

II. ECONOMIC TRENDS IN 1958

Monetary developments and the policies and measures adopted by the Monetary Board in 1958 can only be understood against the background of changing economic conditions in Ceylon. Hence, a review of the main trends in the economy in 1958 (Part II) precedes the analysis of monetary developments (Part III). This is followed by an exposition of the policies and measures adopted by the Monetary authorities in coping with some of the major problems arising out of the economic and financial situation (Part IV).

A brief summary of the main economic trends of 1958 may serve by way of introduction to the more detailed examination of basic data that follows. On the whole, the downward trend which began with the break of the 1955 boom and continued through 1956 and 1957 was arrested in 1958. Although 1958 itself was not as good a year as 1955, there appeared during the year several indicators which were favourable. The terms of trade moved in Ceylon's favour, reversing the adverse trend which had begun after 1955. The value of exports increased and the value of imports fell. The decline in external assets was substantially lower than in 1957 and physical production was higher in most spheres.

This reversal of the downward trend is all the more remarkable because it happened against a very unfavourable background of domestic circumstances. The year began in the gloomy aftermath of one of the worst floods in recent history. No sooner had the flood rehabilitation schemes got under way than strikes broke out both in the public and private sectors. Hard on the heels of these industrial disputes came the communal disturbances of May-June and the declaration of a State of Emergency. All this and the unsatisfactory conditions of cargo handling in the Port of Colombo led to serious dislocation in the economy. However, as a result of both the increase in physical production and the favourable movement of the terms of trade the overall economic situation was better than in the previous year.

Notwithstanding this favourable turn in foreign trading conditions Ceylon's overall balance of payments position during 1958 remained adverse.

Total money supply increased, despite a fall in external banking assets and the rise in the fixed deposits of commercial banks. The chief expansionary force behind the increase in money supply was the Central Bank's operations in response to the requirements of the fiscal and monetary situation. A special feature of the monetary situation in 1958 was the large increase in currency in the hands of the public. At the end of the year, currency formed almost half of the money supply—the highest ratio since the establishment of the Central Bank.

The rise in the Colombo Consumers' Price Index which appeared in the last quarter of 1957 continued in 1958. There was an all-round increase in the minimum wage rate indices during the year due largely to changes in the special allowances.

According to provisional estimates the real output of goods and services in the country rose by 3.2 per cent in 1958. But if the increase in population is taken into account per capita real income was about the same in 1958 as in 1957. The ratio of capital formation to Gross National Product showed some improvement.

(a) National Product and Income

Figures of National Income are valuable indicators of the level of economic activity and economic change in a country. In the case of Ceylon, as in other under-developed economies, much of the information needed for such computation is not directly available, and especially in the rural sector the non-monetary transactions make exact estimates impossible. While the paucity of statistical material at present precludes any comprehensive system of National Accounts, it is nevertheless necessary to attempt some measurement, however roughly arrived at, of the extent and changes in the level of economic activity in Ceylon. The estimates given below are merely intended to reflect the principal trends of the economy during 1958 and are subject to sizeable margins of error. However, absolute figures and not ranges are given in order to avoid cumbersome presentation.

Provisional data indicate that the real output of goods and services in the country (that is the real gross domestic product) rose by 3.2 per cent in 1958. In money terms the increase was 5.7 per cent. But since population increased by 2.5 per cent the rise in per capita real product was only 0.8 per cent. About two-thirds of the additional real resources created by this increased production were utilised for consumption (private and Government) while about a third has gone into capital formation. The following paragraphs discuss the changes in the more important components of national product and expenditure both in money terms, that is at current prices, and in real terms, that is at constant prices.

The contribution to national product by the several components in 1957 and 1958 are compared in the following table :—

TABLE II—1
Gross National Product at Current Factor Cost Prices

<i>Rupees Million</i>			
	1957	1958	<i>Percentage change from 1957</i>
1. Exports*	1,538	1,609	+ 4.6
2. Domestic goods	1,854	1,965	+ 6.0
3. Trade	354	350	— 1.1
4. Transport	258	260	+ 0.8
5. Professional, domestic and personal services	409	425	+ 3.9
6. Government	602	680	+13.0
7. Rents	125	140	+12.0
Gross Domestic Product	5,140	5,429	+ 5.6
8. Plus factor income from abroad	60	46	—23.3
Gross Product	5,200	5,475	+ 5.3
9. Less factor income paid out	92	78	—15.2
Gross National Product	5,108	5,397	+ 5.7

Sources : Dept. of Census & Statistics and Central Bank of Ceylon.

*F.o.b. values including export duties which are here treated as a form of direct tax.

A similar comparison in real terms is made in the following table :—

TABLE II—2
Gross National Product at 1956 Factor Cost Prices

	Rupees Million			
	1956	1957	1958	Percentage change from 1957
1. Exports	1,613	1,613	1,714	+ 7.5
2. Domestic goods	1,789	1,768	1,800	+ 1.8
3. Trade	334	337	321	— 4.7
4. Transport	237	246	238	— 3.3
5. Professional, domestic and personal services	392	398	406	+ 2.0
6. Government	566	587	600	+ 2.2
7. Rents	108	122	134	+ 9.8
Gross Domestic Product	5,039	5,071	5,233	+ 3.2
8. Plus factor income from abroad	57	58	46	— 20.7
Gross Product	5,096	5,129	5,279	+ 2.9
9. Less factor income paid out	95	95	83	— 12.6
Gross National Product	5,001	5,034	5,196	+ 3.2

Sources : Dept. of Census & Statistics and
Central Bank of Ceylon.

Exports

Since production for export constitutes such a large proportion of total production, export earnings are a chief factor in determining Ceylon's national income. In 1958 the value of exports, at current prices, was 4.6 per cent higher than in 1957. The increase in physical terms was 7.5 per cent. This was the most important single factor contributing to the rise of real national product.

Expressed as a ratio of G.N.P., exports were 29.8 per cent in 1958 as compared with 30.1 per cent in 1957 and 32.3 per cent in 1956. The makings of a trend towards a diminishing weight of exports in Ceylon's economic structure may be discerned, but the indications are still too slight to warrant any firm conclusions.

Tea.—The acreage under tea at the beginning of 1958 (the latest date for which information is available) was estimated at 570.6 thousand acres. In 1958 the production of tea increased to 413 million pounds from 398 million pounds in 1957. Production of tea has increased over the last decade at an average annual rate of 4 per cent and, during the same period the acreage under tea has increased at an annual rate of only 0.3 per cent. The increase in production is mainly the result of the use of fertilisers and more efficient methods of cultivation.

In 1958, the overall increase in production of 4 per cent was quite unequally distributed. High grown tea increased by 3 per cent, medium grown tea production showed no change and low grown tea increased most *i.e.* by 11 per cent, notwithstanding a price decline at the Colombo Tea Auctions of 21 per cent. But the prices at the Colombo Tea Auctions do not include the rebate that operated from April, 1958, to the benefit of a substantial proportion of the producers of lower

priced teas. The increase in volume of production of low grown tea at a time of a rapid fall in price suggests that the rebate mitigated the impact of lower prices and perhaps even provided an incentive towards greater production.

With the introduction in 1958 of a Tea Rehabilitation Subsidy Scheme for small estates and a Tea Replanting Subsidy Scheme for larger estates a bigger rate of increase in future production may be expected.

Though the total exports of tea (at 411 million pounds) were 12 per cent higher than the 1957 exports the value realised was only 11 per cent higher, owing to the somewhat lower prices.

Rubber.—In 1958, production rose by 2 per cent to 224 million pounds from 219 million pounds in 1957.

The acreage under rubber at the beginning of 1958 was 660·7 thousand acres, of which an estimated 280 thousand acres are now uneconomic holdings. Of this extent, 200 thousand acres are now being replanted under a Replanting Scheme launched in 1953. This scheme is to be financed by the Government for a period of five years from 1958 onwards partly by economic aid from China. As at the end of 1958, 115 thousand acres had already been replanted and another 5 thousand cleared for replanting. This leaves a balance of 80 thousand acres to be replanted by the end of 1962.

207·2 million pounds of rubber were exported in 1958, slightly less than in the previous year. The value realised was, however, much less following lower prices and at Rs. 258·1 million represents a decline of 14 per cent from that of the previous year.

Coconut Products.—In 1957, the production of coconut was estimated at 2,100 million nuts and in 1958 production fell further by 2·8 per cent to 2,043 million nuts, the lowest level for 8 years. Such a fall was mainly the result of severe drought conditions that had prevailed in several preceding years.

In order that sustained attempts be made to increase yields and production a coconut fertilizer scheme was launched in 1956 directed towards the increased use of fertilizers from an estimated 7,500 tons of artificial fertilizers in 1949 to 50,000 tons in the next few years.

Replanting of super-annuated areas is also receiving the consideration of the Government and under the Subsidised Seedling Distribution Scheme 17,000 acres were replanted in 1957. The extent replanted in 1958 is estimated provisionally at 20,000 acres.

Notwithstanding the rise of 12 per cent in the export price index of coconut products during 1958, the value realised of Rs. 163·6 million was only 5 per cent higher than in 1957, because export volumes declined by 3·8 per cent.

Domestic Goods

The value of goods produced for domestic use constituted about 36 per cent of total domestic output. In the production of these goods there was a rise of 1·8 per

cent in real terms. No reliable data are available to indicate what proportion of these goods was not consumed. However, a very rough estimate indicates that about 75 per cent of domestic goods was consumed and 25 per cent invested in 1958.

Paddy.—Outstanding amongst the goods produced for domestic consumption is paddy. Provisional data for the paddy harvests of 1958 indicate that for the third year in succession the paddy output increased to reach a total of 35·1 million bushels for the two harvests Maha and Yala in 1958. The total output was only slightly lower than the record harvests of 35·7 million bushels in 1955.

In 1958 the Maha crop (23·1 million bushels) was even greater than in 1955, but the Yala crop was lower because a smaller extent was cultivated. This reduction in the sown area for the Yala crop was in part the result of the damage to 53 major and 1,300 minor irrigation works in the floods of December, 1957.

That production increased in 1958 despite the lower Yala crop may be attributed to improved techniques of cultivation, the greater use of pureline seed and more extensive application of fertilizers. However, the rice equivalent of domestic paddy production at 477·3 thousand tons (provisional estimate) exceeds only by a very small margin the year's imports of rice at 474·6 thousand tons.

The passage of the Paddy Lands Act in 1958 and its implementation in a number of districts is expected to result in greater security of tenure for the cultivator and in increased production.

Industry.—In the industrial field in 1958 two new State Corporations were established, viz. the National Textiles Corporation and the Ceylon Carpentry Corporation. Eight new major projects were also sponsored during the year by the Government. They are a second Cement Factory, a Cotton Spinning and Weaving Factory, a Kaolin Factory, an Iron and Steel Factory, a Fertilizer Factory, a Tile and Brick Factory, a Rubber Tyre and Tube Factory and a project for the establishment of Industrial Estates in Ceylon. The expansion of a number of existing Government industrial ventures such as the Kankesan Cement Works, Ceramic Factory, Leather Factory and the Plywood Factory, were also planned.

In the private sector a number of new industries were established. These include enterprises for the production of polythene tubes and pipes, crown corks, clips and pins, mechanised fishing boats, surgical dressing and razor blades.

Domestic Services

The value added by trade and transport (other than in the export trade) which accounts for about 11 per cent of total product fell during 1958 by about 4 per cent (at constant prices) owing partly to circumstances arising from the communal

disturbances. Professional, domestic and personal services increased by about 2 per cent in real terms.

During the year two of the major services, public road transport and Colombo Port cargo handling were nationalised, and a separate Ministry of Nationalised Services was created, in September, 1958.

Government

The contribution of the Government to the national product arises from the operation of trading services and the provision of other services such as health, education and administration. The value of these other services may be measured, in this context, by the wages and salaries of Government employees providing the services. This is estimated to have risen by 13 per cent in 1958 on account of the increase both in the cadres and the allowances paid to Government employees. However, at constant prices the rise is only about 2 per cent.

The overall effect of these changes in the various branches of Ceylon's economy was an increase in gross domestic product by 5.6 per cent from Rs. 5,140 million in 1957 to Rs. 5,429 million in 1958 at current prices. At constant prices the increase is estimated at 3.2 per cent.

Gross National Expenditure

The components of expenditure generating gross national product in 1958 are given in the following table with the corresponding figures for 1957. The estimates are at current market prices, as well as at current factor cost prices.

TABLE II—3
Expenditure Generating Gross National Product

Rupees Million

	At current market prices			At current factor cost prices		
	1957	1958	Percentage change from 1957	1957	1958	Percentage change from 1957
1. Personal consumption ..	4,093	4,142	+ 1.2	3,848	3,932	+ 2.2
2. Govt. consumption ..	719	762	+ 6.0	719	762	+ 6.0
3. Private capital formation ..	320	300	— 6.2	305	285	— 6.6
4. Public capital formation ..	377	462	+22.5	362	447	+23.5
5. Less imports of goods and services ..	2,038	1,888	— 7.4	2,038	1,888	— 7.4
6. Plus exports of goods and services ..	1,954	1,891	— 3.2	1,954	1,891	— 3.2
Statistical discrepancy ..	—	—	—	—10	—	—
Gross Domestic Product ..	5,425	5,669	+ 4.5	5,140	5,429	+ 5.6
7. Plus income from abroad ..	60	46	—23.3	60	46	—23.3
Gross product ..	5,485	5,715	+ 4.2	5,200	5,475	+ 5.3
8. Less income paid out ..	92	78	—15.2	92	78	—15.2
Gross National Product ..	5,393	5,637	+ 4.5	5,108	5,397	+ 5.7

Sources : Dept. of Census and Statistics and Central Bank of Ceylon.

A similar comparison is made below at constant factor cost prices :—

TABLE II—4
*Expenditure Generating Gross National Product
at 1956 Factor Cost Prices*

Rupees Million

	1957	1958	Percentage change from 1957
1. Private consumption	3,659	3,742	+ 2.3
2. Government expenditure on goods and services	700	724	+ 3.4
3. Private capital formation	293	274	— 6.5
4. Public capital formation	347	429	+23.6
5. Plus exports of goods and services	2,026	1,998	— 1.4
6. Less imports of goods and services	1,945	1,936	— 0.5
7. Statistical discrepancy	—9	+2	—
Gross Domestic Product	5,071	5,233	+ 3.2
8. Plus income from abroad	58	46	—20.7
Gross product	5,129	5,279	+ 2.9
9. Less income paid abroad	95	83	—12.6
Gross National Product	5,034	5,196	+ 3.2

Sources : Dept. of Census and Statistics and Central Bank of Ceylon.

Personal Consumption

Personal consumption expenditure can be viewed as the total of expenditure under three groups (a) imports, (b) domestic goods, (c) domestic services. The expenditures under these three groups as a percentage of total personal consumption at current factor cost prices in 1958 were 36, 46 and 18 respectively. The increase of 2.3 per cent in 1958 in real personal consumption was the result of an increase in expenditure on imports by 1.1 per cent and on domestic goods and services by 3 per cent. However, per capita personal consumption declined slightly by 0.3 per cent in real terms. At current prices the increase in personal consumption accounted for a third of the increase in gross domestic product but in real terms it represented half the increase.

Capital Formation

There are serious shortcomings in the estimates of capital formation which are available. These arise both from ambiguities in definitions as well as from the reliability of the data. Government capital formation is equated to what may be termed Government expenditure on the acquisition, construction and maintenance of real assets. Even here, since the Government's operations and methods of accounting are not designed with clear distinction between current and capital expenditure, the estimates are at best approximate. The difficulty regarding inadequacy of data is more acute in the measurement of capital formation in the private sector. The present estimates, based largely on data on imports of capital goods, involve rather arbitrary assumptions regarding the value added in the construction of buildings and erection of machinery. Since there is hardly any reliable information on depreciation in the unorganised private sector and the Government, the computation of net capital formation is rendered almost impracticable.

The estimates of gross capital formation at current prices show a decline of 7 per cent in the private sector and an increase of 24 per cent in the public sector. The contribution of the public sector to total gross capital formation has increased

from 54 per cent to 61 per cent. The capital expenditure of the new public corporations has contributed to this shift from the private to the public sector. Gross investment, taking both the private and the public sectors, has increased in 1958 by 9·8 per cent in real terms. As a percentage of gross national product, gross investment has increased from 12·7 to 13·6 per cent.

Supplies and Expenditure

In considering the use of resources in Ceylon's economy it may be useful to look at the picture from the two sides, "supplies" and "expenditure" and compare the changes in 1958 with the corresponding changes in 1957. In the following two tables the comparison is made at current and constant factor cost prices.

TABLE II—5
*Percentage Changes in Expenditure and Supplies
at Current Factor Cost Prices*

	1957 over 1956	1958 over 1957
Expenditure		
Personal consumption	+ 9·9	+ 2·2
Government consumption	+ 5·0	+ 6·0
Gross private capital formation	+ 7·7	— 6·6
Gross public capital formation	— 5·3	+ 23·5
*Exports of goods and services	— 4·0	— 3·2
Supplies		
Gross Domestic Product	+ 2·0	+ 5·6
*Imports of goods and services	+ 10·3	— 7·4

*Due to differences of timing and coverage, these figures which are on a payments basis differ from figures of shipments.

TABLE II—6
*Percentage Changes in Expenditure and Supplies
at Constant Factor Cost Prices*

	1957 over 1956	1958 over 1957
Expenditure		
Personal consumption	+ 4·5	+ 2·3
Government consumption	+ 2·2	+ 3·4
Gross private capital formation	+ 3·5	— 6·5
Gross public capital formation	— 9·2	+ 23·6
*Exports of goods and services	— 0·4	— 1·4
Supplies		
Gross Domestic Product	+ 0·6	+ 3·2
*Imports of goods and services	+ 5·3	— 0·5

Source : Dept. of Census and Statistics and Central Bank.

In 1957, the increase in real supplies, three-quarters of which was due to increased imports, was utilised for increased consumption, personal and Government. In 1958, on the other hand, the increase in supplies in real terms was entirely due to increased real output and was utilised to increase gross investment by 9·8 per cent and consumption by 2·5 per cent.

Per Capita Changes

The population is estimated to have increased by 2·5 per cent from 9·17 million in mid 1957 to 9·40 in mid 1958. Per capita gross output at current prices was Rs. 574 in 1958 as compared with Rs. 557 in 1957, an increase of 3 per cent. The increase in per capita real output was, however, only 0·8 per cent. The increase in population was matched by an approximately proportionate increase in aggregate real consumption leaving per capita real consumption almost unchanged. Indices of per capita output, and consumption are given in the table below :—

TABLE II—7
1956=100

	1957	1958
1. Per capita output	99·5	102·5
2. Per capita real output	98·0	98·8
3. Per capita personal consumption	107·1	106·6
4. Per capita real personal consumption	101·8	101·5

In sum, therefore, while economic indicators in 1958 were by and large more favourable than in 1957, the rate of expansion in the economy was only about sufficient to keep up with the increase in population.

(b) Foreign Trade

1958 was a better year in the crucial foreign trade sector. Ceylon's export income rose to Rs. 1,711 million or Rs. 29 million more than in 1957. The value of exports rose both because production increased and the drop in prices was modest. The import bill, however, fell from Rs. 1,804 million in 1957 to Rs. 1,717 million in 1958. This fall in the value of imports was due to lower prices. The overall result was that the country's adverse balance of trade was reduced from Rs. 123 million in 1957 to only Rs. 6 million in 1958.

This better trade performance took place in a period which was an unfavourable one for most primary producing countries. Since the middle of 1957 the prices received for exports of primary products tended to deteriorate while the prices paid for imports of manufactures rose in contrast. In the first quarter of 1957, the ratio of world prices of primary commodities to manufactured goods stood at 97 (1953=100) and in the third quarter of 1958, the ratio had dropped to 91.¹ Consequently, the terms of trade in these countries moved away from positions of strength and many found themselves in acute balance of payments difficulties, necessitating a serious liquidation of foreign exchange reserves, the introduction of import controls, and a general contraction in the turnover of trade.

Ceylon's foreign trade did not conform to the general pattern in that an improvement in the terms of trade, an expansion in the volume of exports and an unchanged volume of imports resulted in a virtual trade balance. Export prices, as measured by the Central Bank trade indices (Table 29²) fell by 2·1 per cent, consequent upon

¹ U.N. monthly Bulletin of Statistics, December, 1958.

² Tables in the text are numbered with Roman figures for the section ; otherwise the reference is to Tables in the Statistical Appendix.

lower prices for tea and the 18 minor products combined with a steep fall in the price of rubber. However, a fall of 8·0 per cent in import prices, reflecting declines of 8·7 per cent and 7·9 per cent in the import prices of consumer goods and capital goods respectively, more than compensated for the loss in export prices. As a consequence, the terms of trade moved in Ceylon's favour by 6·3 per cent, thus reversing a declining trend which began after 1955. One of the fundamental factors contributing to the favourable trend in import prices has been the cheapening in the world prices of food, particularly rice and flour, combined with the depressed state of freight rates for shipping. Imports of essential consumer goods like food, drink and textiles constitute over 50 per cent of the value of Ceylon's imports and, therefore, any change in the prices paid for goods in this sector is reflected quickly in the aggregate index of import prices. Moreover, in 1958, Ceylon was further assisted by a decline of 7·9 per cent in the prices paid for capital goods. The biggest fall (8·3 per cent) was in the category of "wholly or mainly manufactured capital goods". The price index of relatively unmanufactured capital goods, too, fell by 7·2 per cent.

Ceylon's fortunate experience in her external trade position in 1958, in contrast to several other primary producer countries, has therefore been the result of a combination of favourable circumstances, not the least being the bumper rice harvests in some of the major producing countries, the cheapening of ocean transport costs and the relative inelasticity of world demand for her major export—tea.

Tea.—Export statistics of value, volume and price are given in Tables 27, 29 and 30. In the Annual Report 1957 it was observed that tea exports increased in quantity as a result of an expansion in production. The same trend was maintained in 1958. Tea production in 1958 totalled 413 million pounds while exports (including the carryover at the end of the previous year) amounted to 411 million pounds, the highest figure so far recorded. As compared with 1957 the increase in production has amounted to 15 million pounds. The value of exports also increased, by Rs. 120 million, thus giving tea a share of 66·2 per cent of total exports. This unprecedented proportion was reached at a time when the price of tea was at the lowest level in five years and is due largely to the rising trend in production and exports.

TABLE II—8
Composition of Exports

Commodity	Value in Rupees Million			Percentage of total exports		
	1956	1957.	1958	1956	1957	1958
Tea	1,044	1,022	1,132	60·2	60·8	66·2
Rubber	293	300	258	16·9	17·9	15·1
3 major coconut products	213	156	164	12·3	9·3	9·6
Other domestic exports	102	110	97	5·9	6·5	5·7
Domestic exports	1,652	1,588	1,651	95·3	94·5	96·6
Re-exports	82	93	59	4·7	5·5	3·4
Total	1,735	1,682	1,711	100·0	100·0	100·0

Source : Ceylon Customs Returns.

In 1957 the average f.o.b. price of tea declined by 7.3 per cent. In the year under review prices fell by a further 1.1 per cent to Rs. 2.75 per lb. f.o.b., thus continuing the disappointing trend in prices for Ceylon tea since 1955. Low grown teas suffered most in the decline (40 cents per pound); the fall in respect of medium grown teas was much smaller (10 cents per pound). The prices of high grown teas displayed a degree of resilience as compared with the other grades, but even though they showed an improvement of 6 cents per pound as compared with 1957, they too have suffered in the general decline in tea prices; in fact the real burden may have been slightly higher in this group because the costs of maintenance are generally high in the case of estates producing this type of tea.

There has been no significant change in the pattern of Ceylon's tea exports. Exports to all major buyers have been well sustained in 1958. The biggest improvement in shipments has been in respect of the United Kingdom; exports rose by 31.9 million pounds (24.1 per cent) to 164.6 million pounds (the highest so far recorded) and by Rs. 99.9 million (27.0 per cent) to Rs. 470.1 million. Exports to Australia recorded the second biggest increase, improving by 6.8 million pounds and Rs. 16.3 million respectively, the quantum of exports accelerating slightly in the latter part of the year. Purchases by the Union of South Africa declined fractionally but a slight improvement in the f.o.b. price of teas shipped to that country proved to be a compensatory factor; the value of shipments consequently rose by Rs. 3.7 million. Shipments to Egypt, Iraq and the United States of America declined by Rs. 15.8 million, Rs. 17.4 million and Rs. 4.9 million respectively.

TABLE II—9

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.
1955.. ..	362	3.30	2.34	2.04	2.40	2.24
1956.. ..	348	3.00	2.50	1.96	1.88	2.16
1957.. ..	368	2.78	2.05	1.61	1.88	1.86
1958.. ..	411	2.75	2.11	1.51	1.48	1.73
1958 1st Quarter ..	99	2.78	2.24	1.59	1.69	1.88
2nd " ..	74	2.88	2.09	1.51	1.47	1.75
3rd " ..	130	2.68	2.06	1.47	1.35	1.66
4th " ..	108	2.72	1.98	1.46	1.44	1.64

Sources : Ceylon Customs Returns ;
Colombo Tea Brokers' Association.

Rubber.—In 1958 rubber exports declined by 1.4 million pounds (0.7 per cent) to 207.2 million pounds, though the change in 1958 was of a relatively smaller magnitude as compared with the change in 1957. In 1957, however, the increase in shipments reflected in part, a carry over of stocks held back as a consequence of the Suez crisis in the last quarter of 1956. Production increased from 220 million pounds in

1957 to 224 million pounds in 1958. The value of rubber exports declined steeply by 14·0 per cent (Rs. 42·2 million), to the lowest level since 1949, reflecting the depressed state of the world's rubber markets in 1958 as a consequence of the business recession in the United States of America and the slowing down of activity in the other major industrial countries of Western Europe. Exports to some countries, however, increased in volume.

The average f.o.b. prices of rubber (excluding latex) fell by 13·3 per cent to Rs. 1·24 per pound, the lowest level for almost a decade. The United Kingdom and Germany increased their respective shares in the volume of Ceylon's rubber exports in 1958 to 18·7 per cent and 16·4 per cent respectively. China's share declined from 53·2 per cent in 1957 to 24·9 per cent in 1958, following upon a reduction in the amount contracted for in 1958 to 30,000 metric tons from an annual rate of 50,000 metric tons contracted for in the previous agreement. Rubber exports to the United States of America displayed no change but the decline in the f.o.b. price reduced their value by slightly over Rs. 2·6 million.

Coconuts.—In the Annual Report for 1957, it was observed that the volume of exports of the three major coconut products (as measured by the Central Bank trade indices) fell to their lowest level since 1949. The position deteriorated further in 1958. The index number of 101 for 1958 was the lowest since 1949, and also represented a fall of 3·8 per cent as compared with the previous year. Notwithstanding this decline in volume, the combined value of these three products showed an improvement of Rs. 8 million over the previous year as a consequence of an all-round improvement in f.o.b. prices. The f.o.b. price of desiccated coconut increased most, by 13·6 per cent (or Rs. 153·00 per ton), coconut oil prices improved by 11·1 per cent (or Rs. 140·00 per ton) while copra prices were higher by 10·5 per cent (or Rs. 100·00 per ton). The volume of desiccated coconut shipments rose by 157 thousand cwts. (16·1 per cent), but was insufficient to offset declines of 141 thousand cwts. (20·3 per cent) and 194 thousand cwts. (17·9 per cent) in the quantum of copra and coconut oil exports respectively.

The buoyancy in coconut export prices is mainly the result of bad crops elsewhere, in particular the Philippines. The contribution of Ceylon's exports of coconut products to the world supply is small and the chief aim of policy should be to increase the acreage under cultivation (which has been stagnant for a number of decades) and the yield of maturing plants. In 1956 the share of coconuts in the total value of exports amounted to 12·3 per cent. Since then its share has declined gradually till it constituted only 9·6 per cent in 1958. A feature of the pattern of coconut oil exports in 1958 has been the decline of the United Kingdom from the position of the second largest buyer in 1957, to that of the smallest. Exports to that country fell by 76·9 per cent. Other significant contractions were those in respect of Canada (51·5 per cent) and India (58·5 per cent). The improvement in desiccated coconut exports has been due in large measure to the expansion of purchases on the part of almost all major buying countries. India, which has been almost the sole buyer of Ceylon's copra, adopted a more rigorous policy in the licensing of imports in 1957. The reduction of 21·3 per cent in the volume of copra exports to India in 1958 is a further reflection of a trend that commenced in 1956.

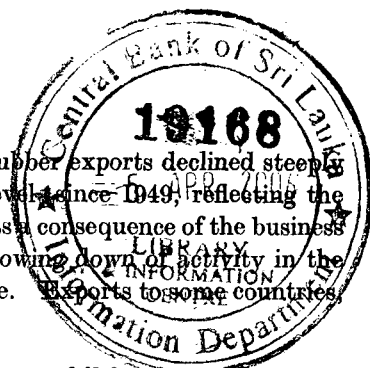


TABLE II—10

Major Coconut Products—Exports Quantities and Prices

Products	1956		1957		1958	
	Quantity	F.o.b. price per cwt.	Quantity	F.o.b. price per cwt.	Quantity	F.o.b. price per cwt.
	Th. cwts.	Rs. cts.	Th. cwts.	Rs. cts.	Th. cwts.	Rs. cts.
Copra	1,155	42.43	695	47.95	554	52.97
Coconut oil ..	1,698	58.42	1,081	62.80	887	69.80
Desiccated coconut	1,275	50.86	978	56.08	1,135	63.72

Source : Ceylon Customs Returns.

Imports.—Tables 27, 28 and 30 show changes in the values, volumes and prices of imports from 1938 onwards. The value of imports in 1958 contracted by 4.8 per cent thus reversing a rising trend that had gone on virtually uninterrupted (except for declines in the recession of 1953-54) since 1949. The reduction has been achieved because of declines in the prices of imports which, as measured by the Central Bank trade indices, fell by 8.0 per cent. The volume of imports remained unchanged.

TABLE II—11

Composition of Imports

	Value in Rs. Million			Percentage of total imports		
	1956	1957	1958	1956	1957	1958
Food, Drink and Tobacco ..	703	736	715	43.2	40.8	41.6
of which—						
Rice	264	255	238	16.2	14.1	13.9
Flour	71	86	67	4.4	4.8	3.9
Sugar	96	82	87	5.9	4.5	5.1
Dairy products ..	44	63	58	2.7	3.5	3.4
Fish products ..	78	80	92	4.8	4.4	5.4
Curry-stuffs ..	36	41	35	2.2	2.3	2.0
Raw Materials and Manufactures ..	926	1,068	1,002	56.8	59.2	58.4
of which—						
Petroleum products ..	111	202	125	6.8	11.2	7.3
Fertilizers	54	70	47	3.3	3.9	2.7
Cement	17	28	13	1.0	1.6	0.8
Iron and steel ..	86	70	68	5.3	3.9	4.0
Machinery	65	81	89	4.0	4.5	5.2
Textiles	156	147	160	9.6	8.1	9.3
Chemicals, drugs, dyes and colours ..	37	42	42	2.3	2.3	2.4
Paper and cardboard ..	30	34	29	1.8	1.9	1.7
Motor vehicles ..	53	54	69	3.3	3.0	4.0
Other	—	—	—	—	—	—
Total	1,630	1,804	1,717	100.0	100.0	100.0
Re-exports	82	93	59	—	—	—
Net imports	1,548	1,711	1,658	—	—	—

Source : Ceylon Customs Returns.

The composition of imports, however, differed from that of the previous year. There was an increase (7·7 per cent) in the volume of consumer goods imported which was set off in full by a sharp contraction (18·2 per cent) in the volume of capital goods imports. Imports of textiles rose by 24·7 per cent in volume accompanied by a change of 6·5 per cent in the same direction in respect of the food and drink group. In the capital goods group the decline was steepest in the "relatively unmanufactured goods" category (24·8 per cent); imports of fertilizers and cement fell markedly. In regard to import prices an almost all round drop in the prices of items listed in the consumer goods and capital goods groups resulted in the favourable movement of 8·0 per cent in the aggregate import price index. The value of imports of food, drink and tobacco declined by 2·9 per cent to Rs. 715 million but the aggregate value of imports of raw materials and manufactures contracted even more significantly (by 6·2 per cent). The share of the former group in the total value of imports has, therefore, increased to 41·6 per cent in 1958, while that of the latter was reduced to 58·4 per cent. The latter group however includes the value of textile imports which constitutes one of the single largest components in the total. If the value of textile imports is combined with the food, drink and tobacco bill, then the aggregate share of these consumer goods in the total import bill amounted to 51·0 per cent in 1958 as compared with 48·9 per cent in 1957 and 52·7 per cent in 1956.

The general trend of import values in 1958 indicates a decline in the values of the more significant items. Nevertheless there have been a few important exceptions, as for example in the case of sugar which increased by Rs. 5 million, fish products (Rs. 12 million), textiles (Rs. 13 million) and motor vehicles (Rs. 15 million). The value of passenger cars imported has increased by 7·5 per cent over the previous year, to Rs. 36 million. Machinery imports increased by Rs. 8 million. Significant declines in import values were those in respect of rice (6·7 per cent), petroleum products (38·1 per cent), fertilizers (32·9 per cent) and cement (53·6 per cent). Imports of iron and steel declined by a smaller magnitude.

Pattern of Trade.—Table 31 shows the distribution of foreign trade by regions and monetary areas.

The Sterling Area continues to remain Ceylon's major trading partner. More than half of Ceylon's export-import trade is conducted with that area and consequently Ceylon has an important interest in the stability of the Area as a whole and in Sterling in particular. The Sterling Area increased its share of the market for Ceylon produce to 56·5 per cent. However, its share of the total value of Ceylon's imports declined by 3·3 per cent to 51·5 per cent, largely as a result of a fall in the import of wheat from Australia and of rice from Burma.

TABLE II—12

*Trade by Monetary Areas**(Percentage)*

Monetary areas	1956		1957		1958	
	Exports	Imports	Exports	Imports	Exports	Imports
Sterling area	53.0	54.7	51.5	54.8	56.5	51.5
Dollar area	14.1	4.9	14.2	5.7	13.2	7.4
Non-sterling E.P.U. area ..	10.2	13.3	8.0	11.9	10.0	11.3
Others	22.7	27.1	26.3	27.6	20.3	29.8
	100.0	100.0	100.0	100.0	100.0	100.0

Source : Ceylon Customs Returns.

The share of the Dollar Area in Ceylon's exports contracted slightly but its share of imports rose from 5.7 per cent to 7.4 per cent. In her trade with the Dollar Area Ceylon has consistently maintained a favourable balance. However, since 1955, the surplus has tended to diminish progressively. Thus while a favourable balance of Rs. 179 million was achieved in 1955 it diminished in each of the years 1956 and 1957. In 1958 it fell by a further Rs. 35 million to a level of Rs. 99 million. The principal contributory factors have been a persistent tendency for the value of exports to fall and the value of imports to rise. The value of exports of tea has consistently declined since 1955 and as at the end of 1958 the decline amounted to Rs. 17 million ; as compared with 1957 there was a decline of Rs. 5 million. Exports of coconut products also show the same trend. In 1958 the value of exports of coconut products was lower by Rs. 6 million. Rubber exports improved by Rs. 2 million. The major component in the increased value of imports has been the item "rice, flour, sugar and tobacco" which has progressively increased its share in the value of dollar imports from 46.5 per cent in 1955, to 65.1 per cent in 1958. Imports in this category rose by Rs. 42 million in 1958 to a peak level of Rs. 82 million. The value of imports of vehicles has remained stable for the past three years. Imports of other major items declined in 1958.

Among the other major trading partners Germany increased her share of the Ceylon market to 3.1 per cent, nearly doubling the proportion five years earlier. A comparable improvement was recorded by Japan when her share increased from 6.7 per cent in 1955 to 9.1 per cent in 1958.

TABLE II—13
Trade with the Dollar Area

Rupees Million

Year	Exports of which				Imports of which							Total balances
	Tea	Rubber	Coconut products	Total	Total	Machinery	Vehicles	Rice, flour, sugar and tobacco	Textiles	Petroleum products	Paper and cardboard	
1955	170	62	24	230	101	17	6	47	2	4	3	+179
1956	169	28	22	245	80	10	9	34	2	4	3	+165
1957	158	36	18	238	104	14	9	40	3	3	4	+134
1958	153	38	12	225	126	11	9	82	2	2	2	+ 99

Source : Ceylon Customs Returns.

In 1958, for the first time since the inauguration of the Trade and Payments Agreements with China in 1951, Ceylon experienced a trade deficit. The trade deficit of Rs. 74 million contrasted with a surplus of Rs. 83 million for 1957 and an average surplus of Rs. 33 million for the preceding seven years. Exports to China declined by Rs. 90 million reflecting a corresponding decline in the value of rubber shipped while the value of imports rose by Rs. 68 million.

The percentage share of China in the value of Ceylon's total imports doubled to 8.8 per cent. In the export sector the proportion of Chinese trade in total exports from Ceylon fell from 10.5 per cent in 1957 to 4.7 per cent in 1958. While the increase in imports from China are due largely to the increase in the value of rice imported (from Rs. 76 million in 1957 to Rs. 121 million in 1958), a much greater proportionate change has taken place in the increase of imports other than rice. These increased from Rs. 8 million in 1957 to Rs. 31 million in 1958. During the year 1958, the value of such imports increased from Rs. 6 million in the first half year to Rs. 25 million in the second half. Imports of food other than rice increased from Rs. 7 million in 1957 to Rs. 17 million. Increases were recorded over a wide range of other imports including textiles, cement, electrical goods, iron and steel and machinery.

TABLE II—14
Ceylon's Trade with China

Year	Exports		Imports		Balance of trade (Rs. Mn.)
	Value (Rs. Mn.)	Percentage of total domestic exports	Value (Rs. Mn.)	Percentage of total imports	
1955	121	6.5	80	5.3	+41
1956	182	11.0	134	8.2	+48
1957	167	10.5	84	4.6	+83
1958	78	4.7	152	8.8	-74

Source : Ceylon Customs Returns.

The protocol relating to the exchange of commodities between Ceylon and China for the year 1958 and signed under the terms of the Trade and Payments Agreement which came into force on January 1, 1958, provided for the export to China of commodities to the value of Rs. 95 million of which a minimum quantity of 30,000 metric tons of rubber was to be shipped. Ceylon undertook to purchase commodities aggregating Rs. 95 million of which a minimum quantity of 200,000 metric tons of rice was to be imported. Provision was made for the additional import and export of commodities to the value of Rs. 70 million by each of the countries. The turn-over of trade (*i.e.* exports plus imports) envisaged for the year 1958 was a minimum of Rs. 190 million with provision for a further Rs. 140 million, making an aggregate of Rs. 330 million. The total trade turnover for the year has amounted to Rs. 230 million, exceeding the minimum target by Rs. 40 million and falling short of the optional target by Rs. 100 million. Ceylon's exports amounted to only 33·9 per cent of the value of total trade as compared with 66·5 per cent in 1957.

Trade and Payments Agreements concluded with countries in Eastern Europe¹ in earlier years, continued to operate in 1958. The Trade and Payments Agreements with Czechoslovakia which were to lapse in December, 1957, were extended. Trade and Payments Agreements were also signed with the U.S.S.R. early in 1958.

There was a marked increase in export trade under these Agreements (see Table below). Exports to Russia increased from Rs. 0·6 million in 1957 to nearly Rs. 20 million in 1958 while exports to other Eastern European countries increased from Rs. 1 million in 1956 to Rs. 6·5 million in 1957. In 1958 the corresponding figure was Rs. 4·9 million. However, exports to these countries formed less than 2 per cent by value of Ceylon's total exports. The percentage of tea exported to these countries formed less than 1 per cent of total exports of tea by value, and in the case of rubber these countries purchased about 5 per cent of the total value of rubber exports.

Imports from these countries have not shown any appreciable increase. Imports from Czechoslovakia increased slightly from Rs. 5·8 million in 1957 to Rs. 6·0 million in 1958.

TABLE II—15
Trade with U.S.S.R. and Eastern Europe

Year	Exports		Imports		Balance of trade (Rs. Mn.)
	Value (Rs. Mn.)	Percentage of total domestic exports	Value (Rs. Mn.)	Percentage of total imports	
1956	1·3	0·08	7·6	0·47	— 6·3
1957	6·5	0·41	9·9	0·55	— 3·4
1958	24·7	1·49	8·7	0·51	+16·0

Source : Ceylon Customs Returns.*

* Exports to, or imports from, these countries through third countries are not included.

¹ Bulgaria, Czechoslovakia, Hungary, Poland and Rumania. Ceylon has concluded Trade Agreements with Bulgaria and Hungary and Trade and Payments Agreements with Czechoslovakia, Poland and Rumania.

Over the year as a whole, Ceylon's experience in Foreign Trade has been a favourable one, partly for fortuitous reasons. Yet such a combination of fortunate events may not always be present and a pattern of trade that dictates that more than half the value of imports in any one year should consist of essential consumer goods is fraught with grave implication for both monetary and fiscal policy. Domestic output of most of these commodities cannot be expanded rapidly. If reserves were to diminish consequent upon a contraction in export incomes, reduction of imports could be effected only within narrow limits.

Yet another disquieting feature emerged in the trade pattern in 1958. The volume of capital goods imported declined sharply by 32 points (18·2 per cent) to the lowest level since 1953. In contrast, the volume of consumer goods rose 11 points (7·7 per cent) to the highest level recorded. In the capital goods sector there has been an all-round drop; the volume of consumer goods has been swollen by the heavy imports of food, drink and textiles. It is difficult to explain the contraction in the volume of capital goods imported as the result of an increase in price, for these prices, as measured by the Central Bank index, actually fell by 7·9 per cent. Nor could it have arisen from the postponement of delivery dates, as supplies of capital equipment in the producing countries were relatively more plentiful in 1958 due to a slackening in the tempo of investment activity in the industrial countries of Western Europe and in the U.S.A. Perhaps part of the explanation lies in the difficulties of obtaining shipping facilities to move the cargoes to Colombo. Thus it is observed, that bulk cargoes that need a longer period for discharging in port of destination, such as cement and fertilisers, have contracted very sharply in volume (by 39·0 per cent and 20·0 per cent respectively compared with 1957). Another factor was the decline in imports of petroleum products from the abnormal levels reached in 1957. The increase in the volume of consumer goods is due in part to the normal increase in population. It is also the result of the recent adjustment of wages which would have led to increases in the demand for consumption goods.

A reduction in the volume of capital goods imported—the reduction is all the greater if adjusted to a per capita basis—accompanied by a slowly rising volume of consumer imports indicates that a growing proportion of Ceylon's export earnings are used on current consumption. While no doubt such increase in current consumption will result in immediate improvement in living standards, the diversion of export earnings to this end will reduce the availabilities of foreign exchange for investment and development on which alone a permanent and continuing improvement in living standards can be based.

(c) Prices, Wages and Employment

Prices and the Cost of Living.—The Colombo Consumers' Price Index which is constructed by the Department of Census and Statistics in relation to low-income group family budgets in Colombo is the only available index on the cost of living. An improved index is at present under preparation by the Government.

The existing index of consumer prices in Colombo has shown the following changes in the last three years :—

TABLE II—16

Colombo Consumer Price Index

(1952=100)

Year	All items	Food (81.9%)	Clothing (9.4%)	Fuel and light (4.3%)	Rent (5.7%)	Miscellaneous (18.7%)	Domestic group (51%)	Import group (44%)	Export group (5%)
1956..	100.2	103.3	81.8	101.3	101.5	98.6	100.0	99.0	115.1
1957..	102.8	104.9	84.4	97.3	101.5	106.9	104.9	98.1	126.8
1958..	105.0	105.8	87.5	101.0	101.5	113.1	109.2	97.0	135.0

Sources : Department of Census and Statistics,
Central Bank of Ceylon.

The changes over the months have been as follows :—

TABLE II—17

Changes in the Colombo Consumer Price Index

Month	All items			Import Group			Domestic Group			Export Group		
	1957	1958	Change* %	1957	1958	Change* %	1957	1958	Change* %	1957	1958	Change* %
Jan. ..	100.6	106.3	+5.7	96.9	99.3	+2.5	101.4	110.0	+8.5	128.9	133.6	+ 3.6
Feb. ..	100.8	105.8	+5.0	96.9	99.2	+2.4	101.5	109.0	+7.4	131.4	134.1	+ 2.1
Mar. ..	100.9	104.8	+3.9	96.6	98.8	+2.3	102.0	107.6	+5.5	101.0	132.0	+ 0.8
April..	102.2	104.6	+2.3	97.3	99.0	+1.7	104.0	107.0	+2.9	129.8	132.1	+ 1.8
May ..	103.3	105.2	+1.8	98.1	99.3	+1.2	105.4	107.6	+2.1	129.2	134.9	+ 4.4
June..	103.1	104.5	+1.4	98.6	95.2	-3.4	104.9	110.4	+5.2	126.2	128.9	+ 2.1
July ..	103.6	103.2	-0.4	99.3	99.4	-4.9	105.7	108.7	+2.8	122.3	127.8	+ 4.5
Aug..	102.4	104.4	+2.0	98.5	95.4	-3.1	104.5	110.2	+5.5	117.0	127.9	+ 9.3
Sept..	102.3	104.5	+2.2	98.1	95.5	-2.7	104.4	109.9	+5.3	120.0	130.9	+ 9.1
Oct. ..	104.1	106.2	+2.0	98.6	96.0	-2.6	106.9	112.3	+5.1	126.0	136.4	+ 8.3
Nov..	105.2	105.7	+0.5	98.5	96.7	-1.8	108.7	109.9	+1.1	130.7	147.9	+13.2
Dec. ..	105.6	104.2	-1.3	99.3	95.1	-4.2	109.1	107.7	-1.3	128.7	153.9	+19.6
Avg..	102.8	105.0	+2.1	98.1	97.0	-1.1	104.9	109.2	+4.1	126.8	135.0	+ 6.5

Source : Department of Census and Statistics,
Central Bank of Ceylon.

*From corresponding period of 1957.

The level of retail prices as indicated by the Colombo Consumers' Price Index was on the average 2.1 per cent higher in 1958 than in 1957. The "domestic group" of items entering into the index was 4.1 per cent higher in 1958. The rise in this component in the latter half of the year was probably due to the difficulties of distribution in consequence of the communal disturbances. The rise in the prices for coconuts and coconut oil brought about the upward change in the "export group." The "import group" index, however, has been lower in 1958 by about 1 per cent chiefly as a result of the reduction in the price of rationed rice by 5 cents a measure with effect from June.

As the cost of living index did not increase by more than 10 per cent of its level at the end of the corresponding month of the preceding year, no report was necessary in 1958 in terms of Section 63 of the Monetary Law Act.

There is at present no index on the cost of living of the higher income groups, though one is now under preparation. The price changes indicated in the Colombo Consumers' Price Index would affect the higher income groups as well, in so far as items in that index are included in their pattern of expenditure. However, the higher income groups spend a higher proportion of their income on rent, and on a larger range of imported goods. The following table indicates that while the prices of imported food and drink and textiles were lower in 1958 than in 1957 the prices of other imported consumer goods were slightly higher.

TABLE II—18

Import Price Index of Consumer Goods

1948=100

	Food and drink	Textiles	Other consumer goods	Combined
1956	100	71	122	99
1957	106	77	128	104
1958	93	72	129	95

Source : Central Bank of Ceylon.

Wages.—Minimum wage rates are controlled by law in the following industries in which Wages Boards have been established; tea growing and manufacturing, cocoa, cardamom and pepper growing and manufacturing, rubber growing and manufacturing, coconut growing, coconut manufacturing, engineering, printing, cigar making, plumbago mining, tea export, rubber export, toddy, arrack and vinegar making, motor transport, match manufacturing, cinema, dock, harbour and port transport, building, beedi manufacturing and baking.

Minimum wage rates indices are computed by the Department of Labour for a number of representative categories of workers. The following changes have taken place in these representative indices in recent years.

TABLE II—19
Indices of Minimum Wage Rates
 1952=100

Period	Tea and rubber estate workers		Agricultural workers		Workers in trades other than agriculture		Combined index agriculture and other than agriculture		Government unskilled workers	
	Minimum wage rate	Index of real wage rates	Minimum wage rate	Index of real wage rates	Minimum wage rate	Index of real wage rates	Minimum wage rate	Index of real wage rates	Minimum wage rate	Index of real wage rates
1956 ..	108.3	108.1	107.1	106.9	102.9	102.7	106.4	106.2	107.2	107.0
1957 ..	109.4	106.4	108.7	105.6	104.5	101.5	107.8	104.7	110.4	107.3
1958 ..	111.5	106.2	110.2	105.2	116.2	110.9	110.8	105.6	126.7	120.7

Sources : Department of Labour and Central Bank of Ceylon.

During 1958, there was an all round increase in the minimum wage rate indices. Except in the case of workers in agriculture there was an upward movement in indices of real wage rates. Up to the end of 1957 the indices for "workers in trades other than agriculture" had moved upwards at a slower pace than those for workers in agriculture.

Changes in the minimum wage rates were caused largely by changes in special allowances. No changes occurred in the basic wages in the Wages Board trades except in the printing and match manufacturing trades where, from February 1, 1958, the monthly wage rates of learners and apprentices were increased by amounts ranging from Re. 1/- to Rs. 2/-, while those of other workers were increased by amounts ranging from Rs. 5/- to Rs. 10/-. These increases resulted in the monthly wage rate indices for these two trades being 7.1 per cent and 6.2 per cent higher respectively from February, 1958.

In the case of Government unskilled workers, the minimum wage rate index rose by 14.8 per cent from 110.4 in 1957 to 126.7. The index for the workers in trades other than agriculture, which had moved upwards at a slower pace than the index for tea and rubber estate workers, showed a marked change in rising by 11.2 per cent from 104.5 in 1957 to 116.2.

During 1958 the index of real wage rates for workers in trades other than agriculture rose by 9.3 per cent from 101.5 to 110.9. In the case of Government unskilled workers the index of real wage rates rose by 12.5 per cent from 107.3 to 120.7.

National Wage Policy.—During the year 1958, two Commissions were in operation to inquire into the subject of salaries and wages of persons in the various sectors of the economy. The Salaries and Cadres Commission, appointed by the Government in November, 1957, is to report on the changes that may be necessary in the existing salaries, wages, allowances and other benefits of persons employed by the Government and of Government assisted school teachers whose salaries are paid by the Government. The question of cadres, conditions of work and the reduction of present working hours to eight hours per day are also to be considered.

In December, 1958, the Government appointed a National Wages Policy Commission, with Mr. D. W. Rajapatirana, the Senior Deputy Governor of the Central Bank as Chairman, to report on the existing wage and salary structure of persons employed in the private sector and by corporations established by or under any written law. The Commission is to recommend a national wage policy in respect of the persons employed in the sectors mentioned above, bearing in mind the urgent need for national economic development and the need to ensure a fair and equitable return both to wage earner and employer. Recommendations are also to be made on cognate questions such as leave, living allowance, rent allowance and other terms of employment with a view to ensuring conditions that would help to promote the fullest co-operation between employers and labour in the task of national economic development.

The reports of these two Commissions should provide the Government with the basis for a wage policy for the economy as a whole.

Employment.—Information on employment in Ceylon is very inadequate. In 1958 the Government took action to meet this deficiency by planning to carry out a sample survey on the level of employment, unemployment and under-employment, with the aid of a specialist from the I.L.O.

There is no satisfactory estimate of the total labour force in the country. However, the census of 1946 showed that 39·23 per cent of the total population was gainfully occupied. Of the gainfully occupied 21·83 per cent were women.

During 1958 there was a marked increase in that part of the labour force which is organised in unions. The data available are only for unions which have sent in returns to the Department of Labour. The change over the period, allowing for inadequate returns for clerical and professional workers, is as follows :—

TABLE II—20

*Statistics of Employees' Unions that have sent their returns to
the Commissioner of Labour*

Workers' Unions	No. of Unions		Membership	
	1956-57	1957-58	1956-57	1957-58
(1) Plantations and agricultural	20	27	353,191	552,498
(2) Industrial	11	65	11,977	65,669
(3) Transportation and communications ..	37	60	22,288	39,408
(4) Clerical	24	20	20,627	12,387
(5) Professional	102	30	39,972	9,215
(6) General	50	96	73,599	35,669
(7) Commercial	—	11	—	14,916
(8) Administrative and executive	—	8	—	416
	244	317	521,654	730,178

Source : Department of Labour.

Note.—In 1956-57, (7) and (8) above were classified under (5).

There are no statistics on the numbers unemployed in Ceylon. The numbers registered at the Employment Exchanges in Colombo and 16 major towns include both unemployed and those seeking better employment. The change in the number of registrants is as follows :—

TABLE II—21

Period								Number	Index
1938	..	..	..	..	..	..	..	16,480	100
1952	..	..	..	..	..	..	..	53,023	322
1953	..	..	..	..	..	..	..	51,546	313
1954	..	..	..	..	..	..	..	63,304	384
1955	..	..	..	..	..	..	..	71,010	431
1956	..	..	..	..	..	..	..	85,952	522
1957	..	..	..	..	..	..	..	110,856	673
1958 1st Quarter	..	..	..	..	..	..	..	116,780	709
2nd Quarter	..	..	..	..	..	..	..	110,326	669
3rd Quarter	..	..	..	..	..	..	..	115,488	701
4th Quarter	..	..	..	..	..	..	..	117,796	715

Source : Department of Labour.

Employees' Provident Fund.—The Employees' Provident Fund Act became law on May 9, 1958 and came into operation from the beginning of the following month. Regulations under this Act were gazetted on October 29.

The Act covers all employees other than those in Government or Local Government Services. It is estimated that about 6 to 7 thousand employers and 7 to 8 lakhs of employees will be brought into the Fund in stages commencing from December 1, 1958.

The Employees' Provident Fund Act is administered by the Commissioner of Labour and the Fund by the Monetary Board of the Central Bank. The powers and duties of the Monetary Board in this regard are set forth in Section V of the Employees' Provident Fund Act. On August 1, 1958, in order to carry out the obligations under the Act, the Monetary Board established a new Department of the Central Bank called the Department of the Employees' Provident Fund.

Labour Relations.—Productive efficiency and output depend in no small measure on favourable labour relations. The growth of trade unions in recent years involved a sharp departure from older patterns of labour relations in Ceylon.

This development has not been without friction and initially brought to the surface numerous trade disputes which led to strikes. There was, however, a reduction in the number of strikes in 1958, as the table below indicates.

TABLE II—22

Strikes and Man-days work lost

Year	Plantations		Other employment	
	No. of strikes	Man-days lost	No. of strikes	Man-days lost
1956	99	200,888	115	152,966
1957	177	618,050	127	190,443
1958	123	340,632	79*	292,577*

* December 1958 figures are incomplete.

Source : Department of Labour.

The largest number of strikes took place on the plantations where the major part of the working population is organised in unions (see Tables II—20 & 22). The causes of strikes as classified by the Department of Labour*, indicate that the proportion of strikes resulting from demands for wage increases has been relatively low. The percentage of strikes resulting from demands for wage increases account for only 2.5 per cent of total causes in 1958 compared with 5.3 per cent in the preceding year. Since 1955 demands for wage increases accounted on an average of only 4.6 per cent of the total causes of strikes compared with 7.9 per cent in 1954 and 17.2 per cent in 1953.

In 1958, according to Department of Labour* classification, strikes due to wage disputes other than for increases accounted for 19.0 per cent, disputes about working conditions accounted for 31.3 per cent and dismissal or loss of work for 16.6 per cent. These figures suggest that, in 1958, improving labour relations in Ceylon was not simply a matter of increasing wages.

III. MONETARY DEVELOPMENTS

(a) Money Supply

The money supply increased by Rs. 36.6 million or 3.6 per cent in 1958. At the end of December, 1957, it stood at Rs. 1,040.1 million after having fallen by Rs. 86.7 million in that year. Then it fell by a further Rs. 40.3 million in the first five months of 1958. Thereafter, however, it increased by Rs. 76.9 million to Rs. 1,076.8 million at the end of the year, as shown below :—

TABLE III—1

Money Supply

Rupees Million

End of period	1956	1957	1958	% Change (1957 over 1956)	% Change (1958 over 1957)
January	1,060	1,131	1,014	+6.7	—10.3
February	1,054	1,105	1,016	+4.9	—8.1
March	1,048	1,107	1,023	+5.6	—7.6
April	1,043	1,082	1,032	+3.8	—4.6
May	1,049	1,061	1,000	+1.1	—5.7
June	1,056	1,045	1,015	—1.0	—2.9
July	1,051	1,056	1,023	+0.5	—3.1
August	1,053	1,024	1,022	—2.8	—0.2
September	1,064	1,046	1,072	—1.7	+2.5
October	1,078	1,052	1,085	—2.4	+3.1
November	1,094	1,049	1,070	—4.1	+2.0
December	1,127	1,040	1,077	—7.7	+3.6

Source: Central Bank of Ceylon.

* December, 1958 figures are incomplete.