

rising during the boom as the increased demand for labour and improved bargaining power of wage earners pushed up most money wages faster than the cost of living was rising.

- (c) Revaluation would reduce the need for new subsidies and lighten the fiscal burden of existing subsidies and cost-of-living allowances. On the other hand, without revaluation Government revenues would be more buoyant, so that these costs could be more readily borne. Furthermore, revaluation would reduce the flow of savings and make Government borrowing more difficult.
- (d) Revaluation would probably slightly improve the budget position at existing rates of taxation. But without revaluation the budget position could be improved by raising export duties.
- (e) Revaluation would reduce the rupee cost of imported capital equipment. But it would also reduce the rupee incomes of business enterprises needed to justify investment in such capital equipment, and the country's net foreign exchange earnings needed to pay for it.

60. In essence, therefore, a decision not to revalue on long-run considerations was a decision to forego the immediate benefits of a lower cost of living and a more equitable distribution of income, endeavouring to achieve these ends by other measures, in favour of the long-run gains of stimulating a higher level of production, employment, and real income, and promoting a fuller development of the country's resources. In a country sorely needing more enterprise it does not seem wise to take actions that discourage enterprise.

61. This was the conclusion from domestic considerations. From the point of view of world conditions, too, the balance of advantage to Ceylon lay in not revaluing. It would have been a mistake to have stimulated a larger expenditure of foreign exchange on consumption goods just when import prices were reaching all-time highs and supplies were growing shorter due to the pressure on resources of western world re-armament.

### VIII. Government Finance

62. As explained earlier, Government had a small cash operating deficit of Rs. 11.2 million in 1951. Table 21 shows the Government monthly cash surpluses and deficits since September, 1950. Chart 4 depicts their movements.

63. The data in Table 21 are, however, not presented in a form permitting direct comparison with the published accounts of the Government. The table on page 20 attempts this.

(In millions of rupees)

	1945/46	1946/47	1947/48	1948/49	1949/50	1950/51(i)
(1) Net cash operating surplus or deficit (—) :	28.4	—130.6	—43.6	—106.4	—153.5	—47.9
(i) Revenue surplus						
Revenue .. .. .	383.3	461.2	540.6	576.1	623.3	910.2
Expenditure chargeable to revenue excluding sinking fund contributions (vide (2) (iii) (a)) .. .. .	305.1	392.3	433.3(f)	532.7	545.6	787.5
	78.2	68.9	107.3(f)	43.4	77.7	122.7
(ii) Loan and loan fund expenditure .. .. .	—12.6	—32.1	—70.3	—122.5	—148.5	—146.7
(iii) Expenditure financed from the National Development Reserve .. .. .	—6.0	—	—0.6	—5.6	—6.6	—5.4
(iv) Food subsidy .. .. .	—7.0(a)	—89.6(d)	—77.8	(g)	(g)	(g)
(v) Advances to stores and materials advance accounts ..	2.0	—0.4	—6.2	—7.1	—3.3	—1.8
(vi) Other advances .. .. .	—28.8(b)	—81.5(b)	5.9	—14.6	—73.4	—16.2
(vii) Miscellaneous .. .. .	2.6	4.1	—1.9	0.0	0.6	—0.5
(2) Net cash receipts or payments (—) resulting from Government borrowing and lending operations	50.1	—44.8	27.0	35.8	78.8	114.0
(i) Administrative borrowing and repayment of borrowing:						
(a) Deposits (from suitors, contractors, etc.) .. .. .	—1.4	—18.0	0.5	7.7	14.0	46.8
(b) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.) .. .. .	—12.9	—3.2	—2.6	0.8	2.8	—4.6
	—14.3	—21.2	—2.1	8.5	16.8	42.2
(ii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.) .. .. .	—0.3	—5.6	—4.7	—5.8	—9.3	—8.3
(iii) Government market borrowing and repayment of borrowing						
(a) Medium and long-term .. .. .	45.2	31.4	24.0	56.1	12.4	146.0
Less sinking fund contributions .. .. .	7.8	13.1	14.2	15.2	17.6	17.4
	37.4	18.3	9.8	40.9	—5.2	128.6
(b) Treasury bills and advances .. .. .	27.3(c)	—36.3(e)	24.0	—7.8	76.5(h)	—48.5
	64.7(c)	—18.0(e)	33.8	33.1	71.3(h)	80.1
(3) Changes in cash balances (including readily realisable assets) (1)+ (2) .. .. .	78.5	—175.4	—16.6	—70.6	—74.7	66.1

(a) Estimated net loss after offsetting profits assessed at Rs. 30.4 million previously accrued. (b) Estimated. (c) Includes overdrafts of Rs. 26.3 million from the Joint Colonial Fund. (d) Estimated loss on food. (e) Includes Rs. 26.3 million repaid to the Joint Colonial Fund. (f) Excludes the food subsidy in respect of the period up to 1946/47, brought into account in 1947/48; the cost of the subsidy has been distributed against relevant years under item (1) (iv). (g) Included in Government expenditure chargeable to revenue. (h) Includes loan of Rs. 14.3 million from the Central Bank under the Bretton Woods Act, No. 20 of 1950, Section 7. (i) Provisional figures: In 1950/51 "Revenue" and "Expenditure chargeable to revenue," include revenue from and expenditure on Railway and Electrical Departments.

64. This table corresponds to the table on page 10 of the 1950 Report, but four important changes have been made in the classification of the data. First, contributions to sinking funds from revenue have been excluded from group (1) and placed in group (2) because such contributions are more properly regarded as repayment of borrowing than as expenditure. Second, "deposits," which had previously been included in group (1), now appear in (2). These deposits, being monies deposited by the public with the Government, in effect, constitute borrowings of the Government. Third, the item "miscellaneous," (1) (vii), as it now stands excludes "miscellaneous funds," (2) (i) (b), which are regarded as borrowings for the same reason that "deposits" are so regarded. Fourth, group (2) has been sub-divided to show market borrowing and lending operations separately from non-market (or administrative) operations.

65. The outcome of Government operations in the financial year 1950/51 was a cash operating deficit of Rs. 47.9\* million. This was much smaller than the deficit of Rs. 153.5 million in the previous year. Government net borrowing totalled Rs. 114.0 million. After meeting the deficit, the balance of Rs. 66.1 million went to increase Government cash balances.

66. The total public debt may be classified into the funded debt, made up of sterling loans and Ceylon rupee loans, and the floating debt, consisting of treasury bills. The gross sterling debt remained unchanged during 1951 at Rs. 125.4 million; but the net sterling debt fell from Rs. 75 million to Rs. 72.5 million as a result of sinking fund contributions. The gross rupee debt rose by Rs. 60 million, but sinking fund contributions reduced the rise of the net debt to Rs. 44.1 million. At the end of the year the net funded rupee debt totalled Rs. 471.3 million. The floating debt fell from Rs. 63.2 million to Rs. 15.0 million. As a result of these changes, the total net debt decreased from Rs. 565.4 million to Rs. 558.8 million. The following table shows the composition of the public debt at the end of the financial and of the calendar years 1950 and 1951 :

(In millions of rupees)

End of Period	Funded Debt						Floating Debt	Total Net Debt
	Sterling Loans			Ceylon Rupee Loans			Treasury Bills	
	Gross	Sinking Fund*	Net	Gross	Sinking Fund	Net		
1950 September .. ..	125.4	49.7	75.7	436.0	70.0	366.0	78.6	520.3
1950 December .. ..	125.4	50.4†	75.0†	526.0	98.7†	427.2†	63.2	565.4†
1951 September .. ..	125.4	52.2	73.3	582.0	110.3	471.7	30.0	574.9
1951 December .. ..	125.4	52.9†	72.5†	586.0	114.7†	471.3†	15.0	558.8†

† Approximate.

\*Rs. 11.2 million and Rs. 47.9 million are the cash operating deficits during the calendar year 1951 and during the Government's financial year October, 1950, through September, 1951, respectively. These two figures are not comparable with each other, because, first, the figure of Rs. 11.2 million is computed on the basis of incomplete monthly data on Government financial operations, which exclude the operations of minor government departments; and second, the figure of Rs. 47.9 million has been derived by a reclassification of data that it is not possible to introduce into Table 21. Information on Government administrative borrowing (consisting of deposits and miscellaneous funds with the Government) is available only quarterly, and not monthly.

67. Government securities are "gilt-edged" investments carrying the full guarantee of the Government and are suitable for investors who want to minimize risk. The progressive increase in the volume of business in the Department of Public Debt of the Central Bank indicates that investors in Ceylon are appreciating more and more the value of Ceylon Government securities as a medium of investment. The following table shows the increase in the volume of business during the past five years :—

(In millions of rupees)

Financial Year	Loans raised	Loans repaid	Interest paid	Value of transfers, exchanges, etc.	Sinking Fund Contributions (Rupee Loans)
1946-47 .. ..	31.4	—	12.6	75.1	10.6
1947-48 .. ..	24.0	29.4	13.2	72.0	11.7
1948-49 .. ..	57.8	1.7	13.9	109.3	12.8
1949-50 .. ..	29.7	17.5	15.1	152.8	15.1
1950-51 .. ..	146.0	—	16.2	413.6	14.9

### IX. Ceylon's International and Domestic Financial Position

68. Ceylon built up and maintained its external assets in 1951—one of the most wholesome developments of the year. These assets rose by Rs. 358 million in the nine months following the outbreak of the Korean War, that is, from June, 1950 to March, 1951, the total reaching a high point of Rs. 1,240 million. A considerable loss of external assets might have been expected after March, simply because people ordinarily spend freely out of any increase in incomes. In addition, export prices weakened, import and exchange controls were relaxed, and some capital flowed out as many foreign investors took the opportunity to repatriate their investments on relatively favourable terms. The actual loss of assets from March until the end of the year, however, was only Rs. 55 million, and in January, 1952, assets rose by Rs. 23 million, reducing even this loss. Thus Ceylon avoided the heavy losses of reserves suffered during this same period by other members of the Sterling Area, losses that precipitated the sterling crisis of late 1951 and early 1952.

69. One reason for the strength of the Ceylon position was undoubtedly the combination of sound Government finances and the public debt and credit policies already described. But fully as important was the fact that there was a marked increase in the rate of saving by the people of Ceylon. Savings deposits increased by Rs. 64 million during the year. Post Office Savings Bank deposits were probably the most popular form of savings, and increased at the rate of almost Rs. 4 million per month. There were increases in the savings deposits of the Ceylon Savings Bank and the commercial banks, in premiums collected by insurance companies, in corporate savings, and in investments in Government securities by individuals. Finally, people were simply willing to hold more in the form of currency or demand deposits than they needed for transactions purposes, which means in effect that they were willing to save without earning interest.

70. The remarkable record of saving in 1951 is encouraging for the future. People in the aggregate preferred to save a considerable part of their increased incomes rather than spend them on imported goods. Otherwise the higher level of