

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.

Factors responsible for the changes in the money supply are shown in the following table :—

TABLE III—2
Changes in Money Supply

Rupees Million

Factors affecting money supply	End of December, 1954-55		End of December, 1955-56		End of December, 1956-57		End of December, 1957-58	
	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors
1. External banking assets (net)	219.0	—	20.4	—	—	209.2	—	82.2
2. Commercial bank operations :—								
(a) Credit to private sector	12.9	—	93.0	—	55.3	—	53.4	—
(b) Holdings of Treasury Bills, and Govt. and Govt. Guaranteed Securities	—	26.4	62.8	—	—	7.4	—	39.6
3. Central Bank operations :—								
(a) Advances to the Government ..	—	—	—	—	32.6	—	75.0	—
(b) Holdings of Treasury Bills and Govt. and Govt. Guaranteed Securities	—	8.7	—	7.7	42.2	—	100.6	—
(c) Other assets and accounts (net) ..	—	17.2	—	22.5	—	10.3	24.5	—
4. Time and Savings deposits and other liabilities (net) of commercial banks	—	15.9	—	31.3	—	38.4	—	68.1
5. Govt. cash balances ..	—	46.5	—	60.9	49.3	—	—	36.4
6. Adjustments	—	1.4	0.1	—	—	0.8	9.6	—
Total expansionary/contractive factors ..	231.9	116.1	176.3	122.4	179.4	266.1	263.1	226.3
Change in Money supply	+115.8		+53.9		—86.7		+36.6	

Source: Central Bank Ceylon.

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

It will be seen from the above table that the increase in money supply in 1958 was brought about by the large increase of Rs. 200.1 million in Central Bank's domestic assets—rise in advances to Government by Rs. 75 million, holdings of Government and Government Guaranteed paper by Rs. 100.6 million, and other assets and accounts (net) by Rs. 24.5 million. Commercial bank credit to the private sector too increased by Rs. 53.4 million. Central Bank and commercial bank operations, however, could not exert their full expansionary effects on the economy because of the contractive influence of other factors. External banking assets declined by Rs. 82.2 million as a result of the adverse balance of payments

in 1958. Commercial banks' holdings of Treasury bills and Government and Government guaranteed securities fell by Rs. 39·6 million (in contrast to the expansion of Central Bank's holdings of these assets). As bank liquidity was at a very low level there were "tight money" conditions throughout 1958. When the Government securities and Treasury bills held by banks matured, the banks did not reinvest the funds because of their low liquidity position. In addition, some banks rediscounted Treasury bills at the Central Bank, while some sold in the market the Government securities they held. Fixed and Time deposits and other liabilities of commercial banks increased by Rs. 68·1 million, and there was a shift of rupee cash from the public to the Government to the amount of Rs. 36·4 million. As the expansionary influence was larger than the contractive, money supply increased.

1958 was the only year, since the establishment of the Central Bank, in which the money supply increased when there was a deficit in the balance of payments. The other years which experienced unfavourable balance of payments—1952, 1953 and 1957—also experienced a fall in money supply. The reason why the money supply failed to decline in 1958 with the unfavourable balance of payments is the large increase of Central Bank's domestic assets, particularly its holdings of Treasury bills and advances to the Government, which more than offset the contractive influence of the balance of payments deficit. This suggests that the fluctuations in Ceylon's money supply may not necessarily be dominated by the balance of payments as in the past.

The increase in the money supply in 1958 took the form of an increase in currency, as shown below :—

TABLE III—3

*Components of Money Supply**Rupees Million*

End of period	Currency held by public		Demand deposits held by public		Total money supply
	Amount	As % of total money supply	Amount	As % of total money supply	
1953.. .. .	335·3	40·6	491·5	59·4	826·8
1954.. .. .	341·8	35·7	615·3	64·3	957·1
1955.. .. .	384·5	35·8	688·4	64·2	1,072·9
1956.. .. .	401·1	35·6	725·7	64·4	1,126·8
1957.. .. .	434·9	41·8	605·2	58·2	1,040·1
1958.. .. .	529·8	49·2	546·9	50·8	1,076·8

Source: Central Bank of Ceylon.

Whereas demand deposits fell from Rs. 605·2 million at the end of 1957 to Rs. 546·9 million at the end of 1958 or by 9·6 per cent, currency in circulation rose from Rs. 434·9 million to Rs. 529·8 million in the same period, or by 21·8 per cent. In 1957, demand deposits had declined by 16·6 per cent and currency in circulation had increased by 8·4 per cent. At the end of 1958, the ratio of currency to money supply was 49·2 per cent—the highest since the establishment of the Central Bank.

This large increase in currency was a special feature of the monetary situation in 1958. Currency in the hands of the public had been increasing from year to year since 1954, but it has never increased by so much as in 1958. It increased by 1·9 per cent in 1954, 12·5 per cent in 1955, 4·3 per cent in 1956, 8·4 per cent in 1957 and 21·8 per cent in 1958. Among the factors which are likely to have been responsible for the rise in currency circulation in 1958 are : the increase in money wages, the rise in the currency holdings of the rural sector on account of the increased amount of paddy sold to the Government, and the holding of assets in liquid form—partly because of the uncertainty created by the communal disturbances, and partly because of the proposed new tax measures. In addition, the strike of commercial bank employees in December probably contributed to the sharp increase in holdings of currency in that month as business houses could not deposit their cash with the banks. The increase in currency circulation in 1958 was evident in currency notes of all denominations, but proportionately greatest in currency notes of high value—Rs. 100 and Rs. 50. This would seem to indicate that currency was used more than before for business payments or hoarding or both during 1958.

(b) Banking and Credit

(1) Commercial Banks.

There were 15 commercial banks in Ceylon in 1957. In January, 1958, however, the National Bank of India amalgamated with the Grindlays Bank, thus reducing the number of commercial banks in Ceylon to 14 in 1958. The Bank of Ceylon opened two new branches in 1958. The total number of commercial bank offices (head offices and branches) at the end of 1958 was 41, of which 22 belonged to the Bank of Ceylon. The distribution of total deposits between local and foreign banks as at the end of 1958 was as follows :—

TABLE III—4

Distribution of Deposits

Total deposits		Held by Ceylonese Banks		Held by British Banks		Held by Indian and other Banks	
Amount in Rs. Million	%	Amount in Rs. Million	%	Amount in Rs. Million	%	Amount in Rs. Million	%
947	100	422	45	444	47	80	8

Source: Central Bank of Ceylon.

The structure of commercial bank assets and liabilities is set forth in Appendix II. Total deposit liabilities of the commercial banks amounted to Rs. 947 million at the end of 1958, which was Rs. 5 million higher than that at the end of 1957. But the average monthly deposits in 1958 as shown in the table on the next page, were lower than in 1957; they fell from Rs. 965 million in 1957 to Rs. 926 million in 1958. This decline was due to the fall in demand deposits from a monthly average of Rs. 721 million in 1957 to Rs. 661 million in 1958. Time and Savings deposits on the other hand rose from a monthly average of Rs. 240 million in 1957 to Rs. 263 million in 1958; and the ratio of Time and Savings deposits to total deposits increased from a monthly average of 24.9 per cent in 1957 to 28.4 per cent in 1958. Time and Savings deposits have been increasing every year since 1950, but the large rise in 1958 was perhaps the result of the uncertainty in the business outlook and the higher rates of interest paid on Time deposits since June, 1957. An additional factor may have been the deposit of funds by those employees whose provident funds were wound up pending the establishment of the national Employees' Provident Fund.

TABLE III—5

Distribution of Assets and Liabilities of Commercial Banks
(the average of monthly figures)

Rupees Million

	1951	1952	1953	1954	1955	1956	1957	1958
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements) ..	209	177	128	106	149	148	139	119
Foreign balances	171	97	44	55	112	116	72	50
Treasury bills	45	39	55	60	51	39	34	16
Bills discounted	72	64	65	73	94	93	100	116
Total liquid assets	497	377	292	294	406	396	345	301
Total investments⁽¹⁾	218	235	235	221	245	291	308	296
Total loans and overdrafts ..	153	176	182	208	244	273	340	363
Demand deposits ⁽²⁾	753	653	573	562	675	731	721	661
Time and savings deposits ..	83	95	102	126	190	206	240	263
Total deposits	848	754	677	689	869	941	965	926
Ratio of:—	%	%	%	%	%	%	%	%
Cash to demand deposits ..	27.8	27.1	22.3	18.9	22.1	20.2	19.3	18.0
Cash to total deposits ..	24.6	23.5	18.9	15.4	17.1	15.7	14.4	12.9
Foreign balances to total deposits	20.2	12.9	6.5	8.0	12.9	12.3	7.5	5.4
Treasury bills to total deposits ..	5.3	5.2	8.1	8.7	5.9	4.1	3.5	1.7
Commercial bills discounted to total deposits	8.5	8.5	9.6	10.6	10.8	9.9	10.4	12.5
Liquid assets to demand deposits	66.0	57.7	50.9	52.3	60.1	54.2	47.9	45.5
Liquid assets to total deposits ..	58.6	50.0	43.1	42.7	46.7	42.1	35.8	32.5
Investments to total deposits ..	25.7	31.2	34.7	32.1	28.2	30.9	31.9	32.0
Loans and overdrafts to total deposits	18.0	23.3	26.9	30.2	28.1	29.0	35.2	39.2

Source: Central Bank of Ceylon.

(1) Government and Government guaranteed securities and Central Bank issues.

(2) Excludes domestic inter-bank deposits.

The table below shows the ownership of deposits as at the end of September, 1957 and March and September, 1958. The figures are based on the half-yearly surveys of commercial bank deposits and advances carried out by the Central Bank.

TABLE III—6

*Ownership of Deposits**(Amount in Rupees Million)*

Owner	Demand		Time		Savings		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Financial Institutions :								
Sept. 1957 ..	50.3	8.4	24.4	18.9	4.9	5.4	79.7	9.8
March 1958 ..	55.6	9.7	26.8	21.3	2.9	3.1	85.3	10.7
Sept. 1958 ..	44.4	8.0	45.2	35.0	4.0	3.8	93.6	11.9
Plantations :								
Sept. 1957 ..	154.7	26.0	23.7	18.4	1.7	1.9	180.1	22.1
March 1958 ..	153.1	26.7	19.1	19.2	0.1	0.1	172.4	21.7
Sept. 1958 ..	133.3	24.2	16.3	12.6	1.2	1.1	150.7	19.2
Other Business :								
Sept. 1957 ..	100.9	17.0	23.8	18.5	1.1	1.2	125.7	15.4
March 1958 ..	97.0	16.9	28.5	22.6	0.9	0.9	126.4	15.9
Sept. 1958 ..	117.3	21.3	19.8	15.3	1.5	1.4	138.6	17.6
Local Authorities :								
Sept. 1957 ..	19.5	3.3	21.5	16.7	0.2	0.2	41.2	5.1
March 1958 ..	19.3	3.4	19.3	15.3	0.2	0.2	38.7	4.9
Sept. 1958 ..	17.7	3.2	16.3	12.6	0.5	0.5	34.5	4.4
Non-Business Institutions :								
Sept. 1957 ..	25.9	4.4	2.9	2.3	2.5	2.7	31.3	3.8
March 1958 ..	22.9	4.0	5.2	4.1	2.3	2.4	30.4	3.8
Sept. 1958 ..	27.4	5.0	1.9	1.5	1.9	1.8	31.1	4.0
Individuals :								
Sept. 1957 ..	243.5	40.9	32.5	25.2	80.9	88.7	356.8	43.8
March 1958 ..	226.3	39.4	26.9	21.4	88.6	93.3	341.8	43.0
Sept. 1958 ..	211.8	38.4	29.7	23.0	95.4	91.4	336.9	42.9
Total :								
Sept. 1957 ..	594.8	100.0	128.8	100.0	91.2	100.0	814.8	100.0
March 1958 ..	574.1	100.0	125.9	100.0	95.0	100.0	795.1	100.0
Sept. 1958 ..	551.9	100.0	129.2	100.0	104.4	100.0	785.5	100.0

Source: Central Bank of Ceylon.

The table shows that while deposits owned by financial institutions and other business rose by Rs. 13.9 million and Rs. 12.9 million respectively between September, 1957 and September, 1958, those owned by plantations and individuals fell by Rs. 29.4 million and Rs. 19.9 million respectively. Deposits owned by non-business institutions also fell slightly by Rs. 0.2 million, and those of local authorities by Rs. 6.7 million. In September, 1958, individuals owned 43 per cent of the bank

deposits, plantations 19 per cent, other business 18 per cent and financial institutions 12 per cent.

An important development in this period is the increase in Time deposits owned by financial institutions—from Rs. 24.4 million in September, 1957 to Rs. 45.2 million in September, 1958. The reasons for this are the increase in Time deposits by a number of Insurance Companies, and the temporary deposit of liquid funds by semi-Government and private business concerns.

On the assets side there was a fall in liquid assets and investments while loans and overdrafts rose. It is characteristic of the commercial banking system in Ceylon that its most liquid assets—cash balances and foreign currency holdings—fluctuate mainly with the balance of payments, rising with a surplus and falling with a deficit. As the year 1958 experienced an unfavourable balance of payments, a fall in cash balances and foreign currency holdings of banks was, therefore, to be expected. These balances and holdings had fallen considerably in 1957, because of the large deficit in the balance of payments that year. Hence their decline in 1958 brought them to a very low level—from a monthly average of Rs. 211 million in 1957 to Rs. 169 million in 1958, or from 21.9 per cent of the total deposits in 1957 to 18.1 per cent in 1958. Excess reserves of banks, for instance, declined from a monthly average of Rs. 25 million in 1957 to Rs. 10 million in 1958. As a result of this low level of cash reserves, some banks had to borrow frequently from the Central Bank to replenish their depleted cash balances. At the end of June, outstanding Central Bank advances to commercial banks amounted to Rs. 30.9 million, and in August, Rs. 32.9 million.

Of the other liquid assets Treasury bills declined but commercial bills discounted increased in 1958. In view of the low level of cash balances, as mentioned earlier, banks were not in a position to subscribe to new Treasury bills on the maturity of ones they held, and some had even to discount Treasury bills at the Central Bank. The overall result was that the ratio of all bank liquid assets (cash on hand and with Central Bank, foreign currency holdings, Treasury bills and commercial bills discounted) to total deposits fell from a monthly average of 35.8 per cent in 1957 to 32.5 per cent in 1958.

While all liquid assets except commercial bills discounted declined, loans and overdrafts of commercial banks increased from a monthly average of Rs. 340 million in 1957 to Rs. 363 million in 1958—or from 35.2 per cent of the total deposits to 39.2 per cent. But banks' investments in Government securities declined from a monthly average of Rs. 308 million in 1957 to Rs. 296 million in 1958. It was pointed out earlier that as a result of the low cash balances, some banks were not only unable to reinvest the funds realised on the maturity of Government securities they held, but were also forced to sell some of their Government securities in the market. Further, they pledged some of their Government securities against advances from the Central Bank. Thus, the causes for the fall in the banks' holdings of Government securities were the same as those in the case of Treasury bills. Apparently, the banks utilised the funds realised on maturity and sale of Government securities and Treasury bills to meet the demand for credit from the private sector.

The increase in bank credit to the private sector in 1958 was mainly for commerce and agriculture. This is shown by the following table which summarises loans and

advances classified by purpose as at the end of September, 1957, March, 1958 and September, 1958 :—

TABLE III—7

*Loans and Advances classified by Purpose and according to maturity**

Rupees Million

Purpose			Short-term (below 6 mths)		Medium-term (6 mths. to 30 mths.)		Long-term (over 30 mths.)		Total	
			(1)	(1) as % of (7)	(3)	(3) as % of (7)	(5)	(5) as % of (7)	(7)	(7) as % of total
				(2)		(4)		(6)		(8)
A. Commercial	Sept. 1957	..	126.9	42.5	129.9	43.5	42.1	14.1	298.9	66.6
	March 1958	..	137.8	44.1	114.3	36.6	60.6	19.4	312.7	67.5
	Sept. 1958	..	97.3	26.9	182.6	50.5	81.5	22.6	361.4	71.1
B. Financial	Sept. 1957	..	18.6	25.8	41.3	57.3	12.0	16.6	72.1	16.1
	March 1958	..	20.5	29.9	21.3	31.0	26.7	38.9	68.6	14.8
	Sept. 1958	..	3.3	5.2	27.5	43.7	32.1	51.0	62.9	12.4
C. Agriculture	Sept. 1957	..	5.0	34.2	7.2	49.3	2.4	16.4	14.6	3.3
	March 1958	..	9.4	53.4	5.8	33.0	2.3	13.1	17.6	3.8
	Sept. 1958	..	10.2	37.1	8.7	31.6	8.6	31.3	27.5	5.4
D. Industrial	Sept. 1957	..	3.8	11.3	27.3	81.3	2.5	7.4	33.6	7.5
	March 1958	..	4.0	15.3	19.0	72.5	3.2	12.2	26.2	5.7
	Sept. 1958	..	0.9	4.6	12.7	64.5	6.1	31.0	19.7	3.9
E. Consumption	Sept. 1957	..	4.6	23.2	13.9	70.2	1.3	6.6	19.8	4.4
	March 1958	..	5.0	20.9	14.8	61.9	4.1	17.2	23.9	5.2
	Sept. 1958	..	2.9	13.4	11.6	53.7	7.1	32.9	21.6	4.3
F. Other loans	Sept. 1957	..	0.7	7.1	5.5	55.6	3.7	37.4	9.9	2.2
	March 1958	..	1.3	9.2	10.6	75.2	2.2	15.6	14.1	3.0
	Sept. 1958	..	6.0	39.7	6.4	42.4	2.7	17.9	15.1	3.0
Total	Sept. 1957	..	159.5	35.5	225.1	50.1	64.1	14.3	448.9	100.0
	March 1958	..	178.1	38.4	185.8	40.1	99.2	21.4	463.2	100.0
	Sept. 1958	..	120.7	23.7	249.5	49.1	138.0	27.2	508.2	100.0

*Figures for September, 1958 are provisional.

Source: Central Bank of Ceylon.

The increase in credit for commerce was both for exports and imports. But while the value of exports increased in 1958, that of imports declined. The increase in bank credit for imports in the face of a fall in the value of imports might have been due to the extension of the date of repayment of bank advances taken by importers who were adversely affected by the delays in clearing goods from the port as well as the transshipment and overcarriage of goods. The increase in bank credit for agriculture seems to have been mainly to finance the holding by the producers of large stocks of rubber and tea which could not be shipped as a result of the delays in the clearing of cargoes in the port of Colombo.

The table shows that between September, 1957 and September, 1958, loans and advances for consumption and other purposes rose—the former only slightly—while credit for industrial and financial purposes declined.

It will also be noticed that the majority of bank loans and advances were for commerce. In September, 1958, about 71 per cent of the loans and advances were for commerce, while 5 per cent was for agriculture and 4 per cent for industry.

The Central Bank surveys of Bank deposits and advances show that it was advances against documentary bills which rose most—by Rs. 41.5 million between September, 1957 and September, 1958. Unsecured advances rose by about Rs. 30 million and advances against stock-in-trade rose by Rs. 20.1 million. Changes in advances against other types of security, however, were relatively unimportant. In this period the proportion of advances against documentary bills and of unsecured advances increased while the proportions of other advances remained more or less constant or declined. This is shown in the following table:—

TABLE III—8
Advances by type of Security

Type of Security	30th Sept., 1957		31st March, 1958		30th Sept., 1958	
	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total
Documentary Bills	94.2	21.0	113.0	24.4	135.7	26.7
Government Securities	3.2	0.7	5.6	1.2	4.1	0.8
Shares of Joint-Stock Companies	49.3	11.0	43.6	9.4	41.5	8.2
Time and Savings Deposits and other cash deposits including cash value of life policies	14.2	3.2	7.2	1.6	12.3	2.4
Stock-in-trade	136.0	30.4	151.8	32.8	156.1	30.7
Immovable Property	57.9	12.9	53.0	11.4	61.8	12.2
Others	66.5	14.9	61.7	13.3	40.4	7.9
Unsecured	26.6	5.9	27.3	5.9	56.3	11.1
Total	447.8	100.0	463.2	100.0	508.2	100.0

Source: Central Bank of Ceylon.

The slight discrepancies between the totals in the above table and in table III—7 are due to errors in reporting. Figures for September, 1958 are provisional.

The increase in bank credit between the end of September, 1957 and September, 1958 related largely to advances at interest rates of $4\frac{1}{2}$ per cent and 6 per cent which rose by Rs. 27.7 million and Rs. 20.7 million respectively. The table below shows that 89 per cent of the advances outstanding at the end of September, 1958 were those granted at interest rates of $4\frac{1}{2}$ to 6 per cent per annum. The proportion at the end of September, 1957 was 86 per cent.

TABLE III—9
*Advances by Rate of Interest**

Rate of Interest (Per cent)	30th Sept., 1957		31st March, 1958		30th Sept., 1958†	
	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total
Below $2\frac{1}{2}$	3.3	0.9	3.2	0.8	1.6	0.4
$2\frac{1}{2}$	0.7	0.2	—	—	1.0	0.2
3	10.5	2.8	3.8	1.0	8.2	1.9
$3\frac{1}{2}$	4.2	1.1	4.8	1.2	3.2	0.7
4	8.1	2.1	10.8	2.8	12.4	2.9
$4\frac{1}{2}$	144.1	37.7	143.4	36.5	171.8	39.8
5	53.7	14.1	62.8	16.0	60.7	14.1
$5\frac{1}{2}$	31.0	8.1	27.6	7.0	31.5	7.3
6	100.1	26.2	103.2	26.3	120.8	28.0
$6\frac{1}{2}$	16.9	4.4	17.7	4.5	13.1	3.0
7	3.0	0.8	9.6	2.4	2.5	0.6
$7\frac{1}{2}$	3.7	1.0	3.0	0.8	2.2	0.5
8 and above	2.8	0.7	2.9	0.8	2.9	0.7
Total	381.9	100.0	392.7	100.0	431.8	100.0

Source: Central Bank of Ceylon.

* Excluding export bills purchased at current rates of exchange.

† Figures for September, 1958 are provisional.

There was no change in the interest rates on loans and advances of commercial banks in 1958.

Bank clearings fell from a monthly average of Rs. 730.4 million in 1957 to Rs. 661.4 million in 1958. This might have been caused largely by the concentration of deposit accounts after the nationalisation of transport and the port of Colombo, as well as the decline in bank deposits. Although bank clearings fell, the rate of turnover of demand deposits in 1958 was practically the same as in 1957—20.63 in 1958 as compared with 20.62 in 1957.

(2) *Other Financial Institutions*

The State Mortgage Bank and the Agricultural and Industrial Credit Corporation are both semi-Government long-term lending institutions. The loans of the State Mortgage Bank carry interest at $4\frac{1}{2}$ per centum per annum, and are repayable within a period of five to twenty-five years. The minimum loan is Rs. 2,000 and the upper limit is Rs. 1 million. The State Mortgage Bank raises funds by the issue of debentures (the principal and interest of which are guaranteed by the Government) and by overdrafts from commercial banks. The loans are granted mainly for agricultural and house building purposes. In the financial year 1957-58 the State Mortgage Bank granted loans amounting to Rs. 9.5 million as compared with Rs. 12.6 million in the financial year 1956-57. The decline in the total amount of loans in 1957-58 seems to have resulted from the policy of reducing the size of loan by restricting the maximum limit of a loan to one lakh of rupees. Though there was a decline in the amount of loans granted in 1957-58, this amount was granted to meet the needs of a larger number of applicants than in 1956-57. The total amount of loans outstanding at the end of September, 1958 was Rs. 42.8 million as against Rs. 36.0 million at the end of September, 1957. The State Mortgage Bank also issued debentures amounting to Rs. 12 million last year.

The Agricultural and Industrial Credit Corporation also grants long-term loans on the primary mortgage of property. The minimum sum it can grant as a loan is Rs. 500. It lends at $5\frac{1}{2}$ per cent interest per annum for both agricultural and industrial purposes. Its funds are obtained by way of advances from the Consolidated Fund of the Government. In the financial year 1957-58, the total amount of loans granted by the Agricultural and Industrial Credit Corporation was Rs. 3.6 million as compared with Rs. 4.0 million in the financial year 1956-57. Of the total of Rs. 3.6 million lent in 1957-58, Rs. 3.2 million was for agriculture and Rs. 0.4 million for industry. The total amount of loans outstanding at the end of September, 1958 was Rs. 30.2 million as against Rs. 30.6 million at the end of September, 1957.

The Development Finance Corporation which started active operation in May, 1956, had up to the end of 1958 participated in financing private industrial and agricultural ventures to the extent of Rs. 9,744,000 to aid the development of 22 projects. During the year 1958 total new participations amounted to Rs. 3,939,000. The overall participation represents about 50 per cent of the total investment in the enterprises assisted.

The Post Office Savings Bank and the Ceylon Savings Bank are semi-Government savings institutions. The Post Office Savings Bank is essentially a medium for small

savings. It pays 2 per cent interest per annum on deposits, but the maximum deposit in any one year on which interest is payable is Rs. 4,000, and the maximum amount on which interest is payable that a depositor may have to his credit is Rs. 10,000. At the end of 1958, the total amount of savings deposits in the Post Office Savings Bank was Rs. 288·9 million as compared with Rs. 275·3 million at the end of 1957. Practically all the savings deposits of the Post Office Savings Bank are invested in Ceylon Government and certain sterling securities.

The Ceylon Savings Bank pays $2\frac{1}{2}$ per cent interest per annum on deposits. The maximum deposit in any one year on which interest is payable is Rs. 8,000 and the maximum amount on which interest is payable that a depositor may have to his credit is Rs. 12,000. Approved societies, however, may deposit Rs. 6,000 per annum up to a maximum holding of Rs. 20,000. Public servants seem to be the largest category of depositors in the Ceylon Savings Bank. At the end of 1958, total savings deposits in the Ceylon Savings Bank amounted to Rs. 68·4 million as compared with Rs. 68·6 million at the end of 1957. The greater part of the savings of this institution, as in the case of the Post Office Savings Bank, are invested in Ceylon Government and certain sterling securities. But unlike the Post Office Savings Bank, the Ceylon Savings Bank lends money on the security of house properties situated within Municipal limits and certain specified urban areas in Ceylon. The minimum loan granted is Rs. 2,000 and the interest charged varies from 3 per cent to 5 per cent per annum according to the size of the loan. At the end of 1957 the Ceylon Savings Bank had Rs. 63 million invested in Ceylon and British securities, and Rs. 9 million in loans on house property. Investment figures for 1958 are not yet available.

Time and Savings deposits of commercial banks rose from Rs. 246·1 million at the end of 1957 to Rs. 284·6 million at the end of 1958, and Savings Certificates outstanding from Rs. 29·2 million to Rs. 29·7 million. The savings of the Post Office Savings Bank, Ceylon Savings Bank, commercial banks and Savings Certificates in 1957 and 1958 are summarised in the following table :—

TABLE III—10

*Savings Deposits and Savings Certificates.**Rupees Million*

	At the end of 1957	At the end of 1958	Change
Post Office Savings Bank	275·3	288·9	+13·6
Ceylon Savings Bank	68·6	68·4	— 0·2
Commercial Banks (Time and Savings deposits) ..	246·1	284·6	+38·5
Savings Certificates outstanding	29·2	29·7	+ 0·5
Total ..	619·2	671·6	+52·4

Source: Central Bank of Ceylon.

Thus the total savings of these institutions rose by Rs. 52·4 million or about 8 per cent during the year to reach Rs. 671·6 million at the end of 1958.

Life Insurance Companies also form an important medium of personal savings, but statistical data regarding their business in 1958 are not yet available.

The newly set up Employees' Provident Fund will also be an important institutional device to mobilise savings and channel them to Government investment. Total contributions to this Fund, according to estimates furnished by the Department of Labour, are expected to be about Rs. 50 million a year. Contributions began to flow into the Fund only from the beginning of 1959.

In the rural sector, a survey carried out as a joint venture by the Departments of Census and Statistics, Co-operative Development and Agrarian Services in 1957, throws new light on the problems of rural indebtedness and credit requirements. The report, published in January, 1959, shows that 54 per cent of the rural families were in debt, and that the total outstanding debts in the rural sector amounted to about Rs. 516 million. The sources of loanable funds in the rural sector are given as follows :—

TABLE III—11
Sources of loans in the rural sector, 1957

Source	Percentage distribution
1. Government	2.6
2. Co-operatives	4.1
3. Relatives and friends	44.2
4. Landlords	8.0
5. Professional money-lenders	15.5
6. Traders and commission agents	11.5
7. Commercial banks	1.1
8. Other	13.0
	<hr/> 100.0

Source: Survey of Rural Indebtedness, 1957.

The table clearly reveals the insignificant role played by institutional credit in the rural sector. It has also been shown by the survey that 24 per cent of the amount of loans in the rural sector were borrowed at interest rates between 6 and 11 per cent, and about 42 per cent at interest rates of 12 per cent and over.

It should be mentioned, however, that an attempt is being made to mobilise rural savings and to meet rural credit requirements more effectively than before, through the establishment of Multi-purpose Co-operative Societies which are integrating all the Co-operative activities hitherto carried out by a host of societies. By the end of 1958 there were 3,904 Multi-purpose Co-operatives as compared to 68 at the end of 1957. It should also be pointed out that at the end of 1958, there was under active consideration by the Government the establishment of a Co-operative Development Bank, on the lines recommended by the Central Bank. This Bank when finally set up would form the apex of the Co-operative credit movement.

TABLE III—12
Government Net Cash Operating Surplus or Deficit (—) (In millions of rupees)

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58 ^(a)
1. <i>Net Cash Operating Surplus or Deficit (—)</i>	— 47.8	— 257.1	— 231.9	33.7	127.6	— 1.2	— 196.4	— 229.1
(i) <i>Revenue surplus or deficit (—)</i>								
A. <i>Revenue</i>	910.2	954.0	952.5	1,026.2	1,158.6	1,257.2	1,260.5	1,280.0
B. <i>Expenditure chargeable to revenue excluding contributions to sinking fund and direct repayments of public debt from revenue (vide 2 (iii)A)</i>	— 787.5	— 1004.6	— 904.4	— 772.0	— 828.9	— 1064.4 ⁽³⁾	— 1105.2	— 1302.2
<i>(Food subsidy)</i>	(131.6)	(247.2)	(127.0)	(12.0)	(—)	(79.5)	(105.5)	(112.0)
	122.7	— 50.6	48.1	254.2	329.7	192.8	155.3	— 22.2
(ii) <i>Loan and loan fund expenditure</i>	— 146.7	— 203.0	— 220.6	— 162.3	— 215.5	— 211.0	— 213.3	— 282.6
(iii) <i>Expenditure financed by National Development Reserve</i>	— 5.4	— 7.7	— 6.4	— 3.2	— 2.1	— 4.0	— 5.1	— 3.0
(iv) <i>Advances to stores and materials account</i>	— 1.8	— 16.8	— 2.4	4.6	9.9	1.2	— 14.5	—
(v) <i>Other advances</i>	— 16.2	19.0	— 41.9	— 61.1	— 2.0	19.7 ⁽⁴⁾	— 115.8	69.8
(vi) <i>Miscellaneous</i>	— 0.4	2.0	— 8.7	1.5	7.6	0.1	— 3.0	8.9
2. <i>Net Cash Receipts or Payments (—) resulting from Government Borrowing and Lending Operations</i>	114.0	184.1	216.5	— 35.3	— 39.0	12.2	175.4	181.5
(i) <i>Administrative borrowing and repayment of borrowing:</i>								
A. <i>Deposits (from suitors, contractors, etc., and includes the unexpended balance of foreign aid)</i>	46.7	— 16.2	21.4	— 2.1	34.5	— 10.8	9.0	73.9
B. <i>Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.)</i>	— 4.6	0.6	— 0.2	0.3	— 0.9	— 4.8	— 2.3	20.1
	42.1	— 15.6	21.2	— 1.8	33.6	— 15.6	6.7	94.0
(ii) <i>Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, Local Bodies, etc.)</i>	— 8.3	— 18.6	— 9.3	— 2.8	— 4.5	— 20.9	— 16.1	— 14.7
(iii) <i>Government market borrowing and repayment of borrowing:</i>								
A. <i>Medium and long-term</i>	146.0	102.4	80.0	133.3	87.1	79.7	113.5	68.7
<i>Less Sinking fund contributions and direct public debt repayments from revenue</i>	17.4	18.4	23.1	22.6	44.5	39.0	31.1	26.5
	128.6	84.0	56.9	110.7	42.6	40.7	82.4	42.2
B. <i>Treasury bills</i>	— 48.4	62.3	90.6	— 78.1	— 44.9	8.0	— 3.0	74.6
C. <i>Central Bank advances</i>	—	72.0	— 1.5	— 4.7	— 65.8	—	96.3	— 13.8
D. <i>Tax Reserve Certificates</i>	—	—	—	—	—	—	9.1	— 0.8
E. <i>Other</i>	—	—	58.6 ⁽¹⁾	— 58.6 ⁽²⁾	—	—	—	—
	80.2	218.3	204.6	— 30.7	— 68.1	48.7	184.8	102.2
3. <i>Changes in Cash Balances (including readily realisable assets) (1)+(2)</i>	66.2	— 73.0	— 15.4	— 1.6	88.6	11.0	— 21.0	— 47.5

(1) Loans from semi-Government institutions.

(2) Loans repaid to semi-Government institutions.

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

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

(c) Government Finance*The Financial Year 1957-58.*

The Government accounts for the financial year 1957-58 which are summarised in table III—12 on page 39 reveal the following :—

- (a) Total revenue for the year was Rs. 1,280·0 million, Rs. 19·5 million more than in the previous year.
- (b) Total Government payments (other than payments on account of borrowing and lending operations) were Rs. 1,509·1 million, Rs. 52·2 million more than in the previous year.
- (c) Consequently, there was a net cash operating deficit of Rs. 229·1 million, as compared with deficits of Rs. 196·4 million and Rs. 1·2 million in 1956-57 and 1955-56 respectively.
- (d) This deficit was financed by a reduction of Rs. 47·5 million in Government's cash balances and a net borrowing of Rs. 181·5 million.

Originally the budget deficit for 1957-58 was estimated to be of the order of Rs. 155 million. However, during the financial year, certain additional expenditure became necessary owing to improvements in the terms of employment granted to certain Government employees, the damage caused by the floods of December, 1957, and the unsettled political conditions of May, June, 1958. As a result, the deficit turned out to be higher than estimated. The deficit would have been even higher but for a net receipt of Rs. 78·7 million on Government's "advance account operations," and a substantial degree of under-expenditure. The net receipt of Rs. 78·7 million was mainly due to a reduction in the accumulated credit balance with China under the Trade and Payments Agreement between Ceylon and China.

Revenue.—Revenue from excise duties was higher than in the previous year. The bank debits tax, which was introduced in 1957-58 yielded Rs. 11·2 million. Import duty, income tax and stamp duty collections were lower than in the previous year.

Excise duty revenue recorded an increase of Rs. 12·6 million mainly owing to higher tobacco taxes and increased sales of arrack.

The lower volume and prices of imports were reflected in a decline in import duty revenue by Rs. 11·6 million. Export duty collections were slightly higher. The volume of tea exports increased and the duty on tea was also raised in March, 1958. Consequently, there was an increase of Rs. 3·9 million in tea export duty collections. Although the duty on rubber exports was reduced from 28 cents to 20 cents per pound on all grades, rubber export duty collections were slightly higher owing to an increase in the volume of exports. With the decline in the production and export of coconuts, export duty collections on coconut products were lower.

Income tax revenue was Rs. 7·1 million lower than in 1956-57. This was to be expected because the incomes assessed to tax in 1957-58 were mainly those of 1956-57, in which year incomes were less than in 1955-56.

Expenditure.—The increase in Government expenditure was a result of increases in both current and capital expenditure as shown in the table below :—

TABLE III—13
Expenditure of Government

Rupees Million

Year	Current Expenditure	Capital Expenditure	Total
1955-56	862·8	430·9	1,293·7
1956-57	976·7	395·9	1,372·6
1957-58 (provisional)	1,136·9	495·1	1,632·0

Source: Central Bank of Ceylon.

Current expenditure increased mainly owing to increased establishment costs and the operation of the Tea Smallholders Relief Scheme. The increased allowances paid to certain classes of Government servants and the absorption of temporary employees into the permanent cadre together with the usual increase in establishment costs have resulted in increasing the Government's emoluments bill by Rs. 33·9 million.

The Tea Small Holders' Relief Scheme was introduced in March, 1958, as a measure of relief to producers of low-priced teas. Although it was originally expected to cost only Rs. 20 million in 1957-58 the actual charge for the financial year amounted to Rs. 25·0 million owing to the fact that larger quantities of tea than were envisaged came under the relief scheme in this period of somewhat depressed tea prices.

The charge to revenue on account of food subsidies in 1957-58 was Rs. 112·0 million (provisional), as compared with Rs. 105·5 million in 1956-57. The increase was partly due to the higher sales of rationed rice, which rose during the year by about 20,000 long tons to 688,000 long tons. On June 2, 1958, the price of rationed rice was reduced by ·05 cents to 35 cents per measure. The average contract price of Burma rice for 1958 was £34.19.9d. per long ton (f.o.b. Rangoon) as compared with the 1957 contract price of £33 per long ton. The price of China rice under the 1958 contract was £30.14.6d. per metric ton (f.o.b. Chinese ports; excluding cost of bags) as compared with the 1957 contract price of £30.7.6d. per metric ton.

Purchases of paddy under the Guaranteed Price Scheme amounted to about 199,000 tons of rice equivalent, which is about 44,000 tons higher than the purchase made during 1956-57.

The food subsidy would have been higher but for the lower import prices of sugar and flour. The average c.i.f. value of sugar fell, from Rs. 645 per long ton in 1956-57 to Rs. 475 per long ton in 1957-58. Over the same period, the average c.i.f. value of flour fell from Rs. 435 per long ton to Rs. 382 per long ton.

Under-expenditure has been for some time a feature in Ceylon's budgetary operations. In the fiscal year 1957-58 there was an under-expenditure of Rs. 74·8 million or 22 per cent on total estimated Loan Fund expenditure.

Inflationary Impact of the Budget.

The direct inflationary impact of the budget may be roughly equated to the net borrowing of the Government during the year from the banking system (commercial banks and the Central Bank) plus the decline in the Government's cash balances. This figure shows the net increase in the private sector's cash balances attributable to the Government's financial operations. To the extent that Govern-

ment expenditure is financed by borrowing the current savings of the public, it may be assumed that such expenditure either replaces private investment expenditure or activates current hoardings. In the former case Government expenditure cannot be said to be inflationary since it does not add to aggregate demand while in the latter case it is deflationary since it prevents aggregate demand from falling.

TABLE III—14

Rupees Million

	1956-57	1957-58
Net cash operating surplus or deficit	—196·4	—229·1
Borrowing from non-banking sector*	52·9	144·0
Borrowing from banking system	122·5	38·2
Decline in Government's cash balances	21·0	47·5
	143·5	85·7

* The non-banking sector consists mainly of savings banks, other institutional investors (e.g. sinking funds, trust funds, etc.), insurance and other companies and individuals. The net amount contributed by individuals to Government borrowing is relatively insignificant being Rs. 1,672,000 and Rs. 10,800 for the years 1956-57 and 1957-58 respectively.

The above table reveals that though the deficit for 1957-58 was Rs. 32·7 million more than the previous year, its direct inflationary impact on the economy was substantially less than before; Rs. 85·7 million in 1957-58 as compared with Rs. 143·5 million in 1956-57. On the other hand, borrowing from the non-banking sector in 1957-58 at Rs. 144·0 million was almost thrice the figure for 1956-57.

A partial explanation for this may be found in the fact that the deficit for 1957-58 includes an unused sum of approximately Rs. 50 million contributed to the capital funds of the newly established public corporations, treated in the budget as an item of expenditure and not as a loan but deposited with the Treasury and classified as administrative borrowing. If this intra-Governmental transaction is allowed for, the values of both the net cash operating deficit and non-bank borrowing would be lower by Rs. 50 million. Borrowing from the non-banking sector also includes unexpended balances of foreign aid amounting to Rs. 30 million and a sum of Rs. 17·0 million lying to the credit of the National Flood Relief Fund.

Public Debt.

The figures of public debt as at the end of the last four financial years are shown below :—

TABLE III—15

Total Public Debt

Rupees Million

End of September	Gross	Net (less sinking funds)
1955	1,094·3	894·1
1956	1,161·3	942·7
1957	1,363·9	1,123·3
1958	1,495·4	1,212·1

Source: Central Bank of Ceylon.

The total net debt rose by Rs. 88·8 million as compared with an increase of Rs. 180·6 million in 1956-57. This rise consisted of increases of Rs. 60·4 million in the floating debt and Rs. 28·4 million in funded debt, both domestic and foreign.

Funded Debt.—Over the year 1957–58, gross funded debt increased by Rs. 71·1 million. This increase consisted of a rise of Rs. 45·0 million in the rupee debt and withdrawals of Rs. 17·8 million, Rs. 6·8 million and Rs. 1·5 million from the I.B.R.D., I.C.A., and U.S.S.R. loans respectively.

TABLE III—16

*Funded Debt**Rupees Million*

End of Sept.	Foreign Debt							Domestic Debt			Total	
	Sterling loans			IBRD	Other	Total		Gross	Sinking Fund	Net	Gross	Net
	Gross	Sinking Fund	Net			Gross	Net					
1955..	192·1	64·3	127·8	12·9	—	205·0	140·7	829·3	135·9	693·4	1034·3	834·1
1956..	192·1	67·4	124·7	19·3	—	211·4	144·0	881·9	151·3	730·7	1093·3	874·7
1957..	192·1	72·8	119·3	39·6	...	231·7	158·9	961·8	167·8	794·0	1193·5	952·9
1958..	192·1	82·7	109·4	57·4	8·3	257·8	175·1	1006·8	200·6	806·2	1264·6	981·3

Source: Central Bank of Ceylon.

In December, 1957, two loans amounting to Rs. 25 million were issued at par : one at 2½ per cent interest maturing between 1962 and 1964 and the other at 3½ per cent interest maturing between 1973 and 1977. In March, 1958, a loan for Rs. 20 million carrying interest at 3½ per cent was issued at par maturing between 1974 and 1978. In July, 1958, two conversion loans totalling Rs. 34·5 million were issued at par : one at 2½ per cent interest maturing between 1963 and 1965 and the other at 3½ per cent interest maturing between 1979 and 1983. Holders of the Rs. 34·5 million 2½ per cent loan 1956–58 which was due for repayment in July, 1958, were allowed to offer their holdings for conversion into an equal nominal amount of either of the two new loans. The amount subscribed through the surrender of stocks was Rs. 2·3 million. The balance was subscribed in cash.

A classification of allotments of the five loans mentioned above is given below :—

TABLE III—17

Rupees Million

Class of subscriber	2½% Loan 1962–64	3½% Loan 1973–77	3½% Loan 1974–78	2½% Loan 1963–65	3½% Loan 1979–83	Total	
						Amount	%
Commercial banks ..	4·6	4·5	5·2	0·1	10·0	24·4	30·7
Co-operative banks ..	—	0·5	0·3	—	0·8	1·6	2·0
Savings institutions ..	—	1·5	4·0	—	6·5	12·0	15·1
Sinking funds ..	0·6	1·4	6·7	5·1	6·2	20·0	25·1
Departmental and other official funds ..	—	2·0	1·4	—	0·4	3·8	4·8
Trusts, provident and pension funds ..	0·2	6·7	1·5	0·2	2·1	10·7	13·5
Insurance companies ..	—	1·4	0·8	1·1	1·6	4·9	6·2
Other companies ..	0·4	0·3	0·1	0·1	—	0·9	1·1
Individuals, clubs and institutions ..	0·2	0·5	0·1	0·2	—	1·0	1·3
	6·0	19·0	20·0	6·9	27·6	79·5	100·0

Source: Central Bank of Ceylon.

Sinking Funds.—The value of sinking funds established for the redemption of public debt increased by Rs. 42·7 million and stood at Rs. 283·3 million at the end of September, 1958. This increase was due to contributions from revenue, accrual of interest on and appreciation of the market value of investments.

Floating Debt.—Floating debt increased by Rs. 60·4 million over the year as compared with an increase of Rs. 102·4 million in 1956–57. The rise of Rs. 60·4 million was made up of an increase of Rs. 75·0 million in the volume of Treasury bills outstanding offset by a fall of Rs. 0·8 million in the volume of Tax Reserve Certificates outstanding and a repayment of Rs. 13·8 million of Central Bank advances. The proportion of floating debt to total public debt rose from 12·5 per cent at the end of 1956–57 to 15·4 per cent at the end of 1957–58.

TABLE III—18

*Floating Debt**Rupees Million*

End of September	Treasury bills	Tax Reserve Certificates	Advances from Central Bank	Total	Total floating debt as percentage of	
					Total Debt	Total Rupee Debt
1955	60·0	—	—	60·0	5·5	6·7
1956	68·0	—	—	68·0	5·8	7·2
1957	65·0	9·1	96·3	170·4	12·5	15·0
1958	140·0	8·3	82·5	230·8	15·4	18·6

Source: Central Bank of Ceylon.

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

TABLE III—19

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.
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
1956–57 ..	95,000,000	15,093,200	7,108	30,178,417	173,844,200	24,084,362
1957–58 ..	79,474,400	56,143,700	6,639	29,585,738	260,069,800	26,977,192

Source: Central Bank of Ceylon.

Changes in the holdings of Public Debt.—The table below shows the holdings of public debt for the three main types of holders as at the end of each of the last three financial years :—

TABLE III—20
Gross Domestic Debt⁽¹⁾ *Rupees Million*

Type of holder					1956	1957 (end of September)	1958
Central Bank	..	..	..	..	14.0	144.8	224.9
Commercial banks	..	..	..	..	312.3	308.4	288.6
Non-bank holders	..	..	..	..	623.6	679.1	724.1
Total	..	..	..	..	949.9	1,132.3	1,237.6

Source: Central Bank of Ceylon.

(1) Includes Rupee loans, Treasury bills, Tax Reserve Certificates, and Central Bank advances.

The above table reveals some interesting features. Though the commercial banks contributed to new issues of public debt to the extent of Rs. 24.4 million, they had in fact reduced their total holdings of Government paper by Rs. 19.8 million. Conversely, the Central Bank was a net purchaser of Government paper in the market. These movements in the holdings of public debt are symptomatic of the tightness which prevailed in the money market in the financial year 1957-58.

During the last three months of the calendar year 1958, which is the first quarter of the financial year 1958-59, the total net debt rose by Rs. 47.9 million, which was the result of an increase of Rs. 53.1 million in the floating debt offset by a decline of Rs. 5.2 million in the net funded debt.

The rise of Rs. 53.1 million in the floating debt was made up of increases of Rs. 25.0 million in the volume of Treasury bills, Rs. 3.0 million in the volume of Tax Reserve Certificates and Rs. 25.1 million of Central Bank advances.

The decline of Rs. 5.2 million in the funded debt was the result of (a) the withdrawals of (i) Rs. 1.8 million from the I.B.R.D. under the loan agreement of July, 1954, (ii) Rs. 0.5 million of the I.C.A. loan and (iii) Rs. 1.0 million of the loan from Canada, and (b) an increase of Rs. 8.6 million in the sinking funds.

In December, 1958, two loans were issued at par ; one at 2½ per cent maturing in 1963 and 1965 and the other at 3¼ per cent maturing in 1974 and 1978. Holders of stock in the Rs. 25.4 million 2½ per cent Loan, due for repayment in December, 1958, were allowed to offer their holdings for conversion into an equal nominal amount of the 2½ per cent Loan, 1963-65 or 3¼ per cent Loan, 1974-78 or both. Subscriptions in cash amounted to Rs. 6.3 million and conversions to Rs. 19.1 million.

Borrowing as Agent for Other Institutions.—The Central Bank made two issues of State Mortgage Bank Debentures and one of National Housing Debentures during the calendar year. The three issues totalled Rs. 22.0 million.

The State Mortgage Bank Debentures were issued in January and October, 1958 ; the first issue was for Rs. 5.0 million at 3 per cent interest and maturing in 11-16

years ; the second was for Rs. 7.0 million at 3 per cent interest maturing in 13—16 years. They were allotted as follows :—

TABLE III—21

*State Mortgage Bank Debentures**Rupees Million*

Class of subscriber	3% 1969-74	3% 1971-74	Total	
			Amount	%
Commercial banks	3.41	—	3.41	28.42
Co-operative banks	—	—	—	—
Savings institutions	—	3.50	3.50	29.17
Sinking funds	—	0.01	0.01	0.08
Departmental and other official funds	0.05	0.51	0.56	4.67
Trusts, provident and pension funds	1.44	1.41	2.85	23.75
Insurance companies	—	1.53	1.53	12.75
Other companies	0.01	—	0.01	0.08
Individuals, clubs and institutions	0.10	0.04	0.14	1.17
	5.00	7.00	12.00	100.00

Source: Central Bank of Ceylon.

The issue of National Housing Debentures was made in May, 1958. It was for Rs. 10.0 million at $3\frac{1}{4}$ per cent interest and maturing in 16-20 years.

TABLE III—22

National Housing Debentures

Class of subscriber	3 $\frac{1}{4}$ % 1974-78	
	Amount (Rs. million)	%
Sinking funds	4.7	47.0
Departmental and other official funds	0.5	5.0
Trusts, provident and pension funds	2.0	20.0
Insurance companies	2.8	28.0
Other companies .. .. .	...	...
Individuals .. .. .	...	...
	10.0	100.00

*Source: Central Bank of Ceylon.**The Budget, 1958-59.*

In the financial year 1958-59, the Government has planned for a rate of capital formation in the public sector, which far exceeds that of any past year. Total capital expenditure is estimated at Rs. 652.8 million as compared with Rs. 462.1 million in 1957-58. However, there has not been a comparable increase in estimated revenue. Consequently, the budget deficit is expected to be Rs. 473 million. In order to contain the inflationary impact of such a large deficit to a reasonable limit it was decided that only Rs. 160 million should be financed by borrowing from domestic sources.

Total revenue, under the (then) existing tax rates is estimated at Rs. 1,310.7 million. The estimated expenditure chargeable to revenue is Rs. 1,379.5 million and loan and loan fund expenditure Rs. 424.5 million—making a total of Rs. 1,804.0 million. The changes in indirect taxation are expected to yield an additional Rs. 20 million. The budget deficit on this basis works out to Rs. 473.3 million.

New tax proposals have been introduced with a view to a radical revision of existing direct tax structure over the next two years. The tax base is enlarged by the inclusion of capital gains in income for income tax purposes, by taxes on expenditure, gifts and wealth, and deepened by disallowing certain expenditure which are now allowed in assessing income tax. The existing system of fixed assets depreciation allowances is replaced by an immediate capital allowance available in the year of acquisition of the asset. In addition, a development subsidy of 20 per cent is payable on all new investment.

The existing dual system of taxing profits is abolished. Resident companies will pay a uniform tax of 45 per cent on all taxable profits and are required to deduct a dividend tax of 33 1/3 per cent on gross dividend distributions. This deduction is to be credited against the income tax liability of the shareholders. Non-resident individuals will continue to pay tax at existing rates. Non-resident companies will pay tax at 51 per cent. One-third of the profits or the actual amount remitted, whichever is less, will be deemed to have been distributed and hence will be liable to a tax of 33 1/3 per cent.

Changes in indirect taxes have been made with a view to assisting domestic industries, conserving foreign exchange and discouraging extravagant expenditure by (a) reducing import duties on some raw materials and certain items of equipment, (b) raising import duties on motor cars, imitation jewellery, certain luxury foods, etc., and (c) raising duties on petrol and tobacco.

Although the changes in direct taxation are not expected to yield any significant net addition to revenue in 1958-59, the changes in indirect taxation are expected to yield Rs. 20 million.

The estimated expenditure chargeable to revenue for 1958-59 is Rs. 77.3 million higher than the actual expenditure in 1957-58. The increase in expenditure reflects higher expenditure on defence, health, education, railway and electrical departments and loans to the Local Loans and Development Fund and the Tea Research Institute.

The Loan and Loan Fund expenditure for 1958-59 is estimated at Rs. 424.5 million as compared with the actual expenditure of Rs. 282.6 million in 1957-58. There have been significant increases in the Defence and External Affairs, Lands and Land Development, Health, Education, Industries and Fisheries and Transport and Works Ministries.

Capital Expenditure.—Table III—23 shows the financing of total capital expenditure of the Government (including budgetary and extra-budgetary items). The table reveals the following significant features :—

- (a) The extent to which capital expenditure has been met out of taxation, i.e., current account surplus, has severely declined in 1957-58 and 1958-59.
- (b) Total capital expenditure in 1957-58 and 1958-59 at Rs. 495.1 million (provisional) and Rs. 652.8 million (estimate) respectively show a substantial increase over the average for the previous six years.
- (c) Foreign aid—both loans and grants appear as a major source of finance for the first time in 1958-59.

TABLE III—23

Source of Finance for Capital Expenditure

	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59 (Original estimates)
	%	%	%	%	%	%	%	%
Current account surplus(a) ..	23.2	45.9	120.5	121.0	91.5	71.7	33.2*	18.1
Net foreign borrowing ..	—	—	21.6	3.4	1.2	4.7	4.8	53.3
Colombo Plan Aid ..	1.7	0.9	6.5	7.3	5.4	2.3	1.1	
(grants)	—	—	—	—	—	0.3	1.5	
American Aid..	—	—	—	—	—	—	—	24.5
(grants)	—	—	—	—	—	—	—	
Net domestic borrowing ..	51.7	62.3	—35.2	—14.8	6.7	43.4	33.4	
Reduction in cash balances (including reserves) ..	23.5	— 9.0	—13.5	—16.8	— 4.8	—22.4	26.0	4.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total capital expenditure (rupees million)	379.9	358.3	293.0	357.3	430.9	395.9	495.1*	652.8
Of which expenditure on capital maintenance (rupees million) ..	(42.5)	(42.0)	(38.1)	(40.8)	(48.9)	(51.4)	(48.8)	(77.3)

*Provisional.

(a) Current account surplus is the excess of revenue over current expenditure. Current expenditure is computed by deducting all items of capital expenditure from "Expenditure chargeable to Revenue". Current expenditure and its composition are shown in Table 20.

(d) The Balance of Payments

Ceylon's balance of payments for 1958 is set forth in Tables 25A, B and C. According to provisional estimates, Ceylon had a current account deficit in 1958 of Rs. 146.2 million, as compared with a deficit of Rs. 195.3 million in the previous year. However, the "financing deficit," which is a more realistic measure of the foreign exchange problem, amounted to Rs. 170.2 million in 1958 as against Rs. 226.7 million in 1957 (see Table III—25 below).

The main factors behind the improvement in the payments position as compared with the previous year were : (a) an increase in the merchandise surplus (from a payments angle) from Rs. 52.7 million* in 1957 to Rs. 70.0 million in 1958 due to the improved terms of trade ; (b) a sizeable decline in the net outflow on private capital account from Rs. 38.4 million in 1957 to Rs. 3.7 million in 1958 following the August, 1957 restrictions on transfers within the sterling area ; and (c) a decline in the overall deficit on current invisibles from Rs. 248.0 million* in 1957 to Rs. 216.2 million in 1958 which was largely influenced by a marked decline in the net outpayment for freight and insurance.

* Excludes gifts in kind as corresponding figures for 1958 are not yet available.

Current Invisibles.—The improvement in the merchandise account has already been discussed in the section on Foreign Trade. On invisible account Ceylon has a persistently large deficit. Its main components are a net outgoing on foreign travel, transportation and insurance, investment income, private remittances and migrants' transfers. There were significant changes in the magnitudes of some of the major individual items :

(a) The net outpayment on account of transportation and insurance dropped markedly from Rs. 79·6 million in 1957 to Rs. 20·8 million in 1958. This improvement was the result principally of two factors which tended to reinforce each other—a substantial decline in freights paid on imports and a substantial increase in earnings of the Port of Colombo from the supply of ships' stores and bunkers. The decline in freights paid on imports was influenced largely by the steep fall in freight rates on charters in 1958 as compared with the previous year.

(b) The net outflow on "investment income," too, showed a sizeable decline from Rs. 52·6 million in 1957 to Rs. 40·3 million in 1958, mainly due to a smaller gross outflow on account of profits and dividends which fell from Rs. 93·1 million in 1957 to Rs. 77·2 million in 1958 and to a lesser extent a decline in Ceylon's earnings from its investments abroad which dropped from Rs. 40·5 million in 1957 to Rs. 36·9 million in 1958. The smaller outflow on profits and dividends was due principally to lower corporate earnings from tea and rubber exports in 1957 as compared with 1956, while the sustained withdrawals of foreign capital during recent years would have also tended to reduce income remittances. The decrease in Ceylon's earnings from its investments abroad was the result both of lower interest rates in foreign money markets as well as the decline in the magnitude of Ceylon's foreign assets in recent years.

(c) Government expenditures, that is expenditure abroad by the Ceylon Government and expenditure in Ceylon by other Governments, which in past years has invariably resulted in a net receipt, turned for the first time into a net payment of Rs. 6·0 million in 1958, that is a deterioration of Rs. 18·1 million as compared with the net receipt of Rs. 12·1 million in the preceding year. The deterioration was due to an extraordinary payment to the U.K. Government arising from the recent transfer of the bases and an increase in outward remittances for diplomatic expenses coupled with a further fall in Imperial Government expenditures in Ceylon after the handing over of the Trincomalee naval base.

(d) The net outpayment on account of foreign travel increased from Rs. 27·4 million in 1957 to Rs. 30·6 million in 1958 due largely to a decrease in gross receipts from tourism which dropped from Rs. 10·3 million in 1957 to Rs. 6·6 million in 1958. Gross payments on account of foreign travel remained practically unchanged at Rs. 37 million despite the less liberal policy introduced in 1957.

(e) On "private remittances and migrants' transfers," the net outflow in 1958 was Rs. 77·9 million, an increase of Rs. 11·6 million over the previous year's figure of Rs. 66·3 million. There was a gross increase of Rs. 15·1 million on "migrants' transfers," which was more or less evenly distributed as between U.K. and India. The increase in remittances by migrants to India was due to the return to India of persons belonging to higher-income groups, while in the case of transfers to the U.K.

the increase was due to more U.K. nationals returning from Ceylon and taking their accumulated savings with them. However, "private remittances," largely for maintenance of dependants abroad, declined by Rs. 5.1 million. The outflow to India on "private remittances" decreased from Rs. 16.3 million in 1957 to Rs. 11.4 million in 1958, although similar transfers to U.K. increased fractionally from Rs. 5.9 million to Rs. 6.0 million.

A comparison of current invisible items for 1957 and 1958 is shown in the table below :—

TABLE III—24
Current Invisibles 1957-58 *Rupees Million*

	1957			1958		
	Credit	Debit	Net	Credit	Debit	Net
Non-monetary gold (net)	—	1.9	— 1.9	—	—	—
Foreign travel	10.3	37.7	— 27.4	6.6	37.2	— 30.6
Transportation and insurance	103.5	183.1	— 79.6	139.0	159.8	— 20.8
Investment income	40.5	93.1	— 52.6	36.9	77.2	— 40.3
Government expenditures	45.6	33.5	+ 12.1	31.5	37.5	— 6.0
Miscellaneous	47.8	81.9	— 34.1	42.0	83.0	— 41.0
Private remittances and migrants' transfers	8.8	75.1	— 66.3	7.2	85.1	— 77.9
Donations	26.7	—	+ 26.7	0.4	—	+ 0.4
Total	283.2	506.3	— 223.1	263.6	479.8	— 216.2

Source: Central Bank of Ceylon

Private Capital Movements.—The net outflow on private capital account at Rs. 38.4 million in 1957 was approximately double the net overflow in 1956 of Rs. 19.8 million. The net outflow on private capital account in 1958, however, was only Rs. 3.7 million. This was mainly due to a decline in the repatriation of foreign capital, arising largely from the liquidation of foreign owned estates and share-holdings in rupee companies from Rs. 46.6 million in 1957 to Rs. 27.2 million in 1958. In large measure the decline was consequent upon the restrictive policy towards certain types of capital transfers within the sterling area introduced in August, 1957. The low level of stock market prices in 1958 may also have reduced the liquidation of shares owned by non-residents. To a lesser extent the decrease in the net outflow on private capital account was also due to increased repatriation of Ceylonese investments abroad principally in Malayan rubber estates which increased from Rs. 1.8 million in 1957 to Rs. 8.3 million in 1958. The inflow of foreign capital for new private investment in Ceylon, which has been insignificant in recent years declining from Rs. 5.4 million in 1956 to Rs. 3.4 million in 1957, increased fractionally to Rs. 3.6 million in 1958. The low levels of fresh capital imports during recent years may be attributed in part to the prevailing uncertainties of the political and financial climate. There was an inflow of Rs. 11.6 million on short-term capital account, of which Rs. 11.5 million represented changes in the overseas balances of sterling companies and short-term liabilities of firms having traders account facilities. (See Table 25C, item 12.3).

The Financing Account.—In recent years Ceylon has tended to have small surpluses on merchandise account together with large deficits on invisible account resulting in substantial deficits on the current account as a whole. There has also

been during the past several years a consistent net outgoing on private capital account which has tended to increase the financing deficit on goods and services. Thus, the total current account deficit of Rs. 146·2 million in 1958 was increased by the net outflow on private capital account of Rs. 3·7 million. With the adjustment item "errors and omissions" amounting to Rs. 20·3 million, the result was a total deficit to be financed of Rs. 170·2 million as against Rs. 226·7 million during the previous year. To finance this deficit Ceylon was able to avail herself of:

- (a) a draft on gross foreign exchange holdings of Rs. 59·8 million ;
- (b) a net change in the balances under bilateral payments agreements of Rs. 96·5 million ;
- (c) an increase in official liabilities (long-term) of Rs. 13·0 million representing almost entirely drawings under the I.B.R.D. Loan.

Thus, in 1958, of the deficit of Rs. 170·2 million over Rs. 96 million was financed by resort to the temporary expedient of changes in deferred receipts and payments under bilateral payments agreements. (Items 2 and 3, Table III—25).

Data relating to the balance of payments in financing form for 1957 and 1958 is indicated in the table below :—

TABLE III—25

*Balance of Payments in Financing Form—1957–1958**Rupees Million*

	1957	1958
Current account—Goods, services and donations	—195·3	—146·2
Private capital account	— 38·4	— 3·7
Net errors and omissions	+ 7·0	— 20·3*
Total financing deficit	—226·7	—170·2
**Financing Account :—		
1. Decrease in gross foreign assets	+236·2	+ 59·8
2. Change in debit balances under payments agreements ..	— 16·6	+ 45·2
3. Change in credit balances under payments agreements ..	— 8·8	+ 51·3
4. Increase in official liabilities (long-term) †	+ 23·1	+ 13·0
5. Other short-term capital ‡	— 7·3	+ 0·9
Change in net international position	+226·7	+170·2

Source: Central Bank of Ceylon

* The deficit on current account of goods, services and donations and private capital in 1958 (i.e. Rs. 149·9 million) had not matched the recorded outflow of official and banking capital (i.e.) Rs. 170·2 million).

† Consists almost entirely of I.B.R.D. drawings.

‡ Consists of changes in non-resident account balances with the Central and commercial banks and balances of Ceylon's embassies abroad.

** A plus sign in the financing account signifies a decrease in assets or increase in liabilities ; a minus sign, an increase in assets or decrease in liabilities.

Regional Pattern.—On a regional basis, the balance of payments in 1958 showed that Ceylon had current account deficits with all the major currency areas of the world except the dollar area, with which the traditional surplus on current account

was maintained at around the same level as in the two preceding years. The most significant developments in the regional payments pattern in 1958 were as follows : (a) the deficit with the sterling area, which had increased sharply from Rs. 124.4 million in 1956 to Rs. 336.5 million in 1957, was reduced in 1958 to Rs. 152.3 million. The improvement was on two counts : a much smaller deficit with the U.K. (Rs. 86.6 million as against Rs. 176.9 million in the preceding year) and a much larger surplus with the rest of the sterling area, other than India and Pakistan (Rs. 166.4 million as against Rs. 83.2 million in the preceding year). The large traditional deficit with India and Pakistan was somewhat larger in 1958 than in 1957 ; (b) the traditional surplus with the non-dollar non-sterling area, which had turned into a deficit of Rs. 43.6 million in 1957, deteriorated much further to a deficit of Rs. 172.8 million in 1958. This was due to a marked worsening in the payments position with non-O.E.E.C. countries, mainly China, the Middle East and Japan, from a surplus of Rs. 36.3 million in 1957 to a deficit of Rs. 149.6 million in 1958. The deficit with Continental O.E.E.C. countries actually improved from Rs. 79.6 million in 1957 to Rs. 23.2 million in 1958.

TABLE III—26

*Current Account Surpluses (+) or Deficits (—)
by Currency Areas*

Rupees Million

Currency area	1956	1957	1958
1. Dollar area	+182.2	+184.8	+178.9
2. Sterling area	—124.4	—336.5	—152.3
of which, U.K.	— 55.2	—176.9	— 86.6
India and Pakistan	—210.8	—223.9	—232.1
Rest	+141.6	+ 83.2	+166.4
3. Non-dollar, non-sterling area	+ 23.9	— 43.6	—172.8
of which, Continental O.E.E.C. countries ..	— 13.1	— 79.6	— 23.2
Other	+ 37.0	+ 36.3	—149.6
Total	+ 81.7	—195.3	—146.2

Source: Central Bank of Ceylon

The balance of payments record within 1958 showed some significant fluctuations in that the second half of the year registered a spectacular improvement over the first half. More specifically, in the first quarter there was a small deficit on current account of Rs. 8.0 million followed in the second quarter by a large deficit of Rs. 155.8 million, giving a combined deficit of Rs. 163.8 million for the first half of the year. On the other hand, in the third quarter there was a sizeable surplus of Rs. 26.5 million followed by a deficit of Rs. 8.9 million in the 4th quarter, giving a combined surplus of Rs. 17.6 million in the second half of the year. The sharp worsening of the payments position in the 2nd quarter was due to the emergence of an abnormally large deficit of Rs. 110.3 million on merchandise account consequent upon substantial payments for Government imports of rice, flour and sugar in April, and a considerable decline in export earnings in May and June as a result

of the accumulation of export stocks during the disturbances. As was to be expected, the payments position improved sharply during the 3rd quarter. The marked improvement in the merchandise balance to a surplus of Rs. 89·5 million, was the result of a steep increase in export earnings arising from heavy shipments of export stocks, principally teas, accumulated during the previous quarter. By the 4th quarter, the abnormal factors which had operated during the 2nd and 3rd quarters had disappeared.

Foreign Exchange Holdings.—The level of Ceylon's foreign exchange assets reflects the changes occurring in the balance payments. Thus in 1957, when Ceylon experienced a current account deficit of Rs. 195·3 million and a net outward capital movement of Rs. 38·4 million resulting (together with the errors and omissions item of Rs. 7·0 million) in a financing deficit of Rs. 226·7 million, external assets declined by Rs. 236·2 million.

In 1958, however, the full impact on external assets of the financing deficit of Rs. 170·2 million was cushioned to a considerable degree by (a) net reductions in the debit balances "due to Ceylon" under bilateral payments agreements of some Rs. 45 million, (b) net increases in credit balances "due from Ceylon" under bilateral payments agreements of some Rs. 51 million, and (c) drawings on the I.B.R.D. loan of nearly Rs. 13 million, so that the fall in gross external assets during the year was only about Rs. 60 million. The changes in recorded gross figures of external assets, therefore, do not give an accurate picture of the change in Ceylon's net international position. Besides their not taking account of possible temporary advantages and disadvantages arising out of deferred payments and receipts, these gross figures have also not been adjusted to exclude a sizeable magnitude of sinking funds on sterling loans which are not available for current use.

During the first quarter there was an improvement in foreign assets of Rs. 1·5 million. With the sharp deterioration in the payments position in the 2nd quarter to a deficit of Rs. 155·8 million, reserves fell sharply by Rs. 108·8 million. In the 3rd quarter, with the marked improvement in the payments position to a surplus of Rs. 26·5 million, external assets rose by Rs. 56·4 million, while over the last quarter as a whole, external assets fell by Rs. 8·9 million. Over the year as a whole, therefore, external assets declined by a net amount of Rs. 59·8 million to a level of Rs. 883·3 million at the end of December, 1958.

If the gross assets at the end of 1958 of Rs. 883·3 million, amounting to over 54 per cent of the country's annual imports, are adjusted to exclude the sterling loans sinking funds and net liabilities on payments agreements, the figure would be in the region of Rs. 780 million. This would form about 48 per cent of the country's import bill, a ratio which does not compare unfavourably with some other countries which are also highly dependent on international trade. Ceylon's international financial position is likely to be further strengthened by the proposed increase in Ceylon's quota in the I.M.F. The existing level of reserves can thus be said to be an adequate one in the generally accepted definition of that term. However, in view of the contemplated development programme, it must be expected to be subject to additional strain in the future.