

(G) GOVERNMENT FINANCE*The Financial Year 1962-63*

Table II G-1 shows in summary the accounts of the Government of Ceylon for the financial year October, 1962 to September, 1963 with corresponding data for previous years. As shown therein, the main features of the budgetary operations were as follows:—

- (a) Total Government revenue in 1962/63 was Rs. 1593.4 million as compared with Rs. 1620.6 million in 1961/62 and Rs. 1513.9 million in 1960/61.
- (b) Total voted expenditure in 1962/63 was Rs. 1998.7 million as compared with Rs. 2061.3 million in 1961/62 and Rs. 1960.7 million in 1960/61. These figures exclude contributions to sinking funds, direct repayments of public debt from revenue and book adjustments.
- (c) Operations on advance accounts resulted in a net receipt of Rs. 13.7 million as compared with a net payment of Rs. 14.6 million in 1961/62 and Rs. 14.2 million in 1960/61.
- (d) The net cash deficit resulting from these operations was Rs. 391.7 million as compared with Rs. 456.1 million in 1961/62 and Rs. 462.5 million in 1960/61.

The actual net cash operating deficit of Rs. 391.7 million is lower than the originally estimated net cash deficit of Rs. 413.3 million by Rs. 21.6 million. In 1961/62 the actual net cash deficit exceeded the original estimate of the net cash deficit by Rs. 175.6 million. The reduction in the amount of the deficit in 1962/63 as compared with the estimated deficit occurred despite the heavy shortfall in revenue collections. The reduction in the budget deficit was mainly on account of a substantial reduction in total expenditure incurred in 1962/63. The shortfall in total expenditure compared with the original estimate was Rs. 131.5 million. The shortfall on capital expenditure amounted to Rs. 71.0 million and that on recurrent expenditure Rs. 60.5 million. Expressed as percentages of budget estimates the extent of shortfall under the two categories amounted to 15.0 per cent and 3.7 per cent respectively. Net receipts on advance account operations of Rs. 13.7 million also contributed to reducing the actual net cash deficit as compared with the original estimate. As compared with 1961/62 the net cash deficit for 1962/63 shows a fall of Rs. 64.4 million. This was due to a shortfall in capital expenditure of Rs. 78.3 million and a receipt on advance account operations of Rs. 28.3 million, offset by a fall of Rs. 27.2 million in revenue and an increase of Rs. 15.7 million in recurrent expenditure.

Revenue

Table 18 of Appendix II shows provisional estimates and actual revenue for 1962/63 by the main heads of revenue. Total Government revenue for 1962/63 of Rs. 1593.4 million is lower than the revenue collection of Rs. 1620.6 million of 1961/62 by Rs. 27.2 million, thus showing a break in the trend of increasing revenue collections recorded since 1952/53. The corresponding change in government revenue in the previous financial year 1961/62 over 1960/61 was an increase of Rs. 106.7 million.

The decrease in revenue over 1961/62 is accounted for mainly by the sizeable drop of Rs. 67.3 million under import duty collections alone. By far the largest single revenue item contributing to this decline was the category "other goods". Export duties likewise accounted for a decline of Rs. 12.2 million with the tea export duty, inclusive of the tea tax, falling short by Rs. 7.7 million.

As compared with the original estimate for 1962/63 the actual revenue collected shows a fall of the order of Rs. 123.5 million. This shortfall is accounted for by reductions in collections as compared with the original estimate as follows—import duties

TABLE II G - 1

Government Net Cash Operating

	1951-52	1952-53	1953-54	1954-55
1. Net Cash Operating Surplus/Deficit (-)	257.1	231.9	33.7	127.6
A. Revenue	954.0	952.5	1,026.2	1,158.6
B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations)	1,211.1	1,184.4	992.5	1,031.0
(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	864.9(a)
(Food subsidy)	(247.8)	(127.0)	(12.0)	(36.0)(a)
(ii) Capital expenditure*	203.0	220.6	162.3	215.5(a)
(iii) Expenditure chargeable to National Development Reserve	7.7	6.4	3.2	2.1
(iv) Advances to stores and materials account	16.8	2.4	4.6	9.9
(v) Other advances*	19.0	52.8	61.1	34.0
(vi) Miscellaneous	2.0	8.7	1.5	7.6
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	39.0
A. Administrative borrowing and repayment of borrowing (including sundry loans) :	34.2	11.9	4.6	29.1
(i) Deposits (from suitors, contractors, etc. and includes the unexpended balance of foreign aid upto 1959-60)	16.2	21.4	2.1	34.5
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Servants' Provident Fund, etc.)	0.6	0.2	0.3	0.9
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.)	18.6	9.3	2.8	4.5
B. Domestic market borrowing and repayment of borrowing :	218.3	204.6	94.0	80.2
(i) Rupee loans	102.4	80.0	70.0	75.0
Less contributions to sinking fund and direct repayments of public debt from revenue	18.4	23.1	22.6	44.5
	84.0	56.9	47.4	30.5
(ii) Treasury bills	62.3	90.6	78.1	44.9
(iii) Central Bank advances	72.0	1.5	4.7	65.8
(iv) Tax reserve certificates	—	—	—	—
(v) Other†	—	58.6	58.6	—
C. Foreign finance :	—	—	63.3	12.1
(i) Loans	—	—	63.3	12.1
Less Repayment	—	—	—	—
(ii) Grants	—	—	63.3	12.1
3. Changes in cash balances (including readily realisable assets)	73.0	15.4	1.6	88.6

*From the 1960-61 financial year onwards the practice of classifying expenditure into continued. 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 expenditure are shown separately as recurrent expenditure and capital expenditure respectively. Since revenue and expenditure chargeable to loan funds are assumed to be comparable to recurrent. 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.

- An amount of Rs. 36.0 million representing the food subsidy bill for 1954-55 was transferred excluded from the figures for 1958-59 (vide note*) the figures for 1954-55 have been revised to
- Excludes a payment of Rs. 37.0 million on account of the enhanced contribution payable 1960-61, Rs. 0.2 million in 1961-62 and Rs. 0.2 million in 1962-63 to meet payments to the
- Capital expenditure chargeable to foreign grants have been brought within the budget were available to the Treasury as a source of budgetary finance, were included under administrative
- Provisional.
- The figures of revenue for 1961-62 and 1962-63 differ from the published figures in the
- In 1961-62 the receipt of Rs. 18.6 million from the National Development Tax which has been included under revenue while a sum of Rs. 20.6 million being the transfer to revenue the value of equipment gifted by foreign Governments and Agencies credited to revenue have million from the National Development Tax has been included under revenue while a sum of and Agencies has been excluded and shown under foreign grants.

Surplus/Deficit (—)

Rupees Million

1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62(c)	1962-63(d)
- 1.2	- 196.4	- 222.3	- 413.4	- 417.5	- 462.5	- 456.1	- 391.7
1,257.2	1,260.5	1,280.0	1,330.4	1,403.8	1,513.9	1,620.6(e)	1,593.4(e)
-1,258.4	-1,456.9	-1,502.3	-1,743.8	-1,821.3	-1,976.4	-2,076.6	-1,985.3
- 1,014.4	-1,105.2	-1,280.1	-1,432.2	-1,511.9(b)	-1,540.8(b)	-1,580.7(b)	-1,596.4(b)
(79.5)	(105.5)	(112.0)	(146.5)	(193.0)	(248.0)	(235.4)	(225.8)
- 211.0	- 213.3	- 282.6	- 303.4	- 306.6	- 419.9	- 480.6	- 402.3
- 4.0	- 5.1	- 3.0	- 2.4	- 1.5	- 1.5	- 0.7	- 0.3
- 1.2	- 14.5	—	10.5	- 7.1	- 1.9	- 2.4	- 8.6
- 30.3	- 115.8	54.5	- 17.1	- 5.8	- 15.9	- 15.8	- 27.9
- 0.1	- 3.0	8.9	0.8	—	- 0.2	- 1.2	- 5.6
12.2	175.4	174.7	351.8	411.6	462.5	496.3	391.3
- 36.5	- 9.4	72.5	27.6	57.4	29.4	104.5	- 33.8
- 10.8	9.0	73.9	27.3	62.3	36.5	98.4	- 28.0
- 4.8	- 2.3	20.1	4.2	2.7	- 1.0	4.8	0.1
- 20.9	- 16.1	- 21.5	- 3.9	- 7.6	- 6.1	1.3	- 5.9
43.5	166.2	78.5	291.2	327.6	406.5	336.0	331.6
74.5	94.9	45.0	95.0	134.8	214.9	145.0	205.0
39.0	31.1	26.5	29.7	30.6	32.1	37.9	40.4
35.5	63.8	18.5	65.3	104.2	182.8	107.1	164.6
8.0	- 3.0	74.6	179.0	228.2	198.4	248.0	124.1
—	96.3	- 13.8	41.1	3.1(b)	20.6(b)	- 21.0(b)	36.6(b)
—	9.1	- 0.8	5.8	- 7.9	4.7	1.9	6.3
—	—	—	—	—	—	—	—
5.2	18.6	23.7	33.0	26.6	26.6	55.8	93.5
5.2	18.6	23.7	33.5	29.3	16.3	44.5	68.7
—	—	—	2.5	2.7	3.0	6.8	6.3
5.2	18.6	23.7	33.0	26.6	13.3	37.7	62.4
—	—	—	—	—	13.3	18.1	31.1
11.0	- 21.0	- 47.5	- 61.7	- 6.0	...	40.2	- 0.4

Source: Central Bank of Ceylon.

"Expenditure chargeable to Revenue" and "Expenditure chargeable to loan Funds" has been dispersonal emoluments, administration charges, services provided by departments and economic and capital expenditure. Thus Government's total expenditure is divided into seven votes. ture votes viz., votes 1, 2, 4 and 6 and the total of the Capital Expenditure votes viz., 3, 5 and 7 a similar classification is not available for years prior to 1960-61, expenditure chargeable to 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 adjustments is include it. 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 I.D.A. financed through special loans from the Central Bank. from 1960-61 onwards. Prior to 1960-61 only the unexpanded balances of foreign grants, which tive borrowing.

Government Accounts due to the following adjustments:

has been treated in the Government Accounts as a credit to the National Development Fund from the National Flood Relief Fund has been excluded and a sum of Rs. 4.7 million being been excluded and shown under foreign grants (item 2C (ii)). In 1962/63 the receipt of Rs. 17.5 Rs. 2.8 million being the value of equipment and other aid gifted by foreign Governments

Rs. 108.5 million, export duties Rs. 2.9 million, national development tax Rs. 7.1 million and other revenue Rs. 6.0 million. Only few items showed an increase in revenue. Higher collections under the tobacco tax of Rs. 18.3 million, income tax (including the surcharge) of Rs. 6.8 million and tax on heavy oil motor vehicles of Rs. 2.5 million are notable.

The main changes in revenue in 1962/63 actuals, as compared with the actual revenue for 1961/62 and the original estimate for 1962/63 are given below.

TABLE II G - 2

Rupees Million					
	Original Estima- tes 1962/63	Actual (Provisi- onal) 1962/63	Actual 1961/62	Change in 1962/63 (actual) over 1961/62	Excess (+) or shortfall (-) in 1962/63 (actual) in rela- tion to original estimates (a)
1. Export duties	281.6	278.7	290.9	-12.2	- 2.9
(a) Tea (including tea tax)	212.3	215.8	223.5	- 7.7	3.5
(b) Rubber	35.3	29.3	30.2	- 0.9	- 6.0
(c) Coconut	28.3	27.4	31.4	- 4.0	- 0.9
2. Import duties	506.2	397.7(b)	465.0	-67.3	-108.5
(a) Cotton textiles	31.2	22.8	25.2	- 2.4	- 8.4
(b) Liquor	15.6	9.3	14.2	- 4.9	- 6.3
(c) Tobacco and cigarettes	66.0	46.1	51.9	- 5.8	- 19.9
(d) Other goods	207.0	148.3	191.9	-43.6	- 58.7
3. Income tax (excluding surcharge)	210.0	217.2	231.9	-14.7	7.2
Surcharge	42.0	41.6	30.5	11.1	- 0.4
4. Expenditure, wealth and gifts taxes	15.0	12.4	11.6	0.8	- 2.6
5. Profit from sale of arrack	98.0	98.0	72.0	26.0	—
6. Tobacco tax	62.0	80.3	62.8	17.5	18.3
7. Tax on heavy oil motor vehicles	8.5	11.0	9.0	2.0	2.5
8. Electrical department revenue	48.6	35.2	31.6	3.6	- 13.4
9. Land tax	12.0	11.2	11.7	- 0.5	- 0.8
10. Registration of professions and businesses tax	7.0	1.0	3.2	- 2.2	- 6.0
11. Share capital tax	3.5	1.4	2.1	- 0.7	- 2.1
12. Visa tax	4.0	4.3	5.8	- 1.5	0.3
13. New taxes introduced in 1961/62					
(a) Sales tax (not implemented)	0.1	0.1	0.1	—	—
(b) National development tax	25.0	17.9(c)	18.9(c)	- 1.0	- 7.1
(c) Rice ration book tax	5.0	3.7	3.9	- 0.2	- 1.3
(d) Surtax	1.0	0.3	...	0.3	- 0.7
14. Other revenue	387.4	381.4	369.6	11.8	- 6.0
Total	1716.9	1593.4(c)	1620.6(c)	-27.2	-123.5

Source: Central Bank of Ceylon.

- (a) The corresponding over-estimation of revenue for financial year 1961/62 over the actual revenue collected in that year was Rs. 156 million and in 1960/61 revenue over-estimation was of the order of Rs. 120 million.
- (b) Includes Rs. 8.4 million collection from licence fees on imports which are under licence.
- (c) The figures of revenue for 1961/62 and 1962/63 differ from the published figures in the Government Accounts due to the following adjustments: (i) In 1961/62 the receipt of Rs. 18.6 million from the National Development Tax which has been treated in the Government Accounts as a credit to the National Development Fund has been included under revenue, while a sum of Rs. 20.6 million being a transfer to revenue from the National Flood Relief Fund has been excluded and a sum of Rs. 4.7 million being value of equipment gifted by foreign Governments and Agencies credited to revenue has been excluded and shown under foreign grants, (ii) In 1962/63 the receipt of Rs. 17.5 million from the National Development Tax has been included under revenue while a sum of Rs. 2.8 million being the value of equipment and other aid gifted by foreign Governments and Agencies has been excluded and shown under foreign grants.

Revenue from export duties was lower by Rs. 12.2 million as compared with the actual collections in 1961/62. This was as a result of collections under the tea export duty recording a shortfall of Rs. 7.7 million and duties on coconut a decrease of Rs. 4 million. Duty collections on rubber fell short by Rs. 0.9 million. The decline in export duty revenue in respect of tea⁽¹⁾ in 1962/63 as compared with 1961/62 may be explained as the result of (a) the decline in the proportion of the receipts siphoned by the ad valorem rate on account of the lower average prices that prevailed at the Colombo auctions, (b) the reduction of 2 cents per lb. on export duty in respect of all teas shipped through the ports of Galle and Trincomalee since April 1963 and (c) the higher duty collections arising from the increase in export volume of 2.5 million lbs. on application of the specific duty being offset by the combined effects of items (a) and (b) listed above. The decline in export duty revenue from rubber⁽²⁾ despite the sizeable increase in the quantity exported in the financial year, an increase of 21.6 million lbs., is attributable to the lower prices that prevailed during this period. The lower average prices offset the receipts brought about by the increase in export volume. The decline in export receipts from coconuts was due chiefly to the reduction in the volume of exports. Exports of coconut oil which amounted to 102.3 thousand tons in 1961/62 fell to 84.1 thousand tons in 1962/63, copra exports declined over the same period by 21.6 thousand tons while exports of desiccated coconuts fell by 2.5 thousand tons. The effects of these reductions in export volume on government revenue were, however, offset to a small extent by the higher effective rates of duties which were operative in 1962/63 following the favourable prices that prevailed. However, loss of duty on account of the contraction in the volume exported was too great to be offset by this favourable price effect.

Import duty revenue in 1962/63 as compared with the previous year, as mentioned earlier, was lower by Rs. 67.3 million. The decline in collections under category "other goods", liquor and cotton textiles amounted to Rs. 60.9 million. This was offset to an extent of Rs. 4.2 million by the higher duty collected on tobacco and cigarettes consequent to the stepping up of the duty rate on tobacco and cigarettes in the budget of 1962. Whereas in 1961/62 the category "other goods" accounted for a net increase of Rs. 32.4 million, the collections in 1962/63 for the same group shows a net decline of Rs. 43.6 million. This is accounted for by the attempts taken in 1962 to bring about a sizeable reduction in the import bill through the direct curtailment of imports for stemming the drain in external reserves.

Income tax receipts in 1962/63 inclusive of the surcharge, show a decrease of Rs. 4 million as compared with the actual receipts of 1961/62. A possible explanation for the decrease would be the fall in the producers' profit margin—either through lower prices or higher costs of production—in the two main agricultural export

(1) Since June 1959 all teas sold in the Colombo Auctions at a price exceeding Rs. 1.85 per lb. are subject to a tax of 50 per cent of the excess of price over this amount. The maximum tax leviable is fixed at -/70 cts. In addition to the above ad valorem component a specific export duty of -/35 cts. per lb. is also levied.

(2) Export duties on rubber are based on a sliding scale since 28.11.1963.

products tea and rubber leading to a consequential reduction in money incomes. An additional explanation for the decrease in tax collections in 1962/63 over 1961/62 would be tax evasion. It is however difficult to estimate the extent to which tax evasion could have played a part in reducing collections. It must, however, be borne in mind that other forces such as government fiscal operations of deficit financing and commercial bank net lending to the private sector would have offset at least to some extent the contractionary effects of low money incomes thereby moderating the extent of the fall in collections under this head.

Two sources which have shown moderate increases in revenue are profits derived from the sale of arrack of Rs. 26 million and receipts from the tobacco tax of Rs. 17.5 million. The increase in profits from the sale of arrack is accounted for partly to the addition of Rs. 18 million from accumulated profits of previous years to the revenue collections of 1962/63 and partly to higher receipts arising out of increased sales. In respect of tobacco, it was mainly the increase in consumption which helped to enhance collections. The consumption of tobacco showed an increase of 627,000 lbs. despite the duty increase brought into effect in July 1961 from Rs. 20 to Rs. 28 per lb.

Current Expenditure:—

Data on current and capital expenditure for the period 1960/61 to 1963/64 are given in the table below.

TABLE II G - 3
Expenditure of the Government

Year	Current Expenditure (1)	Capital Expenditure (2)		
		Acquisition construction and mainte- nance of real assets	Loans to Government agencies	Total
1960/61	1471.3	471.9	47.2	519.1
1961/62	1498.1	499.4	86.2	585.6
1962/63 (Original estimates)	1585.4	560.5	9.8	570.3
(Actual, provisional)	1524.9	485.9	10.0	495.9
1963/64 (Original estimates)	1660.7	608.8	30.6	639.4

Source: Central Bank of Ceylon.

- (1) Current expenditure is derived by deducting the value of sinking fund contributions and direct repayments 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 items amounted to Rs. 28.3 million in 1960/61, Rs. 21.8 million in 1961/62, Rs. 24.0 million (estimate) and Rs. 21.9 million (provisional) in 1962/63 and Rs. 49.1 million in 1963/64.

Provisional figures of actual current expenditure in 1962/63 show a fall of Rs. 60.5 million compared with the budget estimate for that year. The actual expenditure (provisional) in 1962/63 is however higher than that of 1961/62 by Rs. 26.8 million as compared with an increase of the same magnitude in 1961/62 over 1960/61. Increase in current expenditure in 1959/60 and 1960/61 amounted to Rs. 91.0 million and Rs. 105.9 million respectively. As in the case of the previous financial year the smaller increase in current expenditure during 1962/63 was almost entirely due to the lower food subsidy bill charged to the Consolidated Fund. Increases in the expenditure on interest on public debt, education and pensions were partly offset by the fall in the food subsidy bill.

The net food subsidy bill for 1962/63 amounted to Rs. 225.8 million as compared with Rs. 235.4 million in 1961/62.⁽¹⁾ Corresponding figures for the previous financial years were Rs. 248.0 million in 1960/61, Rs. 193.0 million in 1959/60 and Rs. 146.5 million in 1958/59. Expressed as a percentage of total current expenditure, food subsidies accounted for 14.8 per cent in 1962/63, 15.7 per cent in 1961/62

TABLE II G-4
Food Subsidy Bill for 1962/63 as compared with 1961/62

Rupees Million			
	1962/63*	1961/62	Change
1. Loss (subsidy)† on sale of imported rice ..	126.5	125.2	- 1.3 Increase in loss
2. Loss (subsidy)† on sale of local rice ..	278.5	268.7	- 9.8 Increase in loss
3. Distribution expenses and other charges ..	28.0	26.3	- 1.7 Increase in loss
4. Total (1 to 3) ..	433.0	420.2	
5. Profit on sale of sugar ..	142.4	156.8	-14.4 Decrease in profit
6. Profit on sale of flour ..	26.1	29.4	- 3.3 Decrease in profit
7. Other goods ..	25.9	3.4	+ 22.5 Increase in profit
8. Total (5 to 7) ..	194.4	189.6	
9. Total net subsidy (4 minus 8) ..	238.5	230.7	+ 7.8 Increase in loss

Source: Central Bank of Ceylon.

*Provisional

(1) These figures are as given in Treasury Ledgers. Data provided by the Food Commissioner in respect of the net food subsidy bill differs from the Treasury figures as shown below for the following reasons. Total net food subsidy according to the Food Commissioner's data for 1961/62 is given as Rs. 230.7 million, a decrease of Rs. 4.7 million compared with the Treasury figure for 1961/62. This amount will be credited to Government revenue in a subsequent year after the accounts of the Food Commissioner have been duly audited. Likewise the provisional estimate for the net food subsidy bill for 1962/63 as given by the Food Commissioner is placed at Rs. 238.5 million which is Rs. 7.8 million higher as compared with the actual figure for 1961/62. The difference between the Treasury figure of Rs. 225.8 million and the Food Commissioner's figure of Rs. 238.5 million, viz., Rs. 12.7 million was due to the supplementary estimate not being taken up. The difference between the Treasury ledger figure of Rs. 225.8 million for 1962/63 and the actual amount incurred in respect of 1962/63 will be adjusted by the financing of this difference under advance accounts.

† The loss (subsidy) on rice (per unit) is calculated as follows:—

- (a) The loss (subsidy) on sale of imported rice is the difference between the average landed cost to the Government and the average selling price to the authorised retail distributor. The landed cost comprises the c and f value plus other charges incurred up to the granaries.
- (b) The loss (subsidy) on sale of local rice is the difference between the cost to the Government of local rice and the average selling price to the authorised retail distributor.

Whereas the loss on imported rice is the consumer subsidy, the loss on local rice includes both consumer and producer subsidies.

and 16.9 per cent in 1960/61. The net food subsidy bill of Rs. 238.5 million inclusive of the Rs. 12.7 million financed from advance accounts, expressed as a percentage of voted current expenditure, adjusted for the increased subsidy is 15.5.

A breakdown of the net food subsidy bill according to the provisional data provided by the Food Commissioner for the financial year 1962/63 and the actual for 1961/62 is given in Table II G-4. Changes between the years are also indicated.⁽¹⁾

A possible explanation for the increase in the loss on the sale of imported rice in 1962/63 is the increase in landed cost of imported rice. In the case of rice the average landed cost of rice from Burma which was Rs. 535 per long ton in 1961/62 was Rs. 546 per long ton in 1962/63, thus showing an increase of Rs. 11 per long ton. The average landed cost of rice from China showed a still higher increase from Rs. 515 in 1961/62 to Rs. 541 in 1962/63, an increase of Rs. 26 per long ton. The increased loss on local rice is accounted by the larger purchases and sales of local rice.

The decrease in the profit on the sale of sugar was due to the higher buying price of sugar whilst the retail sale price of sugar remained unchanged. The average landed cost of white sugar amounted to Rs. 1193 per long ton in 1962/63 as compared with Rs. 500 per long ton in 1961/62, a more than doubling in the average landed cost of the commodity. The reduction in profits from the sale of sugar would have been higher had it not been for the availability of stocks of sugar at the beginning of the financial year which had been purchased at lower rates in the previous financial year. The running down of these stocks no doubt minimised the extent of the reduction in profit on the sale of sugar, and the size of the net food subsidy bill.

The purchase price of flour from Australia which remained unchanged in the financial years 1960/61 and 1961/62 at Rs. 461 per long ton increased by Rs. 20/- per long ton to Rs. 481 in 1962/63.

The purchases of paddy under the guaranteed price scheme during 1962/63 amounted to 25,515,945 bushels as compared with 25,065,890 bushels, an increase of 450,055 bushels.

Capital Expenditure

Total capital expenditure (i.e. the total of votes 3, 5 and 7 of budgetary expenditure) for 1962/63 amounted to Rs. 402.3 million. If to this is added extra-budgetary outlays of the tea and rubber replanting subsidy expenditure, capital items in the revenue budget etc., total capital expenditure in 1962/63 was Rs. 495.9 million (provisional). This is Rs. 74.4 million lower than the original estimate for the year and Rs. 89.7 million less than the actual expenditure of 1961/62. Capital expenditure in respect of acquisition, construction, and maintenance of real assets decreased by Rs. 13.5 million and loans to Government agencies fell by Rs. 76.2 million in 1962/63 as compared with 1961/62. The fall in respect of acquisition, construction and maintenance of real assets has occurred mainly under the category of agriculture, irrigation and fisheries. The fall in the amount of loans to Government agencies is mainly due to the provision of smaller loans to the Ceylon Transport Board and the Port (Cargo) Corporation.

(1) A direct comparison between the two sets of figures is justifiable only if the provisional figure does not diverge substantially from the actual figure.

Advance Account Operations

Advance account operations during 1962/63 resulted in a net receipt of Rs. 13.7 million as compared with a net payment of Rs. 14.6 million in 1961/62. This receipt occurred inspite of a payment of Rs. 12.7 million to finance a portion of the food subsidy bill which could not be charged to the Consolidated Fund. The net receipt of Rs. 13.7 million is mainly due to a fall of Rs. 20.3 million in the accumulated trade balance with China under the Trade and Payments Agreement between Ceylon and China. Ceylon's credit balance in the China account was utilized to finance a part of Ceylon's rice imports from China during the year.

Financing of the Deficit

Table below shows the financing (by sources) and expansionary impact of the net cash deficit with comparative data for the previous financial year.

TABLE II G - 5
Financing of the Deficit

Rupees Million

	1961/62		1962/63 (Provisional)	
1. Administrative borrowing	104.5		-33.8	
2. Foreign finance: (a) Loans:				
(i) gross amount borrowed	44.5		68.7	
(ii) less repayments	6.8	37.7	6.3	62.4
(b) Grants	18.1 55.8		31.1 93.5	
3. Domestic market borrowing from non-bank sources:				
(a) Gross amount borrowed	147.3		193.9	
(b) less contributions to sinking fund	37.9	109.4	40.4	153.5
4. Domestic market borrowing from the banking system	226.6		178.1	
5. Decline in Government cash balances (minus sign indicates an increase)	-40.2		0.4	
6. Net cash operating deficit	456.1		391.7	
7. Decline in U.S. aid counterpart funds (minus sign indicates an increase)	4.0		-16.5	
8. Net expansionary impact of budget (4 + 5 + 7)	190.4		162.0	

Source: Central Bank of Ceylon.

In the budget for 1962/63 the sources of financing indicated by the Finance Minister for the budget deficit of Rs. 463.3 million were Rs. 180 million from domestic market borrowing and Rs. 150 million from foreign aid leaving an unbridged gap of Rs. 133.3 million. The estimated net cash deficit for 1962/63 was Rs. 413.3 million. The actual net cash deficit on account of reasons mentioned earlier in this section was Rs. 391.7 million. This reduction in the cash deficit together with the increased borrowing from domestic non-bank sources helped to reduce the magnitude of domestic market borrowing from the banking system. The reduced reliance on expansionary finance is also discernible from the negligible reduction of Rs. 0.4 million of cash balances as well as the repayment of Rs. 33.8 million under administrative borrowing.

The net expansionary impact of the budget as adjusted for the change in U.S. Aid Counterpart Funds was smaller than that of the previous year amounting to Rs. 162.0 million as compared with 190.4 million in 1961/62, Rs. 233.9 million in 1960/61 and Rs. 251.1 million in 1959/60.

Borrowing from the banking system amounting to Rs. 178.1 million compares favourably with that of the previous financial year. Of the total sum borrowed in 1962/63 Rs. 156.2 million came from the Central Bank, and Rs. 22.0 million from the commercial banks.

Central Bank advances increased by Rs. 36.6 million while Treasury Bill purchases by the Central Bank amounted to Rs. 124.5 million. Commercial banks purchased treasury bills amounting to Rs. 27.5 million compared with Rs. 42 million in 1961/62. Commercial bank holdings of both rupee securities as well as tax reserve certificates declined by Rs. 5.4 million and Rs. 0.1 million respectively.

Foreign aid for capital expenditure received in 1962/63 amounted to Rs. 99.8 million as compared with Rs. 62.6 million in 1961/62, Rs. 29.6 million in 1960/61 and Rs. 38.6 million in 1959/60. Foreign loan repayments during the four years amounted to Rs. 6.3 million, Rs. 6.8 million, Rs. 3.0 million and Rs. 2.7 million respectively. Although net receipts of foreign aid and grants have shown an increase and hence is indicative of a higher utilization of such foreign assistance, there nevertheless remains a difference between original expectations and actual outturn. A shortfall in utilization of foreign aid makes little difference to the financing of the deficit where the receipt of aid is tied to an equivalent amount of capital expenditure. However, from the perspective of capital formation and economic growth under-utilization of aid is a matter for concern. The details of foreign aid received in 1962/63 are as follows :—

TABLE II G - 6
Foreign Aid received in 1962/63

Loans:

						Rupees Million		
						Amount received	Amount repaid	Net receipts during the year
I.B.R.D.	..	..	..	..	..	25.3	4.1	21.2
Canada	..	..	..	..	..	2.0	1.2	0.8
U.K.	..	..	..	..	..	12.0	0.1	11.9
U.S.A.	..	..	..	..	..	0.2	0.9	-0.7
U.S.S.R.	..	..	..	..	..	13.5	—	13.5
West Germany	..	..	..	..	..	11.5	—	11.5
Yugoslavia	..	..	..	..	..	4.3	—	4.3
						68.7	6.3	62.4

Grants:

Colombo Plan:

(1) Australia	..	..	..	..	..	2.5		
(2) Canada	..	..	..	..	..	5.7		
(3) New Zealand	..	..	..	..	..	—

8.2

China	..	..	..	..	..	19.7		
U.S.A.	..	..	..	..	..	0.9		
West Germany	..	..	..	..	..	2.3		

31.1

Total of loans and grants

93.5

Source: Central Bank of Ceylon.

The figure of net market borrowing from non-bank sources for the year 1962/63 of Rs. 153.5 million is an improvement over that of 1961/62. It is however, lower than that of 1960/61 when an amount of Rs. 165.2 million was achieved. Savings institutions, Employees' Provident Fund, insurance funds and other companies were instrumental in improving their share of contributions in the enlarged total. An analysis of domestic market borrowing together with changes between the years is given under the section detailing development in public debt 1962/63.

Table below indicates contributions to Government securities (including Treasury bills and Tax reserve certificates) classified according to major investor groups.

				Rupees Million		
				1961/62	1962/63	Net Change
1. Savings institutions	..	..	..	12.5	14.3	1.8
2. E.P.F.	..	..	..	59.4	61.7	2.3
3. Provident and pension funds	..	..	..	25.0	31.2	6.2
4. Insurance funds*	..	..	..	10.1	22.4	12.3
5. Other companies	..	..	..	-7.4	5.0	12.4
6. Clubs and institutions	..	..	..	-1.4	0.1	1.5
7. Individuals	..	..	..	1.7	0.1	-1.6

Source: Central Bank of Ceylon.

*Includes contributions by the Insurance Corporation.

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

TABLE II G - 7
Total Public Debt⁽¹⁾

							Rupees Million	
End of September							Gross debt	Net debt (less value of sinking funds)
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
1963	..	..	..	..	..	..	3,437.3	3,065.4

Source: Central Bank of Ceylon.

The increases in gross debt and the net debt during the financial year 1962/63 were Rs. 399.5 million and Rs. 379.3 million respectively. The corresponding figures for the previous financial year were Rs. 386.8 million and Rs. 353.4 million. The increase in gross debt by Rs. 399.5 million consisted of Rs. 168.3 million in rupee securities, Rs. 125 million of Treasury bills, Rs. 6.3 million of Tax reserve certificates and Rs. 63.0 million in foreign debt. Central Bank advances increased by Rs. 36.9 million compared with the net repayment of Rs. 20.9 million in 1961/62.

(1) These figures of public debt exclude National Housing Debentures amounting to Rs. 75.0 million and State Mortgage Bank Debentures amounting to Rs. 43.3 million as at the end of September 1963.

Domestic Debt.—The gross domestic debt stood at Rs. 3,030.2 million as at the end of the financial year 1962/63. The composition of the debt as on that date was rupee loans Rs. 1,683.6 million, Treasury Bills Rs. 1,125 million, Tax Reserve Certificates Rs. 19.1 million and Central Bank advances Rs. 202.5 million. The table below gives a breakdown of the change in the composition of the Domestic Public Debt compared with 1961/62.

Composition of Domestic Public Debt.

End of September	Rupees Million							
	Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Advances (3)	Total	
	Gross	Sinking Funds (2)	Net				Gross	Net
1962	1515.3	263.9	1,251.5	1,000.0	12.8	165.6	2,693.7	2,429.9
1963	1683.6	276.3	1,407.3	1,125.0	19.1	202.5	3,030.2	2,753.9
Change(1)	+168.3	+12.4	+155.8	+125.0	+6.3	+36.9	+336.5	+324.0

Source: Central Bank of Ceylon.

(1) + sign denotes an increase.

(2) Represents the market value of investments held on behalf of the Sinking Fund (including supplementary sinking funds).

(3) Including special loans amounting to Rs. 39.5 million.

Rupee Securities.—The table below shows the value of loans raised and repaid during the last 5 financial years.

TABLE II G-8

							Rupees	
Financial Year							Loans raised	Loans repaid
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
1962/63 .. .. .	..	..	..	..	..	..	221,325,700	53,081,000

Source: Central Bank of Ceylon.

Of rupee loans amounting to Rs. 221.3 million issued during the financial year 1962/63 two loans amounting to Rs. 16.3 million were conversion loans while the balance ten loans aggregating Rs. 205.0 million were cash issues. The 3½% Conversion Loan 1968/70 and 4¼% Conversion Loan 1984/88 amounting to Rs. 16.3 million were issued in conversion of part of the 2½% Loan 1961/63 of Rs. 16.3 million which matured in February 1963. Stock of the maturing loan amounting to Rs. 10.8 million was surrendered in payment for stock of the 3½% Conversion Loan 1968/70. The balance Rs. 5.5 million was subscribed for in cash, with Rs. 5.2

million being absorbed in the 3½% Conversion Loan 1968/70 and Rs. 0.3 million in the 4½% Conversion Loan 1984/88. Of the other ten issues floated eight were entirely for cash; these being the 3½% Loan 1967/69 and the 4½% Loan 1983/87 'F' Series both issued in October/November 1962, the 4½% Loan 1983/87 'H' Series issued in December 1962, the 4½% Loan 1984/88 'B' Series issued in February 1963, the 4½% Loan 1984/88 'C' Series issued in March 1963, the 4½% Loan 1984/88 issued in June 1963, the 4½% Loan 1984/88 'B' Series issued in July 1963 and the 4½% Loan 1984/88 'C' Series issued in September 1963.

Stocks of the maturing 3½% Loan 1957-1962 amounting to Rs. 5.0 million and Rs. 9.4 million were surrendered in payment for stocks of the 4½% Loan 1983/87 'G' Series and the 3½% Loan 1967-69 'B' Series respectively issued in November, 1962. All the issues totalling Rs. 221.3 million were fully subscribed. A classification of the allotments is shown in Table II G-9.

Investors:—Table II G-9 on page 96 which gives a classification of allotments of government securities shows that the Employees' Provident Fund absorbed Rs. 67.8 million or 30.6 per cent of the total loans floated as compared with Rs. 54.0 million (27.9%) in 1961/62. The balance Rs. 153 million of loans issued in 1962/63 was absorbed as follows: Subscribers grouped under the classification "Trusts, provident and pension funds" other than Employees' Provident Fund absorbed 16.5 per cent, sinking funds 16.4 per cent while insurance companies including the State owned Insurance Corporation accounted for 11.9 per cent. Commercial banks and savings institutions contributed 11.5 per cent and 7.8 per cent respectively. The Annual Report for 1962 had commented on the decline in demand for Government securities from the source of non-bank investors during 1961-62, the experience in 1962-63 represented an improvement over 1961/62. The absorption of Government securities by non-bank investors occurred relative to the previous year despite the fact that privately owned time and savings deposits of commercial banks increased by Rs. 64.8 million as compared with the increase of Rs. 42.6 million in 1961/62. Given below is a table showing a classification and comparison of allotments of government securities in 1961/62 and 1962/63.

TABLE II G-9

Classification of Allotments of Subscriptions to Government Securities 1962-63

Rupees Million

	3½% Loan, 1967-69	4½% Loan, 1983-87 'F' Series	4½% Loan, 1983-87 'G' Series (1)	3½% Loan, 1967-69 'B' Series (1)	4½% Loan, 1983-87 'H' Series	Conversion Loan (2) 3½% Loan, 1968-70		Conversion Loan (2) 4½% Loan, 1984-88		4½% Loan, 1984-88 'B' Series	4½% Loan, 1984-88 'C' Series	4½% Loan, 1984-88	4½% Loan, 1984-88 'B' Series	4½% Loan, 1984-88 'C' Series	Total	
						Surrender of Stocks	Cash	Surrender of Stocks	Cash						Amount	Per- centage
Commercial banks	5.0	—	0.3	6.8	—	10.7	2.6	—	...	—	—	—	—	—	25.4	11.5
Co-operative banks	—	—	—	—	0.3	—	—	—	—	—	—	—	—	—	0.3	0.1
Savings institutions	—	2.0	3.0	—	0.5	—	—	—	—	2.0	1.0	3.8	2.0	3.0	17.3	7.8
Sinking funds	—	0.4	—	—	6.2	—	—	—	—	8.3	4.8	2.0	12.2	2.5	36.4	16.4
Departmental and other official funds	—	0.6	1.8	0.1	1.2	—	—	—	—	...	2.7	0.8	0.2	0.1	7.5	3.4
Trusts, benevolent pension and provident funds:																
(1) Employees' Provident Fund ..	—	15.3	—	—	9.1	—	—	—	—	9.5	5.9	12.3	6.3	9.4	67.8	30.6
(2) Other	0.5	5.7	1.1	5.0	2.2	—	1.3	...	0.1	2.4	6.4	6.7	3.3	1.9	36.6	16.5
Insurance Corporation	—	3.0	1.0	—	—	—	—	—	—	2.5	2.5	2.2	—	1.7	12.9	5.8
Insurance companies	2.3	—	—	3.8	...	0.1	1.3	—	0.1	0.2	1.1	2.1	0.9	1.5	13.4	6.1
Other companies	0.1	—	0.1	0.4	—	—	0.1	—	—	0.1	—	...	—	—	0.8	0.4
Individuals, clubs and institutions ..	0.1	0.1	1.1	0.5	0.5	—	...	—	...	...	0.6	0.2	0.1	...	3.2	1.4
Total	7.9	27.1	8.4	16.6	20.0	10.8	5.2	...	0.3	25.0	25.0	30.0	25.0	20.0	221.3	100.0

Source: Central Bank of Ceylon.

(1) Stocks of the maturing 3½% Loan, 1957-62 amounting to Rs. 5.0 million and Rs. 9.4 million were surrendered in payment for stocks of the 4½% Loan, 1983-87 'G' Series and the 3½% Loan, 1967-69 'B' Series respectively.

(2) Loans issued in conversion of the 2½ per cent Loan 1981/83 accounting up to Rs. 16.3 million which matured in January 1983.

Classification and Comparison of Allotment of Government Securities 1961/62 and 1962/63

Rupees Million

	1961/62		1962/63		Change
	Amount	%	Amount	%	Amount
Commercial banks	63.2	32.6	25.4	11.5	-37.8
Co-operative provincial banks ..	0.6	0.3	0.3	0.1	- 0.3
Savings institutions	14.0	7.2	17.3	7.8	+ 3.3
Sinking funds	16.4	8.5	36.4	16.4	+20.0
Dept. and other official funds ..	6.0	3.1	7.5	3.4	+ 1.5
Trusts, provident and pension funds					
(1) E.P.F.	54.0	27.9	67.8	30.6	+13.8
(2) Other	26.7	13.8	36.6	16.5	+ 9.9
Insurance funds	10.3	5.3	26.3*	11.9	+16.0
Other companies	0.2	0.1	0.8	0.4	+ 0.6
Individual, clubs and institutions ..	2.7	1.4	3.2	1.4	+ 0.5
Total	193.7	100.0	221.3	100.0	+27.6

Source: Central Bank of Ceylon.

*Includes a sum of Rs. 12.9 million subscribed by the Insurance Corporation (5.8 per cent of total).

+ sign denotes an increase.

— sign denotes a decrease.

Maturity and Rate Classification:—By maturity classifications, nine 21-25 year loans amounting to Rs. 181 million were issued. The first six of these loans were issued at $4\frac{1}{4}\%$ per annum, thereafter the rate of interest was raised by $\frac{1}{4}\%$, and the first of the three issues at the higher rate of interest was issued in June 1963. They may be compared with the interest rate of $4\frac{1}{4}\%$ on loans of the same maturity issued in the previous fiscal year. Three loans amounting to Rs. 40 million were 5-7 year loans issued at $3\frac{1}{2}\%$. The rate of interest on these loans had already been raised from $3\frac{1}{4}\%$ to $3\frac{1}{2}\%$ per annum in March 1962.

Treasury Bills:—Contrary to the trend in recent years the increase in the volume of Treasury Bills did not constitute the largest component in the increase of the gross domestic public debt during 1962/63. Its position as the largest component in the increase in the gross debt was displaced by rupee securities. The volume of Treasury Bills issued and outstanding at the beginning of the fiscal year on 1.10.1962 stood at Rs. 1,000 million; the authorised limit being also at Rs. 1,000 million. By a resolution of Parliament dated 21.3.1963 the authorised limit was increased by Rs. 150 million to Rs. 1,150 million. By the end of the fiscal year, on 30.9.63, the amount of Treasury Bills issued and outstanding stood at Rs. 1,125 million showing an increase of Rs. 125 million during the fiscal year. Thus at the end of the fiscal year there was an unutilized balance of Rs. 25.0 million to the possible limit of Treasury bill issues.

The holdings of Treasury Bills of the Central Bank as at the end of September 1963 was Rs. 988.9 million as compared with Rs. 864.4 million as at 30.9.62 and Rs. 680.0 million at the end of September 1961.

Foreign Debt:—The increase in the net Foreign Debt by Rs. 63.0* million is analysed in the table below:—

TABLE II G-10

Foreign Loans

							Rupees Million	
							Net increase during 1962/1963	Net liability as at 30th September, 1963
I.B.R.D. loans	..	..	..	..	..	..	21.2	123.3
Canadian loans	..	..	..	..	..	..	0.7	9.1
Chinese loan	..	..	..	..	..	..	—	9.2
U.K. line of credit	..	..	..	..	..	..	11.9	15.3
U.K. Sterling securities	..	..	..	..	..	..	—	167.9(1)
U.S. D.L.F. loans	..	..	..	..	..	..	-0.7	12.6
U.S.I.C.A. loans	..	..	..	..	..	..	...	31.6
U.S.S.R. loans	..	..	..	..	..	..	14.1	22.3
West German loan	..	..	..	..	..	..	11.5	11.5
Yugoslavian loan	..	..	..	..	..	..	4.3	4.3
Total	..	..	..	..	..	..	63.0	407.1(2)

Source: Central Bank of Ceylon.

Sinking Funds:—The value of sinking funds for the redemption of public debt stood at Rs. 371.9 million as at the close of the financial year 1962/63. Compared with the figures as at the close of the financial year 1961/62 this registered an increase of Rs. 20.1 million. A sum of Rs. 36.7 million was withdrawn to repay loans. The budgetary contribution to sinking funds for the year amounted to Rs. 40.4 million and interest earnings on investments amounted to Rs. 13.3 million. The market value of investments held by sinking funds showed an increase of Rs. 3.1 million.

Borrowing by Semi-Government Institutions:—There was an issue of National Housing Debentures in 1962/63 for Rs. 5.0 million and the Government provided a direct loan of Rs. 15.0 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. 55.0 million. The total National Housing Debentures issued and outstanding was increased to Rs. 75.0 million. The actual market value of sinking funds established for the redemption of National Housing Debentures was Rs. 19.0 million as at the end of financial year.

There were no issues of State Mortgage Bank debentures in 1962/63. 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 under section 35 of the State Mortgage Bank Ordinance stood at Rs. 65 million at the end of financial year 1962/63. 2½ per cent 1961/63 State Mortgage Bank Debentures amounting to Rs. 2.5 million were repaid on 1.2.1963. The debentures issued and outstanding as at the end of September 30th, 1963 stood at Rs. 43.3 million while the overdrafts guaranteed and outstanding amounted to Rs. 11.0 million at the end of the financial year.

- (1) As against this liability, sinking funds maintained for the redemption of sterling securities amount to Rs. 95.6 million. Thus the net liability amounts to Rs. 72.3 million.
- (2) Adjusted for the U.K. Sterling securities sinking fund, total net liability amounts to Rs. 311.5 million.

*Includes a receipt of Rs. 0.5 million from the U.S.S.R. loan which was not taken into account in 1961/62 since notification of withdrawal took place after the closing of books.

Budget 1963/64

The original estimates of revenue and expenditure for 1963/64 as approved by Parliament are as follows:—

TABLE II G-11
Original Budget Estimates

						Rupees Million
(a)	Recurrent expenditure (Votes 1, 2, 4 and 6)	..	..	..	..	1,790.4
	Less 2½% under expenditure	..	..	..	..	44.7
(b)	Capital expenditures (Votes 3, 5 and 7)	..	..	..	..	516.4
(c)	Total expenditure (a + b)	..	..	..	..	2,262.1
(d)	Revenue (inclusive of new tax receipts)	..	..	..	..	1,787.6
(e)	Budget Deficit (c - d)	..	..	..	..	474.5
(f)	Less contributions to sinking fund and direct repayment of public debt	..	..	..	..	56.4
(g)	Estimated net cash operating deficit (e - f)	..	..	..	..	418.0

Source: Central Bank of Ceylon.

Proposals to finance the budget deficit of Rs. 474.5 million were given as follows:—

Market borrowing Rs. 220 million;

Foreign aid Rs. 175 million;

Administrative borrowing from government agencies Rs. 25 million together totalling Rs. 420 million. The balance Rs. 54.5 million was to be met by borrowing through government securities from commercial banks and partly through the issue of Treasury Bills. (1)

Revenue

The estimated total revenue for the year 1963/64 is Rs. 1787.6 million which is inclusive of the net receipts of Rs. 88 million from the budget proposals compared with the actual revenue of Rs. 1,593.4 million in 1962/63, budget estimates for the current fiscal year show an increase of Rs. 194.2 million. Given below are the new revenue measures proposed in the budget and the additional revenue as expected from implementing same for a full financial year.

						Rs. Million
1.	Turnover taxes	..	..	..	..	40 ⁽²⁾
2.	Foreign Exchange tax	..	..	..	..	10
3.	Higher import duties	..	..	..	..	40
4.	National lottery	..	..	..	..	15
5.	Stamp duties	..	..	..	..	4
6.	Estate duty and Gift tax	..	..	..	..	2
7.	Petrol	..	..	..	..	2
8.	Gal Oya and Kantalai spirits	..	..	..	..	6
Total (1 to 8)						119

(1) The Budget as introduced in Parliament on 1st August 1963 envisaged a gross budget deficit at pre-budget tax rates of Rs. 558 million. The net budget deficit allowing for Rs. 88 million of new tax receipt was Rs. 470 million. Parliament however voted a deficit of Rs. 474.5 million, the increase of Rs. 4.5 million being accounted for by an increase in total expenditure.

(2) The figure of estimated receipts from the turnover taxes given in the Budget speech was Rs. 40 million. But in the estimates as approved by Parliament the anticipated yield is placed at Rs. 45 million.

The net revenue to the government was however placed at Rs. 88 million, as certain proposals designed to reduce the cost of living, when fully implemented, were expected to result in a loss of Rs. 31 million. These measures and amounts involved are given below:—

	<i>Rs. Million</i>
1. Reduction in the price of flour	20
2. Reduction in the import duty on textiles	6
3. Reduction in the import duty on motor spares	3
4. Reduction in the price of kerosene	2
Total (1 to 4)	31

New Tax Measures

1. *Income Tax*:—Substantial changes in the Inland Revenue Act were made in 1963/64 budget with a view to lowering the tax burden on the recipients of low incomes, providing preferential treatment for earned income and extending the privilege to self employed persons as well and reducing tax relief for dependants at higher levels of income. The more significant changes introduced in the computation of income for tax purpose were as follows:—

- (a) The abolition of the quotient system of taxation and introducing in its place a method of tax computation wherein the first slab of taxable income varies with family size. This particular slab ranges from Rs. 4,000—Rs. 13,000 and will be taxed at the rate of 15 per cent. Subsequent slabs of taxable income will be of the same size for all tax payers irrespective of family circumstances. The proposed first slab for a single person will be Rs. 4,000 and for a husband and wife Rs. 7,000. There is an additional Rs. 1,500 for each child or dependent up to a maximum of four children or dependents so that for a married couple and four children the first slab is Rs. 13,000. The effect of these changes is that about 25,000 to 28,000 tax payers with annual incomes between Rs. 3,000-6,000 will be completely exempted from income tax. While tax relief is envisaged for persons whose annual incomes are between Rs. 6,000 and below Rs. 15,000, persons with incomes between Rs. 15,000 to Rs. 20,000 will continue to bear approximately the same tax burden as before. Above the income range of Rs. 20,000 there will be an increase in tax burdens on account of the reduction of relief for dependants.
- (b) Granting of a tax free allowance of Rs. 500 a year on earned income.
- (c) A change in the definition of the term “dependents” to include brothers maintained at an educational establishment as well as unmarried sisters.
- (d) Non-aggregation of income of an employed unmarried child with that of the parent. The employment income of a wife will be subject to aggregation but the allowance in respect of employment income will be a permissible deduction against such income.
- (e) Abolition of the levy of a minimum tax rate of 3 per cent or 4 per cent irrespective of family circumstances and responsibilities.

- (f) Other changes pertaining to the taxation of income include the withdrawal of income tax relief on investments in government securities, extension of tax relief to new large scale undertakings in agriculture, dairy farming and livestock farming, provision of tax relief for training of apprentices in industrial and engineering firms and a limitation of deductible business salaries to Rs. 36,000 per employee per year.

Other important revenue measures

Turnover Tax:—Two new taxes have been introduced into the tax structure.⁽¹⁾ A manufacturers turnover tax and a business turnover tax. The manufacturers turnover tax is to be levied at 3 per cent on a wide range of consumer goods manufactured locally. The business turnover tax is levied at one half of one per cent of total turnover. The tax covers all business including those which supply services. The following are exempted from liability to tax. Firstly turnover of rice, flour, sugar, bread, export products, arrack and toddy in taverns, petrol, cigarettes, kerosene, diesel and other fuels, and lubricating oils. Books, periodicals and magazines are also exempted. Secondly, financial institutions of all descriptions such as banks, insurance companies, hire-purchase companies, pawn brokers, money lenders, commission agents etc. Thirdly, educational costs and services of professional business. Finally all business whose annual turnover is less than Rs. 100,000. The turnover tax will be allowed as a deduction in the computation of business profits.

Exchange Tax⁽²⁾

The new tax was imposed on foreign exchange purchased for items such as holiday travel, passenger fares, commission and advertisements. The rate of the new tax will on average broadly parallel the average rate of import-duty paid on imported merchandise. The rates of the new tax will vary between 10 and 25 per cent depending on the type of payment.⁽²⁾ Payments on account of property, dividends, education and medical expenses will be exempted from this tax.

Higher Import Duties

Import duties on certain luxury and semi-luxury items have been raised substantially. These articles include washing machines, refrigerators, floor polishers, tape recorders, carpets, luxury bathroom fittings, electric lighting accessories. In addition to the above changes, adjustments of import duties have been made to maintain previous preferential and non-preferential margins which had been widened as a result of the 20 per cent surcharge imposed in 1962/63. The duty on super petrol was raised by 10 cents per gallon.

National Lottery

A fortnightly national lottery with 500 prizes at each draw has replaced the Hospital lottery. The prize winnings in the national lottery are tax free.

(1) These taxes came into operation on 1st January 1964. The tax rates proposed in the budget were manufacturers turnover tax 1-10 per cent and business turnover tax one half of one per cent. During the Committee Stage the tax rate on manufacturers turnover tax was reduced to 3 per cent.

(2) The Foreign Exchange Tax came into effect on 11th January, 1964. The rates applicable to transactions are 10% and 20% depending on the type of payment.

Measures to reduce cost of living

Of the measures proposed in the Budget towards this end, the following are worthy of note :—

- (a) reduction in the retail price of flour by 5 cents reducing the cost of flour to 23 cents and the price of a pound of bread to 25 cents.
- (b) reduction in the price of kerosene by 4 cents to make available to consumers a gallon of kerosene at 94 cents.
- (c) lower duties on textiles such as cotton piece goods, cotton sarees, art silk piece goods and crepe and satin.

Current Expenditure

The total of recurrent expenditure (votes 1, 2, 4 and 6) amount to Rs. 1,790.4 million. When items of a capital nature under recurrent expenditure and provisions for sinking fund contributions and direct repayment of debt are deducted from this figure, the resultant current expenditure amounts to Rs. 1660.7 million. This compares with the actual outlay of Rs. 1,524.9 million for 1962/63. The increase in the current expenditure for 1963/64 is mainly due to higher provisions in respect of the food subsidy bill, interest on public debt and pensions.

Capital Expenditure

The original estimates of capital expenditure (votes 3, 5 and 7) amount to Rs. 516.4 million. When capital items under the votes of recurrent expenditure and extra-budgetary capital expenditure from reserves are added, total capital expenditure for the fiscal year 1963/64 amounts to Rs. 639.4 million. This figure is Rs. 143.5 million higher than the actual expenditure for 1962/63 and Rs. 69.1 million higher than the original estimate for 1962/63. The increase of Rs. 143.5 million is mainly due to increased expenditure under the categories of manufacture, mining and trade as well as loans to government agencies.

Financing of the Budget Deficit

As finally voted by the House of Representatives, government accounts reveal a budget deficit of Rs. 474.5 million. This deficit is expected to be financed to the extent of Rs. 220 million through the medium of domestic borrowing from institutional and other investors, receipts from foreign aid of Rs. 175 million and administrative borrowing of Rs. 25 million, aggregating Rs. 420 million. The balance Rs. 54.5 million was to be financed through the sale of government securities to commercial banks and partly through the issue of Treasury Bills.

In the section to follow receipts from foreign aid is singled out for a detailed explanation.

Foreign Assistance

In the budget for 1963/64, total anticipated utilization from foreign aid is placed at Rs. 175 million, Rs. 25 million more than in the previous financial year. As compared with the actual receipt of foreign aid in 1962/63 the figure is higher by Rs. 75.2 million. Allocations for specified projects were made in respect of Rs. 130.3 million. Of this amount Rs. 106.8 million would be in the form of loans and utilisation from lines of credit and Rs. 24 million in the form of grants,

Aid amounting to Rs. 38.6 million is expected to be received from the U.S.S.R. in the current financial year from a line of credit of Rs. 142.8 million previously negotiated. Two loans, one of Rs. 15 million for the Iron and Steel Corporation and another of Rs. 20 million for the Tyre and Tube Corporation will absorb the greater part of this loan. The balance will be used for the proposed cold storage plant in Kandy for fruits and vegetables and the setting up of a flour mill. Rs. 30.1 million of loans from the I.B.R.D. (of loans negotiated earlier) will be utilised during the fiscal year 1963/64 for work on two hydro-electric projects stages 2A and 2B as well as for the Second Thermal Set at Grandpass. Other major foreign aid receipts are as follows—(a) Rs. 16.4 million from West Germany of which Rs. 14.1 million is for the Ceylon Cement Corporation and (b) Rs. 21.3 million from Canada of which Rs. 9.6 million is to be spent on the Maskeliya Oya Project.

Note.—Since the formulation of the Budget estimates, world prices of rice, sugar and flour have increased. In addition freight rates have also increased. Hence with the increase in the landed cost of these items and additional expenditure on demurrage, the cost of the net food subsidy bill has been revised from Rs. 272.9 million to Rs. 439.9 million, an increase of Rs. 167.0 million. (Vide statement of the Hon. Minister of Finance in the House of Representatives on February 13, 1964.