

(f) Government Finance

The Financial Year 1959-60

The accounts of the Government of Ceylon for the financial year 1959-60, with corresponding data for previous financial years, are summarised in table II-42 on page 66. The main features of Government's budgetary operations as shown in this table are as follows :—

- (a) Total Government revenue in 1959-60 was Rs. 1,403·8 million as compared with Rs. 1,330·4 million in 1958-59 and Rs. 1,280·0 million in 1957-58.
- (b) Total voted expenditure in 1959-60 was Rs. 1,820·0 million as compared with Rs. 1,738·0 million in 1958-59 and Rs. 1,565·7 million in 1957-58. These figures of voted expenditure exclude contributions to sinking funds and book adjustments. In 1959-60 the figures also exclude the subscription of Rs. 37·0 million to I.M.F. financed by a special loan from the Central Bank.
- (c) Operations on advance accounts resulted in a net payment of Rs. 1·3 million as compared with a net payment of Rs. 5·8 million in 1958-59 and a net receipt of Rs. 63·4 million in 1957-58.
- (d) The net result of these operations was a cash deficit of Rs. 417·5 million as compared with deficits of Rs. 413·4 million in 1958-59 and Rs. 222·3 million in 1957-58.

The actual deficit of Rs. 417·5 million for 1959-60 exceeds the deficit planned in the original budget estimates by Rs. 49·6 million where as in 1958-59 the actual deficit of Rs. 413·4 million fell short of the original budget estimates by Rs. 82·6 million. The difference between the actual and budgeted deficits for 1959-60 is due largely to an excess of Rs. 139·8 million in expenditure chargeable to revenue offset by a short fall of Rs. 62·7 million in loan fund expenditure and an increase of Rs. 29·3 million in revenue.

Revenue.—Actual revenue in 1959-60 at Rs. 1,403·8 million was Rs. 73·4 million more than the actual revenue for 1958-59. Import duty collections were approximately Rs. 40 million more than in the previous year primarily on account of the higher duties introduced by the 1959-60 Budget. Substantial increases of import duties in respect of certain goods were made towards the end of the financial year, in August, 1960, but their impact on revenue would not have been felt substantially in the financial year.

The total revenue from export duties including the tea sales tax and the export licence on rubber* amounting to Rs. 326 million was of about the same order as in the previous year. The revenue from tea was about Rs. 40 million less than in 1958-59. As against this, revenue from rubber and coconut products showed increases of Rs. 36 million and Rs. 10 million respectively. The duty on rubber was raised twice in 1959 since the presentation of the budget estimates for 1959-60—from 20 cents to 28 cents per pound on September 9, 1959, and by a further 10 cents

* On November 11, 1959, the export duty on rubber was increased by 10 cents per lb. Since Parliament was dissolved before this increase could be ratified, it was replaced by an equivalent licence fee.

per pound on November 11, 1959. The export duties on coconut were increased by the budget for 1959-60. Export volumes were higher in the case of rubber and tea and lower in the case of coconut products.

The fall in the tea duty collections was due to the lower rate of duty resulting from the revision of the system of taxing tea exports in June, 1959, partly offset by an increase in the volume of tea exports. However, the fall in revenue from tea exports would be only Rs. 17.5 million when allowance is made for the subsidy payment of Rs. 22.5 million in 1958-59 under the Tea Small Holders Relief Scheme. With the revision of the system of tea duties in June, 1959, the Tea Small Holders Relief Scheme was abolished.

Excise revenue (net of the tea tax) was Rs. 28.3 million higher than in 1958-59 but revenue from income tax was about Rs. 5 million less. The collections from the personal taxes *i.e.*, taxes on wealth, gifts and expenditure, amounted to only Rs. 1.2 million as against the original estimate of Rs. 15 million.

The gross receipts of the Railway and Electrical Departments continued to show an increase, the Railway Department's revenue increasing from Rs. 81.5 million to Rs. 85.4 million and the Electrical Department's revenue increasing from Rs. 23.7 million to Rs. 24.7 million.

TABLE II—41
Expenditure of the Government

Rupees Million

Year	Current expenditure	Capital expenditure ⁽¹⁾ ⁽²⁾		
		Acquisition construction and maintenance of real assets	Loans to Government agencies	Total
1957-58	1,118.2	422.3	76.3	498.6
1958-59	1,274.4	443.2	49.8	493.0
1959-60 (Original estimates)	1,271.0	546.3	—	546.3
Actual (Provisional)	1,361.9	469.7	56.1	525.8
1960-61 (Original estimates)	1,464.0	503.5	19.4	522.9

Source : Central Bank of Ceylon.

⁽¹⁾ Capital expenditure includes expenditure on the creation, acquisition and 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), Agricultural and Industrial Credit Corporation, Local Loans and Development Fund 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.—Comparative data on current and capital expenditure for the years 1957-58 to 1960-61 are given in the table above. As compared with 1958-59 current expenditure shows an increase of Rs. 87 million. The available data indicates that the increase was largely in respect of the food subsidy (Rs. 46.5 million) and education (Rs. 40 million). As in previous years the largest single item of increase was the food subsidy bill which went up from Rs. 146.5 million in 1958-59 to Rs. 193.0 million in 1959-60. This was mainly due^(a) to the reduction

TABLE II—42

Government Net Cash Operating

	1951-52	1952-53
1. <i>Net Cash Operating Surplus or Deficit</i> (—)	— 257·1	— 231·9
A. Revenue	954·0	952·5
B. Expenditure (<i>i.e.</i> total payments excluding net receipt or payment on borrowing and lending operations) ..	— 1,211·1	— 1,184·4
(i) Expenditure chargeable to revenue excluding contributions to sinking fund and direct repayments of public debt from revenue (<i>vide</i> 2B(i))*	— 1,004·6	— 893·5
(Food subsidy)	(247·8)	(127·0)
(ii) Loan and Loan Fund expenditure (including advances for loan works)*	— 203·0	— 220·6
(iii) Expenditure chargeable to National Development Reserve	— 7·7	— 6·4
(iv) Advances to stores and materials account	— 16·8	— 2·4
(v) Other advances*	19·0	— 52·8
(vi) Miscellaneous	2·0	— 8·7
Financing of Deficit		
2. <i>Net Cash Receipts or Payments</i> (—) <i>resulting from Government Borrowing and lending operations</i> :	184·1	216·5
A. Administrative borrowing and repayment of borrowing (including sundry loans)	— 34·2	11·9
(i) Deposits (from suitors, contractors, etc. and includes the unexpended balance of foreign aid)	— 16·2	21·4
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.)	— 0·6	— 0·2
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.)	18·6	— 9·3
B. Domestic market borrowing and repayment of borrowing	— 218·3	204·6
(i) Rupee loans	102·4	80·0
<i>Less</i> Sinking Fund contributions and direct repayments of public debt from revenue	18·4	23·1
	84·0	56·9
(ii) Treasury bills	62·3	90·6
(iii) Central Bank advances	72·0	— 1·5
(iv) Tax reserve certificates	—	—
(v) Other†	—	58·6
C. Foreign borrowing	—	—
3. <i>Changes in cash balances (including readily realisable assets)</i>	— 73·0	— 15·4

*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).

Surplus/Deficit (—)

Rupees Million

1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60 ^(c)
33.7	127.6	— 1.2	— 196.4	— 222.3	— 413.4	— 417.5
1,026.2	1,158.6	1,257.2	1,260.5	1,280.0	1,330.4	1,403.8
— 992.5	— 1,031.0	— 1,258.4	— 1,456.9	— 1,502.3	— 1,743.8	— 1,821.3
— 772.0 (12.0)	— 864.9 ^(a) (36.0) ^(a)	— 1,014.4 (79.5)	— 1,105.2 (105.5)	— 1,280.1 (112.0)	— 1,432.2 (146.5)	— 1,511.9 ^(b) (193.0)
— 162.3	— 215.5	— 211.0	— 213.3	— 282.6	— 303.4	— 306.6
— 3.2	— 2.1	— 4.0	— 5.1	— 3.0	— 2.4	— 1.5
— 4.6	— 9.9	— 1.2	— 14.5	...	— 10.5	— 7.1
— 61.1	— 34.0 ^(a)	— 30.3	— 115.8	— 54.5	— 17.1	— 5.8
— 1.5	— 7.6	— 0.1	— 3.0	— 8.9	— 0.8	...
— 35.3	— 39.0	— 12.2	— 175.4	— 174.7	— 351.8	— 411.6
— 4.6	— 29.1	— 36.5	— 9.4	— 72.5	— 27.6	— 57.4
— 2.1	— 34.5	— 10.8	— 9.0	— 73.9	— 27.3	— 62.3
— 0.3	— 0.9	— 4.8	— 2.3	— 20.1	— 4.2	— 2.7
— 2.8	— 4.5	— 20.9	— 16.1	— 21.5	— 3.9	— 7.6
— 94.0	— 80.2	— 43.5	— 166.2	— 78.5	— 288.7	— 324.9
— 70.0	— 75.0	— 74.5	— 94.9	— 45.0	— 95.0	— 134.8
22.6	44.5	39.0	31.1	26.5	32.2	33.3
47.4	30.5	35.5	63.8	18.5	62.8	101.5
— 78.1	— 44.9	— 8.0	— 3.0	— 74.6	— 179.0	— 228.2
— 4.7	— 65.8	—	— 96.3	— 13.8	— 41.1	— 3.1 ^(b)
—	—	—	— 9.1	— 0.8	— 5.8	— 7.9
— 53.6	—	—	—	—	—	—
— 63.3	— 12.1	— 5.2	— 18.6	— 23.7	— 35.5	— 29.3
— 1.6	— 88.6	— 11.0	— 21.0	— 47.5	— 61.7	— 6.0

Source : Central Bank of Ceylon.

†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 **) the figures for 1954-55 have been revised to include it.

(b) Excludes a payment of Rs. 37.0 million on account of the enhanced contribution payable to the I.M.F. financed through a special loan from the Central Bank under the Bretton Woods Agreement Act.

(c) Provisional.

by 5 cents* per measure of the average retail price of rationed rice with effect from April 11, 1960, and (b) to increased purchases of paddy under the Guaranteed Price Scheme.

The landed cost of rice under contract from Burma at Rs. 530 per ton was the same as in the previous financial year while the average rupee price of rice imports under the U.S. PL. 480† fell from Rs. 800 per ton to Rs. 750 per ton. The average landed cost of sugar increased from Rs. 384 per ton in the previous financial year to Rs. 550 per ton. The average price of flour from all sources (including PL. 480 imports) increased from Rs. 406 per ton to Rs. 448 per ton.

Purchases of paddy under the Guaranteed Price Scheme amounted to 270,000 tons of rice equivalent as compared with 227,000 tons of rice equivalent for the financial year 1958-59. It should be noted that a substantial part of the total food subsidy represents a subsidy to the producer under the Guaranteed Price Scheme as measured by the difference between the Guaranteed Price of Rs. 12 per bushel of paddy and the average price of rice imports, which is much lower.

Capital Expenditure.—Capital expenditure of Rs. 525.8 million has exceeded the actual expenditure of 1958-59 by approximately Rs. 33 million. Direct expenditure on the acquisition, construction and maintenance of real assets amounts to Rs. 469.7 million as against Rs. 443.2 million in 1958-59. Available data indicate that the increase has occurred almost entirely in respect of economic services, *i.e.*, industry, agriculture and public utilities. Capital expenditure on defence shows a substantial fall. Loans to Government agencies show a slight increase from Rs. 49.8 million to Rs. 56.1 million.

Financing of the Cash Deficit.—The table shows the financing (by sources) and the net direct inflationary impact of the net cash operating deficit for 1959-60, with comparative data for the previous financial year.

TABLE II-43
Financing of the Deficit

Rupees Million

	1958-59	1959-60 (provisional)
1. Administrative borrowing	27.6	57.4
2. Foreign borrowing	35.5	29.3
3. Domestic market borrowing—non-bank sources (less contributions to sinking funds)	109.4	83.8
4. Domestic market borrowing—banking system	179.3	241.1
5. Decline in Government's cash balances	61.7	6.0
6. Net cash operating deficit	413.4	417.5
7. Decline in U.S. aid counterpart funds (—sign indicates increase)	— 52.5	4.0
8. Net inflationary impact of budget (4+5+7)	188.5	251.1

Source : Central Bank of Ceylon.

*Prior to April, 11, 1960, the price of the ration of two measures per week per person was 25 cents for the first measure and 35 cents for the second. With effect from April 11, 1960, the price for the second measure was reduced to 25 cents. Therefore the average price of rationed rice per measure fell from 30 cents to 25 cents.

†It should be noted that the purchase of rice and flour under the U.S. PL480 Agreement involves only a rupee payment. Further, a part of the rupee payment is returnable to the Ceylon Government as grants and long-term loans.

The specific sources of finance for the originally estimated budget deficit of Rs. 367·9 million for 1959-60 as announced by the Finance Minister were Rs. 116·7 million* from net domestic market borrowing and Rs. 125 million from foreign aid. A sum of Rs. 50 million was given as the expected receipt from "customary sources of finance". The subsequent expansion of current expenditure, the failure of the expectations of foreign aid and the fact that Government's cash balances were already depleted necessitated borrowing from the banking system on an even greater scale than in the previous financial year.

Borrowing from the banking system consisted almost entirely of an increase in the Treasury bill holdings of the Central Bank. Commercial banks' holdings of Government paper showed a very slight increase of Rs. 2·6 million, their holdings of rupee securities declining by Rs. 2·1 million and of Treasury bills increasing by Rs. 4·7 million.

In monetary analysis Government's contribution to the increase in the money supply is generally used as a rough measure of the direct inflationary impact of the budget. In previous Annual Reports this was measured by the net borrowing of the Government from the banking system plus the change in Government's cash balances. However, the system of counterpart funds connected with U.S. PL. 480 transactions necessitates a refinement in the computation of the direct inflationary impact of the budget. Payments by the Government for purchase of rice and flour made under U.S. PL. 480 Agreements are paid for by crediting the U.S. Aid counterpart fund account with the Central Bank. While such payments are accompanied by a corresponding decline in Government's cash balances, they are not immediately reflected in an increase in the money supply as they do not constitute a payment to the private sector. Such payments in fact have a deflationary impact. However, payments made to the public from the U.S. Aid counterpart fund account either directly as U.S. Government expenses and private sector investments or indirectly through disbursements from loans and grants made to the Ceylon Government exert an inflationary impact on the money supply. Hence, to get a correct measure of the inflationary impact of the budget in any period it is necessary to adjust for changes in the balance outstanding in the U.S. Aid counterpart fund account.

The 1959 Annual Report published a figure of Rs. 241 million as the direct inflationary impact of the budget in 1958-59. When this figure is adjusted for the change in the balance outstanding in the U.S. aid counterpart fund account the inflationary impact of the budget for 1958-59 works out at Rs. 188·5 million. The corresponding figure for 1959-60 is Rs. 251·1 million. PL. 480 transactions which exerted a deflationary impact of Rs. 52·5 million in 1958-59 had an expansionary impact of Rs. 4·0 million in 1959-60.

Domestic market borrowing from non-bank sources shows a decline from Rs. 109·4 million in 1958-59 to Rs. 83·8 million in 1959-60. This decline is largely due to the fact that surplus funds of departments and other official funds which are usually invested in the market were borrowed directly by the Treasury. If this

* The figure announced in the Budget Speech was Rs. 150 million. The figure of Rs. 116·7 million is derived by setting off the sinking fund contributions of Rs. 33·3 million against this, since sinking fund contributions are not included as expenditure in the computation of the net cash operating deficit.

figure amounting to Rs. 46.0 million, classified in the above table as administrative borrowing, is added on to domestic market borrowing from non-bank sources, it would show an increase of Rs. 20.4 million over the previous financial year. Net contributions to Government paper by the Employees' Provident Fund amounted to Rs. 49 million as against Rs. 5.5 million in 1958-59. Net contributions by savings institutions and insurance companies showed a decline of Rs. 17.1 million and Rs. 11.7 million respectively as against Rs. 30.4 million and Rs. 15.4 million respectively in 1958-59.

The total foreign aid (for capital expenditure) received in 1959-60 was Rs. 38.6 million consisting of Rs. 29.3 million of loans and Rs. 9.3 million of grants. As against this there were repayments of Rs. 10.7 million of sterling loans and Rs. 2.7 million of other foreign loans.

Public Debt

Data concerning public debt, both domestic and foreign, are shown in Table 23. (See Appendix.) The figures of total public debt as at the end of each of the last four financial years are given below.

TABLE II—44
Total Public Debt

End of September										<i>Rupees Million</i>	
										Gross	Net (less value of sinking funds)
1957	..	..	..	..	..	..	..	..	..	1,363.9	1,123.3
1958	..	..	..	..	..	..	..	..	..	1,495.4	1,212.1
1959	..	..	..	..	..	..	..	..	..	1,837.0	1,524.7
1960	..	..	..	..	..	..	..	..	..	2,230.5	1,913.5

Source : Central Bank of Ceylon.

The increases in the gross debt and the net debt during the financial year 1959-60 were Rs. 393.5 million and Rs. 388.8 million respectively. The corresponding figures for the year 1958-59 are Rs. 341.6 million and Rs. 312.6 million. The increase in the gross debt by Rs. 393.5 million consisted of a rise of Rs. 115.0 million in rupee securities, Rs. 130 million in Treasury bills, Rs. 40.1 million in Central Bank advances, and Rs. 16.3 million in foreign debt, while the volume of Tax reserve certificates fell by Rs. 7.9 million.

Rupee Securities.—There were six issues of rupee securities during the financial year 1959-60. One of them, the 2½ per cent 1965-67 loan, was partly a conversion loan providing for the conversion of the 2½ per cent Victory Loan 1955-60 repayable on July, 15 1960. The other five loans which were issued entirely for new money, were the 3½ per cent loan 1975-79 issued in October, 1959, the 3½ per cent loan 1976-80 issued in April, 1960, the 3½ per cent loan 1976-80 'B' series issued in May, 1960, the 3½ per cent loan 1976-80 'C' series issued in June, 1960, and the 3½ per cent loan 1976-80 'D' series issued in August, 1960. All the issues totalling Rs. 135.0 million were fully subscribed

A classification of the allotments of these loans is given below.

TABLE II—45

Rupees Million

Class of subscriber	3½% Loan	3½% Loan	3½% Loan	3½% Loan	2½% Loan		3½% Loan	Total	
	1975-79	1976-80	1976-80	1976-80	1965-67		1976-80		
			'B' series	'C' series	Con- version	Cash	'D' series	Amt.	%
Commercial banks	—	—	—	—	11.1	—	—	11.1	8.2
Co-operative provincial banks ..	0.2	0.4	0.4	0.6	—	0.2	0.6	2.4	1.8
Savings institutions	5.8	6.9	4.0	2.8	0.2	0.2	—	19.9	14.7
Sinking funds ..	12.2	1.2	10.5	3.5	—	—	1.6	29.0	21.5
Departmental and other official funds	1.4	2.0	0.4	0.3	0.5	0.5	0.2	5.3	3.5
Trusts, provident and pension funds	4.8	23.2	7.8	10.3	0.1	0.3	10.7	57.2	42.4
Insurance companies	0.2	1.2	1.8	2.3	—	1.8	1.6	8.9	6.6
Other companies ..	—	—	—	0.1	—	—	0.3	0.4	0.3
Individuals, clubs and institutions	0.4	0.1	0.1	0.1	—	0.1	—	0.8	0.6
Total ..	25.0	35.0	25.0	20.0	11.9	3.1	15.0	135.0	100.0

Source : Central Bank of Ceylon.

Treasury Bills.—As in 1958-59 the increase in the volume of Treasury bills constituted the largest component in the increase in the public debt during 1959-60. The volume of Treasury bills outstanding increased from Rs. 320.0 million at the end of September, 1959 to Rs. 550.0 million at the end of September, 1960. This increase was absorbed largely by the Central Bank.

During the financial year the authorised limit on Treasury bills was raised twice by resolution of Parliament. On October 29, 1959, the authorised limit was raised from Rs. 350.0 million to Rs. 450.0 million. On August 23, 1960, it was raised further to Rs. 650.0 million.

Foreign Debt.—The net increase in the gross foreign debt by Rs. 16.2 million comprised a net receipt of Rs. 26.6 million under foreign loan agreements offset by a repayment of a sterling loan amounting to Rs. 10.7 million. A breakdown of the total receipts of Rs. 26.6 million received under foreign loan agreements is given below :—

TABLE II—46

Rupees Million

I.B.R.D.	8.3
I.C.A.	11.4
D.L.F.	4.7
U.S.S.R.	1.1
China	3.7
Less repayments	— 2.7
	26.6

Source : Central Bank of Ceylon.

Sinking Funds.—The value of the sinking funds for the redemption of public debt stood at Rs. 317·5 million as at the close of the financial year 1959-60. Compared with figures for the financial year 1958-59 this registered an increase of Rs. 5·1 million. A sum of Rs. 30·8 million was withdrawn to repay a sterling loan of Rs. 10·7 million and the 2½ per cent victory loan 1955-60 amounting to Rs. 20·1 million. The increase in the volume of the sinking funds despite this withdrawal was due to the half-yearly contributions from the Consolidated Fund and interest received on sinking fund investments.

Public Debt Business.—A statement of the volume of business transacted by the Department of Public Debt for the last five years is given below :—

TABLE II—47
Volume of Business Transacted by the Department of Public Debt

Government financial year	Local loans raised	Local loans repaid	Interest warrants issued		Turnover of business in transfers, etc.	Amount of sinking fund money invested
			No.	Amount		
	Rs.	Rs.		Rs.		Rs.
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
1959-60 ..	195,000,000	55,239,200	6,448	33,914,621	318,109,900	21,530,408

Source : Central Bank of Ceylon.

Borrowing by Semi-Government Institutions.—There was one issue of National Housing debentures in May, 1960, to the value of Rs. 5·0 million, carrying interest at 3½ per cent per annum repayable in 1976-80. The allotment of this issue is as follows :—

TABLE II—48

	Amount (Rs. million)	Percentage
Co-operative banks	0·1	2·0
Sinking funds	3·1	62·0
Savings institutions	1·7	34·0
Trusts, provident and pension funds	0·1	2·0
Individuals .. .. .	...	...
	5·0	100·0

Source : Central Bank of Ceylon.

There were no issues of State Mortgage Bank debentures in 1959-60. The Bank met its cash requirements by obtaining overdrafts from commercial banks to the extent of Rs. 7·5 million.

The Budget 1960-61

The original estimates of revenue and expenditure for 1960-61, as approved by Parliament are as follows :—

TABLE II—49

*Original Budget Estimates 1960-61**Ruppes Million*

Current expenditure	1,500.1
Capital expenditure (budgetary)	496.1
Total expenditure	1,996.2
Total revenue	1,633.9
Estimated budget deficit	362.3
Less estimated sinking fund contributions.. .. .	—36.1
Estimated net cash operating deficit	326.2

Source : Central Bank of Ceylon.

The sources of finance indicated by the Finance Minister were Rs. 240 million from domestic market borrowing, and Rs. 100 million from foreign aid.

Revenue :—The estimated revenue of Rs. 1,633.9 million includes an estimate of Rs. 130 million from new taxes. The new tax measures include a land tax estimated to yield Rs. 15 million, a business names registration tax estimated to yield Rs. 50 million, a tax on company share capital estimated to yield Rs. 10 million, a surcharge on income tax estimated to yield Rs. 30 million and a tax on visa holders estimated to yield Rs. 15 million. The Budget also announced a reduction of duty in respect of a number of imports which enter into domestic industrial production.

The revenue estimates for 1960/61 also show increases of Rs. 26.6 million in import duties, Rs. 17.8 million in personal taxes and Rs. 45.5 million in income tax and a fall of Rs. 11.8 million in export duties (including the tea tax) as compared with the actuals of 1959/60.

After the presentation of the Budget Estimates to Parliament, the export duty on rubber was reduced from 38 cents per pound to 28 cents per pound on November 24, 1960 and to 20 cents per pound on February 16, 1961. These reductions of duty should involve a short-fall of approximately Rs. 26 million in export duty revenue. As against this, however, there should be an increase in import duty collections on account of the duty increases of January, 1961.

However, in view of the fact that legislation for the new taxes had not been passed by the end of 1960, it is too early to assess the extent to which the estimated revenue will be realised.

Current Expenditure :—Estimated current expenditure (exclusive of sinking fund contributions) at Rs. 1,464.0 million exceeds actual current expenditure and the originally estimated expenditure for 1959/60 by Rs. 102 million and Rs. 193 million respectively. Sufficient details of the current expenditure for 1959/60 are not yet available to permit a comparison between the actual performance in 1959/60 and the planned expenditure of 1960/61. However, as compared with the original estimates for 1959/60 the main increases are in respect of the food subsidy (Rs. 92 million), social services (Rs. 30 million) and economic services (Rs. 11 million).

In January, 1961, the Government imposed a 10 per cent cut in the voted amounts in respect of certain items of recurrent expenditure. A saving of approximately Rs. 15-20 million is expected as a result of this measure.

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.