

THE ECONOMY

Money Supply -Expansion Contained

The country's money supply recorded a decrease, by as much as Rs. 340 million, in the first eight months of this year as compared with the corresponding period of 1977. The rate of the increase in the money supply has tended to fall in the months from June 1978 and by the end of August 1978 it had dropped further to 12.4 per cent for the whole of the 1978 period. The increase in 1976 was 35 per cent and in 1977 it was 29 per cent. A comparison of the first eight month period of this year with that of the same period in the previous year shows that in the 1978 period the money supply had increased by Rs. 158 million or 3 percent, as against an increase of Rs. 746 million or 18 percent in the corresponding period of 1977.

The main reason for the expansionary influence in the money supply during the first eight months of this year was the sharp increase in commercial bank credit to the private sector and government corporations. The lending of the banks to the private sector, including the co-operatives, rose sharply by Rs. 1,943 mil-

crease of 468 metric tons sold at the Colombo auctions, when compared to the previous month and also an increase of 421 metric tons when compared to the same period of the previous year. The continued rise in the price of latex crepe was attributed to the reduced arrivals at the public auctions. The prices of scrap crepe were also steady and closed the period at Rs. 6.66 to Rs. 7.71 per kgm. as compared with the Rs. 4.25 to Rs. 4.36 at the end of October 1977. The maximum closing price for latex crepe at the end of October 1978 was Rs. 11.21 per kgm. as against Rs. 4.70 per kgm. at the same time the previous year, an increase about 138 per cent.

For sole crepe too there was a greater demand and approximately 188 metric tons were offered during October, an increase of 20 metric tons when compared to the previous months and 78 tons more than that of October 1977. Even the poorer sorts and miscellaneous thicknesses of sole crepe sold at Rs. 7.00 to Rs. 11.10 per kgm. as against Rs. 5.47 to Rs. 7.00 per kgm. in October, 1977.

lion while credit granted to the government corporations rose by 552 million.

The increase in bank credit to the private sector has risen mainly as a result of the liberalisation of imports and the exchange rate reform; while the increased volume of credit to the co-operatives has gone to meet the higher level of cultivation loans to farmers and payments for the high level of paddy purchasers, which was further increased by the upward revision of prices under the Guaranteed Price Scheme.

The expansionary effect of the increase in bank credit to these two main sectors was further reinforced by an increase in the country's net external banking assets by Rs. 855 million. The continued growth in external banking assets has been a major reason for the increase in

The principal factors that contributed to the changes in the money supply situation between January and August 1978 are summarised in the table below.

Change in Money Supply — End December 1977 to End August 1978
Rs. Million

Expansionary Factors		
1. Increase in external Banking Assets (net)	..	854.9*
2. Increase in commercial bank credit to Private sector (a)	..	1,942.8
3. Increase in Commercial bank Credit to Government Corporations	..	551.8
4. Decrease in Government cash balances	..	211.6 + 3,561.1
Contractionary Factors		
1. Increase in Time and Savings Deposits of the Private Sector (a)	..	971.6
2. Increase in Time and Savings Deposit of Government Corporations	..	217.2
3. Decrease in credit to Government from the banking system	..	1,333.4
4. Increase in other liabilities and accounts (net) of Central Bank	..	308.8
5. Increase in other liabilities and accounts (net) of commercial banks	..	352.2
6. Adjustments	..	220.0 — 3,403.2
Change in Money Supply	..	+ 157.6

Source: Central Bank of Ceylon

(a) Includes Co-operative Institutions

* In all, external banking assets (net) rose by Rs. 1,219 million in the first eight months ending August, 1978. A considerable part of this, approx. Rs. 364 million, represented increases resulting from the revaluation of existing assets following exchange rate changes and an upward revision in the representative rate of the SDR in February and April. As this part of the increase in external banking assets has no effect on the course of money supply, it has been excluded from the analysis in this table.