

(f) Government Finance

The Financial Year 1960-61:-

Table II -42 shows in summary the accounts of the Government of Ceylon for the financial year October, 1960 to September, 1961, with corresponding data for previous years. As shown therein the main features of the budgetary operations are as follows:—

- (a) Total revenue in 1960-61 was Rs 1,513.9 million as compared with Rs 1,403.8 million in 1959-60 and Rs 1,330.4 million in 1958-59.
- (b) Total voted expenditure in 1960-61 was Rs 1954.0 million, as compared with Rs 1,820.0 million in 1959/60 and Rs 1,738.0 million in 1958-59. These figures of total 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 the International Monetary Fund financed by a special loan from the Central Bank.
- (c) Operations on advance accounts resulted in a net payment of Rs 14.2 million during 1960-61 as compared with net payments of Rs. 1.3 million in 1959-60 and Rs. 5.8 million in 1958-59.
- (d) The net result of these operations was a net cash operating deficit of Rs 454.3 million in 1960/61 as compared with deficits of Rs 417.5 million in 1959-60 and Rs 413.4 million in 1958-59.

The actual net cash operating deficit of Rs.454.3 million exceeds the deficit of Rs.326.1 million* planned in the original budget estimates by Rs.128.2 million.

The difference between the actual deficit and the estimated deficit is accounted for mainly by actual revenue falling short of originally estimated revenue by Rs.120.0 million. This shortfall was largely in respect of the revenue from the new taxes introduced by the 1960-61 budget. There was also an excess of Rs.8.1 million in expenditure over the original estimates.

This experience of 1960-61 is in one respect in sharp contrast to the experience of the two previous financial years. In 1959-60 and in 1958-59 too the actual deficits exceeded the deficit, as originally estimated. However, in both these years, the reason behind this was a large excess in respect of actual current expenditure as compared with the original estimates. In 1959-60 actual revenue was in excess of the original estimate while in 1958-59 it was of the same order. The fact that the failure of budgetary expectations in 1960-61 arose out of a substantial shortfall in the estimated revenue provides a significant departure from recent experience.

* The deficit announced in the Budget Speech for 1960-61 was Rs. 340.0 million. With the additions to expenditure made during the committee stage, the original budget estimates as approved by Parliament provided for a gross deficit of Rs. 362.3 million. The net cash operating deficit of Rs 326.2 million is derived from this figure by excluding estimated contributions to sinking fund amounting to Rs. 36.1 million.

The figures for 1958-59 and 1959-60 also reveal a substantial shortfall in actual capital expenditure as compared with the original estimates. In 1960/61 the original estimate of capital expenditure provided for a 25 per cent under expenditure and there was only a slight shortfall.

Revenue:—Total Government revenue in 1960-61 was Rs. 1,513.9 million. This exceeds the actual revenue for 1959-60 by Rs. 110.1 million. This increase is accounted for mainly by higher yields of import duties, the income tax and the personal taxes. The revenue from the land tax introduced in 1960-61 was also a contributory factor.

The main changes in revenue in 1960-61 as compared with the actual revenue for 1959-60 and the original estimates for 1960-61 are as follows:—

TABLE—II—41

Rupees. Million			
	Original Estimates 1960-61	Actual 1960-61	Actual 1959-60
1. Export duties	337.7	303.6	327.2
(a) Tea (including tea tax)	218.3	213.4	218.0
(b) Rubber (including rubber export licence fee)	80.0	54.3	79.7
(c) Coconut	33.6	30.4	25.7
2. Import duties	430.9	435.3	406.5
3. Income tax (excluding surcharge)	205.0	229.9	189.5
Surcharge	30.0	28.9	—
4. Personal taxes (Wealth, Expenditure & Gifts taxes)	19.0	11.8	1.2
5. New taxes introduced in 1960-61 Budget	93.0	17.1	—
(a) Land Tax	15.0	7.9	—
(b) Business Names Registration Tax	50.0	3.3	—
(c) Share Capital Tax	10.0	2.4	—
(d) Professions Tax	3.0	—	—
(e) Visa Tax	15.0	3.5	—

Source: Central Bank of Ceylon.

Export duty revenue fell short of the original estimate by Rs. 34.1 million. The shortfall was in respect of rubber (Rs. 25.7 million), tea (Rs. 4.9 million) and coconut (Rs. 3.2 million). The export duties on both rubber and coconut were reduced during the year, consequent to a deterioration in their prices. The export duty on rubber was reduced from 0.38 cents per pound to 0.30 cents per pound in November 1960 and to 0.20 cents per pound in February 1961. The export duties on copra, coconut oil and desiccated coconut were reduced from Rs. 245, Rs. 185 and Rs. 140 per ton respectively to Rs. 185, Rs. 140 and Rs. 100 per ton respectively on May 22, 1961.

The performance in respect of import duties which yielded Rs. 435.3 million, i. e., Rs. 28.8 million more than in 1959-60, was roughly in accordance with the original estimates of revenue from this source. The higher yield of import duties as compared with 1959-60 was accounted for mainly by textiles (Rs. 10.5 million) motor spirits and liquid fuel (Rs. 18.7 million) tobacco and cigarettes (Rs. 3.8 million) and other goods (Rs. 8.7 million). The import duties on transport equipment brought in Rs. 8.5 million less than in 1959-60. Towards the end of the previous financial year i. e., in August, 1960, higher duties had been introduced in respect of a wide range of imports together with

TABLE II-42

Government Net Cash Operating

	1951-52	1952-53
1. Net Cash Operating Surplus/Deficit (—)	257.1	231.9
A. Revenue	954.0	952.5
B. Expenditure (i. e. total payments excluding net receipt or payment on borrowing and lending operations)	1,211.1	1,184.4
(i) Recurrent expenditure excluding contributions to sinking fund and direct repayments of public debt from revenue (vide 2B(i)* (Food Subsidy)	1,004.6	893.5
(ii) Capital expenditure*	(247.8)	(127.0)
(iii) Expenditure chargeable to National Development Reserve	203.0	220.6
(iv) Advances to stores and materials account	7.7	6.4
(v) Other advances*	16.8	2.4
(vi) Miscellaneous	19.0	52.8
Financing of Deficit	2.0	8.7
2. Net Cash Receipts or Payments (—) resulting from Government borrowing and lending operations:		
A. Administrative borrowing and repayment of borrowing (including sundry loans)	184.1	216.5
(i) Deposits (from suitors, contractors, etc. and includes the unexpended balance of foreign aid)	34.2	11.9
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.)	16.2	21.4
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.)	0.6	0.2
B. Domestic market borrowing and repayment of borrowing	18.6	9.3
(i) Rupee loans	218.3	204.6
Less Sinking Fund contributions and direct repayments of public debt from revenue	102.4	80.0
	18.4	23.1
(ii) Treasury bills	84.0	56.9
(iii) Central Bank advances	62.3	90.6
(iv) Tax reserve certificates	72.0	1.5
(v) Other+	—	58.6
C. Foreign borrowing	—	—
3. Changes in cash balances (including readily realisable assets).	73.0	—15.4

*From the 1960-61 Budget Estimates onwards the practice of classifying expenditure into "Expenditure chargeable to Revenue" and Expenditure chargeable to Loan Funds" has been discontinued. Instead Government's total expenditure is divided into four categories viz., personal emoluments, administration charges, services provided by departments and economic development and each of the last three categories is further divided into recurrent expenditure and capital expenditure. Thus Government's total expenditure is divided into seven votes. In this table the total expenditure falling under the personal emoluments and recurrent expenditure votes viz., votes 1, 2, 4 and 6 and the total of the Capital Expenditure votes viz., 3, 5 and 7 are shown separately as recurrent expenditure and capital expenditure respectively. Since a similar classification is not available for years prior to 1960-61, expenditure chargeable to revenue and expenditure chargeable to loan funds are assumed to be comparable to recurrent expenditure and capital expenditure respectively.

Excludes book adjustments (debits and credits) arising from transfer to recurrent expenditure and capital expenditure of advances for loan works and losses on advance account

Surplus/Deficit (—)

Rupees Million

1953—54	1954—55	1955—56	1956—57	1957—58	1958—59	1959—60	1960—61 (c)
33.7	127.6	— 1.2	— 196.4	— 222.3	— 413.4	— 417.5	— 454.3
1,026.2	1,158.6	1,257.2	1,260.5	1,280.0	1,330.4	1,403.8	1,513.9
— 992.5	— 1,031.0	— 1,258.4	— 1,456.9	— 1,502.3	— 1,743.8	— 1,821.3	— 1,968.2
— 772.0	— 864.9 (a)	— 1,014.4	— 1,105.2	— 1,280.1	— 1,432.2	— 1,511.9 (b)	— 1,540.8
(12.0)	(36.0) (a)	(79.5)	(105.5)	(112.0)	(146.5)	(193.0)	(248.0)
— 162.3	— 215.5	— 211.0	— 213.3	— 282.6	— 303.4	— 306.6	— 411.7
— 3.2	— 2.1	— 4.0	— 5.1	— 3.0	— 2.4	— 1.5	— 1.5
4.6	9.9	1.2	14.5	...	10.5	7.1	1.9
— 61.1	34.0	— 30.3	115.8	54.5	17.1	5.8	15.9
1.5	7.6	0.1	3.0	8.9	0.8	...	0.2
— 35.3	— 39.0	12.2	175.4	174.7	351.8	411.6	454.3
— 4.6	29.1	— 36.5	9.4	72.5	27.6	57.4	34.5
— 2.1	34.5	— 10.8	9.0	73.9	27.3	62.3	41.6
0.3	0.9	— 4.8	2.3	20.1	4.2	2.7	1.0
— 2.8	— 4.5	— 20.9	— 16.1	— 21.5	— 3.9	— 7.6	— 6.1
— 94.0	— 80.2	43.5	166.2	78.5	288.7	324.9	403.5
70.0	75.0	74.5	94.9	45.0	95.0	134.8	214.9
22.6	44.5	39.0	31.1	26.5	32.2	33.3	35.1
47.4	30.5	35.5	63.8	18.5	62.8	101.5	179.8
— 78.1	— 44.9	8.0	— 3.0	74.6	179.0	228.2	198.4
— 4.7	— 65.8	—	96.3	— 13.8	41.1	3.1 (b)	20.6 (b)
—	—	—	9.1	— 0.8	5.8	7.9	4.7
— 58.6	—	—	—	—	—	—	—
63.3	12.1	5.2	18.6	23.7	35.5	29.3	16.3
— 1.6	88.6	11.0	— 21.0	— 47.5	— 61.7	— 6.0	...

Source: Central Bank of Ceylon.

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.

+ 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 recurrent expenditure 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. in 1959-60 and Rs. 2.2 million to meet payments to the I. B. R. D. and I. D. A. in 1960-61 financed through special loans from the Central Bank.

(c) Provisional.

quantitative controls on textiles and watches. These measures were strengthened in January, 1961, by further quantitative controls and the imposition of a general import duty of 5 per cent on all imports excluding foodstuffs.

The increase in income tax revenue (excluding the surcharge) over 1959-60 reflects partly the growth of export incomes (net of export duties) between 1958 and 1959. The growth of incomes in the domestic sector may also have been a contributory factor.

The substantial discrepancy between the actual and estimated revenue from the new taxes introduced by the 1960-61 Budget are attributable largely to the delays involved in legislation. It should be noted that with respect to 1960-61, the Budget which is usually presented to Parliament in July was delayed till September since the new Government took office only towards the end of July. Further, the new taxes which departed from the traditional lines of taxation, involved fresh legislation. In the case of most of the new taxes, legislation was finalised only towards the end of the financial year. There is in addition, the problem of accurate estimation of revenue in the case of taxes being introduced for the first time.

Current Expenditure:—Data on current and capital expenditure for the years 1958-59 to 1961-62 are given in the following table.

TABLE II-43
Expenditure of the Government

Year	Current expenditure (1)	Capital Expenditure (2)		
		Acquisition, construction and maintenance of real assets	Loans to Government Agencies	Total
1958-59	1,274.4	443.2	49.8	493.0
1959-60	1,365.4	440.1	55.6	495.7
1960-61 (Original estimates)	1,464.0	503.5	19.4	522.9
(Actual, provisional)	1,480.7	464.7	50.7	515.4
1961-62 (Original estimates)	1,450.3	580.6	59.9	640.5

Source: Central Bank of Geylon

- (1) Current expenditure is derived by deducting the value of sinking fund contributions and expenditure of a capital nature (such as maintenance expenditure and purchase of durable goods) from the total of the Recurrent Expenditure votes (1, 2, 4 and 6).
- (2) 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, 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. Capital expenditure is made up of the expenditure under the capital expenditure votes (i. e. votes 3, 5 and 7), expenditure chargeable to foreign loans such as the I. B. R. D. loan, capital items in the recurrent expenditure votes and extra budgetary outlays such as the rubber and tea replanting subsidy expenditure, Electrical Department Reserve expenditure, foreign aid expenditure etc. Extra budgetary outlays amount to Rs. 29.3 million in 1958-59, Rs. 38.9 million in 1959-60, Rs. 23.6 million (estimate) and Rs. 42.3 million (provisional) in 1960-61 and Rs. 33.6 million in 1961-62.

The provisional figure of actual current expenditure for 1960-61 shows an increase of Rs. 115.3 million when compared with the figure for 1959-60. The major increases in expenditure during 1960-61 were on food subsidies (Rs. 55.0 million), servicing of public debt (Rs. 16.8 million) and pensions (Rs. 5.8 million). The food subsidy bill increased from Rs. 193.0 million to Rs. 248.0 million. The increase in the food subsidy bill was due partly to the larger quantity of paddy bought under the Guaranteed Price Scheme and partly to the lower retail price of rice under the ration.*

The average landed cost of rice from Burma remained at Rs. 530/= per long ton as in the previous year. The average landed cost of wheat flour under PL 480† increased from Rs. 500/= per long ton in 1960-61 to Rs. 515/= per long ton in 1961-62. The purchases of flour from other sources were at approximately the same prices as in 1960-61. The landed cost of flour from Australia, the major supplier, remained at Rs. 460 per ton.

Total purchases of paddy in 1960-61 under the Guaranteed Price Scheme were 23,990,587 bushels, the rice equivalent of this being 326,272 tons. The Government purchased paddy equivalent to 270,000 tons of rice under the Guaranteed Price Scheme during 1959-60.

Capital Expenditure:—Capital expenditure (including extra-budgetary outlays) during 1960-61 at Rs. 515.4 million exceeded the capital expenditure for 1959-60 by Rs. 19.7 million. Expenditure on the acquisition, construction and maintenance of real assets was Rs. 464.7 million. Loans to government agencies amounted to Rs. 50.7 million.

The corresponding figures for 1959-60 were Rs. 440.1 million and Rs. 55.6 million respectively. Available data indicate that the increase has occurred in the capital expenditure on economic services, mainly in the votes of agriculture, irrigation and industries.

Financing the Cash Deficit:—The table below shows the financing (by sources) and the consequent net expansionary impact of the net cash operating deficit for 1960-61, with comparative data for the previous financial year.

* 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 45 cents for the second measure. With effect from April 11, 1960, the price of the second measure was reduced to 25 cents. Therefore the average price of rationed rice per measure fell from 35 cents to 25 cents.

† The purchase of rice and flour under the U. S. PL. 480 Agreement involves only a rupee payment. A part of the rupee payment is returnable to the Ceylon Government as a grant.

TABLE II—44

Financing of the Deficit

Rupees Million

	1959-60	1960-61 (Provisional)
1. Administrative borrowing	57.4	34.5
2. Foreign borrowing	29.3	16.3
3. Domestic market borrowing from non-bank sources..	117.1	197.3
Less sinking fund contributions	-33.3	-35.1
4. Domestic market borrowing-banking system	83.8	162.2
5. Decline in Government's cash balances	241.1	241.4
6. Net cash operating deficit	6.0	—
7. Decline in U. S. aid counterpart funds	417.5	454.3
(-sign indicates increase)	4.0	-7.5
8. Net expansionary impact of budget (4+5+7)	251.1	233.9

Source: Central Bank of Ceylon

The specific sources of finance for the originally estimated net cash operating deficit of Rs. 326.0 million* as announced by the Finance Minister were Rs. 204.0 million* from domestic market borrowing and Rs. 100.0 million from foreign aid. There was no provision for credit creation for financing the budget deficit, except in so far as probably long-term rupee security purchases of commercial banks were included in the above figure of domestic market borrowing. However, a substantial shortfall in revenue and in foreign aid together with a slight excess of current expenditure resulted in borrowing from the banking system of the same magnitude as in 1959-60.

Borrowing from the banking system amounting to Rs. 241.4 million consisted mainly of Treasury bill purchases of the Central Bank and commercial banks amounting to Rs. 222.4 million. Direct Central Bank advances to Government amounted to Rs. 20.6 million. Treasury bill purchases by the Central Bank amounted to Rs. 185.0 million. Commercial banks purchased Treasury bills amounting to Rs. 37.3 million. They also purchased Tax Reserve Certificates amounting to Rs. 1.3 million while their holdings of rupee securities declined by Rs. 1.5 million. In 1959-60, commercial banks acquired Rs. 4.8 million worth of Treasury bills, while they reduced their holdings of rupee securities by Rs. 2.1 million.

There was no change in the cash balances of the Government during 1960-61. The balance outstanding to the credit of the U. S. aid counterpart fund account increased by Rs. 7.5 million during 1960-61. As explained in last year's Annual Report this increase may be equated to an increase in the Government's cash balances in calculating the net expansionary impact of the fiscal operations of the government.

* The figures set out in the Budget proposals were Rs. 362.3 million and Rs. 240.0 million. The figures of Rs. 326.2 million and Rs. 204.0 million are derived by setting off contributions to sinking funds of Rs. 36.1 million against this, since contributions to sinking funds are not included as expenditure in the computation of the net cash operating deficit.

On the basis of the above figures the net expansionary impact of government's fiscal operations during 1960-61 was Rs. 233.9 million. The corresponding figure for 1959-60 was Rs. 251.1 million.

The figures of net market borrowing from domestic non-bank sources for the years 1959-60 and 1960-61 are not directly comparable because in 1959-60, a substantial amount of surplus funds of departments and other official agencies, which are usually invested in the market was borrowed directly by the Treasury and shown in the above table under administrative borrowing. In 1959-60, this amounted to Rs. 46.0 million. The corresponding figure for 1960-61 is Rs. 3.3 million. Taking these figures into account, the adjusted figures of domestic market borrowing from non-bank sources for 1959-60 and 1960-61 are Rs. 129.8 million and Rs. 165.5 million respectively i. e., an increase of approximately Rs. 36.0 million. The increased contributions came largely from companies, savings institutions, insurance companies, the Employees' Provident Fund and clubs and institutions. Sinking fund contributions to new government paper showed a decline during the year. Clubs and institutions contributed Rs.15.1 million during 1960-61 while in 1959-60 they reduced their holdings by Rs.0.7 million. The Employees' Provident Fund invested Rs. 7.6 million more in government paper in 1960-61 than in 1959-60. Semi-government savings institutions increased their holdings of government paper by Rs. 22.8 million during 1960-61 while in 1959-60 the corresponding figure was Rs. 17.1 million. Insurance companies contributed Rs. 3.5 million more to government loans in 1960-61 than in 1959-60. Other companies increased their holdings by Rs. 10.4 million while in 1959-60 they reduced their holdings by Rs. 8.1 million.

Foreign aid for capital expenditure received in 1960-61 amounted to Rs. 29.6 million, as against a receipt of Rs. 38.6 million in 1959-60. The receipt of Rs. 29.6 million consisted of loans amounting to Rs. 16.3 million and grants amounting to Rs. 13.3 million. Foreign loans repaid during the year amounted to Rs. 2.9 million.

Public Debt (1):— Data concerning public debt, both domestic and foreign are shown in Table see Appendix. The figures of total public debt as at the end of each of the last five financial years, are given below:—

TABLE II-45.
Total Public Debt

							Rupees Million	
End of September							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	..	..	..	..	..	..	2,230.4	1,912.8
1961	..	..	..	..	..	..	2,651.0	2,332.7

Source: Central Bank of Ceylon

(1) These figures of public debt exclude National Housing Debentures amounting to Rs. 70 million.

The increase in the gross debt and the net debt during the financial year 1960-61 was Rs. 420.6 million and Rs. 419.9 million respectively. The corresponding figures for the year 1959-60 are Rs. 393.5 million and Rs. 388.8 million. The increase in the gross debt by Rs. 420.6 million consisted of a rise of Rs. 179.8 million in rupee securities, Rs. 200 million in Treasury bills, Rs. 22.8 million in Central Bank advances, Rs. 4.7 million in Tax Reserve Certificates and Rs. 13.4 million in foreign debt.

Rupee securities:—The following table shows the total value of loans raised and repaid during the last five years:

TABLE II—46

						Rupees	
Financial year						Loans raised	Loans repaid
1956-57	..	..	..	..	..	95,000,000	15,093,200
1957-58	..	..	..	..	..	79,474,400	56,143,700
1958-59	..	..	..	..	..	120,416,800	35,025,200
1959-60	..	..	..	..	..	195,000,000	55,239,200
1960-61	..	..	..	..	..	269,583,200	89,748,800

Source: Central Bank of Ceylon

There were ten issues of rupee securities during the financial year 1960-61. Of these the 3 per cent Loan, 1965-67 and the 4½ per cent Loan, 1981-85 partly provided for reinvestment of the maturing 2½ per cent. National Development Loan, 1955-60 amounting to Rs. 35.2 million. Reinvestments amounted to Rs. 30.4 million. The 3 per cent Loan, 1964-66 and 4½ per cent Loan, 1982-86, 'E' Series provided for the conversion of the 3½ per cent Loan 1959-60 amounting to Rs. 54.6 million for the redemption of which there had been no sinking fund provision.

The other six loans which were issued entirely for cash, were the 4½ per cent Loan, 1981-85 'B' Series, issued in December 1960, the 4½ per cent, Loan, 1982-86, issued in January, 1961, the 4½ per cent Loan 1982-86, 'B' Series issued in February 1961, the 4½ per cent Loan 1982-86 'C' Series, issued in May, 1961, 4½ per cent. Loan 1982-86, 'D' Series issued in July, 1961, and the 4½ per cent. Loan 1982-86, 'F' Series, issued in September, 1961. All the issues totalling Rs. 269.6 million were fully subscribed. A classification of the allotments of these loans is shown in Table No. II-47.

Treasury Bills:—As in the two previous financial years the increase in the volume of Treasury Bills constituted the largest component in the increase in the public debt during 1960-61. The volume of Treasury Bills outstanding increased from Rs. 550.0 million at the end of September, 1960, to Rs. 750.0 million at the end of September, 1961. The increase was absorbed largely by the Central Bank.

During the financial year 1960-61 the authorised limit on Treasury Bills was raised by resolution of Parliament on 8th June, 1961, from Rs. 650.0 million to Rs. 750.0 million.

TABLE-II-47

Classification of allotments of Government Securities-1960-61

Rupees Million

Class of Subscriber	3% Loan 1965-67		4% Loan 1981-85		4½% Loan 1981-85 "B" Series	4½% Loan, 1982-86	4½% Loan, 1982-86 'B' Series	4½% Loan, 1982-86 'C' Series	4½% Loan, 1982-86 'D' Series	3% Loan, 1964-66		4½% Loan, 1982-86 'E' Series		4½% Loan, 1982-86 'F' Series	Total	
	Rein-vest ment (1)	Cash	Rein-vest ment (1)	Cash						Rein-vest ment (2)	Cash	Rein-vest ment (2)	Cash		Amount	%
Commercial banks	9.2	1.2	18.9	1.4	—	—	—	—	—	2.5	—	2.3	0.5	2.0	38.0	14.1
Co-operative provincial banks.. ..	—	—	—	—	1.4	0.6	—	—	—	—	—	0.1	0.1	—	2.2	0.8
Savings institutions	—	—	0.7	8.6	5.7	2.2	1.7	1.1	4.0	—	—	31.5	0.2	—	55.7	20.7
Sinking funds	—	—	—	—	—	6.7	16.5	7.2	7.0	—	—	—	—	6.7	44.1	16.4
Departmental and other official funds	—	1.0	—	1.2	1.4	1.1	...	1.6	0.3	—	—	0.6	—	0.2	7.4	2.7
Trusts, provident and pension funds:																
(1) Employees' Provident Fund ..	—	—	—	5.1	6.7	6.8	9.3	9.0	7.4	—	0.2	3.3	1.1	7.7	56.6	21.0
(2) Others	0.1	1.5	0.1	6.4	5.7	5.7	2.2	3.8	5.2	0.1	—	1.4	1.0	1.5	34.7	12.9
Insurance companies	—	0.4	...	0.6	3.8	1.3	2.3	2.3	0.2	3.1	1.8	2.8	1.1	1.5	21.2	7.9
Other companies	0.3	1.6	...	—	—	0.1	—	—	—	—	—	—	—	—	2.0	0.7
Individuals, clubs and institutions ..	—	0.1	1.1	0.6	0.2	0.5	2.9	0.1	1.0	0.1	—	0.7	0.2	0.4	7.9	2.9
Total	9.6	5.8	20.8	23.9	25.0	25.0	35.0	25.0	25.0	5.8	2.0	42.7	4.1	20.0	269.6	100.0

Source: Central Bank of Ceylon.

(99)

- (1) Investment in the new loans by surrendering the stock of the maturing 2½% National Development Loan 1955/60.
 (2) Investment in the new loans by surrendering the stock of the maturing 3½ per cent, Loan, 1959-60.

Foreign Debt:—The increase in the gross foreign debt by Rs. 13.4 million comprised a receipt of Rs. 16.3 million under foreign loan agreements offset by repayments of Rs. 2.5 million of IBRD loans and Rs. 0.4 million of D. L. F. loans. A breakdown by sources of the total foreign borrowing is given below:—

TABLE II — 48
Foreign Borrowing

			Rs. Million
International Bank for Reconstruction and Development	..	..	11.7
International Co-operation Administration (United States)	..	..	0.8
United States Development Loan Fund	..	..	2.0
U. S. S. R.	..	..	1.8
			16.3
Less repayment	..	..	-2.9
			13.4

Source: Central Bank of Ceylon

Sinking Funds:—The value of sinking funds for the redemption of public debt stood at Rs. 318.3 million as at the close of the financial year 1960-61. Compared with the figures as at the close of the financial year 1959-60 this registered an increase of Rs. 0.8 million. A sum of Rs. 35.2 million was withdrawn to repay the 2½ per cent National Development Loan 1955-60 which matured in 1960. The budgetary contributions for sinking funds for the year amounted to Rs. 32.8 million and interest earnings of investments amounted to Rs. 11.2 million. The market value of investments held by sinking funds showed a book loss of Rs. 7.9 million.

Borrowing by Semi-Government Institutions:—There were no issues of National Housing Debentures in 1960-61, but the Government provided a direct loan of Rs. 10.0 million to the National Housing Commissioner in June, 1961, bringing the total of direct loans by the Government to the National Housing Commissioner to Rs. 30.0 million. The total National Housing Debentures issued and outstanding remained at Rs. 70.0 million. The actual market value of sinking funds established for the redemption of National Housing Debentures was Rs. 11.8 million as at the end of the financial year.

There was one issue of State Mortgage Bank debentures of Rs. 5.0 million in January, 1961. The Bank continued to have recourse to overdrafts from the commercial banks to carry out its operations. The limit to total indebtedness of the Bank which was Rs. 50.0 million in 1959-60 was increased to Rs. 60.0 million by the Minister under Section 35 of State Mortgage Bank Act, in May, 1961. The debentures issued and outstanding amounted to Rs. 45.8 million while the overdrafts guaranteed and outstanding amounted to Rs. 9.3 million as at September 30, 1961.

The Budget 1961-62

The original estimates of revenue and expenditure for 1961-62, as approved by Parliament, are as follows :

TABLE II—49
Original Budget Estimates 1961-62

				Rupees Million
Recurrent expenditure (i.e. votes 1, 2, 4 and 6)	..	..	1,623.3	
Less 2½ per cent under-expenditure	..	..	40.6	1,582.7
Capital expenditure (budgetary) (i.e. votes 3, 5 and 7)	..	..	615.8	
Less 15 per cent under-expenditure	..	..	92.4	523.4
Total expenditure	..	..		2,106.1
Total revenue	..	..		1,776.7
Estimated budget deficit	..	..		329.4
Less sinking fund contributions	..	..		48.9
Estimated net cash operating deficit	..	..		280.5

Source: Central Bank of Ceylon

The sources of finance indicated by the Minister of Finance were Rs. 151.0 million* from domestic market borrowing and Rs. 140.0 million from foreign aid.

Revenue:— The original estimate of revenue for 1961-62 of Rs. 1,776.7 million includes an estimated yield of approximately Rs. 175.0 million from the new tax measures introduced by the budget for 1961-62. The principal new tax measures include a National Development Tax estimated to yield Rs. 25.0 million, a Sales Tax estimated to yield Rs. 45.0 million, a registration tax on self employed persons estimated to yield Rs. 36.7 million and a 100 per cent surtax on income above a specified ceiling estimated to yield Rs. 1.0 million and higher taxes on both imported and locally produced liquor and tobacco. There were in addition amendments to the wealth, land and income taxes which by extending the base of these taxes are expected to increase the revenue from these sources. The Registration Tax on self employed persons replaces the Business Names Registration Tax and the Professions Tax.

*The figure announced by the Finance Minister was Rs. 200.0 million. Rs. 151.1 million is derived by deducting sinking fund contributions amounting to Rs. 48.9 million from this figure, as sinking fund contributions are not regarded as expenditure in the computation of the net cash operating deficit.

The present indications are that actual revenue for 1961-62 will be less than the original estimate of Rs. 1,776.7 million. The deterioration of the tea and rubber markets should affect the revenue from these products, while the higher duties and controls on imports are expected to reduce somewhat the revenue from import duties. The yields from the new taxes too may not come up to expectations on account of administrative difficulties. The Sales Tax which was estimated to yield Rs. 45.0 million has yet to be introduced.

Current expenditure :—The estimated recurrent expenditure for 1961-62 (i.e., the total of votes 1, 2, 4 and 6) after allowing for an anticipated under expenditure of $2\frac{1}{2}$ per cent amounts to Rs. 1,582.7 million. When sinking fund contributions amounting to Rs. 48.9 million and capital items in the recurrent expenditure votes amounting to Rs. 83.5 million are excluded total current expenditure amounts to Rs. 1,450.3 million. This figure is Rs. 13.7 million less than the original estimates and Rs. 30.4 million less than the actual expenditure for 1960-61. Expenditure on social services is estimated to be Rs. 20.5 million more than the original estimate for 1960-61. The decrease in total current expenditure is largely on account of the lower estimated food subsidy bill which, on account of the increases in the retail price of flour and white sugar and a lower purchase price of sugar, is expected to be Rs. 171.4 million for 1961-62. The actual food subsidy for 1960-61 was Rs. 248.0 million.

Capital expenditure :—The original estimates of capital expenditure (i.e. the total of votes 3, 5 and 7) after allowing for an under-expenditure of 15 per cent amounts to Rs. 523.4 million. When capital items in the recurrent votes amounting to Rs. 83.5 million and other extra-budgetary capital expenditure amounting to Rs. 33.6 million are included Government's total capital expenditure amounts to Rs. 640.5 million which is Rs. 117.6 million higher than the original estimate and Rs. 125.1 million more than the actual capital expenditure for 1960-61. As compared with the original estimates for 1960-61 the main increases have occurred in respect of education, housing economic services and loans to Government agencies such as the Port (Cargo) Corporation, the Ceylon Transport Board etc.

Financing of the Deficit :— The estimated receipt of Rs. 200.0 million from domestic market borrowing presumably refers to medium and long term borrowing. It compares with the actual receipt of Rs. 215.0 million obtained from both bank and non-bank investors by the issue of government rupee securities in 1960-61. In the first five months of the financial year, the receipt from medium and long term borrowing was about Rs. 65.0 million.

Of the estimated receipt of Rs. 140.0 million from foreign aid Rs. 123.0 million is based on agreements which have already been negotiated. This includes direct foreign aid to the value of Rs. 115.0 million and releases from U. S. Counterpart Funds amounting to Rs. 8.0 million.