

million. Savings certificates outstanding increased by Rs. 1·8 million to Rs. 26·6 million. The increase in savings certificates occurred during the last four months of the year, following the issue, from August, 1956, of a new series of 10-year certificates carrying an increased return of 5 per cent if held to maturity.

51. *Bank Credit to the Private Sector.*—Total loans and advances of the commercial banks increased from Rs. 324·1 million at the end of 1955 to Rs. 407·2 million at the end of 1956. This increase of credit, by Rs. 83·1 million, went into the financing mainly of export stocks and to some extent of import stocks. That the amount of finance required by the import trade should be greater in 1956 is obvious enough, since the value of imports increased in that year. But the fact that the export trade also required more finance, even though the value of exports was less in 1956, would seem to require further comment.

52. Export values were very high in 1955 mainly because the f.o.b. price of tea was very high in the first quarter of the year. The average Colombo market price of export commodities during the period April to December, 1955, was lower than the average market price during the corresponding period of 1956. In particular, during the latter part of 1956 the trend in tea prices was upward. It should further be mentioned that the shipping difficulties associated with the Suez crisis and labour unrest in the Port also probably had the effect of increasing the financial requirements of the export trade to above normal levels.

53. Thus, although the loans and advances of the commercial banks increased fairly substantially in 1956, the credit expansion was necessary. Also, the credit expansion was expected to be temporary. Consequently the Central Bank did not consider the adoption of any restrictive policies as regards bank credit.

54. A general survey of the range and distribution of bank credit was instituted by the Central Bank towards the end of the year and its results should be available in 1957.

55. *Price Control.*—In November, price control of currystuffs, milk foods, drugs and cement was introduced, largely as a precautionary measure in view of the conditions created by the Suez crisis. Also, a scheme was formulated in November for petrol rationing which, however, was not put into effect.

56. *Exchange Control.*—There was no change in policy in 1956.

IV. Basic Economic Data

Foreign Trade in Merchandise

57. *Exports.*—Statistics of value, volume and price of exports from 1938 onwards are given in tables 26 and 28.⁽¹⁾ The total value of exports in 1956, at nearly Rs. 1,735 million, was 10·6 per cent lower than the record of Rs. 1,940 million in 1955. The average price and the physical volume of exports decreased by 6·3 per cent and 6·4 per cent respectively.

58. With the decrease of 9·1 per cent in the average price, and of 3·9 per cent in the quantity, of tea exports in 1956 compared with 1955, the contribution of tea to the aggregate value of all exports fell from nearly 62 per cent in 1955 to a little over 60 per cent in 1956. The share of rubber in total exports decreased from

⁽¹⁾ All tables numerically referred to appear in Appendix II.

18 per cent in 1955 to about 17 per cent in 1956, while that of the three major coconut products taken together rose from 11.6 per cent to 12.3 per cent. The decline in the aggregate value of exports of copra, coconut oil and desiccated coconut—the three major coconut products—was much less than the decline in the value of exports of tea and rubber.

Composition of Exports

Commodity	Value in Rupees million			Percentage of total exports		
	1954	1955	1956	1954	1955	1956
Tea	1,123	1,194	1,044	62.0	61.6	60.2
Rubber	285	350	293	15.8	18.0	16.9
Three major coconut products ..	212	225	213	11.7	11.6	12.3
Other domestic exports	99	103	102	5.5	5.3	5.9
Domestic exports	1,719	1,872	1,652	95.0	96.5	95.3
Re-exports	90	68	82	5.0	3.5	4.7
Total ..	1,809	1,940	1,735	100.0	100.0	100.0

Source : Ceylon Customs Returns.

59. The average f.o.b. price of tea fell from Rs. 3.30 per pound in 1955 to Rs. 3.00 per pound in 1956. The annual averages, however, concealed significant changes in the trend of prices within this two-year period. Prices were at their highest in the first quarter of 1955 averaging Rs. 4.27 per pound but they declined to Rs. 3.08 per pound in December, 1955. In 1956, prices remained generally lower than Rs. 3.08 per pound until the fourth quarter when it averaged Rs. 3.18 per pound. Although the quantity of tea exported in 1956 was 3.9 per cent lower than that in 1955, tea exports in the first half of 1956 were 6 million pounds higher than in the same period of 1955. Exports in the second half of 1956, however, were 20 million pounds lower than in the corresponding period of 1955.

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.
1953	336	2.46	2.06	1.79	1.80	1.91
1954	361	3.11	2.65	2.47	2.53	2.56
1955	362	3.30	2.34	2.04	2.40	2.24
1956	348	3.00	2.50	1.96	1.88	2.16
1956 1st Quarter ..	84.9	3.02	2.57	1.96	1.96	2.19
2nd „ ..	89.8	2.99	2.35	1.86	1.79	2.06
3rd „ ..	90.7	2.82	2.51	1.84	1.69	2.04
4th „ ..	82.7	3.18	2.92	2.33	2.10	2.48

60. The quantity of rubber exported declined 13 per cent from 216 million lbs. in 1955 to 188 million lbs. in 1956. The average price received for sheet rubber under the Five-Year Rice-Rubber Agreement with China was 34·65 pence (Rs. 1·92) per lb. in 1955 and 31·55 pence (Rs. 1·75) per lb. in 1956. The average f.o.b. price per lb. for all other grades of rubber declined from Rs. 1·65 per lb. in 1955 to Rs. 1·53 per lb. in 1956. The marked changes in the world price of rubber (Singapore f.o.b. for R.S.S. No. 1—highest Rs. 1·96, lowest Rs. 1·12 per lb.) were not communicated to the local market in 1956, where purchases for delivery to China were made at a fixed price of Rs. 1·51 per lb. till 17th May and thereafter at Rs. 1·41 per lb. up to the end of the year.

Rubber Exports (excluding latex)—Quantities and Prices

Year	Ceylon				Malaya
	Quantity Mn. lbs.	F.o.b. price per lb.			Singapore f.o.b. price per lb. R.S.S. No. 1 Rs. cts.
		All des- tinations Rs. cts.	China* Rs. cts.	Other des- tinations Rs. cts.	
1953.. ..	213	1·54	1·74	1·22	1·05
1954.. ..	203	1·36	1·55	1·00	1·05
1955.. ..	216·	1·56	1·52	1·58	1·78
1956.. ..	188	1·50	1·51	1·48	1·51

*Predominantly high grade sheet rubber.

61. The volume of exports of the three major coconut products (coconut oil, desiccated coconut and copra) as measured by a combined index, declined by 6·1 per cent as compared with 1955; prices improved somewhat. The prices of copra and coconut oil rose during the second and last quarters of the year but the price of desiccated coconut rose almost uninterruptedly throughout the year. The increase in the price of desiccated coconut was associated with a larger share in the total volume of the three major coconut products exported.

Major Coconut Products—Exports—Quantities and Prices

Products	1954		1955		1956	
	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	921	49·37	1,367	41·90	1,155	42·43
Coconut oil ..	1,378	72·69	1,945	58·26	1,698	58·42
Desiccated coconut	1,104	60·00	1,157	47·36	1,275	50·86

Source : Ceylon Customs Returns.

62. *Imports.*—Tables 27 and 29 show movements in imports by value, volume and price from 1938 onwards. The value of imports rose by 11.6 per cent due to an increase of 3.9 per cent in price and 8.5 per cent in volume, as recorded by the Central Bank of Ceylon Trade Indices.

Composition of Imports

	Value in Rs. million			Percentage of total imports		
	1954	1955	1956	1954	1955	1956
Food, Drink and Tobacco ..	664	625	703	47.5	42.8	43.2
of which—						
Rice	273	222	264	19.5	15.2	16.2
Flour	91	86	71	6.5	5.9	4.4
Sugar	63	63	96	4.5	4.3	5.9
Fish products	57	68	78	4.1	4.6	4.8
Curry stuffs	43	37	36	3.1	2.6	2.2
Raw Materials and Manu- factures	732	835	926	52.4	57.2	56.8
of which—						
Petroleum products	103	127	111	7.4	8.7	6.8
Fertilizers	41	49	54	2.9	3.3	3.3
Cement	13	13	17	0.9	0.9	1.0
Iron and steel	46	64	86	3.3	4.4	5.3
Machinery	46	59	65	3.3	4.0	4.0
Textiles	124	130	156	8.9	8.9	9.6
Chemicals, drugs, dyes and colours	37	35	37	2.6	2.4	2.3
Paper and cardboard	28	28	30	2.0	1.9	1.8
Motor vehicles	27	35	53	1.9	2.4	3.3
Others	1	—	—	0.1	—	—
Total	1,397	1,460	1,629	100.0	100.0	100.0
Re-exports	90	68	82	—	—	—
Net imports	1,307	1,392	1,547	—	—	—

Source : Ceylon Customs Returns.

63. The volume of food imported as measured by the Central Bank of Ceylon Trade Index increased by 11.6 per cent and rice alone 27.6 per cent as compared with the previous year. The average c.i.f. price of rice fell further to Rs. 545 per ton, continuing the downward trend from 1953 when the price was Rs. 801 per ton. The price of several other items in the food group rose offsetting the decline in the price of rice, so that the index remained unchanged. In the non-food groups of imports the volume of textiles rose sharply by 16.2 per cent. The volume of capital goods declined by 2.7 per cent.

64. *Pattern of Trade.*—Table 30 shows the distribution of foreign trade by significant regions and monetary areas. The surplus with the Sterling Area and with the non-Sterling Area contracted very sharply from Rs. 188.0 million and Rs. 292.4 million in 1955 to Rs. 29.5 million and Rs. 75.8 million, respectively. The fall

in the surplus with the Sterling Area was due in part to lower prices received for tea and greater imports of rice from Burma.

Trade by Monetary Areas

Monetary areas	1954		1955		1956*	
	Exports %	Imports %	Exports %	Imports %	Exports %	Imports %
Sterling area	57.0	58.2	54.3	59.3	53.0	54.7
Dollar area	11.0	4.7	14.4	6.9	14.1	4.9
Non-Sterling E.P.U. area ..	8.5	11.8	11.4	12.9	10.2	13.3
Others	23.5†	25.3	19.9†	20.9	22.7†	27.1
	100.0	100.0	100.0	100.0	100.0	100.0

*Provisional.

†Includes ships' stores and bunkers.

65. Ceylon's trade surplus with the dollar area fell slightly in 1956. Unlike in some months of 1955, exports of sheet rubber to destinations other than China were negligible.

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	
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
1955	280	170	62	24	101	17	6	47	2	4	3	+179
1956	245	169	30	22	80	10	9	33	2	4	3	+165

Source : Ceylon Customs Returns.

66. The turnover of trade with China improved somewhat in 1956. The volume of rubber exported was greater by 54.9 per cent, and of rice imported by 101.4 per cent. In addition, a further 78,600 tons of rice were shipped from Burma on account of China. In October, 1955, the price payable by China for top grades of sheet rubber was fixed as follows :—

Premium payable

5 pence
4 pence
3 pence

Price at Singapore for corresponding grade of rubber

Between 22 pence and 28 pence and at 28 pence
Between 28 pence and 40 pence and at 40 pence
Over 40 pence

67. A price of 27 pence was paid in 1956 when the average Singapore f.o.b. price fell below 22 pence a pound. In December, 1956, the price payable for rubber in the final year of the agreement, 1957, was fixed as follows:—

<i>Premium payable</i>	<i>Price at Singapore for corresponding grade of rubber</i>
4½ pence	Between 22½ pence and 28 pence and at 28 pence
3 pence	Between 28 pence and 35 pence and at 35 pence
2½ pence	Between 35 pence and 40 pence and at 40 pence
1 penny	Over 40 pence

The floor price of 27 pence continues.

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	
1953	242	15.4	209	13.0	+33
1954	222	12.2	158	11.3	+64
1955	121	6.5	80	5.5	+41
1956	182	11.0	134	8.2	+48

68. The contract price for rice from China was £33 per metric ton for the year 1956 and £30 7sh. 6d. per metric ton for 1957. The contract price for rice from Burma was initially £36 per long ton, revised later in May, 1956, to £34 per long ton, the price for 1957 is £33.

69. The Trade and Payments Agreement concluded in December, 1955, with Poland was followed in 1956 by broadly similar Agreements concluded with Czechoslovakia, Roumania and Bulgaria. A Trade Agreement was concluded with Hungary.

Money and Banking

70. *Money Supply.*—The upward trend of the money supply in 1954 and 1955 continued into 1956. After some decline in the first four months of the year, money supply rose almost steadily to reach a peak of Rs. 1,126.8 million at the end of 1956. At that point money supply was 5.0 per cent higher than at the end of 1955.

Money Supply (In millions of rupees)

End of	1954	1955	1956	Change (1955 over 1954) %	Change (1956 over 1955) %
January	806	952	1,060	+18.1	+11.3
February	799	968	1,054	+21.2	+8.9
March	810	954	1,048	+17.9	+9.9
April	803	933	1,043	+16.2	+11.7
May	828	925	1,049	+11.8	+13.4
June	856	919	1,056	+7.3	+14.9
July	867	961	1,051	+10.8	+9.3
August	879	984	1,053	+11.9	+7.0
September	881	1,012	1,064	+14.8	+5.2
October	921	1,056	1,078	+14.7	+2.0
November	931	1,077	1,094	+15.6	+1.6
December	957	1,073	1,127	+12.1	+5.0

71. While currency in circulation rose by 4.3 per cent, demand deposits rose by 5.4 per cent. In 1955, however, the percentage increase of currency in circulation had been greater than that of demand deposits—12.5 per cent against 11.9 per cent.

72. The table below measures broadly the expansionary and contractionary influences on the money supply annually from 1953.

Changes in Money Supply

(In millions of rupees)

Factors affecting money supply	End of December, 1952-53		End of December, 1953-54		End of December, 1954-55		End of December, 1955-56	
	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors	Expansionary factors	Contractionary factors
External banking assets (net)	—	132.6	341.0	—	217.0	—	21.0	—
Commercial bank credit:								
(a) To the Government sector	—	18.8	26.2	—	—	26.4	62.8	—
(b) To the private sector	18.0	—	37.6	—	14.9	—	92.4	—
Central Bank credit (net) to Government	58.3	—	—	221.0	—	25.9	—	30.2
Shift from demand to time and other liabilities (net) of commercial banks ..	—	5.5	—	36.2	—	15.9	—	31.3
Shift of Government rupee cash to public	7.1	—	—	16.8	—	46.5	—	60.9
Adjustments	4.5	—	—	0.5	—	1.4	0.1	—
Total expansionary/contractionary factors ..	87.9	156.9	404.8	274.5	231.9	116.1	176.3	122.4
Changes in money supply	-69.0		+130.3		+115.8		+53.9	

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

73. *Commercial Banks.*—The main changes in the commercial banks' assets and liabilities position in 1956 are summarised below :—

(a) Total deposit liabilities rose to Rs. 1,020.7 million, an increase of Rs. 109.9 million (12.1 per cent). Inter-bank deposits however fell by Rs. 3.8 million. The increase in total deposits was the result of a rise of Rs. 47.2 million (6.3 per cent) in demand deposits and Rs. 62.7 million (37.9 per cent) in time and savings deposits. In 1955 the proportionate increases in demand and time and savings deposits were 14.9 per cent and 12.8 per cent respectively.

Of the rise in total deposits excluding inter-bank deposits Rs. 35.2 million was in respect of Government deposits and Rs. 78.5 million in respect of private deposits.

(b) Cash assets, comprising till money and balances with the Central Bank rose from Rs. 169.9 million to Rs. 183.8 million, a rise of 8.2 per cent. The ratio of cash to total deposits, however, fell slightly from 18.8 per cent to 18.1 per cent.

- (c) Foreign balances, including unmatured export bills fell by Rs. 63·7 million.
- (d) Credit to the private sector, that is, the sum of loans, overdrafts, import and export bills rose by Rs. 83·4 million (25·8 per cent), the most significant increases being in overdrafts and import bills which rose by Rs. 63·4 million and Rs. 17·6 million respectively.
- (e) Credit to the Government sector increased by Rs. 62·8 million; commercial bank holdings of Government and Government guaranteed securities and Central Bank issues increased by Rs. 44·9 million while their holdings of Treasury Bills increased by only Rs. 17·9 million.
- (f) Total liquid assets fell by Rs. 14·6 million (3·2 per cent) to Rs. 436·7 million.
- (g) Excess reserves rose slightly by Rs. 3·7 million to Rs. 59·4 million. As in the two previous years, the figure for September—Rs. 83·2 million, was the highest for any month. It was also the highest since May, 1952.

74. 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.,	Dec.,	Dec.,	Dec.,	Dec.,	Dec.,	1956			
	1950	1951	1952	1953	1954	1955	Mar.	June	Sept.	Dec.
Cash and deposits at Central Bank (inclusive of statutory reserve requirements) ..	199	226	155	91	132	170	119	132	195	184
Treasury bills	54	14	62	53	88	35	32	35	40	52
Bills discounted	53	73	64	60	83	91	92	91	93	103
Foreign balances	180	137	50	51	73	156	127	102	111	98
Total liquid assets	487	450	332	255	375	451	371	359	439	437
Total investments ⁽¹⁾	271	235	302	284	310	283	331	334	327	346
Total loans and advances ⁽²⁾ ..	182	257	241	253	307	324	328	379	382	407
Demand deposits ⁽³⁾	730	723	620	546	648	741	706	717	775	790
Time and savings deposits ..	77	91	103	102	147	165	181	201	225	228
Total deposits	807	814	723	648	794	906	886	918	1,000	1,018
Ratio of :—	%	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	27·3	31·2	25·1	16·7	20·3	22·9	16·9	18·4	25·2	23·3
Cash to total deposits	24·7	27·7	21·5	14·1	16·6	18·8	13·4	14·4	19·5	18·1
Liquid assets to demand deposits ..	66·6	62·3	53·5	46·8	58·0	60·9	52·6	50·1	56·6	55·3
Investments to total deposits ..	33·6	28·9	41·8	43·7	39·0	31·2	37·4	36·4	32·7	34·0
Loans and advances to total deposits	22·6	31·5	33·3	39·0	38·6	35·8	37·0	41·3	38·2	40·0

(1) Treasury bills, Government and Government guaranteed securities and Central Bank issues.

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

(3) Exclusive of domestic inter-bank deposits.

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

	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56 (a)
1. <i>Net Cash Operating Surplus or Deficit (—)</i>	-106.4	-160.6	-47.8	-257.1	-231.9	33.7	127.6	1.2
(i) Revenue surplus or deficit (—)								
A. Revenue	576.1	623.3	910.2	954.0	952.5	1,026.2	1,158.6	1,257.2
B. Expenditure chargeable to revenue excluding contributions to sinking fund and direct repayments of public debt from revenue (<i>vide</i> 2 (iii) A)	-532.7	-545.6	-787.5	-1,004.6	-904.4	-772.0	-828.9	-1,064.4 ⁽⁴⁾
(<i>Food subsidy</i>)	(55.1)	(35.8)	(131.6)	(247.2)	(127.0)	(12.0)	(—)	(79.5)
	43.4	77.7	122.7	50.6	48.1	254.2	329.7	192.8
(ii) Loan and loan fund expenditure	-122.5	-155.6	-146.7	-203.0	-220.6	-162.3	-215.5	-211.0
(iii) Expenditure financed by National Development Reserve	5.6	6.6	5.4	7.7	6.4	3.2	2.1	3.9
(iv) Advances to stores and materials account	7.1	3.3	1.8	16.8	2.4	4.6	9.9	1.2
(v) Other advances	14.6	73.4	16.2	19.0	41.9	61.1	2.0	19.7 ⁽⁵⁾
(vi) Miscellaneous	—	0.6	0.4	2.0	8.7	1.5	7.6	—
2. <i>Net Cash Receipts or Payments (—) resulting from Government Borrowing and Lending Operations</i> ..	35.8	85.9	114.0	184.1	216.5	-35.3	-39.0	12.2
(i) Administrative borrowing and repayment of borrowing :								
A. Deposits (from suitors, contractors, etc., and includes the unexpended balance of Colombo Plan aid)	7.7	14.0	46.7	16.2	21.4	2.1	34.5	10.8
B. Miscellaneous funds (Widows' & Orphans' Pension Fund, Public Servants' Provident Fund, etc.)	0.8	2.8	4.6	0.6	0.2	0.3	0.9	4.8
	8.5	16.8	42.1	15.6	21.2	1.8	33.6	15.6
(ii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, Local Bodies)	5.8	9.3	8.3	18.6	9.3	2.8	4.5	20.9
(iii) Government market borrowing and repayment of borrowing :								
A. Medium and long-term	56.1	19.5	146.0	102.4	80.0	133.3	87.1	79.7
Less Sinking fund contributions and direct public debt repayments from revenue	15.2	17.6	17.4	18.4	23.1	22.6	44.5	39.0
	40.9	1.9	128.6	84.0	56.9	110.7	42.6	40.7
B. Treasury bills	7.8	62.2	48.4	62.3	90.6	78.1	44.9	8.0
C. Central Bank advances	—	14.3 ⁽¹⁾	—	72.0	1.5	4.7	65.8	—
D. Other	—	—	—	—	58.6 ⁽²⁾	58.6 ⁽³⁾	—	—
	33.1	78.4	80.2	218.3	204.6	30.7	68.1	48.7
3. <i>Changes in Cash Balances (including readily realisable assets) (1) + (2)</i>	-70.6	-74.7	66.2	-73.0	-15.4	-1.6	88.6	11.0

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

(2) Loans from semi-Government institutions.

(3) Loans repaid to semi-Government institutions.

(4) Includes a book debit of Rs. 50 million on account of the losses on Government advance account activities up to 1950/51.

(5) Includes a book credit of Rs. 50 million on account of the losses on Government advance account activities up to 1950/51.

(a) Provisional.

Public Finance

75. *Government Accounts*.—The table on page 20 analyses the Government's accounts* for the financial year 1955-56 and the seven years preceding. The Government's operations in 1955-56 showed the following significant features:—

- (a) The Government had a small net cash operating deficit of Rs. 1.2 million, as compared with surpluses of Rs. 33.7 million and Rs. 127.6 million in 1953-54 and 1954-55 respectively. The two preceding years were the only surplus years in the period covered by the table.
- (b) A small budget deficit occurred in spite of total revenue, at Rs. 1,257.2 million, being the highest level recorded so far for any financial year. The high revenue collections were largely the result of increased revenue from income tax, estate duty, stamps, etc. Revenue from customs duties, the other major category of revenue in Ceylon, was slightly lower than in the previous financial year.

Of the two main trading activities of the Government included in the budget, the railway continued to operate at a loss whilst the electrical department showed a profit. The railway had a deficit of Rs. 19.8 million in its operations as compared with a deficit of Rs. 17.7 million in 1954-55. The net profits of the electrical department in the two years amounted to Rs. 3.5 million and Rs. 4.7 million, respectively.

- (c) The sharp rise in expenditure chargeable to revenue was responsible for the budget deficit. Expenditure chargeable to revenue rose by nearly Rs. 240 million over the previous year. Of this increase, Rs. 50 million was for writing-off losses incurred by some Government trading activities in previous years, and Rs. 79.5 million was for food subsidies. The balance of the increase was mainly due to the increase in salaries of the public servants introduced in April, 1956, and to the increased expenditure on social services and on the maintenance of public utilities.
- (d) Loan and loan fund expenditure was slightly lower than in the previous year. This was due entirely to the reduced expenditure financed from the I.B.R.D. loan, on the Hydro-Electric Scheme. Such expenditure was only Rs. 5.2 million in 1955-56 in comparison with Rs. 12.1 million in 1954-55.
- (e) Government borrowing and lending operations resulted in a net receipt of Rs. 12.2 million which was utilised to finance the deficit of Rs. 1.2 million, the balance being used to augment Government's cash balance.

76. Government's local cash issues during the year amounted to Rs. 74.5 million of rupee loans and Rs. 8.0 million net of Treasury Bills. In addition withdrawals from the I.B.R.D. loan produced Rs. 5.2 million. These receipts were to a very large extent offset by contributions to public debt sinking funds as well as direct repayment of rupee loans from revenue, the repayment of quasi-debt like deposits and the issue of loans to semi-Government institutions.

*Provisional.

77. *Capital Expenditure.*—The following table shows how Government's capital expenditure, budgetary as well as extra-budgetary, was financed :—

Sources of Finance for Capital Expenditure

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57 (Original budget esti- mates)
	%	%	%	%	%	%	%
Current account surplus	84.6	23.2	45.9	120.5	121.0	93.6	54.0
Colombo Plan aid—grants	—	1.7	0.9	6.5	7.3	3.2	2.4
American aid — " "	—	—	—	—	—	—	2.4
Net foreign borrowing	—	—	—	21.6	3.4	1.3	8.0
Net domestic borrowing	47.2	51.7	62.3	35.2	14.8	7.1	} 33.3
Reduction in cash balances (including reserves)	—31.8	23.5	—9.0	—13.5	—16.8	—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.)	259.3	379.9	358.3	293.0	357.3	408.1*	499.3
	(34.1)	(42.5)	(42.0)	(38.1)	(40.8)	(50.4)	(54.0)

*Provisional.

78. Government's capital expenditure increased over the previous year. This, as well as the sharp increase in current outlays, reduced the proportion of capital expenditure financed through the surplus on current account (*i.e.*, the surplus of revenue over non-capital expenditure).

79. *Public Debt.*—The figures of public debt as at the end of each of the last four calendar years are given in the statements that follow. The figures in respect of financial years appear in Table 22.

Total Public Debt

(In millions of rupees)

End of December	Gross	Net
1953	1,175.0	993.3
1954	1,084.0	885.0
1955	1,105.0	898.4
1956	1,186.7	961.4

80. Total net debt rose by Rs. 63.0 million as compared with a rise of Rs. 13.4 million in 1955. The rise in 1956 was due to an increase of Rs. 52.9 million in funded debt and Rs. 10 million in the floating debt. Total net debt at Rs. 961.4 million at the end of 1956 was 76.4 per cent of Government revenue during 1955-56. The comparable ratio for 1955 was 77.5 per cent. The slight fall in the ratio in spite of the increase in the net debt, is explained by the record level of revenue collected in 1955-56.

81. *Funded Debt*.—Gross funded debt increased by Rs. 71.6 million and net funded debt by Rs. 52.9 million. The increase in the gross funded debt in 1956, was the result of (a) the withdrawal of Rs. 8.9 million from the I.B.R.D. under the Loan Agreement signed in June, 1954, and (b) the rupee loan transactions undertaken in 1956.

Funded Debt

(In millions of rupees)

End of December	Foreign Debt						Domestic Debt			Total	
	Sterling loans			IBRD Loan	Total		Gross	Sinking Fund	Net	Gross	Net
	Gross	Sinking Fund	Net		Gross	Net					
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	780.0
1955	192.1	65.8	126.3	13.7	205.8	140.0	849.2	140.8	708.4	1055.0	848.4
1956	192.1	68.9	123.2	22.6	214.7	145.8	911.9	156.4	755.5	1126.6	901.3

82. In February, two loans were issued at par; one for Rs. 25.1 million at 2½ per cent and maturing between 1961 and 1963, and the other for Rs. 24.9 million at 3½ per cent maturing between 1976 and 1981. In November another loan for Rs. 30 million carrying 3 per cent interest and maturing between 1969 and 1972 was issued at par. In February, the Rs. 7.5 million of the 3 per cent loan 1956 which had not been converted in the December, 1955, loan operations, was repaid in cash, and in August the 3½ per cent National Loan, 1956, amounting to Rs. 9.7 million was redeemed on maturity.

83. The three new loans issued for cash were fully subscribed and were allotted as follows:—

Rupees Million

Class of subscriber	2½% 1961-63	3½% 1976-81	3% 1969-72	Total	
				Amount	%
Commercial banks	23.95	4.33	5.02	33.30	41.6
Co-operative provincial banks	—	0.10	0.60	0.70	0.9
Savings institutions	—	2.80	4.40	7.20	9.0
Sinking funds	—	13.34	4.00	17.34	21.7
Departmental and other official funds	0.16	0.60	7.60	8.36	10.5
Trusts, provident and pension funds	0.17	2.66	6.97	9.79	12.2
Insurance companies	0.36	0.32	1.28	1.96	2.4
Other companies	0.35	0.46	0.08	0.89	1.1
Individuals, clubs and institutions	0.15	0.25	0.05	0.46	0.6
	25.14	24.86	30.00	80.00	100.0

84. *Sinking Funds*.—The value of sinking funds established for the redemption of public debt was Rs. 225.3 million at the end of December, 1956, as compared with Rs. 206.6 million at the end of December, 1955. In the course of the year a sum of Rs. 3.4 million was appropriated out of the sinking funds to meet part of

the repayment of the 3½ per cent National Loan, 1956. The increase in the value of the sinking funds, despite this withdrawal was due to the contributions from revenue and the accrual of interest on their investments.

85. *Floating Debt*.—There was an increase of Rs. 10 million, in the floating debt in contrast with a decline of Rs. 55·0 million in 1955. Advances from the Central Bank and loans from semi-Government institutions remained nil throughout 1956 as in the previous year. The proportion of floating debt to total debt rose slightly.

Floating Debt

(In millions of rupees)

End of December	Treasury Bills	Advances from Central Bank	Loans from semi-Govt. institutions	Total	Total floating debt as per cent of	
					Total debt	Total rupee debt
1953	190·0	72·1	57·0	319·1	27·2	30·4
1954	105·0	—	—	105·0	9·7	11·8
1955	50·0	—	—	50·0	4·5	5·6
1956	60·0	—	—	60·0	5·1	6·2

86. *Prices and Yields of Government Securities*.—The variations in the Treasury Bill rate and in the prices and yields of selected Government securities are shown in tables 20 and 23, respectively.

87. In 1956, there was little change in the interest rates, excepting the Treasury Bill rate. The Treasury Bill rate declined from 0·75 per cent in December, 1955, to 0·60 per cent in December, 1956. The yields on medium and long-term securities remained practically unchanged.

88. *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.	Rs.	Rs.
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
1954-55 ..	75,000,000	30,433,400	7,249	24,564,902	382,898,900	17,867,374
1955-56 ..	100,000,000	47,363,400	6,902	26,408,664	179,397,000	21,330,022

89. *Borrowing as Agent for Other Institutions*.—The Central Bank made two issues of State Mortgage Bank debentures and two of National Housing debentures during the year.

90. The State Mortgage Bank debentures were issued in February and June. The first issue was for Rs. 2.5 million at 2½ per cent with maturity dates of 1961-63 and the second was for Rs. 1.75 million at 3 per cent with maturity dates of 1969-71. They were allotted as follows :—

State Mortgage Bank Debentures

Rupees Million

Class of Subscriber	2½% 1961-63	3% 1969-71	Total	
			Amount	%
Commercial banks	1.41	0.18	1.58	37.2
Savings institutions	—	0.35	0.35	8.2
Sinking funds	—	0.04	0.04	0.9
Departmental and other official funds	—	0.27	0.27	6.4
Trusts, provident and pension funds	0.12	0.49	0.61	14.3
Insurance companies	0.95	0.23	1.18	27.8
Other companies	—	—	—	—
Individuals, clubs and institutions	0.03	0.19	0.22	5.2
	2.50	1.75	4.25	100.0

91. The issues of National Housing debentures were made in January and December. The January issue was for Rs. 10 million at 3% with maturity dates of 1969-71 and the December issue was also Rs. 10 million at 3¼% with maturity dates of 1976-81.

National Housing Debentures

Rupees Million

Class of subscriber	3% 1969-71	3¼% 1976-81	Total	
			Amount	%
Commercial banks	2.54	0.79	3.33	16.7
Savings institutions	3.04	3.00	6.04	30.2
Sinking funds	—	2.13	2.13	10.7
Departmental and other official funds	0.30	1.80	2.10	10.5
Trusts, provident and pension funds	2.51	1.85	4.36	21.8
Insurance companies	1.57	0.40	1.97	9.8
Other companies	—	—	—	—
Individuals, clubs and institutions	0.04	0.03	0.07	0.3
	10.00	10.00	20.00	100.0

Prices, Wages and Employment

92. The general level of retail prices, as measured by the Colombo Consumers' Price Index, showed no significant change over the year as a whole, though there were fluctuations within the year in the overall index.

93. In 1956, there was a downward trend in the 1st quarter, a rise in April followed by a steady decline till August, another rise in September and October and declines in November and December. The rises in April and October were largely due to

a rise in the prices of domestically produced goods, while the reduction in the subsidised price of rationed rice and in the price of sugar by 5 cents a pound each in May, which had the effect of lowering the overall index by 3.5 points, more than offset the rise in the prices of domestically produced goods.

94. The import group index (a sub-group of the Colombo Consumers' Price Index covering imported consumption goods and having a weight of 44 per cent in the overall index) was 3.9 per cent lower in 1956 than in 1955, while the prices of domestically produced and consumed goods were 1.7 per cent higher and the export group index was 12.9 per cent higher.

Changes in the Colombo Consumers' Price Index by Commodity Groups

Month	All items			Import group			Domestic group			Export group		
	1955	1956	*Change %	1955	1956	*Change %	1955	1956	*Change %	1955	1956	*Change %
Jan.	101.5	101.5	—	105.4	102.8	—2.5	97.6	99.7	+2.2	108.2	109.6	+ 1.3
Feb.	100.5	99.8	—0.7	105.0	102.1	—2.8	96.4	96.9	+0.5	104.9	110.2	+ 5.1
Mar.	99.6	99.6	—	104.1	102.4	—1.6	96.1	96.3	+0.2	96.9	109.0	+12.5
April	101.0	101.2	+0.2	105.2	103.0	—2.1	97.6	98.9	+1.3	97.8	110.0	+12.5
May	101.0	100.4	—0.6	104.5	98.3	—5.9	98.4	101.0	+2.6	96.7	114.0	+17.9
June	100.1	100.0	—0.1	101.6	97.5	—4.0	99.8	101.3	+1.5	90.1	112.8	+25.2
July	100.2	99.2	—1.0	101.5	96.3	—5.2	98.9	100.7	+1.9	102.2	111.0	+ 8.6
Aug.	99.9	98.9	—1.0	101.0	95.8	—5.2	98.8	100.5	+1.8	102.1	110.8	+ 8.5
Sept.	99.4	99.4	—	101.1	97.0	—4.1	97.7	100.1	+2.5	103.4	115.4	+11.6
Oct.	100.3	101.3	+1.0	101.3	97.6	—3.7	98.9	102.5	+3.6	106.8	124.0	+16.1
Nov.	100.8	101.0	+0.2	101.1	98.2	—2.9	100.1	101.3	+1.2	107.3	126.8	+18.2
Dec.	101.5	100.3	—1.2	101.9	96.6	—6.9	100.5	101.1	+0.6	109.6	128.1	+16.9
Aver.	100.5	100.2	—0.5	102.8	98.8	—3.9	98.4	100.0	+1.7	102.2	115.1	+12.9

*From corresponding period of 1955.

95. *Wages.*—Wage rates of tea and rubber estate workers were 1.0 per cent higher in 1956 than in 1955. In trades other than Agriculture covered by the Wages Boards Ordinance, wage rates were 1.4 per cent higher. Real wages have, in general, moved with money wages during this period.

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

Period						Number
1938	..	..	..	..	..	16,480
1952	..	..	..	..	..	53,023
1953	..	..	..	..	..	51,546
1954	..	..	..	..	..	63,304
1955	..	..	..	..	..	71,010
1956	1st quarter	..	..	..	..	74,148
	2nd "	..	..	..	..	76,821
	3rd "	..	..	..	..	84,343
	4th "	..	..	..	..	85,952

97. The figures of registrants include both unemployed and those seeking better employment. The significance of the data is further limited by the fact that, in general, workers in the estate and rural sectors make little use of the exchanges.

Production and National Income

98. The production of the principal crops for the years 1955 and 1956 are compared below :—

	1955	1956	Percentage change over 1955
Tea—lbs. million	380	368	— 3.2
Rubber—tons (000)	94	96	+ 2.1
Coconut—nuts* million	2,420	2,374	— 1.9
Paddy—bushels* million	35	30	—14.3

* Estimated

99. The gross national product for 1956 is provisionally estimated to be Rs. 4,910 million, a decrease of 7 per cent over the previous year. This decline was chiefly due to (a) lower production of tea and coconuts ; (b) lower export prices for tea and rubber ; and (c) a decrease in the output of paddy following a drought.

Balance of Payments and External Assets

100. For the year 1956, balance of payments estimates (provisional) indicated a current account surplus of Rs. 75.1 million as compared with a surplus of Rs. 322.8 million for 1955. This large reduction in the surplus on current account was due primarily to a considerable decline in the surplus on the merchandise account which fell steadily throughout the year. Furthermore, the deficit on current invisibles which for 1956, happens to be the largest so far recorded, showed a marked increase as compared to the previous years due particularly to larger outward remittances on account of transportation and migrants' transfers.

101. On private remittances and migrants' transfers, there was a net outflow of Rs. 83.3 million, an increase of Rs. 5.8 million over the previous year. Transfers of assets of compulsory and voluntary repatriates to India continued to increase during the year, and remittances for maintenance of dependants in India recorded a corresponding decline. On the transportation account the magnitude of the deficit increased by a considerable margin. This was mainly the result of an increase in freight charges during the year as well as a reduction in earnings through port expenditures and other disbursements of foreign ships at Colombo.

102. The net outflow on investment income was Rs. 55.4 million as compared with Rs. 61.3 million in the previous year. Larger earnings from increased foreign investments led to a decrease in the net outward payments on this account. The gross outflow of income from foreign investments in Ceylon, however, continued to be as high as in the previous year.

103. A deficit of Rs. 20.9 million was recorded in the private capital account during the year. Repatriation of foreign capital from Ceylon amounted to Rs. 51.7 million as against Rs. 52.3 million for 1955. Inflow of foreign capital for investment in Ceylon was slightly higher during the year than in 1955,—being Rs. 5.4 million as compared with Rs. 3.2 million in 1955. In contrast to the previous year, the transfer of surplus funds by sterling companies operating in Ceylon reduced their balances held in London by Rs. 12.3 million.

104. During 1956, the external assets of official and banking institutions increased by Rs. 58.0 million. This includes an increase of Rs. 33.1 million in the debt owed by the Government of China to the Government of Ceylon under the existing bilateral agreement. A liability of Rs. 8.9 million was incurred on the I.B.R.D. drawings during the year.

V. Operations and Accounts of the Central Bank

105. Financial accounts of the Central Bank for the year 1956 are given in table 6. The main changes in comparison with 1955 were :—

	Change	
	Rs. Million	Per cent
Total demand liabilities	+ 35.9	+ 5.7
Currency circulation	+ 18.3	+ 4.3
Demand deposits	+ 17.6	+ 8.7
(of which commercial banks)	+ 11.6	+ 8.4
International Reserve	+ 81.9	+ 12.5
Domestic Assets	— 16.0	— 47.6
Government and Government Guaranteed Securities	— 7.7	— 42.0

+ Increase ; Decrease —.

106. The ratio of the International Reserve to total demand liabilities increased from 104.5 per cent at the end of 1955 to 111.2 per cent at the end of 1956.

107. The Central Bank's rate for advances to commercial banks against the pledge of Government securities which was reduced from 3 per cent to 2½ per cent on 11th June, 1954, remained unchanged during the year. The Central Bank's discount rate for treasury bills continued to be fixed at 1/8 of one per cent over the last accepted average tender rate.

108. There were no changes in the reserve ratios to be maintained by commercial banks with the Central Bank. The ratios remained at 10 per cent of demand deposits and 5 per cent of time and savings deposits.

109. The Central Bank's rates for U.S. dollars were changed from time to time (as shown in Appendix I) in alignment with movement in the Sterling dollar rate. There were no changes during the year in the Central Bank's rates for sterling and the Indian rupee which were :—

		T.T. Buying	T.T. Selling
Sterling (per Ceylon rupee)	.. Spot	1s. 6 3/64d.	1s. 6 1/32d.
	Forward (up to six months)	.. 1/128d. per month discount against spot	.. 1/128d. per month premium against spot
Indian rupees (per 100)	.. Spot	Rs. 99 3/4	Rs. 99 13/16
	Forward (Up to six months)	.. 1/32 of a rupee per month discount against spot	.. 1/32 of a rupee per month premium against spot