

48. The purpose of the Corporation will be primarily to promote and assist new enterprises in industry, and the expansion and modernisation of existing agricultural concerns. Such an institution should provide a useful channel for funds now available with commercial banks to be invested in productive development. Other private capital available could also be invested not only in the shares of the Corporation itself, but also in the new enterprises which will be stimulated by its assistance.

49. *Exchange Control.*—With the improvement in the balance of payments, no additional restrictions were found to be necessary in 1954, over and above the degree of intensification reached in 1953, when control of personal outward remittances was further tightened.

50. The continuance of restrictions as in 1953 was mainly influenced by the special need for strengthening the country's external reserves, for the additional purpose of financing foreign expenditures on economic development and on transfers of assets of Indian repatriates.

51. In the administration of exchange control in 1954, the Central Bank continued to receive the ready support and co-operation of the commercial banks.

#### IV. Basic Economic Data

##### *Foreign Trade in Merchandise*

52. *Exports.*—Statistics of value, volume and price levels of exports from 1938 onwards are given in tables 25, 27 and 28.\* The total value of exports increased by 15 per cent from Rs. 1,568 million in 1953 to Rs. 1,809 in 1954. The average price rose by 11 per cent and volume by 3 per cent.†

The share of tea in the export trade was much greater in 1954 than in 1953.

##### *Composition of Exports*

| Commodity                      | Value in Rs. million |       |       | Percentage of total exports |       |       |
|--------------------------------|----------------------|-------|-------|-----------------------------|-------|-------|
|                                | 1952                 | 1953  | 1954  | 1952                        | 1953  | 1954  |
| Tea .. .. .                    | 723                  | 825   | 1,123 | 48.2                        | 52.6  | 62.0  |
| Rubber .. .. .                 | 373                  | 338   | 285   | 24.8                        | 21.5  | 15.8  |
| Major coconut products .. .. . | 232                  | 244   | 212   | 15.4                        | 15.6  | 11.7  |
| Other domestic exports .. .. . | 84                   | 83    | 99    | 5.6                         | 5.3   | 5.5   |
| Domestic exports .. .. .       | 1,412                | 1,490 | 1,719 | 94.0                        | 95.0  | 95.0  |
| Re-exports .. .. .             | 90                   | 78    | 90    | 6.0                         | 5.0   | 5.0   |
| Total .. .. .                  | 1,502                | 1,568 | 1,809 | 100.0                       | 100.0 | 100.0 |

*Source : Ceylon Customs Returns.*

\*All tables referred to numerically appear in Appendix II.

†Central Bank Trade Indices.

53. While the price of tea rose 26 per cent, export quantity increased by 7 per cent. Even so, the quantity of 361 million pounds exported was the highest on record.

*Tea Export Quantities and Prices*

| Year         | Exports             |                               | Average market prices per lb. |                       |                    |                  |
|--------------|---------------------|-------------------------------|-------------------------------|-----------------------|--------------------|------------------|
|              | Quantity (Mn. lbs.) | f.o.b. price per lb. Rs. cts. | High-grown Rs. cts.           | Medium-grown Rs. cts. | Low-grown Rs. cts. | All tea Rs. cts. |
| 1952 .. .. . | 315                 | 2 30                          | 2 06                          | 1 66                  | 1 53               | 1 73             |
| 1953 .. .. . | 336                 | 2 46                          | 2 06                          | 1 79                  | 1 80               | 1 91             |
| 1954 .. .. . | 361                 | 3 11                          | 2 65                          | 2 47                  | 2 53               | 2 56             |

It may be observed that favourable weather conditions also influenced the increase in exports.

54. While the average price of rubber fell by 12 per cent in 1954, the quantity of rubber exported declined by 5 per cent.

*Rubber Exports (excluding latex)—Quantities and Prices*

| Year         | Ceylon              |  |                                      | Malaya   |  |
|--------------|---------------------|--|--------------------------------------|--|--|
|              | Quantity (Mn. lbs.) | f.o.b. price per lb. (all destinations) Rs. cts. | f.o.b. price per lb. China* Rs. cts. | f.o.b. price per lb. (other destinations) Rs. cts. | Singapore f.o.b. price per lb. R.S.S. No. 1 Rs. cts. |
| 1952 .. .. . | 206                 | 1 76   | 1 86                                 | 1 71   | 1 49   |
| 1953 .. .. . | 213                 | 1 54   | 1 74                                 | 1 22   | 1 05   |
| 1954 .. .. . | 203                 | 1 36   | 1 55                                 | 1 00   | 1 04   |

\*Predominantly high grade sheet rubber.

The prices paid for shipments to China dropped by 11 per cent in 1954 as compared with the previous year. Yet they were at a level well above world prices until the end of the year, when the rise in world prices reduced appreciably the premium on prices paid by China.

55. The prices of the three major coconut products declined. The price fall, as measured by a combined index for all three products, was 7 per cent. The quantity exported also decreased by an equal proportion.

*Major Coconut Products—Exports—Quantities and Prices*

| Product                      | 1952                  |                                 | 1953                  |                                 | 1954                  |                                 |
|------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|
|                              | Quantity in Th. cwts. | f.o.b. prices per cwt. Rs. cts. | Quantity in Th. cwts. | f.o.b. prices per cwt. Rs. cts. | Quantity in Th. cwts. | f.o.b. prices per cwt. Rs. cts. |
| Copra . . . . .              | 815                   | 40 75                           | 428                   | 53 43                           | 921                   | 49 37                           |
| Coconut oil . . . . .        | 2,134                 | 62 36                           | 1,871                 | 75 96                           | 1,378                 | 72 69                           |
| Desiccated coconut . . . . . | 1,112                 | 58 68                           | 1,146                 | 68 82                           | 1,104                 | 60 00                           |

Source : Ceylon Customs Returns.

56. Imports.—Tables 25, 26 and 28 show movements in imports, by value, volume and price, from 1938 onwards. The value of imports fell by 14 per cent in 1954, reflecting decreases both in price (8 per cent) and in volume (7 per cent.)\* The composition of imports is given under broad groups in the table below :—

*Composition of Imports*

|  | Value in Rs. million |              |              | Percentage of total imports |              |              |
|--|----------------------|--------------|--------------|-----------------------------|--------------|--------------|
|  | 1952                 | 1953         | 1954         | 1952                        | 1953         | 1954         |
| <b>Food, Drink and Tobacco</b> . . . . .     | <b>789</b>           | <b>796</b>   | <b>664</b>   | <b>46.3</b>                 | <b>49.5</b>  | <b>47.5</b>  |
| of which—                                    |                      |              |              |                             |              |              |
| Rice . . . . .                               | 329                  | 324          | 273          | 19.3                        | 20.1         | 19.5         |
| Flour . . . . .                              | 122                  | 164          | 91           | 7.1                         | 10.2         | 6.5          |
| Sugar . . . . .                              | 84                   | 71           | 63           | 4.9                         | 4.4          | 4.5          |
| Fish products . . . . .                      | 55                   | 58           | 57           | 3.2                         | 3.6          | 4.1          |
| Curry stuffs . . . . .                       | 35                   | 29           | 43           | 2.1                         | 1.8          | 3.1          |
| <b>Raw Materials</b> . . . . .               | <b>171</b>           | <b>163</b>   | <b>138</b>   | <b>10.1</b>                 | <b>10.1</b>  | <b>9.9</b>   |
| of which—                                    |                      |              |              |                             |              |              |
| Petroleum (crude) . . . . .                  | 84                   | 75           | 60           | 4.9                         | 4.7          | 4.3          |
| Fertilisers . . . . .                        | 31                   | 38           | 41           | 1.8                         | 2.4          | 2.9          |
| <b>Manufactures</b> . . . . .                | <b>740</b>           | <b>647</b>   | <b>594</b>   | <b>43.5</b>                 | <b>40.2</b>  | <b>42.5</b>  |
| of which—                                    |                      |              |              |                             |              |              |
| Cement . . . . .                             | 24                   | 16           | 13           | 1.4                         | 1.0          | 0.9          |
| Iron and steel . . . . .                     | 58                   | 55           | 46           | 3.4                         | 3.4          | 3.3          |
| Machinery . . . . .                          | 72                   | 68           | 46           | 4.2                         | 4.2          | 3.3          |
| Textiles . . . . .                           | 178                  | 137          | 124          | 10.5                        | 8.5          | 8.9          |
| Chemicals, drugs, dyes and colours . . . . . | 34                   | 32           | 37           | 2.0                         | 2.0          | 2.6          |
| Petroleum (refined) . . . . .                | 48                   | 45           | 43           | 2.8                         | 2.8          | 3.1          |
| Paper and cardboard . . . . .                | 37                   | 26           | 28           | 2.2                         | 1.6          | 2.0          |
| Motor vehicles . . . . .                     | 57                   | 45           | 27           | 3.4                         | 2.8          | 1.9          |
| Others . . . . .                             | 2                    | 2            | 1            | 0.1                         | 0.1          | 0.1          |
| <b>Total</b> . . . . .                       | <b>1,702</b>         | <b>1,608</b> | <b>1,397</b> | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b> |
| Re-exports . . . . .                         | 90                   | 78           | 90           | —                           | —            | —            |
| <b>Net imports</b> . . . . .                 | <b>1,612</b>         | <b>1,530</b> | <b>1,307</b> | —                           | —            | —            |

Source : Ceylon Customs Returns.

\* Central Bank Trade Indices

57. In 1954, as in other recent years, food imports accounted for nearly half of the total value of all imports. And while the aggregate value of all imports fell by Rs. 211 million or 14 per cent, the value of food imports alone fell by as much as Rs. 129 million or 17 per cent. The lower import value of food in 1954 was due to a decline of 9 per cent in the quantity of imports and of 11 per cent in the average price. Between 1953 and 1954 average c.i.f. prices per ton of rice fell from Rs. 801 to Rs. 690, of flour from Rs. 570 to Rs. 458 and of sugar from Rs. 495 to Rs. 456. The total value of raw materials imported fell by Rs. 25 million or 15 per cent. The value of manufactured goods as a group fell by Rs. 53 million or 8 per cent. Both the volume and the average price of textiles declined, by 3 per cent and 8 per cent, respectively.

58. *Pattern of Trade.*—Table 29 shows the distribution of foreign trade by important regions and monetary areas. In contrast with the usual pattern of a deficit with the sterling area, offset partly or wholly by a surplus with the non-sterling area, there was in 1954 a surplus of Rs. 196.6 million with the former far exceeding the surplus of Rs. 139.4 million with the latter.

59. The percentage distribution of Ceylon's exports and imports by monetary areas is given in the table below :—

*Trade by Monetary Areas*

| Monetary areas              | 1952         |              | 1953         |              | 1954*        |              |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                             | Exports<br>% | Imports<br>% | Exports<br>% | Imports<br>% | Exports<br>% | Imports<br>% |
| Sterling area .. .. .       | 49.2         | 63.8         | 47.7         | 64.5         | 55.9         | 58.4         |
| Dollar area .. .. .         | 15.8         | 11.1         | 13.3         | 4.3          | 11.0         | 4.7          |
| Non-Sterling E.P.U. area .. | 12.9         | 7.6          | 12.0         | 9.6          | 8.5          | 11.7         |
| Others .. .. .              | 22.1†        | 17.5         | 27.0†        | 21.6         | 24.6†        | 25.2         |
|                             | 100.0        | 100.0        | 100.0        | 100.0        | 100.0        | 100.0        |

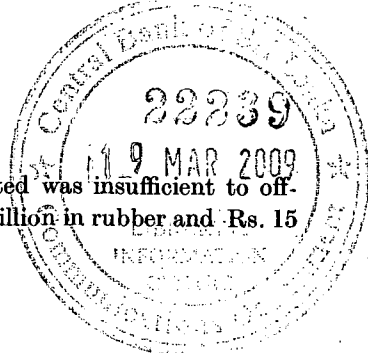
\*Provisional figures.

†Includes ships' stores and bunkers.

The sterling area group of countries continued to provide the largest market for Ceylon's exports and the most important source of supply of its imports. Exports in 1954 to this area expanded by Rs. 262 million, mainly as a result of an increase, of Rs. 223 million, in the value of tea exports. Imports, however, declined by Rs. 204 million. The chief reason for this decline was a fall in the price and the quantity of flour imports, the value of which was Rs. 73 million lower than in 1953. There were also substantial decreases in the value of imports of sugar, textiles, machinery and motor vehicles.

60. Ceylon's trade surplus with the dollar area decreased from Rs. 140 million in 1953 to Rs. 132 million in 1954. This small decline was due almost entirely to a fall in the value of exports; the value of imports remained very nearly unchanged.

The increase of Rs. 16 million in the value of tea exported was insufficient to offset the decline in the other major exports, that is, Rs. 11 million in rubber and Rs. 15 million in coconut products.



*Trade with the Dollar Area*

(In millions of rupees)

| Year  | Exports |          |        |                  | Imports |           |          |                                |          |                    |                     | Trade balance |
|-------|---------|----------|--------|------------------|---------|-----------|----------|--------------------------------|----------|--------------------|---------------------|---------------|
|       | Total   | of which |        |                  | Total   | of which  |          |                                |          |                    |                     |               |
|       |         | Tea      | Rubber | Coconut products |         | Machinery | Vehicles | Rice, flour, sugar and tobacco | Textiles | Petroleum products | Paper and cardboard |               |
| 1951  | 288     | 119      | 142    | 5                | 101     | 10        | 9        | 19                             | 23       | 5                  | 5                   | +187          |
| 1952  | 237     | 131      | 79     | 7                | 189     | 15        | 15       | 86                             | 16       | 8                  | 6                   | + 48          |
| 1953  | 209     | 131      | 29     | 28               | 69      | 12        | 8        | 18                             | 2        | 5                  | 3                   | +140          |
| 1954* | 199     | 147      | 18     | 13               | 67      | 8         | 5        | 24                             | 2        | 4                  | 4                   | +132          |

\*Provisional figures.

61. The total value of trade with China decreased somewhat in 1954, the fall in imports being greater than the fall in exports.

*Ceylon's Trade with China*

| Year          | Exports         |                             | Imports         |                             | Trade balance (Rs. mn.) |
|---------------|-----------------|-----------------------------|-----------------|-----------------------------|-------------------------|
|               | Value (Rs. mn.) | Percentage of total exports | Value (Rs. mn.) | Percentage of total imports |                         |
| 1951 .. .. .  | 36              | 1.9                         | 4               | 0.3                         | +32                     |
| 1952 .. .. .  | 124             | 8.2                         | 33              | 1.9                         | +91                     |
| 1953 .. .. .  | 242             | 15.4                        | 209             | 13.0                        | +33                     |
| 1954* .. .. . | 222             | 12.2                        | 152             | 10.9                        | +70                     |

\*Provisional figures.

Ceylon's trade with China, from 1953 onwards, is essentially an outcome of the five-year rice-rubber agreement concluded with that country in December, 1952. Exports in 1954 comprised rubber predominantly, and coconut oil to a small extent, and imports consisted of rice almost exclusively. Under the 1954 contract, Ceylon was to supply 50,000 metric tons of rubber, at 28 pence (Rs. 1/55) per pound f.o.b. Colombo for the top grades of sheet rubber, and China was to supply 270,000 metric

tons of rice at £47 (Rs. 627/-) per metric ton f.o.b. China ports. With the decline of 11 per cent in the average price, and of 18 per cent in the quantity, of rice imported from China at 1954, its import value, at Rs. 148 million, was Rs. 55 million less than in 1953. As the average price of rubber to China in 1954 was 11 per cent lower than in 1953, while the quantity actually exported to China (60,000 metric tons) was nearly constant, its export value fell by Rs. 24.4 million to Rs. 206 million.

62. Under the agreement with Burma for annual purchases of 200,000 long tons of rice over the period 1953 to 1957, the contract price for 1954 was £50 per ton (£2 less than for 1953). The quantity of rice imported from this source in 1954 was 166,881 long tons (Rs. 115 million) compared with 140,615 long tons (Rs. 118 million) in 1953.

63. In 1954, payments problems arising in Egypt tended to impede exports of Ceylon tea to that country. With a view to overcoming these difficulties and at the same time encouraging a greater flow of trade between the two countries, a bilateral trade and payments agreement with Egypt was concluded in November, 1954. This agreement underlines the importance of the Egyptian market for Ceylon tea; for Egypt is not only the fourth largest buyer, but also provides a special market for tea of a particular quality.

### *Money and Banking*

64. *Money Supply.*—The falling trend of the money supply which persisted through 1953 continued into the first four months of 1954. From May onwards the money supply rose fairly steadily; at the end of the year it was Rs. 957.1 million, or 15.7 per cent higher than a year previous.

### *Money Supply*

*(In millions of rupees)*

| End of           | 1952  | 1953 | 1954 | Change<br>(1953<br>over<br>1952) | Change<br>(1954<br>over<br>1953) |
|------------------|-------|------|------|----------------------------------|----------------------------------|
| January ... ..   | 1,006 | 890  | 806  | —11.5                            | —9.4                             |
| February ... ..  | 1,002 | 901  | 799  | —10.1                            | —11.3                            |
| March ... ..     | 985   | 899  | 810  | —8.7                             | —9.9                             |
| April ... ..     | 978   | 881  | 803  | —9.9                             | —8.9                             |
| May ... ..       | 946   | 876  | 828  | —7.4                             | —5.5                             |
| June ... ..      | 923   | 880  | 856  | —4.6                             | —2.7                             |
| July ... ..      | 916   | 851  | 867  | —7.1                             | +1.9                             |
| August ... ..    | 916   | 815  | 879  | —11.1                            | +7.9                             |
| September ... .. | 911   | 824  | 881  | —9.5                             | +6.9                             |
| October ... ..   | 910   | 822  | 921  | —9.6                             | +12.0                            |
| November ... ..  | 909   | 810  | 931  | —10.9                            | +14.9                            |
| December ... ..  | 896   | 827  | 957  | —7.7                             | +15.7                            |

Of the total money supply, privately held demand deposits rose by 25.2 per cent, while currency in circulation rose by only 1.9 per cent.

65. The table below measures broadly the expansionary and contractionary influences on the money supply, annually from 1952.

*Changes in Money Supply*

(In millions of rupees)

| Factors affecting money supply  | End of December, 1950-51 |                        | End of December, 1951-52 |                        | End of December, 1952-53 |                        | End of December, 1953-54 |                        |
|---|--------------------------|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|------------------------|
|   | Expansionary factors     | Contractionary factors | Expansionary factors     | Contractionary factors | Expansionary factors     | Contractionary factors | Expansionary factors     | Contractionary factors |
| External banking assets (net)   | 63.1                     | —                      | —                        | 363.1                  | —                        | 132.6                  | 341.0                    | —                      |
| Commercial bank credit:   |                          |                        |                          |                        |                          |                        |                          |                        |
| (a) To the Government sector  | —                        | 35.9                   | 67.3                     | —                      | —                        | 18.8                   | 26.2                     | —                      |
| (b) To the private sector   | 76.0                     | —                      | —                        | 20.5                   | 18.0                     | —                      | 37.6                     | —                      |
| Central Bank credit (net) to Government                                   | —                        | 7.1                    | 137.9                    | —                      | 58.3                     | —                      | —                        | 221.0                  |
| Shift from demand to time and other liabilities (net) of commercial banks | —                        | 21.6                   | —                        | 7.3                    | —                        | 5.5                    | —                        | 36.2                   |
| Shift of Government rupee cash to public                                  | 27.8                     | —                      | 67.9                     | —                      | 7.1                      | —                      | —                        | 16.8                   |
| Adjustments   | —                        | 6.8                    | 7.4                      | —                      | 4.5                      | —                      | —                        | 0.5                    |
| Total expansionary/contractionary factors                                 | 66.9                     | 71.4                   | 280.5                    | 390.9                  | 87.9                     | 156.9                  | 404.8                    | 274.5                  |
| Changes in money supply   | + 95.5                   |                        | -110.4                   |                        | -69.0                    |                        | +130.3                   |                        |

Note : Differences as compared with previously published figures are due to subsequent revisions.

66. *Commercial Banks.*—The main changes in the commercial banking situation in 1954 are summarised below :—

- (a) Total deposit liabilities rose by Rs. 145.9 million (22 per cent) to Rs. 795.6 million, Government deposits from Rs. 45.9 million to Rs. 53.0 million and private deposits from Rs. 590.8 million to Rs. 737.0 million. Though total demand deposits increased absolutely by Rs. 101.5 million to Rs. 649.0 million, and time and savings deposits by Rs. 44.3 million to Rs. 146.6 million, proportionately the former rose much less (18 per cent) than the latter (43 per cent).
- (b) Bank cash, comprising till money and balances with the Central Bank, rose by Rs. 40.6 million or 44.6 per cent. The ratio of cash to total deposits thus increased from 14.1 per cent to 16.6 per cent.
- (c) Foreign balances, including unmatured export bills, rose by Rs. 35.8 million.
- (d) Credit to the private sector, that is, the sum of loans, overdrafts, import and export bills, increased by Rs. 53.7 million (21.2 per cent), overdrafts alone being Rs. 29.9 million higher.

- (e) Credit to Government increased by Rs. 26.2 million, commercial bank holdings of long dated securities having fallen by Rs. 8.4 million, and holdings of treasury bills having increased by Rs. 34.7 million.
- (f) Total liquid assets rose by Rs. 120.0 million (47 per cent) to Rs. 375.5 million.
- (g) Excess reserves, which were at a very low level in the last quarter of 1953, rose by Rs. 27.3 million over the year. The highest level was reached in September, when they stood at Rs. 49.2 million.

67. The composition of liquid assets and the changes in certain asset-liability relationships of the commercial banks are shown in the table below.

*Commercial Banks: Liquidity and Asset-Liability Relationships.*

(In millions of rupees)

|   | Dec.,<br>1950 | Dec.,<br>1951 | Dec.,<br>1952 | Dec.,<br>1953 | 1954       |            |            |            |
|---|---------------|---------------|---------------|---------------|------------|------------|------------|------------|
|   |               |               |               |               | March      | June       | Sept.      | Dec.       |
| Cash and deposits at Central Bank (inclusive of statutory reserve requirements) .. .. . | 199           | 226           | 155           | 91            | 86         | 97         | 140        | 132        |
| Treasury bills .. .. .  | 54            | 14            | 62            | 53            | 49         | 52         | 77         | 88         |
| Bills discounted .. .. .  | 53            | 73            | 64            | 60            | 66         | 75         | 86         | 83         |
| Foreign balances .. .. .  | 180           | 137           | 50            | 51            | 43         | 45         | 58         | 73         |
| <b>Total liquid assets .. .. .</b>  | <b>487</b>    | <b>450</b>    | <b>332</b>    | <b>255</b>    | <b>243</b> | <b>269</b> | <b>361</b> | <b>375</b> |
| <b>Total investments <sup>(1)</sup> .. .. .</b>   | <b>271</b>    | <b>235</b>    | <b>302</b>    | <b>284</b>    | <b>280</b> | <b>271</b> | <b>291</b> | <b>310</b> |
| <b>Total loans and advances <sup>(2)</sup> .. .. .</b>                                  | <b>182</b>    | <b>257</b>    | <b>241</b>    | <b>253</b>    | <b>258</b> | <b>289</b> | <b>286</b> | <b>307</b> |
| Demand deposits <sup>(3)</sup> .. .. .  | 730           | 723           | 620           | 546           | 521        | 563        | 587        | 648        |
| Time and savings deposits .. .. .   | 77            | 91            | 103           | 102           | 102        | 106        | 157        | 147        |
| <b>Total deposits .. .. .</b>   | <b>807</b>    | <b>814</b>    | <b>723</b>    | <b>648</b>    | <b>623</b> | <b>669</b> | <b>744</b> | <b>794</b> |
| Ratio of:—  | %             | %             | %             | %             | %          | %          | %          | %          |
| Cash to demand deposits .. .. .   | 27.3          | 31.2          | 25.1          | 16.7          | 16.4       | 17.2       | 23.9       | 20.3       |
| Cash to total deposits .. .. .  | 24.7          | 27.7          | 21.5          | 14.1          | 13.8       | 14.5       | 18.8       | 16.6       |
| Liquid assets to demand deposits .. .. .  | 66.6          | 62.3          | 53.5          | 46.8          | 46.7       | 47.7       | 61.4       | 58.0       |
| Investments to total deposits .. .. .   | 33.6          | 28.9          | 41.8          | 43.7          | 44.9       | 40.5       | 39.1       | 39.0       |
| Loans and advances to total deposits .. .. .  | 22.6          | 31.5          | 33.3          | 39.0          | 41.4       | 43.2       | 38.4       | 38.6       |

(1) Treasury bills and Government securities.

(2) Bills discounted (local and foreign), overdrafts and loans.

(3) Exclusive of domestic inter-bank deposits.

In the latter part of the year one of the major problems confronting the banks was the growth of liquid funds and the increasing shortage of attractive short-term investments. This situation developed at a time when there was a substantial rise in banks' costs due to the large increase in time and savings deposits.



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

|   | 1946-47   | 1947-48   | 1948-49 | 1949-50 | 1950-51 | 1951-52  | 1952-53 | 1953-54(a) |
|---|-----------|-----------|---------|---------|---------|----------|---------|------------|
| 1. Net Cash Operating Surplus or Deficit (—) .. ..  | —130.6    | —43.6     | —106.4  | —160.6  | —47.8   | —257.1   | —231.9  | 33.7       |
| (i) Revenue surplus or deficit (—)  |           |           |         |         |         |          |         |            |
| (a) Revenue .. .. .   | 461.2     | 540.6     | 576.1   | 623.3   | 910.2   | 954.0    | 952.5   | 1,026.2    |
| (b) Expenditure chargeable to revenue excluding sinking fund contributions (vide 2 (iii) (a)) .. .. .                               | —481.9    | —511.1    | —532.7  | —545.6  | —787.5  | —1,004.6 | —904.4  | —772.0     |
| (Food subsidy) .. .. .  | (89.6)(1) | (77.8)(1) | (55.1)  | (35.8)  | (131.6) | (247.2)  | (127.0) | (12.0)     |
| (ii) Loan and loan fund expenditure .. .. .   | —20.7     | 29.5      | 43.4    | 77.7    | 122.7   | —50.6    | 48.1    | 254.2      |
| (iii) Expenditure financed by National Development Reserve .. .. .  | —32.1     | —70.3     | —122.5  | —155.6  | —146.7  | —203.0   | —220.6  | —162.3     |
| (iv) Advances to stores and materials account .. .. .   | —         | —0.6      | —5.6    | —6.6    | —5.4    | —7.7     | —6.4    | —3.2       |
| (v) Other advances .. .. .  | —0.4      | 6.2       | —7.1    | —3.3    | —1.8    | —16.8    | —2.4    | 4.6        |
| (vi) Miscellaneous .. .. .  | —81.5(2)  | 5.9       | —14.6   | —73.4   | —16.2   | 19.0     | —41.9   | —61.1      |
|   | 4.1       | —1.9      | —       | 0.6     | —0.4    | 2.0      | —8.7    | 1.5        |
| 2. Net Cash Receipts or Payments (—) Resulting from Government Borrowing and Lending Operations .. ..                               | —44.8     | 27.0      | 35.8    | 85.9    | 114.0   | 184.1    | 216.5   | —35.3      |
| (i) Administrative borrowing and repayment of borrowing:  |           |           |         |         |         |          |         |            |
| (a) Deposits (from suitors, contractors, etc.; and includes the unexpended balance of Colombo Plan aid) .. .. .                     | —18.0     | 0.5       | 7.7     | 14.0    | 46.7    | —16.2    | 21.4    | —2.1       |
| (b) Miscellaneous funds (Widows' & Orphans' Pension Fund, Public Servants' Provident Fund, etc.) .. .. .                            | —3.2      | —2.6      | 0.8     | 2.8     | —4.6    | 0.6      | —0.2    | 0.3        |
|   | —21.2     | —2.1      | 8.5     | 16.8    | 42.1    | —15.6    | 21.2    | —1.8       |
| (ii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, Local Bodies, etc.) .. .. . | —5.6      | —4.7      | —5.8    | —9.3    | —8.3    | —18.6    | —9.3    | —2.8       |
| (iii) Government market borrowing and repayment of borrowing:   |           |           |         |         |         |          |         |            |
| (a) Medium and long-term .. .. .  | 31.4      | 24.0      | 56.1    | 19.5    | 146.0   | 102.4    | 80.0    | 133.3      |
| Less Sinking fund contributions .. .. .   | 13.1      | 14.2      | 15.2    | 17.6    | 17.4    | 18.4     | 23.1    | 22.6       |
|   | 18.3      | 9.8       | 40.9    | 1.9     | 128.6   | 84.0     | 56.9    | 110.7      |
| (b) Treasury bills .. .. .  | —10.0     | 24.0      | —7.8    | 62.2    | —48.4   | 62.3     | 90.6    | —78.1      |
| (c) Central Bank advances .. .. .   | —         | —         | —       | 14.3(4) | —       | 72.0     | —1.5    | —4.7       |
| (d) Other .. .. .   | —26.3(3)  | —         | —       | —       | —       | —        | 58.6(5) | —58.6(6)   |
|   | —18.0     | 33.8      | 33.1    | 78.4    | 80.2    | 218.3    | 204.6   | —30.7      |
| 3. Changes in Cash Balances (including readily realisable assets) (1)+(2) .. .. .   | —175.4    | —16.6     | —70.6   | —74.7   | 66.2    | —73.0    | —15.4   | —1.6       |

(1) Food subsidy expenditures included in all cases in Items "Expenditure Chargeable to Revenue." As a result the revenue surpluses in years 1946-47 and 1947-48 are different from the published accounts, but have been made comparable with six more recent years.

(2) Estimated.

(3) Overdraft repaid to the Joint Colonial Fund.

(4) Special loan under the Bretton Woods Agreements Act No. 20 of 1950, Section 7.

(5) Loans from semi-Government institutions.

(6) Loans repaid to semi-Government institutions.

(a) Provisional.

*Public Finance*

68. *Government Accounts, 1953-54.*—The analysis of Government accounts in the table on page 20, shows that in 1953-54 there were many striking changes as compared with previous years.

- (a) Government had a net cash operating surplus of Rs. 33·7 million after a continuous series of deficits from 1946-47.
- (b) Revenue exceeded current expenditure by a record figure of Rs. 254·2 million; even in the boom year 1950-51, the revenue surplus was only Rs. 122·7 million.
- (c) Total revenue at Rs. 1,026·2 million reached its highest level for any financial year, largely as a result of the high export duty collections on tea. Revenue from import duties and income tax, estate duty and stamps, was, however, slightly lower than in the previous financial year.
- (d) The main reason for the record revenue surplus was the sharp reduction in current expenditure, which at Rs. 772·0 million was at its lowest level since 1949-50. This decrease was very largely due to the virtual elimination of the food subsidy.
- (e) Loan and loan fund expenditure at Rs. 162·3 million was considerably lower than in 1951-52 and 1952-53.
- (f) Government's borrowing and lending operations resulted in a net payment of Rs. 35·3 million, financed by the budget surplus of Rs. 33·7 million and a withdrawal of Rs. 1·6 million from cash balances. This net payment stands out in sharp contrast with a series of net receipts from 1947-48.

69. The table below shows how capital expenditures were financed. In 1953-54, the current account surplus (that is, the excess of Government revenue over non-capital outlays) exceeded total capital expenditure. The balance of the surplus was utilised to redeem domestic debt.

*Sources of Finance for Capital Expenditure*

|   | 1948-49 | 1949-50 | 1950-51 | 1951-52 | 1952-53 | 1953-54 | Original budget estimates 1954-55 |
|---|---------|---------|---------|---------|---------|---------|-----------------------------------|
| Current account surplus ..                                    | 58·8    | 65·1    | 87·5    | 24·4    | 47·1    | 121·2   | 75·3                              |
| Net domestic borrowing ..                                     | 16·8    | 34·5    | 45·4    | 49·2    | 61·2    | 35·5    | 7·3                               |
| Net foreign borrowing ..                                      | —       | —       | —       | —       | —       | 21·2    | 6·0                               |
| External aid under the C. Plan .. .. .                        | —       | —       | —       | 1·8*    | 1·0     | 6·4     | 6·3                               |
| Reduction in cash balances (including reserves) ..            | 24·4    | 0·4     | —32·9   | 24·6    | —9·3    | —13·3   | 5·1                               |
| Total capital expenditure (Rs. mn.) .. .. .                   | 100·0   | 100·0   | 100·0   | 100·0   | 100·0   | 100·0   | 100·0                             |
| Of which expenditure on capital maintenance (Rs. mn.) .. .. . | 212·4   | 249·2   | 251·0   | 361·3   | 349·0   | 298·1†  | 455·9†                            |
|   | (29·2)  | (29·5)  | (34·1)  | (42·5)  | (42·0)  | (30·0)  | (39·3)                            |

\* Revised to show the actual amount received as aid and not the expenditure met out of it.

† Obtained from the Government Planning Secretariat.

70. *Public Debt.*—Changes in the public debt by fiscal years appear in table 21. The movements of the debt in the calendar year 1952 to 1954 are set out in the tables that follow.

*Total Public Debt*

(In millions of rupees)

| Period<br>End of December | Gross   | Net   |
|---------------------------|---------|-------|
| 1951 .. .. .              | 726·4   | 558·8 |
| 1952 .. .. .              | 1,025·8 | 842·4 |
| 1953 .. .. .              | 1,175·0 | 993·3 |
| 1954 .. .. .              | 1,084·0 | 885·0 |

The total net debt fell by Rs. 108·3 million in 1954 as compared with increases of Rs. 283·6 million and Rs. 150·9 million in 1952 and 1953 respectively. There was a large decrease in the floating debt which was offset to some extent by the increase in the funded debt, both domestic and foreign.

71. *Funded Debt.*—In the calendar year total gross funded debt increased by Rs. 123·1 million, rupee funded debt by Rs. 51·6 million, and foreign debt (which is entirely funded debt) by Rs. 71·5 million.

*Funded Debt**(In millions of rupees)*

| End of<br>December | Foreign Debt   |                      |       |              |       | Domestic Debt |       |                      | Total |       |       |
|--------------------|----------------|----------------------|-------|--------------|-------|---------------|-------|----------------------|-------|-------|-------|
|                    | Sterling loans |                      |       | IBRD<br>Loan | Total |               | Gross | Sink-<br>ing<br>Fund | Net   | Gross | Net   |
|                    | Gross          | Sink-<br>ing<br>Fund | Net   |              | Gross | Net           |       |                      |       |       |       |
| 1951 ..            | 125.4          | 52.9                 | 72.5  | —            | 125.4 | 72.5          | 586.0 | 114.7                | 471.3 | 711.4 | 543.8 |
| 1952 ..            | 125.4          | 54.4                 | 71.0  | —            | 125.4 | 71.0          | 684.3 | 129.0                | 555.3 | 809.7 | 626.3 |
| 1953 ..            | 125.4          | 60.4                 | 65.0  | —            | 125.4 | 65.0          | 730.5 | 121.2                | 609.2 | 855.9 | 674.2 |
| 1954 ..            | 192.1          | 67.3                 | 124.8 | 4.8          | 196.9 | 129.6         | 782.1 | 131.7                | 650.4 | 979.0 | 0.780 |

The increase in the rupee debt was the combined result of (a) the issue in June of the 3½ per cent Loan 1964 for Rs. 70 million, and (b) the repayment in August of the maturing 3 per cent National Loan 1954 for Rs. 18.4 million. The loan for Rs. 70 million was issued mainly to convert a substantial part of the outstanding temporary borrowing from a savings bank and from other sources. New money obtained from this Loan amounted to only Rs. 9.95 million.

72. The Loan was offered at par and was over-subscribed by Rs. 5.5 million. The allotments of the loan were as follows :—

| Class of Subscriber                           | Amount<br>allotted<br>(Rs. million) | Percentage |
|---|-------------------------------------|------------|
| Commercial banks .. .. .                      | 1.50                                | 2.1        |
| Savings banks .. .. .                         | 52.50                               | 75.1       |
| Sinking Funds .. .. .                         | 2.39                                | 3.4        |
| Departmental and other Official Funds .. .. . | 10.91                               | 15.6       |
| Trusts, Provident and Pension Funds .. .. .   | 2.06                                | 2.9        |
| Insurance Companies .. .. .                   | 0.50                                | 0.7        |
| Companies .. .. .                             | 0.06                                | 0.1        |
| Individuals .. .. .                           | 0.08                                | 0.1        |
|   | 70.00                               | 100.0      |

73. The increase of Rs. 71.5 million in the gross foreign debt was made up of Rs. 66.7 million, representing the nominal value of the 1973-75 Loan at 4 per cent issued in London in March, and of Rs. 4.8 million withdrawn from the I.B.R.D. under the Loan Agreement signed in June.

74. The London Loan was issued at 97 giving a yield of 4.22 per cent to the final redemption date and was fully subscribed. The net proceeds of the Loan were Rs. 63.3 million.

75. The I.B.R.D. Loan was for a sum of Rs. 91 million (\$19.11 million). This amount includes \$1.68 million† of capitalised charges (interest, commission and commitment fees) due up to July 15th, 1958. The money is being made available in various foreign currencies to meet the costs in those currencies of Stage IIA of the Laxapana Hydro-Electric Scheme. The Loan bears interest at  $4\frac{3}{4}$  per cent, which includes a commission of 1 per cent chargeable under Article IV of the Articles of Agreement of the I.B.R.D. The rate of  $4\frac{3}{4}$  per cent applies only to amounts withdrawn from time to time and outstanding in the books of the I.B.R.D., amounts not withdrawn bearing a commitment charge of  $\frac{3}{4}$  per cent. The Loan is for a term of 25 years. Regular amortisation (together with interest) will commence  $4\frac{1}{2}$  years after the signing of the Loan Agreement, the first payment being due on January 15th, 1959.

76. *Sinking Funds.*—The value of sinking funds established for the redemption of public debt was Rs. 199.0 million at the end of December, 1954, as compared with Rs. 181.6 million at the end of December, 1953. In the course of the year, a sum of Rs. 12.0 million was appropriated out of the sinking funds, to meet part of the repayment of the 3 per cent National Loan, 1954. The increase in the sinking Funds despite this withdrawal was due to contributions from revenue, the appreciation in the value of and the accrual of interest on their investments.

77. *Floating Debt.*—There was a sharp decrease of Rs. 214.1 million in the floating debt in contrast with increases of Rs. 201.1 million and Rs. 103.0 million in 1952 and 1953 respectively. The proportion of floating to total debt decreased from 27.2 per cent at the end of 1953 to 9.7 per cent at the end of 1954.

*Floating Debt*  
(In millions of rupees)

| Period<br>End of<br>December | Treasury<br>bills | Advances<br>from<br>Central<br>Bank | Loans from<br>semi-Govt.<br>institu-<br>tions | Total  | Total floating debt<br>as per cent of |                        |
|------------------------------|-------------------|-------------------------------------|---|--------|---------------------------------------|------------------------|
|                              |                   |                                     |   |        | Total<br>debt                         | Total<br>rupee<br>debt |
| 1951                         | 15.0              | —                                   | —   | 15.0   | 2.1                                   | 2.5                    |
| 1952                         | 100.0             | 85.0                                | 31.1  | 216.1* | 21.1                                  | 24.0                   |
| 1953                         | 190.0             | 72.1                                | 57.0  | 319.1  | 27.2                                  | 30.4                   |
| 1954                         | 105.0             | —                                   | —   | 105.0  | 9.7                                   | 11.8                   |

\* Revised.

78. *Prices and Yields of Government Securities.*—As in 1953, the treasury bill rate set the pace for the general movement in interest rates in 1954. The treasury bill rate started going down in March. This decline was followed within the next two months by a fall in the yields of medium and long-term securities. The bill rate continued to decline till September, when having reached 0.70 per cent it recovered slightly and remained around 0.86 per cent for the rest of the year. In the last quarter of the year, the yields on medium and long-term securities too were fairly stable.

† Calculated on the basis of estimated withdrawals of the loan during the period of the execution of the project.

79. *Public Debt Business.*—The following table shows the volume of public debt business done in the past five years :—

| Financial year | Loans raised | Loans repaid | Interest warrants issued |            | Turnover of business in transfers, etc. | Amount of Sinking Fund moneys invested |
|----------------|--------------|--------------|--------------------------|------------|---|--|
|                |              |              | No.                      | Amount Rs. |   |  |
|                | Rs.          | Rs.          | No.                      | Rs.        | Rs.                                     | Rs.                                    |
| 1949-50        | 29,652,500   | 17,467,120   | 8,973                    | 15,066,582 | 152,777,000                             | 15,131,936                             |
| 1950-51        | 145,982,600  | —            | 9,146                    | 16,189,113 | 413,611,900                             | 14,883,933                             |
| 1951-52        | 104,017,400  | 1,691,000    | 9,082                    | 18,431,666 | 211,078,300                             | 15,618,123                             |
| 1952-53        | 120,000,000  | 73,796,800   | 8,638                    | 21,428,580 | 637,683,400                             | 16,318,933                             |
| 1953-54        | 70,000,000   | 47,962,300   | 10,101                   | 23,070,407 | 851,538,700                             | 14,381,749                             |

80. *Borrowing as Agent for Other Institutions.*—This was confined in 1954 to the issue in December of debentures for Rs. 5 million under the authority of the National Housing Act, No. 37 of 1954. The issue was at par, with a maturity of 15 to 17 years and carried interest at 3½ per cent. Total applications for stock amounted to Rs. 13·93 million. In order to permit subscriptions to be as broad-based as possible, applicants for Rs. 250,000 and under were allotted the full amount applied for, while applicants for larger amounts were allotted Rs. 250,000 each.

The allotments were as follows :—

|  | Rupees    | Percentage |
|--|-----------|------------|
| Commercial banks .. .. .                         | 450,000   | 9·0        |
| Savings banks .. .. .                            | —         | —          |
| Other credit institutions .. .. .                | —         | —          |
| Sinking Funds and other official sources .. .. . | 1,029,500 | 20·6       |
| Trusts, Provident and Pension Funds .. .. .      | 1,373,000 | 27·5       |
| Insurance companies .. .. .                      | 1,495,000 | 29·9       |
| Companies .. .. .                                | 610,000   | 12·2       |
| Individuals .. .. .                              | 42,500    | 0·8        |
|  | 5,000,000 | 100·00     |

*Prices, Wages and Employment*

81. *Cost of Living.*—The Colombo Consumers' Price Index, which attempts to measure changes in living costs generally, fell by 0·5 per cent in 1954. The movements in the Colombo Consumers' Price Index and its three component groups are given in the table below :—

*Changes in Cost of Living by Commodity Groups (1952=100)*

| Month     | All Items |       |              | Import Group |       |              | Domestic Group |      |              | Export Group |       |              |
|-----------|-----------|-------|--------------|--------------|-------|--------------|----------------|------|--------------|--------------|-------|--------------|
|           | 1953      | 1954  | Change*<br>% | 1953         | 1954  | Change*<br>% | 1953           | 1954 | Change*<br>% | 1953         | 1954  | Change*<br>% |
| Jan. . .  | 100·1     | 101·4 | +1·3         | 96·6         | 104·2 | +6·8         | 100·6          | 96·7 | -3·9         | 115·2        | 127·2 | +10·4        |
| Feb. . .  | 99·5      | 100·7 | +1·2         | 97·1         | 103·6 | +6·7         | 100·0          | 95·9 | -4·1         | 114·1        | 127·8 | +12·0        |
| Mar. . .  | 98·7      | 99·9  | +1·2         | 96·9         | 103·2 | +6·5         | 98·7           | 95·6 | -3·1         | 114·8        | 117·3 | +2·2         |
| April. .  | 99·6      | 100·0 | +0·4         | 97·5         | 103·6 | +6·3         | 99·7           | 95·8 | -3·9         | 118·3        | 113·8 | -3·8         |
| May . .   | 100·7     | 101·7 | +1·0         | 97·1         | 103·5 | +6·6         | 101·9          | 99·1 | -2·7         | 118·2        | 113·6 | -3·9         |
| June . .  | 102·3     | 102·4 | +0·1         | 97·8         | 104·5 | +6·9         | 104·3          | 99·7 | -4·4         | 116·8        | 112·7 | -3·5         |
| July . .  | 103·1     | 101·2 | -1·8         | 104·5        | 104·0 | -0·5         | 101·1          | 98·1 | -3·0         | 113·8        | 108·3 | -4·8         |
| Aug. . .  | 105·5     | 100·1 | -5·1         | 112·3        | 103·5 | -7·8         | 98·9           | 96·9 | -2·0         | 113·9        | 104·1 | -8·6         |
| Sept. . . | 105·1     | 100·5 | -4·4         | 111·8        | 104·0 | -7·0         | 98·4           | 97·3 | -1·1         | 117·4        | 103·0 | -12·3        |
| Oct. . .  | 103·0     | 101·3 | -1·7         | 109·1        | 103·7 | -4·9         | 96·4           | 98·9 | +2·6         | 120·8        | 104·0 | -13·9        |
| Nov. . .  | 100·9     | 101·6 | +0·7         | 104·1        | 105·1 | +1·0         | 96·4           | 98·3 | +2·0         | 120·6        | 106·1 | -12·0        |
| Dec. . .  | 101·0     | 101·8 | +0·8         | 104·1        | 105·2 | +1·1         | 96·7           | 98·3 | +1·7         | 120·7        | 107·9 | -10·6        |
| Avg. . .  | 101·6     | 101·1 | -0·5         | 102·5        | 104·0 | +1·5         | 99·4           | 97·5 | -1·9         | 117·1        | 112·1 | -4·3         |

\*From corresponding period of 1953.

82. *Wages.*—Tea and rubber estate workers, who constitute the largest single group of employed persons, were on the average better off in 1954 than in the previous year. Their money wages were 2·1 per cent higher, chiefly because of increased basic wages for tea estate workers from August onwards. The rise in money wages coupled with the lower cost of living resulted in a rise of 2·6 per cent in the real wages of tea and rubber estate workers.

83. *Employment.*—Data on the number of registrants at the employment exchanges are given below :—

| Period |             | Number | Index |
|--------|-------------|--------|-------|
| 1938   | .. .. .     | 16,480 | 100   |
| 1950   | .. .. .     | 65,122 | 395   |
| 1951   | .. .. .     | 52,707 | 320   |
| 1952   | .. .. .     | 53,023 | 322   |
| 1953   | .. .. .     | 51,546 | 313   |
| 1954   | 1st Quarter | 53,052 | 322   |
|        | 2nd Quarter | 54,259 | 329   |
|        | 3rd Quarter | 60,094 | 365   |
|        | 4th Quarter | 63,304 | 384   |

The survey of Ceylon's Consumer Finances, undertaken by the Central Bank in 1953, revealed that, in the 12-month period ending in May, 16·6 per cent of the work force, as defined for the purposes of this survey, and 6·6 per cent of the total

population were unemployed. The figures of registrations at the exchanges, however, include both unemployed and those seeking better employment and probably exclude workers in the estate and rural sectors who in general make little use of the exchanges.

#### *National Income*

84. The national income in 1953, as computed by the Department of Census and Statistics, was Rs. 4,479 million. On a rough calculation made by the Central Bank, the figure for 1954 can be provisionally estimated to be in the region of Rs. 4,700 million. On this estimate the national income in 1954 rose by 5 per cent over 1953.

85. This rise was mainly due to the large increase (36 per cent) in the value of tea output, resulting from an increase of 26 per cent in price and nearly 8 per cent in physical output. There was also a substantial increase in paddy production. Physical output increased by an estimated 30 per cent. Rubber and coconut however declined, both prices and output being lower than in 1953.

#### *Balance of Payments and External Assets*

86. In contrast with a deficit of Rs. 158.3 million (as revised) for 1953, the balance of payments surplus for 1954, as provisionally estimated, was Rs. 303.0 million. The major factors responsible for the substantial improvement have already been mentioned.

87. The net outflow through private remittances and migrants' transfers was Rs. 66.7 million, an increase of Rs. 8 million over 1953, due mainly to transfers of migrants' assets to India. The figures relating to transfers as the result of voluntary and compulsory repatriation of Indian nationals, show a steady increase with a very sharp rise during the last quarter of the year. Expenditure on foreign travel showed a decline in 1954. Under the exchange restrictions intensified in 1953 and maintained in 1954, net expenditure on foreign travel amounted to Rs. 26.3 million, being Rs. 11.8 million lower than in 1953.

88. Repatriation of foreign-owned capital amounted to Rs. 27.4 million, while increased export earnings enabled the sterling companies operating in Ceylon to maintain larger balances abroad. There was a net outflow of Rs. 50.3 million on the private capital account in 1954, as compared with Rs. 37.6 million in 1953.

89. Of the increase of Rs. 288 million in external assets, Rs. 224.7 million reflected the improvement in the balance of payments and Rs. 63.3 million the proceeds of the London Loan raised in March, 1954.