

of the commercial banks between the end of January and the end of May, by which time every bank's sterling balances were finally drawn down below its working balance limit, gives a rough indication of the effectiveness of the policy. The repatriated balances were used to expand credit to the Government sector as well as to meet the loss of deposits suffered by the banks as a result of the adverse balance of payments.

53. *Interest Rates.*—Despite the large expansion of bank credit, the Central Bank did not raise its discount rate. There was also no significant change in the long-term rate of interest. Government paper of 21-26 years' maturity continued to be quoted in the market at a rate giving a yield a fraction under 3 per cent per annum. The short-term interest rate as reflected in the yield of Government securities below five years' maturity and the treasury bill rate rose. The latter went up from 0·4 per cent per annum at the beginning of the year to 0·92 per cent in August, 1952, at which level it stood for the rest of the year.

54. *Exchange Control.*—The Bank administers exchange control as agent of the Government. At the request of the Government, action was taken to tighten exchange control in September, 1952, thus reversing the policy of relaxation introduced a year earlier. With the continuing deterioration in the balance of payments, there had been a general expectation that exchange control would be tightened. The regulations that permitted remittances below a liberal exemption limit to be made without prior approval of the Exchange Control authorities were withdrawn in September, 1952, and lower exemption limits were fixed. Subsequently the limits were progressively revised downward and by the end of the year exchange for maintenance, travel, charity and other current purposes was considerably restricted.

#### IV. Basic Economic Data

55. *Foreign Trade.*—The 1952 foreign trade deficit was the largest in Ceylon's history. Imports in 1951 were a record Rs. 1,559 million. They rose still higher in 1952 to a new peak of Rs. 1,702 million.

56. The value of exports, which had reached the record level of Rs. 1,904 million in 1951, fell to Rs. 1,502 million in 1952. This was below even the 1950 figure.

57. The contrast of the Rs. 200 million deficit of 1952 with the regular surpluses of pre-war years and the very large surpluses of 1950 (Rs. 396 million) and 1951 (Rs. 345 million) emphasizes the sharp turn for the worse in Ceylon's trade fortunes.

58. As indicated previously (p. 4), the terms of trade for Ceylon fell from 101 in 1950 and 104 in 1951 to 75 in 1952. Save for the boom times of 1950 and 1951, Ceylon's terms of trade have been adverse in the post-war years as compared

with pre-war. The following compares 1952 prices for our main exports and imports with those of pre-war :

*Average Prices Received*

(In rupees)

Export Commodity	Quantity Unit	Jan.-Aug., 1939	1952	1952 prices as a multiple of pre-war prices
Tea .. .. .	lb.	0.76	2.30	3.0
Rubber .. .. .	lb.	0.46	1.76	3.8
Coconut oil .. .. .	cwt.	9.41	62.36	6.6

*Average Prices Paid*

(In rupees)

Import Commodity	Quantity Unit	Jan.-Aug., 1939	1952	1952 prices as a multiple of pre-war prices
Rice .. .. .	cwt.	5.03	41.16	8.2
Flour .. .. .	cwt.	4.49	29.23	6.5
Sugar .. .. .	cwt.	5.56	32.65	5.9
Textiles* .. .. .	yd.	0.23	1.44	6.3

\* Dyed, bleached, grey and printed cotton piece goods, and art silk piece goods only.

59. Ceylon's trade surplus with the dollar area fell in 1952. The very large surpluses of 1950 and 1951 (Rs. 381.1 and Rs. 186.8 million) were reduced in 1952 to a surplus of Rs. 46.7 million, which is no larger than those common in pre-war years when the total value of all trade was much smaller. Ceylon's dollar surplus in post-war years has depended mainly on the price and quantity of rubber sold to the United States, and to a lesser degree on the extent to which imports of dollar goods into Ceylon were restricted. In 1952 less rubber sold to the United States coincided with the importation of more foodstuffs from dollar sources—rice from the United States (60,000 tons) and Ecuador (10,000 tons), and flour from Canada (34,000 tons). The unexpected outlay for these foods cost Ceylon Rs. 87 million, and considerably reduced the dollar surplus Ceylon would otherwise have earned.

60. Ceylon's trade with the Far East, particularly China and Japan, grew in importance in 1952. Sheet rubber sales to China in 1951 had been on a small scale (5,500 tons valued at Rs. 36 million). In 1952 China became the major buyer of Ceylon rubber, taking 29,700 long tons or 32 per cent of the total quantity exported during the course of the year. China paid prices considerably above world prices, so that Ceylon earned an estimated additional Rs. 29 million in foreign exchange by selling to China rather than to other buyers.

61. In December, 1952, a China-Ceylon trade pact was concluded under whose terms Ceylon is to supply China with 50,000 metric tons of sheet rubber annually for five years at an average f.o.b. price, Colombo, (for 1953) of about Rs. 1.75 a lb.

(barring a considerable rise in world prices). China is to supply Ceylon in return with 270,000 metric tons of rice annually for the same period at an average f.o.b. price at China ports (in 1953) of £54 (or Rs. 720) per metric ton.

62. During the year 1952 Japan returned to her pre-war position as Ceylon's leading supplier of textiles. Among all countries Japan ranked 9th by value of total exports to Ceylon in 1950, moved up to 7th place in 1951, and to 6th place in 1952.

63. *Government Finance.*—The Government accounts for the financial year 1951-52 set out in the table on page 14 show the following striking features :

- (a) The result on revenue account was the least favourable yet recorded. In contrast to the normal experience\* of surpluses in the post-war years, there was a net revenue deficit of Rs. 52.6 million in 1951-52.
- (b) Customs receipts, the most important source of revenue, fell Rs. 41 million below the 1950-51 level, and at Rs. 487 million were Rs. 66 million below the budget forecast. Import duties rose by Rs. 15 million, but export duties fell by Rs. 56 million as a result of lower export prices and consequent declines in the rate of duty.
- (c) Loan and loan fund expenditure, at Rs. 201.3 million, was approximately Rs. 55 million higher than in the previous year. Even so, a further Rs. 144 million provided for in the original budget estimates remained unspent.
- (d) As mentioned earlier, the major item contributing to the deterioration in finances was the food subsidy bill. Its importance to the budget in comparison with previous years is shown in the table below.

*The Government Deficit and the Food Subsidy*

(In millions of rupees)

Period	Net cash operating surplus (+) or deficit (—)	Expenditure on food subsidy	Net cash operating surplus (+) or deficit (—) excluding food subsidy
1945-46 .. .. .	+ 28.4	— 7.0	+ 35.4
1946-47 .. .. .	—130.6	— 89.6	— 41.0
1947-48 .. .. .	— 43.6	— 77.8	+ 34.2
1948-49 .. .. .	—106.4	— 55.1	— 51.3
1949-50 .. .. .	—153.5	— 35.8	—117.7
1950-51 .. .. .	— 47.8	—131.6	+ 83.8
1951-52 .. .. .	—257.4	—245.3	— 12.1

\* The one exception was the Rs. 20.7 million deficit in 1946-47.

*Government Net Cash Operating Surplus or Deficit—(In millions of rupees)*

	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	1951-52(f)
(1.) Net cash operating surplus or deficit (—) .. .. .	28.4	—130.6	—43.6	—106.4	—153.5	—47.8	—257.4
(i) Revenue surplus or deficit (—)							
Revenue .. .. .	383.3	461.2	540.6	576.1	623.3	910.2	954.0
Expenditure chargeable to revenue excluding sinking fund contributions ( <i>vide</i> 2 (iii)(a))	312.1	481.9	511.1	532.7	545.6	787.5	1,006.6
( <i>Food subsidy</i> ) (a) .. .. .	(7.0) (a)	(89.6) (a)	(77.8) (a)	(55.1)	(35.8)	(131.6)	(245.3)
Net revenue surplus or deficit (—) .. .. .	71.2	—20.7	29.5	43.4	77.7	122.7	—52.6
(ii) Loan and loan fund expenditure .. .. .	—12.6	—32.1	—70.3	—122.5	—148.5	—146.7	—201.3
(iii) Expenditure financed by National Development Reserve .. .. .	—6.0	—	—0.6	—5.6	—6.6	—5.4	—7.7
(iv) Advances to stores and materials account .. .. .	2.0	—0.4	—6.2	—7.1	—3.3	—1.8	—16.8
(v) Other advances .. .. .	—28.8(b)	—81.5 (b)	5.9	—14.6	—73.4	—16.2	19.0
(vi) Miscellaneous .. .. .	2.6	4.1	—1.9	—	0.6	—0.4	2.0
(2.) Net cash receipts or payments (—) resulting from Gov- ernment borrowing and lending operations .. .. .	50.1	—44.8	27.0	35.8	78.8	114.0	184.4
(i) Administrative borrowing and repayment of borrowing :							
(a) Deposits (from suitors, contractors, etc.)	—1.4	—18.0	0.5	7.7	14.0	46.7	—16.2
(b) Miscellaneous funds (Widows' and Or- phans' Pension Fund, Public Servants' Provident Fund, etc.) .. .. .	—12.9	—3.2	—2.6	0.8	2.8	—4.6	0.6
	—14.3	—21.2	—2.1	8.5	16.8	42.1	—15.6
(ii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Deve- lopment Fund, local bodies, etc.) .. .. .	—0.3	—5.6	—4.7	—5.8	—9.3	—8.3	—18.6
(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	100.7
Less sinking fund contribution .. .. .	7.8	13.1	14.2	15.2	17.6	17.4	16.4
	37.4	18.3	9.8	40.9	—5.2	128.6	84.3
(b) Treasury bills and advances .. .. .	27.3	—36.3 (d)	24.0	7.8	76.5(e)	—48.4	134.3
	64.7	—18.0	33.8	33.1	71.3(e)	80.2	218.6
(3.) Changes in cash balances (including readily realisable assets) (1)+(2) .. .. .	78.5	—175.4	—16.6	—70.6	—74.7	+66.2	—73.0

(a) Food subsidy expenditures included in all cases in item "Expenditure chargeable to revenue." As a result the revenue surpluses in years 1945-46, 1946-47 and 1947-48 are different from the published accounts, but have been made comparable with the 4 more recent years in accordance with better budget practice

(b) Estimated.

(c) Includes overdrafts of Rs. 26.3 million from the Joint Colonial Fund.

(d) Includes Rs. 26.3 million repaid to the Joint Colonial Fund.

(e) Includes loan of Rs. 14.3 million from the Central Bank under the Bretton Woods Act, No. 20 of 1950, Section 7.

(f) Provisional figures.



64. The public debt can be classified into funded debt, consisting of sterling loans and Ceylon rupee loans; and floating debt, consisting of treasury bills and Central Bank advances. The table shows the changes within the financial year 1951-52, and the calendar year 1952.

(In millions of rupees)

End of Period	Funded Debt						Floating Debt		Total net debt
	Sterling Loans			Ceylon Rupee Loans			Treasury bills	Advances from Central Bank	
	Gross.	Sinking fund	Net	Gross	Sinking fund	Net			
1951 September	125.4	52.2	73.2	582.0	110.3	471.7	30.0	(a)	574.9
1951 December	125.4	52.9	72.5	586.0	114.7	471.3	15.0	(a)	558.8
1952 September	125.4	52.9	72.5	684.3	123.4	560.9	92.5	72.0	797.9
1952 December	125.4	54.4	71.0	684.3	129.0	555.3	100.0	85.0	811.3

(a) A special loan of Rs. 14.3 million was made to the Government in 1950 to meet its obligation to the International Bank (Bretton Woods Agreement Act No. 20 of 1950, Section 7). In May, 1952, this obligation was put into the form of a promissory note, and the bulk of the loan was repaid. In this table, neither the special loan nor the promissory note is counted as part of the public debt.

65. In calendar year 1952 the net sterling debt declined by Rs. 1.5 million. Net rupee loans rose by Rs. 84.0 million, treasury bills by Rs. 85.0 million, Central Bank advances by Rs. 85.0 million.

66. The 1952 rise in the gross rupee funded debt was Rs. 98.3 million. This represents the proceeds of two domestic loans totalling Rs. 100 million, less the repayment of Rs. 1.7 million of the 3½ per cent Home Defence Loan, 1952. The two domestic loans were subscribed as follows :

	2½% Loan 1956-58	3% Loan 1973-78	Total	Percentage
	Rs.	Rs.	Rs.	
1. Commercial Banks . . . . .	25,500,000	—	25,500,000	25.5
2. Co-operative Banks . . . . .	300,000	2,147,500	2,447,500	2.45
3. Insurance Companies . . . . .	1,330,000	640,000	1,970,000	1.97
4. Commercial Companies . . . . .	3,500,000	50,000	3,550,000	3.55
5. Trusts . . . . .	1,278,800	2,084,400	3,363,200	3.36
6. Provident and Savings Institutions . . . . .	892,300	51,610,800	52,503,100	52.5
7. Clubs and Institutions . . . . .	104,000	8,365,900	8,469,900	8.47
8. Individuals . . . . .	1,569,300	627,000	2,196,300	2.2
	34,474,400	65,525,600	100,000,000	100.0

67. The total net debt in 1952 rose by Rs. 252.5 million, or 45 per cent. The total debt was still relatively small compared with annual Government revenue, but the rate of increase during the year was alarming, especially when Government was at the same time drawing down its domestic and foreign balances by Rs. 73.0 million. In assessing Government's financial position at any particular time the relationship between the size of the public debt and annual revenue is not especially significant. Much more significant is the size of the loss that any given increase in the debt imposes upon external assets.

68. The following table shows the volume of public debt business in 1952 as compared with earlier years.

(In millions of rupees)

Financial year	Loans raised	Loans repaid	Interest paid	Value of transfers, exchanges, etc.	Sinking fund contributions (rupee loans)
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	—	16.3	413.6	14.9
1951-52 .. ..	104.0	1.7	18.4	211.1	15.6

69. *Money Supply*.—The money supply declined continuously from Rs. 1,006.2 million at the end of 1951 to Rs. 894.2 million at the end of 1952, a decrease of Rs. 112.0 million or 11 per cent.

*Money Supply*

(In millions of rupees)

End of month	1951	1952	Per cent change
January .. ..	965.2	1,005.6	4.2
February .. ..	1,029.6	1,002.0	— 2.7
March .. ..	1,027.6	984.8	— 4.2
April .. ..	1,033.7	977.6	— 5.4
May .. ..	1,033.4	945.9	— 8.5
June .. ..	1,025.2	922.7	—10.0
July .. ..	1,014.9	916.5	— 9.7
August .. ..	998.5	916.2	— 8.2
September .. ..	999.6	910.4	— 8.9
October .. ..	1,001.3	909.3	— 9.2
November .. ..	1,007.5	907.3	— 9.9
December .. ..	1,006.2	894.2	—11.1

Of the two constituents of the money supply, demand deposits fell 14.5 per cent, currency in circulation only 5 per cent.

70. The following table summarizes influences towards contraction and expansion of the money supply in the past three calendar years.

*Changes in Money Supply*

(In millions of rupees)

Factors affecting money supply	December 1949-1950		December 1950-1951		December 1951-1952	
	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors
1. External banking assets (net) ..	144.9	—	63.0	—	—	375.1
2. Commercial bank credit—						
(a) To the Government sector ..	67.2	—	—	35.9	67.3	—
(b) To the private sector ..	40.3	—	76.0	—	—	20.5
3. Central Bank credit (net) to Government .. ..	23.4	—	—	7.0	149.8	—
4. Shift from demand to time and other liabilities (net) of commercial banks .. ..	—	17.0	—	21.6	—	7.3
5. Shift of Government rupee cash to public .. ..	4.6	—	27.8	—	67.9	—
6. Adjustments .. ..	—	2.0	—	6.8	5.8	—
Total expansionary/contractionary factors .. ..	280.4	19.0	166.8	71.3	290.8	402.9
Change in money supply .. ..	261.4		95.5		-112.0*	

\* The discrepancy is due to rounding.

71. *Cost of Living.*—During 1952 the Colombo cost of living index fell to a low point in August and then rose somewhat. The pattern contrasted with that of 1950 and 1951, when the cost of living was generally rising.

72. Over the whole year the index fell slightly, by 1.7 per cent, from 290 in January to 285 in December. The August increase in the price of sugar (from 45 cents to 60 cents a pound) caused a three point increase in the September index. The quarter-measure cut in the rice ration in September accounted for almost half of the four point rise in October. The discontinuance of unlimited off-ration sales of imported rice at cost (by causing a higher price for country rice) brought the cost of living index by December four points above where it would otherwise have been.

73. The three components of the cost of living index moved as follows: (1) the import group index was relatively stable, and averaged 1 per cent higher than in 1951; (2) the domestic group was highest in January and, for the whole year, averaged 3 per cent higher than in 1951; (3) the export group fell in July to the lowest point since June, 1949. There was a considerable rise in the last quarter of the year: higher tea and coconut prices raised the index in October and November. The year's average was 20 per cent below that of 1951.

*Changes in Cost of Living by Commodity Groups*

(November, 1938—April, 1939=100)

Months	All items index			Import group(1)			Domestic group(2)			Export group(3)		
	1951	1952	Change %	1951	1952	Change %	1951	1952	Change %	1951	1952	Change %
January ..	281	290	+3.2	252	267	+6.0	256	282	+10.2	610	482	-21.0
February ..	284	286	+0.7	258	269	+4.3	255	271	+6.3	622	474	-23.8
March ..	284	280	-1.4	257	268	+4.3	258	264	+2.3	614	450	-26.7
April ..	283	280	-1.1	259	264	+1.9	259	271	+4.6	581	431	-25.8
May ..	283	276	-2.5	262	266	+1.5	261	271	+3.8	558	377	-32.4
June ..	284	279	-1.8	264	264	—	271	280	+3.3	489	372	-23.9
July ..	281	277	-1.4	266	261	-1.9	266	278	+4.5	463	366	-21.0
August ..	279	275	-1.4	266	260	-2.3	267	276	+3.4	443	369	-16.7
September ..	279	278	-0.4	263	266	+1.1	270	275	+1.9	445	367	-17.5
October ..	282	282	—	265	270	+1.9	270	275	+1.9	466	403	-13.5
November ..	284	286	+0.7	270	270	—	265	272	+2.6	485	466	-3.9
December ..	288	285	-1.0	268	267	-0.4	277	274	-1.1	483	463	-4.1
Average ..	283	281	-0.7	263	266	+1.1	265	274	+3.4	522	418	-19.9

74. The cost of living index in use in 1952 was based on a family budget survey of 1939 as revised by a special committee in November, 1942. The revision took into account the effects of the war on the expenditure pattern of the community: the reduction in the rice element in food, and inability to obtain certain articles included in the budget on which the original index was based.

75. In 1949-50 a new survey of consumer spending in Colombo was carried out by the Department of Census and Statistics, and during 1952 a new index based on the survey was recommended to Government jointly by the Department of Census and Statistics and the Central Bank. The main differences in the new index were inclusion of more commodities to make the budget more representative and less weight to all groups other than the miscellaneous group. (Of special significance is the smaller weight given to rice and the resultant increase in the weight of flour).

76. In February, 1953, the Cabinet decided to replace the old index by the new. The new index is to be called the Consumers' Price Index.

77. *National Product and Income.*—There is less basis for national income estimates in 1952 than there was in 1951, since there has not been significant new census or survey information. The available evidence suggests that the physical volume of domestic production rose slightly. With respect to the physical volume of exports: rubber fell slightly; tea, coconut oil, copra, and desiccated coconut rose, the last two sharply.

78. But exports sold for lower prices, and imports cost more. The value of gross national product in terms of what it could buy fell in the neighbourhood of 6 to 8 per cent. By drawing on external assets, Ceylon approximately maintained the volume of real consumption.



79. More complete, accurate, and up-to-date national income information would be highly useful. The 1953 Census, and an Island-wide Consumer Finances Survey conducted by the Bank in co-operation with the Department of Census and Statistics, will make possible a national income estimate for 1953 superior to any of the past.

80. *Wages and Employment.*—The movements in money and real wages in tea and rubber estates, which together constitute the most important single employment sector in the country, are shown in the table below. Money wages include basic wages and special allowances tied to changes in the cost of living.

81. Information available on Government unskilled workers and workers in a number of Wages Board industries (tea export, rubber export, engineering, coconut manufacturing, and printing) shows similar trends.

*Indexes of Money Wages, Cost of Living and Real Wages of Tea and Rubber*

*Estate Workers*

(1939=100)

Period				Money wages index	Cost of living index	Real wages index
1946	..	..	..	279	228	122
1947	..	..	..	293	239	123
1948	..	..	..	313	259	121
1949	..	..	..	320	264	121
1950	..	..	..	372	274	137
1951	..	..	..	453	288	157
1952	..	..	..	458	287	160
1950	December	..	..	439	268	164
1951	March	..	..	450	291	155
	June	..	..	457	285	160
	September	..	..	457	287	159
	December	..	..	462	296	156
1952	March	..	..	469	296	158
	June	..	..	452	276	164
	September	..	..	445	284	157
	December	..	..	457	291	157

The table shows that the average level of both money and real wages was higher in 1952 than in 1951.

82. The only data available on unemployment are numbers registered for employment in the employment exchanges. The movements in these are given below. They cannot, however, be taken as a wholly accurate measure of unemployment. In the first place, many who register in these exchanges already have some employment. Secondly, in general workers in the estate and rural sectors make little use of the exchanges.

83. No data are available on unemployment among Ceylonese workers employed in village or estate work. Many of them when unemployed occupy themselves partially in some independent work. In this way, much of this unemployment is transformed into under-employment. No exact measure of under-employment is available.

*Registrants at Employment Exchanges*

End of Period	Number
1948 .. .. .	66,656
1949 .. .. .	69,732
1950 .. .. .	65,122
1951 .. .. .	52,707
1952 March .. .. .	52,122
June .. .. .	49,020
September .. .. .	51,641
December (provisional) .. .. .	53,023

84. In spite of the qualifications that must be placed on the data, general observation confirms what they indicate: that there was no marked fall in the demand for labour during the year.

85. Wages and employment were generally favourable to labour during the year, despite the fall in export prices, for two reasons: first, the fall in prices was not so serious or prolonged as to cause a significant reduction in the demand for labour; and, second, in Wages Board industries wage rates cannot be reduced easily or quickly, and special allowances are geared to the cost of living regardless of profits.

86. *Balance of Payments and External Assets.*—Ceylon's balance of payments for 1952, by quarters, appears in Table 24 A. The breakdown by currency areas is shown in Table 24 B. The estimates show a deficit of Rs. 405 million on current account in marked contrast with a surplus of Rs. 89.0 million (as revised) for 1951.

87. Repatriation of foreign-owned capital continued during 1952, but on a smaller scale than during 1951. On the other hand, the capital inflow in 1952 exceeded the outflow principally because companies domiciled abroad but operating in Ceylon transferred to Ceylon a considerable volume of working balances previously held overseas. As a result there was a net inflow of Rs. 9 million in 1952 in contrast with a net outflow of Rs. 41 million (as revised) in 1951.

88. The overall deficit of Rs. 366.3 million in the balance of payments was financed mostly by drawing down external assets. These assets would have been drawn down further but for a sizeable increase in rupee liabilities on non-resident account.

89. Total external assets fell from Rs. 1,185.3 million in December, 1951 to Rs. 836.9 million in December, 1952. They were 32.5 per cent below the March, 1951, peak and had even fallen below their pre-devaluation level. Thus, Ceylon in 1952 used up all of the assets accumulated during the Korean War boom.