million and its advances to the Government increased by Rs. 12.7 million. A fall of Rs. 62.3 million in commercial banks' holdings of government and government guaranteed securities was more than offset by an increase of Rs. 139.5 million in their holdings of Government import bills. Government's cash balances, arising mostly out of credits to counterpart funds, were drawn down by Rs. 56.0 million in 1967. The Central Bank's 'other liabilities and accounts' also declined by Rs. 13.9 million, mainly owing to the retirement of Central Bank's securities. Thus, the total expansionary effect on money supply attributable to the Government sector amounted to Rs. 269.6 million.

The increase in gross commercial bank credit to the private sector in 1967 was higher than that recorded for the previous year. Credit to co-operative institutions increased by Rs. 7.3 million as compared to an increase of Rs. 25.8 million in 1966. The smaller increase in 1967 in this item was the result of two opposing tendencies: while the outstanding amount of goods receipt advances declined by Rs. 35.5 million as a result of a fall in purchases of paddy under the Guaranteed Price Scheme, other credit to co-operative societies rose by Rs. 42.9 million mainly under the new scheme of agricultural credit which came into operation with the 1967 Maha cultivation season. The outstanding amount of credit to Government Corporations rose by Rs. 11.4 million in the year; this was a much smaller increase than in 1966. Bank credit to other private sector constituents increased by Rs. 85.1 million in 1967.

The total increase in outstanding bank credit to the private sector (including co-operative societies and Government Corporations) was Rs. 103.8 million. The expansionary effect on money supply of this increase in credit was more than offset by an accumulation of Rs. 102.1 million in time and savings deposits of the private sector with the commercial banks and an increase of Rs. 31.0 million in 'other liabilities and accounts' of the commercial banks. Of the increase in time and savings deposits, Rs. 51.2 million were accounted for by Government Corporations, Rs. 1.4 million by co-operative institutions and Rs. 49.5 million by other private sector constituents. On balance, therefore, the private sector's operations with the banking system produced a net contractionary effect of Rs. 29.3 million on money supply.

Associated with a current account deficit of Rs. 329 million in the country's balance of payments there was a deterioration of Rs. 91.5 million in the external assets and liabilities of the banking system. The international reserve of the Central Bank rose only by Rs. 117.4 million. Drawings (net of repurchases) and payments of charges increased the outstanding deposits of the International Monetary Fund by Rs. 109.2 million. The increase in external liabilities of the Central Bank arising from borrowings from banks abroad amounted to Rs. 57.1 million. There was a further increase of Rs. 49.7 million in other external liabilities of the Central Bank mainly on account of balances due from Ceylon under bilateral payments agreements. The increase in external assets of the commercial banks was only Rs. 7.4 million.

The contractionary effect of the external sector on money supply at Rs. 91.5 million was less than half that for 1966 when it amounted to Rs. 196.3 million. On the other hand, the Government sector's operations produced an expansionary effect which was more than three times that for the previous year ; at Rs. 269.6 million it was the highest figure recorded for any calendar year since 1959. This was largely the result of purchases of large quantities of food by Government. Stocks of rice and flour went up by 37,500 tons and 76,300 tons, respectively, in 1967. The private sector's operations resulted in a contractionary effect of Rs. 29.3 million on money supply in contrast to the expansionary effect in a number of years previously. The net result of these diverse influences was an expansion of Rs. 148.7 million in money supply in 1967.

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

Apart from the expansion of Rs. 148.7 million in the money supply—which constitutes the primary liquid assets of the public—there was an increase of Rs. 191.5 million in secondary liquid assets. Thus, total liquid assets of the public increased by Rs. 340.2 million in 1967, as compared to an increase of Rs. 108.6 million in the previous year. The expansion in secondary liquid assets took mainly the form of an increase in time and savings deposits with the commercial banks and an increase in holdings of Government bonds and savings certificates. The distribution of primary and secondary liquid assets of the public as at the end of each of the years 1965-1967 is shown in Table II (C) 3.

As between the two types of primary liquid assets—currency and demand deposits—the growing preference of the public to hold currency in recent years continued to manifest itself in 1967 too. The proportion of the money supply held in the form of currency at the end of every month was higher than that for the corresponding month of the previous year. The end-of-month holdings of currency in 1967 were, on the average, 53.2 per cent of money supply, as compared to 51.8 per cent in 1966. In February, when there was a strike of bank employees, this proportion, at 54 per cent, was higher than the average for the year ; in September and December it moved up, due to seasonal factors, to 54.4 per cent and 54.2 per cent, respectively. Table II (C) 4 shows the composition of money supply as at the end of every year since 1954.

It can be seen from this table that from the year 1957 there has been an increasing preference on the part of the public to hold currency as against demand deposits. From 35.6 per cent at the end of 1956, the proportion of currency to money supply rose to 55.0 per cent at the end of 1963. There was a noticeable abatement in this tendency in the next two years, with the proportion of currency to money supply declining to 52.5 per cent at the end of 1965. In 1966 and 1967, however, it moved up again, and at the end of the latter year it was only slightly below the peak level reached at the end of 1963.

While the proportion of demand deposits to the money supply recorded a decline during the year, the absolute level of demand deposits recorded a small increase during the year. The monthly average of demand deposits in 1967 was Rs. 806.9 million as compared to Rs. 805.7 million in 1966. The rate of turnover of demand deposits, however, registered a slight decrease during the year. There was a particularly marked decline in this rate in the months of February and March on account of the bank strike. In the latter half of the year the turnover rate rose to very nearly the same level as in the corresponding period of the previous year. The average monthly rate of turnover of demand deposits in 1967 was 1.60 as compared to 1.64 in 1966.

TABLE II (C) 3

Total Liquid Assets of the Non-bank Private Sector

Description	Amount (Rupees Million)			Percentage of G.N.P. (a)		
	1965	1966 (b)	1967	1965 (b)	1966 (b)	1967
1. Primary Liquid Assets						
(a) Notes and coins ...	901.4	882.5	979.9	12.2	11.6	12.3
(b) Demand deposits ...	814.3	776.4	827.7	11.0	10.2	10.4
Total ...	1,715.7	1,658.9	1,807.6	23.2	21.9	22.7
Percentage change ...		-3.3	+9.0			
2. Secondary Liquid Assets						
(a) Savings deposits with commercial banks ...	223.6	243.3	271.7	3.0	3.2	3.4
(b) Savings deposits with Post Office Savings Bank ...	427.1	438.4	439.9*	5.8	5.8	5.5
(c) Savings deposits with Ceylon Savings Bank ...	86.6	91.2	90.5*	1.2	1.2	1.1
(d) Time deposits with commercial banks ...	343.5	341.2	414.9	4.7	4.5	5.2
(e) Foreign balances of residents ...	11.5	7.3	9.6*	0.2	0.1	0.1
(f) Savings certificates ...	41.8	56.5	78.7	0.6	0.7	1.0
(g) Treasury bills ...	4.8	13.5	6.2	0.1	0.2	0.1
(h) Tax reserve certificates ...	36.1	30.0	24.1	0.5	0.4	0.3
(i) Government bonds ...	586.7	705.7	783.0	7.9	9.3	9.8
Total ...	1,761.7	1,927.1	2,118.6*	23.9	25.4	26.6
Percentage change ...		+9.4	+9.9			
3. Total Private Sector Liquid Assets ...	3,477.4	3,586.0	3,926.2*	47.1	47.3	49.3
Percentage change ...		+3.1	+9.5			
Not included above are holdings of Treasury bills and Government bonds by Government financial institutions e.g. Post Office Savings Bank, Ceylon Savings Bank, Employees' Provident Fund, etc. ...	1,229.9	1,447.9	1,639.6	16.7	19.1	20.6

(a) At current factor cost prices.

Source : Central Bank of Ceylon.

* Provisional.

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

Along with the growing preference on the part of the public to hold primary liquid assets in the form of currency, there has been an increasing tendency to hold the larger denominations of currency notes, especially those of Rs. 100/- and Rs. 50/-. Table II (C) 5 gives the composition of currency issue as at the end of every year since 1954.

Of the total increase of Rs. 79.1 million in the currency issue in 1967 currency notes of the Rs. 100/- denomination accounted for Rs. 44.2 million and those of the Rs. 50/- denomination for Rs. 20.2 million. In the previous year when the total currency issue fell by Rs. 9.1 million, holdings of Rs. 100/- notes recorded an increase of Rs. 32.1 million. In the period 1958-1965, when there was a continuous increase each year in the currency issue, notes of the Rs. 100/- and Rs. 50/- denominations increased faster than the total. Over the ten-year period commencing 1958, the proportion of Rs. 100/- and Rs. 50/- notes in the total currency issue increased from 52.1 per cent to 58.7 per cent.

When the bank debits tax was in operation it was felt that it might have inhibited the growth of deposits with banks and thereby contributed to the downward trend in the deposit component of money supply. A reversal of this trend, however, did not take place with the withdrawal of the bank debits tax in 1965. Furthermore, there was no discernible increase in the rate of turnover of demand deposits consequent on the withdrawal of this tax. The continuing fall in the ratio of demand deposits to money supply and the rising tendency to hold currency notes of the larger denominations point to the prevalence of hoarding and, possibly, tax evasion.

An examination of the ownership pattern of demand deposits reveals that there was a reduction in the proportion of total demand deposits held by individuals and non-business institutions. A classification according to broad ownership categories of demand deposits (and also of time and savings deposits) with commercial banks, obtained from the Central Bank's Survey of Deposits and Advances, is presented in Table II (C) 6. It can be observed from this table that the increase in demand deposits has been concentrated in the business sector.

The demand deposits of financial institutions with banks rose by Rs. 5.8 million in 1967, reflecting in part, the increase in activity of finance companies. The demand deposits of plantations, on the other hand, fell by Rs. 5.5 million due to the depressed conditions in the export sector. The decline of Rs. 6.7 million in the demand deposits of trading institutions was probably a reflection of their increased tendency to hold time deposits. The proportion of demand deposits of the trading sector to total demand deposits decreased from 23.0 per cent at the end of 1966 to 20.4 per cent at the end of 1967. The increase of Rs. 72.4 million in the demand deposits of other business institutions was higher than the increase in total demand deposits. Thus their share of total demand deposits increased from 11.3 per cent to 19.5 per cent in the year. A certain portion of the increase in deposits in this category may be due to the increase in balances of manufacturing firms whose level of activity was higher during the year. It also represents, in part, an increase in balances of Government corporations.

Non-business institutions experienced a fall in demand deposits by Rs. 12.6 million in 1967 while there was no compensatory increase in their time or savings deposits. This was the only category, besides plantations, in which there was a fall in deposits with banks. The proportion of demand deposits in this category to total demand deposits fell from 7.6 per cent to 5.4 per cent during the year. The increase in demand deposits of individuals amounted to only Rs. 7.2 million, while their share in total demand deposits decreased from 40.7 per cent to 38.5 per cent.

TABLE II (C) 4

Components of the Money Supply

					Rupees Million
End of Period	Currency held by Public		Demand deposits held by Public		Total Money Supply
	Amount	As % of Total Money Supply	Amount	As % of Total Money Supply	
1954	341.8	35.7	615.3	64.3	957.1
1955	384.5	35.8	688.4	64.2	1,072.9
1956	401.1	35.6	725.7	64.4	1,126.8
1957	434.9	41.8	605.2	58.2	1,040.1
1958	529.8	49.2	546.9	50.8	1,076.8
1959	565.0	48.0	612.7	52.0	1,177.7
1960	595.3	49.2	613.6	50.8	1,208.9
1961	692.2	53.8	596.4	46.2	1,288.6
1962	712.6	53.1	630.0	46.9	1,342.7
1963	828.4	55.0	677.7	45.0	1,506.0
1964	853.0	52.6	768.8	47.4	1,621.8
1965	901.4	52.5	814.3	47.5	1,715.7
1966	882.5	53.2	776.4	46.8	1,658.9
1967	979.9	54.2	827.7	45.8	1,807.6

Source : Central Bank of Ceylon.

TABLE II (C) 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*
1954	...	...	...	97.6	73.1	134.9	25.3	376.2
1955	...	...	...	113.7	88.0	145.7	28.2	425.0
1956	...	...	...	114.9	97.7	148.0	30.0	443.4
1957	...	...	...	116.5	116.7	155.8	29.9	475.1
1958	...	...	...	157.5	143.6	184.0	33.7	578.3
1959	...	...	...	174.5	152.1	193.5	36.2	621.3
1960	...	...	...	148.4	148.4	237.6	40.1	644.6
1961	...	...	...	211.9	180.3	254.6	42.1	763.8
1962	...	...	...	238.2	186.8	241.9	42.8	789.4
1963	...	...	...	275.3	236.7	257.6	46.5	900.9
1964	...	...	...	168.4	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

Source : Central Bank of Ceylon.

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

TABLE II (C) 6

Ownership of Demand, Time and Savings Deposits

with Commercial Banks

(as at end of period)

Amount in Rupees Million

Owner	Demand		Time		Savings		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Financial Institutions								
December, 1965 ...	45.4	5.9	69.0	21.3	7.7	3.4	122.1	9.3
December, 1966 ...	45.0	6.1	55.3	17.5	9.7	4.0	110.0	8.5
December, 1967 ...	50.8	6.4	66.7	17.1	12.1	4.4	129.5	8.9
Plantations								
December, 1965 ...	78.2	10.2	34.6	10.7	0.3	0.1	113.0	8.6
December, 1966 ...	59.7	8.1	38.8	12.3	...	...	98.5	7.6
December, 1967 ...	54.2	6.8	34.3	8.8	0.2	0.1	88.7	6.1
Trading								
December, 1965 ...	158.8	20.7	54.2	16.7	3.2	1.4	216.2	16.5
December, 1966 ...	168.9	23.0	51.0	16.1	4.0	1.6	223.9	17.3
December, 1967 ...	162.2	20.4	83.7	21.5	3.8	1.4	249.6	17.1
Other Business								
December, 1965 ...	104.5	13.7	46.5	14.3	2.4	1.1	153.4	11.7
December, 1966 ...	82.6	11.3	32.6	10.3	2.8	1.1	118.0	9.1
December, 1967 ...	155.0	19.5	49.6	12.8	3.2	1.2	207.7	14.2
Local Authorities								
December, 1965 ...	17.5	2.3	25.0	7.7	0.2	0.1	42.7	3.2
December, 1966 ...	22.9	3.1	15.6	4.9	0.6	0.2	39.1	3.0
December, 1967 ...	23.8	3.0	20.6	5.3	0.3	0.1	44.8	3.1
Non-Business Institutions								
December, 1965 ...	52.3	6.8	19.6	6.0	4.5	2.0	76.4	5.8
December, 1966 ...	55.6	7.6	34.7	11.0	4.5	1.8	94.8	7.3
December, 1967 ...	43.0	5.4	37.9	9.7	4.5	1.6	85.4	5.9
Individuals								
December, 1965 ...	308.7	40.3	75.6	23.3	205.9	91.8	590.3	44.9
December, 1966 ...	299.0	40.7	88.6	28.0	222.2	91.1	609.8	47.1
December, 1967 ...	306.2	38.5	97.1	24.9	248.1	91.1	651.4	44.7
Total								
December, 1965 ...	765.3	100.0	324.5	100.0	224.3	100.0	1,314.1	100.0
December, 1966 ...	733.7	100.0	316.6	100.0	243.8	100.0	1,294.1	100.0
December, 1967 ...	795.1	100.0	389.8	100.0	272.2	100.0	1,457.2	100.0

Source : Central Bank of Ceylon.

The increase in time and savings deposits of the private sector with commercial banks in 1967 was quite impressive. Time deposits increased by Rs. 73.2 million in contrast to a decline of Rs. 7.9 million in the previous year; savings deposits increased by Rs. 28.4 million as compared to an increase of Rs. 19.5 million in 1966. Savings deposits of individuals, which account for 91 per cent of total savings deposits with banks, were responsible for the increase in 1967. Apart from the expansionary effect of Government's fiscal operations, certain other factors also might have contributed to the increase in time and savings deposits of the private sector with the banking system. There have been some upward movements in interest rates paid on these deposits in 1965 and in the beginning of 1967. The extension of the branch network of commercial banks also might have led to an increase in these deposits as well as demand deposits.

At the beginning of the year, time deposits of individuals accounted for 28.0 per cent of total time deposits with commercial banks. Although the rate of increase in this category of time deposits was smaller than that in total time deposits, at the end of 1967, the share of this category, at 24.9 per cent, represented the largest among all the categories shown in this table.

There were substantial increases in time deposits of the business sector. Time deposits of trading institutions increased by Rs. 32.7 million, those of financial institutions by Rs. 11.4 million and those of other business institutions by Rs. 17.0 million. Time deposits of plantations fell by Rs. 4.5 million. The shares of trading institutions and other business institutions in the total therefore improved, while that of plantations recorded a decline during the year. The increase in time deposits of the business sector was almost entirely in Government Corporations. Outside the business sector, the time deposits of local authorities increased by Rs. 5 million, while those of non-business institutions recorded an increase of Rs. 3.2 million.

While the average monthly level of time and savings deposits with commercial banks was higher in 1967 than in the previous year, the turnover rates of these deposits remained stable. The average monthly level of time deposits was Rs. 383.7 million in 1967, as compared to Rs. 366.1 million in 1966, while the turnover rate was 0.21 in both years. The average level of savings deposits increased from Rs. 231.9 million in 1966 to Rs. 250.2 million in 1967 while the turnover rate was 0.08 in both years.

In contrast to the performance of time and savings deposits with commercial banks, there was no noticeable improvement in deposits with the two state-sponsored savings banks. Savings deposits with the Post Office Savings Bank increased by a mere Rs. 1.5 million, while those with the Ceylon Savings Bank recorded a slight decline during the year. There has been a slowing down in the rate of increase in these deposits for some years, but 1967 was the first year in which there was stagnation in the volume of deposits in these two institutions. There was no change in the average size of deposits in these institutions or in their rates of turnover.

The private sector's holdings of savings certificates increased by Rs. 22.2 million in 1967. This increase was Rs. 7.5 million more than the increase in the previous year, and was the largest annual increase so far recorded. The increase in 1967 was entirely in 10 year savings certificates. The relatively high return on savings certificates and the attractive tax concessions which became operative in 1965 were no doubt chiefly responsible for this increase. In contrast, the private sector's holdings of treasury bills declined by Rs. 7.3 million in 1967.

The holdings of Government bonds by the non-bank private sector increased by Rs. 77.3 million. This increase was much smaller than the increase in 1966 but still accounted for 40.4 per cent of the total increase in secondary liquid assets. The ownership of Government bonds in this sector is largely confined to institutions such as the Insurance Corporation, insurance companies and trusts, benevolent, pension and provident funds. The Insurance Corporation accounted for as much as Rs. 48.8 million of the increase in Government bonds held by the private sector. Trusts, benevolent, pension and provident funds increased their holdings by Rs. 30.5 million. The holdings of individuals rose only by Rs. 3.5 million as compared to an increase of Rs. 14.5 million in the previous year.¹

In sum, there was a general increase in liquid financial assets of the public in 1967. While the distribution between primary and secondary liquid assets remained unchanged, there was an appreciable change in the structure of secondary liquid assets. The private sector showed a rising preference among secondary liquid assets for claims against the banking system and a somewhat falling preference for Government obligations and claims against state-sponsored savings institutions.

1 (d) Interest Rates

The Bank Rate remained at 5 per cent throughout the year under review. Under the new scheme of agricultural credit which came into operation in the latter half of 1967, the Central Bank's refinance rate of interest on advances to commercial banks against loans to cultivators was fixed at $1\frac{1}{2}$ per cent. There was no change in the rates of interest charged by the Central Bank on refinance loans from the Medium and Long-term Credit Fund.

The lending rates of commercial banks did not undergo any change in 1967. The minimum rate charged on loans against Government securities was $5\frac{1}{2}$ per cent while the maximum was 7 per cent. The minimum rate on loans secured by shares of joint-stock companies was 7 per cent and that on loans secured by stock-in-trade 6 per cent; the maximum rate on loans against both these types of security was 9 per cent. The minimum rate charged on loans against immovable property was 7 per cent and the maximum was $9\frac{1}{2}$ per cent. Rates charged on loans against other types of security varied from 5 per cent to 9 per cent and those on unsecured loans from 7 per cent to 9 per cent.

The minimum interest rate paid on time deposits with commercial banks rose from $2\frac{1}{2}$ per cent to 3 per cent in January, 1967. The maximum rate remained unchanged. There was also no change in rates applicable to savings deposits with commercial banks, the Post Office Savings Bank and the Ceylon Savings Bank.

The Treasury Bill rate remained unaltered for most of the year but increased slightly in November. The weighted average rate for monthly issues was 3 per cent in the first ten months, 3.07 per cent in November and 3.20 per cent in December. The rate in respect of Government securities with a maturity of over 20 years remained unchanged at $4\frac{1}{2}$ per cent.

1 For a complete breakdown of the ownership of Government bonds see Table II (E) 13.

2 Commercial Banking

The resources of commercial banks increased substantially in 1967. This took mainly the form of an increase in time and savings deposits. In addition, commercial banks enhanced their lending capacity by recourse to borrowing from the Central Bank on a larger scale than in the previous year. Therefore, the operations of the commercial banks in the year under review were characterised by a marked increase in credit both to the private and to the government sectors. Credit to the private sector increased by Rs. 104.8 million as compared to an increase of Rs. 92.1 million in the previous year, and short term credit to the Government increased by Rs. 139.5 million in contrast to a decline of Rs. 48.0 million in the previous year. The increase in credit to the private sector was mainly for agricultural, industrial and commercial purposes, while the increase in credit to the Government sector was to finance food imports, a substantial part of which was used for building up stocks.

In spite of a substantial increase in commercial bank credit, there was only a slight decline in the average ratio of liquid assets to total deposits. This was because a large portion of the increase in credit was in commercial banks' holdings of Government import bills which form part of their liquid assets. Commercial banks reduced their holdings of Government securities in 1967.

2 (a) Branch Net Work

The distribution of bank offices and total deposits among Ceylonese, British, Indian and Pakistani banks for the period 1963 to 1967 is shown in Table II (C) 7.

TABLE II (C) 7
Distribution of Bank Offices and Deposits 1963-1967

Year	Total			Ceylonese Banks			British Banks			Indian and Pakistani Banks		
	No. of Offices	Deposits		No. of Offices	Deposits		No. of Offices	Deposits		No. of Offices	Deposits	
		Amount Rs. Mn.	%		Amount Rs. Mn.	%		Amount Rs. Mn.	%		Amount Rs. Mn.	%
1963	83	1,301	100	67	801	61	12	412	32	4	88	7
1964	88	1,447	100	72	943	65	12	415	29	4	90	6
1965	97	1,546	100	81	1,023	66	12	431	28	4	92	6
1966	105	1,502	100	89	1,003	67	12	419	28	4	80	5
1967	133	1,637	100	117	1,157	71	12	404	25	4	76	5

Source: Central Bank of Ceylon.

In 1967 more bank offices were opened than in any other year in the period beginning 1963. Of a total number of twenty eight new bank offices established during the year, the People's Bank opened nineteen and the Bank of Ceylon nine. The People's Bank opened two branches in Colombo and the rest at Peradeniya, Mahiyangana, Polgahawela, Morawaka, Tissamaharama, Wellawaya, Akkarapattu, Sammanthurai, Kattankudi, Trincomalee, Tangalle, Monaragala, Mawanella, Ambalantota, Elpitiya, Wattagama and Matugama. The Bank of Ceylon opened two branches in Colombo and the rest at Hatton, Peliyagoda Vavuniya, Gampaha, Mannar, Ambalangoda and Puttalam.

At the end of 1967 there were 133 bank offices in Ceylon. The number of offices of foreign banks remained at 16 over the year. The share of deposits of Ceylonese banks in the total deposit liabilities of all commercial banks increased from 67 per cent at the end of the previous year to 71 per cent at the end of 1967.

In addition to opening new commercial bank branches, the People's Bank opened 14 rural banks in the year under review, bringing the total number of rural banks to 27 at the end of the year.

2 (b) Structure of Bank Liabilities

Table II (C) 8 presents a summary of the distribution of bank assets and liabilities for the period 1956/67.

Total assets/liabilities of the commercial banks increased in the year by Rs. 276 million to Rs. 2,122.7 million as at the end of December 1967—an increase of 15 per cent as compared to an increase of 1.8 per cent in 1966.

The increase in liabilities was mainly reflected in deposits of private constituents, which increased by Rs. 153.4 million, other liabilities, which increased by Rs. 81.3 million, and inter-bank borrowings, which increased by Rs. 53.1 million. Paid up capital, reserve funds and undistributed profits of commercial banks increased by Rs. 7.3 million. There were decreases in Government deposits and domestic interbank deposits by Rs. 18.2 million and Rs. 0.7 million respectively, and in borrowings from foreign banks by Rs. 0.9 million. The net increase in liabilities thus amounted to Rs. 276.3 million.

The most significant element in the change in liabilities in the year under review was the increase in time and savings deposits of the private sector by Rs. 102.1 million, compared to an increase of only Rs. 17.4 million in the previous year. In 1967 demand deposits of the private sector too increased by Rs. 51.3 million compared to a decline in the previous year by Rs. 32.6 million. The decline in Government deposits with commercial banks was lower than for the previous year by Rs. 9.9 million. The increase in domestic inter-bank borrowings by Rs. 53.1 million was the net result of an increase in borrowings from the Central Bank by Rs. 59.3 million and a decline in other inter-bank borrowings by Rs. 6.2 million.

2 (c) Structure of Bank Assets

Movements of the more important categories of the assets of commercial banks are shown in Table II (C) 8.

The increase in banks' assets during 1967 was reflected mainly in loans and overdrafts which increased by Rs. 133.7 million and in their holdings of import bills which increased by Rs. 159.8 million. In addition cash in hand and due from the Central Bank increased by Rs. 36.2 million, while commercial banks' fixed and 'other assets' increased by Rs. 57.7 million. This increase in assets was, in part, offset by a decline in commercial banks' holdings of Government and Government Guaranteed securities and Treasury bills by Rs. 62.3 million and a decline in cash items in the process of collection by Rs. 50.2 million.

As a result of the substantial increase in loans and overdrafts the average ratio of loans and overdrafts to total deposits rose from 43.2 per cent in the previous year to 51.7 per cent in 1967. However, there was only a small decline in the average ratio of liquid assets to total deposits from 37.6 per cent to 35.4 per cent. This was because of the large increase in the commercial banks' holdings of import bills which constitute part of their liquid assets. Viewed from the year-end positions, the ratio of liquid assets to total deposits increased from 33.0 per cent in the

TABLE II (C) 8
Distribution of Assets and Liabilities of Commercial Banks

Average of monthly figures

	Rupees Million												End of Period	
	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	Dec. 1966	Dec. 1967
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements)	148	139	119	116	132	148	186	164	182	224	233	218	192	229
Foreign balances	116	72	50	52	58	54	55	44	49	55	62	57	60	66
Treasury bills	39	34	16	24	28	51	89	128	73	89	124	80	116	109
Bills discounted	93	100	116	119	115	122	136	114	126	173	175	198	128	289
Total liquid assets	396	345	301	311	333	375	466	450	430	541	594	553	496	693
Total investments (1)	291	308	296	285	284	290	303	313	330	329	330	300	325	270
Total loans and overdrafts	273	340	363	395	430	435	477	495	633	669	682	809	730	864
Demand deposits (2)	731	721	661	655	657	677	829	789	853	917	949	914	898	936
Time and savings deposits	206	240	263	300	340	359	380	460	535	572	631	650	603	701
Total deposits	941	965	926	955	998	1,036	1,209	1,250	1,389	1,490	1,580	1,564	1,502	1,637
Ratio of	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits	20.2	19.3	18.0	17.7	20.1	21.9	22.4	20.8	21.3	24.4	24.5	23.8	21.4	24.5
Cash to total deposits	15.7	14.4	12.9	12.1	13.2	14.3	15.4	13.1	13.1	15.0	14.7	13.9	12.8	14.0
Foreign balances to total deposits	12.3	7.4	5.4	5.4	5.8	5.2	4.5	3.5	3.5	3.7	3.9	3.6	4.0	4.0
Treasury bills to total deposits	4.1	3.5	1.7	2.5	2.8	4.9	7.4	10.2	5.3	6.0	7.8	5.1	7.7	6.7
Commercial bills discounted to total deposits	9.9	10.3	12.5	12.5	11.5	11.8	11.2	9.1	9.1	11.6	11.1	12.7	8.5	17.6
Liquid assets to demand deposits	54.2	47.9	45.5	47.5	50.7	55.4	56.2	57.0	50.4	59.0	62.6	60.5	55.2	74.0
Liquid assets to total deposits	42.1	35.8	32.5	32.6	33.4	36.2	38.5	36.0	31.0	36.3	37.6	35.4	33.0	42.3
Investments to total deposits	30.9	31.7	32.0	29.8	28.5	28.0	25.1	25.0	23.8	22.1	20.9	19.2	21.6	16.5
Loans and overdrafts to total deposits	29.0	35.2	39.2	41.4	43.1	42.0	39.4	39.6	45.6	44.9	43.2	51.7	48.6	52.8

Source : Central Bank of Ceylon.

- (1) Government and government guaranteed securities and Central Bank issues.
(2) Exclude domestic inter-bank deposits.

TABLE II (C) 9

Yearly changes in Bank Resources and their Utilization 1964-1967

Rupees Million.

	1964	1965	1966†	1967
<i>Sources of Funds</i>				
1. Government Sector ...	2.9	11.8	62.7	62.3
Increase in borrowing ...	—	—	—	—
Reduction of holdings of Government paper ...	—	—	14.7	62.3
Increase in deposits ...	2.9	11.8	—	—
Decrease in short-term credit to Government ...	—	—	48.0	—
2. Increase in borrowings from Central Bank ...	—	—	36.4	59.3
3. Domestic Private Sector ...	154.9	148.8	34.2	242.0
Increase in deposits ...	143.8	85.0	—	153.4
Increase in reserves, paid up capital etc., ...	4.4	9.1	16.0	7.3
Increase in other liabilities ...	—	54.7	18.2	81.3
Decrease in other assets ...	6.7	—	—	—
4. Foreign Sector ...	—	11.5	0.7	1.0
Increase in borrowings ...	—	1.2	0.7	—
Increase in deposits ...	—	1.3	—	1.0
Reduction in foreign balances ...	—	9.0	—	—
5. Reduction of Domestic Cash items ...	—	—	40.1	—
Total increase in resources ...	157.8	172.1	174.1	364.6
<i>Utilization of Funds</i>				
1. Government Sector ...	8.7	92.3	28.1	157.7
Reduction of borrowings ...	5.0	—	—	—
Increase in holdings of Government paper ...	0.4	32.8	—	—
Increase in short-term credit to Government ...	3.3	59.5	—	139.5
Withdrawal of deposits ...	—	—	28.1	18.2
2. Reduction of borrowings from Central Bank ...	18.8	12.8	—	—
3. Domestic Private Sector ...	63.9	47.9	129.3	162.5
Increase in advances ...	62.8	4.2	92.1	104.8
Reduction of other liabilities ...	1.1	—	—	—
Increase in other assets ...	—	43.7	22.1	57.7
Withdrawal of deposits ...	—	—	15.1	—
4. Foreign Sector ...	22.1	—	17.0	7.3
Reduction of borrowings ...	0.8	—	—	0.9
Withdrawal of deposits ...	0.1	—	1.6	—
Increase in foreign balances ...	21.2	—	15.4	6.4
5. Increase in Domestic Cash items ...	43.7	18.7	—	36.2
Total increase in resources utilised ...	157.2	171.7	174.4	363.7

Source: Central Bank of Ceylon.

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

previous year to 42.3 per cent in the year under review. The improvement in the liquidity position of the commercial banks at the end of the year was largely the result of an increase in import bills towards the end of the year.

In the case of the ratio of cash to total deposits the same pattern emerges: while the average monthly ratio fell from 14.7 per cent in 1966 to 13.9 per cent in the year under review, the end-of-year ratio rose from 12.8 per cent to 14.0 per cent.

2 (d) Sources of Funds and their Utilisation

In 1967, both the Government and the private sectors increased their utilisation of commercial banks' funds. Increased credit to the Government mainly in the form of financing Government imports, amounted to Rs. 139.5 million. Furthermore, the Government sector drew down Rs. 18.2 million of its deposits with the commercial banks. In the previous year the Government sector had increased its utilisation of bank funds only by Rs. 28.1 million through a reduction of deposits with commercial banks.

The domestic private sector increased its utilisation of banks' funds in the year under review by Rs. 162.5 million, compared to an increase of Rs. 129.3 million in 1966. Advances to the private sector increased by Rs. 104.8 million, and 'other assets' of commercial banks increased by Rs. 57.7 million. Unlike in the previous year there was no decline in the private sector's deposits with the commercial banks.

The increase in utilisation of commercial bank funds by Rs. 7.3 million by the foreign sector is largely accounted for by an increase in the commercial banks' holdings of foreign balances. In the year under review the commercial banks also increased their holdings of domestic cash items by Rs. 36.2 million.

The commercial banks were in a position to sustain a higher level of lending in the year under review, mainly due to a substantial increase in deposits of the private sector by Rs. 153.4 million, a decline in their holdings of Government paper by Rs. 62.3 million and an increase in the borrowings from the Central Bank by Rs. 59.3 million.

The increase in deposits of the private sector consisted of an increase in time and savings deposits by Rs. 102.1 million and an increase in demand deposits by Rs. 51.3 million. In contrast, the private sector's deposits declined in the previous year by Rs. 15.1 million on account of a decrease in demand deposits by Rs. 32.6 million and an increase in time and savings deposits by Rs. 17.4 million.

The resources emanating from the Government sector accounted for only Rs. 62.3 million while this sector's utilisation of banks' funds amounted to Rs. 157.7 million. In contrast, the domestic private sector used only a part of its contribution to the increase in resources of the commercial banks. The surplus of resources originating in the private sector over the amounts utilised by that sector and increased borrowings from the Central Bank made it possible for the commercial banks to sustain a high level of lending to the Government sector in the year under review. On the other hand in the previous year increased resources originating from the Government sector were lent to the private sector by the commercial banks.

2 (e) Bank Credit to the Private Sector

Commercial bank credit to the private sector increased by Rs. 104.8 million in 1967 compared to an increase of Rs. 92.1 million in the previous year.

Table II (C) 10 gives a breakdown of the major categories of commercial bank credit outstanding at the end of 1966 and 1967.

TABLE II (C) 10
Commercial Bank Advances to the Private Sector*
December 1966—December 1967.

		Rupees Million								
		Ceylonese Banks			Foreign Banks			All Banks		
		Dec.† 1966	Dec. 1967	Change	Dec. 1966	Dec. 1967	Change	Dec.† 1966	Dec. 1967	Ch- ange
(a)	Cash items in process of collection**	105.3	55.5	-49.8	1.8	1.4	-0.4	107.1	56.9	-50.2
(b)	Local bills	—	—	—	—	—	—	—	—	—
(c)	Import bills	21.1	32.9	+11.8	14.2	22.7	+8.5	35.3	55.6	+20.3
(d)	Export bills	11.5	10.3	-1.2	40.9	43.1	+2.2	52.4	53.4	+1.0
(e)	Overdrafts	166.4	188.4	+22.0	225.5	230.5	+5.0	391.9	418.9	+27.0
(f)	Loans	303.8	385.8	+82.0	34.3	59.0	+24.7	338.1	444.8	+106.7
Total		608.1	672.9	+64.8	316.7	356.7	+40.0	924.8	1029.6	+104.8

Source: Central Bank of Ceylon.

* Includes government corporations

** This category contains only a small element of inter-bank debt represented in cheques sent for collection. It consists mainly of very short-term advances granted to co-operatives for the finance of purchases of foodstuffs under the Guaranteed Price Scheme and purchased cash items.

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

Cash items in the process of collection declined by Rs. 50.2 million in the period under review in contrast to an increase of Rs. 36.0 million in the previous year. The main reason for the decrease in this category of credit was a decline in goods receipts advances to co-operatives under the Guaranteed Price Scheme due to the enlargement of the free market for paddy after the reduction of the rice ration in December 1966.

The commercial banks' holdings of import bills of the private sector increased by Rs. 20.3 million in 1967, bringing the outstanding amount of these bills to Rs. 55.6 million at the end of the year. In the previous year, in contrast, the commercial banks' holdings of the private sector's import bills declined by Rs. 14.4 million. The Ceylonese banks held the major share of the total amount of import bills held by the commercial banks.

The value of export bills held by the banks increased by only Rs. 1 million. While the value of export bills held by the foreign banks increased by Rs. 2.2 million, the value of these bills held by the Ceylonese banks declined by Rs. 1.2 million. The foreign banks continued to hold the major share of the total value of export bills held by all banks.

At the end of December 1967, the total value of overdrafts outstanding amounted to Rs. 418.9 million which was higher, by Rs. 27.0 million, than the amount outstanding at the end of December of the previous year. Of the total amount of overdrafts outstanding at the end of 1967, the overdrafts granted by foreign banks was higher by Rs. 42.1 million than the amount granted by Ceylonese banks.

In 1967, the value of loans outstanding increased by Rs. 106.7 million compared to an increase of Rs. 56.4 million in the previous year. The net increase in the outstanding value of loans in 1967 was the result of increases in loans to co-operative institutions and other private sector constituents by Rs. 49.1 million and Rs. 62.0 million respectively, and a decline in loans to Government Corporations by Rs. 4.5 million. Of the increase in loans granted to co-operative institutions, cultivation loans granted under the new Agricultural Credit Scheme amounted to Rs. 44.4 million.

The expansion of commercial bank credit was not spread evenly during the year. After an initial increase, on account of the strike of bank employees, during February and March, many times higher than the monthly average there was a decline in credit during the period May to August. The September-December period witnessed an expansion of credit. The monthly average increase of credit in 1967 was Rs. 8.7 million.

It is significant that, inspite of an increased level of credit granted to the private sector, this sector's operations did not exert an expansionary effect on money supply because the increase in time and savings deposits of the sector with commercial banks and an increase in other liabilities of commercial banks more than offset the expansionary influence of credit creation.

Table II (c) 11 gives a classification of bank advances by purpose and maturity.

Advances granted by commercial banks for agricultural purposes increased more in absolute amount, and as a ratio of the total advances, than those granted for any other purpose. The outstanding amount of these advances increased by Rs. 62.0 million in 1967. Their share in total advances increased markedly from 4.9 per cent at the end of the previous year to 10.5 per cent at the end of 1967. More than sixty per cent of the increase in these advances took place in the last four months of the year in the form of cultivation loans under the new agricultural credit scheme.¹ Advances for plantation crops also recorded an increase during the year.

Advances for commercial purposes increased by Rs. 30.3 million in 1967; the proportion of these advances in the total, however, declined from 57.2 per cent at the end of the previous year to 51.3 per cent at the end of 1967. The increase in these advances served mainly to finance internal trade, imports and to a smaller extent exports. The higher level of advances for imports in 1967 reflects the increased need for local finance for the larger flow of imports under aid programmes.

The value of advances granted for industrial purposes rose by Rs. 31.8 million in 1967; their proportion in the total increased from 10.6 per cent at the end of the previous year to 12.2 per cent at the end of 1967. In the case of advances granted for financial purposes, though the outstanding amount increased by Rs. 8.2 million in the year under review, the proportion of these advances in total advances declined from 11.6 per cent to 10.6 per cent.

1 See section on Rural Credit under Central Banking.

TABLE II (C) 11

Advances * Classified by purpose and according to maturity.

Rupees Million

Purpose			Short-term (below 6 months)		Medium-term (6 months-30 months)		Long-term (over 30 months)		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 1966**		201.2	42.7	183.4	39.0	85.9	18.3	470.6	57.2
	June 1967		183.0	39.0	205.4	43.7	81.1	17.3	469.5	53.5
	December 1967		206.1	41.1	200.1	39.9	94.7	18.9	500.9	51.3
B. Financial	December 1966		30.2	31.6	35.3	36.9	30.2	31.5	95.7	11.6
	June 1967		30.5	31.2	37.7	38.5	29.6	30.2	97.9	11.1
	December 1967		36.9	35.5	35.0	33.7	32.0	30.8	103.9	10.6
C. Agricultural	December 1966		8.7	21.5	17.7	43.8	13.9	34.4	40.4	4.9
	June 1967		13.8	26.8	17.6	34.2	20.1	39.0	51.5	5.9
	December 1967		27.7	27.0	52.4	51.2	22.3	21.8	102.4	10.5
D. Industrial	December 1966**		29.9	34.2	30.8	35.3	26.5	30.4	87.3	10.6
	June 1967		63.3	53.6	25.6	21.7	29.1	24.6	118.1	13.5
	December 1967		60.7	51.0	29.1	24.4	29.2	24.5	119.1	12.2
E. Consumption	December 1966		15.1	20.1	27.0	35.9	33.1	44.0	75.2	9.1
	June 1967		19.7	24.0	25.4	31.0	36.8	44.9	82.0	9.3
	December 1967		29.5	30.5	25.9	26.8	41.2	42.6	96.6	9.9
F. Other Loans	December 1966		21.6	40.7	17.5	33.0	13.9	26.2	53.0	6.4
	June 1967		26.3	44.7	19.3	32.8	13.2	22.4	58.9	6.7
	December 1967		23.2	43.6	17.1	32.1	12.8	24.1	53.2	5.4
G. Total	December 1966**		306.8	37.3	311.8	37.9	203.6	24.8	822.2	100.0
	June 1967		336.7	38.4	331.0	37.7	210.1	23.9	877.8	100.0
	December 1967		384.1	39.3	359.6	36.8	232.4	23.8	976.1	100.0

Source: Central Bank of Ceylon

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

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

Advances granted for consumption purposes increased by Rs. 21.4 million in 1967. The proportion of these advances in the total increased somewhat from 9.1 per cent at the end of 1966 to 9.9 per cent at the end of the year under review. The value of loans for other purposes increased marginally from Rs. 53.0 million at the end of 1966 to Rs. 53.2 million at the end of 1967. The proportion of these loans, however, declined from 6.4 per cent of total advances to 5.4 per cent.

The term structure of advances granted by the commercial banks to the private sector in 1967 showed only a negligible change compared to that in the previous year. There was a slight increase in the proportion of short term advances in total advances from 37.3 per cent at the end of 1966 to 39.3 per cent at the end of 1967. Correspondingly, the proportion of medium term and long term advances declined from 37.9 per cent to 36.8 per cent, and from 24.8 per cent to 23.8 per cent, respectively.

Table II (C) 12 shows a classification of advances by rates of interest.

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

Rate of Interest	December 31st, 1966		June 30th, 1967		December 31st, 1967	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Below 2½	5.1	0.7	8.9	1.1	4.9	0.5
2½	0.2	...	0.9	0.1	1.8	0.2
3	0.2	...	0.2	...	0.3	...
3½	1.3	0.2	1.3	0.2	1.0	0.1
4	4.7	0.6	1.2	0.1	1.8	0.2
4½	5.7	0.7	5.9	0.7	12.3	1.3
5	25.7	3.3	24.7	3.0	29.1	3.1
5½	27.1	3.5	32.8	4.0	32.8	3.5
6	66.1	8.6	93.3	11.4	60.4	6.5
6½	119.7	15.5	139.8	17.1	156.7	16.9
7	212.4	27.5	254.1	31.0	261.4	28.3
7½	112.8	14.6	83.2	10.2	106.8	11.5
8	138.7	18.0	115.4	14.1	167.0	18.0
8½	5.5	0.7	5.9	0.7	11.8	1.3
9 and above	46.6	6.1	50.9	6.3	76.8	8.3
Total	771.7	100.0	818.6	100.0	925.1	100.0

Source: Central Bank of Ceylon.

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

As in the previous year, the largest amount of advances outstanding was in the range of interest rates between 6½ and 8 per cent. The value of advances outstanding at the end of 1967 falling within this range amounted to Rs. 691.9 million which was higher by Rs. 108.3 million than the total of such advances outstanding at the end of 1966. But the proportion of these advances in the total declined slightly from 75.6 per cent at the end of the previous year to 74.7 per cent at the end of 1967. At the end of the year under review the value of advances granted at interest rates of 6 and below amounted to Rs. 144.4 million, while at the end of the previous

year advances granted within the same range of interest rates amounted to Rs. 136.1 million. Though the value of advances within these interest rates increased over the year, their proportion in total advances fell from 17.6 per cent at the end of the previous year to 15.4 at the end of 1967.

Advances granted at interest rates of $8\frac{1}{2}$ per cent and above increased by Rs. 36.5 million to Rs. 88.6 million at the end of 1967. The proportion of advances at these interest rates increased from 6.8 per cent of the total of advances outstanding at the end of 1966 to 9.6 per cent at the end of 1967.

A classification of advances by type of security is given in Table II (C) 13.

TABLE II (C) 13
Advances* by Type of Security

Type of security	December 31st, 1966		June 30th, 1967		December 31st, 1967	
	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total	Amount Rs. Mn.	% of Total
Documentary bills ...	124.0	15.1	130.8	14.9	154.6	15.8
Government Securities ...	7.2	0.9	11.7	1.3	14.8	1.5
Shares of joint stock companies ...	14.5	1.8	16.6	1.9	17.8	1.8
Time and savings deposits and other cash deposits including cash value of life policies ...	54.4	6.6	59.9	6.8	51.3	5.3
Stock in trade ...	192.1	23.4	203.0	23.1	200.4	20.5
Immovable Property ...	90.7	11.0	91.2	10.4	102.4	10.5
Others ...	260.0	31.6	279.0	31.8	349.1	35.8
Unsecured ...	79.4	9.7	85.7	9.8	85.6	8.8
Total ...	822.2	100.0	877.8	100.0	976.1	100.0

Source: Central Bank of Ceylon.

* Excludes cash items in process of collection.

The value of advances given against the security of documentary bills increased from Rs. 124.0 million at the end of the previous year to Rs. 154.6 million at the end of 1967. Their share in the total increased only slightly from 15.1 per cent to 15.8 per cent. In the case of advances given against government securities both the amount and the relative share increased in 1967. Advances against this type of security increased in value from Rs. 7.2 million at the end of the previous year to Rs. 14.8 million at the end of 1967. Though these advances doubled in value, their proportion in total advances increased from 0.9 per cent to 1.5 per cent. While the relative proportion of advances granted against shares of joint stock companies remained constant at 1.8 per cent of the total over the year, the value of such advances increased from Rs. 14.5 million at the end of the previous year to Rs. 17.8 million at the end of the year under review.

In 1967, both the value and the proportion of advances granted against time and savings deposits and cash value of life insurance policies declined. While the value of these advances declined from Rs. 54.4 million at the end of the previous year to Rs. 51.3 million at the end of 1967, the proportion of these advances declined from 6.6 per cent to 5.3 per cent over the same period. Though the value of advances granted against stock in trade increased from Rs. 192.1 million at the end of 1966 to Rs. 200.4 million at the end of 1967, their share in total advances declined from 23.4 per cent to 20.5 per cent. The value of advances granted against immovable property increased similarly from Rs. 90.7 million in the previous year to Rs. 102.4 million in the year reviewed, but the relative position of these advances declined from 11.0 per cent to 10.5 per cent over the same period. The advances granted against types of security designated as 'others' increased in amount as well as in proportion. At the end of 1967, the value of advances against such securities stood at Rs. 349.1 million which was higher by Rs. 89.1 million over the value of such advances outstanding at the end of the previous year. Over the same period the relative proportion of these advances increased from 31.6 per cent to 35.8 per cent. The total amount of unsecured advances increased over that of the previous year by Rs. 6.2 million to Rs. 85.6 million at the end of the year under review. The proportion of these advances in total advances declined from 9.7 per cent at the end of the previous year to 8.8 per cent at the end of 1967.

3 Savings and Long-term Credit Institutions

Lending operations of the state sponsored savings and long term credit institutions are shown in Table II (C) 14.

TABLE II (C) 14

Lending Operations of Long—term Credit Institutions

Rupees Thousand								
	1964		1965		1966 †		1967	
	Loans granted	Amount out-standing	Loans granted	Amount out-standing	Loans granted	Amount out-standing	Loans granted	Amount out-standing
Development Finance Corporation (a) ...	7,231	27,802	4,010	28,316	4,540	29,052	3,150	29,154
Ceylon Savings Bank...	3,935	15,528	2,845	16,366	2,249	16,371	3,880	17,887
Agricultural and Industrial Credit Corporation	5,774	31,018	4,942	32,424	3,933	32,342	2,565	31,119
State Mortgage Bank...	3,532	54,662	3,942	54,681	4,959	55,319	4,812	55,453
Loan Board ...	1,107	12,113	540	11,411	833	10,970	1,225	11,047
National Housing Department (b) ...	2,762	70,621	5,138	71,536	16,861	84,196	25,585	105,485
Total ...	24,341	211,744	21,417	214,734	33,375	228,250	41,217	250,145

Source : Central Bank of Ceylon.

(a) Include equity investments.

(b) Figures relate to financial year October/September. Figures of loans granted represent those granted to individuals and building societies only. The figures of outstanding amounts for the years 1964/1967 exclude loans granted to building societies.

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

The total amount of loans granted by the savings and long—term credit institutions increased by Rs. 7.8 million in 1967, compared to an increase of Rs. 12.0 million in the previous year. The total of loans outstanding at the end of 1967 amounted to Rs. 250.1 million which was higher by Rs. 21.9 million than the amount at the end of the previous year.

The principal components of the increase in these loans were the increases in loans granted by the National Housing Department and the Ceylon Savings Bank by Rs. 8.7 million and Rs. 1.6 million, respectively. There were declines in the volume of loans granted by the Development Finance Corporation and the Agricultural and Industrial Credit Corporation, each by Rs. 1.4 million.

As shown in Table II (C) 15, the total value of savings deposits and savings certificates at the end of 1967 was higher by Rs. 121.2 million than the amount at the end of the previous year. An increase in time and savings deposits with commercial banks by Rs. 98.2 million and an increase in the value of savings certificates by Rs. 22.2 million almost completely accounted for the total increase in the value of savings deposits and certificates. Total collections of the Employees' Provident Fund in 1967 amounted to Rs. 74.4 million, as compared to Rs. 68.1 million in the previous year.

TABLE II (C) 15
Savings Deposits and Savings Certificates

Rupees Million

	December 1966	December 1967	Change Dec. 1966/ Dec. 1967
Post Office Savings Bank	438.4	439.9*	+ 1.5
Ceylon Savings Bank	91.2	90.5*	— 0.7
Commercial banks (time and savings deposits)**	602.6	700.8	+98.2
Savings Certificates outstanding	56.5	78.7	+22.2
Total	1,188.7	1,309.9*	+ 121.2*

Source- Central Bank of Ceylon.

* Provisional.

** Includes Government deposits.