

TABLE I—26

Statistics of Employees' Unions that have sent their returns to the Commissioner of Labour(a)

Workers' Unions	No. of Unions		Membership	
	1957-58	1958-59*	1957-58	1958-59*
1. Plantation and Agricultural...	27	30	552,498	592,270
2. Industrial ...	65	69	65,669	58,851
3. Transportation and communications ...	60	57	39,408	56,172
4. Clerical ...	20	34	12,387	18,914
5. Professional ...	30	39	9,215	15,056
6. General ...	96	172	35,669	54,746
7. Commercial ...	11	14	14,916	25,298
8. Administrative and Executive ...	8	12	416	689
	317	427	730,178	821,996

Source : Department of Labour

(a) Registration Year April 1 to March 31.

According to the classification of the causes of strikes made by the Department of Labour, the downward trend in the relative importance of the demand for wage increase as a cause of strikes, which began in 1954, continued in 1959. The percent age of strikes resulting from such demands accounted for 3.2* per cent in 1959 compared with 4.4 per cent in 1958. Disputes about working conditions accounted for 30.2* per cent of strikes while dismissal or loss of work and wage disputes, other than for increases accounted for 18.2* per cent and 16.1* per cent of strikes respectively. As in 1958, these factors continued to be the three chief causes of strikes.

II. MONETARY DEVELOPMENTS

(a) The Money Supply

In 1959 the money supply increased by Rs. 101.0 million or 9.4 per cent, compared with a rise of Rs. 36.6 million or 3.6 per cent in 1958. The money supply rose more persistently than in the previous year. In 1958, it fell in the first half and increased only in the second half; in 1959, although the increase in the money supply occurred very largely in the second half, there was a moderate increase in the first half as well. It fluctuated somewhat in the second quarter, but rose by Rs. 17.4 million up to the end of June. Thereafter, however, it increased almost consistently by Rs. 83.5 million till it reached a new peak of Rs. 1,177.7 million in December, as shown in the table below. The monthly average money supply for 1959 was Rs. 1,107 million compared to Rs. 1,037 million in 1958—an increase of 6.7 per cent.

* Provisional

TABLE II—1

*The Money Supply**Rupees Million*

End of Period	1956	1957	1958	1959	% Change (1957 over 1956)	% Change (1958 over 1957)	% Change (1959 over 1958)
January	1,060	1,131	1,014	1,050	+6.7	-10.3	+3.6
February	1,054	1,105	1,016	1,053	+4.9	-8.1	+3.7
March	1,048	1,107	1,023	1,089	+5.6	-7.6	+6.5
April	1,043	1,082	1,032	1,084	+3.8	-4.6	+5.0
May	1,049	1,061	1,000	1,096	+1.1	-5.7	+9.6
June	1,056	1,045	1,015	1,094	-1.0	-2.9	+7.9
July	1,051	1,056	1,023	1,094	+0.5	-3.1	+6.9
August	1,053	1,024	1,022	1,095	-2.8	-0.2	+7.1
September	1,064	1,046	1,072	1,128	-1.7	+2.5	+5.2
October	1,078	1,052	1,085	1,153	-2.4	+3.1	+6.3
November	1,094	1,049	1,070	1,170	-4.1	+2.0	+9.3
December	1,127	1,040	1,077	1,178	-7.7	+3.6	+9.4

Source : Central Bank of Ceylon.

Unlike in 1958 when the increase in the money supply consisted of a rise in currency, in 1959 it was composed of a rise partly in currency but mostly in demand deposits.

The following table shows the components of money supply from 1953 to 1959:—

TABLE II—2

*Components of the 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	1072.9
1956	401.1	35.6	725.7	64.4	1126.8
1957	434.9	41.8	605.2	58.2	1040.1
1958	529.8	49.2	546.9	50.8	1076.8
1959	565.0	48.0	612.7	52.0	1177.7

Source : Central Bank of Ceylon.

In 1958, demand deposits fell by Rs. 58.3 million or 9.6 per cent but currency rose by Rs. 94.9 million or 21.8 per cent. In 1959, however, demand deposits increased by Rs. 65.8 million or 12.0 per cent while currency rose by only Rs. 35.2 million or 6.6 per cent. Consequently the ratio of currency to money supply fell slightly from 49.2 per cent in 1958 to 48.0 per cent in 1959. Despite this fall in the ratio, however, currency held by the public was at a higher level than in previous years. It is likely that the effects of some of the factors responsible for the rise in currency circulation in 1958 continued in 1959 also, e.g. increase in money wages, increased amount of paddy sold by the cultivators to the Government and the holding of assets in liquid form.

The annual rate of turnover of demand deposits (except Government and inter bank), which is the velocity of circulation of demand deposits held by the private sector, was higher in 1959 than in all the four previous years, as shown in Table 11. in Appendix II. It is of course not possible to calculate from this the velocity of circulation of money as there is no information on the velocity of circulation of currency in Ceylon, or elsewhere. Furthermore, the turnover of demand deposits is less likely to provide a useful indicator in an economy such as that of Ceylon where currency forms about half of the money supply.

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

TABLE II—3
Changes in the Money Supply

Rupees Million.

Factors affecting money supply	End of December, 1955-56		End of December, 1956-57		End of December, 1957-58		End of December, 1958-59	
	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors	Expansionary factors	Contractive factors
1. External banking assets (net)	20.4	—	—	209.2	—	82.2	—	195.0
2. Commercial bank operations :—								
(a) Credit to private sector	93.0	—	55.3	—	53.4	—	9.7	—
(b) Holdings of Treasury Bills, and Govt. and Govt. Guaranteed Securities	62.8	—	—	7.4	—	39.6	30.2	—
3. Central Bank operations :—								
(a) Advances to the Government	—	—	32.6	—	75.0	—	61.8	—
(b) Holdings of Treasury Bills and Govt. and Govt. Guaranteed Securities	—	7.7	42.2	—	100.6	—	191.0	—
(c) Other assets and accounts (net)	—	22.5	—	10.3	24.5	—	—	27.9
4. Time and Savings deposits and other liabilities (net) of commercial banks	—	31.3	—	38.4	—	68.1	—	23.2
5. Govt. cash balances	—	60.9	49.3	—	—	36.4	64.0	—
6. Adjustments	0.1	—	—	0.8	9.6	—	—	9.6
Total expansionary/contractive factors	176.3	122.4	179.4	266.1	263.1	226.3	356.7	255.7
Change in Money supply	+53.9		—86.7		+36.6		+101.0	

Source : Central Bank of Ceylon.

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

As in the previous year, the main source of the increase in the money supply was the financing of the Government's budget deficit, reflected in the expansion in the Central Bank's domestic assets and commercial banks' holdings of Government and Government guaranteed securities, and the fall in Government's cash balances. As shown in the above table, the Central Bank's advances to Government rose by Rs. 61.8 million as compared with the rise of Rs. 75 million in 1958 and its holdings of Government and Government guaranteed securities and Treasury bills by Rs. 191.0 million as against Rs. 100.6 million in 1958 ; as other assets and accounts (net) fell by Rs. 27.9 million, the net increase in Central Bank's domestic assets was Rs. 224.8 million. Commercial banks' holdings of Treasury bills which had fallen by Rs. 39.6 million in 1958 rose by Rs. 30.2 million in 1959. Government rupee cash fell by Rs. 64.0 million. This is in contrast to 1958 when there was a rise in rupee cash to the amount of Rs. 36.4 million.

These expansionary influences, however, were moderated principally by the contractive effect of the adverse balance of payments which caused a decline in external banking assets by Rs. 195.0 million. There was in addition an increase in time and savings deposits of commercial banks by Rs. 23.2 million, and a fall in the adjustments item by Rs. 9.6 million. However, these contractive effects were not sufficient to prevent the money supply from increasing.

It was pointed out in last year's annual report that in 1958, despite the adverse balance of payments, the money supply increased. This was mainly owing to the substantial influence on money supply of the Government's budget deficit financed largely by Central Bank credit creation. In 1959, the dominant influence of the Government's budget deficit on the money supply was even more pronounced. Although, owing to adverse balance of payments, external banking assets fell by a much larger amount than in 1958—Rs. 195.0 million as against Rs. 82.2 million in 1958—Government's borrowing from the banking system in 1959 was Rs. 283 million as against Rs. 136 million in the previous year.

(b) Banking and Credit

(1) Central Bank

In 1959, as shown in Table 5, there was a notable expansion of Central Bank credit to the Government to finance the budget deficit; while Central Bank's advances to Government rose by Rs. 61.8 million its holdings of Government and Government guaranteed securities increased by Rs. 191.0 million. Although the Central Bank also accommodated the commercial banks frequently, by the end of the year the banks had liquidated their indebtedness to the Central Bank in full.

On the other hand, the Central Bank's international reserve fell by Rs. 152.0 million. This was because the Central Bank's sales of foreign exchange to the commercial banks and the Government exceeded its purchases from them on account of the adverse balance of payments and a special payment of Rs. 35.7 million to the International Monetary Fund. Other assets and accounts also fell by Rs. 5.6 million. Hence total assets of the Central Bank rose by only Rs. 95.1 million in 1959.

On the liabilities side, currency issue increased by Rs. 43.0 million to Rs. 621.3 million. Deposits of international organisations and commercial banks also rose by Rs. 26.9 million and Rs. 3.9 million respectively and other liabilities by Rs. 15.9 million. Thus, with the fall of the international reserve and the rise of currency and demand liabilities, the ratio of the international reserve to currency and demand liabilities declined from 73.8 per cent at the end of 1958 to 48.2 per cent at the end of 1959.

(2) *Commercial Banks*

Commercial banking facilities expanded in 1959, with the Bank of Ceylon opening four new branches. In all, the Bank of Ceylon now functions in 25 offices of which 6 are in Colombo. At the end of the year there were 44 bank offices of which 18 were in Colombo.

The following table shows the distribution of bank offices and deposits between local and foreign banks at the end of the year.

TABLE II—4
Distribution of Bank Offices and Deposits

Total			Ceylonese Banks			British Banks			Indian and other Banks		
No. of offices	Deposits		No. of offices	Deposits		No. of offices	Deposits		No. of offices	Deposits	
	Amount in Rs. million	%		Amount in Rs. million	%		Amount in Rs. million	%		Amount in Rs. million	%
44	993	100	27	430	43	12	488	49	5	76	8

Source : Central Bank of Ceylon.

The structure of commercial banks' assets and liabilities is shown in detail in Table 4 of Appendix II, and their distribution is summarised in the following table.

TABLE II—5
Distribution of Assets & Liabilities of Commercial Banks
(average of monthly figures)

Rupees Million.

	1951	1952	1953	1954	1955	1956	1957	1958	1959
Cash on hand and deposits at Central Bank (inclusive of statutory reserve requirements) ..	209	177	128	106	149	148	139	119	116
Foreign balances ..	171	97	44	55	112	116	72	50	52
Treasury bills ..	45	39	55	60	51	39	34	16	24
Bills discounted ..	72	64	65	73	94	93	100	116	119
Total liquid assets ..	497	377	292	294	406	396	345	301	311
Total investments (1) ..	218	235	235	221	245	291	308	296	285
Total loans and overdrafts ..	153	176	182	208	244	273	340	363	395
Demand deposits(2) ..	753	653	573	562	675	731	721	661	655
Time and savings deposits ..	83	95	102	126	190	206	240	263	300
Total deposits ..	848	754	677	689	869	941	965	926	955
Ratio of:—	%	%	%	%	%	%	%	%	%
Cash to demand deposits ..	27.8	27.1	22.3	18.9	22.1	20.2	19.3	18.0	17.7
Cash to total deposits ..	24.6	23.5	18.9	15.4	17.1	15.7	14.4	12.9	12.1
Foreign balances to total deposits ..	20.2	12.9	6.5	8.0	12.9	12.3	7.5	5.4	5.4
Treasury bills to total deposits ..	5.3	5.2	8.1	8.7	5.9	4.1	3.5	1.7	2.5
Commercial bills discounted to total deposits ..	8.5	8.5	9.6	10.6	10.8	9.9	10.4	12.5	12.5
Liquid assets to demand deposits ..	66.0	57.7	50.9	52.3	60.1	54.2	47.9	45.5	47.5
Liquid assets to total deposits ..	58.6	50.0	43.1	42.7	46.7	42.1	35.8	32.5	32.6
Investments to total deposits ..	25.7	31.2	34.7	32.1	28.2	30.9	31.9	32.0	29.8
Loans and overdrafts to total deposits ..	18.0	23.3	26.9	30.2	28.1	29.0	35.2	39.2	41.4

Source : Central Bank of Ceylon

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

(2) Excludes domestic inter-bank deposits.

Total liabilities of commercial banks rose in 1959 by Rs. 44.6 million or 4.1 per cent to Rs. 1,133.5 million. Whereas in the previous year the average monthly deposits fell, in 1959 they rose from Rs. 926 million to Rs. 955 million. This rise was caused by the increase in time and savings deposits from a monthly average of Rs. 263 million in 1958 to Rs. 300 million in 1959. Demand deposits, on the other hand, fell from a monthly average of Rs. 661 million to Rs. 655 million in this period. While the ratio of time and savings deposits to total deposits rose from a monthly average of 28.4 per cent in 1958 to 31.4 per cent in 1959, that of demand deposits fell from 71.6 per cent to 68.6 per cent. It should also be noted that inter-bank borrowing remained at a high level in 1959 although it declined slightly from a monthly average of Rs. 35.6 million in 1958 to Rs. 34.9 million in 1959. This reflected the tight money conditions that prevailed throughout the year 1959.

The following table shows the ownership of deposits (excluding Government and inter-bank) at the end of September 1958, March and September 1959, based on the half-yearly surveys of bank deposits and advances carried out by the Central Bank.

TABLE II—6
Ownership of Deposits *Amount in Rupees Million*

Owner	Demand		Time		Savings		Total	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Financial Institutions :								
Sept. 1958 ..	44.4	8.0	45.2	35.0	4.0	3.8	93.6	11.9
March 1959 ..	37.6	6.9	46.5	28.7	4.9	4.5	89.0	10.9
Sept. 1959 ..	42.3	7.6	43.5	26.3	3.1	2.7	88.9	10.6
Plantations :								
Sept. 1958 ..	133.3	24.2	16.3	12.6	1.2	1.1	150.7	19.2
March 1959 ..	134.2	24.6	25.3	15.6	1.3	1.2	160.8	19.7
Sept. 1959 ..	135.6	24.2	35.5	21.4	1.0	0.9	172.1	20.5
Trading :								
Sept. 1958 ..	51.9	9.3	7.0	5.4	0.6	0.6	59.5	7.6
March 1959 ..	54.3	10.0	9.2	5.7	0.2	0.2	63.8	7.8
Sept. 1959 ..	60.5	10.8	9.1	5.5	0.3	0.3	69.8	8.3
Other Business :								
Sept. 1958 ..	65.4	11.8	19.1	14.8	0.9	0.8	85.4	10.9
March 1959 ..	68.6	12.6	23.9	14.7	0.7	0.6	93.3	11.4
Sept. 1959 ..	65.1	11.6	26.4	15.9	1.0	0.9	92.5	11.0
Local Authorities :								
Sept. 1958 ..	17.7	3.2	10.0	7.7	0.5	0.5	28.1	3.6
March 1959 ..	17.2	3.2	16.0	9.9	0.2	0.2	33.4	4.1
Sept. 1959 ..	12.2	2.2	10.1	6.1	0.1	...	22.5	2.7
Non-Business Institutions :								
Sept. 1958 ..	27.4	5.0	1.9	1.5	1.9	1.8	31.1	4.0
March 1959 ..	23.7	4.3	6.5	4.0	2.7	2.5	32.8	4.0
Sept. 1959 ..	25.5	4.6	5.5	3.3	2.5	2.2	33.5	4.0
Individuals :								
Sept. 1958 ..	211.8	38.4	29.7	23.0	95.4	91.4	336.9	42.9
March 1959 ..	210.0	38.5	34.7	21.4	98.8	90.8	343.5	42.1
Sept. 1959 ..	218.9	39.0	35.4	21.4	107.3	93.1	361.6	43.0
Total :								
Sept. 1958 ..	551.9	100.0	129.2	100.0	104.4	100.0	785.5	100.0
March 1959 ..	545.7	100.0	162.1	100.0	108.8	100.0	816.5	100.0
Sept. 1959 ..	560.1	100.0	165.6	100.0	115.3	100.0	841.0	100.0

Source : Central Bank of Ceylon.

The table shows that while deposits owned by plantations, trading establishments, other business, non-business institutions and individuals rose, those owned by financial institutions and local authorities fell. In September 1959, individuals owned 43 per cent of the total bank deposits, plantations 21 per cent, other business 11 per cent, financial institutions 11 per cent, trading establishments 8 per cent, non-business institutions 4 per cent and local authorities 3 per cent.

The rise of Rs. 36.4 million in time deposits in the year ended September 1959, as shown in the above table related mainly to those of tea plantations which increased by Rs. 19.2 million. Deposits of 'other business'—mainly certain government corporations—and individuals, also rose by Rs. 7.3 million and Rs. 5.7 million respectively. The rise of Rs. 10.9 million in savings deposits consisted almost entirely of deposits of individuals who held as much as 93 per cent of total savings deposits. In the case of demand deposits the small increase of Rs. 8.2 million related principally to those of traders and individuals. The cause of the rise in time deposits of tea plantations might have been the retention of undistributed profits in liquid form without ploughing them back owing to unsettled conditions. The increase in savings deposits of individuals reflects the general rise in money incomes. In the case of government corporations the rise in time deposits consisted, very likely, of temporary deposits of money received from Government pending disbursement.

Money market conditions by and large continued to be tight in 1959. This was to be expected since the balance of payments position deteriorated further on the one hand and the demand for bank credit from the private sector increased on the other. Yet conditions in the money market were a little easier than in 1958 principally because of the expansionary effect of the Government's financing of the budget deficit.

Commercial banks' cash reserves remained low but compared with 1958 there was some improvement in their overall liquidity position; they held more cash in their vaults though they held less with the Central Bank; they also invested more in Treasury Bills, and discounted more trade bills than in the previous year. Thus cash on hand increased from a monthly average of Rs. 30 million in 1958 to Rs. 32 million in 1959, and foreign balances from a monthly average of Rs. 50 million to Rs. 52 million while reserves with the Central Bank fell from a monthly average of Rs. 89 million to Rs. 85 million. The monthly average of total cash balances, reserves and foreign currency holdings in 1959 remained more or less the same as in 1958; but as a result of the increase in deposits, the monthly average ratio of cash balances, reserves and foreign currency holdings to total deposits fell slightly from 18.3 per cent in 1958 to 17.5 per cent in 1959.

For the greater part of 1959 the cash balances of several commercial banks with the Central Bank hardly exceeded the level of "required reserves". Commercial banks' excess reserves declined from a monthly average of Rs. 10 million in 1958 to Rs. 5 million in 1959, and a number of banks had to borrow from the Central Bank to replenish their depleted cash balances. The amount of their borrowings, however, was smaller than in 1958.

Of their remaining liquid assets, the average holdings of Treasury bills increased by Rs. 8 million and that of trade bills discounted rose by Rs. 3 million in 1959. In 1958 the monthly average holdings of Treasury bills fell by Rs. 18 million as banks were not in a position to subscribe to new Treasury bills on the maturity of ones they held. The increase in Treasury bill holdings in 1959 therefore indicates that their overall position had improved. The ratio of all liquid assets to total deposits as a monthly average in 1959 was practically the same as in 1958—32.6 per cent.

Loans and overdrafts of commercial banks also increased from a monthly average of Rs. 363 million in 1958 to Rs. 395 million in 1959—or from 39.2 per cent of the total deposits to 41.4 per cent. The monthly average of investments in Government securities fell from Rs. 296 million in 1958 to Rs. 285 million in 1959 or from 32 per cent of the total deposits to 29.8 per cent, but the level in 1959 was only slightly lower than that of the last five months of 1958, and the decline in investments in the year 1959 was very slight—only Rs. 1.7 million. The banks do not seem to have been under pressure to reduce their investments in Government securities in order to meet the demand for credit in the private sector as in the previous year.

The following table shows advances given to the private sector classified by purpose at the end of September 1958, March and September, 1959.

TABLE II—7

Advances classified by purpose and according to maturity*

Rupees Million.

Purpose			Short-term (below 6 months)		Medium-term (6 months to 30 months)		Long-term (over 30 months)		Total	
				(1) as % of (7)		(3) as % of (7)		(5) as % of (7)		(7) as % of total (8)
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
A. Commercial	Sept. 1958	..	165.1	44.6	148.8	40.2	56.3	15.2	370.1	72.8
	March 1959	..	169.1	45.7	147.6	39.9	53.6	14.5	370.3	71.9
	Sept. 1959	..	166.9	44.0	151.3	39.9	61.4	16.2	379.6	71.9
B. Financial	Sept. 1958	..	21.8	34.1	18.4	28.8	23.7	37.1	63.9	12.6
	March 1959	..	23.9	32.5	23.6	32.1	26.1	35.5	73.6	14.3
	Sept. 1959	..	23.7	31.2	24.2	31.8	28.0	36.8	76.0	14.4
C. Agricultural	Sept. 1958	..	2.2	17.1	9.1	70.5	1.6	12.4	12.9	2.5
	March 1959	..	3.5	31.5	5.7	51.4	2.0	18.0	11.1	2.2
	Sept. 1959	..	3.1	30.1	5.0	48.5	2.2	21.4	10.3	2.0
D. Industrial	Sept. 1958	..	2.8	11.4	17.0	69.4	4.7	19.2	24.5	4.8
	March 1959	..	4.3	17.3	16.4	65.9	4.3	17.3	24.9	4.8
	Sept. 1959	..	4.6	18.9	15.6	64.2	4.0	16.5	24.3	4.6
E. Consumption	Sept. 1958	..	8.5	33.1	12.8	49.8	4.4	17.1	25.7	5.1
	March 1959	..	7.4	28.9	13.7	53.5	4.5	17.6	25.6	5.0
	Sept. 1959	..	9.5	30.6	16.3	52.6	5.2	16.8	31.0	5.9
F. Other Loans	Sept. 1958	..	1.8	16.5	6.4	58.7	2.7	24.8	10.9	2.1
	March 1959	..	3.1	32.0	4.7	48.5	1.9	19.6	9.7	1.9
	Sept. 1959	..	1.2	17.9	4.4	65.7	1.1	16.4	6.7	1.3
Total	Sept. 1958	..	202.2	39.8	212.6	41.8	93.4	18.4	508.2	100.0
	March 1959	..	211.3	41.0	211.7	41.1	92.3	17.9	515.3	100.0
	Sept. 1959	..	209.0	39.6	216.8	41.0	102.0	19.3	527.9	100.0

Source : Central Bank of Ceylon.

*Advances include loans, overdrafts and bills discounted.

As seen in the above table, the increase in bank credit in the year ending September 1959, was mainly for financial, commercial and consumption purposes. Advances for financial purposes which rose by Rs. 12.1 million, consisted of loans partly to hire purchase companies and partly to other customers for purchasing company shares. Although the total loans for commercial purposes rose only by Rs. 9.5 million, there was a significant change in the nature of goods financed in this category.

Reflecting the substantial increase in the value of imports in 1959, advances for import trading rose by Rs. 19.3 million. Advances for export trading on the other hand fell by Rs. 8.4 million, although the value of exports increased in this period. In the case of consumption loans which increased by Rs. 5.3 million, Rs. 1.7 million was in respect of consumer durables and Rs. 3.6 million in respect of other consumer needs.

As in the previous year the majority of bank advances were for commerce—72 per cent in September 1959, while 14 per cent was for financial, 6 per cent for consumption, 5 per cent for industrial and 2 per cent for agricultural purposes.

Most of the bank advances were given against the security of stock-in-trade, documentary bills and immovable property. The following table shows the relative importance of different types collateral for bank advances.

TABLE II—8
Advances by type of Security

Type of Security	30th Sept., 1958		31st March, 1959		30th Sept., 1959	
	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total
Documentary Bills	133.7	26.3	138.1	26.8	137.0	26.0
Government Securities	4.1	0.8	5.7	1.1	10.7	2.0
Shares of Joint-Stock Companies	41.5	8.2	35.9	7.0	33.0	6.3
Time and Savings Deposits and other cash deposits including cash value of life policies ..	12.3	2.4	16.8	3.3	13.0	2.5
Stock-in-trade	158.1	31.1	168.7	32.7	178.2	33.8
Immovable Property	61.8	12.2	60.5	11.7	61.3	11.6
Others	40.4	7.9	52.0	10.1	63.5	12.0
Unsecured	56.3	11.1	37.5	7.3	31.0	5.9
Total	508.2	100.0	515.1	100.0	527.8	100.0

Source : Central Bank of Ceylon.

During the year ended September 1959, advances against stock-in-trade increased by Rs. 20.1 million, against Government securities by Rs. 6.6 million and against documentary bills by Rs. 3.3 million. Loans against company shares and unsecured advances however fell by Rs. 8.5 million and Rs. 25.3 million respectively. Loans against 'other' types of security consisting mainly of credit to co-operative societies against promissory notes and bonds to finance the marketing of paddy and loans against hire-purchase paper increased by Rs. 23.1 million.

Advances are classified by rate of interest in the following table:—

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

Rate of Interest (per cent)	30th Sept., 1958		31st March, 1959		30th Sept., 1959	
	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total	Amount Rs. Mn.	% of total
Below 2½	1.6	0.4	1.5	0.3	1.3	0.3
2½	1.0	0.2	0.3	0.1	0.1	...
3	8.2	1.9	3.7	0.8	10.1	2.2
3½	3.2	0.7	8.4	1.9	13.2	2.9
4	12.4	2.9	14.3	3.2	8.1	1.8
4½	171.8	39.8	181.0	40.5	187.4	41.1
5	60.7	14.1	102.1	22.8	96.6	21.2
5½	31.5	7.3	28.1	6.3	33.6	7.4
6	120.8	28.0	91.4	20.4	90.3	19.8
6½	13.1	3.0	9.4	2.1	7.7	1.7
7	2.5	0.6	2.6	0.6	3.3	0.7
7½	2.2	0.5	2.2	0.5	2.3	0.5
8 and above	2.9	0.7	2.2	0.4	2.3	0.5
Total	431.8	100.0	447.3	100.0	456.1	100.0

Source : Central Bank of Ceylon.

*Excluding export bills purchased at current rates of exchange.

It will be seen from the above table that 90 per cent of the advances are given at rates ranging from $4\frac{1}{2}$ per cent to 6 per cent. In the period under reference advances at $4\frac{1}{2}$ per cent and 5 per cent rose by Rs. 15.6 million and Rs. 35.9 million respectively while advances at 6 per cent fell by Rs. 30.5 million.

The interest rate on inter-bank call loans rose in May, 1959 from $1\frac{1}{4}$ per cent to $1\frac{1}{2}$ per cent and remained at that level thereafter reflecting the high level of inter-bank borrowing. Apart from a temporary increase in some commercial bank advance rates following the rise in the Bank Rate in December which, however, lasted only for a few days, there was no change in other commercial bank interest rates.* The average Treasury bill rate, however, increased from 1.76 per cent in December 1958 to 2.00 per cent in June, 1959. Thereafter it remained at that level till November. In December it rose again to 2.03 per cent. The increase in the Treasury bill rate in 1959 reflects the rise in Treasury bill borrowing in tight money conditions.

Bank clearings which declined in 1958 to a monthly average of Rs. 661.4 million, rose in 1959 to a monthly average of Rs. 713.8 million.

(a) Other Financial Institutions

In 1959, there was a general increase in savings in the principal savings institutions. Apart from the increase in time and savings deposits in commercial banks by Rs. 34.8 million, savings in the Post Office Savings Bank, Ceylon Savings Bank and Savings Certificates outstanding rose by a total of Rs. 19.4 million as compared with a rise of Rs. 13.9 million in 1958. As in previous years the main increase was in the deposits of the Post Office Savings Bank. Total savings of all the above institutions thus increased by Rs. 54.2 million, against an increase of Rs. 52.4 million in 1958, as shown in the following table :—

TABLE II—10
Savings Deposits and Savings Certificates

	Rupees Million		
	At the end of 1958	At the end of 1959	Change
Post Office Savings Bank	293.8	310.4*	+ 16.4
Ceylon Savings Bank	70.1	71.5*	+ 1.4
Commercial Banks (Time and Savings deposits)	284.6	319.4	+ 34.8
Savings Certificates outstanding	29.7	31.1*	+ 1.4
Total	678.2	732.4*	+ 54.2

*Provisional.

Source : Central Bank of Ceylon.

In addition, the Employees' Provident Fund which began operations from the beginning of 1959, had collected Rs. 11.9 million by the end of the year.

Of the long-term credit institutions, loans granted by the State Mortgage Bank, which are for agricultural and building purposes, fell from Rs. 9.5 million in the financial year 1957-58 to Rs. 8.6 million in the year 1958-59, although the number of loans granted increased from 373 to 388 in these two periods. However, loans outstanding increased to Rs. 48.4 million at the end of 1958-59 from Rs. 42.8 million at the end of 1957-58. The maximum amount of a loan granted at present is Rs. 100,000 except in cases where the loan is applied for "development purposes". The fall in the amount of loans granted during 1958-59 was due to this policy of placing an upper limit on the amount of a loan as was also the case in the previous year. Debentures issued by the Bank during 1958-59 amounted to Rs. 7.0 million. In late 1959, the Bank increased its rate of interest on loans from $4\frac{1}{2}$ per cent to 5 per cent. Loans sanctioned after December 22, 1959, were charged at the new rate.

*With effect from 28th December, the Bank of Ceylon increased its rates of interest paid on fixed deposits thereby bringing them into line with the rates of other major banks.

Loans granted by the Agricultural and Industrial Credit Corporation increased from Rs. 3.6 million in 1957-58 to Rs. 4.5 million in 1958-59. Loans granted in 1958-59 consisted of Rs. 1.1 million for industry and Rs. 3.4 million for agriculture. Total loans outstanding also rose from Rs. 30.2 million at the end of 1957-58 to Rs. 30.9 million at the end of 1958-59.

Financial aid given by the Development Finance Corporation to new agricultural and industrial ventures consisting of loans granted and equity investments in these ventures recorded an increase of Rs. 4.2 million as compared with an increase of Rs. 3.9 million in 1958. The total amount of such financing up to the end of 1959 amounted to Rs. 13.9 million covering 33 projects as against Rs. 9.7 million at the end of 1958 covering 22 projects.

Data relating to the credit operations of the Ceylon Savings Bank in 1959 are not yet available. The amount of loans granted in 1958 was Rs. 9.5 million as against Rs. 9.0 million in 1957.

In the field of consumer credit, the Central Bank instituted in 1959 a survey of hire-purchase business in view of the growing importance of this form of credit in the economy. It appears that there are about 45 companies dealing in hire purchase. Of these about 18 are finance companies, financing goods imported by other firms, and the rest mostly retail traders financing goods either imported or manufactured by themselves. The larger finance companies appear to finance mainly the purchase of motor vehicles. There were also four leading companies financing capital goods including machinery and tractors, and three companies financing the purchase of furniture. Other principal consumer goods financed are radios, sewing machines and refrigerators.

Hire purchase terms vary from company to company and depend on the article financed. A minimum down payment of between 33 1/3 per cent and 50 per cent of the cash price of the article is at present required for motor vehicles, while a down payment of 25 per cent is accepted for articles like radios. The amount financed has to be repaid usually in 12-18 monthly instalments though in one company it can be done in 36 monthly instalments. The total of monthly rentals includes also a finance charge to cover the interest on the money and various overhead expenses of the company. This finance charge is usually a flat interest rate of 10 per cent but it is much higher if it is expressed as a percentage of the average debt through the period of the contract—18.5 per cent in the case of 12 months and 19.5 per cent in the case of 36 months. The funds of the finance companies consist of their capital, bank borrowings and in one or two cases fixed deposits.

Details of the volume of hire-purchase business in Ceylon or the capital employed in it, cannot yet be given since firm figures are not yet available.

In 1959, the Central Bank also instituted a survey of insurance business in Ceylon in view of its importance as a medium of savings. The results of this survey are not yet available.

The Annual Report for 1958 pointed out that over 50 per cent of the families in rural Ceylon were in debt, that Government and Co-operative credit met only a small fraction of their credit requirements and consequently they had to borrow at high interest rates from other sources. There is little evidence that the situation had improved in 1959. The proposed Co-operative Development Bank still remains to be implemented.

(c) Government Finance

The Financial Year 1958/59

The accounts of the Government of Ceylon for the financial year, 1958/59 which are summarised in table II—11 on page 39 with corresponding data for previous financial years, reveal the following salient features :—

- (a) Total Government revenue for the financial year was Rs. 1330.4 million as compared with Rs. 1280.0 million and Rs. 1260.5 million in 1957/58 and 1956/57 respectively.
- (b) Total budgetary expenditure (excluding contributions to sinking fund) was Rs. 1738.0 million compared with Rs. 1565.7 million and Rs. 1323.6 million in 1957/58 and 1956/57 respectively.
- (c) Operations on advance accounts resulted in a net payment of Rs. 5.8 million as compared with a net receipt of Rs. 63.4 million in 1957/58 and a net payment of Rs. 133.3. million in 1956/57.
- (d) Government's budgetary operations in the financial year therefore resulted in a net cash operating deficit of Rs. 413.4 million, as compared with deficits of Rs. 222.3 million and Rs. 196.4 million in 1957/58 and 1956/57 respectively.
- (e) The deficit in 1958/59 was financed by a reduction of Rs. 61.7 million in Government's cash balances and a net borrowing of Rs. 351.8 million.

The net cash operating deficit of Rs. 413.4 million in 1958/59 is the highest on record. The actual deficit has, however, fallen short of the originally planned deficit of Rs. 496.0 million by Rs. 82.6 million. The difference between the actual deficit and the originally estimated deficit is largely due to a shortfall of Rs. 172 million in loan fund expenditure, which represents the preponderant part of Government's capital expenditure, offset by an increase of Rs. 85.2 million in expenditure chargeable to revenue, which is substantially current expenditure. Thus, in relation to the original budget estimates for 1958/59, actual Government expenditure involved a substantial shift from capital formation to current consumption. The aggregate of Government revenue has, however, conformed to the original budget estimate.

Revenue.— Total revenue in 1958/59 was Rs. 50 million more than in 1957/58. The main contributory factor to the improvement of revenue was the rise in import duties which increased from Rs. 292 million in 1957/58 to Rs. 367 million in 1958/59. The increase in import duties is attributable to the large increase in imports as well as the higher duties introduced by the 1958/59 budget.

The revenue from export duties (including the tea tax) was about Rs. 4 million higher than in the previous financial year, the chief items of increase being tea (Rs. 7 million) and coconut products (Rs. 7 million). Since the tea duty rebates paid under the Tea Small Holders Relief Scheme were Rs. 2.6 million less than in the previous financial year (i.e., Rs. 22.4 million in 1958/59 as against Rs. 25.0 million in 1957/58), the net increase in revenue from tea exports was Rs. 9.6 million. The receipts from the export duty on rubber, on the other hand, declined by Rs. 11 million.

In the case of rubber and tea the changes in collections were due to changes in the rates of duty whereas in the case of coconut products the improvement in collections was caused by a substantial increase in the volume of exports. The export duty on rubber which was reduced from 28 cts. per lb. to 20 cts. per lb. in July 1958, continued at the same rate till September 1959, when it was restored to 28 cents per lb. The export duty on tea was raised in March, 1959 by 5 cts. per lb. to 65 cts. per lb.

TABLE II—II

Government Net Cash Operating Surplus/Deficit(—)

Rupees Million

	1951—52	1952—53	1953—54	1954—55	1955—56	1956—57	1957—58	1958—59(b)
1. Net Cash Operating Surplus or Deficit (—)	— 257.1	— 231.9	33.7	127.6	— 1.2	— 196.4	— 222.3	— 413.4
A. Revenue ...	954.0	952.5	1,026.2	1,158.6	1,257.2	1,260.5	1,280.0	1,330.4
B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations): ...	— 1,211.1	— 1,184.4	— 992.5	— 1,031.0	— 1,258.4	— 1,456.9	— 1,502.3	— 1,743.8
(i) Expenditure chargeable to revenue excluding contributions to sinking fund and direct repayments of public debt from revenue (vide 2B (i))* ...	— 1,004.6	— 893.5	— 772.0	— 864.9(a)	— 1,014.4	— 1,105.2	— 1,280.1	— 1,432.2
(Food subsidy) ...	(247.2)	(127.0)	(12.0)	(36.0)(a)	(79.5)	(105.5)	(112.0)	(146.7)
(ii) Loan and Loan Fund expenditure (including advances for loan works)* ...	— 203.0	— 220.6	— 162.3	— 215.5	— 211.0	— 213.3	— 282.6	— 303.4
(iii) Expenditure chargeable to National Development Reserve ...	— 7.7	— 6.4	— 3.2	— 2.1	— 4.0	— 5.1	— 3.0	— 2.4
(iv) Advances to stores and materials account ...	— 16.8	— 2.4	— 4.6	— 9.9	— 1.2	— 14.5	...	10.5
(v) Other advances* ...	19.0	— 52.8	— 61.1	34.0(a)	— 30.3	— 115.8	54.5	— 17.1
(vi) Miscellaneous ...	2.0	— 8.7	1.5	7.6	0.1	— 3.0	8.9	0.8
Financing of Deficit								
2. Net Cash Receipts or Payments (—) resulting from Government Borrowing and lending operations :	184.1	216.5	— 35.3	— 39.0	12.2	175.4	174.7	351.8
A. Administrative borrowing and repayment of borrowing (including sundry loans) :	— 34.2	11.9	— 4.6	29.1	— 36.5	— 9.4	72.5	27.6
(i) Deposits (from suitors, contractors, etc., and includes the unexpended balance of foreign aid) ...	— 16.2	21.4	— 2.1	34.5	— 10.8	9.0	73.9	27.3
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund etc.) ...	— 0.6	— 0.2	0.3	— 0.9	— 4.8	— 2.3	20.1	4.2
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund; Local Bodies, etc.) ...	18.6	— 9.3	— 2.8	— 4.5	— 20.9	— 16.1	— 21.5	— 3.9
B. Domestic market borrowing and repayment of borrowing :	— 218.3	204.6	— 94.0	— 80.2	43.5	166.2	78.5	288.7
(i) Rupee loans ...	102.4	80.0	70.0	75.0	74.5	94.9	45.0	95.0
Less Sinking Fund contributions and direct repayments of public debt from revenue ...	18.4	23.1	22.6	44.5	39.0	31.1	26.5	32.2
(ii) Treasury bills ...	84.0	56.9	47.4	30.5	35.5	63.8	18.5	62.8
(iii) Central Bank advances ...	62.3	90.6	— 78.1	— 44.9	8.0	— 3.0	74.6	179.0
(iv) Tax Reserve Certificates ...	72.0	— 1.5	— 4.7	— 65.8	—	96.3	— 13.8	41.1
(v) Other † ...	—	58.6	— 53.6	—	—	9.1	— 0.8	5.8
C. Foreign borrowing ...	—	—	63.3	12.1	5.2	18.6	23.7	35.5
3. Changes in cash balances (including readily realisable assets) ...	— 73.0	— 15.4	— 1.6	88.6	11.0	— 21.0	— 47.5	— 61.7

* Excludes book adjustments (debits and credits) arising from transfer to expenditure chargeable to revenue and loan fund expenditure of advances for loan works and losses on advance account activities incurred and financed in previous financial years. Hence the figures will not tally with the figures published in the Accounts of the Government of Ceylon. In previous Annual Reports, only book adjustments in respect of advances for loan works were excluded. The exclusion in this Annual Report in addition, of book adjustments in respect of losses on advance account activities does not alter the values of net cash operating surpluses/deficits shown in previous Annual Reports as it involves compensatory changes in items 1B(i) and 1B(v).

† Loans from semi-government agencies. (a) An amount of Rs. 36.0 million representing the food subsidy bill for 1954-55 was transferred from advance accounts to expenditure chargeable to revenue in 1958-59. While this book adjustment is excluded from the figures for 1958-59 (vide note * above) the figures for 1954-55 have been revised to include it. (b) Provisional.

Source: Central Bank of Ceylon.

The only major item of revenue which showed a fall between 1957/58 and 1958/59 was the income tax (including estate duty etc.). The fall was quite sharp from Rs. 289.6 million in 1957/58 to Rs. 229.5 million. Since incomes are assessed with a time lag of one year, or even more in the case of companies, the drop in income tax is largely attributable to the drop in export incomes between 1955 and 1957.

Among the other items, railway revenue and excise and salt (excluding the tea tax) have also shown important increases of Rs. 9 million and Rs. 15 million respectively.

Apart from the change in the rate of export duty on tea made in March 1959, referred to above, the whole basis of taxing tea was revised in June 1959, when the specific export duty on tea was replaced by a new tax which combined both specific and ad valorem elements. The new tax consisted of a specific export duty of 35 cts. per lb. plus an ad valorem rate applicable to the excess of the Colombo Auction price above Re. 1.85 per lb. The ad valorem rate was 50 per cent of the excess price with an upper limit of 70 cts. per lb. Thus there would be no extra tax on any price excess above Rs. 3.25 per lb.

TABLE II—12
Expenditure of Government

Rupees Million

Year	Current expenditure	Capital Expenditure (1) (2)		
		Acquisition, construction and maintenance of real assets	Loans to Government Agencies	Total
1956/57	976.7	364.7	31.2	395.9
1957/58	1118.2	422.3	76.3	498.6
1958/59				
Original Estimates	1212.4	639.9	12.9	652.8
Actual (Provisional)	1266.2	461.5	39.8	501.3
1959/60				
Original estimates	1271.0	546.3	—	546.3

Source : Central Bank of Ceylon

(1) Capital expenditure includes expenditure on the creation, acquisition and or maintenance of real assets whose useful life exceeds one year and expenditure on the acquisition of financial assets, mainly loans to the C.T.B. and Port (Cargo) Corporation (for capital purposes), A.I.C.C., L.L.D.F. etc. Capital expenditure according to this definition, is not synonymous with development expenditure as it includes certain capital items of a non-development character and excludes certain current items of development expenditure.

(2) Includes extra-budgetary outlays.

Current Expenditure.— As stated above, the main factor behind the enlarged cash deficit in 1958/59, as compared with 1957/58, was the large increase in current expenditure. Comparative data on current and capital expenditure for the financial years 1956/57 to 1959/60 are given in the table above. A more detailed functional breakdown is shown in Table 20 of Appendix II, but the figures for 1958/59 shown in this table refer to the original estimates as data on actual expenditure are not available in sufficient detail for such a breakdown.

However, the available data indicate that in relation to 1957/58, the increase in current expenditure appears to have occurred mainly in respect of social services—education (Rs. 34.1 million) and health (Rs. 20.6 million), and transfer payments—food subsidy (Rs. 35.0 million), pensions (Rs. 12.0 million) and interest on public debt (Rs. 6.0 million).

In the case of education and health the budget estimates had provided for increased expenditure in relation to 1957/58. The actual expenditure has, however, exceeded the original budget estimates.

The largest single item of increase was the food subsidy bill which increased from Rs. 112 million in 1957/58 to Rs. 146.7 million in 1958/59. The increase in the food subsidy bill was caused largely by the higher prices paid for rice and flour imports from the U.S.A. under the PL 480 Agreement and the increased purchase of local rice under the Guaranteed Price Scheme.

The average landed cost of rice imported from the U.S.A. under the PL 480 Agreement was Rs. 800 per metric ton f.o.b. as compared with a landed cost of Rs. 530 per ton for rice under contract from Burma. The average c.i.f. price (as per Food Department) of sugar fell from Rs. 463 per long ton in 1957/58 to Rs. 384 per long ton in 1958/59. Over the same period the average c.i.f. price of flour (as per Food Department) from all sources increased from Rs. 340 per long ton to Rs. 406 per long ton. It should be noted that the purchase of rice and flour under the U.S. PL 480 Agreement involves only a rupee payment and not a foreign exchange payment. Further, a part of the rupee payment is returnable to the Ceylon Government as grants and long-term loans.

Purchases of paddy under the Guaranteed Price Scheme amounted to about 229,000 tons of rice equivalent as compared with 199,000 tons of rice equivalent in 1957/58.

*Capital Expenditure:** While, in relation to the original budget estimates, actual capital expenditure in 1958/59 shows a substantial shortfall, in relation to the actual expenditure of 1957/58 it shows a slight increase.

Direct expenditure by Government on the acquisition, construction and maintenance of real assets has increased from Rs. 422.3 million in 1957/58 to Rs. 461.5 million in 1958/59. On the other hand, loans to Government agencies, e.g. Ceylon Transport Board, Port (Cargo) Corporation, etc., have declined from Rs. 76.3 million to Rs. 39.8 million over the same period.

The available data on expenditure on real assets in 1958/59, while not permitting a detailed functional breakdown, indicates that the increase in relation to 1957/58 has occurred in agricultural development and education.

Financing of the Deficit: The table below gives a breakdown, by sources, of the financing of the net cash operating deficit for 1958/59, with comparative data for the previous financial year:—

*See footnote (1) to Table II—12

TABLE II—13
Financing of the Deficit

Rupees Million

	1957/58	1958/59(1)
1. Administrative borrowing	72.5	27.6
2. Foreign borrowing	23.7	35.5
3. Market borrowing—non-bank sources	18.1	109.4
4. Market borrowing—banking system	60.3	179.3
5. Decline in cash balances	47.5	61.7
	107.8	241.0
6. Net cash operating deficit	— 222.3	—413.4

(1) Provisional.

Source: Central Bank of Ceylon

The original budgetary plan, as announced by the Finance Minister in his Budget Speech of July 1958, was to limit domestic market borrowing in 1958/59 to Rs. 160 million and to finance the balance of the estimated deficit out of foreign aid. The total value of foreign aid, both loans and grants, that was expected to be received in 1958/59 was of the order of Rs. 300 million. However, the actual amount of foreign aid (2) received in 1958/59 was only Rs. 53.8 million consisting of Rs. 35.5 million of loans and Rs. 18.3 million of grants, representing counterpart funds from the sale of gift flour. Since such foreign grants are tied to extra budgetary project agreements, only the unexpended balances of these grants are available for financing budgetary expenditure. The sum thus made available, amounting to Rs. 10.9 million in 1958/59, is included under administrative borrowing in the above table.

The failure of the budgetary expectations in relation to foreign aid led to a substantial volume of borrowing in the domestic market, particularly from the banking system. The total amount borrowed in the domestic market in 1958/59 was Rs. 288.7 million as compared with Rs. 78.4 million in 1957/58. Of the total amount of Rs. 288.7 million obtained from market sources, Rs. 177.4 million was provided by the Central Bank and Rs. 1.9 million by the commercial banks. The amount of bank credit extended to Government in 1958/59 was roughly three times that of 1957/58.

The direct inflationary impact of Government financial operations as measured by the net borrowing of the Government from the banking system plus the decline in Government's cash balances was Rs. 241.0 million in 1958/59 as compared with Rs. 107.8 million in 1957/58.

While the direct inflationary impact of the deficit in 1958/59 was roughly two and a half times that of 1957/58, it is significant to note that Government market borrowing from non-bank sources has shown a sixfold increase over the same period, from Rs. 18.1 million in 1957/58 to Rs. 109.4 million in 1958/59. This has mainly been due to increased private savings made available to Government through institutional sources viz., savings institutions, insurance companies and trust, provident and pension funds. Purchases of Government securities, including Treasury bills, by these three institutional savers have increased from Rs. 18.1 million in 1957/58 to Rs. 76.9 million in 1958/59. Other private investors, mainly commercial companies, who reduced their holdings of Government stock by Rs. 5.3 million in 1957/58 made a net contribution of Rs. 17.5 million in 1958/59. The increased purchases of Government stock by the non-bank sector in general reflects, in large measure, the increased money incomes in the private sector arising from Government's expansionary fiscal policy in the recent past and, perhaps, the improvement in export earnings since 1956. A decline in market borrowing by the semi-Government institutions—the

(2) Figures of foreign aid shown here exclude grants of equipment and services. In the case of the U.S. PL 480 Agreement, receipts of rice and flour from the U.S.A. are not considered as aid from a budgetary point of view as they have to be paid for with Ceylon rupees. Only the funds released as grants or loans by the U.S. Government to the Ceylon Government out of these rupees payments are considered as paid.

State Mortgage Bank and the National Housing Fund—has also been a contributory factor. Whereas in 1957/58, these two institutions raised Rs. 25.0 million by the issue of securities, in 1958/59 only Rs. 7.0 million was raised in this manner. Of the Rs. 25.0 million issued in 1957/58 Rs. 21.6 million was taken up by the non-bank sector and in 1958/59 the entire issue of Rs. 7.0 million was taken up by the non-bank sector.

Public Debt

Details of public debt, both domestic and foreign, are shown in Table 23. The figures of total public debt as at the end of the last four financial years are as follows :—

TABLE II—14
Total Public Debt

End of September				Rupees Million	
				Gross	Net (less sinking funds)
1956	...	...	...	1161.3	942.7
1957	...	...	...	1363.9	1123.3
1958	...	...	...	1495.4	1212.1
1959	...	...	...	1837.0	1524.7

Source: Central Bank of Ceylon

In 1958/59 total gross debt and total net debt rose by Rs. 341.6 million and Rs. 312.6 million respectively as compared with rises of Rs. 131.5 million and Rs. 88.8 million respectively in 1957/58. The rise of Rs. 341.6 million in gross debt in 1958/59 consisted predominantly of increases of Rs. 95.0 million in Government rupee securities, Rs. 180.0 million in Treasury bills outstanding, Rs. 41.1 million in Central Bank rities, advances and Rs. 19.7 million in foreign debt.

Rupee Securities: During the year 1958/59 there were six issues of Rupee securities, two of which were partly in conversion of the 2½% Loan, 1958. The two loans which provided for conversion were the 2½% Loan 1963/65 and the 3½% Loan 1974/78, issued simultaneously in November-December 1958. The other four loans which were entirely for new money were the 3½% Loan 1975/79 issued in January 1959, the 3½% Loan 1975/79 (B series) issued in April 1959, the 3½% Loan 1980/84 issued in July 1959 and the 3½% Loan 1980/84 (B series) issued in September 1959. All the issues, totalling Rs. 120.5 million, were fully subscribed.

A classification of allotments of the six loans is given below :—

TABLE II—15

Rupees Million

Class of Subscriber	2½% Loan 1963/65		3½% Loan 1974/78		3½% Loan 1975-79	3½% Loan 1975-79 'B' series	3½% Loan 1980-84	3½% Loan 1980-84 'B' series	Total	
	Con- ver- sion	Cash	Con- ver- sion	Cash					Amo- unt	%
Commercial banks ...	18.0	—	0.1	—	—	—	0.1	—	18.2	15.1
Co-op. Provincial banks ...	—	—	0.2	—	0.7	0.4	0.4	0.4	2.1	1.8
Savings Institutions ...	—	—	—	0.7	9.7	2.8	9.1	8.0	30.3	25.7
Sinking funds ...	—	—	—	—	9.8	7.9	2.3	2.1	22.1	18.3
Departmental and other official funds ...	—	—	—	1.1	1.1	0.2	0.1	2.2	4.7	3.9
Trusts, provident and pension funds ...	0.1	—	—	2.7	3.4	6.3	10.0	5.7	28.2	23.4
Insurance companies ...	—	0.3	0.6	1.6	0.3	1.8	7.6	1.4	13.6	11.3
Other companies ...	—	—	0.1	—	—	0.2	0.1	—	0.4	0.3
Individuals, clubs & Institutions ...	—	—	—	—	—	0.4	0.3	0.2	0.9	0.7
	18.1	0.3	1.0	6.1	25.0	20.0	30.0	20.0	120.5	100.0

Source: Central Bank of Ceylon

Treasury Bills.— The increase in public debt in 1958/59 occurred largely in respect of Treasury bills outstanding, which increased from Rs. 140.0 million at the end of September 1958 to Rs. 320.0 million at the end of September 1959. The increase in Treasury bills was absorbed largely by the Central Bank.

During this financial year the authorized limit on Treasury bills was raised from Rs. 200 million to Rs. 350 million by resolution of Parliament on April 9, 1959. This limit was again raised on October 29, 1959 to Rs. 450 million.

Foreign Debt.— The net increase of Rs. 19.7 million in foreign debt consisted of a net receipt of Rs. 35.5 million under foreign loan agreements offset by a repayment of a sterling loan amounting to Rs. 13.5 million.

The details of the total net receipts of Rs. 35.5 million under foreign loan agreements are as follows :—

TABLE II—16

Rupees Million

I.B.R.D.	...	...	...	...	...	5.7
I.C.A.	...	...	...	...	...	9.0
United States Development Loan Fund	...	...	...	...	...	3.6
U.S.S.R.	...	...	...	...	...	0.9
Canada	...	...	...	...	...	9.7
China	...	...	...	...	...	6.6
						<u>35.5</u>

Source : Central Bank of Ceylon

The International Cooperation Administration, U.S. Development Loan Fund and U.S.S.R. loans took the form of capital equipment and the Canadian and Chinese loans were in flour and rice respectively.

Sinking Funds.— The value of sinking funds established for the redemption of public debt rose by Rs. 29.1 million to Rs. 312.4 million at the end of 1958-59. Rs. 12.8 million was withdrawn from the sinking funds to repay a sterling loan that matured during the year. The increase, in spite of this withdrawal, was due to the half-yearly contribution during the year, interest received on sinking fund investments and the appreciation in the market value of investments.

Public Debt Business.— The following table shows the volume of public debt business transacted during the last five financial years :—

TABLE II—17

Volume of Business transacted by the Department of Public Debt.

Financial Year	Local loans raised Rupees	Local loans repaid Rupees	Interest warrants issued		Turnover of business in transfers etc. Rupees	Amount of sinking fund monies invested Rupees
			No.	Amount Rupees		
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	26,977,182
1958—59	120,416,800	35,025,200	6,452	31,023,531	194,374,800	34,330,831

Source : Central Bank of Ceylon.

Borrowing by Semi-Government Institutions.—In 1959 there were no issues of State Mortgage Bank or of National Housing debentures. In view of the prevailing tightness in the market and Government's overriding demand for funds, it was arranged that these two institutions should obtain their requirements from the Treasury.

The Budget 1959/60

The fiscal plan for 1959/60 as proposed originally by the Finance Minister in July 1959, was as follows :—

TABLE II—18
Original Budget Estimates 1959/60

	Rupees Million
Current expenditure (less contributions to sinking funds)	1,265.9
Capital expenditure (budgetary)	476.5
Total budgetary expenditure	1,742.4
Less revenue	—1,375.5
Estimated budget deficit	366.9

Source: Central Bank of Ceylon

The sources of finance indicated by the Finance Minister were Rs. 150 million from domestic market borrowing, Rs. 125 million from foreign aid and Rs. 50 million from "customary sources of finance".

Revenue.—The estimated revenue of Rs. 1,375.5 million included Rs. 32.0 million from new tax measures proposed in the Budget. The new tax measures consisted of higher import duties on expensive motor cars, petrol, watches and imported alcoholic spirits, an increase in the selling price of arrack and higher export duties on coconut products.

After the presentation of the Budget, the export duty on rubber was increased twice—from 20 cts. to 28 cts. per lb. on September 9, 1959 and by a further 10 cts. per lb. on November 11, 1959. Since Parliament had been dissolved before the increase in duty of November 11th could be ratified, it was replaced by an equivalent licence fee. Additional revenue of approximately Rs. 36.0 million may be expected in 1959/60 as a result of these two duty changes.

Current Expenditure.—As compared with the original budget estimate for 1958/59 of Rs. 1,212.4 million, the increase in the estimated current expenditure for 1959/60 is concentrated largely in the social services group which includes health and education. As in the case of previous financial years it is not unreasonable to expect actual current expenditure in 1959/60 to exceed the original estimates on account of supplementary votes. Up to the end of December 1959, supplementary estimates to the value of approximately Rs. 7.0 million had been approved.

It is also important to note that the provision for food subsidies in the budget for 1959/60 is Rs. 108.1 million, which is the same as the original estimate for 1958/59. The actual expenditure on this item in 1958/59 was Rs. 146.7 million.

Capital Expenditure.—Total estimated capital expenditure, including extra-budgetary outlays for 1959/60 is Rs. 546.3 million. While this figure represents a decline in relation to the ambitious estimate of Rs. 639.9 million (excluding loans to Government agencies) for 1958/59, it shows an increase of approximately Rs. 85.0 million in relation to the actual capital expenditure (excluding loans to Government agencies) for 1958/59.

The Proposed Sources of Finance.— The estimated receipt of Rs. 150 million from domestic non-bank market sources is Rs. 40 million more than the actual receipt from this source for 1958/59. The higher estimate takes into account the expansion of money incomes arising from Government's fiscal policy and the improvement in export receipts as well as the increased collections of the Employees' Provident Fund. It should be noted that the "coverage" of the Employees Provident Fund was extended substantially in December 1959.

While the estimate of foreign aid is substantially less than the original estimate for 1958/59, no details are available as to the basis of the Finance Minister's expectations.

Government Financial Operations—October 1959 to January 1960 (inclusive)

The available data on Government's financial operations for the first four months of 1959/60, while not being sufficient to provide a figure of the net cash operating deficit for the period, indicates a substantial degree of borrowing especially on Treasury bills. There was a net receipt of Rs. 177.8 million on account of borrowing and lending operations, of which the increase in Treasury bills outstanding accounted for Rs. 130.0 million. This increase was taken up substantially by the banking system. The statutory limit on Treasury bills was raised from Rs. 350 million to Rs. 450 million by resolution of Parliament on October 29, 1959. The extended limit was reached by the middle of January, 1960. Other borrowing operations consisted mainly of an issue of a rupee loan amounting to Rs. 25 million and an increase of Rs. 10.4 million in Central Bank advances.

The total receipts from foreign loans in this period was Rs. 10.0 million. No information is available on foreign grants received during this period.

(d) The Balance of Payments and External Assets

Ceylon's balance of payments for 1959 is set forth in Tables 25A, B and C. On the basis of provisional estimates, Ceylon had in 1959 a current account deficit of Rs. 177 million as compared with the deficit of Rs. 153 million in 1958. The financing deficit, too, was larger than in 1958. For 1959 the financing deficit, as provisionally estimated, was around Rs. 225 million, as compared with Rs. 193 million in 1958 (See Table II—19B).

The deterioration in the balance of payments position in 1959, was due to a decline in the merchandise balance* resulting from a marked increase in import expenditures during the year. The deficit on merchandise account amounted to Rs. 95.2 million as compared with a surplus of Rs. 8 million in the previous year. However, this was partly offset by an improvement in the current invisibles account due both to a decrease in private remittances and migrants' transfers and also to a sizeable increase in receipts on account of donations.

Current Invisibles.— The deficit on invisibles was significantly reduced by a very large increase in donations, which in 1959 amounted to Rs. 101.2** million. The total deficit on current invisibles inclusive of donations, in 1959 amounted to Rs. 81.6 million. (See Table II—18)

* The different basis of calculating the trade balance from Customs data (as in the chapter on 'Foreign Trade' above) and the Merchandise Account in the Balance of Payments Statement is explained in the note at the end of this chapter.

** Includes technical assistance under U.S. Public Law 480 for which no payment in foreign exchange is required.

Net outpayments on account of foreign travel remained almost around the previous year's level. However, the net deficit on account of transportation and insurance which had declined significantly from Rs. 79.6 million in 1957 to Rs. 21.3 million in 1958, increased in 1959 to an estimated figure of Rs. 29.4 million. The increase in outpayments on this account was mainly due to higher freight rates and a larger volume of trade. Earnings from the Port continued to be at the high levels of the previous year.

The net outpayment on account of investment income in 1959 of Rs. 34.8 million was slightly less than the comparable figure for 1958. Government expenditures which for the first time recorded a net deficit in 1958 following the take-over of the bases from the United Kingdom, continued to remain in deficit. The net deficit in 1959 according to provisional data is Rs. 0.9 million.

The net outflow on private remittances and migrants' transfers which showed an increase in 1958, registered a decline in 1959. Total remittances on this account amounted to Rs. 55.8 million which is nearly Rs. 22 million less than the figure for 1958. The decline in remittances on this account was due to a fall both for maintenance remittances as well as for migrants' transfers, particularly to India.

TABLE II—19A
Current Invisibles 1958 and 1959

Rupees Million

	1958		Net	1959		
	Credit	Debit		Credit	Debit	Net
Non-monetary gold movement (net) ...	—	—	—	—	1.9	— 1.9
Foreign travel	6.9	36.9	— 30.0	7.0	38.9	— 31.9
Transportation & Insurance	139.5	160.8	— 21.3	140.3	169.7	— 29.4
Investment income	36.6	77.2	— 40.6	33.7	68.5	— 34.8
Government expenditures	32.5	36.5	— 4.0	36.8	37.7	— 0.9
Miscellaneous... ..	42.4	83.9	— 41.5	53.1	81.2	— 28.1
Private remittances and migrants' transfers	7.4	85.4	— 78.0	7.6	63.4	— 55.8
Donations	54.9	—	+ 54.9	101.2	—	+ 101.2
Total	320.2	480.7	— 160.5	379.7	461.3	— 81.6

Source : Central Bank of Ceylon

Private Capital

The net outflow on private capital account which declined substantially in 1958, continued to remain low and on provisional estimates amounted to only Rs. 1.0 million. Remittances on this account have been lower mainly in respect of foreign capital arising from liquidation of foreign owned estates and non-resident shareholdings of rupee companies. The main cause for this decline was the restrictions introduced in August, 1957 in respect of certain types of capital transfers which continued to be in force.

In the sphere of direct investment, the net outflow amounted to Rs. 9.2 million and the net outflow on other long-term capital was only Rs. 1.4 million. While the net outflows on direct investment as well as other long-term capital show a decline in comparison to the previous year, the inflow of private capital for direct investment purposes was extremely small, amounting to only Rs. 1.7 million. Movements in respect of short-term capital relating mainly to transactions under the 'special account'* facilities registered a repatriation of Rs. 9.3 million.

Financing Account

The meagre surpluses on merchandise account following a downturn in Ceylon's balance of payments in 1956 have led to sizeable deficits on current account in recent years. However, a further decline in the merchandise balance during 1959 though partly offset by an improvement in the invisibles deficit, increased the deficit on current

*Transactions under this item represent operations by Sterling Companies and other large trading firms with their Head Offices and Principals directly and under the supervision of Exchange Control. Only outstanding net balances are settled on a quarterly basis, through the banking system.

account and reduced the level of external assets by a much larger margin than in the previous year. The net outpayment on private capital account has remained low following the significant reduction in 1958. The inflow of private capital which has been following a declining trend has also been extremely small.

While the total current account deficit in 1959 was Rs. 176.8 million, the net outflow on private capital—direct investment and other long-term—amounted to Rs. 10.6 million. In the aggregate, there was a net outflow on private capital account amounting to Rs. 1.0 million.

There were also certain special payments during 1959. An important item was the payment of the Rs. 35.7 million representing 25 per cent subscription due on account of Ceylon's enhanced quota in the International Monetary Fund. Repayment of the I. B. R. D. loan instalment amounted to Rs. 2.4 million.

The financing items relating to the 1959 deficit could broadly be set-out as follows:

- (a) a drawing down of foreign exchange holdings amounting to Rs. 194.5 million.
- (b) a net change in the credit position in the balances under bilateral agreements amounting to Rs. 17.5 million ;
- (c) an increase in official long-term liabilities amounting to Rs. 36.7 million ; and
- (d) an increase of Rs. 2.4 million in other short-term capital.

In contrast to 1958 when the deficit was financed largely by incurring liabilities in the form of deferred payments under bilateral agreements, in 1959 the deficit was met to a very large extent by drawing on the foreign reserves. Though the deficit on current account increased by Rs. 24 million the external reserves fell by almost Rs. 130 million more than in the previous year, due both to an increase in the current account deficit in 1959 and also a decrease in liabilities under the bilateral agreements during the year.

The net effect of transactions under bilateral agreements in 1959 indicated a marked change in comparison with 1958. The potential claims accruing from transactions under the bilateral agreements declined by Rs. 11.9 million during 1959. In contrast to 1959 the liabilities on these accounts in the way of deferred payments which increased by Rs. 51.3 million in 1958, decreased by Rs. 29.4 million during the year.

TABLE II—1958
Balance of Payments in Financing Form—1958 and 1959

						Rupees Million	
						1958	1959 (Prov.)
Current Account—goods, services and donations						—152.9	—176.8
Private capital account						— 14.4	— 10.3
Repayment of loans*						—	— 26.6
Gold contributions to the I.M.F.						—	— 35.7
Net errors and omissions... ..						— 25.5	+ 24.0
Total financing deficit						—192.8	—225.4
Financing Account**							
A. Private capital†						+ 10.4	+ 9.3
B. Official and Banking Capital						+182.4	+216.1
1. Decrease in gross foreign assets						+ 59.8	+194.5
2. Change in debit balances under payments agreements						+ 45.2	+ 11.9
3. Change in credit balances under payments agreements						+ 51.3	— 29.4
4. Increase in official liabilities‡ (long-term)						+ 22.4	+ 36.7
5. Other short-term capital†						+ 3.7	+ 2.4
Change in net international position						+192.8	+225.4

Source: Central Bank of Ceylon

* Includes repayment of sterling loans amounting to £1,815,000 and IBRD loan.

† Consists of changes in special account balances.

‡ Consists entirely of drawings on I.B.R.D., Canadian, U.S.S.R., I.C.A., D.L.F. and Chinese loans.

† Includes changes in non-resident account balances of the Central Bank 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

Regionally the balance of payments in 1959 followed substantially the same pattern as in 1958. Ceylon had current account deficits with all the major currency areas of the world except the dollar area where the surplus was somewhat larger than in the past three years. The surplus in 1959 at Rs. 192.3 million was about Rs. 22 million higher than the 1958 surplus of Rs. 170.4 million.

The deficit with the sterling area which had fallen from Rs. 336.5 million in 1957 to Rs. 147.3 million in 1958 rose again in 1959 to Rs. 319.8 million. The deterioration was due to an increase in the deficit—arising mainly out of larger imports—with the U.K. and with India and Pakistan by nearly Rs. 83 million and Rs. 6 million respectively, and also a reduction in the surplus with the rest of the sterling area by almost Rs. 83.0 million.

Transactions with the non-Dollar non-Sterling area which registered a current account deficit for the first time in 1957 and deteriorated further in 1958 again registered a deficit of Rs. 49.3 million in 1959 compared with the record deficit of Rs. 176.0 million in 1958. The improvement was due to a reduction in the deficit with continental O. E. E. C. countries by Rs. 20 million—a continuation of the trend evident in 1958—and also an improvement in the net deficit position with the rest of the world to the extent of Rs. 107 million.

TABLE II..20
*Current Account Surpluses (+) or Deficits (—)
by Currency Areas*

							Rupees Million		
							1957	1958	1959 (provisional)
1.	Dollar area	...	...	...	...	...	+184.8	+170.4	+192.3
2.	Sterling area	...	...	...	...	...	—336.5	—147.3	—319.8
	of which, U.K.	...	...	...	...	...	—176.7	—82.4	—165.3
	India and Pakistan	...	...	...	...	...	—244.4	—233.2	—239.7
	Rest	...	...	...	...	...	+84.6	+168.3	+85.2
3.	Non Dollar, Non Sterling area	...	...	...	...	...	—43.6	—176.0	—49.3
	of which, Continental O.E.E.C.	...	...	...	...	...	—77.6	—25.7	—6.0
	Other	...	...	...	...	...	+34.0	—150.3	—43.3
Total							—195.3	—152.9	—176.8

Source: Central Bank of Ceylon

The half yearly movements in the balance of payments in 1958 showed significant fluctuations in that the second half registered a surplus of Rs. 19.4 million in contrast to a deficit of Rs. 163.8 million during the first half of the year. In 1959 on the other hand deficits appeared throughout the year, a deficit of Rs. 85.3 million in the first half of the year followed by an even larger estimated deficit of Rs. 91.5 million in the second half.

The movements in the current account of the balance of payments by quarters in 1959 show a persistent downward trend in contrast to the fluctuations evident in 1958. In 1959, the first quarter registered a deficit of Rs. 38.9 million while in the second quarter the deficit increased to Rs. 46.4 million. In the third quarter of 1959 the deficit increased further to Rs. 64.6 million while the position in respect of the final quarter indicates, on the basis of an estimated deficit of Rs. 26.9 million, a reversal in the trend and an improvement over the previous quarters of the year.

Foreign Reserves

The continuing deficits in Ceylon's balance of payments have led to a considerable decline in the foreign reserves. During the three years ending December, 1959, Ceylon's external assets fell by Rs. 490 million from a level of Rs. 1,179 million at the beginning of 1957 to the low figure of Rs. 689 million at the end of 1959.

Over the year 1959, Ceylon's external assets declined by Rs. 195.0 million. In contrast to 1958 when the full impact of the balance of payments deficit was not reflected in the fall in Ceylon's external assets, but was cushioned to a large extent by an increase in Ceylon's liabilities accruing from operations under the bilateral agreements, the sizeable balance of payments deficit in 1959 was largely financed by drawing on the external reserves. A special item of expenditure during the year was the payment of \$7.5 million (Rs. 35.7 million) which represents the 25 per cent subscription due on account of Ceylon's enhanced quota in the International Monetary Fund.

In the first quarter of 1959 the external assets fell by only Rs.0.4 million but with the continued deterioration external assets fell steadily and by considerable amounts in the succeeding quarters. Following the marginal decrease in the first quarter, the rate at which external assets fell rose steeply during the second quarter, the aggregate fall amounting to Rs. 44.8 million. This was followed by a decline of Rs. 73.6 million in the third quarter and an even larger decline of Rs. 76.5 million in the fourth quarter 1959. The gross level of external assets as they now stand is only about 35 per cent of the annual import bill or the equivalent of about four months imports. If sinking funds are excluded the total would not amount to more than the equivalent of three months imports.

It is noteworthy that the loss in external assets during recent years has taken place at a time when export receipts have been increasing and the terms of trade have been favourable and even improving since 1958. If present trends were to continue, a very large part of the balance of payments deficit will in the absence of other important sources have to be financed by drawing on the depleted external reserves. Moreover, with continuing budget deficits and an active implementation of the Ten Year Plan, the pressure on the external assets is likely to increase and the position further weakened. The present level of external assets is not commensurate with the existing rate of demand on foreign exchange and even less so with the steady and increasing rate of expenditure likely in the period ahead. Further measures are necessary to arrest any serious decline in our foreign reserves and their future use certainly calls for caution.

Note: The Trade Balance and the Merchandise Account

The difference between the trade balance calculated from Customs data and the balance on merchandise account shown in the balance of payments Statement is a result of differences in coverage, valuation and timing. The trade returns tend to reflect a larger deficit than the merchandise deficit of the Balance of Payments for the following reasons.

Coverage:—Data on "gifts in kind" are not available till 8-10 months after the year under review. For 1959, only the amounts received under PL 480 have been included, for which no payment in foreign currency is required, and other "gifts in kind" only to the extent available.

Valuation:—Imports are recorded entirely on a c.i.f. basis in trade returns. In the balance of payments they are recorded at f.o.b. or c.i.f. values according to actual invoices. Government imports of food are now paid for mainly on an f.o.b. basis, the freight being paid separately. Thus they would be included in the balance of payments on an f.o.b. basis whereas the trade returns show c.i.f. or c. & f. figures.

A further difference arises through the remittances against imports on consignment basis. Generally the actual amounts remitted are less than the pro forma values indicated in the Customs returns.

Exports are recorded in trade returns on an f.o.b. basis. In the balance of payments they are recorded at invoice values which are predominantly c.i.f. This again tends to reduce the merchandise deficit in the balance of payments statistics.

Timing:—Generally there is a time lag in the payments as compared with the actual physical movement of goods. The difference during a particular period may be large depending on the variations of the actual movement of goods during such periods.

It is noteworthy that the imports for the second half of 1959 have been extremely heavy as compared to 1958.