

**(G) GOVERNMENT FINANCE****The Financial Year 1963/64**

Table II (G)1 depicts in summary the accounts of the Government of Ceylon for the financial year October, 1963 to September, 1964, with corresponding data for previous financial years. As shown therein, the salient features of Government's budgetary operations were as follows: —

(a) Total Government revenue in 1963/64 was Rs 1,753.5 million, as compared with Rs 1,593.4 million in 1962/63 and Rs 1,620.6 million in 1961/62.

(b) Total voted expenditure<sup>(1)</sup> in 1963/64 was Rs 2,232.0 million as compared with Rs 1,998.7 million in 1962/63 and Rs 2,061.3 million in 1961/62. 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 16.1 million as compared with a net receipt of Rs 13.7 million in 1962/63 and a net payment of Rs 14.6 million in 1961/62.

(d) The net cash operating deficit resulting from these operations<sup>(2)</sup> was Rs 462.4 million as compared with Rs 391.7 million in 1962/63 and Rs 456.1 million in 1961/62.

(e) The net cash operating deficit of Rs 462.4 million was financed by borrowing Rs 321.3 million from domestic market sources, Rs 96.8 million from foreign finance offset by a net repayment of Rs 1.1 million of administrative borrowing and by drawing down cash balances by Rs 45.4 million.

(f) The expansionary impact of the net cash deficit when adjusted for the change in U.S. Aid counterpart funds was Rs 162.9 million in 1963/64 as compared with Rs 162.0 million in 1962/63 and Rs 190.4 million in 1961/62.

**Revenue**

One of the most satisfactory features of Government Budgetary operations in the financial year 1963/64 is the substantial increase in revenue. Table 18 of Appendix II shows the original estimates and the actual (provisional) revenue collections for 1963/64 by the main Heads of revenue as appearing in the Government Estimates. This table reveals that total Government revenue for 1963/64 at Rs 1,753.5 million has exceeded the actual revenue collections of 1962/63 of Rs 1,593.4 million by as much as Rs 160.1 million. The revenue outturn of 1963/64 has thus reversed the fall in revenue collections which occurred in 1962/63 over the financial year 1961/62, and re-established the trend of increasing revenue collections recorded since 1952/53. While the low level of revenue collections in 1962/63 has contributed to the increase of Rs 160.1 million in 1963/64, it is nevertheless significant that the revenue collections of 1963/64 show the largest annual increase recorded since the financial year 1950/51.

(1) Representing the total under items 1.B(i) and 1.B(ii) of Table II (G) 1.

(2) Including a sum of Rs 0.2 million as expenditure chargeable to the National Development Reserve.

TABLE II (G) 1

## Government Net Cash Operating

	1952/53	1953/54	1954/55	1955/56
<b>1. Net Cash Operating Surplus/Deficit (-)</b> .. .. .	- 231.9	33.7	127.6	- 1.2
<b>A. Revenue</b> .. .. .	952.5	1,026.2	1,158.6	1,257.2
<b>B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations)</b> .. .. .	-1,184.4	- 992.5	-1,031.0	-1,258.4
(i) Recurrent expenditure excluding contributions to sinking funds and direct repayments of public debt from revenue (vide 2B (i))(a) ..	- 893.5	- 772.0	-864.9 (c)	-1,014.4
(Food subsidy) .. .. .	(127.0)	( 12.0)	(36.0)(c)	( 79.5)
(ii) Capital expenditure(a) .. .. .	- 220.6	- 162.3	- 215.5	- 211.0
(iii) Expenditure chargeable to National Development Reserve .. .. .	- 6.4	- 3.2	- 2.1	- 4.0
(iv) Advances to stores and materials account ..	- 2.4	4.6	9.9	1.2
(v) Other advances(a) .. .. .	- 52.8	- 61.1	34.0	- 30.3
(vi) Miscellaneous .. .. .	- 8.7	1.5	7.6	0.1
<b>Financing of Deficit</b>				
<b>2. Net Cash Receipts or Payments (-) resulting from Government borrowing and lending operations and receipts of foreign grants:</b> .. .. .	216.5	- 35.3	- 39.0	12.2
<b>A. Administrative borrowing and repayment of borrowing (including sundry loans)</b> .. .. .	11.9	- 4.6	29.1	- 36.5
(i) Deposits (from suitors, contractors, etc., and includes the unexpended balance of foreign aid up to 1959-60) .. .. .	21.4	- 2.1	34.5	- 10.8
(ii) Miscellaneous funds (Widows' and Orphans' Pension Fund, Public Service Provident Fund, etc.) .. .. .	- 0.2	0.3	- 0.9	- 4.8
(iii) Sundry loans (to Agricultural and Industrial Credit Corporation, Local Loans and Development Fund, local bodies, etc.) .. .. .	- 9.3	- 2.8	- 4.5	- 20.9
<b>B. Domestic market borrowing and repayment of borrowing:</b> .. .. .	204.6	- 94.0	- 80.2	43.5
(i) Rupee loans .. .. .	80.0	70.0	75.0	74.5
Less contributions to sinking funds and direct repayments of public debt from revenue .. .. .	23.1	22.6	44.5	39.0
	56.9	47.4	30.5	35.5
(ii) Treasury bills .. .. .	90.6	- 78.1	- 44.9	8.0
(iii) Central Bank advances .. .. .	- 1.5	- 4.7	- 65.8	-
(iv) Tax reserve certificates .. .. .	-	-	-	-
(v) Other (b) .. .. .	58.6	- 58.6	-	-
<b>C. Foreign finance:</b> .. .. .	-	63.3	12.1	5.2
(i) Loans .. .. .	-	63.3	12.1	5.2
Less repayments .. .. .	-	-	-	-
(ii) Grants .. .. .	-	63.3	12.1	5.2
<b>3. Changes in cash balances (including readily realisable assets)</b> .. .. .	- 15.4	- 1.6	88.6	11.0

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

Excludes book adjustments (debits and credits) arising from transfer to recurrent expenditure and capital expenditure of advances for loan works and losses on advance account activities incurred and financed in previous financial years. Hence the figures will not tally with the figures published in the Accounts of the Government of Ceylon.

(b) Loans from semi-Government agencies.

(c) An amount of Rs. 36.0 million representing the food subsidy bill for 1954/55 was transferred from advance accounts to recurrent expenditure in 1958/59. While this book adjustment is excluded from the figures for 1958/59 (vide note (a)) the figures for 1954/55 have been revised

## Surplus/Deficit (—)

Rupees Million

1956/57	1957/58	1958/59	1959/60	1960/61(e)	1961/62	1962/63	1963/64(g).
- 196.4	- 222.3	- 413.4	- 417.5	- 462.5	- 456.1	- 391.7	- 462.4
1,260.5	1,280.0	1,330.4	1,403.8	1,513.9	1,620.6 (f)	1,593.4 (f)	1,753.5 (f)
-1,456.9	-1,502.3	-1,743.8	-1,821.3	-1,976.4	-2,076.6	-1,985.3	-2,216.1
-1,105.2 (105.5)	-1,280.1 (112.0)	-1,432.2 (146.5)	-1,511.9(d) (193.0)	-1,540.8(d) (248.0)	-1,580.7(d) (235.4)	-1,596.4(d) (225.8)	-1,831.8(d) (375.4)
- 213.3	- 282.6	- 303.4	- 306.6	- 419.9	- 480.6	- 402.3	- 400.2
- 5.1	- 3.0	- 2.4	- 1.5	- 1.5	- 0.7	- 0.3	- 0.2
- 14.5	-	10.5	7.1	1.9	2.4	8.6	5.2
- 115.8	54.5	17.1	5.8	15.9	15.8	27.9	15.1
- 3.0	8.9	0.8	-	0.2	1.2	5.6	6.2
175.4	174.7	351.8	411.6	462.5	496.3	391.3	417.0
- 9.4	72.5	27.6	57.4	29.4	104.5	33.8	1.1
9.0	73.9	27.3	62.3	36.5	98.4	28.0	1.0
- 2.3	20.1	4.2	2.7	1.0	4.8	0.1	2.5
- 16.1	- 21.5	- 3.9	- 7.6	- 6.1	1.3	5.9	4.6
166.2	78.5	291.2	327.6	406.5	336.0	331.6	321.3
94.9	45.0	95.0	134.8	214.9	145.0	205.0	245.0
31.1	26.5	29.7	30.6	32.1	37.9	40.4	46.1
63.8	18.5	65.3	104.2	182.8	107.1	164.6	198.9
- 3.0	74.6	179.0	228.2	198.4	248.0	124.1	128.4
96.3	- 13.8	41.1	3.1(d)	20.6(d)	21.0(d)	36.6(d)	19.4(d)
9.1	- 0.8	5.8	7.9	4.7	1.9	6.3	13.4
18.6	23.7	33.0	26.6	26.6	55.8	93.5	96.8
18.6	23.7	35.5	29.3	16.3	44.5	68.7	75.7
-	-	2.5	2.7	3.0	6.8	6.3	10.7
18.6	23.7	33.0	26.6	13.3	37.7	62.4	65.0
-	-	-	-	13.3	18.1	31.1	31.8
-21.0	- 47.5	- 61.7	- 6.0	-	40.2	- 0.4	- 45.4

Source: Central Bank of Ceylon.

- (d) Excludes a payment of Rs. 37.0 million on account of the enhanced contribution payable to the I. M. F. in 1959/60 and Rs. 2.2 million to meet payments to the I.B.R.D and I.D.A. in 1960/61 and Rs. 0.2 million in 1961/62, 1962/63 and 1963/64 to meet payments to the I.D.A. financed through special loans from the Central Bank.
- (e) Capital expenditure chargeable to foreign grants have been brought within the Budget from 1960/61 onwards. Prior to 1960/61 only the unexpended balances of foreign grants, which were available to the Treasury as a source of Budgetary finance, were included under administrative borrowing.
- (f) The figures of revenue for 1961/62, 1962/63 and 1963/64 differ from the published figures in the Government Accounts due to the following adjustments:— (1) 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 the transfer to revenue from the National Flood Relief Fund has been excluded and a sum of Rs. 4.7 million being the value of equipment gifted by foreign Governments and Agencies credited to revenue have been excluded and shown under foreign grants (item 2C (ii)). (2) 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. (3) In 1963/64 the receipt of Rs. 2.9 million from the National Development Tax has been included under revenue while a sum of Rs. 1.6 million being value of equipment and other aid gifted by foreign Governments and Agencies has been excluded and shown under foreign grants.
- (g) Provisional.

TABLE II (G) 2

## REVENUE OF

	Rupees				
	Actual 1962/63	Original Estimates 1963/64	Revised Estimates 1963/64	Actual (provi- sional) 1963/64	Original Estimates 1964/65
<b>I. Transfer Receipts</b> ..	1,278.8	1,430.7	1,348.7	1,397.8	1,437.8
(a) Compulsory transfers from income account of domestic sectors ..	306.9	297.3	273.3	320.0	250.4
(i) Taxes from personal income ..	86.5	n.a.	n.a.	97.1	n.a.
(ii) Taxes from corporate income ..	178.9	n.a.	n.a.	189.6	n.a.
(iii) Other ..	41.5	n.a.	n.a.	33.3	n.a.
(b) Taxes on production and expenditure ..	938.6	1,087.9	1,044.6	1,051.2	1,139.1
(i) General sales and turn- over taxes ..	0.1	45.0	16.0	16.0	32.0
(ii) Selective sales taxes ..	96.0	82.0	106.4	109.3	108.7
(iii) Import duties ..	397.7	487.3	464.2	481.5	520.1
(iv) Export duties ..	278.7	307.8	297.9	277.4	313.8
(v) Taxes on foreign exchange ..	—	10.0	3.0	3.7	4.0
(vi) Licence taxes ..	17.8	17.3	20.3	22.3	20.3
(vii) Taxes on assets ..	36.3	40.0	41.8	38.7	42.7
(viii) Property transfer taxes ..	14.0	15.5	12.0	14.3	14.5
(ix) Surplus of Government monopolies ..	98.0	83.0	83.0	88.0	83.0
(c) Transfers from capital account of households ..	33.3	30.5	26.8	23.9	41.3
(i) Estate duty ..	8.3	8.5	7.5	8.4	9.0
(ii) Personal tax ..	12.4	20.0	19.0	12.7	30.5
(iii) Land tax ..	11.2	—	—	2.7	1.5
(iv) Share capital tax ..	1.4	2.0	0.3	0.1	0.3
(d) Voluntary transfers from income account of domestic sectors ..	—	15.0	4.0	2.7	7.0
<b>2. Disposal of Goods and Services</b> ..	285.5	314.6	317.2	308.4	328.1
(a) Sales of goods and services from current operations ..	285.5	314.6	317.2	308.4	328.1
(b) Sales of existing capital goods ..	—	—	—	—	—
<b>3. Income from Property</b> ..	8.4	19.3	23.2	20.1	33.4
(a) Interest and dividends received ..	8.4	19.3	23.2	20.1	33.4
<b>4. Financial Claims</b> ..	20.7	23.1	22.0	27.1	22.1
(a) Repayments of direct loans and advances ..	5.3	6.8	6.1	10.8	8.3
(b) Net increase in pension liabilities ..	15.4	16.3	15.9	16.3	13.8
<b>Total</b> ..	1,593.4†	1,787.6	1,711.1	1,753.5†	1,821.3

1. (a) (i) Comprises income tax and surcharge on income tax paid by individuals (including sole traders), the surtax, and the rice ration book tax.  
(ii) Comprises income tax and the surcharge on income tax paid by companies and the arrears of profits tax.  
(iii) Comprises the visa tax, the national development tax, the registration of professions and businesses tax fines and forfeitures and sundry revenue not classified elsewhere.
- (b) (i) Receipts from the turnover tax.  
(ii) Receipts from the excise tax on tobacco, matches, duty on country liquor and the betting tax.  
(iii) Includes the licence fees on imports which are under licence.  
(iv) Includes the tea tax.  
(v) The foreign exchange tax.  
(vi) Receipts from arrack and toddy tavern rents, liquor licence fees etc.  
(vii) Receipts from the bank debits tax, tax on heavy oil motor vehicles and licences for motor vehicles.  
(viii) Revenue from the stamp duty.  
(ix) Receipts from the profits from sale of arrack, including profits from Gal Oya and Kantalai spirits.

## THE GOVERNMENT

Million			Percentage		
Change in Actual (provisional) 1963/64 over Actual 1962/63	Change in Actual (provisional) 1963/64 over Original Estimates 1963/64	Change in Original Estimates 1964/65 over Original Estimates 1963/64	Actual 1962/63	Actual (provisional) 1963/64	Original Estimates 1964/65
119.0	— 32.9	7.1	80.3	79.7	78.9
13.1	22.7	— 46.9	19.3	18.2	13.7
10.6	n.a.	n.a.	5.4	5.5	n.a.
10.7	n.a.	n.a.	11.2	10.8	n.a.
— 8.2	n.a.	n.a.	2.6	1.9	n.a.
112.6	— 36.7	51.2	58.9	59.9	62.5
15.9	— 29.0	— 13.0	...	0.9	1.8
13.3	27.3	26.7	6.0	6.2	6.0
83.8	— 5.8	32.8	25.0	27.5	28.6
— 1.3	— 30.4	6.0	17.5	15.8	17.2
3.7	— 6.3	— 6.0	—	0.2	0.2
4.5	5.0	3.0	1.1	1.3	1.1
2.4	— 1.3	2.7	2.3	2.2	2.3
0.3	— 1.2	— 1.0	0.9	0.8	0.8
— 10.0	5.0	—	6.2	5.0	4.6
— 9.4	— 6.6	10.8	2.1	1.4	2.3
0.1	— 0.1	0.5	0.5	0.5	0.5
0.3	— 7.3	10.5	0.8	0.7	1.7
— 8.5	2.7	1.5	0.7	0.2	0.1
— 1.3	— 1.9	— 1.7	0.1	...	...
2.7	— 12.3	— 8.0	—	0.2	0.4
22.9	— 6.2	13.5	17.9	17.6	18.0
22.9	— 6.2	13.5	17.9	17.6	18.0
...	...	...	...	...	...
11.7	0.8	14.1	0.5	1.1	1.8
11.7	0.8	14.1	0.5	1.1	1.8
6.4	4.0	— 1.0	1.3	1.5	1.2
5.5	4.0	1.5	0.3	0.6	0.5
0.9	—	— 2.5	1.0	0.9	0.8
160.1	— 34.1*	33.7	100.0	100.0	100.0

Source: Central Bank Ceylon.

- (d) Represents the receipts from the National Lottery and gifts of money.
- 2.(a) Includes regulatory and non-regulatory charges. Comprises the gross receipts of the Railway, Electrical, Postal, Health and Broadcasting Departments, Port dues fees of Court etc., Reimbursements and Lard Revenue.
- 3.(a) Receipts from interest, annuities etc., profits from commercial undertakings and from the Central Bank, where the interest component cannot be separated.
- 4.(a) Repayments of advances from the Consolidated Fund to the Co-operative Wholesale Establishment, Local Loans and Development Fund, National Housing Fund, etc., and the annuity payment by the Colombo Municipal Council
- (b) Contributions to the Widows' and Orphans' Pension Fund.

† The figures of revenue for 1962/63 and 1963/64 differ from the published figures in the Government Accounts due to the following adjustments. The receipts from the National Development Tax in 1962/63 and 1963/64 amounting to Rs. 17.5 million and Rs. 2.9 million respectively are included under revenue while the value of equipment and other aid gifted by foreign Governments and Agencies in 1962/63 and 1963/64 amounting to Rs. 2.8 million and Rs. 1.6 million respectively are excluded and shown under foreign grants.

\* The corresponding over-estimation of revenue for the financial year 1962/63 over the actual revenue collected was Rs. 123.5 million; in 1961/62 Rs. 156 million, and in 1960/61 revenue over-estimation was of the order of Rs. 120 million.

Table II (G) 2 shows a regrouping of revenue by economic categories. The increase in revenue in 1963/64 over 1962/63 is accounted for mainly by the sizeable increase of Rs 83.8 million under import duty collections [item 1. (B)(iii)]. The items contributing to this increase within this category were duty collections from cotton textiles, "other goods",<sup>(1)</sup> sugar and grain and flour imports. Of the other categories receipts from sales of goods and services from current operations [item 2.(a) ] accounted for an increase of Rs 22.9 million, general sales and turnover taxes [item 1.(b)(i)] Rs 15.9 million, and taxes from personal and corporate income [items 1.(a)(i) and (ii)] Rs 13.1 million. Surpluses of Government monopolies [item. 1.(b)(ix)] and the land tax [item 1.(c) (iii)], however, declined by Rs 10.0 million and Rs 8.5 million respectively.

TABLE II (G) 3  
Revenue of the Government

	Original Estimates 1963/64	Actual (provi- sional) 1963/64	Actual 1962/63	Changes in 1963/64 (Actual) over 1962/63	Excess (+) or short fall (-) in 1963/64 (actual) in rela- tion to original estimates 1963/64
1. Export duties*	307.8	277.4	278.7	- 1.3	- 30.4
(a) Tea (including tea tax)	226.0	218.0	215.8	2.2	- 8.0
(b) Rubber	40.0	11.8	29.3	- 17.5	- 28.2
(c) Coconut	35.7	41.6	27.4	14.2	+ 5.9
2. Import duties (a)*	487.3	481.5	397.7	83.8	- 5.8
(a) Cotton textiles	20.0	47.5	22.8	24.7	+ 27.5
(b) Grain and flour	18.3	29.3	13.1	16.2	+ 11.0
(c) Kerosene oil, motor spirits & liquid fuel	110.0	88.3	100.3	- 12.0	- 21.7
(d) Tobacco and cigarettes	45.0	39.8	46.1	- 6.3	- 5.2
(e) Sugar	26.0	33.8	11.8	22.0	+ 7.8
(f) Other goods†	217.5	180.9	148.3	32.6	- 36.6
3. Income tax (excluding surcharge)	271.5	281.3	217.2	64.1	+ 9.8
Surcharge††	—	3.5	41.6	- 38.1	+ 3.5
4. Personal tax	20.0	12.7	12.4	0.3	- 7.3
5. Profit from sale of arrack(b)	83.0	88.0	98.0	- 10.0	+ 5.0
6. Tobacco tax	66.0	92.3	80.3	12.0	+ 26.3
7. Land tax††	—	2.7	11.2	- 8.5	+ 2.7
8. National Development Tax††	2.0	2.9	17.9	- 15.0	+ 0.9
9. New taxes and revenue measures introduced in 1963/64					
(a) Turnover taxes	45.0	16.0	—	16.0	- 29.0
(b) Foreign exchange tax	10.0	3.7	—	3.7	- 6.3
(c) National Lottery	15.0	2.7	—	2.7	- 12.3
10. Other revenue	480.0	488.8	438.4	50.4	+ 8.8
Total	1,787.6	1,753.5(c)	1,593.4(c)	160.1	- 34.1

Source: Central Bank of Ceylon.

(a) Includes licence fees on imports which are under licence.

(b) Includes Gal Oya and Kantalai spirits.

(c) These figures of revenue differ from the published figures in the Government Accounts due to the reasons given in footnote (†) of Table II (G) 2.

\* The totals of the component items will not tally with the totals shown against these heads as only the major items are indicated therein.

† An item shown in the Government Revenue Classification [Head I Sub-Head 1 (9).]

†† These taxes have ceased to be in force.

(1) An item shown in the Government Revenue Classification [Head I. sub-head 1 (9).]

As compared with the original estimates for 1963/64, the actual revenue collected shows a shortfall of the order of Rs 34.1 million. The diminished significance of this shortfall is apparent when it is realised that the corresponding overestimation of revenue for the financial year 1962/63 compared with the actual revenue collected was Rs 123.5 million; in 1961/62 it was Rs 156 million and in 1960/61 Rs. 120 million. The shortfall of Rs 34.1 million in 1963/64 is mainly accounted for by reductions in collections from export duties [ item 1.(b) (iv) ] to the extent of Rs. 30.4 million and general sales and turnover taxes [ item 1.(b) (i) ] of Rs 29.0 million. Within the export duty category, the shortfall was in respect of rubber (Rs. 28.2 million) and tea (Rs. 8.0 million), while the delay in the implementation of the turnover taxes accounted for a decline in collections under general sales and turnover taxes. On the other hand, collections from selective sales taxes [ item 1.(b) (ii) ] and taxes from personal and corporate income [ items. 1 (a) (i) and (ii) ] recorded increases of Rs. 27.3 million and Rs. 22.7 million respectively.

Table II (G) 3 above depicts in detail the salient changes in the important revenue items in actual revenue (provisional) in 1963/64 compared with the actual revenue for 1962/63 and the original estimates for 1963/64.

Revenue from export duties was lower by Rs. 1.3 million as compared with the actual collections in 1962/63. This was as a result of a fall in duty collections of rubber of Rs. 17.5 million offset by an increase in the collections of the duties on tea (including the tea tax levied at the Colombo and London auctions) and duties on coconut products of Rs. 2.2 million and Rs. 14.2 million respectively. The decline in the export duty collections on rubber was the combined result of a fall both in the quantity exported (by 0.7 million lbs.) and the average f.o.b. price<sup>(1)</sup> (by 8 cents per lb.). On the other hand, the increase in the export duty receipts from coconut was largely on account of an increase in export volume which was also supported by the improvement in prices. Exports of copra which amounted to 43.1 thousand tons in 1962/63 increased to 59.3 thousand tons in 1963/64, while desiccated coconut and coconut oil exports increased from 47.2 thousand tons and 84.3 thousand tons respectively in 1962/63 to 55.1 thousand tons and 104.5 thousand tons respectively in 1963/64. The effects of these increases in export volume were enhanced by higher effective rates of duties consequent on a favourable price effect. The average price (f. o. b.) for all three types of coconut products increased from Rs. 56.94 to Rs. 59.07 per cwt. Collections under the duties on tea recorded a slight increase in spite of a fall of 4 cents per lb. in the f. o. b. price during the financial year from Rs. 2.53 per lb. in 1962/63 to Rs. 2.49 per lb. in 1963/64. This was due to an increase of 21.3 million lbs. in 1963/64 over 1962/63<sup>(2)</sup> in the quantity of teas exported.

Import duty revenue in 1963/64 as compared with the previous year, recorded a significant increase of Rs. 83.8 million or 21.1 percent. The increase in collections under the categories cotton textiles (Rs. 24.7 million), sugar (Rs. 22.0 million), grain and flour (Rs. 16.2 million) and "other goods" (Rs. 32.6 million) amounted to Rs. 95.5 million. This increase was offset

(1). Export duties on rubber are based on a sliding scale since November 28, 1963

(2). The exports of tea in 1963/64 were 472.9 million lbs. as against 451.6 million lbs. in 1962/63.

to some extent by decreased duty collections on kerosene oil, motor spirits and liquid fuel (Rs. 12.0 million) and tobacco and cigarettes (Rs. 6.3 million). The increased collections under cotton textiles, sugar and grain and flour were due to an increased volume of imports and a recovery of arrears of duty from the Food Commissioner in respect of the last two items. In particular, the import volume index reveals that the volume of textile imports almost doubled during the financial year under consideration. By the same token, the fall in the duty collections on kerosene oil, motor spirits etc., was due to the delay in the payment of duty by the Petroleum Corporation, and the fall in duty collections on the import of cigarettes and tobacco to a reduction in import volume. The increase of duty collections under the category "other goods", however, is accounted for by the sharp increase in import duty rates in 1963 which supplemented other measures introduced to restrict the import of luxury and semi-luxury goods.

Income tax receipts in 1963/64 (exclusive of the surcharge) show an increase of Rs. 64.1 million or 29.5 per cent as compared with the actual receipts for 1962/63. The increase of income tax receipts can be attributed to (a) raising of the company rate of taxation from 45 per cent to 57 per cent, (b) raising of the minimum tax rates applicable to individuals from 5 per cent to 15 per cent, (c) reduction of tax free allowances of wife and children and restriction of the scope of dependant relative allowance, (d) alteration of tax slabs, (e) special work done by the Investigation Branch, and (f) to more effective tax administration. The surcharge on income tax and the National Development Tax decreased by Rs. 38.1 million and Rs. 15.0 million respectively compared with the previous year. The decrease in the collections of these two taxes was on account of these taxes not being in force in 1963/64; the collections in that year merely representing the recovery of arrears due.

The new taxes and revenue measures introduced in 1963/64 have recorded a shortfall of Rs. 47.6 million. Turnover taxes fell short of the original estimate of Rs. 45.0 million by Rs. 29.0 million, while the Foreign Exchange Tax recorded a shortfall of Rs. 6.3 million over the original estimate of Rs. 10.0 million. The shortfall in the turnover taxes was due to a downward revision of the rate on the manufacturers' turnover tax<sup>(1)</sup> and to only two quarters collections accruing to that financial year.<sup>(2)</sup> Since the effective date of the Foreign Exchange Tax was January, 11 1964, the shortfall under this item was also due to only two quarters of revenue collections accruing to the financial year 1963/64. Revenue from the National Lottery was only Rs. 2.7 million as against the original estimate of Rs. 15 million. The Industrial Exhibition Lottery which runs concurrent to the National Lottery appears to have partially affected the revenue from this source.

Two further sources of revenue which have recorded changes over the previous financial year are the tobacco tax and profits derived from the sale of arrack. The increased collections of Rs. 12.0 million from the tobacco tax was

(1.) During the Committee Stage of the Budget, the rate on the manufacturers' turnover tax was reduced from 1—10 per cent to 3 per cent.

(2.) The turnover taxes came into operation on January 1, 1964. Since collections under these taxes are made on a quarterly basis, the collections of the last quarter of 1963/64 would have accrued to the revenue collections of 1964/65.



due to an increased use of local tobacco and to the increase in the rate of duty. The use of local tobacco showed an increase of 418,332 lbs. over the previous year while the rate of duty was raised from Rs. 28.00 to Rs. 28.50 per lb. of tobacco from July 31, 1964. Profits from the sale of arrack at Rs.88 million declined by Rs. 10 million when compared with the collections of the previous year. This is due to Rs. 18 million being credited to revenue collections from this source in 1962/63 from accumulated profits of previous years. When compared with the original estimate for 1963/64 actual revenue collections recorded an increase of Rs.5 million; the variation being due to the decision to credit an additional sum of Rs. 5 million from accumulated profits of previous years.

### Expenditure

Table 17 of Appendix II gives a time series and Table 19 of Appendix II shows the original estimates and supplementary provisions of recurrent and capital expenditure<sup>(1)</sup> for 1963/64, along with the actual (provisional) figures for 1963/64 and the original estimates for 1964/65. Total expenditure at Rs. 2,216.1 million is Rs. 230.8 million or 11.6 per cent higher than the corresponding figure for the previous financial year. It is also apparent that total expenditure has increased at the average annual rate of Rs. 118.5 million or 11.5 per cent over the ten year period 1954/55 to 1963/64.

Recurrent expenditure<sup>(2)</sup> for the financial year 1963/64 amounting to Rs. 1831.8 million has shown an increase of Rs. 235.4 million over that of the previous financial year. Capital expenditure<sup>(3)</sup> however has recorded a slight decline of Rs. 2.1 million from Rs. 402.3 million in 1962/63 to Rs. 400.2 million in 1963/64. Analysis by Ministries reveal that the largest increase of recurrent expenditure has occurred under the Ministry of Agriculture, Food and Fisheries. The Ministries of Posts and Telecommunications, of Finance and of Local Government and Home Affairs also increased their recurrent expenditure in 1963/64. This is in contrast to the Ministries of Cultural Affairs and Social Services and of Communications which decreased their recurrent expenditure in 1963/64. In respect of capital expenditure the major increases occurred in the Ministries of Internal and External Trade and Supply, of Rural and Industrial Development and of Finance, while the Ministries of Cultural Affairs and Social Services, of Land, Irrigation and Power, and of Local Government and Home Affairs reduced their expenditure over that of the previous financial year.

Actual expenditure incurred in 1963/64 under recurrent and capital expenditure votes have recorded variations from the original estimates of that year in opposite directions. While recurrent expenditure exceeded the estimate by Rs. 97.8 million, expenditure under capital votes fell short of the estimate by Rs. 116.2 million. Further analysis reveals that the increases that occurred in recurrent expenditure were under the Ministries of Agriculture, Food and Fisheries, and of Education and the decrease in capital expenditure is accounted for by under-spending by the Ministries of Land, Irrigation and Power, and of Internal and External Trade and Supply.

(1) As classified in the Estimates

(2) The total of votes 1, 2, 4 and 6 appearing in the Estimates, less contributions to sinking funds and direct repayments of public debt and book adjustments.

(3) The total of votes 3, 5 and 7 as appearing in the Estimates.

An analysis of the salient changes between the actual (provisional) expenditure for 1963/64 compared with the actual expenditure outturn for 1962/63 and the original estimates for 1964/65, reclassified in terms of current and capital expenditure are given below.

TABLE II (G) 4  
Expenditure of the Government

Year	Current Expenditure (1)	Capital Expenditure (2)			Total Expenditure
		Acquisition construction and maintenance of real assets	Acquisition of financial assets (including loans to Government agencies)	Total Capital Expenditure	
1960/61 .. .. .	1,471.3	471.9	47.2	519.1	1,990.4
1961/62 .. .. .	1,498.1	499.4	86.2	585.6	2,083.7
1962/63 .. .. .	1,534.0	479.1	9.9	489.0	2,023.0
1963/64 Original Estimates ..	1,660.7	608.8	30.6	639.4	2,300.1
Actual (provisional) ..	1,758.4	466.8	36.5	503.3	2,261.7
1964/65 Original Estimates ..	1,745.1	626.6	21.0	617.6	2,392.7

Source: Central Bank of Ceylon.

- (1) Current expenditure is derived by deducting the value of sinking fund contributions and direct repayments of public debt from revenue 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 expenditures 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 nature 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. 23.3 million in 1960/61, Rs. 21.8 million in 1961/62, Rs. 23.9 million in 1962/63, Rs. 49.1 million (estimates) and Rs. 29.5 million (provisional) in 1963/64 and Rs. 23.5 million in 1964/65.

### Current Expenditure

Provisional figures of actual current expenditure in 1963/64 show an increase of Rs. 97.7 million compared with the estimate for that year. The actual (provisional) expenditure for 1963/64 is also higher than that of 1962/63 by Rs. 224.4 million, as compared with an increase of Rs. 35.9 million in 1962/63 over 1961/62. The increase in current expenditure in 1960/61 and 1961/62 amounted to Rs. 105.9 million and Rs. 26.8 million respectively. While the major component of the increase in current expenditure during 1963/64 was the higher food subsidy bill charged to the Consolidated Fund, increases in the expenditure on interest on public debt, education, pension and health, enhanced the increase of recurrent expenditure over the previous year, [(See Table II (G)-5).]

The net food subsidy bill for 1963/64 amounted to Rs. 375.4 million as compared with Rs. 225.8 million in 1962/63.<sup>(1)</sup> Corresponding figures for the previous financial years were Rs. 235.4 million in 1961/62, Rs. 248.0 million in 1960/61

(1). These figures are as given in Treasury ledgers.

TABLE II (G) 5  
Principal Current Expenditure Items

Rupees Million

	Actual 1962/63	Actual (provisional) 1963/64	Original Estimates 1963/64	Original Estimates 1964/65
1. Food subsidies	225.8‡	375.4‡	272.9	327.0
2. Interest on public debt	98.1	113.1	111.0	100.4
3. Pensions	115.4	130.0	126.9	135.8
4. Education*	291.6	315.0	303.0	315.9
5. Health	144.8	149.3	151.6	152.5
6. Total (items 1-5)	875.7	1,082.8	965.4	1,031.6
7. Total current expenditure	1,534.0	1,758.4	1,660.7	1,745.1
8. 6 as a percentage of 7	57.1	61.6	58.1	59.1

Source: Central Bank of Ceylon

‡ These figures are as given in Treasury ledgers.

\* Includes expenditure of the Department of Cultural Affairs

and Rs. 193.0 million in 1959/60. Expressed as a percentage of total current expenditure, food subsidies accounted for 21.3 per cent in 1963/64, 14.8 per cent in 1962/63, 15.7 per cent in 1961/62 and 16.9 per cent in 1960/61. The net food subsidy bill of Rs. 377.4 million in 1963/64, exclusive of the rebate of Rs. 2.0 million from the Commissioner of Agrarian Services is 21.5 per cent.

A breakdown of the net food subsidy bill based on the provisional data provided by the Food Commissioner for the financial year 1963/64 and the actuals for 1962/63,<sup>(1)</sup> adjusted for rebates allowed by the Commissioner of Agrarian Services are given in Table II (G) 6. Changes between the two years are also indicated.

A possible explanation for the increase in the loss on the sale of imported rice in 1963/64 is the increase in the landed cost of imported rice. In the case of rice the average landed cost of rice from Burma which was Rs. 546 per long ton in 1962/63 was Rs. 575 per long ton in 1963/64, thus showing an increase of Rs. 29 per long ton. The average landed cost of rice from China also showed an increase from Rs. 541 in 1962/63 to Rs. 565 in 1963/64, an increase of Rs. 24 per long ton. The increased loss on local rice is accounted for by the larger purchases and sales of local rice.

The biggest single factor contributing to the increase in the net food subsidy bill was the reduction of the profit in the sale of sugar by Rs. 79.5 million. This was due to the buying price of white sugar almost doubling over the

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

TABLE II (G) 6

## Food Subsidy Bill for 1963/64 as compared with 1962/63

		Rupees Million		
	1962/63	1963/64*	Change	
1. Loss (subsidy) on sale of imported rice (1) ..	125.3	128.5	— 3.2	increase in loss
2. Loss (subsidy) on sale of local rice (1) ..	283.2	295.6	— 12.4	increase in loss
3. Subsidy on local red onions ..	2.6	2.5	+ 0.1	decrease in loss
4. Distribution expenses and other charges ..	26.3	36.6	— 10.3	increase in loss
5. Total (1 to 4) ..	437.4	463.3		
6. Profit from sale of sugar ..	154.6	75.1	— 79.5	decrease in profit
7. Profit from sale of flour ..	27.0	1.0	— 26.0	decrease in profit
8. Other goods ..	17.0	9.8	— 8.1	decrease in profit
9. Total (6 to 8) ..	199.5	85.9		
10. Total net subsidy ..	238.0 (2)	377.4 (2)	— 139.4	increase in loss

Source: Central Bank of Ceylon

\*Provisional.

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

- (i) 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 c and f value plus other charges incurred up to the granaries.
- (ii) The loss (subsidy) on 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.

(2) The variations between these figures and the figures of the food subsidy in Table II (G) 5 are as follows:—

1962/63	Rupees Million	1963/64	Rupees Million
1. Treasury figure	225.8	1. Treasury and Food Commissioner's (provisional) figure including a rebate of Rs. 2.0 million in respect of 1962/63.	375.4
2. Add amount financed under advance accounts	12.7	2. Exclude rebate shown in 1 above	2.0
Estimate of Food Commissioner	238.5	3. Total net subsidy	377.4
Less	13.2		
3. Actual (provisional) figure of Food Commissioner including a rebate of Rs. 14.7 million by Commissioner of Agrarian Services in respect of 1961/62	225.3		
4. Exclude rebate shown in 3 above	14.7		
	240.0		
5. Include rebate by Commissioner of Agrarian Services shown in 1963/64 in respect of 1962/63	2.0		
6. Total net subsidy	238.0		

financial year, while the retail sale price remained unchanged. The average landed cost of white sugar amounted to Rs. 1135 per long ton in 1963/64 as compared with Rs. 637 per long ton in 1962/63.<sup>(1)</sup>

The profit from the sale of flour declined by Rs. 26.0 million in 1963/64. This was mainly due to a reduction of 5 cents per pound in the retail sale price of flour from 28 cents to 23 cents per pound, a measure designed to reduce the cost of living. The increase in the landed cost of flour from Australia from Rs. 481 per long ton in 1962/63 to Rs. 530 per long ton in 1963/64 also accounted for the decrease in the profit from this source.

The purchases of paddy under the Guaranteed Price Scheme during 1963/64 amounted to 29,175,794 bushels as compared with 27,759,722 bushels in 1962/63, an increase of 1,416,072 bushels.

### Capital Expenditure

Actual expenditure on capital votes (i.e. the total of votes 3, 5 and 7 of budgetary expenditure) for 1963/64 amounted to Rs. 400.2 million. If to this is added extra-budgetary outlays of the tea and rubber replanting subsidy funds capital items in recurrent expenditure etc., total capital expenditure in 1963/64 amounts to Rs. 503.3 million (provisional). This is Rs. 136.1 million lower than the original estimates as shown in Table II (G) 4 for the year, but Rs. 14.3 million more than the actual expenditure of 1962/63. Capital expenditure in respect of acquisition, construction and maintenance of real assets declined by Rs. 12.3 million and acquisition of financial assets increased by Rs. 26.6 million, when compared with the previous financial year. Sufficient details are not yet available to explain the decrease in respect of acquisition, construction and maintenance of real assets. The increase in the acquisition of financial assets including loans to Government agencies is mainly due to the provision of loans to the National Housing Fund and the Lady Lochore Loan Fund and the payment of compensation to shareholders in respect of Bank of Ceylon ordinary shares.

### Advance Account Operations

Operations on advance accounts during 1963/64 resulted in a net receipt of Rs. 16.1 million as compared with a net receipt of Rs. 13.7 million in 1962/63. The net receipt of Rs. 16.1 million was mainly due to a rise of Rs. 61.0 million in Ceylon's liability to China under the Rubber/Rice Trade Agreement, offset by advances amounting to Rs. 45.9 million to Government Departments.

### Net Cash Operating Deficit

The actual net cash operating deficit of Rs. 462.4 million in 1963/64 is higher than its original estimate of Rs. 418.0 million by Rs. 44.4 million. The increase in the actual net cash deficit as compared with the originally estimated deficit for that year was due to a shortfall in revenue of Rs. 34.1 million and by

(1) The estimate of the average landed cost of white sugar in 1962/63 of Rs. 1193 per long ton as given in page 92 of the Annual Report for 1963 has now been revised as shown above to Rs. 637 per long ton.

a rise in expenditure of Rs. 26.5 million, offset by a net receipt of Rs. 16.1 million under advance account operations.<sup>(1)</sup> This is in contrast to the pattern in the financial year 1962/63 where the actual net cash deficit was lower than the originally estimated deficit despite a heavy shortfall in revenue collections in that year. The increase in total expenditure as compared with the original estimate for 1963/64 was on account of an increase in recurrent expenditure<sup>(2)</sup> amounting to Rs. 142.5 million, offset by a decrease in capital expenditure of Rs. 116.2 million. Expressed as percentages of the estimates of that year the extent of the increase under recurrent expenditure amounted to 8.4 per cent and the decrease of capital expenditure to 22.5 per cent.

The net cash deficit for 1963/64 when compared with the net cash deficit for 1962/63 shows an increase of Rs 70.7 million. This was due to an increase of Rs 235.4 million in recurrent expenditure, offset by a rise of Rs. 160.1 million in revenue, an increase of Rs. 2.4 million in the net receipts on advance account operations and a fall of Rs. 1.2 million in capital expenditure.

### Financing of the Deficit

Table II (G) 7 below shows the financing (by sources) and the expansionary impact of the net cash deficit with comparative data for the previous financial year.

**TABLE II (G) 7**  
**Financing of the Deficit**

	Rupees Million			
	1962/63		1963/64 (Provisional)	
1. Administrative borrowing:				
2. Foreign finance		-33.8		-1.1
(a) Loans:				
(i) Gross amount borrowed	68.7		75.7	
(ii) Less repayments	6.3	62.4	10.7	65.0
(b) Grants		31.1	31.8	96.8
3. Domestic market borrowing from non-bank sources:				
(a) Gross amount borrowed		193.9	252.2	
(b) Less contributions to sinking funds		40.4	46.1	206.1
4. Domestic market borrowing from the banking system		178.1		115.2
5. Decline in Government cash balances (minus sign indicates an increase)		0.4		45.4
6. Net cash operating deficit		391.7		462.4
7. Decline in U. S. aid counterpart funds (minus sign indicates an increase)		-16.5		2.3
8. Net expansionary impact of Budget (4 + 5 + 7)		162.0		162.9

Source: Central Bank of Ceylon

(1.) The sum of the component items do not tally with the total due to rounding off of figures.

(2.) Net of sinking fund contributions and direct repayments of public debt from revenue.

The net cash deficit of Rs. 462.4 million for the financial year 1963/64 was financed by borrowing Rs. 206.1 million from domestic non-bank sources, Rs. 115.2 million from the banking system, Rs. 96.8 million by foreign assistance and Rs. 45.4 million by drawing down Government cash balances, offset by a net repayment of Rs. 1.1 million of administrative borrowing.

The actual net cash deficit for 1963/64 on account of the reasons mentioned earlier in this section, had recorded an increase of Rs. 70.7 million when compared with the net cash deficit for the previous financial year. It is significant however that the increase in the expansionary impact of the deficit, when adjusted for the change in U.S. Aid counterpart funds, in 1963/64 over the previous financial year, was considerably smaller than the increase in the net cash deficit. The expansionary impact of the budget in 1963/64 at Rs. 162.9 million has recorded an increase of only Rs. 0.9 million over the corresponding figure for 1962/63. This was achieved largely by the increased reliance on borrowing from domestic non-bank sources, which enabled the Government to reduce its borrowing from the banking system by as much as Rs. 62.9 million. This feature of Government financing, however, was offset by an increase in the drawing down of cash balances (Rs. 45.0 million), and a decrease in U.S. Aid counterpart funds.

Borrowing from the banking system amounting to Rs. 115.2 million compares favourably with that of the previous financial year. Of the total sum borrowed in 1963/64, Rs. 142.5 million came from the Central Bank, which was offset by a decrease of Rs. 27.3 million of borrowings from commercial banks. The increased borrowing from the Central Bank was composed of increases of Rs. 164.3 million in treasury bills sold to the Central Bank offset by a decrease of Rs. 19.4 million in Central Bank advances to Government. The decrease in the borrowings from commercial banks was composed of a decrease in the holdings of treasury bills and tax reserve certificates amounting to Rs. 54.7 million and Rs. 0.4 million respectively, offset by an increase of Rs. 27.8 million in their holdings of rupee securities.

The figure of net market borrowing from non-bank sources for the year 1963/64 of Rs. 206.1 million also shows an improvement over that of 1962/63. It is also higher than the amounts realized from non-bank borrowing in 1960/61 and 1961/62 of Rs. 165.2 million and Rs. 109.4 million respectively. Savings institutions, Employees' Provident Fund, Insurance funds (including the Insurance Corporation) other state Corporations and other companies were instrumental in improving their share of contributions in the enlarged total for 1963/64. An analysis of domestic market borrowing together with changes between the years is given under the section detailing development of public debt 1963/64.

Table II (G) 8 below indicates contributions to Government securities (including treasury bills and tax reserve certificates) classified according to major investor groups.

**TABLE II (G) 8**  
**Contributions to Government Securities by major non-bank investor groups**

	Rupees Million		
	1952/63	1963/64	Net change
1. Savings institutions ..	14.3	28.9	14.6
2. Employees' Provident Fund ..	61.7	65.6	3.9
3. Other provident and pension funds ..	31.2	22.0	-9.2
4. Insurance funds * ..	22.4	36.6	14.2
5. Other state corporations ..	—	3.5	3.5
6. Other companies ..	5.0	12.2	7.2
7. Clubs and institutions ..	0.1	—	-0.1
8. Individuals ..	0.1	1.3	1.2

Source: Central Bank of Ceylon

\*Includes contributions by the Insurance Corporation

### Foreign Finance

Foreign aid for capital expenditure received in 1963/64 amounted to Rs. 107.5 million as compared with Rs. 99.8 million in 1962/63, Rs. 62.6 million in 1961/62 and Rs. 29.6 million in 1960/61. Foreign loan repayments during the four years amounted to Rs. 10.7 million in 1963/64, Rs. 6.3 million in 1962/63, Rs. 6.8 million in 1961/62 and Rs. 3.0 million in 1960/61. Although the net receipt from foreign loans and grants [ (see Table II (G) 9 below) ] 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. Though a shortfall in the utilization of foreign aid makes no difference to the financing of the deficit, where the receipt of aid is tied to an equivalent amount of expenditure, from the stand point of capital formation and economic growth under-utilization of aid is a matter for concern. The details of foreign aid received since 1960/61 are as follows:-

**TABLE II (G) 9**  
**Receipts from Foreign Aid**

	1960/61 net receipts	1961/62 net receipts	1962/63 net receipts	1963/64		
				amount received	amount repaid	net receipts
<b>Loans:</b>						
1. I. B. R. D. .. ..	9.2	25.6	21.2	15.7	4.4	11.3
2. Canada .. ..	—	-1.3	0.8	1.0	1.2	-0.2
3. China .. ..	—	-1.0	—	13.4	1.0	12.4
4. U. K. .. ..	—	3.3	11.9	9.0	2.6	6.4
5. U. S. A. .. ..	2.4	7.6	-0.7	3.8	1.1	2.7
6. U. S. S. R. .. ..	1.8	3.4	13.5	32.0	—	32.0
7. West Germany .. ..	—	—	11.5	0.4	—	0.4
8. Yugoslavia .. ..	—	—	4.3	0.5	0.4	—
<b>Grants:</b>						
Colombo Plan						
1. Australia .. ..	3.8	—	2.5	—	—	—
2. Canada .. ..	4.2	4.4	5.7	4.4	—	4.4
3. New Zealand .. ..	—	—	—	—	—	—
Other						
1. China .. ..	—	8.3	19.7	24.5	—	24.5
2. U. S. A. .. ..	5.3	1.6	0.9	1.4	—	1.4
3. West Germany .. ..	—	3.8	2.3	—	—	—
<b>Total of Loans and Grants</b>	<b>26.6</b>	<b>55.8</b>	<b>93.5</b>	<b>107.5</b>	<b>10.7</b>	<b>96.8</b>

Source: Central Bank of Ceylon.



## Public Debt

Data concerning public debt both domestic and foreign are shown in Table 24 of Appendix II. The figures of total public debt, domestic and foreign, as at the end of each of the last five financial years are given below: —

**TABLE II (G) 10**  
**Total Public Debt<sup>(1)</sup>**

End of September		Rupees Million			
		Total gross debt	Increase over previous financial year	Net debt (less value of sinking funds)	Increase over previous financial year
1960	.. .. .	2,230.4	393.4	1,912.8	392.1
1961	.. .. .	2,651.0	420.6	2,332.7	419.9
1962	.. .. .	3,038.9	387.9	2,688.9	356.2
1963	.. .. .	3,547.3	398.4	3,065.4	376.5
1964	.. .. .	3,787.4	350.1	3,436.0	370.6

Source: Central Bank of Ceylon

The increase in gross debt and net debt during the financial year 1963/64 were Rs 350.1 million and Rs 370.6 million, respectively. The corresponding figures for the previous financial year were Rs 398.4 million and Rs 376.5 million respectively. The increase in gross debt in the financial year 1963/64 has recorded the smallest annual increase in the last five financial years.

The increase in gross debt by Rs 350.1 million was the result of increases of Rs 225.8 million in rupee securities, Rs 125.0 million in treasury bills, Rs. 13.4 million in tax reserve certificates, Rs. 5.0 million in foreign debt and a net repayment of Rs 19.2 million of Central Bank advances.

### Domestic Debt

The gross domestic debt stood at Rs. 3,375.3 million as at the end of the financial year 1963/64. The composition of the debt as on that date was rupee loans Rs. 1,909.4 million, treasury bills Rs. 1,250.0 million, tax reserve certificates Rs. 32.5 million, Central Bank advances Rs. 183.3 million and national development bonds Rs. 0.1 million. The table below gives a breakdown of the change in the composition of the domestic public debt compared with 1962/63.

**TABLE II (G) 11**  
**Composition of Domestic Public Debt**

End of September	Rupees Million							Total	
	Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Advances(2)	National Development Bonds(3)	Gross	Net
	Gross	Sinking Funds(1)	Net						
1963	1683.6	276.3	1407.3	1125.0	19.1	202.5	.. .	3030.2	2753.9
1964	1909.4	312.8	1596.6	1250.0	32.5	183.3	0.1	3375.3	3062.5
Change(4)	+225.8	+36.5	+189.3	+125.0	+13.4	-19.2	+0.1	+345.1	+308.6

Source: Central Bank of Ceylon

- (1) Represents the market value of investments held on behalf of sinking funds (including supplementary sinking funds)
- (2) Including special loans amounting to Rs. 39.5 million in September, 1963, and Rs. 39.7 million in September, 1964.
- (3) The value of National Development Bonds issued and outstanding as at the end of September, 1963 amounted to Rs. 36,320.
- (4) + sign denotes an increase

(1) These figures of public debt exclude National Housing Debentures and State Mortgage Bank Debentures which amounted to Rs 75.0 million and Rs. 43.3 million respectively as at the end of September, 1964.

**TABLE II (G) 12**  
**Domestic Debt-Analysis by Maturities**  
**(as at end of September)**

Years to Maturity (1)	1960		1961		1962		1963		1964	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
Under 5 .. .. .	1,050.5	54.2	1,218.6	52.0	1,451.1	53.9	1,592.8	52.6	1,671.8	49.5
Between 5 and 10 .. .. .	127.5	6.6	185.1	7.9	229.5	8.5	365.4	12.1	445.0	13.2
Between 10 and 15 .. .. .	295.0	15.2	230.2	9.8	180.2	6.7	222.9	7.4	216.6	6.4
Over 15 .. .. .	463.6	23.9	710.1	30.3	832.8	30.9	849.1	28.0	1,042.0	30.9
Total .. .. .	1,936.7	100.0	2,344.0	100.00	2,693.7	100.0	3,030.2	100.0	3,375.3 (2)	100.0

*Source: Central Bank of Ceylon.*

(1) As to latest date of maturity.

(2) Includes Rs. 0.1 million being the value of National Development Bonds issued and outstanding. This amount cannot be distributed among the above four categories as there is no fixed date of maturity.

Table II (G) 12 depicts the maturity pattern of gross domestic debt as at September 30, 1964, with corresponding data for the four previous financial years. This table reveals that the term structure of domestic debt has lengthened over the last financial year. Domestic debt with over 15 years to latest date of maturity comprises 30.9 per cent of total domestic debt, an increase of 2.9 percentage points during the financial year 1963/64. Correspondingly, debt with less than 5 years to maturity has fallen by 3.1 percentage points to take 49.5 per cent of the total as at the end of September, 1964.

### Rupee Securities

Shown below are the values of loans raised and repaid during the last five financial years.

				Rupees.	
Financial Year				Loans Raised	Loans Repaid
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
1963/64	..	..	..	315,000,000	89,148,300

Source: Central Bank of Ceylon

Of rupee loans amounting to Rs. 315.0 million issued during the financial year 1963/64 one loan amounting to Rs. 70.0 million was a conversion loan, while the balance eight loans aggregating to Rs. 245.0 million were cash issues. The 3½ per cent (conversion) Loan, 1974 amounting to Rs. 70.0 million was issued in conversion of part of the 3¾ per cent Loan, 1964 of Rs. 70.0 million which was due for repayment in July, 1964. Stock of the maturing loan amounting to Rs. 64.5 million was surrendered in payment for stock of the 3½ per cent conversion loan, the balance was subscribed for in cash. The other eight issues floated were entirely for cash. A classification of the allotments is shown in Table II (G) 13.

Table II (G) 13 shows that savings institutions absorbed Rs. 79.9 million (25.4 per cent) of loans floated in 1963/64 as compared with only Rs. 17.3 million (7.8 per cent) in 1962/63. The balance Rs. 235.0 million of loans issued in 1963/64 was absorbed as follows - Employees' Provident Fund Rs. 65.0 million (21 per cent), Sinking Funds Rs. 46.3 million (15 per cent), commercial banks Rs. 33.0 million (11 per cent), Insurance Corporation Rs. 29.0 million (9 per cent) and Trusts, Benevolent, Pension and Provident Funds other than Employees' Provident Fund Rs. 25.8 million (8 per cent). The absorption of Government securities by non-bank investors continued to improve in the financial year 1963/64 and this despite the fact that privately owned time and savings deposits of commercial banks increased by Rs. 56.5 million. Given below is a table showing a classification and comparison of allotments of Government securities in 1962/63 and 1963/64.

TABLE II (G) 13

## Classification of Allotments of Subscriptions to Government Securities—1963/64

Rupees Million

	4½% Loan, 1984-88 'D' Series	4½% Loan, 1984-88 'E' Series	4½% Loan, 1985-89	4½% Loan, 1985-89 'B' Series	4½% Loan, 1985-89 'C' Series	4½% Loan, 1985-89 'D' Series	3½% Loan, 1974*		4½% Loan 1985-89 'E' Series	4½% Loan 1985-89 'F' Series	Total	
							Conver- sion	Cash			Amount	Percen- tage
Commercial banks ..	6.0	—	—	10.0	10.0	2.0	—	—	5.0	—	33.0	10.5
Savings institutions ..	2.4	3.5	3.5	2.0	1.0	2.5	52.5	—	11.0	1.5	79.9	25.4
Sinking funds ..	1.4	6.3	11.0	8.2	4.1	8.3	—	—	6.6	0.4	46.3	14.7
Departmental and other official funds Trusts, benevolent, pension and provident funds: ..	1.2	1.6	0.1	0.4	2.4	—	10.3	—	2.4	3.0	21.4	6.8
(1.) Employees' Provident Fund ..	8.5	8.1	8.5	5.1	5.9	8.2	—	—	13.9	6.8	65.0	20.6
(2.) Other ..	2.0	6.2	2.9	1.1	1.3	1.6	1.1	1.9	3.1	4.6	25.8	8.2
Insurance funds:												
(1.) Insurance Corporation ..	2.5	1.0	3.3	3.1	4.2	4.9	—	—	7.3	2.7	29.0	9.2
(2.) Insurance companies ..	0.8	3.3	0.6	—	0.9	0.5	0.4	1.8	—	0.6	8.9	2.8
Other State corporations ..	—	—	—	—	—	1.9	—	1.6	—	—	3.5	1.1
Other companies ..	—	—	0.1	—	—	—	—	—	—	0.2	0.3	0.1
Individuals, clubs and institutions ..	0.1	—	0.1	—	0.2	—	0.2	0.1	0.7	0.3	1.7	0.5
<b>Total</b>	<b>25.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>64.5</b>	<b>5.5</b>	<b>50.0</b>	<b>20.0</b>	<b>315.0</b>	<b>100.0</b>

\*This loan was raised in conversion of the Ceylon Government 3½% Loan, 1964 which was due for repayment on July 15, 1964.

Source: Central Bank of Ceylon

TABLE II (G) 14

**Classification and Comparison of Allotments of  
Government Securities in 1962/63 and 1963/64**

Rupees Million

	1962/63		1963/64		Change
	Amount	%	Amount	%	Amount
Commercial banks .. .. .	25.4	11.5	33.0	10.5	+ 7.6
Co-operative provincial banks .. .. .	0.3	0.1	—	—	- 0.3
Savings institutions .. .. .	17.3	7.8	79.9*	25.4	+62.6
Sinking funds .. .. .	36.4	16.4	46.3	14.7	+ 9.9
Departmental and other official funds .. .. .	7.5	3.4	21.4	6.8	+13.9
Trusts, benevolent, pension and provident funds: .. .. .					
(1.) Employees' Provident Fund .. .. .	67.8	30.6	65.0	20.6	- 2.8
(2.) Other .. .. .	36.6	16.5	25.8	8.2	- 10.8
Insurance funds: .. .. .					
(1.) Insurance Corporation .. .. .	12.9	5.8	29.0	9.2	+16.1
(2.) Insurance companies .. .. .	13.4	6.1	8.9	2.8	- 4.5
Other State corporations .. .. .	—	—	3.5	1.1	+ 3.5
Other companies .. .. .	0.8	0.4	0.3	0.1	- 0.5
Individuals, clubs and institutions .. .. .	3.2	1.4	1.7	0.5	- 1.5
<b>Total .. .. .</b>	<b>221.3</b>	<b>100.0</b>	<b>315.0</b>	<b>100.0</b>	<b>+93.7</b>

Source: Central Bank of Ceylon

\* Of this amount Rs. 52.5 million represents contributions to the 3½% (conversion) Loan, 1974.

### Maturity and Rate Classification

By maturity classification eight 21-25 year loans amounting to Rs. 245 million were issued. All these loans were issued at a rate of interest of 4½ per cent, per annum which has been the rate of interest of such loans, since June, 1963. The 10 year conversion loan was issued at 3½ per cent per annum.

### Treasury Bills

The volume of Treasury Bills issued and outstanding at the beginning of the financial year stood at Rs. 1,125 million, the authorised limit at that date being Rs. 1,150 million. Under the provisions of Section 116 of the Finance Act. No. 11 of 1963 the authorised limit was raised by Rs. 100 million to Rs. 1,250 million. Again by a resolution of the House of Representatives dated August 28, 1964 the authorised limit was increased by Rs. 250 million to Rs. 1,500 million. By the end of the fiscal year, September 30, 1964, the amount of Treasury Bills issued and outstanding stood at Rs. 1,250 million, showing an increase of Rs. 125 million during the financial year. Thus at the end of the financial year there was an unutilized balance of Rs. 250 million to the possible limit of Treasury Bill issues.

The holding of Treasury Bills by the Central Bank as at the end of September, 1964 was Rs. 1,153.2 million (92.2 per cent of the total outstanding) as compared with Rs. 988.9 million (87.9 per cent) as at September 30, 1963.

There was no change in the rate of interest on Treasury Bills in the financial year under review, which remained at 2.80 per cent per annum. The Central Bank support for Treasury Bills however was only at 0.76 per cent per annum, a measure designed to ease the pressure on the Government Budget.

### Foreign Debt

Gross foreign debt (after deducting repayments) recorded an increase of Rs. 5.0 million in 1963/64, as compared with the increase of Rs. 61.9 million in 1962/63. The increase in 1963/64 is analysed in Table II (G) 15 below.

TABLE II (G) 15

### Foreign Loans

Rupees Million

	Increase during 1963/64	Liability as at September 30, 1964
I.B.R.D. loans	11.3	134.7
Canadian loans	-0.2	8.9
Chinese loan	12.4	21.6
U.K. line of credit	6.4	21.7
U.K. Sterling securities	-60.0	107.9*
U.S. D.L.F. loans	-0.8	11.7
U.S. I.C.A. loans	3.6	35.2
U.S.S.R. loan	32.0	54.3
West German loans	0.4	11.8
Yugoslavian line of credit	..	4.3
Total	5.0	412.1*

Source: Central Bank of Ceylon

\* Sinking funds maintained for the redemption of Sterling securities amount to Rs. 38.6 million. Adjusted for these sinking funds the net liability amounts to Rs. 373.5 million.

### Sinking Funds

At the close of the financial year 1963/64 the market value of sinking funds established for the redemption of the funded public debt was Rs. 351.4 million, reflecting a decrease of Rs. 20.5 million compared with the figures as at the close of the financial year 1962/63. The decrease was made up as follows:-

	Rupees million	
Amount utilised for repayment of loans	79.1	
Surplus in the sinking funds credited to Government	3.0	82.1
Less		
Sinking fund contributions		-46.0
Interest on investments		-14.8
Appreciation in market value of investments		-0.8
Net decrease		<u>20.5</u>

### Borrowings by Semi-Government Institutions

The Central Bank followed the same policy as in the previous financial year of channelling all available resources to Government's needs and advising the Government to lend out of loan funds any moneys to the National Housing Commissioner and the State Mortgage Bank depending on the needs of these two institutions and the state of Government finances.

**(i) National Housing Department**

There were no issues of National Housing Debentures in 1963/64, but the Government sanctioned a direct loan of Rs. 15.0 million to the National Housing Commissioner. Thus, at the end of the financial year 1963/64 the total of National Housing Debentures issued and outstanding remained at Rs. 75.0 million, while direct loans sanctioned by the Government increased by Rs. 15.0 million to Rs. 70.0 million; the market value of sinking funds established for the redemption of National Housing Debentures standing at Rs. 23.3 million.

**(ii) State Mortgage Bank**

There were no new issues of State Mortgage Bank Debentures in 1963/64. The State Mortgage Bank for the most part carried on its operations by recourse to overdrafts. The borrowing limit of the State Mortgage Bank under Section 35 of the State Mortgage Bank Ordinance increased by Rs. 2.6 million to Rs. 67.6 million in 1963/64. Rs. 5.0 million, 2½ per cent State Mortgage Bank Debentures 1962-64 and Rs. 5.0 million 2¾ per cent State Mortgage Bank Debentures 1962-64 were repaid during the financial year, thereby reducing the amount of debentures issued and outstanding to Rs. 33.3 million. The overdrafts guaranteed as at September 30, 1964, stood at Rs. 24.3 million, bringing the total indebtedness of the Bank at the end of the financial year to Rs. 57.6 million, leaving an unutilized borrowing authority of Rs. 10 million.

**Issue of Central Bank Securities**

Under the provisions of Section 91 (i) (b) of the Monetary Law Act (Cap. 422), 4½ per cent Central Bank Securities (1985-89) amounting to Rs. 53.4 million were issued on February 1, 1964.

**Budget 1964/65**

The original estimates of revenue and expenditure for 1964/65 as approved by Parliament were as follows:-

**TABLE II (G) 16****Original Budget Estimates**

Rupees Million

(a) Recurrent expenditure (votes 1, 2, 4 and 6)	..	1879.4	
Less 2½ per cent under expenditure	..	47.0	1832.4
(b) Capital expenditure (votes 3, 5 and 7)	..		558.0
(c) Total expenditure [ (a) + (b) ]	..		2390.4
(d) Revenue (inclusive of new tax receipts)	..		1881.4
(e) Budget deficit [ (c)-(d) ]	..		509.0
(f) Less contributions to sinking funds and direct repayments of public debt	..		68.3
(g) Estimated net cash operating deficit	..		440.7

Source: Central Bank of Ceylon

Proposals to finance the Budget deficit of Rs. 509.0 million were given as follows:-

- |                              |   |                             |
|------------------------------|---|-----------------------------|
| (a) Market borrowing         | - | Rs. 250 million             |
| (b) Foreign aid              | - | Rs. 225 million; and        |
| (c) Administrative borrowing | - | Rs. 35 million, which would |
- fully cover the proposed deficit; there being no borrowing from inflationary sources.

## Revenue

The estimated total revenue for the year 1964/65 is Rs. 1881.4 million, which is inclusive of a net receipt of Rs. 106.6 million from the Budget proposals compared with the actual (provisional) revenue of Rs. 1753.5 million in 1963/64. The Budget estimates of revenue for the current fiscal year thus show an increase of Rs. 127.9 million over the actual (provisional) figure of the previous fiscal year.

Given below are the new revenue measures proposed in the Budget and the additional revenue that was expected from them for a full financial year:-

	Rs. million
1. Income tax (reduction in development rebates)	1.6
2. Wealth tax	11.5
3. Import duties on petroleum products	15.0
4. Export duties on precious stones	0.2
5. Tea tax	12.0
6. Excise duty on cigarette tobacco	1.6
7. Gemming Corporation	10.0
8. Philatelic Bureau	1.0
9. Revenue from other sources (details of which were not specified)	60.1
Total (1 to 9)	<u>113.0</u>

The net revenue to the Government was, however, placed at Rs. 106.6 million, as two proposals, when fully implemented were expected to result in a loss of Rs. 6.4 million. The proposals and amounts involved are given below:-

	Rs. million
1. Income tax relief to lower income groups	3.5
2. Teachers' pensions	2.9
Total (1 and 2)	<u>6.4</u>

## New Tax Measures

### I. Income Tax:

It was proposed that where the total assessable income did not exceed Rs. 15,000 per annum, the first slab of taxable income which varied between Rs. 4,000 for an individual and Rs. 13,000 for a married couple with 4 children and which was liable for a flat 15 per cent rate, would be altered. The first slab of Rs. 1,000 would be taxed at 5 per cent. and the remaining income of the original first slab would be taxed at 15 per cent. Under this proposal every tax payer who was entitled to this concession would be granted relief of a sum of Rs. 100. irrespective of the size of his income or his family circumstances. This proposal was to be brought into effect in the current assessment year 1964/65.



## Tax Evasion

The Finance Minister in his Budget Speech proposed action against tax evasion reflected in undisclosed hoards of wealth in the form of currency notes of higher denominations, gold, gems and jewellery. An opportunity was given to all hoarders to declare their hidden assets (hoardings) and obtain the free use of such resources after paying a tax of 33½ per cent of the value of such assets. For this purpose time was granted till December 31, 1964 to make this declaration. Effective steps were to be taken from January 1, 1965 to bring into the tax net all persons in possession of hoarded wealth who have failed to take advantage of the amnesty offered.

## Development Rebates

The special development rebate of 40 per cent which was enjoyed by approved projects and by agricultural undertakings would be withdrawn and instead a uniform development rebate of 20 per cent to all industrial and agricultural undertakings was proposed. Likewise, the tax holiday for industrial undertakings would in future be given only to those industrial undertakings which are approved by the Minister of Rural and Industrial Development with the concurrence of the Minister of Finance. It was further proposed to limit the tax-free declaration of dividends to 10 per cent of the paid-up capital. Where any company distributes a dividend in excess of 10 per cent, it would then forfeit the tax exemption of profits as well as of dividends to which it was entitled under the existing provisions.

## II. Wealth Tax:

Three important changes were proposed with regard to the wealth tax. The first relates to charitable institutions. It was proposed to raise the exemption limit for wealth tax in respect of charitable institutions from the present level of Rs. 20,000 to Rs. 100,000. This would be with retrospective effect from the year of assessment 1959/60, the year in which the wealth tax was introduced. The loss to revenue from this measure was estimated to be approximately Rs. 50,000 a year. The second change related to a revision of the present rate structure of the tax. It was proposed to exempt the first Rs. 100,000 of wealth in every case and to revise the rates of tax so as to make good the lost revenue resulting from this exemption. The highest rate of tax would be raised to 5 per cent in the case of those whose wealth exceeded Rs. 3,000,000. The increase in revenue that would result from the stepping up of rates of tax was placed at Rs. 4.5 million. The third change related to the extension of wealth tax to shares of sterling companies. These shares are not property situated in Ceylon and except in the case of Ceylonese share-holders, the entire value of these shares escape wealth tax. It was proposed to remedy this situation by the imposition of a levy of 10 per cent of income in lieu of wealth tax, on the non-resident companies which own immovable property situated in Ceylon. In order to minimize the incidence of any double taxation where the wealth of an individual assessed to wealth tax consisted of any part representing the value of the shares of a non-resident company, suitable relief would be granted taking into account the tax in lieu of wealth tax levied on the company itself.

## Limit of tax payable

Under present legislation the total amount of tax that can be levied on any tax payer in respect of both income tax and wealth tax cannot exceed 80 per cent of his taxable income. It was proposed to abolish this limit.

## House Property Tax

A special tax in respect of house property was proposed. Under the proposed scheme each tax payer was entitled to tax-free ownership of one residence for his personal use irrespective of value and additional house property to the value of Rs. 100,000. All house property over and above this limit would be subject to a rate of 10 per cent. of the value of such property. This scheme would come into operation only on April 1, 1965.

## III. Customs Duties:

### Import Duty

An increase in import duties on petroleum products was proposed. These increases would be absorbed by the Petroleum Corporation and would, therefore, not be passed on to the consumer. The duty increases on petroleum products were as follows—

Petrol super)	by	12	cts.	per	gallon
Petrol (regular)	by	10	cts.	per	gallon
Kerosene oil	by	10	cts.	per	gallon
Auto-diesel oil	by	07	cts.	per	gallon
Heavy diesel oil	by	07	cts.	per	gallon
Furnace oil	by	01	ct.	per	gallon
Lubricants	by	20	cts.	per	gallon

It was mentioned that “the main purpose in increasing these import duties is to absorb to the Government revenue the discounts enjoyed by the Ceylon Petroleum Corporation from its present suppliers.”

### Export Duty

An export duty of 5 per cent on the value of precious stones exported was imposed.

### Taxes on Tea

Instead of the ad valorem duty of 50 per cent in excess of the price of Rs. 1.85 per pound up to a maximum of 70 cts., it was proposed to levy an acreage tax on all tea estates over 100 acres in extent. The acreage tax would be levied on a differential basis, and the rate proposed was Rs. 300 per acre on high grown teas, and Rs. 60 per acre on medium and low grown teas. The present specific export duty levied at 35 cts. per pound on all teas sold via the Colombo Auctions would continue to be levied. Teas which are not sold in the Colombo Auctions, but which are shipped for sale at the London Auctions would pay an extra 10 cts. per pound. The acreage tax would be payable in monthly or quarterly instalments and will be collected from the estates. The Minister expected the proposed new scheme of tea tax to act as a stimulus to the production of quality teas.

## Tax on Heavy Oil Motor Vehicles

With effect from January 1, 1965, the Minister of Finance proposed to abolish the heavy oil motor vehicles tax. There would be no loss to revenue as tax receipts from this source would be recouped by an appropriate increase in the import duty on automotive diesel.

## IV. Other Revenue Measures

Under this head may be listed a number of revenue measures proposed in the Budget.

1. Tax on advertisement income of newspapers. A tax levy of  $33\frac{1}{3}$  per cent on the revenue from advertisements in excess of 20 per cent of the private column space of newspapers was proposed. In calculating the 20 per cent limit, classified advertisements relating to domestic and social announcements such as obituary, marriage notices etc. would be excluded.

2. Cigarette Tobacco. An increase in the excise duty on cigarette tobacco by 50 cents per pound was proposed. It was expected that the tax would not be passed on to the consumer in the form of higher prices for cigarettes or to the producer in the form of lower prices for his tobacco.

3. Matches. It was decided to reduce the existing excise duty on a box of matches by half a cent to be given as a rebate to the producers who fulfill the production targets specified by the Minister of Rural and Industrial Development. No substantial loss to revenue was expected from this measure.

4. Tax treatment of travelling expenses. The present procedures would be amended, such that all travelling expenses within the island actually incurred in the production of income would be allowed. Depreciation in respect of all vehicles used for travelling would be disallowed. Travelling allowances paid to employees would be allowed to the employer as at present but all travelling allowances in excess of Rs. 1,200 per annum would be treated as income.

5. Establishment of a Philatelic Bureau and special stamp issues. It was proposed to establish a Philatelic Bureau with effect from January, 1965.

6. Establishment of a State Gemming Corporation. The Corporation would have the power to levy licence fees on all gem pits in the island and impose taxes on all traders, brokers, auctioneers, dealers and lapidarists engaged in the gemming industry. Apart from the prospect of earning a substantial sum of foreign exchange, an additional revenue of Rs. 10 million was expected.

**Note:-** With the dissolution of Parliament in December, 1964, some of the new revenue measures proposed in the Budget Speech have not yet been enacted. They are: the introduction of an uniform development rebate of 20 per cent, the abolition of the 80 per cent limit on taxable income, the house property tax, the new taxes on tea, the tax on advertisement income of newspapers and the establishment of the State Gemming Corporation and the Philatelic Bureau.

## Current Expenditure

The total of recurrent expenditure (votes 1, 2, 4 and 6) amounted to Rs. 1,879.4 million. When items of a capital nature under recurrent expenditure and provisions for sinking fund contributions and direct repayments of public debt are deducted from this figure, the resultant current expenditure amounts to Rs. 1,745.1 million. This compares with the actual (provisional) outlay of Rs. 1,758.4 million for 1963/64. The decrease in the current expenditure for 1964/65 is mainly due to the lower provision in respect of the food subsidy bill and the lower rate of interest payable on treasury bills purchased by the Central Bank.

## Capital Expenditure

The original estimates of capital expenditure (votes 3, 5 and 7) amount to Rs. 558.0 million. When capital items under the Votes of recurrent expenditure and extra-budgetary capital expenditure from reserves are added, total capital expenditure for the financial year 1964/65 amounts to Rs. 647.6 million. This figure is Rs. 144.3 million higher than the actual (provisional) expenditure for 1963/64 and Rs. 8.2 million higher than the original estimate for 1963/64.

## Financing of the Budget Deficit

The Budget as approved by Parliament reveals a deficit of Rs. 509.0 million. This deficit is expected to be financed to the extent of Rs. 250 million through the medium of rupee loans, Rs. 225 million from foreign aid and administrative borrowing Rs. 35 million, aggregating Rs. 510 million, which would fully cover the proposed deficit.

In the section that follows receipts from foreign aid are commented on in greater detail.

## Foreign Assistance

In the Budget for 1964/65 total anticipated utilization of foreign aid is placed at Rs. 225 million, Rs. 50 million more than the corresponding figure in the previous financial year. As compared with the actual receipt of foreign aid in 1963/64, this figure is higher by Rs. 117.5 million. Of the foreign assistance expected in 1964/65, allocations for specified projects were made in respect of Rs. 128.6 million. Of this amount Rs. 78.3 million would be in the form of loans and utilisation of lines of credit and Rs. 50.3 million in the form of grants.

Of the major projects to be financed from foreign loans and lines of credit, Stage I of the Maskeliya Oya project would absorb Rs. 20.8 million of loans from Canada, Rs. 14.2 million from West Germany as contribution to the capital of the Ceylon Cement Corporation, Rs. 11.2 million from the I.B.R.D. for Stage II B of the Hydro-Electric Scheme and Rs. 8.3 million from the U.S.S.R. as contribution to the capital of the Ceylon Steel Corporation. Of the foreign grants anticipated in the current financial year, the two major sources are Rs. 14.5

million from Canada for the development of the Katunayake Airport and Rs.12.9 million representing the second consignment of coaches and wagons under economic aid from the Peoples' Republic of China.

*Note:* According to a provisional revision of the original budget estimates for 1964/65 made by the Treasury it is anticipated that despite the non-implementation of certain revenue measures proposed in the Budget, total revenue collections would still exceed the original budget estimates. The main items comprising the increase in anticipated revenue collections are an increase in contributions from the Ceylon Transport Board, representing payments of arrears of the heavy oil motor vehicles tax, income tax, tobacco tax and export duties from coconut products offset by decreased collections from export duties on rubber. While an increase in total revenue is anticipated, total expenditure is expected to decline below the Budgetary forecast. This is largely due to the likelihood of a substantial fall in the food subsidy bill which would more than offset increases in expenditure on account of supplementary votes including those arising out of the drought and cyclone relief and the holding of the General Elections. In terms of these reasons the anticipated fall in expenditure together with the expected increase in revenue should contribute to a significant reduction in the overall Budget deficit.