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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CURRENT ECONOMIC POSITION

AND

PROSPECTS OF CEYLON

June 5, 1954

Department of Operations
Asia and Middle East

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Basic Data -- 2.

Balance of Payments, 1953 (exchange control data; Rs. million)

	<u>Credit</u>	<u>Debit</u>
Merchandise	1502	1658
Remittances & dividends	31	126
Services	203	177
	<hr/>	<hr/>
Deficit on current account		-225
Private capital, errors & omissions		27
		<hr/>
Total deficit		-198

Government Finance, 1952-53* (second revised estimate)

(Rs. Million)

	<u>Revenues</u>	<u>Expenditures</u>
Ordinary budget (excl. subsidies)	871	691
Food subsidies (net)	-	144
Railway and electricity	85	96
Loan Budget	-	220
	<hr/>	<hr/>
Total deficit		-195

*Fiscal year beginning October 1st

Government Assets and Liabilities, April 30, 1954

(Rs. Million)

Long-term rupee debt*	603
Long-term sterling debt*	130 ^{1/}
Treasury bills	115
Central Bank Advances	-
Loans from Savings Banks and other agencies	57
	<hr/>
Total public debt	935
Government cash balances	432 ^{2/}

*Net of capital accumulated in Sinking Fund and excluding War Loan relent to the UK.

^{1/} Including the whole amount of the £5 million floated in 1954.

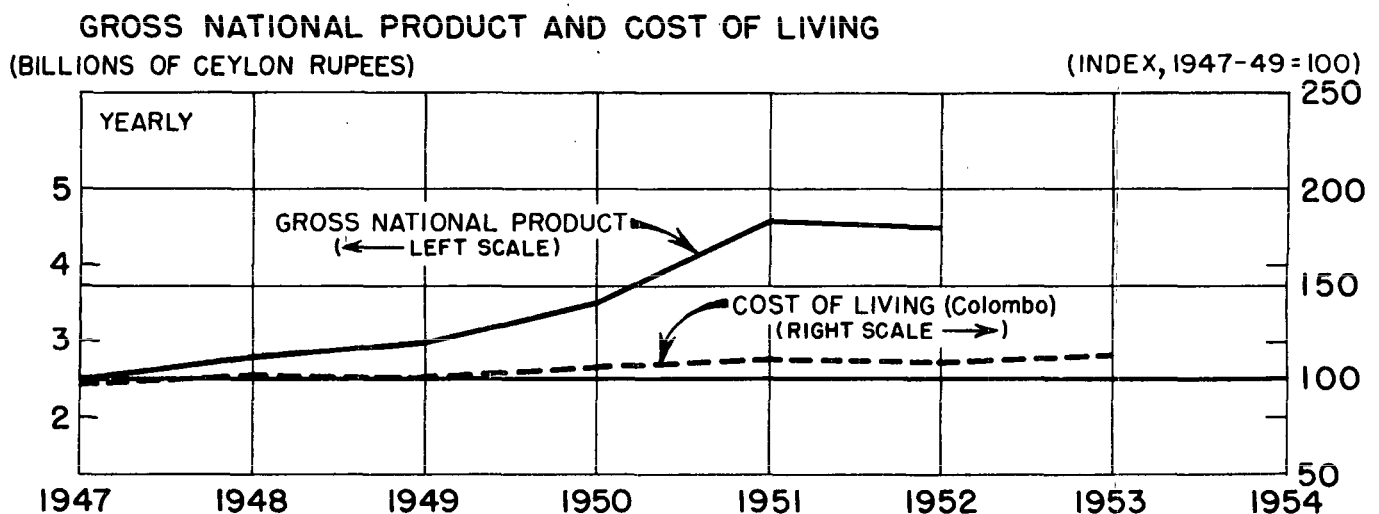
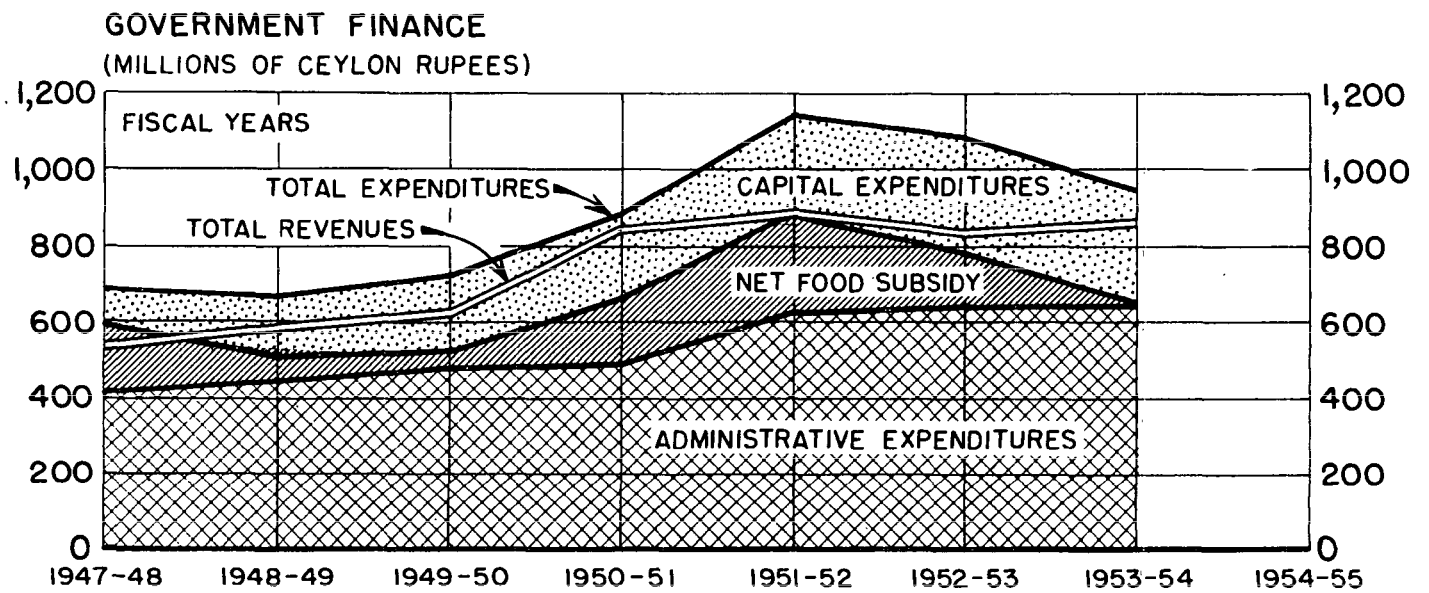
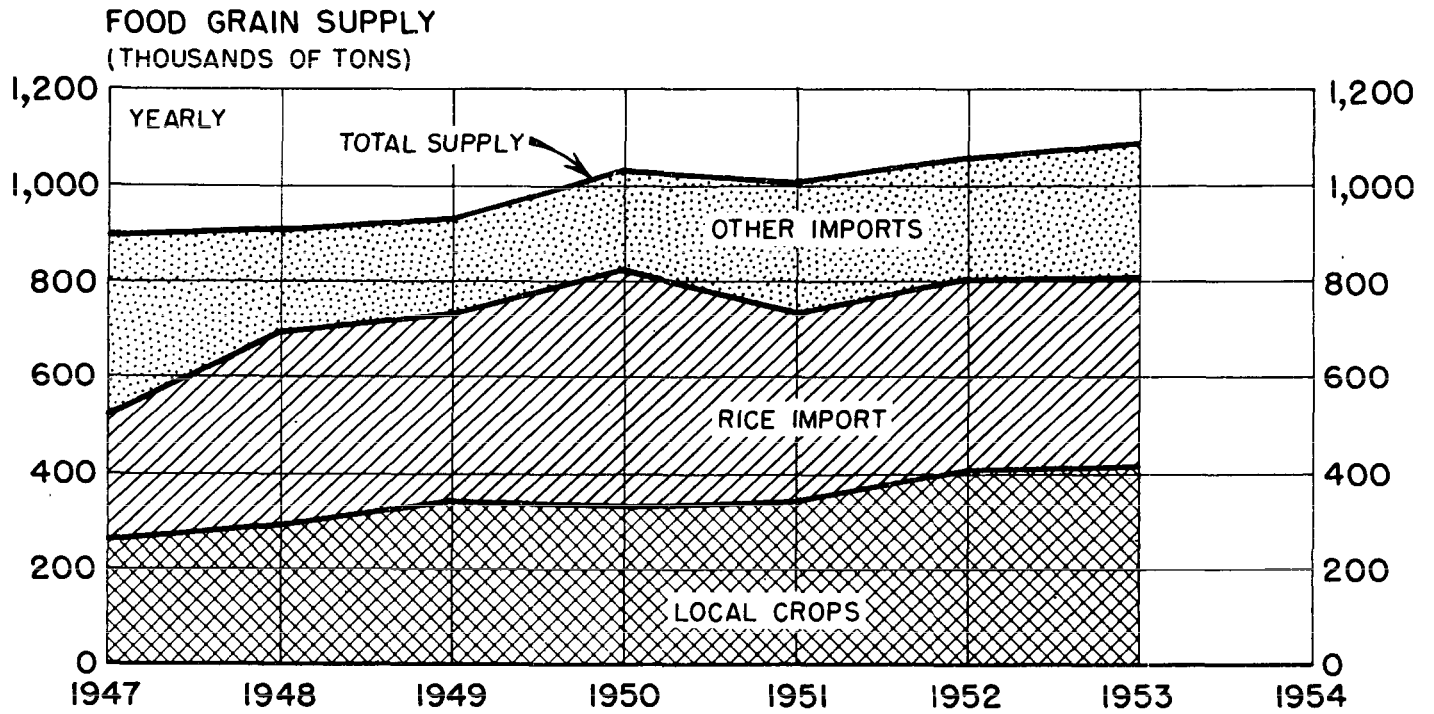
^{2/} Provisional.

Net Official Foreign Exchange Reserves, April 30, 1954

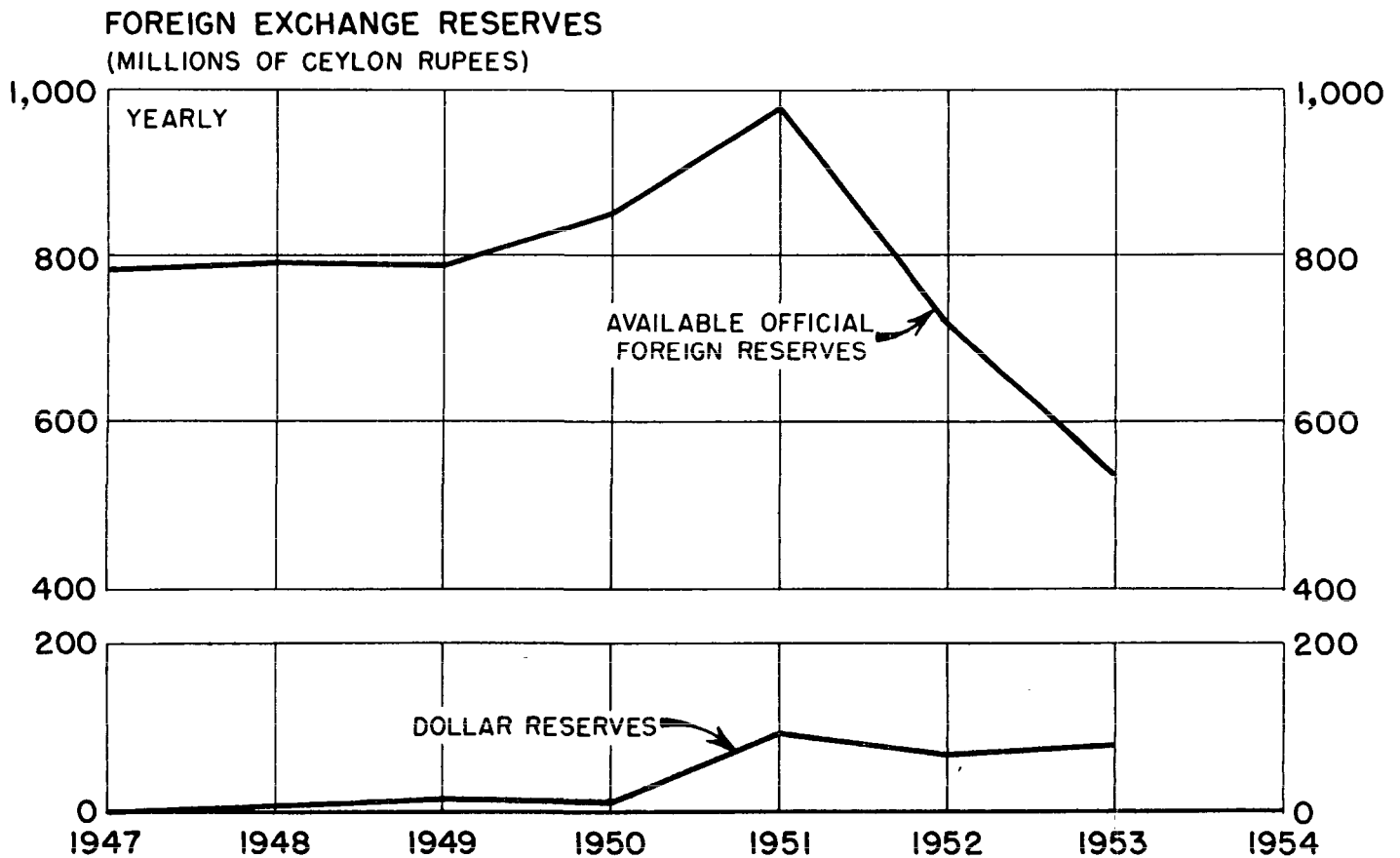
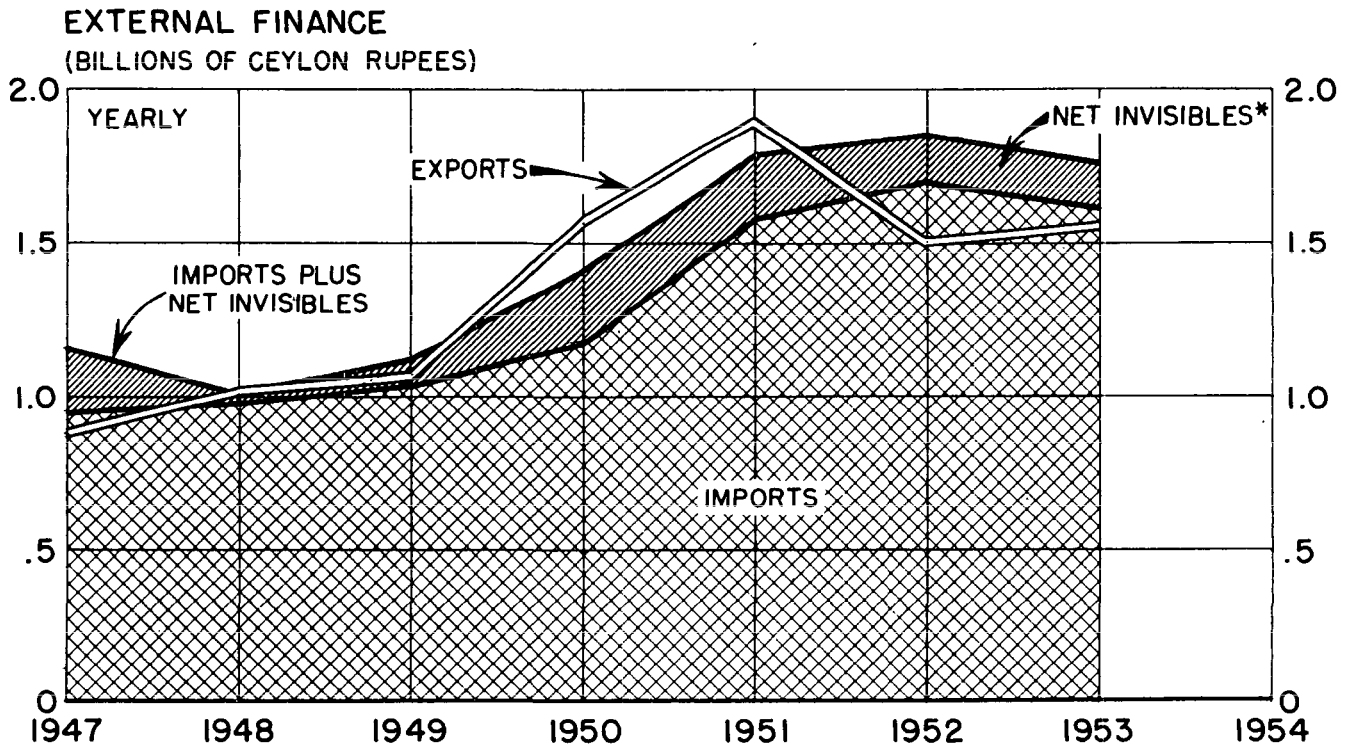
Total ^{1/} Rs. 602 million

^{1/} Excluding Sterling Loan Sinking Fund.

CEYLON



CEYLON



Summary and Conclusions

1. The salient features of the Ceylon economy are the very great dependence on foreign trade and the rapid rate of growth of the population, which has been 2.8% over the last 10 years. Ninety percent of Ceylon's foreign earnings are from exports of tea, rubber, and coconut products. On the other hand, the country has to import a substantial part of its food requirements and most manufactured goods it needs. Consequently, movements in the terms of trade, which are quite outside the control of the Government, exercise a great influence on every part of the economy. Except while the Korean boom lasted, the terms of trade have been consistently worse than before the war.

2. During the war Ceylon accumulated sterling balances which amounted to Rs. 1,260 million at the end of 1945. Replenishment of stocks run down during the war and relaxation of import controls caused a sharp decrease in 1946 and 1947. Thereafter the rate of reduction was small until June 1950 when external assets amounted to Rs. 882 million. In the next 18 months the Korean boom brought great (but short-lived) prosperity to Ceylon and external assets rose to Rs. 1,209 million by January 1952. Between 1949 and 1951 national income in money terms increased enormously. Government revenue rose substantially but government expenditures rose even more. In part the rise in government expenditures was due to increased investment under the six year program on which Ceylon embarked in 1948 with the object of increasing production of food and manufactured goods; in part the rise was due to enormously increased food subsidies. With the collapse of the Korean boom and the sharp deterioration in the terms of trade, the position grew rapidly worse. Between February 1952 and August 1953 external assets fell rapidly (i.e., to Rs. 669 million) to a level below that of June 1950 and the overall cash deficit of the Government reached nearly Rs. 500 million.

3. Before the war, adjustments in the balance of payments were more or less automatic with a time lag. A reduction in exports induced a reduction in income and, consequently, in the demand for imports. However, in 1952 and 1953 this relationship between exports, national income, and imports was not kept. Government revenues fell but government expenditures were maintained, the deficit being met to a large extent by inflationary borrowing. Bank credit was expanded to meet about three quarters of the deficit, of which the Central Bank provided directly about Rs. 250 million. This deficit financing almost wholly offset the reduction in income induced by falling export earnings.

4. The first step taken by the Government to remedy this state of affairs was the announcement of an austerity program in September 1952. These measures were quite inadequate and early in 1953 it became generally recognized that more drastic steps would have to be taken and that inflationary policies would have to be stopped. Therefore, in the first instance,

food subsidies were sharply cut in July 1953, a move which was expected to reduce not only government expenditure but the demand for imported consumer goods by the public. Even so, the 1953-54 budget envisages an overall deficit of Rs. 89 million.

5. This reversal of previous policies coincided with the end of the Six-Year Plan. Between 1947-48 and 1952-53 the Government had spent Rs. 1,240 million on development and social investment, but the increase in output resulting from the Six-Year Plan was not significant. In fact, the increases achieved outside the program have been greater. The most important increase in these six years appears to have been in the production of rice.

6. The latest budget marks a turning point in the development of Ceylon's economy. Apart from the sharp reductions in the food subsidies, work on most industrial projects started under the first six-year plan was suspended, and the Government decided not to introduce a second six-year plan. Instead, the Government has set itself a target of expenditure on development totalling Rs. 1,500 million, but this will be spent only as resources are seen to be available. A Planning Secretariat has been established, which will have the task of determining the priorities between various projects for the use of such resources as are available from time to time.

7. The change in fiscal and monetary policies has already begun to show results. Ceylon has had a trade surplus since January 1954 and a surplus in its balance of payments since December 1953, although this favorable turn has to some extent been due to an improvement in the terms of trade. Official external assets rose from a low of Rs. 480 million in December 1953 to Rs. 602 million in April 1954. In March 1954 a £5 million sterling issue was successfully made on the London market. Nevertheless, no relaxation of present policies will be possible for some time to come, and, in addition, much more attention will have to be paid in the future than has been paid in the past to devoting such resources as are available for development to sound projects assigned to increase food production and other consumer goods. If present policies are followed, and provided that the terms of trade do not worsen, Ceylon whose total foreign debt, all in sterling, is only about \$28 million, should be able to provide annually out of foreign exchange earnings a moderate amount for the service of new foreign debt.

Introduction

1. Basically, Ceylon's economy is agricultural, specializing in the production of commodities for export. Tea, rubber and coconut products account for 90% of the value of Ceylon's exports. On the other hand, nearly two thirds of the country's requirements of rice, flour, sugar, and other foods and almost all its requirements of fuel and manufactured goods (of which textiles are the most important) have to be imported. Export income in recent years has directly amounted to over one third of the national income. The economy is peculiarly dependent on movements in the terms of trade which, as will be seen, have fluctuated violently since the end of World War II.

2. Before the war, Ceylon had in almost every year foreign trade surpluses which were large enough to meet its deficits on invisible account (arising from payments on foreign investment, remittances, etc.). During World War II, exports increased while imports were reduced, and large current balance of payments surpluses were achieved despite an adverse move in the terms of trade.

3. Between 1939 and 1945 foreign assets rose from Rs. 275 million to Rs. 1,260 million; currency in circulation from Rs. 45 million to Rs. 449 million; and net public debt from Rs. 142 million to Rs. 351 million.

4. The postwar history of Ceylon's economy falls into three fairly clearly defined periods:

- (i) From the end of 1945 to the outbreak of the Korean War in June 1950.
- (ii) From June 1950 to the beginning of February 1952.
- (iii) From the beginning of February 1952 to the present.

5. This report begins by reviewing the events in these three periods. The adverse terms of trade which obtained throughout the war have not, except for the short period of the Korean boom, improved significantly since 1945. This fact combined with the need for replenishing stocks run down during the war and the start of an ambitious development program meant that Ceylon had little room for over-optimistic policies. The failure to recognize the fundamental facts in time led to the present economic and financial difficulties. However, it is felt that these difficulties should not obscure the considerable potential strength of Ceylon's economy which could be developed with good management.

I. The Situation before the Korean War (1945-50)

6. The strong financial position in which Ceylon found itself at the end of the war was not long maintained. Foreign assets (including the assets of commercial banks) declined from Rs. 1,260 million at the end of 1945 to Rs. 947 million at the end of 1947--a fall of Rs. 313 million. In the next 2-1/2 years foreign assets fell only by Rs. 65 million to Rs. 882 million at the end of June 1950. The rapid fall in the immediate postwar years can largely be attributed to the need for restocking and the relaxation of import controls. The comparative stability thereafter was due to the fact that the volume of exports rose faster than the volume of imports, both being higher than before the war. The fact that despite this there continued to be some decline is because the terms of trade which had turned against Ceylon during the war showed little improvement; in 1948 the index stood at 69 and in 1949 at 77 (1934-38 = 100). The reason for these adverse terms of trade is easy to see. Whereas the price of rice rose to about six times the prewar level, the price of tea (which accounts for more than half of Ceylon's export earnings) was only three times and that of rubber only 60% above the prewar average.

7. Internally developments were on similar lines as can be seen from the budgets for the three years beginning in 1947, the first year of Ceylon's independence. In each of the years from 1947-48 to 1949-50 the budgets were in overall deficit; the aggregate deficit during this period amounted to nearly Rs. 350 million. These deficits were met partly by drawing down government cash balances and partly by borrowing. Cash balances amounted to Rs. 218 million at the beginning of 1947-48 and were reduced by about Rs. 160 million in the three years thereafter. In the same period the Government borrowed nearly Rs. 170 million, of which about Rs. 110 million was obtained by expanding bank credit to the Government, i.e., at a yearly rate of Rs. 36 million. Between September 1947 and September 1950 net rupee debt rose from Rs. 309 million to Rs. 445 million, but more than half of this increase represented borrowing in the form of Treasury bills (they reached the amount of Rs. 78.6 million at the end of fiscal 1949-50). During these three years "Loan Expenditure"^{1/} totalled Rs. 350 million, an amount approximately equal to the entire budget deficit for the period.

8. The budgetary policy during this period was on the whole conservative. In general the deficits were not excessive although that

^{1/} Roughly speaking, by "Loan Expenditure" is meant capital expenditure, met from the proceeds of Government long-term borrowings on development projects; but, in fact, not all "loan" expenditures have been on development projects, and a considerable amount of capital expenditure on development projects has been met from current revenues.

of 1949-50 was larger than those earlier. The overall cash deficit was Rs.153 million as compared to Rs. 156 million of Loan Expenditure. To meet this deficit cash balances were drawn down by Rs. 75 million. The value of Treasury bills outstanding increased by Rs. 62.4 million and Rs. 35 million were raised by floating loans. In spite of the expanding money volume, external assets in 1949-50 were relatively stable. This stability was undoubtedly due in part to the improvement in the terms of trade that occurred after the devaluation of the Rupee in September 1949. In the absence of this improvement it is probable either that imports for consumption could not have continued at the same level or that resources for development could not have been provided except by drawing down foreign assets.

II. The Korean Boom

9. As it turned out, the terms of trade scored a further sharp improvement with the outbreak of the Korean War. The boom that followed caused a marked but only temporary improvement in Ceylon's position, the effects of which lasted until approximately January 1952. The prices of almost all export commodities rose so much that the value of exports in the year after July 1950 was nearly double the level of the preceding year. The volume of exports increased only slightly. The changes in export and import prices can be seen from the following table of price indices:

(1934-38 = 100)

<u>Exports</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>
Tea	303	351	364
Rubber	162	393	650
Coconut products	641	857	1006
<u>All products</u>	<u>324</u>	<u>439</u>	<u>534</u>
<u>Imports</u>			
All products	423	434	514
Terms of trade	77	101	104

10. National income (GNP) increased enormously to Rs. 4,620 million in 1951; and government revenues jumped from Rs. 623 million in 1949-50 to Rs. 875 million in 1951-52. The effect of this boom on the balance of trade was equally marked.

(In Rs. Million)

<u>Foreign Trade</u>	<u>1949</u>	<u>1950</u>	<u>1951</u> ^{1/}
Exports	1063	1563	1904
Imports	1029	1167	1559
Surplus	34	396	345

^{1/} Customs figures.

11. Ceylon also began to run a balance of payments surplus, which was estimated at Rs. 146 million in 1950 and Rs. 116 million in 1951, and external assets rose as is shown in the following table:

<u>Total External Assets</u>	<u>(In Rs. Million)</u>
End December 1949	934.0
" June 1950	882.4
" December 1950	1076.6
" March 1951	1240.2
" June 1951	1184.7
" December 1951	1185.3
" January 1952	1208.6

12. The effect on the budget is shown in the following table:

<u>Government Budgets - Actuals</u>			
<u>(Rs. Million)</u>			
	<u>1949-50</u> ^{1/}	<u>1950-51</u>	<u>1951-52</u>
Ordinary Expenditure (including deficits of Railway and Electricity Undertakings Dept.)	563.2	730.7	944.3
Of which: net food subsidies	41.2	138.5	252.4
Ordinary Revenue	623.3	835.9	875.3
Of which: customs	355.9	527.7	487.2
Surplus or deficit (-) on ordinary account	60.1	105.2	-69.0
Loan Expenditure	155.6	146.7	202.9
Overall deficit	95.5	41.5	271.9

^{1/} Fiscal year October 1 - September 30.

13. It is significant that, although annual government revenue increased by Rs. 252 million in this period, ordinary expenditures rose by Rs. 360 million. Much of the revenue increase resulted from the higher customs receipts which was due to a large extent to an increase in export duties. The increase in the expenditure on food subsidies, which accounted for Rs. 211 million of the increase in ordinary expenditure of Rs. 360 million, was also due to government action. In October 1950, to counter the rising cost of living, the Government reduced the rationed price of rice from 36 cents per measure^{1/} to 30 cents and in December 1950 made a further

^{1/} A measure of rice is approximately 2.3 lbs.

reduction to 25 cents. The price of rationed rice was reduced and kept at this level until July 1953 despite a substantial increase in price of the imported rice. The substantial rise in the price of imported rice increased not only the value of imports but also the budgetary outlay on food subsidies.

14. From 1949 to 1951 the Colombo cost of living index rose by about 10% whereas it is estimated that the average real per capita income rose by about 20%; and the index of real wages of estate labor increased from 121 to 157, or by nearly 30% during this period. The relatively small increase in the cost of living index and its stability over a period of more than two years was due to the low price of rationed rice and to greatly enlarged imports of consumer goods in general, made possible by liberal import policies.

16. The increase in national income provided a good opportunity for floating government loans. In the second half of 1950 and in 1951 the Government raised Rs. 150 million of a Second National Development Loan, the greater part of which was obtained from non-banking sources. These funds and higher revenues enabled the Treasury to strengthen its position considerably. The government cash balances rose from Rs. 56 million in September 1950 to Rs. 140 million in November 1950 and were maintained at this level until January 1952. At the same time, Treasury bills which had nearly reached the legal maximum of Rs. 100 million outstanding by November 1950 were almost all retired in the eleven months following.

17. Ceylon which benefited greatly from the high export prices was in a particularly vulnerable position if the terms of trade should suddenly change adversely. For any such change would mean that real income and government revenue would suffer. Nor could it be expected that by the time the terms of trade worsened increased production would compensate to any significant extent.

18. In fact, in an economy like Ceylon's a rapid rise in the national income resulting from increased export earnings (in the absence of countervailing action by the Government) inevitably stimulates the demand for imported goods, and this demand continues for a time even after national income declines.

III. Balance of Payments and Budgetary Difficulties

18. The financial and economic situation changed sharply for the worse from February 1952 onwards; and the effect of this change on Ceylon's external financial position is shown in the following table:

	<u>(In Rs. Million)</u>	
Exports	1502) <u>1952</u>
Imports	1705) Trade deficit - Rs. 203 million
Balance of payments deficit on current account		- 446
Reduction in external assets (including commercial banks) from Rs. 1185 million to Rs. 837 million		- <u>348</u>

The value of exports declined by 21% although the volume increased by 4½%. Import prices rose by 10% and import volume by 1%.

19. The fall in export earnings due to individual export items was as follows:

	<u>1951</u>	<u>1952</u>	<u>Fall in Earnings</u>
	(Rs. Million)		
Rubber	582	363	219
Cocconut products	320	231	89
Tea	800	723	77
Others	202	185	17
	<u>1904</u>	<u>1502</u>	<u>402</u>

Rubber suffered the sharpest drop in its prices. The average price of the best quality rubber in 1952 was Rs. 1.38 per pound in the Colombo market as compared with Rs. 2.15 per pound in 1951.

20. The increase of import value by Rs. 144 million in 1952 was mainly due to the increase in import prices. At the end of 1952 the terms of trade were 75 as compared with 104 at the end of 1951. The following table shows the principal import items in 1952 and their increase over 1951.

(In Rs. Million)

Foodstuffs	791	(/95)
(of which, rice)	(329)	(/93)
Petroleum products	132	(/18)
Machinery, electrical goods, metals	189	(/15)
Textiles	219	(- 4)

The unit value of rice rose by 38% (from Rs. 597 per metric ton in 1951 to Rs. 823 in 1953).

21. Internally, too, the government financial position deteriorated. After January 1952, the cash deficit began to mount and the year 1951-52 closed with a deficit of Rs. 272 million. Loan expenditures rose to Rs. 203 million and food subsidies to Rs. 252 million. At the end of September 1952 the cash balances were reduced to Rs. 66 million, the amount of Treasury bills outstanding reached Rs. 93 million, and in addition the Government borrowed Rs. 72 million from the Central Bank. The fiscal position changed from a comfortable to a very tight one.

22. The budget deficit continued in fiscal 1952-53, amounting to Rs. 195 million; but the cash deficit was Rs. 232 million. The Government made various cuts in proposed expenditures, with the result that the budget expenditures chargeable to revenue were reduced to Rs. 847 million. The Government found it increasingly difficult to finance the deficit. In February 1953 authority was obtained to increase the limit for Treasury bills outstanding from Rs. 100 million to Rs. 200 million; by the end of September 1953 the amount outstanding was Rs. 184 million. Furthermore, between September 1951 and September 1953 the Central Bank's holdings of Government and Government guaranteed securities had increased by Rs. 142 million to Rs. 146 million. By September 1953, the Government's net rupee debt amounted to Rs. 843 million, which is Rs. 341 million more than in September 1951. But this borrowing only to a small extent represented real savings, Central Bank and commercial bank credit being expanded by about Rs. 300 million.

23. The decline in foreign assets continued at a somewhat slower rate in 1953. In the first six months the balance of payments on current account had a deficit of Rs. 183 million as compared with Rs. 247 million in the first half of 1952; the trade deficit was Rs. 131 million and Rs. 195 million respectively. During this period export prices increased by less than 1%, and export volume declined by 6% as compared with the corresponding period of 1952; on the import side, over the same period prices fell by 11% with an increase in volume of 3%. Ceylon's terms of trade improved in the first half of 1953 as compared with the first half of 1952.

24. External assets declined by Rs. 152 million from the end of December 1952 to the end of June 1953, and to Rs. 669 million at the end of August 1953. The official foreign exchange holdings (excluding the holdings of commercial banks) were about Rs. 611 million. From this amount, Rs. 58 million of sinking fund on sterling loans has to be deducted, leaving a total of Rs. 553 million. In the 19 months, end of January 1952-August 1953, external assets of Ceylon were reduced from Rs. 1240 million to Rs. 669 million, or by Rs. 571 million (\$120 million). During the same period money supply dropped from Rs. 1006 million to Rs. 850 million, or by only Rs. 156 million.

IV. Measures to Overcome the Financial Crisis

25. The continuous substantial budgetary deficits and the rapid decline in external assets made it clear to the Government that some remedial measures would be necessary. An eight point austerity program was announced by the Government in September 1952, but this was quite inadequate to change the fiscal and balance of payments position. Savings on expenditures and additional revenues resulting from this program did little more than to compensate for increases in other kinds of expenditure.

26. By the middle of 1953 it was accepted by the Government that much more drastic measures would have to be taken. By this time the authorities began to realize that there was a limit to the extent to which budget deficits could be financed through inflationary expansion of credit, and the inter-relation between such inflationary financing and the decline of external assets became clear. In other words a country like Ceylon, which is so dependent on foreign trade cannot substitute newly created purchasing power for reduced export earnings, cannot live beyond its means for any length of time.

27. These facts were all stressed in the Finance Minister's Budget Speech on July 23, 1953. He said "The worsening of the terms of trade which was due to the continued high price of rice and falling export prices could not by itself have created a balance of payments deficit and caused such a drain on our external assets. ... We must therefore look for other causes, also for the deficit in our balance of payments. The drain on our external assets persists because the internal cause of the drain has not been rectified. The internal cause is that large amounts of money have been released into the economy in order to finance the Government's large overall cash deficits. The drain on our external assets will persist until the deficit is reduced to a level at which it can be financed without creating new money. ... The stabilization of our balance of payments and the prevention of further drains on our external assets must become one of the fundamental objectives of budgetary policy in the new era. ... Government have therefore decided that in the new financial year it would not be safe for us to have an overall cash deficit of such proportions as would cause any further drain on our external assets by affecting our balance of payments adversely."

28. In other words, government expenditure would have to be reduced to avoid additional inflationary financing. The first and the most important step in this direction was the reduction in food subsidies. On July 20, 1953, the price of rationed rice was increased from 25 cents to 70 cents per measure. This reduction eliminated any direct budget contribution to food subsidies. However, some subsidy of rationed rice and flour was to continue. The Government expected a profit of about Rs. 89 million from sugar sales of which Rs. 54.5 million were to be used as subsidy on estimated imports of 440,000 tons of rice (11 cents per measure) and Rs. 30 million on expected imports of 180,000 tons of flour (7½ cents per lb.). To alleviate the impact

of this measure on the consumer, rice rations were increased by approximately 35% and flour and sugar were made available without restriction and with no increase in price. Moreover, it was expected that the price of unrationed rice (country rice) would decline so that the average price of rice to the consumer would be less than indicated by the price increase of the rationed rice.

29. It was assumed that reduction of the rice subsidy would result in a substantial net budget saving and a fall in income which in turn would reduce imports.

30. The drastic increase in the price of rationed rice caused widespread discontent and serious disturbances all over the island. The wages of labor on the tea and rubber estates were increased in proportion to the rise in the cost of living index caused by the higher price of rice; wages in other occupations and salaries, too, had to be adjusted. The only exception was that of government employees whose wages were frozen at the July, 1953 level. The cost of living index in Colombo, which had been stable for the two previous years, rose from 111 in July, 1953 to 114 in September (1948=100).

31. In order to help consumers, the government decided to pass on to them any reduction in the price of imported rice which might be obtained. Accordingly, when the agreements negotiated with Burma and China brought a reduction in the price of rice to be imported in 1954, the government immediately reduced the price of rationed rice to 55 cents a measure from October 19, 1953.

32. The principal objective of the new financial policy is at least to reduce the overall deficit to an amount which could be financed from real savings.

Following are the figures for 1953-54 budget as compared with the 1952-53 budget: 1/

1/ Only the net deficit or surplus of the Food Commissioner, Railways, and Electrical Undertakings are included.

(In Rs. Million)

	<u>1952-53</u>	<u>1953-54</u>
Total revenue	871.4	850.9
Of which: customs	443.8	429.2
Ordinary expenditure	846.5	696.1
Of which: food subsidies	144	6.0
Balance	24.9	154.8
Loan expenditure	220.1	243.7
Overall deficit	-195.2	-88.9

34. Various measures were introduced to increase revenue. They included an increase of import duties, a rise in the railway fares, postal, telegraph, and electricity rates, and higher rates of direct taxation. It should be noted however that on balance the reduction in ordinary expenditure amounts only to about the sum budgeted for food subsidies in the previous year.

35. The Government also proposed heavy cuts in development expenditure. It was decided not to start any new development schemes except for two small irrigation projects, and to stop or suspend work on a number of projects already started. However, the estimates of ordinary expenditure were 33% higher than in 1949-50 and 45% more than in 1948-49, in all cases excluding the food subsidies.

36. The effect of the new policies on the internal and external financial position is already noticeable. In the first six months of 1953/54 the Government had a cash surplus of Rs. 43.2 million. To a great extent the improvement in the Government's cash position has been due to a decrease of government food stocks which were reduced by Rs. 67.1 million during this period. Had there been no changes in government food stocks the surplus would have been converted into a deficit of Rs. 23.9 million as compared with a deficit of Rs. 68.6 million in 1952/53 established on the same basis.

As a result of the improved cash position the Government was able to reduce its short-term debt. In the seven months of the fiscal year the outstanding Treasury bills were reduced from Rs. 184 million to Rs. 115 million and the debt to the Central Bank from Rs. 70.5 million to Rs. 0.1 million.

Money supply within this period fell from Rs. 824 million to Rs. 801 million. The cost of living index in Colombo declined from 114 in September to 111 in October and 108 in April 1954 which is the same figure as in April 1953.

37. The balance of trade has also improved. Ceylon had a trade surplus of Rs. 87 million for the period, October 1953 - March 1954, as compared with a deficit of Rs. 131 million in the corresponding period of the previous fiscal year. In the first three months of 1954 the trade surplus amounted to Rs. 93 million. The improvement in the balance of trade was in large part due to an improvement in the terms of trade; the index standing at 92 in April 1954 as against 83 in March 1953. This improvement resulted from higher prices of tea and also from a reduction in prices of various imported commodities, including rice. But imports have also declined; the volume index for imports was 139 in the first three months of 1954, or ten points below the index in the same period of 1953.

38. Official external assets of Ceylon reached the lowest level in December 1953 when they dropped to Rs. 480 million (excluding the Sterling Sinking Fund). Official external assets began to increase in January 1954 and reached Rs. 602 million at the end of April 1954. On March 25, 1954 the Government successfully issued a £5 million loan in London, at 4 per cent, maturing in 1973-75 with an issue price of 97. Not taking into account an amount of about Rs. 28 million received from the initial subscription to this loan, there was an increase of nearly Rs. 100 million during this period. These developments have once more illustrated the close relation which exists in Ceylon between inflationary financing and balance of trade. Once the inflationary financing of the Government deficit was stopped, the drain on external assets was arrested with only a short time lag.

V. Ceylon's Development Programme

39. In his budget speech in 1948 the Finance Minister announced the intention of the Government to embark on a "Six Year Plan" covering the period 1947-53. The object of the Plan was to reduce Ceylon's dependence on imports for its supplies of essential foods and manufactures; but the "Plan" was no plan in the ordinary sense of the term for it consisted of little more than a number of unrelated projects some of which were not properly prepared.

40. Government expenditure on development between 1947 and 1953 is estimated at Rs. 1,240 million, including expenditure on many small projects not included in the Plan. It is certain that this represents a level of investment below that forecast at the beginning of the Plan. Apart from the fact that inadequate planning would have made it difficult to reach the original targets, more recently the growing financial crisis made it necessary to curtail or abandon a number of the projects originally included. The most important of the projects which have been completed are a number of colonization schemes, the first stage of the Laksepama hydroelectric project, and a cement factory. Good progress has also been made with the large multi-purpose Gal Oya project, the improvement of the port of Colombo, and the modernization of the railways.

41. There has been considerable activity in the private sector, especially in agriculture. About 120,000 acres of waste land in the villages have been reclaimed and irrigated for paddy, and at least as great an area of unirrigated land has been reclaimed. Although production of manufactured goods has increased, only a few new factories have been built.

Agriculture

42. The greatest expenditure envisaged by the Development Program was necessarily on agriculture, since the most obvious and practical way of reducing expenditures on imports of consumer goods was to increase output of foodgrains in Ceylon. Despite a population increase of 18% between 1947 and 1952 and a slight increase in consumption per capita, volume of imports of foodgrains and flour increased very little. Thus, it appears that the increased requirements were met almost entirely from an increase in domestic production. According to recent information supplied by the Government of Ceylon, the area under paddy (including double-cropping) increased from 926,683 acres to 1,161,869 acres between 1947 and 1952, or by about 25%. The estimates of production of rice vary. As late as September 1953 in a report presented to the Consultative Committee on Economic Development in South and South-East Asia the Government of Ceylon reported that production of rice was at present 270,000 tons per annum. The recent figures of the Department of Census and Statistics give the rice production in 1951 as 310,000 tons. ^{1/} For 1952 the Department of Census and Statistics puts production at 367,000 tons. One of the important tasks before the Government of Ceylon is to obtain dependable data on the local production of rice.

^{1/} F.A.O. published the same estimates in terms of paddy.

43. However, the smaller part of this increase has been due to schemes in the Plan designed to bring more land under cultivation. The largest of these schemes is the Gal Oya project which consists of a dam providing water for irrigation and the production of power. The people settled on it get considerable assistance from the Government in the form of cash grants and houses. The aim is ultimately to irrigate 100,000 acres of land and in addition to reclaim 150,000 acres for rainfed cultivation. It was expected that by September 1953 about 15,000 acres of irrigated land and 10,000 acres of high land would be reclaimed and settled, and that the whole area would be settled by about 1961. The total cost of the project is estimated at Rs. 420 million, and, of the Rs. 212 million spent on agricultural development by the end of 1952, Rs. 147 million was on the Gal Oya project.

44. The other irrigation schemes in the Plan are on a smaller scale, consisting chiefly of the rehabilitation of old irrigation "tanks". Considerable progress has been made with them and, as was to be expected, the return for the amount of capital invested is of a much higher order than could be expected from a scheme like the Gal Oya project. Under these schemes, by September 1952, 41,000 acres of paddy land and 20,000 acres of high land had been brought under cultivation. The extension of the acreage under cultivation around existing villages was made possible by the sale of large areas of government waste land and was stimulated by the high price obtainable for country rice. In addition, the tea and rubber estates have under an ordinance of 1943 the choice between growing food crops and paying a cess; this ordinance increases the incentive to put land under food crops or grass as food prices rise. Between 1951 and 1952 the area on estates under food or grass increased by about 20,000 acres to about 105,000 acres.

45. Apart from the extension of acreage, the Government has made special efforts to increase the yield of paddy per acre by encouraging better methods of cultivation. It has been subsidizing the sale of fertilizers and agricultural implements and has been making low interest loans for land improvements through agricultural cooperative societies. However, in areas outside the new projects, the incentive to the cultivator to improve his land and methods is considerably reduced by the land tenure system, of which sharecropping is so prominent a feature.

46. Although most effort and money has been devoted to increasing food production, it has become urgent that the cash crops which form the basis of the economy must not be neglected. The Korean boom delayed the replanting of rubber estates which was decided on in 1949. In 1953, the Government started levying a cess on rubber exports to China and from the funds so collected will grant subsidies of Rs. 700 to Rs. 1,000 per acre for the replanting of rubber estates with improved varieties. The sale of selected varieties of coconut seedling is also subsidized. However, greater efforts will have to be made to improve the conditions of these industries. The acreage under tea increased from 554,072 to 572,008 between 1947 and 1952; or by about 3-1/2%, and tea production rose by about 6% during this period. Tea production increased under the stimulus of war and post-war shortages and is now more than 40% above the pre-war average.

Other Development

47. The Plan included proposals for establishing a number of manufacturing industries, partly to save foreign exchange and partly to provide additional employment opportunities for the growing population. It was proposed to build nine new government factories and to reorganize some of the factories which had been built as emergency measures during the war. The total cost was expected to be about Rs. 260 million. Only a small part of these proposals has been fulfilled. The only project which had gone into production by the end of the Plan period was a cement factory. This plant cost Rs. 22 million and has a rated annual capacity of 95,000 tons and in addition generates enough power to meet its own needs and those of the town of Jaffna; full production has never been reached; in 1951 and 1952 the annual output was about 65,000 tons. The only reorganizations so far completed have been of the plywood and shoe factories at a total cost of Rs. 2 million. In addition, it is reported that the paper and ceramics factories are nearing completion; it is estimated that the total cost of these two factories will be about Rs. 25 million.

48. Canadian aid has stimulated progress in the fishing industry by providing both equipment and personnel for research and for training local fishermen. As imports of dried, salted fish, amounting to Rs. 48 million in 1952, was nearly doubled in volume compared to prewar, development of the fishing industry is one means of reducing imports substantially in the near future.

49. A satisfactory achievement in the public sector during this period was the completion of Stage I of the Laksapana Hydroelectric Scheme. Between 1947-48 and 1952-53 total net output of power stations run by the Electricity Undertakings Department rose from 50 million kwh to 112 million kwh. The Laksapana plant has an installed capacity of 25,000 kw and its completion enabled the EUD easily to meet the growth in load, and even to put more expensive thermal plants on a stand-by basis. It may be expected that the availability of cheap hydroelectric power will encourage industrial expansion.

50. The Government's activity in the field of industry has been severely handicapped by the fact that Government operates these undertakings as part of various government departments through the bureaucratic machinery.

51. In addition, the Government has spent substantial sums on transport and communications. Between 1947 and 1953 over Rs. 50 million was spent on the modernization of the railways and good progress has been made with the improvement and enlargement of the port of Colombo which will be completed by 1955. The total cost of these works is expected to be Rs. 80 million, of which more than half has already been spent. Considerable extension of the telegraph and telephone system has also been made.

52. Furthermore, the Government has spent substantial amounts on social capital, such as hospitals, schools, houses, government buildings, etc.

Plans for the Future

53. The results of the Six Year Plan were on the whole disappointing. As already stated, the object was to lessen the dependence of Ceylon on imports, both of foodgrains and of manufactured goods. Such increase as

there has been in industrial production has so far had no significant effect on import requirements. There has been quite a considerable increase in the production of rice; but it is important to note that this did little more than keep pace with the growth of population. Export earnings during this period fluctuated considerably on account of the rapid rise and fall in world prices of the three main export crops. Output of these three commodities, of course, is highly dependent on market conditions abroad; and the Government and producers can do little more than to ensure that the plantations are kept in good condition and that methods of production are efficient. The balance of trade during the Plan period was greatly affected by the Korean boom and by government policies which stimulated consumer demand. However, if it is assumed that prices over the next few years will be more "normal" and that sound internal policies will be pursued, it can perhaps be said that Ceylon's position at the end of the Plan was on the whole no worse than at the beginning.

54. The extraordinary change in Ceylon's position between 1951, when the Bank Survey Mission visited it, and 1953 has necessitated a revision of previous thinking about the possibilities and scope of development. The Government decided not to formulate a second six year plan as was originally intended. In addition, work on most industrial projects included in the first plan but not yet completed has been either abandoned or deferred, partly as a result of the Bank Survey Mission recommendations. However, work must continue on some projects which were started in the preceding years, such as the continuation of the Gal Oya scheme, some minor colonization schemes, Colombo port, and the rehabilitation of the rubber plantations. The 1953-54 budget provided for a total outlay on development of Rs. 324 million but probably less will be spent than was estimated. Instead of a new plan the Government has set itself a target of expenditure on development totalling Rs. 1500 million, but this will be spent only as resources are seen to be available. A Planning Secretariat has been established, which will have the task of examining any development projects proposed in the future and of determining the priorities between various projects for the use of such resources as are available from time to time. It is difficult to forecast to what extent Ceylon will be able to obtain foreign assistance for future development projects; but it is worth noting that hitherto it has received only about \$5 million in foreign aid as grants under the Colombo Plan. The Finance Minister in his Budget Speech estimated that aid under the Colombo Plan in 1953-54 would amount to about Rs. 20 million.

55. The Government was well aware of this. In its assessment of the position to the Consultative Committee of the Colombo Plan in October 1953, it stated "the size of the development program in the years ahead will depend largely on the extent to which the current revenue can be increased, expenditure under other heads reduced, and a surplus arrived at on current account."^{1/}

VI. Balance of Payments Prospects

56. Ceylon's foreign trade pattern is relatively simple. Exports of tea, rubber, and coconut products provide most of the country's export earnings. Tea is the most important of Ceylon's exports, accounting usually for more than 50% of total export earnings. Rubber and coconut products have each represented about 15-20% of export earnings in the postwar years. Of the other exports, cinnamon, citronella oil, graphite, and cocoa should be mentioned. Since 1947 the volume of exports has been higher than in the prewar period; the index rose to 151 in 1952 (1934-38 = 100). Tea prices maintain a reasonable degree of stability, their trend being approximately in line with general world price movements. However, rubber and coconut prices fluctuate much more. Imports of consumer goods represented about two thirds of the total value of imports before the war and around 70% in the postwar period. They have been very stable in the period 1920-1950 (except for war years), being very close to Rs. 100 per capita in 1950 prices. However, during the period of the Korean boom and even in 1953, imports of consumer goods were at least 20% higher than this average as a result of greatly increased national income. As mentioned in a previous chapter Ceylon usually has an export surplus which is needed to meet the deficit on invisibles. Ceylon is a member of the sterling area. With regard to dollar earnings, according to the information received from the Ceylonese authorities, the recent practice has been to keep the net dollar proceeds of exports invoiced in dollars while dollar proceeds of exports invoiced in sterling accrue to the central reserves of the Sterling Area.

^{1/} Chapter IV, paragraph 19, Second Annual Report of the Consultative Committee.

57. With regard to the balance of trade, it is not expected that exports of the three main export commodities will increase as rapidly as population. As mentioned previously, there has been a substantial increase in the production and export of tea, and the general outlook seems to offer a fairly stable basis for tea cultivation. Additional exports are expected of cacao, coir manufacture, tannins, and vegetable oils, but it is unlikely that such an addition to exports will affect Ceylon's external earnings to any major degree.

58. The Bank Survey Mission, though well aware of the difficulties of predicting price trends, attempted to forecast the balance of trade prospects. Export earnings were estimated at an annual rate of Rs. 1,400 million for the period 1953-58, on the assumption ^{1/} of about the same volume of export of tea and rubber, some decline in export of coconuts and Rs. 150 million for other exports. Total exports in 1953 (excluding re-exports) were near the Mission's estimate.

	<u>Rs. Million</u>
Tea - 336 million lbs.	825
Rubber - 217 million lbs.	338
Coconut products	250
Other products	73
	<hr/>
Total	1486

1/ The following are the volume and price assumptions made by the Bank's Mission:

	<u>Rs. Million</u>
<u>Tea</u> - 300 million lbs. at Rs. 2.50 (US cts. 52.5)..... In September 1953 the price was US cts. 49.	750
<u>Rubber</u> - 215 million lbs. at Rs. 1.35 (US cts. 28.3)..... In Sept. 1953 the price was Rs. 1.36 (cts. 29) for Grade I rubber as compared to 21 cts. in Malaya. The higher price was due to the China deal. Beginning Dec. 20, the price will be reduced to Rs. 1.20.	300
<u>Coconut products</u> - 750 million nuts concentrated in more valuable products.	200

59. The foreign trade position has taken a favorable turn in the last year. Trade deficit in 1953 was reduced to Rs. 40 million as against Rs. 200 million deficit in 1952. Exports increased from Rs. 1502 million in 1952 to Rs. 1568 million in 1953. (the volume rose by about 3 per cent) and imports declined from Rs. 1702 million to Rs. 1608 million, but the volume of imports reached a new high with an index of 158 compared with 119 in 1949. A substantial part of the improvement in foreign trade was due to the rice-rubber deal with Communist China. This provided for a purchase of 270,000 tons of rice at about £54 per metric ton (Ceylon paid about £60 for the Burmese rice) and for a sale of 50,000 tons of sheet rubber at a price of Rs. 1.75 per lb. for Grade I. The gain in the Ceylonese balance of trade from this deal may be estimated at about Rs. 60 million for 1953. The agreement was concluded for five years but prices have to be negotiated for each year.

60. The price of rice reached probably its peak in 1952-53 and now shows a downward trend. Ceylon concluded an agreement with Burma for the period 1954-57 providing for a minimum rice purchase of 200,000 tons per annum at a price of £50 metric ton in 1954 which declines £2 every year, reaching £44 in 1957. The price of rice from China was also reduced to £47 but the price of rubber sold to China was reduced proportionately.

61. As mentioned previously in the first three months of 1954 Ceylon had a trade surplus of Rs. 93 million; exports being Rs. 30 million more and imports Rs. 33 million less than in the corresponding period of 1953.

62. For the period beyond 1954, there is no reason at present to expect an adverse change in the terms of trade. Perhaps some small improvement may materialize; this will depend mainly on the relative movements of rice and rubber prices, but Ceylon might also benefit from lower prices of sugar, flour, and textiles. Some increase in exports may also be realized, although there is no basis for expecting any substantial expansion in export earnings. The main consideration regarding balance of payments prospects is, therefore, the future trend of imports. In view of the greatly increased imports of various goods in recent years -- in 1953 they were 60% higher in volume than before the war -- there is scope for a decline without reducing real per capita imports of consumption goods below long-term average levels in the past. In the longer run, however, on account of the rapid increase in population, imports would have to increase at a rate of about Rs. 25 million a year at present prices if past levels of per capita imports of consumer goods were to be maintained. In the absence of optimistic expectations concerning a future significant expansion in exports and improvement in the terms of trade, such a rate of increase in imports would not be consistent with long-run balance of payments stability. Therefore, to preserve long-term balance of payments stability without a steady deterioration in the standard of living, two essential conditions are necessary.

63. The first is that internal financial stability be maintained through sound fiscal and monetary policies in order to avoid an inflationary stimulation of import demand.

64. In the prewar period there had been some automatic stabilization of the trade balance because of the close relation between exports, income and imports. Ceylon had a monetary system providing for 100% coverage of the currency with sterling and therefore the money volume automatically followed movements in the balance of payments. As the Report of the Bank Mission states: "The record of Ceylon's balance of payments is thus one of fair stability and only occasional difficulty." (This applies to the period prior to 1952.) Because Ceylon's monetary system was changed, it is not possible to rely on the previous automatic adjustment of imports to the level of export earnings.

65. It is therefore of the utmost importance that the country pursue a sound financial and monetary policy. The Mission Report emphasizes correctly that "non-inflationary finance" is one of the most important conditions for the maintenance of a balance of payments equilibrium. The experience of 1952 and 1953 provides ample evidence of the extent to which inflationary finance combined with adverse terms of trade can upset the balance of payments equilibrium in a very short time.

66. The second condition of continued balance of payments stability is that Ceylon do its utmost to increase production in order to supply an increasing proportion of the requirements of its growing population from domestic resources. The Survey Mission concluded that the economic potentialities of the country, if effectively exploited, are sufficient to maintain the per-capita consumption standards of the rising population. An average annual rate of increase in the national income of about 2.5% would be required. An assumption of growth in national income at about this rate does not appear unrealistic in view of levels of total investment and rates of increase in real output in the past few years and in view of the potentialities of the country for further increases in production. The Mission pointed out the substantial projects resulting in saving of imports especially in the large amount of agricultural resources as yet unutilized and also, to some extent, in other fields such as industry and power. In recent years there has been a considerable expansion in output, chiefly in the private agricultural sector, which has been estimated at around 20% in real terms over a six year period. It has been noted, however, that so far the results of government projects to develop the country's economic potentialities have been disappointing. If Ceylon is to make the most of its real possibilities for expanding domestic production through public as well as private investment, it will be necessary to organize the selection, planning and execution of public investment projects on a more efficient and productive basis; to allocate public resources with greater attention to the means for achieving the maximum possible expansion in domestic output; and moreover to foster and encourage a continued increase in private production.

67. Assuming that the Government (a) maintains a sound fiscal and monetary policy, (b) does the utmost to increase production especially of food and other consumer goods, it is thought that Ceylon should be able to provide annually a moderate amount from its foreign exchange earnings for servicing new foreign debt. As Ceylon has been and, as far as can be foreseen, is likely to continue to be a net earner in trade with the dollar area, this debt could be incurred in dollars or non-dollar currency.

STATISTICAL APPENDIX

1. Gross National Product

	<u>1947*</u>	<u>1948</u>	<u>1949</u> (Rs. Million)	<u>1950</u>	<u>1951*</u>	<u>1952*</u>
Agricultural production for export ^{1/}	815	911	982	1377	1779	1381
Agricultural production for local consumption ^{1/}	482	513	554	579	873	1031
Industrial production, construction, and fisheries ^{1/}	281	243	305	347	597	625
Services	917	1095	1126	1198	1370	1439
Total	2495	2762	2967	3501	4619	4476

Of which:

Consumption of imported goods ^{2/}	1113	1069	1128	1259	1524	1426
Consumption of local goods and services ^{2/}	1563	1635	1768	1992	2630	2848
Gross capital formation ^{1/}	9	199	246	452	665	261
Excise duties and subsidies (net)	-190	-141	-175	-202	-200	-59

* Revised estimates.

^{1/} At factor cost.

^{2/} At market (retail) price.

^{3/} Including changes in foreign assets.

SOURCE: Department of Census and Statistics.

2. Principal Crops

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952*</u>
Rice (thousand tons) ^{1/}	244	270	323	308	310	367
Tea (million lbs.)	297	299	299	306	326	317
Rubber (thousand tons)	89	95	90	113	105	96
Coconut (million nuts)	---	1800	2/	---	1877	2129
Manioc (million cwt)	4.0	3/ n.a.	2.8	3.6	4.4	n.a.

* Provisional estimate.

^{1/} Refers to clean rice and excludes seed paddy. The estimate has been revised according to a recent sampling survey on paddy yields, which suggests that former official estimates were one third short of actual production. However other recent official estimates give lower figures.

^{2/} 1945-1950 average.

^{3/} 1944-45.

SOURCE: Department of Census and Statistics.

Stat Appendix -- 2.

3. Supply of Food Grains*

	<u>1937-1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>
Local production	220	264	290	345	338	346	407
Imports	577	636	613	588	700	660	653
Total supply (tons '000)	797	900	903	933	1038	1006	1060
Population (million)	5.78	6.88	7.09	7.30	7.54	7.74	7.96
Supply per capita (tons)	.138	.131	.127	.128	.136	.130	.133
Percentage covered by local production	28	29	32	37	33	34	38

*Including pulses and wheat flour.

SOURCE: Department of Census and Statistics.

4. Wages and Prices

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u> ^{1/}
	(Annual Averages)							
Cost of Living (Colombo town, 1938-39 = 100)	252	260	258	272	283	281	286	282
Estate Labor Wages (minimum wage rate, 1939 = 100)	293	315	320	373	463	468	475	472

^{1/} First four months.

SOURCE: Department of Census and Statistics, and Department of Labor.

5. Money Supply.

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u> ^{1/}
	(Rs. Million -- end of year)							
Notes in active circulation	238	241	244	326	377	357	335	323
Demand deposits	324	366	405	585	629	537	492	479
Total money supply with the public	562	607	649	911	1006	894	827	802

^{1/} End of April.

SOURCE: Central Bank of Ceylon

6. Government Finance^{1/}

(Rs. Million)

	<u>1947-48</u>	<u>1948-49</u>	<u>1949-50</u>	<u>1950-51</u>	<u>1951-52</u>	<u>1952-53</u>	<u>1953-54</u>
Total Revenue	540.6	576.1	623.3	835.9	875.3	871.4	850.9
Of which: Customs	(314.1)	(329.3)	(355.9)	(527.7)	(487.2)	(443.8)	(429.2)
Ordinary expenditures	622.0	547.9	563.2	730.7	944.3	846.5	696.1
Of which:							
(1) Food Commissioner (net)	(176.6)	(60.4)	(41.2)	(138.5)	(252.4)	(144.0)	(6.0)
(2) Capital expenditure included in Ordi- nary Budget	(33.7)	(37.3)	(44.0)	(63.0)	(63.0)	(78.0)	(55.0)
Loan expenditure	70.3	122.5	155.6	146.7	202.9	220.1	243.7
Total expenditure	692.3	670.4	718.8	877.4	1147.2	1066.6	939.8
Of which: capital expenditures	(104.0)	(159.8)	(199.6)	(209.7)	(265.9)	(298.0)	(298.7)
Surplus or deficit on current expenditures	-47.7	65.5	104.1	168.2	-6.0	102.8	209.8
Overall deficit	151.7	94.3	95.5	41.5	271.9	195.2	88.9

^{1/} Only the net figures of the Food, Railway and Electricity Departments are included. Extra budgetary resources (Colombo Plan assistance, rubber cess, etc.) are excluded.

SOURCE: General Treasury. 1947-5, final accounts; 1953-54, budget estimate.

7. Internal Public Debt

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u> ^{2/}
	(Rs. Million; End of September)							
Net funded debt ^{1/}	309	320	364	366	472	561	613	603
Treasury bills	-	24	16	79	30	93	184	145
Central Bank advances	-	-	-	-	-	72	71	-
Loans from semi-govern- ment agencies	-	-	-	-	-	3	59	57
Total	309	344	380	445	502	729	927	805

^{1/} Net of capital accumulated in Sinking Fund and excluding War Loan relent to the UK.

^{2/} End of April.

SOURCE: General Treasury

8. Foreign Exchange Reserves

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u> ^{1/}
	(Rs. Million; end of year)							
Net official reserves	787	797	792	853	986	726	480	602
Sterling sinking fund	39	43	46	50	52	54	60	63
Commercial banks	121	149	96	174	147	57	67	59
Total	947	989	934	1077	1185	837	607	724

^{1/} End of April; provisional figures.

SOURCE: Central Bank of Ceylon

9. Foreign Trade

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u> ^{1/}
	(Rs. Million)							
Exports, fob, in- cluding reexports	889	1011	1063	1563	1904	1502	1568	429
Imports, cif.	963	994	1029	1167	1559	1702	1608	336
Trade surplus or deficit	-74	17	34	396	345	-200	-40	93

^{1/} First three months

SOURCE: Customs Administration

Stat. Appendix-5.

10. Balance of Payments

	(Rs. Million)						
	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953*</u>
Merchandise (net)	-118	44	-16	289	289	-225	-155
Services (net)	- 32	52	44	-69	-96	-76	-11
Remittances (net)	- 25	-68	-58	-73	-76	-104	-59
Surplus or deficit on current account	-175	28	-30	147	117	-405	-225
Private capital, errors and omissions	-88	14	-25	-8	-9	38	27
Overall surplus or deficit ^{1/}	-263	42	-55	139	108	-367	-198

^{1/} Representing a net accumulation or depletion of official foreign assets and liabilities.

* Preliminary.

SOURCE: Central Bank of Ceylon.

11. Composition and distribution of foreign trade

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954*</u>
	(Rs. Million)					
(a) <u>Exports</u> (fob, excl. reexport)						
Tea	650	752	800	723	825	
Rubber	123	401	572	373	338	
Coconut products	188	275	329	255	250	
Other	40	61	122	57	73	
Total	1001	1489	1823	1408	1486	408
Of which: to the sterling area	595	706	989	739		
to the dollar area	167	443	288	236	209	62
(b) <u>Imports</u> (cif)						
Grains and flour	317	287	387	486	521	
Other foodstuffs	250	288	388	393	275	
Textiles	142	169	223	219	176	
Other manufactures and fuels	320	423	561	602	636	
Total	1029	1167	1559	1702	1608	336
Of which: from sterling area	698	828	1088	1079		
from dollar area	98	62	101	189	69	12

*first quarter. SOURCE: Customs Administration

Stat. Appendix -- 6.

12. Principal Exports to the Dollar Area

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954*</u>
	(Rs. Million)				
Tea	170	118	132	131	49
Rubber	229	138	79	29	5
Other	44	32	25	49	8

Source: Customs Administration.

*First quarter

13. Volume of Trade

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954*</u>
	(1934-1938=100)							
Exports	118	129	128	142	144	151	155	153
Imports	108	110	119	132	149	152	158	140

Source: Department of Census and Statistics.

*First quarter.

14. Terms of Trade

	<u>1947</u>	<u>1948</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954*</u>
	(1934-38 = 100)							
Unit Value of Ex-ports	300	305	324	439	534	415	424	440
Unit Value of Imports	413	443	423	434	514	554	505	512
Terms of Trade	73	69	77	101	104	75	84	86

*First quarter.

Source: Central Bank of Ceylon.

N.B. The Survey Mission considered that price increases of imports were overstated compared with the base period, and adjusting the official import price index, arrived at terms of trade about 10% higher.

Stat. Appendix -- 7.

Changes in the Quantity of Imports

Imports of various consumer goods in 1952 and average imports in 1934-38

	<u>1934-38</u>	<u>1952</u>
Beer (gallons)	311,345	723,486
Biscuits (lbs.)	636,311	1,119,507
Butter, frozen (lbs.)	649,237	1,404,468
Cheese (cwt.)	1,973	3,344
Confectionery (lbs.)	916,801	1,863,723
Fish, dried and salted (cwt.)	366,176	682,293
Fruits (cwt.)	23,020	44,577
Milk, preserved (lbs.)	3,383,053	10,969,672
Milk foods (lbs.)	629,231	7,581,856
Potatoes (cwt.)	242,092	856,480
Eggs (nos.)	794,000	31,051,000
Sugar refined (cwt.)	1,380,842	2,417,118
Tobacco, unmanufactured (lbs.)	1,181,102	2,049,628
Cotton piece goods, dyed (yds.)	29,345,261	37,253,111
Artificial silk (yds.)	3,507,106	45,695,942
Blankets (nos.)	8,041	125,520
Milk, skimmed (lbs.)	15,787	2,152,673
Sugar, unrefined (cwt.)	18,785	129,124
Fish, tinned (cwt.)	15,952	45,220
Jellies, marmelades (cwt.)	3,238	12,780
Tobacco, manufactured (lbs.)	109,911	1,684,565
Watches (nos.)	29,042	151,578
Cosmetics (cwt.)	5,104	15,037