

(G) GOVERNMENT FINANCE

The Financial Year 1961-62

Table II G- 1 shows in summary the accounts of the Government of Ceylon for the financial year October, 1961 to September, 1962, with corresponding data for previous years. As shown therein the main features of Government's budgetary operations were as follows:—

- (a) Total revenue in 1961/62 was Rs. 1625.3 million¹ as compared with Rs. 1513.9 million in 1960/61 and Rs. 1403.8 million in 1959/60.
- (b) Total voted expenditure in 1961/62 was Rs. 2067.6 million² as compared with Rs. 1962.2 million in 1960/61 and Rs. 1820.0 million in 1959/60. These figures exclude contributions to sinking funds, direct repayments of public debt from revenue and book adjustments.³ 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. 14.6 million as compared with net payments of Rs. 14.2 million in 1960/61 and Rs. 1.3 million in 1959/60.
- (d) The net cash operating deficit resulting from these operations was Rs. 456.9 million as compared with Rs. 462.5 million in 1960/61 and Rs. 417.5 million in 1959/60.

The actual net cash operating deficit of Rs. 456.9 million exceeds the originally estimated deficit of Rs. 280.5 million⁴ by Rs. 176.4 million. In 1960/61 the actual deficit exceeded the original budget estimate by Rs. 136.4 million.

As in 1960/61 the difference between the actual deficit and the estimated deficit arose mainly out of a shortfall in revenue. The shortfall in revenue amounted to Rs. 151.4 million as against Rs. 120 million in 1960/61. The shortfall in revenue was however partly offset by a shortfall in capital expenditure amounting to Rs. 37.5 million.

Revenue

Table 18 of Appendix shows the original estimate and actual revenue for 1961/62 by the main heads of revenue. Total Government revenue in 1961/62 at Rs. 1625.3 million exceeds the actual revenue for 1960/61 by Rs. 111.4 million as compared with the increase of Rs. 110.1 million registered in 1960/61 over the previous year.

1. This figure differs from the published figure in the Government Accounts in that it excludes the sum of Rs. 20.6 million being the transfer to revenue from the National Flood Relief Fund but includes the revenue of Rs. 18.6 million from the National Development Tax which has been treated in the Government Accounts as a credit to a special fund.
2. Voted expenditure includes all expenditure chargeable to foreign loans and grants. In the past expenditures financed out of foreign grants, mainly Colombo Plan and U.S. Aid were treated as extra-budgetary expenditures.
3. See foot-note to Table II G-1
4. The deficit announced in the Budget Speech for 1961/62, was Rs. 340 million. With the amendments made during the Committee Stage, the original budget estimates as approved by Parliament provided for a gross deficit of Rs. 329.4 million. The estimated net cash operating deficit of Rs. 280.5 million is derived from this figure by excluding estimated contributions to sinking fund and repayments of foreign loans amounting to Rs. 48.9 million.

TABLE II G — 1

Government Net Cash Operating

	1951-52	1952-53	1953-54
1. Net Cash Operating Surplus/Deficit (-) ..	- 257.1	- 231.9	33.7
A. Revenue ..	954.0	952.5	1,026.2
B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations): ..	- 1,211.1	- 1,184.4	- 992.5
(i) Recurrent expenditure excluding contributions to sinking fund and direct repayments of public debt from revenue (vide 2B(i))* ..	- 1,004.6	- 893.5	- 772.0
(Food subsidy) ..	(247.8)	- (127.0)	(12.0)
(ii) Capital expenditure* ..	- 203.0	- 220.6	- 162.3
(iii) Expenditure chargeable to National Development Reserve ..	- 7.7	- 6.4	- 3.2
(iv) Advances to stores and materials account ..	- 16.8	- 2.4	4.6
(v) Other advances* ..	19.0	- 52.8	- 61.1
(vi) Miscellaneous ..	2.0	- 8.7	1.5
Financing of Deficit			
2. Net Cash Receipts or Payments (-) resulting from Government borrowing and lending operations and receipts of foreign grants: ..	184.1	216.5	- 35.3
A. Administrative borrowing and repayment of borrowing (including sundry loans): ..	- 34.2	11.9	- 4.6
(i) Deposits (from suitors, contractors, etc. and includes the unexpended balance of foreign aid upto 1959-60) ..	- 16.2	21.4	- 2.1
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.) ..	- 0.6	- 0.2	0.3
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.) ..	18.6	- 9.3	- 2.8
B. Domestic market borrowing and repayment of borrowing: ..	218.3	204.6	- 94.0
(i) Rupee loans ..	102.4	80.0	70.0
Less contributions to sinking fund and direct repayments of public debt from revenue ..	18.4	23.1	22.6
(ii) Treasury bills ..	84.0	56.9	47.4
(iii) Central Bank advances ..	62.3	90.6	- 78.1
(iv) Tax reserve certificates ..	72.0	- 1.5	- 4.7
(v) Other† ..	—	58.6	58.6
C. Foreign finance: ..	—	—	63.3
(i) Loans ..	—	—	63.3
Less Repayments ..	—	—	—
(ii) Grants ..	—	—	63.3
3. Changes in cash balances (including readily realisable assets) ..	- 73.0	- 15.4	- 1.6

*From the 1960-61 financial year onwards the practice of classifying expenditure into discontinued. Instead Government's total expenditure is divided into four categories viz., development and each of the last three categories is further divided into recurrent expenditure. In this table the total expenditure falling under the personal emoluments and recurrent viz., 3, 5 and 7 are shown separately as recurrent expenditure and capital expenditure chargeable to revenue and expenditure chargeable to loan funds are assumed to be comparable. Excludes book adjustments (debits and credits) arising from transfer to recurrent expenditure incurred and financed in previous financial years. Hence the figures will not tally with the †Loans from semi-government agencies.

- (a) An amount of Rs 36.0 million representing the food subsidy bill for 1954-55 was transferred is excluded from the figures for 1953-59 (vide note*) the figures for 1954-55 have been revised
- (b) Excludes a payment of Rs. 37.0 million on account of the enhanced contribution payable to and Rs. 0.2 million to meet payments to the I.D.A. financed through special loans from the
- (c) Capital expenditure chargeable to foreign grants have been brought within the budget from Report as they have been revised to include expenditure chargeable to foreign grants. Prior Treasury as a source of budgetary finance, were included under administrative borrowing.
- (d) Provisional.
- (e) This figure differs from the published figure in the Government Accounts in that it excludes but includes the revenue of Rs. 18.6 million from the National Development Tax which has

Surplus/Deficit (—)

Rupees Million

1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61(c)	1961-62(d)
127.6	- 1.2	- 196.4	- 222.3	- 413.4	- 417.5	- 462.5	- 456.9
1,158.6	1,257.2	1,260.5	1,280.0	1,330.4	1,403.8	1,513.9	1,625.3(e)
-1,031.0	-1,258.4	-1,456.9	-1,502.3	-1,743.8	-1,821.3	-1,976.4	-2,082.2
-864.9(a)	-1,014.4	-1,105.2	-1,280.1	-1,432.2	-1,511.9(b)	-1,540.8	-1,581.0
(36.0)(a)	(79.5)	(105.5)	(112.0)	(146.5)	(193.0)	(248.0)	(235.4)
-215.5(a)	- 211.0	- 213.3	- 282.6	- 303.4	- 306.6	- 419.9	- 485.9
- 2.1	- 4.0	- 5.1	- 3.0	- 2.4	- 1.5	- 1.5	- 0.7
9.9	1.2	14.5	—	10.5	7.1	1.9	2.4
34.0	30.3	115.8	54.5	17.1	5.8	15.9	15.8
7.6	0.1	3.0	8.9	0.8	—	0.2	1.2
- 39.0	12.2	175.4	174.7	351.8	411.6	462.5	497.1
29.1	- 36.5	- 9.4	72.5	27.6	57.4	29.4	104.5
34.5	- 10.8	9.0	73.9	27.3	62.3	36.5	98.4
- 0.9	- 4.8	- 2.3	20.1	4.2	2.7	- 1.0	4.8
- 4.5	- 20.9	- 16.1	- 21.5	- 3.9	- 7.6	- 6.1	1.3
- 80.2	43.5	166.2	78.5	291.2	327.6	406.5	334.4
75.0	74.5	94.9	45.0	95.0	134.8	214.9	145.0
44.5	39.0	31.1	26.5	29.7	30.6	32.1	39.5
30.5	35.5	63.8	18.5	65.3	104.2	182.8	105.5
- 44.9	8.0	- 3.0	74.6	179.0	228.2	198.4	248.0
- 65.8	—	96.3	- 13.8	41.1	3.1(b)	20.6(b)	21.0
—	—	9.1	- 0.8	5.8	- 7.9	4.7	1.9
—	—	—	—	—	—	—	—
12.1	5.2	18.6	23.7	33.0	26.6	26.6	58.2
12.1	5.2	18.6	23.7	35.5	29.3	16.3	44.5
—	—	—	—	2.5	2.7	3.0	5.3
12.1	5.2	18.6	23.7	33.0	26.6	13.3	39.2
—	—	—	—	—	—	13.3	19.0
88.6	11.0	- 21.0	- 47.5	- 61.7	- 6.0	...	40.2

Source: Central Bank of Ceylon.

“Expenditure chargeable to Revenue” and “Expenditure chargeable to Loan Funds” has been personal emoluments, administration charges, services provided by departments and economic and capital expenditure. Thus Government's total expenditure is divided into seven votes, expenditure votes viz., votes 1, 2, 4 and 6 and the total of the Capital Expenditure votes pectively. Since a similar classification is not available for years prior to 1960-61, expenditure ble to recurrent expenditure and capital expenditure respectively.

and capital expenditure of advances for loan works and losses on advance account activities figures published in the Accounts of the Government of Ceylon.

from advance accounts to recurrent expenditure in 1958-59. While this book adjustment to include it.

the I.M.F. in 1959-60 and Rs. 2.2 million to meet payment to the I.B.R.D. and I.D.A. in 1960-61 Central Bank.

1960-61 onwards. Figures for 1960-61 differ from the figures published in the 1961 Annual to 1960-61 only the unexpended balances of foreign grants, which were available to the

a sum of Rs. 20.6 million being the transfer to revenue from the National Flood Relief Fund been treated in the Government Accounts as a credit to the National Development Fund.

The increase over 1960/61 is accounted for mainly by import duties (Rs. 30 million) excise revenue, mainly arrack and tobacco (Rs. 33 million) and the national development tax (Rs. 19 million). Export duty revenue showed a decline of Rs. 11 million.

As compared with the original estimate for 1961/62, however, actual revenue has fallen short by Rs. 151.4 million. This shortfall is accounted for mainly by the sales tax (Rs. 45 million), registration tax on professions and businesses (Rs. 34 million), income tax, including the surcharge (Rs. 19 million), import duties (Rs. 21 million), electrical department revenue (Rs. 13 million) and national development tax (Rs. 6 million).

The main changes in revenue in 1961/62 as compared with the actual revenue for 1960/61 and the original estimate for 1961/62 are as follows :—

TABLE II G-2

Rupees Million

	Original Estima- tes 1961/ 62	Actual 1961/62	Actual 1960/61	Change in 1961/ 62 over 1960/61	Excess or short-fall in 1961/ 62 in re- lation to original estimates
1. Export duties	295	292	303	- 11	- 3
(a) Tea (including tea tax)	222	226	213	+ 13	+ 4
(b) Rubber (including rubber export licence fee)	46	30	54	- 24	- 16
(c) Coconut	22	31	30	+ 1	+ 9
2. Import duties	486	465	435	+ 30	- 21
(a) Cotton textiles	18	25	21	+ 4	+ 7
(b) Liquor	16	14	12	+ 2	- 2
(c) Tobacco and cigarettes	91	52	62	- 10	- 39
(d) Other goods	170	192	160	+ 32	+ 22
3. Income tax (excluding surcharge)	242	232	230	+ 2	- 10
Surcharge	40	31	29	+ 2	- 9
4. Expenditure, Wealth & Gifts taxes	16	12	12	0	- 4
5. Profit from sale of arrack	72	72	65	+ 7	0
6. Tobacco tax	60	63	45	+ 18	+ 3
7. Tax on heavy oil motor vehicles	12	9	2	+ 7	- 3
8. Electrical Department revenue	45	32	27	+ 5	- 13
9. New taxes introduced in 1960/61 Budget					
(a) Land tax	12	12	8	+ 4	0
(b) Registration of Professions & Businesses tax	37	3	3	0	- 34
(c) Share capital tax	6	2	2	0	- 4
(d) Visa tax	6	6	3	+ 3	0
10. New taxes introduced in 1961/62 Budget					
(a) Sales tax (not implemented)	45	0.1	—	+ 0.1	- 45
(b) National development tax	25	19	—	+ 19	- 6
(c) Rice ration book tax	5	0.1	—	0	- 5
(d) Surtax	1	0	—	0	- 1
11. Other revenue	372	375	350	+ 25	+ 3
Total	1,777	1,625	1,514	+ 111	- 152

Source: Central Bank of Ceylon.

Revenue from export duties was lower by Rs. 11 million as compared with 1960/61. This was a result of rubber duty revenue being less by Rs. 24 million compensated by an increase of Rs. 13 million in tea revenue and Rs. 1 million in coconut revenue.

The specific duty on rubber was replaced by a sliding scale on November, 24, 1961. Consequent to the deteriorated position of the rubber market the switchover to the sliding scale was combined with a duty reduction; the effective rate of duty on the adoption of the sliding scale being -/13 cts. per lb. as against the former specific duty of -/20 cts. per lb. In the case of tea and coconuts the revenue increase was largely due to the increased export volumes.

Import duty revenue was Rs. 30 million higher than in the previous year. The revenue increase was concentrated in the customs category of "other goods". The higher revenue from this source is attributable to the duty increases imposed from time to time. In January, 1961 a general import duty of 5 per cent was imposed on goods other than foodstuffs. The full impact on revenue of this measure was felt only in 1961/62. Import duties on selective items were further increased in July 1962 by the 1962/63 Budget. A 20 per cent increase on the existing rates of duty was imposed in August, 1962 in lieu of the withdrawn Sales Tax. The revenue from tobacco and cigarette imports registered a decline of Rs. 10 million on account of reduced imports following the higher duties imposed by the 1961/62 Budget. It should be noted that the revenue from tobacco and cigarettes has fallen short of the original estimate by Rs. 39 million. Obviously the original estimate based on the higher duties had been an over-estimate which did not take into account a decline in consumption. There was however a compensatory increase of Rs. 18 million in the revenue from the local tobacco tax. This tax too had been increased in the 1961/62 Budget.

The taxes introduced in the 1960/61 Budget yielded only Rs. 7 million more in 1961/62, their total revenue being only Rs. 23 million as against an estimated Rs. 61 million. The shortfall was almost entirely in respect of the Registration of Professions and Businesses tax which yielded only Rs. 3 million as against an estimated Rs. 37 million. Professions and businesses earning an annual income of less than Rs. 3600 per annum, which were included for this tax in the original estimate, were exempted in the final legislation. This and administrative delays could be regarded as contributing to the shortfall in the revenue from this source.

Of the new taxes introduced by the 1961/62 Budget, the National Development Tax yielded Rs. 19 million as against an estimated Rs. 25 million. The Sales Tax which was estimated to yield Rs. 45 million in 1961/62 was not introduced till after the 1962/63 Budget was presented at the end of July 1962. However, after being in force for two days it was withdrawn to be replaced by a 20 per cent increase on existing rates of import duty on a wide range of goods.

Current Expenditure:—

Data on current and capital expenditure for the years 1959-60 to 1962-63 are given in the following table:—

TABLE II G - 3
Expenditure of the Government

(Rupees million)

Year	Current Expenditure (1)	Capital Expenditure (2)		
		Acquisition construction and maintenance of real assets	Loans to Government agencies	Total
1959-60	1,365.4	440.1	55.6	495.7
1960-61	1,471.3	471.9	47.2	519.1
1961-62 (Original estimates) ..	1,450.3	580.6	59.9	640.5
(Actual, provisional) ..	1,495.4	513.0	83.0	596.0
1962-63 (Original estimates) ..	1,585.4	560.5	9.8	570.3

Source: Central Bank of Ceylon.

- 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., the Port (Cargo) Corporation and the Local Loans and Development Fund. 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 aid, both loans and grants, capital items in the recurrent expenditure votes and extra-budgetary outlays such as the rubber and tea replanting subsidy expenditure, Electrical Department Reserve expenditure, etc. Extra-budgetary outlays amount to Rs. 38.9 million in 1959-60, Rs. 28.3 million in 1960-61, Rs. 33.6 million (estimate) and Rs. 18.0 million (provisional) in 1961-62 and Rs. 24.0 million in 1962-63.

Provisional figures of actual current expenditure show an increase of Rs. 24.1 million over the previous year as compared with increases of Rs. 105.9 million in 1960-61 and Rs. 91.0 million in 1959-60. The smaller increase in current expenditure in 1961-62 was entirely due to the lower food subsidy bill. The increase in the food subsidy bill was the major cause of the increase in current expenditure in the two previous years. Increases in expenditure on pensions, interest on public debt and education were partly offset by the fall in the food subsidy bill.

The food subsidy bill amounted to Rs. 235.4 million in 1961-62 as compared with Rs. 248.0 million in 1960-61, Rs. 193.0 million in 1959-60 and Rs. 146.5 million in 1958-59. An increase of Rs. 38.9 million in the profit from flour and sugar was partly offset by an increase of Rs. 26.8 million in the subsidy on rice. The higher profit from flour is attributable to the increase by 5 cts. per pound in the price of flour i.e. from 23 cts. to 28 cts. per pound effected by the 1961-62 Budget.

In the case of sugar there was a sharp fall in the purchase price of white sugar and only white sugar was imported and distributed in 1961-62. This automatically resulted in a higher profit as white sugar was being sold at a price 7 cts. above that of raw sugar. The retail selling price of white sugar was raised by 5 cents per pound by the 1961-62 Budget, but the old price was subsequently restored in December 1961. The increase in the total subsidy on rice (both consumer and producer subsidy) was considerably lower than the increase in previous years. This is accounted for by a reduction in the sales of rationed rice (by Government to retail distributors) and a smaller increase than in previous years in purchases under the Guaranteed Price Scheme. The reduced volume of sales of rationed rice is attributable partly to a lower level of stock holding by retail distributors as a result of Government policy and partly to the surrender of rice ration books by income tax payers in order to obtain relief from the rice ration book tax which was introduced by the 1961/62 Budget.

Purchases of paddy under the Guaranteed Price Scheme during 1961/62 amounted to 25,065,890 bushels or the equivalent of 341,032 tons of rice, as compared with 326,272 tons in 1960-61 and 270,000 tons in 1959-60.

The average landed cost of rice from Burma was Rs. 535 per ton as compared with Rs. 530 during the previous year. The purchase price of flour from Australia, the major supplier, remained at the same level as in the previous year. The average landed cost of white sugar declined from Rs. 565 per ton to Rs. 500 per ton in 1961/62.

Capital Expenditure

Total capital expenditure for 1961/62 at Rs. 596.0 million was Rs. 76.9 million higher than the expenditure for the previous year. Loans to Government agencies increased by Rs. 35.8 million while expenditure on the acquisition, construction and maintenance of real assets increased by Rs. 41.1 million. Available data indicate that the major increases have occurred in respect of public utilities and agriculture, irrigation and fisheries.

Financing of the Deficit

The table below shows the financing (by sources) and the consequent expansionary impact of the net cash operating deficit for 1961/62, with comparative data for the previous financial year.

TABLE II G-4

Financing of the Deficit

	Rupees Million			
	1960-61		1961-62 (Provisional)	
1. Administrative borrowing		29.4		104.5
2. Foreign finance: (a) Loans:				
(i) Gross amount borrowed	16.3		44.5	
(ii) Less repayments	3.0	13.3	5.3	39.2
(b) Grants		13.3	19.0	58.2
3. Domestic market borrowing from non-bank sources :				
(a) Gross amount borrowed		197.3		147.3
(b) Less contributions to sinking fund		32.1		39.5
4. Domestic market borrowing from the banking system		241.4		226.6
5. Decline in Government cash balances (—sign indicates an increase)		nil		—40.2
6. Net cash operating deficit		462.5*		456.9
7. Decline in U.S. aid counterpart funds (—sign indicates an increase)		—7.5		4.0
8. Net expansionary impact of budget (4+ 5+ 7)		233.9		190.4

Source: Central Bank of Ceylon.

* Revised to include capital expenditure chargeable to foreign grants which has been brought into the budget from 1960-61 onwards.

The sources of finance for the originally estimated net cash operating deficit of Rs. 280.5 million† indicated in the Budget Speech were Rs. 162 million† from domestic market borrowing and Rs. 129 million† from foreign aid. The actual net cash operating deficit on account of the reasons mentioned earlier in this section was Rs. 456.9 million. This substantial expansion in the size of the deficit above the anticipated figure together with a shortfall in domestic market borrowing resulted in a considerable amount of borrowing from the banking system. However, the substantial amount of funds accruing to the Treasury by way of deposits by the public and unexpended balances of corporations kept in deposit with the Treasury (see administrative borrowing above) caused bank borrowing to be less than what it would otherwise have been.

In the event the net expansionary impact of the budget as adjusted for the change in U.S. aid counterpart funds was somewhat less than in the previous financial year, amounting to Rs. 190.4 million as against Rs. 233.9 million in 1960/61. The corresponding figure for 1959/60 was Rs. 251.1 million.

Of the total sum of Rs. 226.6 million borrowed from the banking system, Rs. 162 million came from the Central Bank and Rs. 64.5 million from the commercial banks. Direct Central Bank advances declined by Rs. 21.0 million. Treasury bill

† The figures according to the Budget Estimates were Rs. 329.4 million, Rs. 200 million and Rs. 140 million respectively. The figures of Rs. 280.5 million, Rs. 162 million and Rs. 129 million are derived by setting off contributions to sinking fund of Rs. 38.0 million and foreign loan repayments of Rs. 10.9 million against these figures, since they are not included as expenditure in the computation of the net cash operating deficit.

purchases by the Central Bank amounted to Rs. 183.9 million. Commercial banks purchased Treasury bills amounting to Rs. 42.0 million and rupee loans amounting to Rs. 23.1 million, while their holdings of Tax Reserve Certificates declined by Rs. 0.6 million. In 1960/61 commercial bank investments in Government securities amounted to Rs. 37.1 million consisting of Rs. 37.3 million of Treasury bills, and Rs. 1.3 million of Tax Reserve Certificates offset by a decline of Rs. 1.5 million in rupee securities.

Government's cash balances which were negligible at the beginning of the financial year increased by Rs. 40.2 million.

Foreign aid for capital expenditure received in 1961/62 amounted to Rs. 63.5 million as against Rs. 29.6 million in 1960/61 and Rs. 38.6 million in 1959/60. Foreign loan repayments during the three years amounted to Rs. 5.3 million, Rs. 3.0 million and Rs. 2.7 million respectively. It should be noted that the shortfall in the realization of foreign aid as against the budgetary expectation makes little difference with respect to the financing of the deficit where the receipt of aid is matched by an equivalent amount of capital expenditure. This is particularly true where aid is received in the form of equipment. The details of foreign aid received in 1961/62 are as follows:—

TABLE II G-5

Loans :

							Rupees Million		
							<i>Amount borrowed</i>	<i>Amount repaid</i>	<i>Net receipt</i>
I.B.R.D.	..	..	..	..	..	..	29.5	3.9	25.6
Canada	..	..	..	..	..	..	—	0.3	—0.3
China	..	..	..	..	..	..	—	1.0	—1.0
U.K.	..	..	..	..	..	..	3.3	—	3.3
U.S.A.	..	..	..	..	..	..	8.2	—	8.2
U.S.S.R.	..	..	..	..	..	..	3.4	—	3.4
							44.5	5.3	39.2

Grants :

Colombo Plan :

(1) Australia	..	..	..	..	..	..	—
(2) Canada	..	..	..	..	..	..	5.2		
(3) New Zealand	..	..	..	..	..	..	—

China	..	..	..	..	..	..		5.2	
Germany	..	..	..	..	..	..		8.3	
U.S.A.	..	..	..	..	..	..		4.8	
								0.8	

19.0

Source : Central Bank of Ceylon.

Domestic market borrowing from non-bank sources showed a significant decline from Rs. 165.2 million in 1960/61 to Rs. 107.8 million in 1961/62.

The decline in the demand for Government securities was widespread affecting both institutional and non-institutional investors. The Employees' Provident Fund was perhaps the only exception, increasing its annual investment in Government

securities by Rs. 4 million i.e. from Rs. 55.5 million in 1960/61 to Rs. 59.4 million in 1961/62. The changes in respect of the other major investor groups are as follows:—

TABLE II G - 6

Rupees Million

	1960/61	1961/62	Net change
1. Savings institutions	22.8	12.5	—10.3
2. Provident and pension funds (other than E.P.F.) ..	33.7	25.0	— 8.7
3. Insurance companies	15.2	10.1	— 5.1
4. Other companies	10.4	— 7.4	—17.8
5. Clubs and institutions	15.1	— 1.4	—16.5
6. Individuals	2.5	1.7	— 0.8

Source: Central Bank of Ceylon.

The decline in the demand for Government securities on the part of non-bank investors in 1961/62 may be attributable to certain special circumstances operating in that year. The fact that privately owned time and savings deposits of commercial banks increased by Rs. 42.7 million in 1961/62 as against a decline of Rs. 2.0 million in 1960/61 suggests that the fall in contributions to Government securities from non-bank sources was not due to a general decline in savings. In part, however, the increase in time and savings deposits of commercial banks would appear to represent a shift from investments in Government securities. In September, 1961 most commercial banks increased the rate offered on fixed deposits of Rs. 25,000 and above to 3 per cent.

In the case of companies and provident and pension funds, business uncertainties and import controls—involving retrenchment of staff in some cases—could have provided an additional liquidity motive in the shift away from long term investments to time deposits. In the case of insurance companies, the private companies ceased to do new life business with effect from January 1, 1962. The state-owned Insurance Corporation which commenced business on the same day was not in a position to sustain the flow of funds from this source as it had a need to build up a margin of working capital and liquid reserves. Thus a temporary drop in the flow of funds from this source was inevitable. The temporary suspension of bank credit facilities on account of the unsettled banking situation in the early part of the year could also have been a contributory factor to the reduced response to Government securities.

The major sources of administrative borrowing were money order funds in transit (Rs. 17.9 million), Ceylon Transport Board (Rs. 22.0 million) and other Government agencies (Rs. 50.8 million).

Public Debt ⁽¹⁾ :—Data concerning public debt, both domestic and foreign are shown in Table 23 see Appendix II. The figures of total public debt as at the end of each of the last five financial years, are given below :—

TABLE II G-7

Total Public Debt

Rupees Million

End of September								Gross	Net (less value of sinking funds)
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
1962	..	..	..	..	..	..	3,037.8	2,686.1

Source: Central Bank of Ceylon.

- (1). These figures of public debt exclude National Housing Debentures amounting to Rs. 70 million and State Mortgage Bank Debentures amounting to Rs. 45.8 million as at the end of September, 1962.

The increase in the gross debt and the net debt during the financial year 1961-62 was Rs. 386.8 million and Rs. 353.4 million respectively. The corresponding figures for the year 1960/61 are Rs. 420.6 million and Rs. 419.9 million. The increase in the gross debt by Rs. 386.8 million consisted of a rise of Rs. 118.7 million in rupee securities, Rs. 250.0 million in treasury bills, Rs. 1.9 million in Tax Reserve Certificates and Rs. 37.1 million in foreign debt. There was a repayment of Rs. 20.9 million in Central Bank advances.

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

TABLE II G-8

Rupees

Financial Year								Loans raised	Loans repaid
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
1961-62	..	..	..	..	..	..	193,699,600	75,000,000

Source: Central Bank of Ceylon.

There were ten issues of rupee securities during the financial year 1961-62. Of these the 3½ per cent Loan 1965-67, the 3½ per cent Loan 1967-72 and the 4¼ per cent Loan 1983-87 'B' Series were issued in conversion of Rs. 48.7 million of the 2½% Loan 1960-62 which matured during the year. Stock of the maturing loan amounting to Rs. 41.7 million was surrendered in payment for stock of the three new loans. The balance of Rs. 7.0 million was subscribed for in cash.

The other seven loans which were issued entirely for cash were the 4¼ per cent Loan 1982/86 'G' Series issued in October, 1961, the 4¼ per cent Loan 1982/86 'H' Series issued in December 1961, the 4¼ per cent Loan 1983/87 issued in February 1962, the 4¼ per cent Loan 1983/87 'C' Series issued in May, 1962, the 4¼ per cent Loan, 1983/87 'D' Series issued in June/July 1962 and the 4¼ per cent Loan 1983/87 'E' Series and the 3¼ per cent Loan, 1965/67 'B' Series both issued in August/September 1962. All the issues totalling Rs. 193.7 million were fully subscribed. A classification of the allotments of these loans is shown in Table No. II G—9.

Treasury Bills :—As in recent financial years the increase in the volume of Treasury bills constituted the largest component in the increase in the public debt during 1961-62. The volume of Treasury bills outstanding increased from Rs. 750.0 million at the end of September 1961 to Rs. 1,000.0 million at the end of September, 1962. The increase was absorbed largely by the Central Bank. The holdings of Treasury bills by the Central Bank as at the end of September, 1962 was Rs. 864.4 million as compared with Rs. 680.0 million at the end of September, 1961.

During the financial year 1961-62 the authorised limit on Treasury bills was raised by resolution of Parliament on 14th December, 1961, from Rs. 750.0 million to Rs. 1,000.0 million.

Foreign Debt :—The increase in the gross foreign debt by Rs. 37.6 million comprised a receipt of Rs. 44.5 million under foreign loan agreements offset by repayments of Rs. 3.9 million of I.B.R.D. loans, Rs. 1.0 million of Chinese loan, Rs. 1.3 million of Canadian loan and Rs. 0.7 million of D.L.F. loans. A breakdown by sources of the total foreign borrowing is given in Table No. II G—10.

TABLE II G-9
Classification of allotments of Government Securities 1961-62

Rupees Million

	4½% Loan, 1982-86 'G' Series	4½% Loan, 1982-86 'H' Series	4½% Loan, 1983-87	3½% Loan, 1965-67†		3½% Loan 1967-72†		4½% Loan 1983-87 'B' Series†		4½% Loan, 1983-87 'C' Series	4½% Loan 1983-87 'D' Series	3½% Loan, 1965-67 'B' Series	4½% Loan, 1983-87 'E' Series	Total	
				Reinvestment*	Cash	Reinvestment*	Cash	Reinvestment*	Cash					Amount	Per cent age
Commercial banks ..	—	—	—	19.6	5.3	14.9	0.1	—	—	—	—	23.3	—	63.2	32.6
Co-operative provincial banks ..	0.1	0.3	—	—	—	—	—	—	—	—	—	—	0.2	0.6	0.3
Savings institutions ..	1.3	3.6	0.3	—	—	—	—	1.1	—	2.3	4.0	—	1.4	14.0	7.2
Sinking funds ..	4.9	5.3	6.2	—	—	—	—	—	—	—	—	—	—	16.4	8.5
Departmental and other official funds ..	1.3	2.2	...	—	—	—	—	0.9	—	0.5	1.1	—	—	6.0	3.1
Trusts, provident and pension funds:—															
1. Employees' Provident Fund ..	6.0	8.5	7.9	—	—	—	—	—	0.3	15.0	10.6	—	5.7	54.0	27.9
2. Other ..	5.6	4.5	4.1	0.4	—	0.1	...	1.7	0.2	1.8	2.8	2.6	2.9	26.7	13.8
Insurance companies ..	0.6	0.6	1.5	0.9	0.3	...	1.4	—	—	0.3	1.4	1.8	1.5	10.3	5.3
Other companies ..	—	—	—	0.1	—	—	—	—	—	—	—	0.1	...	0.2	0.1
Individuals, clubs & institutions ..	0.2	0.2	0.1	0.1	...	—	—	1.4	—	0.1	0.1	...	0.5	2.7	1.4
Total ..	20.0	25.0	20.0	21.0	5.6	15.0	1.5	5.1	0.5	20.0	20.0	27.9	12.1	193.7	100.0

Source: Central Bank of Ceylon.

*Investment in the new loans by surrendering the stock of the maturing 2½% Loan, 1960-62.

†Conversion loans.

TABLE II G - 10

Foreign Loans

							Rupees Million	
							Net increase during 1961/ 1962	Balance out- standing as at 30th Sept- ember, 1962
I.B.R.D. . . . . .	..	..	..	..	..	..	25.6	102.1
Canadian loan . . . . .	..	..	..	..	..	..	—1.3	8.4
Chinese loan . . . . .	..	..	..	..	..	..	—1.0	9.3
U.K. Line of Credit . . . . .	..	..	..	..	..	..	3.3	3.3
U.K. Sterling securities . . . . .	..	..	..	..	..	..	—	167.9
U.S. D.L.F. . . . .	..	..	..	..	..	..	3.9	13.3
U.S. I.C.A. . . . .	..	..	..	..	..	..	3.7	31.7
U.S.S.R. . . . .	..	..	..	..	..	..	3.4	8.8
							37.6	344.8

Source: Central Bank of Ceylon.

Sinking Funds:—The value of sinking funds for the redemption of public debt stood at Rs. 351.8 million as at the close of the financial year 1961/62. Compared with the figures as at the close of the financial year 1960/61 this registered an increase of Rs. 33.5 million. A sum of Rs. 26.3 million was withdrawn to repay the 2½ per cent National Development Loan, 1960/62 which matured in 1962. The budgetary contributions to sinking funds for the year amounted to Rs. 37.9 million and interest earnings on investments amounted to Rs. 12.0 million. The market value of investments held by sinking funds showed an increase of Rs. 9.8 million.

Borrowing by Semi-Government Institutions:—There were no issues of National Housing Debentures in 1961/62, but the Government provided a direct loan of Rs. 10.0 million to the National Housing Commissioner during the year, bringing the total of direct loans by the Government to the National Housing Commissioner to Rs. 40.0 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. 15.5 million as at the end of the financial year.

There were no issues of Stage Mortgage Bank debentures in 1961/62. 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. 60.0 million in 1960/61 was increased to Rs. 65 million by the Minister under Section 35 of State Mortgage Bank Act, in March 1962. 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, 1962.

The Budget 1962/63

The original estimates of revenue and expenditure for 1962/63 as approved by Parliament are as follows:—

TABLE II G-11
Original Budget Estimates 1962-63

Rupees million

Recurrent expenditure (Votes 1, 2, 4 and 6)	.. .. .	1706.9
Capital expenditure (Votes 3, 5 and 7)	.. .. .	473.3
Total expenditure	.. .. .	2180.2
Revenue	.. .. .	1716.9
Budget Deficit	.. .. .	463.3
Less contributions to sinking fund and direct repayments of public debt	.. .. .	50.0
Estimated net cash operating deficit	.. .. .	413.3

Source: Central Bank of Ceylon.

The sources of finance for the budget deficit of Rs. 463.3 million indicated by the Finance Minister were Rs. 180 million from domestic market borrowing and Rs. 150 million from foreign aid leaving an unbridged gap of Rs. 133.3 million.

Two proposals made in the Budget Speech, viz. a Sales Tax estimated to yield Rs. 90 mn. and a reduction in the quantum of rationed rice by one pound per person estimated to save Rs. 25.5 mn. on the food subsidy bill were subsequently withdrawn. In lieu of the Sales Tax, a 20% increase on existing rates of import duty estimated to yield Rs. 50 mn. was imposed on a wide range of imports.

Subsequently certain new financial measures were referred to by the Minister of Finance in a speech in the House of Representatives on February 21, 1963. The new measures were as follows:—

- (a) Withdrawal of rice ration coupons from paddy producers estimated to yield Rs. 40 million;
- (b) Withdrawal of the subsidy on maldivian fish estimated to yield Rs. 5 million;
- (c) One per cent fee on import licences estimated to yield Rs. 6 million; and
- (d) Other economies to be effected by the Food Commissioner's Department estimated to yield Rs. 10 million.

The economies to be brought about by the Food Commissioner's Department are as follows:—

- (a) Issue of paddy instead of rice on the ration in certain provinces; and
- (b) Revision of the selling price of rationed rice, flour and sugar throughout the island to include transport charges from Colombo.

On March 8, 1963, the Minister of Commerce, Trade, Food and Shipping announced in the House of Representatives the suspension of the implementation of the scheme for the withdrawal of rice coupons from paddy producers.

The selling price of sugar was also increased by 5 cents per pound with effect from February 15, 1963. This measure was not expected to change the size of the food subsidy bill as it was offset by an increase in the import price of sugar.

Revenue

The originally estimated revenue of Rs. 1716.9 million which is Rs. 91.6 million more than the actual revenue for 1961/62, included Rs. 94.5 million from new taxation measures proposed in the Budget.

Of the Rs. 94.5 million expected from new tax measures, Rs. 77.3 million was attributable to higher import duties. Apart from the general increase of 20 per cent on existing rates of duty, the Budget announced higher duties in respect of a large number of items, particularly cement, certain types of textiles, kerosene oil, radio spare parts, eggs, fruit juices, iron and steel goods, writing and printing paper other than newsprint, beer and 'luxury' foods.

Other measures included an increase in the surcharge on income tax from 15 per cent to 20 per cent, estimated to yield Rs. 10 million, excise duties on items which were hitherto not liable to excise estimated to yield Rs. 5.6 million and increased licence fees under the Motor Traffic Act, estimated to yield Rs. 1 million.

Revision of the Direct Tax System

Along with the Budget speech the Finance Minister announced a scheme for the revision of the system of direct taxation to be effective from the Income Tax assessment year commencing on April 1, 1963. Under the new scheme there are only four direct taxes viz. the Income Tax, the Wealth Tax, the Gifts Tax and Estate Duty. The following taxes were to be abolished—The Expenditure Tax, Land Tax, National Development Tax, Professions and Businesses Registration Tax, Rice Subsidy Tax, Surtax and the Surcharge on Income Tax. Under the new scheme Income Tax will be on a sharper scale commencing at 15 per cent and rising to 80 per cent instead of the previous rates which went up from 5 per cent to 60 per cent. Further, the tax free allowances for wife and children as well as the slabs are smaller. While the new scheme is expected to simplify the tax administration to a considerable extent the total revenue from direct taxes is not expected to be affected.

With regard to companies, besides the 33 1/3 per cent refundable tax (dividends tax), there will be a non-refundable tax of 57 per cent in place of the 45 per cent non-refundable Income Tax, the Surcharge on Income Tax, the Land Tax and the Companies Tax. Non-resident companies will continue to pay an additional 6 per cent as at present.

With a view to encouraging productive investment, relief at the effective rate of tax is to be allowed in respect of investments in new industries approved by Government and in government loans subject to certain safeguards. The maximum relief allowable will be Rs. 25,000 and the investment in respect of which relief is allowed is not to exceed 1/5th of the assessable income of the individual. With a view to giving some measure of relief to the plantation industries, they are to be treated as 'approved projects' for the purpose of granting an extra 40 per cent development rebate. Thus plant and machinery, buildings to house labour, and welfare buildings will qualify for once and for all allowances as follows :

Plant and Machinery	106 2/3%
Labour and welfare buildings	73 1/3%

Current Expenditure

The total of the recurrent expenditure votes (i.e. 1, 2, 4 & 6) amount to Rs. 1706.9 million. When items of a capital nature under recurrent expenditure and provisions for sinking fund contributions are deducted from this figure, the resultant current expenditure amounts to Rs. 1585.4 million. This figure is Rs. 90.0 million higher than the actual expenditure for 1961-62. This increase is due mainly to higher provisions for interest on public debt, pensions, health, education, defence and economic development.

Capital Expenditure

The original estimates of capital expenditure (i.e. the total of votes 3, 5 and 7) amounts to Rs. 473.3 million. When capital items under the votes of recurrent expenditure and other extra-budgetary capital expenditure from reserves are added, total capital expenditure amounts to Rs. 570.3 million. This figure is Rs. 25.7 million lower than the actual expenditure for 1961/62. This is mainly due to lower provisions made in the budget for loans to Government agencies such as the Ceylon Transport Board and the Port (Cargo) Corporation.

Of the expected receipt of Rs. 150 million of foreign aid, detailed allocations have been made in respect of Rs. 122.5 million. The largest item is the I.B.R.D. loan for the Hydro-electricity project, amounting to Rs. 40.5 million. The other main allocations are in respect of aid from the U.S.S.R., China, U.S.A., Canada, Britain and West Germany. Of the total sum allocated Rs. 93.3 million is by way of loans and Rs. 29.2 million is by way of grants.

On February 8, 1963, the United States Government announced the suspension of aid to Ceylon under the Foreign Assistance Act of the U.S.A. The impact of this decision will be the withdrawal of the Development Loan Fund dollar loan for the Katunayake Airport scheme. The estimated expenditure for 1962-63 from this loan was Rs. 3.8 million. The suspension will not affect rupee grants out of counterpart funds amounting to Rs. 9.0 million allocated to the 1962-63 Budget.

The supply of flour under P.L. 480 and the supply of flour and milk under the C.A.R.E. programme do not come within the ambit of the Foreign Assistance Act.

The estimated receipt of Rs. 180 million from domestic market borrowing compares with Rs. 197.3 million and Rs. 147.3 million borrowed from domestic non-bank sources in 1960-61 and 1961-62 respectively. During the first five months of 1962-63, Rs. 138.7 million was received from domestic market borrowing. Of this receipt Rs. 90.5 million came from non-bank sources.