

(E) GOVERNMENT FINANCE**Part A—The Financial Year 1964/65**

Table II (E) 1 depicts in summary the accounts of the Government of Ceylon for the financial year October 1964 to September 1965, with corresponding data for previous financial years. As shown therein, the salient features of Government's fiscal operations were as follows:—

(a) Total Government revenue in 1964/65 was Rs. 1,816.4 million as compared with Rs. 1,759.0 million in 1963/64 and Rs. 1,593.4 million in 1962/63.

(b) Total voted expenditure⁽¹⁾ in 1964/65 was Rs. 2,271.3 million as compared with Rs. 2,236.6 million in 1963/64 and Rs. 1,998.7 million in 1962/63. Of this total, recurrent expenditure in 1964/65 was Rs. 1,803.6 million compared with Rs. 1,834.1 million in 1963/64 and Rs. 1,596.4 million in 1962/63; while expenditure chargeable to capital votes was Rs. 467.7 million in 1964/65 as compared with Rs. 402.5 million and Rs. 402.3 million in 1963/64 and 1962/63 respectively.

(c) Operations on advance accounts resulted in a net receipt of Rs. 12.4 million as compared with a net receipt of Rs. 16.1 million in 1963/64 and a net receipt of Rs. 13.7 million in 1962/63.

(d) The net cash deficit resulting from these operations⁽²⁾ was Rs. 442.5 million as compared with Rs. 461.7 million in 1963/64 and Rs. 391.7 million in 1962/63.

(e) In financing the deficit for 1964/65, Government borrowed Rs. 260.9 million in the domestic market; Rs. 56.7 million by way of administrative borrowing; Rs. 100.1 million from foreign sources; and drew down its cash balances by Rs. 24.8 million.⁽³⁾

(f) The expansionary impact of the net cash deficit, when adjusted for the change in U. S. aid counterpart funds was Rs. 40.0 million in 1964/65 as compared with Rs. 162.9 million in 1963/64 and Rs. 162.0 million in 1962/63.

Revenue

The Annual Report for 1964 had occasion to mention the substantial increase in revenue as one of the satisfactory features of Government Budgetary operations in 1963/64. This tendency has been maintained in the financial year 1964/65. In table 18 of Appendix II, the original estimates and the actual (provisional) revenue collections for 1964/65 are shown together with the actual revenue collections for 1963/64 under the main heads of revenue as appearing in the Government Estimates. Actual (provisional) revenue for 1964/65 at Rs. 1,816.4 million is Rs 57.4 million or 3.3 per cent. higher than the corresponding figure (Rs. 1,759.0 million) for 1963/64.

(1) Representing the total under items 1 B (1) and 1 B (ii) of table II (E) 1.

(2) Including a sum of Rs. 0.1 million as expenditure chargeable to the National Development Reserve.

(3) According to the (provisional) balance sheet as at September 30, 1965, cash and bank balances reveal an overdrawn position amounting to Rs. 17.7 million.

TABLE II (E) 1

Government Net Cash

| | 1954/55 | 1955/56 | 1956/57 | 1957/58 |
|---|-----------|----------|----------|----------|
| 1. Net Cash Surplus/Deficit (—) | 127.6 | - 1.2 | - 196.4 | - 222.3 |
| A. Revenue | 1,158.6 | 1,257.2 | 1,260.5 | 1,280.0 |
| B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations) | -1,031.0 | -1,258.4 | -1,456.9 | -1,502.3 |
| (i) Recurrent expenditure(a)(b)* | -864.9(g) | -1,014.4 | -1,105.2 | -1,280.1 |
| (ii) Capital expenditure(a)* | - 215.5 | - 211.0 | - 213.3 | - 282.6 |
| (iii) Expenditure chargeable to National Development Reserve | - 2.1 | - 4.0 | - 5.1 | - 3.0 |
| (iv) Unissued stores and materials(c) | 9.9 | 1.2 | - 14.5 | — |
| (v) Advances to Government departments(c) | 34.0 | - 30.3 | - 115.8 | 54.5 |
| (vi) Ceylon-China trade account(c) | | | | |
| (vii) Miscellaneous(c) | 7.6 | 0.1 | - 3.0 | 8.9 |
| Financing of Deficit | | | | |
| 2. Net Cash Receipts or Payments (—) resulting from Government borrowing and lending operations and receipts of foreign grants: | - 39.0 | 12.2 | 175.4 | 174.7 |
| A. Administrative borrowing and repayment of borrowing (including sundry loans) | 29.1 | - 36.5 | - 9.4 | 72.5 |
| (i) Deposits(d) | 34.5 | - 10.8 | 9.0 | 73.9 |
| (ii) Miscellaneous funds(e) | - 0.9 | - 4.8 | - 2.3 | 20.1 |
| (iii) Sundry loans(f) | - 4.5 | - 20.9 | - 16.1 | - 21.5 |
| B. Domestic market borrowing and repayment of borrowing | - 76.7 | 47.0 | 169.7 | 81.9 |
| (i) Rupee loans | 75.0 | 74.5 | 94.9 | 45.0 |
| Less contributions to sinking funds | 41.0 | 35.5 | 27.6 | 23.1 |
| | 34.0 | 39.0 | 67.3 | 21.9 |
| (ii) Treasury bills | - 44.9 | 8.0 | - 3.0 | 74.6 |
| (iii) Central Bank advances | - 65.8 | — | 96.3 | - 13.8 |
| (iv) Tax reserve certificates | — | — | 9.1 | - 0.8 |
| C. Foreign Finance | 8.6 | 1.7 | 15.1 | 20.3 |
| (i) Loans | 12.1 | 5.2 | 18.6 | 23.7 |
| Less contributions to sinking funds and direct repayments of public debt from revenue | 3.5 | 3.5 | 3.5 | 3.4 |
| (ii) Grants | 8.6 | 1.7 | 15.1 | 20.3 |
| 3. Changes in cash balances (including readily realisable assets) | 88.6 | 11.0 | - 21.0 | - 47.5 |

(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. The revised scheme of classification appear in a note on page 1 of the Estimates, where 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 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 may not tally with the figures published in the Accounts of the Government of Ceylon.

(b) Excludes contributions to sinking funds and direct repayments of public debt from revenue—vide 2 B (1) and 2 C (1).

(c) Indicates net change at the end of financial year. Details of the Ceylon-China trade account are not separately available for the years 1954/55 to 1960/61.

(d) From suitors, contractors, etc., and includes the unexpended balance of foreign aid up to 1959/60.

Surplus/Deficit (—)

Rupees Million

| 1958/59 | 1959/60 | 1960/61(i) | 1961/62 | 1962/63 | 1963/64 | 1964/65 (k) |
|----------|-------------|-------------|------------|-------------|-------------|-------------|
| - 413.4 | - 417.5 | - 462.5 | - 456.1 | - 391.7 | - 461.7 | - 442.5 |
| 1,330.4 | 1,403.8 | 1,513.9 | 1,620.6(j) | 1,593.4(j) | 1,759.0(j) | 1,816.4(j) |
| -1,743.8 | -1,821.3 | -1,976.4 | -2,076.6 | -1,985.3 | -2,220.7 | -2,259.0 |
| -1,432.2 | -1,511.9(h) | -1,540.8(h) | -1580.7(h) | -1,596.4(h) | -1,834.1(h) | -1,803.6(h) |
| - 303.4 | - 306.6 | - 419.9 | - 480.6 | - 402.3 | - 402.5 | - 467.7 |
| - 2.4 | - 1.5 | - 1.5 | - 0.7 | - 0.3 | - 0.2 | - 0.1 |
| 10.5 | 7.1 | 1.9 | 2.4 | 8.6 | 5.2 | 2.7 |
| - 17.1 | 5.8 | - 15.9 | 10.2 | 7.6 | - 45.9 | 82.4 |
| 0.8 | — | - 0.2 | - 26.0 | 20.3 | 61.0 | 70.4 |
| | | | - 1.2 | - 5.6 | 6.2 | - 2.3 |
| 351.8 | 411.6 | 462.5 | 496.3 | 391.3 | 416.3 | 417.7 |
| 27.6 | 57.4 | 29.4 | 104.5 | - 33.8 | - 1.9 | 56.7 |
| 27.3 | 62.3 | 36.5 | 98.4 | - 28.0 | 0.2 | 66.0 |
| 4.2 | 2.7 | - 1.0 | 4.8 | 0.1 | 2.5 | - 3.1 |
| - 3.9 | - 7.6 | - 6.1 | 1.3 | - 5.9 | - 4.6 | - 6.2 |
| 294.6 | 330.5 | 409.4 | 339.0 | 333.1 | 322.8 | 260.9 |
| 95.0 | 134.8 | 214.9 | 145.0 | 205.0 | 245.0 | 253.1 |
| 26.3 | 27.7 | 29.2 | 35.0 | 38.9 | 44.6 | 51.2 |
| 68.7 | 107.1 | 185.7 | 110.0 | 166.1 | 200.4 | 201.9 |
| 179.0 | 228.2 | 198.4 | 248.0 | 124.1 | 128.4 | 50.5 |
| 41.1 | 3.1(h) | 20.6(h) | - 21.0(h) | - 36.6(h) | - 19.4(h) | 8.3(h) |
| 5.8 | 7.9 | 4.7 | 1.9 | 6.3 | 13.4 | 0.2 |
| 29.6 | 23.7 | 23.7 | 52.9 | 92.0 | 95.4 | 100.1 |
| 35.5 | 29.3 | 16.3 | 44.5 | 68.7 | 75.7 | 92.8 |
| 5.9 | 5.6 | 5.9 | 9.7 | 7.8 | 12.2 | 17.2 |
| 29.6 | 23.7 | 10.4 | 34.8 | 60.9 | 63.5 | 75.6 |
| — | — | 13.3 | 18.1 | 31.1 | 31.9 | 24.5 |
| - 61.7 | - 6.0 | ... | 40.2 | - 0.4 | - 45.4 | - 24.8 |

Source: Central Bank of Ceylon

- (e) From Widows' and Orphans' Pension Fund, Public Service Provident Fund etc.
- (f) These loans are to the Agricultural and Industrial Credit Corporation, the Local Loans and Development Fund, Local Bodies, etc.
- (g) An amount of Rs. 36.0 million representing the food subsidy bill for 1954/55 was transferred from advance accounts to recurrent expenditure in 1958/59. While this book adjustment is excluded from the figures for 1958/59 (vide note *), the figures for 1954/55 have been revised to include it.
- (h) Exclude payments of Rs. 37.0 million on account of the larger contribution payable to the I.M.F. in 1959/60 Rs. 2.2 million to meet payments to the I.B.R.D. and the I.D.A. in 1960/61, Rs. 0.2 million annually from 1961/62 to 1963/64 to meet payments to the I.D.A. and Rs. 21.5 million to meet payments to the I. M. F., the I. B. R. D. and the I.D.A. in 1964/65 financed through special loans from the Central Bank.
- (i) 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.
- (j) See footnote 'b' of Appendix II, table 17.
- (k) Provisional.

The significance of Government's revenue effort is further borne out when it is seen that over the ten year period 1954/55 to 1964/65 revenue increased by 56.8 per cent. or 4.6 per cent. (compound) annually. Over the five year period 1959/60 to 1964/65 it was 29.4 per cent. or 5.3 per cent. (compound) annually. Expressed as a ratio of Gross Domestic Product at factor cost, Government revenue has averaged between 22.6 per cent. and 25.0 per cent. in the last five years. This is a proportion that is large and seldom achieved in a developing economy.

As compared with the original estimates of Rs. 1821.3 million for 1964/65, the actual revenue collected shows a shortfall of only Rs 4.9 million. The diminished significance of this shortfall is apparent when it is seen that the corresponding over-estimation of revenue for 1963/64 was Rs. 34.1 million; in 1962/63 it was Rs. 123.5 million and in 1961/62 Rs. 156.1 million.

TABLE II (E) 2
Revenue of the Government

| | | | | | Rupees Million | |
|---|-------------------------------|---------------------------------|-------------------|---|--|--|
| | Original estimates 1964/65 | Actual (provisional) 1964/65 | Actual 1963/64 | Changes in 1964/65 (actual) over 1963/64 | Excess (+) or shortfall (-) in 1964/65 (actual) in relation to original estimates 1964/65 | |
| 1. Export duties (a)* | 313.8 | 312.8 | 277.4 | 35.4 | - 1.0 | |
| (a) Tea (including tea tax) | 239.8 | 228.8 | 218.0 | 10.8 | -11.0 | |
| (b) Rubber | 33.9 | 22.4 | 11.8 | 10.6 | -11.5 | |
| (c) Coconut | 33.8 | 56.1 | 41.6 | 14.5 | + 22.3 | |
| 2. Import duties (b)* | 520.1 | 435.9 | 481.6 | -45.7 | -84.2 | |
| (a) Cotton yarn, twist and piece goods .. | 23.0 | 29.5 | 47.5 | -18.0 | + 6.5 | |
| (b) Grain and flour | 24.4 | 19.8 | 29.3 | - 9.5 | - 4.6 | |
| (c) Kerosene oil, motor spirits etc. .. | 135.0 | 115.4 | 88.3 | 27.1 | -19.6 | |
| (d) Tobacco and cigarettes | 40.0 | 42.5 | 39.8 | 2.7 | + 2.5 | |
| (e) Sugar | 37.7 | 23.3 | 33.8 | -10.5 | -14.4 | |
| (f) Other goods † | 202.0 | 133.4 | 180.9 | -47.5 | -68.6 | |
| 3. Income tax (excluding surcharge) .. | 223.1 | 291.2 | 281.3 | 9.9 | +68.1 | |
| 4. Personal tax | 30.5 | 18.9 | 12.7 | 6.2 | -11.6 | |
| 5. Profit from sale of arrack | 83.0 | 90.0 | 88.0 | 2.0 | 7.0 | |
| 6. Tobacco tax | 92.6 | 110.3 | 92.3 | 18.0 | 17.7 | |
| 7. Turnover tax | 32.0 | 34.8 | 16.0 | 18.8 | 2.8 | |
| 8. Tax on heavy oil motor vehicles .. | 18.8 | 41.9 | 14.5 | 27.4 | 23.1 | |
| 9. Other revenue | 507.4 | 480.6 | 435.2 | -14.6 | -26.8 | |
| Total | 1821.3 | 1816.4 (c) | 1759.0 (c) | 57.4 | - 4.9] | |

Source: Central Bank of Ceylon.

(a) Includes sundries (Head I sub-head 3.)

(b) Includes licence fees on imports which are under licence (Head V Sub-Head 7.)

(c) These figures of revenue differ from the published figures in the Government Accounts due to the reasons given in footnote (b) of table 17 of Appendix II.

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

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

Table II (E) 2 above depicts in detail the salient changes in the important revenue items in actual revenue (provisional) in 1964/65, compared with the actual revenue for 1963/64 and the original estimates for 1964/65.

Revenue from export taxes⁽¹⁾ in 1964/65 was higher by Rs. 35.4 million when compared with that in 1963/64. This was the combined result of an increase in revenue receipts from taxes on tea of Rs 10.8 million, and increased duty collections on rubber and coconut products of Rs 10.6 million and Rs 14.5 million respectively. The increased revenue from tea exports occurred although there was a fall of 2 cts. per lb. in the average f.o.b. price during the financial year to Rs 2.47 per lb. This increase in revenue was due to an increase in tea exports of 5.7 million lbs. in 1964/65.⁽²⁾ Similarly, the increase in the export duty collections on rubber was the result of an increase of 20.8 million lbs. in the quantity of rubber exported, offset by a decline in the average f.o.b. price⁽³⁾ of 2 cts per lb. during the financial year to Rs. 1.14 per lb. On the other hand, the increase in the export duty receipts from coconut products was on account of an improvement in prices offset partially by a decline in export volume. Exports of copra which amounted to 59.3 thousand tons in 1963/64 fell to 44.9 thousand tons in 1964/65, while desiccated coconuts and coconut oil exports decreased from 55.1 thousand tons and 104.5 thousand tons respectively in 1963/64 to 51.5 thousand tons and 103.8 thousand tons respectively in 1964/65. The effect of these decreases in export volume, however, was more than offset by higher effective rates of duty consequent on a more favourable price than in 1963/64.⁽⁴⁾ The average price (f. o. b.) for all three types of coconut products increased from Rs. 59.07 to Rs. 72.58 per cwt.

Revenue from imports⁽⁵⁾ in 1964/65 as compared with the revenue collections of the previous financial year has recorded a marked fall of Rs. 47.5 million. The fall in the revenue from cotton yarn etc. (Rs. 18.0 Million), grain and flour (Rs. 9.5 million), sugar (Rs. 10.5 million) and "other goods" (Rs. 47.5 million) amounted to Rs. 85.5 million. This shortfall was offset to some extent by the larger revenue from the duties on kerosene oil, motor spirits and liquid fuel (Rs. 27.1 million)⁽⁶⁾ and tobacco and cigarettes (Rs. 2.7 million). The decreased collections under cotton yarn etc. grain and flour, and sugar were due to a decreased volume of imports and a delay in the payment of duties by the Food Commissioner in respect of the last two items. In particular, the import volume index reveals that the volume of textile imports during 1964/65 was almost half that of the previous financial year. By the same token, the increase in the duty collections from fuel and tobacco was due to an increase in import volume. The large fall in duty collections under the item "other goods" is accounted for by the sharp reduction in the quantity of imports under this category.

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- (1) Including the tea tax levied at the Colombo and London Auctions.
 - (2) The exports of tea in 1964/65 were 478.0 million lbs. as against 472.4 million lbs. in 1963/64.
 - (3) Export duties on rubber are based on a sliding scale, since November 28, 1963.
 - (4) Duties on coconut products are based on a sliding scale.
 - (5) Including licence fees on imports which are under licence.
 - (6) The import duty on kerosene oil was abolished only on August 10, 1965.

Income tax receipts in 1964/65 (exclusive of the surcharge) show an increase of Rs. 9.9 million as compared with the actual receipts for 1963/64. The increase in income tax receipts can be attributed to (a) investigation work being carried out on a broader base than in earlier years and the consequent discovery of a large number of new tax payers, (b) higher rates of tax on incomes over Rs. 25,000 and (c) amnesty collections. Revenue from personal taxes shows an increase of Rs. 6.2 million over the collections made in the financial year 1963/64. The increased collections in 1964/65 can be attributed to the imposition of an increase in the tax rate on non-resident companies in lieu of wealth tax and higher rates of wealth tax on individuals.

Revenue from the tax on heavy oil motor vehicles and the turnover taxes in 1964/65 have recorded increases of Rs. 27.4 million and Rs. 18.8 million respectively over the receipts in the previous financial year. The increment in the tax on heavy oil motor vehicles represents payment of arrears by the Ceylon Transport Board. The increased receipts from the turnover taxes are from a full year's collection in contrast to only half year's collection in the previous financial year.

Two further sources of revenue which have recorded increases over the previous financial year are the tobacco tax and profits derived from the sale of arrack. The increased collection of Rs. 18.0 million from the tobacco tax was due to an increased use of local tobacco to meet the greatly increased domestic demand. It is noteworthy that in the five year period 1959/60 to 1964/65, revenue from the tobacco tax increased at a rate of 22.5 per cent. (compound) annually. Profits from the sale of arrack at Rs. 90.0 million increased by Rs. 2.0 million when compared with the amount credited to revenue in 1963/64. Revenue from this source has increased at a rate of 3.4 per cent. (compound) annually over the five year period 1959/60 to 1964/65.

Expenditure

Total Government expenditure for the financial years beginning 1959/60, classified into current and capital expenditure, is shown in table II (E)-3. In 1964/65, according to the provisional figures presently available, the total expenditure of the Government amounted to Rs. 2311.9 million. This exceeds the total expenditure in 1963/64 by Rs. 40.7 million. The percentage increase is 1.8 in contrast to an average annual percentage increase of 11.5 for the ten financial years ending 1963/64.

Compared to the original estimates of expenditure the provisional figures of expenditure for 1964/65 show an under-expenditure of Rs. 80.8 million. In contrast to the pattern in 1963/64 both current expenditure and capital expenditure fell short of the original estimates in 1964/65. However, the actual (provisional) expenditure on capital account fell short of the original estimates by 10.4 per cent. whereas the shortfall in current expenditure was under 1 per cent.

TABLE II (E) 3
Expenditure of the Government*

| | | | | Rupees Million | | | | |
|---------|----------------------|----|----|---------------------|--|---------------------------------|---------------------------|-------------------|
| Year | | | | Current expenditure | Capital Expenditure | | | Total expenditure |
| | | | | | Acquisition, construction and maintenance of real assets | Acquisition of financial assets | Total capital expenditure | |
| 1959/60 | .. | .. | .. | 1365.4 | 440.1 | 55.6 | 495.7 | 1861.1 |
| 1960/61 | .. | .. | .. | 1471.3 | 471.9 | 47.2 | 519.1 | 1990.4 |
| 1961/62 | .. | .. | .. | 1498.1 | 499.4 | 86.2 | 585.6 | 2083.7 |
| 1962/63 | .. | .. | .. | 1534.0 | 479.1 | 9.9 | 489.0 | 2023.0 |
| 1963/64 | .. | .. | .. | 1753.6 | 488.5 | 29.1 | 517.6 | 2271.2 |
| 1964/65 | Original estimates | .. | .. | 1745.1 | 626.6 | 21.0 | 647.6 | 2392.7 |
| | Actual (provisional) | .. | .. | 1731.9 | 546.9 | 33.1 | 580.0 | 2311.9 |
| 1965/66 | Original estimates | .. | .. | 1762.8 | 635.9 | 32.1 | 668.0 | 2430.8 |

Source: Central Bank of Ceylon.

Note: For details and the derivation of the figures see table 20 of Appendix II.

* This table is a summary of the Payments side of table 20 of Appendix II, excluding payments or receipts on account of advance account operations. The figures for total expenditure given in the table differ from the figures of expenditure given in table II (E)-1 in that the former includes outlays of extra-budgetary funds, and excludes expenditure on account of advance account operations. They also differ from the figures of total voted expenditure in that they exclude contributions to sinking funds and direct repayments of public debt from revenue, and book adjustments, but include outlays of extra-budgetary funds.

Current Expenditure

As shown in table II (E) 3, current expenditure (provisional figures) in 1964/65 was less than the current expenditure in 1963/64 by Rs. 21.7 million. This reverses the tendency for the continued rise in current expenditure since the financial year 1954/55. For purposes of comparison Government current expenditure for the financial years 1963/64 to 1965/66 are shown in table II (E) 4 in some detail.

TABLE II (E) 4
Current Expenditure 1963/64 to 1965/66

| | | | | Rupees Million | | | |
|----|---------------------------|----|----|----------------|------------------------------|----------------------------|----------------------------|
| | | | | Actual 1963/64 | Actual (provisional) 1964/65 | Original estimates 1964/65 | Original estimates 1965/66 |
| 1. | Food subsidies | .. | .. | 375.4* | 290.0* | 327.0* | 271.5* |
| 2. | Education | .. | .. | 309.3 | 329.0 | 315.9 | 334.5 |
| 3. | Health | .. | .. | 147.8 | 153.5 | 152.5 | 159.0 |
| 4. | Interest on public debt | .. | .. | 113.7 | 105.9 | 100.4 | 114.9 |
| 5. | Pensions | .. | .. | 130.2 | 143.3 | 135.8 | 145.9 |
| 6. | Government enterprises † | .. | .. | 234.1 | 246.9 | 254.5 | 256.4 |
| 7. | Total (items 1 to 6) | .. | .. | 1,310.5 | 1,268.6 | 1,286.1 | 1,282.2 |
| 8. | Total current expenditure | .. | .. | 1,753.6 | 1,731.9 | 1,745.1 | 1,762.8 |
| 9. | 7 as a percentage of 8 | .. | .. | 74.7 | 73.2 | 73.7 | 72.7 |

Source: Central Bank of Ceylon.

* These figures are as given in Treasury Ledgers.

† Comprises the current payments of Railway, Electrical, Posts and Telecommunications and Broadcasting departments and the Port Commission.

The lower expenditure on current account in 1964/65 compared to that in 1963/64 is accounted for by a fall in Government's transfer payments. The fall in the transfer payments is a result of the lower food subsidy bill and a saving on account of interest on public debt. As shown in table 20 of Appendix 11, a part of the fall in current expenditure on these accounts has been compensated for by a rise in current expenditure on education and health, agriculture and irrigation, and civil administration and defence.

It is interesting to observe the causes for the fall in the net food subsidy in 1964/65 as compared with 1963/64. The relevant figures are shown in table II (E) 5. The figures for 1965/66, as in the Budget estimates, are also shown for purposes of comparison.

TABLE II (E) 5
Food Subsidy Bill 1963/64 to 1965/66

| | Rupees Million | | |
|---|----------------|-------------------------------|----------------------------------|
| | 1963/64 | 1964/65 (provi- sional) | 1965/66 Original estimates |
| 1. Subsidy to the consumer on imported rice .. | 139.3 | 180.0 | 186.6 |
| 2. Subsidy to the producer and the consumer on locally produced rice .. | 285.6 | 246.4 | 258.1 |
| 3. Subsidy on locally produced red onions .. | 1.6 | 2.5 | 1.5 |
| 4. Distribution expenses and other charges .. | 27.6 | 34.5 | 32.2 |
| 5. Total gross subsidy (1 to 4) .. | 454.0 | 463.4 | 478.4 |
| 6. Profit on the sale of sugar .. | 73.4 | 173.0 | 195.3 |
| 7. Profit on the sale of flour .. | 1.2 | -0.6 | 2.1 |
| 8. Profit on the sale of other goods .. | 9.8 | 11.8 | 9.6 |
| 9. Total (6 to 8) .. | 84.4 | 184.2 | 207.0 |
| 10. Net food subsidy (5-9) .. | 369.6 | 279.2 | 271.5 |

Source: The Food Commissioner

Note: The figure of the net food subsidy in this table differs from that in table II (E) 4 and is explainable in terms of differences in accounting practice between the Treasury and the Food Commissioner.

The higher subsidy on the consumption of imported rice was partly due to the higher landed cost of rice from Burma, China and Thailand. There was also a rise in the sale of imported rice in 1964/65 over 1963/64 by 95,420 tons. The lower subsidy on the production and consumption of locally produced rice may be accounted for by a fall in the quantity of rice bought from the Commissioner of Agrarian Services and subsequently sold to the consumer. Sales of locally produced rice were less in 1964/65 than in 1963/64 by 66,787 tons. In consequence the gross subsidy in 1964/65 exceeded that of 1963/64 by only Rs. 9.4 million. The fall in the net subsidy in 1964/65 is therefore accounted for by the marked rise in profits on the sale of sugar. The larger profits on the sale of sugar was made possible by the fall in the landed cost of sugar in 1964/65 as compared to the extra ordinarily high level of prices in 1963/64, while the sale price to the consumer remained constant over the two years.

The higher expenditure on health and education are to be expected in a situation of increasing population and the increase in the number of children at school.

The fall in the payment of interest on public debt is principally due to the lower rate of discount (0.76 per cent.) at which the Central Bank purchased treasury bills from August 1, 1964.

Capital Expenditure

As shown in table II (E) 3 capital expenditure in 1964/65 was Rs. 580.0 million (provisional). This figure includes the total expenditure under votes 3, 5 and 7 in Government estimates, expenditure of a capital nature included in votes 1, 2, 4 and 6 and expenditure out of the extra-budgetary funds such as the tea and rubber replanting subsidy funds. Total capital expenditure, defined in this manner, exceeded the corresponding figure in 1963/64 by Rs. 62.4 million. The increase in capital expenditure was mainly on the acquisition, construction and maintenance of real assets. The value of the financial assets acquired in 1964/65 was higher than in 1963/64 by Rs. 4.0 million.

On further analysis, it is seen that the rise in expenditure was on economic services (Rs. 50.4 million) and Government enterprises (Rs. 14.9 million). Within the category of economic services, expenditure on agriculture and irrigation increased by Rs. 20.1 million, manufacture and mining by Rs. 24.9 million and communications by Rs. 4.8 million. In contrast expenditure on social services and administration fell by Rs. 6.2 million and Rs. 0.7 million respectively. Within the category of social services, there was a fall in expenditure on education and health.

Advance Account Operations

Operations on advance accounts during 1964/65 resulted in a net receipt of Rs. 12.4 million. In 1963/64 the corresponding figure was Rs. 16.1 million. With the information presently available details of these accounts cannot be provided. However, the net receipt was mainly due to a repayment of Rs. 82.4 million advanced to Government departments offset in part by a balance of Rs. 70.4 million in favour of Ceylon under the Rubber / Rice Agreement with China.

Net Cash Deficit

The net cash deficit of Rs. 442.5 million for 1964/65 when compared with the net cash deficit of the previous financial year showed a fall of Rs. 19.2 million. This was due to a fall of Rs. 30.5 million in recurrent expenditure, and an increase of Rs. 57.4 million in revenue, offset by a rise of Rs. 65.2 million in capital expenditure and a fall of Rs. 3.7 million in receipts from advance account operations.

The actual net cash deficit for 1964/65 was also lower than the original estimate for that year by Rs. 58.3 million. This was the combined result of a fall in total voted expenditure of Rs. 50.8 million and a net receipt on advance account operations of Rs. 12.4 million offset by a shortfall in revenue receipts of Rs. 4.9 million.⁽¹⁾ This is in contrast to the pattern in the financial year 1963/64 when the actual net cash deficit was higher than the originally estimated deficit by Rs. 43.7 million. The fall in total voted expenditure in 1964/65, as compared to the original estimate of that year was on account of a shortfall in capital expenditure amounting to Rs. 90.3 million partially offset by an under-estimation of recurrent expenditure amounting to Rs. 39.5 million.⁽²⁾

(1) The original estimate of revenue at Rs. 1,821.3 million excludes Rs. 60.1 million of revenue from sources which were not specified in the Budget Speech for 1964/65.

(2) After making an allowance of Rs. 47.0 million for under-expenditure on recurrent votes in the original Budget estimates for 1964/65.

Financing of the Deficit

Table II (E) 6 below shows the sources of finance and the expansionary impact of the net cash deficit with comparative data for the previous financial year.

TABLE II (E) 6
Financing of the Deficit

| | Rupees Million | | | | | |
|--|----------------|-------|------|--------------------------|-------|-------|
| | 1963/64 | | | 1964/65 (provisional) | | |
| 1. Administrative borrowing | | | | | | |
| 2. Foreign Finance | | | | | | |
| (a) Loans | | | | | | |
| (i) Gross amount borrowed | 75.7 | | | 92.8 | | |
| (ii) Less contributions to sinking funds and repayments | 12.2 | 63.5 | | 17.2 | 75.6 | |
| (b) Grants | — | 31.9 | 95.4 | — | 24.5 | 100.1 |
| 3. Domestic borrowing from non-bank sources | | | | | | |
| (a) Gross amount borrowed | 252.2 | | | 294.4 | | |
| (b) Less contributions to sinking funds | 44.6 | 207.6 | | 51.2 | 243.2 | |
| 4. Domestic market borrowing from the banking system | — | | | 115.2 | | 17.7 |
| 5. Decline in Government cash balances (— sign indicates an increase) | | | | 45.4 | | 24.8 |
| 6. Net cash deficit | | | | 461.7 | | 442.5 |
| 7. Decline in U.S. aid counterpart funds (— sign indicates an increase) | | | | 2.3 | | —2.5 |
| 8. Net expansionary impact of Government fiscal operations (4+5+7) | | | | 162.9 | | 40.0 |

Source: Central Bank of Ceylon

The net cash deficit of Rs. 442.5 million resulting from the fiscal operations of the year 1964/65 was financed by borrowing Rs. 243.2 million from domestic non-bank sources, obtaining Rs. 100.1 million by way of foreign assistance, Rs. 24.8 million by drawing down cash balances, Rs. 56.7 million by way of administrative borrowing and by borrowing Rs. 17.7 million from the banking system.

The actual net cash deficit for 1964/65 on account of the reasons mentioned earlier in this section had recorded a fall of Rs. 19.2 million when compared with the net cash deficit for the previous financial year. It is significant, however, that the decrease in the expansionary impact of the deficit⁽¹⁾ in 1964/65 over the previous financial year was considerably greater than the decrease in the net cash deficit. The expansionary impact of Government fiscal operations in 1964/65 at Rs. 40.0 million has recorded a fall by as much as Rs. 122.9 million over the corresponding figure for 1963/64. This was achieved almost wholly by the increased reliance on borrowing from domestic non-bank sources (Rs. 35.6 million) and from administrative sources (Rs. 58.6 million), which enabled the Government to reduce its borrowing from the banking system by Rs. 97.5 million, and the use of its cash balances by Rs. 20.6 million.

(1.) When adjusted for changes in the U. S. aid counterpart funds.

The Rs. 17.7 million borrowed from the banking system came entirely from the commercial banks. The Central Bank's effort towards reducing Government's reliance on borrowing from the banking system is particularly noteworthy. Net borrowing from the Central Bank fell by Rs. 39.5 million. The decrease was obtained by selling Rs. 46.7 million of treasury bills and Rs. 1.1 million of Government securities partially offset by an increase of Rs. 8.3 million in Central Bank advances to Government. The increase in the borrowing from the commercial banking system (Rs. 57.2 million) was the combined result of increases in treasury bills (Rs. 58.5 million) and tax reserve certificates (Rs. 1.1 million) held, offset by a fall of Rs. 2.4 million in commercial bank holdings of Government securities.

The figure of net borrowing from non-bank sources for 1964/65 of Rs. 243.2 million also shows an improvement over that of 1963/64 (Rs. 207.6 million). It is also higher than the amount realized from non-bank borrowing in 1962/63 (Rs. 153.5 million). A steadily increasing trend of available resources from non-bank sources is now discernible. In the five year period 1959/60 to 1964/65 contributions by the domestic non-bank sector showed an average annual increase of Rs. 31.8 million. The contribution of this sector towards the financing of Government's deficits over the last three financial years was even more significant. Between the financial years 1961/62 and 1964/65 domestic non-bank borrowing rose from Rs. 109.4 million to Rs. 243.2 million, representing an average annual increase of Rs. 44.6 million.

Savings institutions, Employees' Provident Fund, the Insurance Corporation, departmental funds and other provident funds improved their share of contribution in the enlarged total for 1964/65. In table II (E) 7 below is set out the contributions by major investor groups to Government securities (including treasury bills and tax reserve certificates) in 1964/65, with comparative data for the three previous financial years.

TABLE II (E) 7
Contributions to Government Securities by major non-bank
investor groups.

| | Rupees Million | | | | |
|--|----------------|---------|---------|---------|--|
| | 1961/62 | 1962/63 | 1963/64 | 1964/65 | Increase in 1964/65 over 1963/64 |
| 1. Savings institutions .. | 12.5 | 14.3 | 28.9 | 37.9 | 9.0 |
| 2. Employees' Provident Fund .. | 59.4 | 61.7 | 65.6 | 70.0 | 4.4 |
| 3. Insurance Corporation .. | — | 16.4 | 29.0 | 42.2 | 13.2 |
| 4. Other state corporations .. | — | — | 3.5 | — | -3.5 |
| 5. Departmental and other official funds | 3.1 | 6.5 | 9.6 | 13.8 | 4.2 |
| 6. Other provident and pension funds | 25.0 | 31.2 | 22.0 | 28.4 | 6.4 |
| 7. Other insurance funds .. | 10.1 | 6.0 | 7.6 | 3.4 | -4.2 |
| 8. Companies, clubs, institutions and individuals | -7.1 | 5.2 | 13.5 | 0.6 | -12.9 |

Source: Central Bank of Ceylon

Foreign Finance

Foreign aid for capital expenditure received in 1964/65 amounted to Rs. 117.3 million, as compared with Rs. 107.5 million in 1963/64, 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 five years amounted to Rs. 15.7 million in 1964/65, 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.

In table II (E) 8 are detailed the receipts of foreign aid by type and source. The net receipt from foreign loans and grants have shown an increase of Rs. 6.2 million. There, nevertheless, remains a significant difference between original expectations and the actual outturn. ⁽¹⁾

TABLE II (E) 8

Receipts of Foreign Aid for Capital Expenditure

Rupees Million

| | 1960/61 Net receipts | 1961/62 Net receipts | 1962/63 Net receipts | 1963/64 Net receipts | 1964/65 | | |
|-------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|--------------------|------------------|-----------------|
| | | | | | Amount received | Amount repaid | Net receipts |
| Loans: | | | | | | | |
| 1. I. B. R. D. .. | 9.2 | 25.6 | 21.2 | 11.3 | 11.6 | 6.6 | 5.0 |
| 2. Canada .. | — | - 1.3 | 0.8 | - 0.2 | 12.7 | 1.3 | 11.4 |
| 3. China .. | — | - 1.0 | — | 12.4 | 18.9 | — | 18.9 |
| 4. U. K. .. | — | 3.3 | 11.9 | 6.4 | 3.3 | 4.1 | - 0.8 |
| 5. U. S. A. .. | 2.4 | 7.6 | - 0.7 | 2.7 | — | 1.2 | - 1.2 |
| 6. U. S. S. R. .. | 1.8 | 3.4 | 13.5 | 32.0 | 29.2 | 0.4 | 28.8 |
| 7. West Germany .. | — | — | 11.5 | 0.4 | 8.6 | 1.2 | 7.4 |
| 8. Yugoslavia .. | — | — | 4.3 | ... | 0.4 | 0.7 | - 0.3 |
| 9. Poland .. | — | — | — | — | 2.7 | 0.3 | 2.4 |
| 10. France .. | — | — | — | — | 5.5 | — | 5.5 |
| Grants: | | | | | | | |
| Colombo Plan | | | | | | | |
| 1. Australia .. | 3.8 | — | 2.5 | — | 3.7 | — | 3.7 |
| 2. Canada .. | 4.2 | 4.4 | 5.7 | 5.7 | 5.6 | — | 5.6 |
| 3. Japan .. | — | — | — | 0.3 | — | — | — |
| Other | | | | | | | |
| 1. China .. | — | 8.3 | 19.7 | 24.5 | 15.1 | — | 15.1 |
| 2. U. S. A. .. | 5.3 | 1.6 | 0.9 | 1.4 | ... | — | ... |
| 3. West Germany .. | — | 3.8 | 2.3 | — | — | — | — |
| Total of loans and grants .. | 26.6 | 55.8 | 93.5 | 96.8 | 117.3 | 15.7 | 101.6 |

Source: Central Bank of Ceylon

Public Debt

Data in respect of 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 in table II (E) 9.

1. The Budget Speech of 1964/65 anticipated Rs. 225 million from foreign aid to finance the proposed Budget deficit.

TABLE II (E) 9
Total Public Debt⁽¹⁾

| End of September | Rupees Million. | | | |
|------------------|------------------|---------------------------------------|---|---------------------------------------|
| | Gross Debt | | Net Debt | |
| | Total gross debt | Increase over previous financial year | Net debt (i.e. less value of sinking funds) | Increase over previous financial year |
| 1961 | 2,651.0 | 420.6 | 2,332.7 | 419.9 |
| 1962 | 3,038.9 | 387.9 | 2,688.9 | 356.2 |
| 1963 | 3,437.3 | 398.4 | 3,065.4 | 376.5 |
| 1964 | 3,787.4 | 350.1 | 3,436.0 | 370.6 |
| 1965 | 4,184.8 | 397.4 | 3,771.9 | 335.9 |

Source: Central Bank of Ceylon.

- (1.) These figures of public debt exclude National Housing Debentures and State Mortgage Bank Debentures which amounted to Rs. 75.0 million and Rs. 33.3 million respectively as at the end of September, 1965.

The increases in gross debt and net debt during the financial year 1964/65 were Rs. 397.4 million and Rs. 335.9 million respectively. Corresponding figures for the previous financial year were Rs. 350.1 million and Rs. 370.6 million respectively. The increase in net public debt in the financial year 1964/65 is smaller than in any one of the previous four financial years.

The increase in gross debt by Rs. 397.4 million was composed of an increase of Rs. 240.2 million in rupee securities, Rs 77.2 million in foreign debt, Rs 50.0 million in treasury bills, Rs. 29.8 million in Central Bank advances and Rs 0.2 million in tax reserve certificates.

Domestic Debt

The gross domestic debt which stood at Rs. 3375.3 million at September 30, 1964 increased by Rs. 320.2 million to Rs. 3695.5 million as at the end of the financial year 1964/65. The composition of the debt as on that date was as follows: rupee securities Rs. 2149.6 million, treasury bills Rs. 1,300.0 million, tax reserve certificates Rs. 32.7 million, Central Bank advances Rs. 213.1 million and national development bonds Rs. 0.1 million. Table II (E) 10 contains data on the composition of the domestic public debt in 1963/64 and 1964/65.

TABLE II (E) 10
The Composition of Domestic Public Debt

| End of September | Rupees Million. | | | | | | | | |
|-----------------------|-----------------|------------------------------|--------|----------------|--------------------------|--------------------------------------|---|--------|--------|
| | Rupee loans | | | Treasury bills | Tax reserve certificates | Central Bank advances ⁽²⁾ | National development bonds ⁽³⁾ | Total | |
| | Gross | Sinking funds ⁽¹⁾ | Net | | | | | Gross | Net |
| 1964 | 1909.4 | 312.8 | 1596.6 | 1250.0 | 32.5 | 183.3 | 0.1 | 3375.3 | 3062.5 |
| 1965 | 2149.6 | 370.2 | 1779.5 | 1300.0 | 32.7 | 213.1 | 0.1 | 3695.3 | 3325.3 |
| Change ⁽⁴⁾ | +240.2 | +57.4 | +182.9 | + 50.0 | + 0.1 | +29.8 | — | +320.2 | +262.8 |

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. 39.7 million in September, 1964 and Rs. 61.2 million in September 1965 towards payment of Ceylon's membership subscriptions to the I.M.F, the I.B.R.D and the I.D.A. Net of these special loans, Central Bank advances increased by Rs. 8.3 million over the financial year.
- (3.) The value of national development bonds issued and outstanding as at the end of September, 1965 amounted to Rs. 67,522.
- (4.) + sign denotes an increase.

TABLE II (E) 11

Domestic Debt—Analysis by Maturity
(as at end of September)

Rupees Million

| | 1960 | | 1961 | | 1962 | | 1963 | | 1964 | | 1965 | |
|---------------------------|---------|------------|---------|------------|---------|------------|---------|------------|---------|------------|---------|------------|
| | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Floating debt† .. | 719.9 | 37.2 | 947.4 | 40.4 | 1,178.4 | 43.7 | 1,346.6 | 44.4 | 1,465.9 | 43.4 | 1,545.9 | 41.8 |
| Funded debt – | | | | | | | | | | | | |
| under 5 years * .. | 330.6 | 17.1 | 271.2 | 11.6 | 272.7 | 10.1 | 246.2 | 8.1 | 205.8 | 6.1 | 245.5 | 6.6 |
| Between 5 – 10 years * .. | 127.5 | 6.6 | 185.1 | 7.9 | 229.5 | 8.5 | 365.4 | 12.1 | 445.0 | 13.2 | 392.3 | 10.6 |
| Between 10 – 15 years* .. | 295.0 | 15.2 | 230.2 | 9.8 | 180.2 | 6.7 | 222.9 | 7.4 | 216.6 | 6.4 | 336.6 | 9.1 |
| Between 5 – 20 years * .. | 336.6 | 17.4 | 386.0 | 16.5 | 386.0 | 14.3 | 249.1 | 8.2 | 247.0 | 7.3 | 127.1 | 3.4 |
| Over 20 years * .. | 127.0 | 6.6 | 324.1 | 13.8 | 446.8 | 16.6 | 600.0 | 19.8 | 795.0 | 23.6 | 1,048.1 | 28.4 |
| Total .. | 1,936.7 | 100.0 | 2,344.0 | 100.0 | 2,693.7 | 100.0 | 3,030.2 | 100.0 | 3,375.3 | 100.0 | 3,695.5 | 100.0 |

Source: Central Bank of Ceylon

† Comprising treasury bills, tax reserve certificates, Central Bank advances and national development bonds.

* As to latest date of maturity

The maturity pattern of gross domestic debt as at September 30, 1965 with corresponding data for the five previous financial years is shown in table II (E) - 11. In the Annual Report for 1964 it was noted that the term structure of the domestic debt lengthened during the financial year ending September 30, 1964. This tendency was continued in the financial year 1964/65. Domestic debt with over twenty years to latest date of maturity comprised 28.4 per cent. of total domestic debt, an increase of 4.8 percentage points during the financial year 1964/65. Correspondingly the floating debt component fell by 1.6 percentage points to constitute 41.8 per cent. of the total as at the end of September, 1965.

Rupee Securities

The value of loans raised and repaid during the last five financial years are shown below

| Rupees | | |
|----------------|--------------|--------------|
| Financial year | Loans raised | Loans repaid |
| 1960/61 | 269,583,200 | 89,748,800 |
| 1961/62 | 193,699,600 | 75,000,000 |
| 1962/63 | 221,325,700 | 52,081,000 |
| 1963/64 | 315,000,000 | 89,148,300 |
| 1964/65 | 263,877,600 | 23,671,300 |

Source: Central Bank of Ceylon

Of rupee loans amounting to Rs. 263.9 million issued during the financial year 1964/65, two loans amounting to Rs. 11.5 million were conversion loans at $3\frac{1}{2}$ per cent. The balance eight (21.25 year) loans aggregating to Rs 252.4 million were cash issues at $4\frac{1}{2}$ per cent. The $3\frac{1}{2}$ per cent. (conversion) Loan, 1969/71 and the $4\frac{1}{2}$ per cent. Loan, 1985/89 'H' Series were floated together; the total amount subscribed being Rs. 37.0 million though the allocations between the two loans were not fixed. Of this Rs. 3.9 million was raised in conversion of an equal amount due for repayment. The second conversion loan - the $3\frac{1}{2}$ per cent. Loan, 1970/72 amounting to Rs. 6.9 million was issued in conversion of part of the $2\frac{1}{2}$ per cent. Loan, 1963/65 which was due for repayment in July, 1965. Stock of the maturing loan amounting to Rs. 5.0 million was surrendered in payment for stock of the $3\frac{1}{2}$ per cent. conversion loan and 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 (E) 12.

As shown in table II (E)-12 savings institutions absorbed only Rs. 38.8 million (14.7 per cent.) of loans floated in 1964/65 as compared with Rs. 79.9 million (25.4 per cent.) in 1963/64. The other major contributors were the Employees' Provident Fund Rs. 72.4 million (27.4 per cent.), sinking funds Rs. 52.5 million (19.9 per cent.), Insurance Corporation Rs. 42.2 million (16.0 per cent.) and trusts, benevolent, pension and provident funds, other than the Employees' Provident Fund Rs. 31.5 million (11.9 per cent.).

A classification of allotments of Government securities in 1963/64 and 1964/65 together with comparative data for 1962/63 is given in table II (E)-13 below.

TABLE II (E) 12

Classification of Subscriptions to Government Securities 1964/65

Rupees Million

| | 4½% Loan, 1985/89 'G' Series | 3½% Loan 1969/72* | | 4½% Loan, 1985/89 'H' Series | 4½% Loan, 1986/90 | 4½% Loan, 1986/90 'B' Series | 4½% Loan, 1986/90 'C' Series | 4½% Loan, 1986/90 'D' Series | 3½% Loan, 1970/72† | | 4½% Loan, 1986/90 'E' Series | 4½% Loan, 1986/90 'F' Series | Total | |
|---|------------------------------|-------------------|------------|------------------------------|-------------------|------------------------------|------------------------------|------------------------------|--------------------|------------|------------------------------|------------------------------|--------------|--------------|
| | | Con-version | Cash | | | | | | Con-version | Cash | | | Amount | Per-centage |
| Commercial banks .. | 1.0 | — | — | — | — | — | — | — | — | — | — | — | 1.0 | 0.4 |
| Savings institutions .. | 4.5 | — | — | 3.5 | 3.0 | 6.8 | 4.0 | 5.0 | — | — | 9.0 | 3.0 | 38.8 | 14.7 |
| Sinking funds .. | 0.1 | — | 2.7 | 11.0 | 12.5 | 7.8 | 9.5 | 5.0 | 3.9 | — | — | — | 52.5 | 19.9 |
| Departmental and other official funds .. | 8.4 | — | — | 1.7 | 0.8 | 0.3 | 1.5 | 1.5 | — | — | — | 0.2 | 14.4 | 5.5 |
| Trusts, benevolent, pension and provident funds— .. | | | | | | | | | | | | | | |
| 1. Employees' Provident Fund .. | 8.0 | — | — | 7.8 | 9.2 | 6.5 | 9.9 | 10.0 | — | — | 10.2 | 10.8 | 72.4 | 27.4 |
| 2. Others .. | 3.1 | ... | 0.1 | 2.4 | 3.5 | 5.2 | 4.4 | 4.3 | ... | 0.7 | 4.8 | 3.0 | 31.5 | 11.9 |
| Insurance funds:— .. | | | | | | | | | | | | | | |
| 1. Insurance Corporation .. | 4.4 | — | — | 5.2 | 5.6 | 2.7 | 5.4 | 2.7 | — | — | 10.7 | 5.5 | 42.2 | 16.0 |
| 2. Insurance companies .. | — | 0.2 | 1.2 | 0.7 | 0.3 | 0.5 | — | 0.8 | 1.1 | 1.1 | 0.1 | 0.6 | 6.6 | 2.5 |
| Other state corporations .. | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Other companies .. | — | — | — | ... | ... | — | — | ... | — | — | 0.1 | 0.1 | 0.2 | 0.1 |
| Individuals, clubs and institutions .. | 0.6 | ... | 0.3 | 0.1 | 0.2 | 0.2 | 0.3 | 0.7 | 0.1 | — | 0.2 | 1.9 | 4.6 | 1.7 |
| TOTAL .. | 30.0 | 0.3 | 4.3 | 32.4 | 35.0 | 30.0 | 35.0 | 30.0 | 5.1 | 1.8 | 35.0 | 25.0 | 263.9 | 100.0 |

Source: Central Bank of Ceylon.

* Raised in conversion of the Ceylon Government 2½% Loan, 1962-64 due for repayment in December, 1964.

† Raised in conversion of the Ceylon Government 2½% Loan, 1963-65 due for repayment in July, 1965.

TABLE II (E) 13

Classification and Comparison of Allotments of
Government Securities in 1962/63 to 1964/65

Rupees Million

| | 1962/63 | | 1963/64 | | 1964/65 | | Change of 1964/65 over 1963/64 |
|---|---------|-----------------|---------|-----------------|---------|-----------------|---|
| | Amount | Percent- age | Amount | Percent- age | Amount | Percent- age | Amount |
| Banking sector: | | | | | | | |
| Commercial banks .. | 25.4 | 11.5 | 33.0 | 10.5 | 1.0 | 0.4 | -32.0 |
| Co-operative provincial banks .. | 0.3 | 0.1 | - | - | - | - | - |
| Non-Bank sector: | | | | | | | |
| Savings institutions .. | 17.3 | 7.8 | 79.9† | 25.4 | 38.8 | 14.7 | -41.1 |
| Sinking funds .. | 36.4 | 16.4 | 46.3 | 14.7 | 52.5 | 19.9 | + 6.2 |
| Departmental and other official funds | 7.5 | 3.4 | 21.4 | 6.8 | 14.4 | 5.5 | - 7.0 |
| Trusts, benevolent, pension and provident funds: | | | | | | | |
| (1) Employees' Provident Fund .. | 67.8 | 30.6 | 65.0 | 20.6 | 72.4 | 27.4 | + 7.4 |
| (2) Other .. | 36.6 | 16.5 | 25.8 | 8.2 | 31.5 | 11.9 | + 5.7 |
| Insurance funds: | | | | | | | |
| (1) Insurance Corporation .. | 12.9 | 5.8 | 29.0 | 9.2 | 42.2 | 16.0 | +13.2 |
| (2) Insurance companies .. | 13.4 | 6.1 | 8.9 | 2.8 | 6.6 | 2.5 | - 2.3 |
| Other state corporations .. | - | - | 3.5 | 1.1 | - | - | - 3.5 |
| Other companies .. | 0.8 | 0.4 | 0.3 | 0.1 | 0.2 | 0.1 | - 0.1 |
| Individuals, clubs and institutions .. | 3.2 | 1.4 | 1.7 | 0.5 | 4.6 | 1.7 | + 2.9 |
| Total .. | 221.3 | 100.0 | 315.0 | 100.0 | 263.9* | 100.0 | -51.1 |

Source: Central Bank of Ceylon.

† Of this amount Rs. 52.5 million represents contributions to the 3½% Conversion Loan, 1974.

* Of this amount Rs. 4.6 million represents contributions to the 3½% Conversion Loan, 1971 and Rs. 6.9 million to the 3½% Conversion Loan, 1972.

A striking feature in the pattern of subscriptions to Government securities is the sharp increase in the proportion of securities absorbed by non-bank investors. The proportion absorbed by the commercial banks fell from 10.5 per cent. in 1963/64 to 0.4 per cent. in 1964/65.

The rate of interest on long-term (21-25 years) Government loans which was increased from 4¼ per cent. to 4½ per cent. per annum on June 1, 1963, has remained at that level since.

Treasury Bills

The volume of treasury bills outstanding at the beginning of the financial year was Rs. 1,250 million, the authorised limit at that date being Rs. 1,500 million. By the end of the fiscal year the amount of treasury bills outstanding stood at Rs. 1,300 million showing an increase of Rs. 50 million during the financial year, leaving an unutilised balance of Rs. 200 million to the possible limit of treasury bill issues.

The rate of interest on treasury bills which was 2.8 per cent. per annum at the commencement of the financial year rose gradually from July 15, 1965 to 3.0 per cent. per annum on September 15, 1965 and remained at this rate at the end of the

financial year (see appendix table 22). The Central Bank support for treasury bills which was at 0.76 per cent. per annum at the beginning of the financial year was increased to 1.0 per cent. per annum, effective from the treasury bills issue of August 16, 1965.

Foreign Debt

Gross foreign debit (after deducting repayments) recorded an increase of Rs. 77.1 million in 1964/65 as compared with an increase of Rs. 5.0 million in 1963/64. The increase in 1964/65 is analysed in table II (E) 14 below.

TABLE II (E) 14

Foreign Loans

| | | Rupees Million | |
|---------------------------------|----|--------------------------------|---|
| | | Increase during 1964/65* | Liability as at September 30, 1965 |
| I.B.R.D. loans | .. | 5.0 | 139.7 |
| Canadian E. C. I. C. credit | .. | 12.7 | 15.7 |
| Canadian loan | .. | - 1.3 | 4.6 |
| Chinese loan | .. | 18.9 | 40.5 |
| U. K. line of credit (E.C.G.D.) | .. | - 0.8 | 20.9 |
| U. K. sterling securities | .. | — | 107.9 † |
| French SOCEA credit | .. | 5.5 | 5.5 |
| U. S. D.L.F. loans | .. | - 1.0 | 10.7 |
| U. S. I.C.A. loans | .. | - 0.2 | 35.0 |
| Polish line of credit | .. | 2.4 | 2.4 |
| U.S.S.R. loans | .. | 23.8 | 83.1 |
| West German loans | .. | 7.4 | 19.2 |
| Yugoslavian line of credit | .. | - 0.3 | 4.1 |
| TOTAL | .. | 77.1 | 489.3 † |

Source: Central Bank of Ceylon

* i. e. withdrawals less repayments

† sinking funds maintained for the redemption of sterling securities amount to Rs. 42.7 million. Adjusted for these sinking funds the net liability amounts to Rs. 446.6 million.

— sign indicates a net repayment.

There were no withdrawals during the financial year 1964/65 in respect of the following loans although agreements have been signed.

| | Amount | Date of Agreement |
|--|-------------------|----------------------|
| 1. I. C. A. Loan No. 4 | .. Rs. 7,238,240 | 22.9.61 |
| 2. A. I. D. Loan | .. Rs. 8,930,000 | 31.8.62 |
| 3. Banque de Paris (France) Line of Credit | .. £ 10,000,000 | 1.12.64 |
| 4. Chinese Loan (interest free) | .. Rs. 20,000,000 | 25.10.64 |
| 5. German Democratic Republic Line of Credit | .. Rs. 15,000,000 | 2.2.65 |

Sinking Funds

At the close of the financial year 1964/65 the market value of sinking funds established for the redemption of the funded public debt was Rs. 412.9 million showing an increase of Rs. 61.6 million during the financial year. The increase was made up as follows—

| | | |
|---|------------------|---------------------|
| Sinking fund contributions | Rs. 52.7 million | |
| Interest on investments | Rs. 14.3 million | |
| Appreciation in the market value of investments | Rs. 7.5 million | 74.5 million |
| Less | | |
| Amount utilised for repayment of loans | | 12.9 million |
| | | <u>61.6 million</u> |

Borrowing by Semi-Government Institutions

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

(1) National Housing Department

There were no issues of National Housing debentures in 1964/65 and no direct loans were sanctioned by the Government during the year. The total of National Housing debentures issued and outstanding, and direct loans sanctioned by the Government remained unchanged at Rs. 75.0 million and Rs. 70.0 million respectively at the end of the year; the balance borrowing power authorised by Parliament amounting to Rs. 75.0 million. The market value of sinking fund established for the redemption of National Housing debentures stood at Rs. 27.8 million at the end of the financial year.

(2) The State Mortgage Bank

There were no new issues of State Mortgage Bank debentures, the major portion of its operations being carried out through overdraft facilities provided by the banking system. These debentures issued and outstanding amounted to Rs. 33.3 million, while overdrafts guaranteed under sections 73,75 and 84 of the State Mortgage Bank Ordinance amounted to Rs. 32.4 million, representing an increase of Rs. 8.1 million during the financial year. Total indebtedness of the Bank thus amounted to Rs. 65.6 million at the end of the financial year leaving an unutilized borrowing capacity of Rs. 2.0 million. At the end of the financial year 1963/64 the total indebtedness of the Bank amounted to Rs. 57.6 million.

Part B - Financial year 1965/66

Budget 1965/66

The original estimates of revenue and expenditure for 1965/66 as approved by Parliament are summarised in table II (E) - 15 below:

TABLE 11 (E) - 15
Original Budget Estimates

| | | Rupees Million | |
|-----|--|----------------|---------------------|
| (a) | Recurrent expenditure (votes 1, 2, 4 and 6) | 1924.0 | |
| | Less 2½ per cent. under-expenditure * | <u>45.7</u> | 1878.3 |
| (b) | Capital expenditure (votes 3, 5 and 7) | | <u>578.1</u> |
| (c) | Total expenditure [(a) + (b)] | | 2456.4 |
| (d) | Revenue (inclusive of new tax receipts) | | <u>1897.8</u> |
| (e) | Budget deficit [(c) - (d)] | | 558.6 |
| (f) | Less contributions to sinking funds and direct repayments of public debt | | <u>97.2</u> |
| (g) | Estimated net cash deficit | | <u><u>461.4</u></u> |

Source: Central Bank of Ceylon.

* 2½ per cent. of Rs. 1826.8 million; being the amount after deducting sinking fund contributions and direct repayments of public debt from revenue (Rs. 97.2 million) from recurrent expenditure.

The budget deficit of Rs 558.6 million is to be financed as follows:-

| | Rupees Million |
|---------------------------------|----------------|
| (a) Domestic non-bank borrowing | 275 |
| (b) Foreign aid | 175 |
| (c) Administrative borrowing | 25; |

there would thus be a gap of Rs. 83.6 million which would represent the expansionary content of the Budget deficit.

Revenue

The estimated total revenue for the year 1965/66 (including a net receipt of Rs. 14.0 million from measures proposed in the Budget), is Rs. 1897.8 million. This compares with the actual (provisional) revenue of Rs. 1816.4 million in 1964/65. The Budget estimates of revenue for the current financial year thus show an increase of Rs. 81.4 million over the actual (provisional) figure of the previous financial year.

This increase of Rs. 81.4 million over the actual revenue collections of the previous year is composed mainly of higher revenues anticipated from customs duties (Rs. 101.1 million), excise duties (Rs. 7.8 million), Postal and Telecommunication services (Rs. 6.3 million), interest and annuities (Rs. 4.5 million) Railway (Rs. 6.0 million), miscellaneous receipts (Rs. 12.1 million) and the Electrical Department (Rs. 13.0 million), partially offset by decreases in revenue receipts from income tax (Rs. 44.2 million), Port and Harbour dues (Rs. 2.2 million), licences and other revenue (Rs. 19.7 million), and fees of court and office (Rs. 5.2 million).

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

| | Rupees Million |
|---|----------------|
| 1. A 10 per cent. surcharge on existing rates of import duty with the exception of food items etc. | 22.0 |
| 2. Increased duty collections anticipated from increased imports following negotiations for foreign aid | 25.0 |
| 3. Effective assesment and speedier collection of income tax | 20.0 |
| 4. Amnesty | 15.0 |
| 5. Philatelic Bureau | 1.4 |
| Total | <u>83.4</u> |

Net revenue to the Government, however, was estimated at Rs. 14.0 million, since the following measures will result in an anticipated loss of Rs. 69.4 million.

| | Rupees Million |
|--|----------------|
| 1. Reduction and removal of import duties on essential goods | 18.4 |
| 2. Removal of Bank Debits Tax (net loss) | 6.6 |
| 3. Removal of Visa Tax | 3.0 |
| 4. Removal of Foreign Exchange Tax | 5.0 |
| 5. Reduction in taxes on income, wealth and capital gains | 36.4 |
| Total | <u>69.4</u> |

1. Customs Duties

A 10 per cent. surcharge was imposed on the existing rate of import duties.* The items exempted from this surcharge are food items, drugs and medicines, fertilisers, petroleum products including kerosene oil, textiles, motor spares, cement, agricultural machinery and implements and items used by the export industries for which special rates of duty had been fixed. The addition to revenue from this proposal is estimated at Rs. 22.0 million. An increase in revenue of Rs. 25.0 million from import duties is also anticipated from the additional imports which are likely to result from an enhanced flow of foreign assistance. The additional revenue from these two measures is thus expected to be Rs. 47.0 million.†

Import duties were abolished on kerosene oil, chillies, potatoes, bombay onions, red onions, dhal, gram peas, small agricultural implements, such as mamoties, alavangoes etc., sports goods and spares. Import duties on cotton textiles were also reduced by 10 to 12 cents per yard.‡ The loss to revenue from these measures is estimated at Rs. 18.4 million.

The net gain to revenue from customs duties is therefore estimated at Rs. 28.6 million.

11. Income, Wealth and Capital Gains taxes

A. Income Tax—(a) Resident individuals—The first slab of taxable income for resident individuals at 15 per cent. and varying according to the size of the

* Government Gazette No. 14,475 of August 9, 1965.

† Excluding an increase in import duty on automotive diesels effective from January, 1966 which was designed to offset the loss resulting from the abolition of the tax on heavy oil motor vehicles.

family is replaced with two slabs taxable at 10 per cent. and 15 per cent. respectively.⁽¹⁾ These initial slabs will be Rs. 3,000 for a single person, increasing by Rs. 1,000 for the wife and Rs. 500 for each child or dependent, up to a maximum of four. Also, taxpayers whose assessable income did not exceed Rs. 15 000 were earlier taxed at 5 per cent. on the first slab of Rs. 1000 of taxable income. Under the current rate schedule this concessionary rate will apply to the first Rs. 1000 of those whose taxable income does not exceed Rs. 2000.⁽²⁾ The highest marginal rate of tax for individuals is 45 per cent; but this is supplemented in the case of higher income groups with a surtax which is subject to a rebate on savings as explained later. The surtax which is intended to take the place of an expenditure tax will be 20 per cent. and 35 per cent. so that the highest marginal rate of tax payable becomes 80 per cent.⁽³⁾

The surtax in respect of persons with taxable income subject to the 45 per cent. marginal rate would be as follows:-

| | |
|-------------------------|-------------|
| On the first Rs. 10,000 | nil |
| Next Rs. 15,000 | 20 per cent |
| Balance taxable income | 35 per cent |

(b) **Non-resident individuals** - The revised schedule for non-resident individuals is as follows:-

| | | |
|---------|------------|-----------------|
| First | Rs. 15,000 | at 20 per cent. |
| Next | Rs. 5,000 | at 25 per cent. |
| Next | Rs. 5,000 | at 35 per cent. |
| Next | Rs. 5,000 | at 40 per cent. |
| Next | Rs. 10,000 | at 45 per cent. |
| Next | Rs. 10,000 | at 65 per cent. |
| Balance | | at 80 per cent. |

(c) **Companies** - The non-refundable component of company taxation was reduced from 57 per cent. to 50 per cent. In the case of non-resident companies there will be a further tax of 6 per cent. in lieu of estate duty and 5 per cent. on its taxable wealth attributable to the income derived from immovable property in Ceylon. The new rate of tax on mutual life assurance companies is 24 per cent.

(d) **Governments** - The rate applicable (to Governments other than the Government of Ceylon and the Government of the United Kingdom) is 56 per cent.

B. Wealth Tax - The earlier maximum rate of wealth tax of 5 per cent. was equivalent to an income tax of 50 per cent. assuming an average yield of 10 per cent. on wealth. This rate of 50 per cent. when added to the highest marginal

(1.) Inland Revenue (Amendment) Act No. 18 of 1965.

(2.) The balance taxable income being taxed at 10 per cent.

(3.) A deduction for income tax purposes is now allowed in respect of agriculture and animal husbandry for all capital expenditure other than those for which rebates existed earlier. Income from new houses too are exempt from tax for a period of seven years.

income tax rate of 80 per cent. amounted to a tax of 130 per cent. of that income. In order to avoid this penal rate of taxation the rates of wealth tax were revised downward. The new rates are as follows:-

The first Rs. 100,000 of assessable wealth to be exempt.

| | | | | |
|-------------|---------------------------|-------------------|---------------|-----------|
| On the next | Rs. 200,000 | of taxable wealth | $\frac{1}{2}$ | per cent. |
| - do - | Rs. 500,000 | - do - | $\frac{3}{4}$ | per cent. |
| - do - | Rs. 1,000,000 | - do - | 1 | per cent. |
| - do - | balance of taxable wealth | | 2 | per cent. |

The total of income tax and wealth tax to which a person is liable is limited to 80 per cent. of his assessable income for that year.

Under the Kaldor Scheme of taxation as originally introduced in Ceylon, wealth tax payments were excluded from taxable expenditure for purposes of expenditure tax. In order to provide similar relief from the proposed surtax, wealth tax payments qualify for rebates under the savings relief scheme.

C. Capital Gains Tax - Capital gains tax was reduced to a maximum of 25 per cent. from the previous maximum of 45 per cent. which was considered extraordinarily high and did not differentiate between short and long-term gains.

Rebates in respect of savings

With the object of encouraging savings and also affording relief to income and surtax payers (both resident and non-resident individuals) who save, rebates have been granted for net savings in certain specified forms. The specified form in which the savings should be held is as follows:-

- (1) Investment in Government securities ⁽¹⁾
(other than tax reserve certificates);
- (2) Money deposited in a special account in the Central Bank or in any other institution to be approved by the Minister of Finance on the recommendations of the Monetary Board;
- (3) The amount of any premia paid on a life insurance or annuity policy in excess of the amount on which insurance relief is due;
- (4) Any sum payable as wealth tax;
- (5) Any repayment of a loan taken prior to August 9, 1965, on the hypothecation of any property; and
- (6) Any approved investment. ⁽²⁾

(1) Where the money is withdrawn within one year no relief will be due.

(2) Approved investment means - an investment in an approved project within the meaning of section 69 of the Inland Revenue act.

The maximum relief granted earlier for contributions to life insurance premia and contributions to approved pension and provident funds did not exceed one-sixth of the assessable income or Rs. 4,000 whichever was less. This limit has been raised to one-fourth of the assessable income subject to a maximum of Rs. 10,000.

The relief is granted as a rebate on the tax payable. The rebate would be 50 per cent. of the savings out of income taxed at 80 per cent. and 33 1/3 per cent. of the savings out of income taxed at 65 per cent. In respect of tax payers whose rates of tax are 45 per cent. or less, the rebate would be at the effective rate or 25 per cent. whichever is lower and for a maximum aggregate net saving of Rs. 10,000 or one-fourth his assessable income whichever is lower.

111. Other measures affecting revenue

Other proposals included the abolition of the Foreign Exchange Tax⁽¹⁾ the Visa Tax⁽²⁾ the Bank Debits Tax⁽³⁾, the implementation of measures for the more effective assessment and speedier collection of taxes and the establishment of a Philatelic Bureau. In view of the existence of large scale tax evasion, an amnesty was granted on the same lines as in the previous year to defaulters who disclosed their incomes before November 30, 1965. This period was later extended up to February 21, 1966.

The abolition of the Bank Debits Tax was devised to encourage the development of the banking habit and reduce hoarding. The net loss to revenue resulting from this measure is estimated at Rs. 6.6 million. The Foreign Exchange Tax and the Visa Tax were abolished on the grounds that they were irksome and caused hardships to many people. The loss to revenue from these two measures is estimated at Rs. 5.0 million and Rs. 3.0 million respectively.

Current Expenditure

The total of recurrent expenditure (votes 1, 2, 4 and 6) is estimated at Rs. 1924.0 million. When capital items under recurrent expenditure and provisions for sinking fund contributions are deducted from this figure the resultant current expenditure amounts to Rs. 1762.8 million. This compares with the actual (provisional) outlay of Rs. 1731.9 million for 1964/65. The increase in estimated current expenditure for 1965/66 (Rs. 30.9 million) is mainly due to higher expenditure under administration, social services and economic services of Rs. 20.7 million, Rs. 11.0 million and Rs. 0.4 million respectively, partially offset by a decrease in transfer payments of Rs. 10.7 million.

Among the principal changes in current expenditure is an expected fall of Rs. 18.5 million in the net food subsidy bill. The composition of this change is shown in table 11 (E)-5. A fall in the net subsidy is accounted for principally by a

(1) Act of Parliament No: 10 of 1965

(2) Ibid

(3) Ibid

rise in the profits from the sale of sugar (Rs. 22.3 million). The gross food subsidy, however, is estimated to be higher than in 1964/65 by Rs. 15.0 million due to an expected increase in this subsidy on imported as well as locally produced rice.

Capital Expenditure

The original estimate of capital expenditure (votes 3, 5, and 7) amounts to Rs. 578.1 million (i. e. more than 23 per cent. of total expenditure). When capital items under recurrent expenditure votes and extra budgetary capital expenditure from reserves are added, total estimated capital expenditure for the financial year 1965/66 amounts to Rs. 668. 0 million representing an increase of Rs. 88.0 million over the actual expenditure (provisional) for 1964/65. Thus provision has been made for a higher level of capital expenditure than in earlier years and the Finance Minister in his Budget Speech expressed a firm resolve to ensure a substantial reduction in under expenditure on this account.

Other measures proposed in the Budget

1. National Planning

A new Ministry for Planning and Economic Affairs has been established under the Prime Minister to ensure the organization of an effective programme of planned development and the achievement of planned objectives of production and investment.

2. Increase of Food Production

Paddy production is to be increased over the next three years by bringing under cultivation once again, abandoned paddy lands approximating 100,000 acres in extent. Measures are to be taken to increase the use of fertilizers. Incentives are also given to producers of subsidiary foodstuffs through a higher guaranteed price for red onions, liberal land alienation and provision of cheaper irrigation facilities. Steps are also envisaged for development of animal husbandry and fisheries.

3. Export Promotion

With a view to stimulating industrial exports other than the three traditional exports, more concessions and incentives than at present available will be given to "new industries". The measures suggested for stimulating industrial exports are:

1. A rebate from income tax of 5 per cent. of the value of exports on goods exported provided such exports have resulted in a minimum net earning in foreign exchange of 25 per cent. of the f. o. b. value of the commodity.
2. Raw materials imported to produce export goods will be released by the Principal Collector of Customs on bank guarantees without recovering import duties. The bank guarantees to be enforced if the exports do not materialise within 6 months.

3. Excise duties and turnover tax will be waived for industrial goods exported.
4. Bilateral pacts will be exploited further to increase export of industrial goods.

A stimulus to the tea market in Britain is to be effected through a propaganda campaign spread out over 3 years for which a provision of Rs. 1.5 million has been made.

4. Increasing Employment Opportunities

Priority is to be given to formulating measures to create employment opportunities and to absorb the large number of unemployed and underemployed into Government departments and corporations.

5. Measures to reduce the Cost-of-Living

The following short term measures to stabilize prices and provide immediate relief were proposed.

- (a) Streamlining of import procedures,
- (b) Improvement of Port and Harbour facilities, eliminating the surcharges and reducing freight rates,
- (c) Distribution of fertiliser, seeds and provision of wholesale marketing facilities in respect of vegetables,
- (d) Increased provision of foreign exchange for import of lorries and lorry spare parts,
- (e) The imposition of a rigid price control system and increasing the severity of the punishment for violation of price control regulations,
- (f) The abolition of the heavy oil motor vehicles tax with effect from January 1, 1966,
- (g) The introduction of a more effective marketing system for the distribution of fish; the Fisheries Corporation acting as wholesaler.

6. Moratorium on remittances abroad

In order to encourage private foreign investment, the moratorium on remittances of dividends, interest and profits was relaxed and as an initial step, remittances in August 1965 were allowed upto Rs. 2 million i. e. 10 per cent of the funds that had accumulated upto June 1965.

7. External Assistance

The Government has successfully negotiated through consultations with the I. M. F. and I. B. R. D. aid, approximating \$ 50 million from a group of friendly countries. (United States Rs. 50.6 million, United Kingdom Rs. 47.6 million,

West Germany Rs. 38.1 million, France Rs. 23.8 million, Japan Rs. 23.8 million, India Rs. 20.0 million, Canada Rs. 14.3million and Australia Rs. 7.0 million.) This aid is to be utilised for import of commodities essential for rehabilitating the economy and to buttress the International Reserve.

In the Budget for 1965/66 the total anticipated utilisation of foreign aid was Rs. 175.0 million i. e. Rs. 50.0 million less than the anticipated figure for 1964/65. Of the foreign assistance expected in 1965/66, allocation for specified projects were made in respect of Rs. 100.0 million of which Rs. 62.7 million would be in the form of loans and credit lines while Rs. 32.3 million would be 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. 21.1 million of loans from Canada, Stage IIB of the Hydro Electric Scheme Rs. 8.3 million from the I.B.R.D., Ceylon Cement Corporation Rs. 10.0 million from West Germany, Eastern Paper Mills Corporation Rs. 5.0 million from Canada, the Kandy Water Scheme Rs. 3.2 million from France (SOCEA), Ceylon Steel Corporation Rs. 3.7 million from the U. S. S. R., Development of the Telecommunications Services in the Greater Colombo Area Rs. 5.4 million from Britain and railway coaches and waggons Rs. 4.9 million from the People's Republic of China.