

Capital Expenditure :—Estimated capital expenditure (including extra budgetary outlays) amounts to Rs. 522·9 million which is Rs. 2·9 million less than the actual expenditure for 1959/60. The decline in the estimate is due to the fact that loans to Government agencies which in 1959/60 amounted to Rs. 56·1 million have been estimated at Rs. 19·4 million. Estimated direct expenditure by Government on acquisition, construction and maintenance of real assets shows an increase from Rs. 469·7 million in 1959/60 to Rs. 503·5 million. The estimate of Rs. 503·5 million for 1960/61 may be expected to be realised as it has been arrived at after allowing for a 25 per cent under-expenditure on all capital projects.

The proposed sources of finance :—The estimated receipt of Rs. 240 million from domestic market borrowing which presumably refers to medium and long-term borrowing is approximately Rs. 105 million more than the actual amount thus borrowed (from such sources) in 1959/60. In the first five months of the financial year the amount received from medium and long-term borrowing was about Rs. 135 million.

The estimated receipt of Rs. 100 million from foreign aid is based on agreements which had already been negotiated or were under negotiations at the time of the Budget Speech. The estimates include a loan from the I.B.R.D., withdrawals from counterpart funds, receipts of gift flour and rice (China and Canada) and assistance in the form of direct construction and equipment (U.S.S.R.).

(g) The Balance of Payments and External Assets

Ceylon's balance of payments accounts for 1960 are set out in Tables 25A, B and C in Appendix II. On the basis of provisional data there was a deficit of Rs. 210 million on current account transactions during the year as compared with a deficit of Rs. 208 million in 1959. 1960 is the fourth consecutive year in which the current account has been in deficit. The further small deterioration in the current account balance in 1960 was due to an increased deficit on merchandise account resulting from the continued rise in import payments. The merchandise deficit in 1960 was Rs. 94 million as compared with Rs. 81 million in 1959. In contrast there was a small improvement in the balance on invisible transactions with the deficit declining from Rs. 127 million to Rs. 115 million.

A recurrent deficit on invisibles account has been a normal feature of the Ceylon's balance of payments. A rational pattern for the merchandise balance, for a country with fluctuating export earnings and a recurrent deficit on invisible account would be for it to show a relatively large surplus in years when export earnings are high, and either a smaller surplus or a deficit in years when export earnings are low. The large merchandise deficits of 1959 and 1960 were however incurred at a time when export earnings have been relatively high, while import prices have been relatively low, in comparison with the immediately preceding years. Export earnings in 1960 were in fact higher than in any previous year except 1955 which was favoured by a sharp tea boom; export earnings in 1959 were not much lower. Also the import price in 1959 and 1960 was 6 per cent lower than the average import price over the 10 years from 1950 to 1960. The continued increase in import payments, which was responsible for the merchandise account deficits even in 1959 and 1960, was directly the result of the sustained inflationary pressures generated in the economy, primarily through the budget deficits.

The small improvement in the adverse balance on invisibles account in 1960 was mainly due to the substantial drop in private remittances and migrants' transfers from Rs. 85.4 million in 1958 and Rs. 63.5 million in 1959 to Rs. 38.6 million in 1960. The contraction in this item was the direct result of the successive measures taken in 1959 and 1960 to restrict such remittances. A decline in the expenditures on foreign travel (as a result of tightening of exchange control on travel) and on transportation and insurance (as a result mainly of a decline in freight rates) was another factor which contributed to the improvement on invisible account. Their favourable impact on the balance of payments was, however, offset to a very large extent mainly by a decline in foreign government expenditures in Ceylon. Net outpayments on account of investment income at Rs. 38.7 million in 1960 were slightly higher than in 1959. A part of the increase was due to the increased dividend payments overseas resulting from the higher export earnings in 1959 and 1960 and the balance was due to increased interest payments on loans incurred by the Government of Ceylon.

TABLE II—50
Current Invisibles 1959 and 1960

	Rupees Million					
	1959		Net	1960 ^(a)		Net
	Credit	Debit		Credit	Debit	
Services	275.6	390.9	-115.3	248.1	380.9	-132.8
Non-monetary gold movement (net)	—	1.9	- 1.9	—	1.9	- 1.9
Foreign travel	7.5	38.8	- 31.4	8.6	33.2	- 24.6
Transportation and insurance ..	137.9	166.4	- 28.5	129.7	159.1	- 24.4
Investment income	32.7	69.4	- 36.7	33.7	72.4	- 38.7
Government expenditures	45.9	35.3	+ 10.6	28.8	44.9	- 16.1
Miscellaneous	51.6	79.0	- 27.4	47.3	69.4	- 22.1
Donations	51.9	63.5	- 11.6	56.0	38.6	+ 17.4
Private remittances and mig- rants' transfers	7.6	63.5	- 55.9	7.6	38.6	- 31.0
Official donations	44.3	—	+ 44.3	48.4	—	+ 48.4
Total	327.5	454.4	-126.9	304.1	419.5	-115.4

(a) Provisional.

Source : Central Bank of Ceylon.

Private Capital Outflow

For the first time in many years there was a credit balance on direct investment. This is to be explained by the higher receipts on private capital account as a result of repatriation of Ceylonese capital invested abroad, mainly Malaya, and by the relatively small outflow of private capital as a result of the continuation in force of the restrictions introduced in August, 1957, in respect of certain types of capital transfers. On the other hand movements in respect of private short-term capital, associated mainly with transactions under special account facilities,* showed a net payment of Rs. 5.2 million, in contrast with a net receipt of Rs. 10.0 million in 1959.

Financing Account

The financing deficit and the methods of financing resorted to in 1960 are set out in the following table :—

*Transactions under these facilities represent operations by Sterling companies and other large trading firms with their Head Offices and Principals directly and under the supervision of Exchange Control. Outstanding balances are settled periodically through the banking system.

TABLE II—51

*Balance of Payments in Financing Form for 1958,**1959 and 1960**Rupees Million*

	1958	1959	1960 ^(a)
Goods and services	—129·8	—196·4	—227·1
Net private remittances and migrants' transfers ..	— 78·0	— 55·9	— 31·0
Net private capital account	— 14·4	— 8·0	+ 2·8
Repayment of loans	—	— 26·6	— 2·8
Gold contribution to the I.M.F.	—	— 35·7	—
Total financing deficit	—222·2	—322·6	—258·1
Financing Account*	+222·2	+322·6	+258·1
A. Private capital††	+ 10·4	+ 9·7	— 5·4
B. Official and banking capital	+182·4	+262·7	+202·2
1. Change in gross foreign assets	+ 59·8	+194·5	+207·6
2. Change in debit balances under pay- ments agreements	+ 45·2	+ 11·9	— 1·1
3. Change in credit balances under pay- ments agreements	+ 51·3	— 29·4	— 13·6
4. Change in official liabilities (long- term)†	+ 22·4	+ 42·2	+ 26·3
5. Other capital‡	+ 3·7	+ 43·5	— 17·0
C. Official donations	+ 54·9	+ 44·3	+ 48·4
D. Errors and omissions	— 25·5	+ 5·9	+ 12·9

Source : Central Bank of Ceylon.^(a) Provisional.

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

†† Consists of changes in special account balances.

† Consists entirely of drawings on IBRD, Canadian and other loans.

‡ Includes changes in non-resident account balances of the Central Bank and Commercial Banks, balance of PL.480 counterpart funds, and balances of Ceylon's embassies abroad.

The financing deficit was lower in 1960 than in 1959 despite the much larger deficit on goods and services account. As shown in the table this was due to (a) lower commitments arising from private capital movements and repayment of Government foreign loans, and (b) the absence of any special liabilities as for example, the gold subscription to the IMF in 1959.

As in 1959 the deficit was financed principally by drawing down external reserves. The other sources of finance in 1960 were official donations and an increase in official liabilities. Official donations, which were almost entirely in the form of goods and services, were roughly at the same level as in the previous year. The increase in official liabilities consisted mainly of a loan release of Rs. 10·6 million from U.S. PL 480 counterpart funds and a loan of Rs. 8·6 million received from the I.B.R.D. in connection with thermal and hydro-electric projects.

Transactions under bilateral agreements resulted in Ceylon extending some credit to other countries. In 1960 the amount so involved was Rs. 14·7 million

as compared with Rs. 17.5 million in 1959. In contrast, in 1958 a net credit of Rs. 96.5 million was received by Ceylon and constituted an important source of funds for meeting the financing deficit of that year.

Regional Pattern

As table below shows, the regional pattern of Ceylon's balance of payments in 1960 followed the trend experienced in 1958 and 1959, with deficits with all the major currency areas, except the dollar area. The usual surplus with the dollar area in 1960 at Rs. 206.1 million was substantially higher than the surpluses recorded in 1958 and 1959.

The deficit with the sterling area which in 1959 had more than doubled over that of the previous year, increased further to Rs. 336.1 million in 1960. Within the sterling area itself, the deficits with U.K., and India and Pakistan have progressively risen since 1958. The sizeable surplus of Rs. 168.3 million with the rest of the sterling area in 1958 which fell to Rs. 79.4 million in 1959 declined further in 1960 to Rs. 60.4 million.

TABLE II—52

Current Account by Currency Areas for 1959 and 1960

	Rupees Million					
	1959		Net	1960 ^(a)		Net
	Credit	Debit		Credit	Debit	
1. Dollar area	355.2	211.9	+143.3	344.0	137.9	+206.1
2. Sterling area	1,172.7	1,480.6	-307.9	1,115.7	1,451.8	-336.1
of which, U.K.	697.0	845.1	-148.1	670.3	824.1	-153.8
India and Pakistan	84.6	323.8	-239.2	77.8	320.5	-242.7
Rest	391.1	311.7	+79.4	367.6	307.2	+60.4
3. Non-dollar, non-sterling area ..	633.7	677.1	-43.4	715.3	795.0	-79.7
of which, Continental						
OEEC	244.4	249.4	-5.0	234.4	302.8	-68.4
Other	389.3	427.7	-38.4	480.9	492.2	-11.3
Total	2,161.6	2,369.6	-208.0	2,175.0	2,384.7	-209.7

Source : Central Bank of Ceylon.

(a) Provisional.

Ceylon's transactions with the non-sterling, non-dollar area registered a deficit for the first time in 1957. The deficit has continued since and in 1960 it was Rs. 79.7 million or nearly double the deficit in 1959. Whilst the deficit with the continental* O.E.E.C. significantly increased from Rs. 5 million in 1959 to Rs. 68.4 million in 1960, the deficit with the "Others" was reduced from Rs. 38.4 million to Rs. 11.3 million, in spite of higher out-payments. This was mainly due to increased earnings from Middle East countries and China (mainland).

Half-yearly movements in the balance of payments in 1960 followed the pattern registered in 1959. A deficit in the current account in the first half of 1960 of Rs. 97.5 million was followed by a larger deficit of Rs. 112.2 million in the second-half.

Quarterly movements in the current account balance in 1959 had revealed an underlying downward trend in the second-half. In the first quarter of 1960 the improvement noted in the final quarter of the previous year continued and

*Organisation for European Economic Co-operation. Continental OEEC Group includes Western Europe, Turkey and Greece.

a more or less balanced position was attained. The deficit increased sharply to Rs. 96.5 million in the second quarter but dropped to Rs. 53.1 million in the third quarter. Although the deficit in the fourth quarter has been recorded at Rs. 59.1 million, it has been enlarged by Rs. 38.5 million paid to Burma in that quarter in respect of rice imports in previous quarters. But for this unusual deferred payment, current account deficit in the fourth quarter would have been Rs. 20.6 million and the deficits in the previous quarters higher by Rs. 38.5 million.

Foreign Reserves

Ceylon's external reserves declined by Rs. 208 million in 1960. This occurred despite the relatively favourable terms of trade prevailing in that year, and was the result of the domestic expansionary factors.

The cumulative decline in external reserves between December, 1956 and December, 1960 amounted to Rs. 698 million. The December, 1960 level of reserves of Rs. 481 million is roughly less than three months imports at 1960 levels.

It was clear throughout 1960 that the serious decline in external reserves which had occurred from 1956 could not be allowed to continue much longer. As last year's Annual Report pointed out "The present level of external assets is not commensurate with the existing rate of demand of foreign exchange and even less with the steady and increasing rate of expenditure 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." The attention of the successive governments was drawn to the serious situation likely to arise in the financing of imports if external assets were permitted to dwindle away as it was then the case, but for various reasons—some of these reasons are referred to in last year's report—no positive action could be taken till August, 1960 when a series of measures described elsewhere were adopted. These measures were further intensified by action taken in January, 1961 when further steps were taken which would not only tend to reduce imports but also to reduce the budget deficit, which in turn would have a favourable effect on the balance of payments. The measures taken in August must have contributed in part to the fourth quarter improvement in the current account position noted earlier, once adjustment is made for the Rs. 38.5 million of deferred payment to Burma during that quarter. The recorded figure of the drop in external reserves in the 4th quarter 1960, similarly adjusted, reveals that the actual drop in reserves in that quarter is only Rs. 10 million. This is a marked improvement over all previous quarters of 1960 and in particular over the 4th quarter of 1959 when external reserves dropped by Rs. 76 million.