

(E) GOVERNMENT FINANCE**Part A—The Financial Year 1965/66**

The fiscal operations of the Government for the financial year October, 1965 to September, 1966, with corresponding data for previous financial years are summarised in Table II (E) 1. As indicated therein, the salient features of Government's fiscal operations in the financial year 1965/66 were as follows :—

(a) Total revenue was Rs. 1,833·2 million as compared with Rs. 1,816·4 million in 1964/65 and Rs. 1,759·0 million in 1963/64.

(b) Total voted expenditure⁽¹⁾ was Rs. 2,388·2 million as compared to Rs. 2,274·6 million in 1964/65 and Rs. 2,236·6 million in 1963/64. Of this total, recurrent expenditure was Rs. 1,860·5 million compared with Rs. 1,803·4 million in 1964/65 and Rs. 1,834·1 million in 1963/64; while expenditure chargeable to capital votes was Rs. 527·7 million, as compared with Rs. 471·2 million and Rs. 402·5 million in 1964/65, and 1963/64 respectively.

(c) Operations on advance accounts resulted in a net payment of Rs. 11·2 million, as compared with net receipts of Rs. 27·9 million and Rs. 16·1 million in 1964/65 and 1963/64 respectively.

(d) The net cash deficit resulting from these operations was Rs. 565·9 million as compared with Rs. 430·4 million in 1964/65 and Rs. 461·7 million in 1963/64.

(e) The net cash deficit for 1965/66 was financed by borrowing Rs. 418·2 million from domestic market sources, securing Rs. 112·1 million from domestic non-market sources, and obtaining Rs. 118·0 million by way of foreign finance, the net result of which was used to augment cash balances including commodity aid counterpart funds by Rs. 82·4 million.

(f) The expansionary impact of the net cash deficit, when adjusted for the change in U.S. Aid counterpart funds was Rs. 122·4 million as compared with Rs. 34·7 million in 1964/65 and Rs. 162·9 million in 1963/64.

Revenue

In Table 19 of Appendix II, the original estimates and the actual (provisional) revenue collections for 1965/66 are shown together with the actual revenue collections for 1964/65 under the main heads of revenue as appearing in the Government estimates. Actual (provisional) revenue for 1965/66 at Rs. 1,833·2 million was Rs. 16·8 million or only 0·9 per cent higher than the corresponding figure (Rs. 1,816·4 million) for 1964/65.

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

Over the ten year period 1956/57 to 1965/66 revenue has increased by 45.8 per cent or 8.9 per cent (compound) annually. Over the last five financial years the increase in revenue was 21.1 per cent or 4.0 per cent (compound) annually. The Annual Reports of 1964 and 1965 also had occasion to mention the substantial increase in revenue as one of the satisfactory features of Government fiscal operations in the financial years 1963/64 and 1964/65. It is apparent therefore that over the last financial year, though revenue has increased in absolute terms, it has not maintained the rate of growth achieved in previous financial years.

Furthermore, an analysis of *per capita* revenue, based on figures of mid-year population, which had shown a steadily rising trend in the five financial years ending 1964/65, recorded a fall in 1965/66. Revenue (*per capita*) which had increased from Rs. 141.79 in 1959/60 to Rs. 161.75 in 1964/65, fell to Rs. 159.54 in 1965/66. This is to be expected in a situation where population is estimated to have increased by 2.3 per cent, while revenue collections recorded a rise of only 0.9 per cent.

As compared with the original estimates of Rs. 1,897.8 million for 1965/66, the actual revenue collected showed a shortfall of Rs. 64.6 million. The corresponding over-estimation of revenue for 1964/65 was Rs. 4.9 million; in 1963/64 it was Rs. 28.6 million and in 1962/63 Rs. 123.5 million.

Table II (E)—2 depicts in detail the salient changes in the important revenue items in actual revenue (provisional) in 1965/66, compared with the actual revenue for 1964/65 and the original estimates for 1965/66.

Revenue from imports⁽¹⁾ in 1965/66 as compared with the revenue collections of the previous financial year was higher by Rs. 41.0 million. The increase in revenue from cotton yarn etc. (Rs. 6.7 million), motor spirit and liquid fuel (Rs. 11.6 million) and "other goods" (Rs. 36.8 million) amounted to Rs. 55.1 million. This increase in revenue collections was offset to some extent by a reduction in duty collections on tobacco and cigarettes (Rs. 13.7 million) and sugar (Rs. 3.4 million). The increased revenue from cotton yarn, twist and piecegoods was on account of an increase in imports and to a variation in the method of levying duties on textiles. An increase in the duty on heavy oil accounted for the increased duty collections in the category motor spirits and liquid fuel, while an increase in imports and a 10 per cent surcharge on some items⁽²⁾ was responsible for the marked increase in duty collections under the item "other goods." The fall in revenue receipts in respect of tobacco and cigarettes was due to a decrease in imports, while the decreased collections from duties on sugar was partly on account of a delay in the payment of duties by the Food Commissioner.

(1) Including licence fees on imports which are under licence. Figures pertaining to the volume of imports and exports are based on Customs data.

(2) A 10 per cent surcharge was levied on the existing rate of import duty with the exception of food items, drugs and medicines, fertilizer, petroleum products including kerosene oil, textiles, motor spare-parts, cement, agriculture machinery and implements and items used by the export industries.

TABLE II (E) 1

Government Net Cash

	1954/55	1955/56	1956/57	1957/58	1958/59
1. Net Cash Surplus/Deficit (—) ...	127.6	1.2	196.4	222.3	413.4
A. Revenue ...	1,158.6	1,257.2	1,260.5	1,280.0	1,330.4
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	1,743.8
(i) Recurrent expenditure(a)(b)* ...	864.9	1,014.4	1,105.2	1,280.1	1,432.2
(ii) Capital expenditure(a)* ...	215.5	211.0	213.3	282.6	303.4
(iii) Expenditure chargeable to National Development Reserve ...	2.1	4.0	5.1	3.0	2.4
(iv) Unissued stores and materials(c) ...	9.9	1.2	14.5	—	10.5
(v) Advances to Government Departments(c) ...	34.0	30.3	115.8	54.5	17.1
(vi) Ceylon-China trade account(c) ...	—	—	—	—	—
(vii) Miscellaneous(c) ...	7.6	0.1	3.0	8.9	0.8
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	351.8
A. Domestic non-market borrowing and repayments (including sundry loans) ...	29.1	36.5	9.4	72.5	27.6
(i) Administrative borrowing ...	—	—	—	—	—
(ii) Deposits(d) ...	34.5	10.8	9.0	73.9	27.3
(iii) Miscellaneous funds(c) ...	0.9	4.8	2.3	20.1	4.2
(iv) Loans to Public Institutions and public officers(f) ...	4.5	20.9	16.1	21.5	3.9
B. Domestic market borrowing and repayment of borrowing ...	76.7	47.0	169.7	81.9	294.6
(i) Rupee Loans ...	75.0	74.5	94.9	45.0	95.0
Less contributions to sinking funds ...	41.0	35.5	27.6	23.1	26.3
... ..	34.0	39.0	67.3	21.9	68.7
(ii) Treasury bills ...	44.9	8.0	3.0	74.6	179.0
(iii) Central Bank advances ...	65.8	—	96.3	13.8	41.1
(iv) Tax Reserve Certificates ...	—	—	9.1	0.8	5.8
C. Foreign Finance ...	8.6	1.7	15.1	20.3	29.6
(i) Loans ...	12.1	5.2	18.6	23.7	35.5
Less contributions to sinking funds and direct repayments of public debt from revenue ...	3.5	3.5	3.5	3.4	5.9
... ..	8.6	1.7	15.1	20.3	29.6
(ii) Grants ...	—	—	—	—	—
3. Changes in cash balances and commodity aid counterpart funds ...	88.6	11.0	21.0	47.5	61.7
(i) Cash balances (including readily reliable assets) ...	88.6	11.0	21.0	47.5	61.7
(ii) Commodity aid counterpart funds ...	—	—	—	—	—

(a) See foot-note (g) of Appendix II, Table 18.

* 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* 2B (1) and 2C(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.

(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, other Industrial Corporations and advances to public officers.

Surplus/Deficit (—)

Rupees Million

1959/60	1960/61(i)	1961/62	1962/63	1963/64	1964/65	1965/66 (k)
- 417.5 1,403.8	- 462.5 1,513.9	- 456.1 1,620.6(j)	- 391.7 1,593.4(j)	- 461.7 1,759.0(j)	- 430.4 1,816.4(j)	- 565.9 1,833.2(j)
-1,821.3 -1,511.9 - 306.6	-1,976.4 -1,540.8(h) - 419.9	-2,076.6 -1,580.7(h) - 480.6	-1,985.3 -1,596.4(h) - 402.3	-2,220.7 -1,834.1(h) - 402.5	-2,246.8 -1,803.4(h) - 471.2	-2,399.4 -1,860.5(h) - 527.7
- 1.5 - 7.1 5.8	- 1.5 1.9 15.9	- 0.7 2.4 10.2 - 26.0	- 0.3 8.6 7.6 20.3	- 0.2 5.2 45.9 61.0	0.1 2.7 97.9 70.4	... 15.5 11.3 6.6
—	- 0.2	- 1.2	- 5.6	6.2	- 2.3	- 0.4
411.6	462.5	496.3	391.3	416.3	410.9	648.3
57.4 49.3 13.0 2.7	29.4 2.9 39.4 1.0	104.5 11.9 86.5 4.8	- 33.8 - 0.4 - 27.6 0.1	- 1.9 - 17.2 17.4 2.5	50.3 8.6 68.2 3.1	112.1 41.7 76.5 0.2
- 7.6	- 6.1	1.3	- 5.9	- 4.6	- 6.2	- 6.3
330.5 134.8 27.7	409.4 214.9 29.2	338.9 145.0 35.0	333.1 205.0 38.9	322.8 245.0 44.6	260.9 253.1 51.2	418.2 325.0 58.9
107.1 228.2 3.1(h) 7.9	185.7 198.4 20.6(h) 4.7	110.0 248.0 21.0(h) 1.9	166.1 124.1 36.6(h) 6.3	200.4 128.4 19.4(h) 13.4	201.9 50.5 8.3(h) 0.2	266.1 124.3 28.3(h) 0.5
- 23.7 29.3	23.7 16.3	52.9 44.5	92.0 68.7	95.4 75.7	99.7 92.8	118.0 112.4
5.6 23.7 —	5.9 10.4 13.3	9.7 34.8 18.1	7.8 60.9 31.1	12.2 63.5 31.9	17.2 75.6 24.1	35.9 76.5 41.5
- 6.0	...	40.2	- 0.4	- 45.4	- 19.5	82.4
- 6.0 —	... —	40.2 —	- 0.4 —	- 45.4 —	- 19.5 —	47.2 35.2

Source : Central Bank of Ceylon.

- (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 in 1959/60, Rs. 2.2 million in 1960/61, Rs. 0.2 million in 1961/62, 1962/63 and 1963/64, Rs. 21.5 million in 1964/65 and Rs. 21.1 million in 1965/66 to meet payments to international financial organisations 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 balance of foreign grants, which were available to the Treasury as a source of Budgetary finance, were included under deposits (item 2A (ii)).
- (j) The figure of revenue for 1965/66 differs from that given in Government Accounts in that it excludes a book credit of Rs. 26.8 million from the Food Commissioner and Rs. 18.1 million of foreign grants classified under revenue, but includes a receipt of Rs. 0.5 million, being arrears of the National Development Tax. See also foot-note (b) of Appendix Table 18.
- (k) Provisional.

TABLE II (E) 2

Revenue of the Government

Rupees Million

	Original Esti- mates 1965/66	Actual (provi- sional) 1965/66	Actual 1964/65	Changes in 1965/66 (actual) over 1964/65	Excess (+) or shortfall (—) in 1965/66 (actual) in rela- tion to original estimates 1965/66
1. Import duties (a)	554.9	476.8	435.8	41.0	—78.1
of which					
(a) Cotton yarn, twist and piecegoods	18.0	36.2	29.5	6.7	+18.2
(b) Grain and flour	22.7	19.2	19.8	— 0.6	— 3.5
(c) Kerosene oil, motor spirits etc. ...	128.0	127.0	115.4	11.6	— 1.0
(d) Tobacco and cigarettes	44.0	28.8	42.5	—13.7	—15.2
(e) Sugar	28.6	19.9	23.3	— 3.4	— 8.7
(f) Other goods*	224.6	170.2	133.4	36.8	—54.4
2. Export duties (b)	292.7	255.8	312.8	—57.0	—36.9
of which					
(a) Tea (including tea tax)	225.8	202.4	228.8	—26.4	—23.4
(b) Rubber	20.1	17.0	22.4	— 5.4	— 3.1
(c) Coconut	40.6	31.1	56.1	—25.0	— 9.5
3. Income Tax	254.3	275.4	291.2	—15.8	+21.1
4. Estate Duty	9.0	10.6	7.0	3.6	+ 1.6
5. Personal Tax	19.2	12.0	18.9	— 6.9	— 7.2
6. Profit from sale of arrack	103.0	118.0	90.0	28.0	+15.0
7. Duty on country-made liquor	12.0	14.4	11.5	2.9	+ 2.4
8. Tobacco tax	108.0	120.0	110.0	10.0	+12.0
9. National Lottery	5.5	9.5	5.3	4.2	+ 4.5
10. Turnover tax	34.0	39.1	34.8	4.3	+ 5.1
11. Bank debits tax	1.0	1.8	11.3	— 9.5	+ 0.8
12. Tax on heavy oil motor vehicles ...	28.7	10.0	41.9	—31.9	—18.7
13. Gross receipts of trading enterprises...	252.5	247.5	228.5	19.0	— 5.0
14. Other revenue	223.0	242.3	217.1	—25.2	+64.6
Total	1,897.8	1,833.2(c)	1,816.4(c)	16.8	—64.6

Source : Central Bank of Ceylon.

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

(b) Includes sundries.

(c) These figures of revenue differ from the published figures in the Government accounts due to the reasons given in footnote (b) of Table 18 of Appendix II.

* An item shown in the Government Revenue classification (Head I sub-head I(9)) of the estimates 1965/66.

In contrast to revenue from imports, *revenue from taxes on exports*⁽¹⁾ in 1965/66 has recorded a marked fall by as much as Rs. 57.0 million (18 per cent) when compared with that in 1964/65. Revenue from the duty collections of all the three major exports declined ; revenue from taxes on tea falling by Rs. 26.4 million, the export duty on rubber by Rs. 5.4 million, while duty collections on the export of coconut products fell by Rs. 25.0 million. The fall in revenue from tea exports occurred both on account of a decline in the volume and the price of tea exported. The volume of tea exported in the financial year 1965/66 fell by 3.5 million lbs.,⁽²⁾ while the average f.o.b. price of all teas fell by as much as 10 cents per lb. to Rs. 2.37 per lb. In this connection it is significant that the duty collections from the (*ad-valorem*) tea tax fell by Rs. 25.8 million to Rs. 36.8 million in 1965/66.

In contrast, the fall in export duty collections on rubber occurred in spite of both an increase in the volume of rubber exported and an increase in the f.o.b. price.⁽³⁾ Exports of rubber increased by 24.8 million lbs. to 279.8 million lbs. during the financial year under consideration, while the f.o.b. price of all grades of rubber increased by 1 cent per lb. to Rs. 1.15. This apparent contradiction is explained by the fact that while the duty leviable is calculated on the price of sheet rubber R.S.S. No. 1 in the London market, the premium on price received under the rubber contract with the People's Republic of China is not included when the weekly duty is calculated.⁽⁴⁾

The fall in the export duty receipts on coconut of Rs. 25.0 million was accounted for by a decline in duty collections on all three coconut products. Duty collections on coconut oil fell by Rs. 14.5 million, while duty collections on the export of desiccated coconut and copra fell by Rs. 5.0 million and Rs. 5.4 million respectively, when compared with duty collections in 1964/65. Furthermore, the decline in duty collections on all types of coconut products was on account of a fall both in prices⁽⁵⁾ and the volume exported. Exports of coconut oil fell by 33.9 thousand tons⁽⁶⁾ in 1965/66, while desiccated coconut⁽⁷⁾ and copra⁽⁸⁾ exports decreased by 3.9 thousand tons and 18.6 thousand tons respectively. The price trends in all types of coconut products were no more encouraging. While the average price (f.o.b.) for all three types of coconut products had shown an increase in the two previous financial years, in the financial year 1965/66 the average price of all products fell by Rs. 1.15 to Rs. 71.43 per cwt.

(1) Including the tea tax levied at the Colombo and London Auctions.

(2) The exports of tea in 1965/66 were 474.5 million lbs. as against 478.0 million lbs. in 1964/65.

(3) Export duties on rubber are based on a sliding scale.

(4) Exports of rubber to the People's Republic of China increased by 20.8 million lbs. (Rs. 34.5 million) in 1965/66.

(5) Export duties on coconut products are based on a sliding scale.

(6) Exports of coconut oil in 1964/65 were 103.8 thousand tons as against 69.9 thousand tons in 1965/66.

(7) Exports of desiccated coconut in 1964/65 were 51.5 thousand tons compared to 47.6 thousand tons in 1965/66.

(8) Exports of copra in 1964/65 was 44.9 thousand tons compared to 26.3 thousand tons in 1965/66.

Income tax receipts in 1965/66 fell by Rs. 15·8 million to Rs. 275·4 million when compared with the collections of 1964/65. The fall in income tax receipts can be attributed to—

- (a) the reduction in tax rates at all levels ;
- (b) savings relief ; and
- (c) a decline in commodity prices.

The collections from *personal taxes* too fell by Rs. 6·9 million to Rs. 12·0 million ; there being a reduction in rates for both individuals and companies. On the other hand, there were increased collections from the turnover taxes and estate duty of Rs. 4·3 million and Rs. 3·6 million respectively.

Revenue from the *tax on heavy oil motor vehicles* and the *bank debits tax* fell by Rs. 31·9 million and Rs. 9·5 million respectively when compared with revenue collections in 1964/65. The fall in revenue in both these taxes was due to their abolition ; the tax on heavy oil motor vehicles having ceased to operate from January 1, 1966, while the bank debits tax was abolished on October 1, 1965⁽¹⁾.

In contrast to the fall in revenue collections from export duties and income tax, profits from the sale of arrack, duties on country made liquor,⁽²⁾ and the tax on tobacco have continued to increase and have made a significant contribution to Government revenue in 1965/66. *Profits from the sale of arrack* increased by as much as Rs. 28·0 million, while *revenue from the tobacco tax* increased by Rs. 10·0 million. The Annual Report of 1965 had occasion to refer to the significant growth in revenue collections from the tobacco tax in recent years. In this connection it is noteworthy that in the five year period 1960/61 to 1965/66, revenue from the tobacco tax increased at a rate of 21·4 per cent (compound) annually.

Revenue from the *National Lottery* and *gross receipts of trading enterprises*⁽³⁾ were the other two items which recorded significant variations in 1965/66. Receipts from the National Lottery increased by Rs. 4·2 million, while the gross receipts of trading enterprises increased by Rs. 19·0 million to Rs. 247·5 million. Of significance was the increase in the receipts of the Electrical and Postal and Telecommunication Departments of Rs. 6·8 million and Rs. 5·2 million respectively in the financial year under review.

(1) The revenue of Rs. 1·8 million collected representing revenue collected but not credited to Consolidated Fund before 30.9.65.

(2) Foreign liquor type, i.e. beer, gin, brandy and rum.

(3) Consisting of the receipts of the Railway, Electrical, Posts and Telecommunication and Broadcasting Departments and the Port Commission.

TABLE II (E) 3
Expenditure of the Government

Rupees Million

	Expenditure chargeable to Recurrent votes			Expenditure chargeable to Capital votes			Total voted expenditure (vii)= (iii)+(vi)	Capital expenditure financed from extra budgetary funds (viii)	Total capital expenditure (d) (ii)+(ix)= (vii)+(viii)	Net receipts (—) or payments on advance accounts (e) (x)	Total Expenditure (f) (xi)=(vii)+(viii)+(x)
	Current Expenditure (i)	Capital items in recurrent votes (ii)	Total (a) (iii)= (i)+(ii)	Acquisition, construction and maintenance of real assets (b) (iv)	Acquisition of financial assets (b) (v)	Total (c) (vi)= (iv)+(v)					
1955/56	862.8	151.6	1,014.4	181.8	29.2	211.0	1,225.4	68.8	430.9	29.0	1,822.7
1956/57	976.7	128.5	1,105.2	198.2	15.1	213.3	1,318.5	54.1	395.9	133.3	1,506.0
1957/58	1,118.2	161.9	1,280.1	227.8	54.8	282.6	1,562.7	54.1	498.6	— 68.4	1,553.3
1958/59	1,274.4	157.8	1,432.2	257.5	45.9	303.4	1,735.6	31.8	498.0	5.8	1,773.2
1959/60	1,365.4	146.5	1,511.9	258.6	48.0	306.6	1,818.5	42.6	495.7	1.3	1,862.4
1960/61	1,471.3	69.5*	1,540.8	378.8	41.1	419.9	1,960.7	29.7	519.1	14.2	2,004.7
1961/62	1,498.1	82.6	1,580.7	394.4	86.2	480.6	2,061.3	22.4	585.6	14.6	2,098.3
1962/63	1,534.0	62.4	1,596.4	398.3	4.0	402.3	1,998.7	24.3	489.0	—13.7	2,009.3
1963/64	1,753.6	80.5	1,834.1	378.0	24.5	402.5	2,236.6	34.6	517.6	—16.1	2,255.2
1964/65	1,781.9	71.5	1,803.4	444.3	26.9	471.2	2,274.6	37.5	580.2	—27.9	2,284.0
1965/66 Original estimates	1,762.8	64.0	1,826.8	546.0	32.1	578.1	2,404.9	25.9	668.0	n.a.	2,430.8
Actual (Provisional)	1,792.0	68.5	1,860.5	493.4	34.3	527.7	2,388.2	36.2	632.4	11.2	2,435.6
1966/67 Original estimates	1,891.8	81.2	1,973.0	739.9	21.8	761.7	2,734.7	51.7	894.6	n.a.	2,786.5

Source : Central Bank of Ceylon.

* The sharp fall in the value of capital items in the recurrent votes from 1960-61 onwards is due to the transfer to the capital votes of certain items of a capital nature which were earlier classified under the recurrent votes in the Government Accounts.

(a) See item 1B (i) of Table II (E) I

(b) Figures in columns (iv) and (v) will not tally with the figures shown in items 24 and 25 of table 21 of the Appendix because Capital expenditure financed from extra budgetary funds (which includes expenditure on both real and financial assets) is shown separately in columns (viii) of this table.

(c) See item 1B (ii) of Table II (E) I

(d) See item 23 of Table 21 in Appendix II

(e) See item 26 of Table 21 in Appendix II

(f) See item 27 of Table 21 in Appendix II

Expenditure

Total government expenditure ⁽¹⁾ for the period 1956/57 to 1965/66, classified into expenditure chargeable to recurrent votes (votes 1, 2, 4 and 6), and expenditure chargeable to capital votes (votes 3, 5 and 7) is shown in Table II (E) 3. This table also depicts a ten-year time series of current expenditure ⁽²⁾ and capital expenditure ⁽³⁾ of the Government adjusted for expenditure financed from extra-budgetary funds.

According to provisional figures currently available total voted expenditure of the Government in 1965/66 amounted to Rs. 2,388.2 million. Total voted expenditure in 1965/66 exceeded the expenditure of the previous financial year by Rs. 113.6 million or 5.0 per cent compared with an increase of Rs. 38.0 million or 1.7 per cent in 1964/65. This increase was nevertheless smaller than the growth rate of 6.9 per cent (compound) annually over the ten financial years ending 1965/66.

The increase of Rs. 113.6 million in 1965/66 was the combined result of an increase in both recurrent and capital expenditure. While recurrent expenditure increased by Rs. 57.1 million, perhaps the most satisfactory feature of Government fiscal operations in 1965/66 was the increase in expenditure chargeable to capital votes by as much as Rs. 56.5 million to Rs. 527.7 million; the highest recorded in any financial year.

When compared to the original estimates of voted expenditure for 1965/66, the actual (provisional) expenditure of that year indicated a short-fall of Rs. 16.7 million. This was due to an under-expenditure on capital votes of Rs. 50.4 million (8.7 per cent), offset in part by an increase of Rs. 33.7 million (1.8 per cent) on recurrent votes. It is significant that under-expenditure on capital votes which amounted to 22.0 per cent in 1963/64 and 15.6 per cent in 1964/65 declined to 8.7 per cent in 1965/66.

Current Expenditure

As indicated in Table II (E) 3, current expenditure (provisional figures) in 1965/66 was higher than the current expenditure in 1964/65 by Rs. 60.1 million or 8.5 per cent. This was in contrast to the outcome in the previous financial year when there was a fall in current expenditure of Rs. 21.7 million. The percentage increase in current expenditure in 1965/66 nevertheless was lower than the annual rate of increase in current expenditure in the ten year period 1956/57 to 1965/66 ⁽⁴⁾. For purposes of comparison Government current expenditure for the financial years 1964/65 to 1966/67 are shown in Table II (E) 4 in some detail.

(1) Inclusive of net payments (or receipts) incurred by operations on advance accounts.

(2) After deducting capital items in recurrent votes.

(3) By including extra-budgetary capital expenditure and capital items in recurrent votes with expenditure chargeable to capital votes.

(4) Current expenditure increased at an annual rate of 7.6 per cent (compound).

TABLE II (E) 4

Current Expenditure 1964/65 to 1966/67

Rupees Million

	Actual 1964/65	Actual (provisional) 1965/66	Original estimates 1965/66	Original estimates 1966/67
1. Administration	248.6	257.7	264.3	276.5
2. Social services,	491.5	500.6	502.5	522.6
of which:				
(a) Education	329.0	331.6	334.5	347.4
(b) Health	159.5	159.6	159.0	168.8
3. Economic services	124.4	122.1	124.8	144.5
4. Government enterprises*	246.9	259.2	256.4	258.2
5. Transfer payments,	625.5	652.4	614.8	690.0
of which				
(a) Food subsidies	290.0+	290.0+	271.5	307.3
(b) Interest on public debt	105.9	123.1	114.9	139.7
(c) Pensions	143.3	141.4	145.9	156.4
6. Total current expenditure	1,731.0	1,792.0	1,762.8	1,891.8

Source : Central Bank of Ceylon.

* Comprises the current payments of the Railway, Electrical, Posts and Telecommunications, and Broadcasting Departments and the Port Commission.

+ These figures are as given in Treasury ledgers.

The increased expenditure on current account in 1965/66 compared to that of 1964/65 is accounted for by an increase in transfer payments (Rs. 26.9 million), expenditure on administration (Rs. 14.1 million), government enterprises (Rs. 12.3 million), and social services (Rs. 9.1 million), offset in part by a decline in expenditure on economic services of Rs. 2.3 million.

The increased expenditure on social services was accounted for by an increase in current payments of both health and education. The higher expenditures 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 increase of Rs. 26.9 million in transfer payments was mainly on account of increased payments of interest on public debt, whereas the amount charged to vote on food subsidies remained unchanged and pension payments actually fell. The rise in the payment of interest on public debt is principally due to an increase in interest payments on Rupee Loans and Treasury Bills.

While expenditure on food subsidies chargeable to Vote according to Treasury Ledgers remained unchanged (at Rs. 290.0 million), provisional figures of the

cost of food operations, supplied by the Food Commissioner, show an increase of Rs. 19.5 million in 1965/66 ⁽¹⁾. The actual food subsidy bill for 1964/65, together with the original estimate and provisional figures of the outturn of food operations in 1965/66 are shown in Table II(E) 5. The figures for 1966/67 (original estimates), as appearing in the Budget estimates are also shown for purposes of comparison.

TABLE II (E) 5
Food Subsidy Bill 1964/65 to 1966/67

	Rupees Million			
	1964/65	1965/66 (Original estimates)	1965/66 (Provi- sional)	1966/67 (Original estimates)
1. Subsidy to the consumer on imported rice ...	162.8	186.6	175.6	163.2
2. Subsidy to the producer and consumer on locally produced rice ...	261.1	258.1	271.2	333.0
3. Subsidy on locally produced red onions ...	4.6	1.5	4.5	4.5
4. Distribution expenses and other charges ...	27.6	32.2	39.4	33.0
5. Total gross subsidy (1 to 4) ...	456.1	478.4	496.8	533.7
6. Profit on the sale of sugar ...	169.9	195.3	202.3	199.9
7. Profit on the sale of flour ...	1.1	2.1	3.1	20.7
8. Profit on the sale of other goods ...	13.9	9.6	1.6	5.9
9. Total (6 to 8) ...	185.0	207.0	200.8	226.5
10. Net food subsidy (5—9) ...	271.1	271.5	290.0	307.3(2)

Source : The Food Commissioner.

The higher subsidy (of Rs. 12.8 million) on the consumption of imported rice was mainly due to the higher landed cost of rice from Cambodia, Burma and Thailand. There was also a small rise in the purchases of imported rice in 1965/66 over 1964/65 of 4,312 tons. The increased subsidy (of Rs. 9.9 million) on the production and consumption of local rice may be accounted for by an increase of 26,399 tons in the quantity of rice purchased from the Commissioner of Agrarian Services and subsequently sold to the consumer. Sales of locally produced rice were also higher in 1965/66 than in 1964/65 by 42,769 tons. Distributional expenses and other charges also increased by Rs. 11.8 million. In consequence the gross subsidy in 1965/66 exceeded that of the previous financial year by Rs. 40.7 million. However, the net food subsidy increased by only Rs. 18.9 million, and was due to a marked rise in the profit on the sale of sugar (Rs. 32.4 million). The large profit on the sale of sugar was made possible by a sharp fall in the landed cost of sugar in 1965/66 as compared to the level of prices in 1964/65, while the sale price to the consumer remained constant over the two years. The average landed cost of sugar (c and f) declined by Rs. 111 per ton to Rs. 490 per ton in 1965/66.

- (1) This is explainable in terms of differences in accounting practice between the Treasury and the Food Commissioner. The variations in the figures of the net food subsidy given in Table II(E) 4 and Table II(E) 5 is due to this reason.
- (2) Since then with effect from December 18, 1966, the Government decided to issue a free measure of rice, in lieu of the two measures of subsidized rice per week issued hitherto, to each ration book holder. As a result the total quantity of rice issued to consumers would change and a substantial saving in the rice subsidy is expected. The fall in the quantity of rice issued is also expected to lead to an increase in flour consumption and a consequent increase in the profit from the sale of flour.

Capital Expenditure

As shown in Table II (E) 3 actual (provisional) capital expenditure in 1965/66 was Rs. 632.4 million. This figure includes the expenditure under votes 3, 5 and 7 in Government Accounts, expenditure of a capital nature included in votes 1, 2, 4 and 6, and expenditure out of extra-budgetary funds such as the tea and rubber replanting subsidy funds. Total capital expenditure defined in this manner exceeded the corresponding figure in 1964/65 by Rs. 52.2 million. The increase in capital expenditure was mainly on the acquisition, construction and maintenance of real assets (Rs. 44.7 million); the value of financial assets acquired in 1965/66 being higher than in 1964/65 by only Rs. 7.5 million.⁽¹⁾

On further analysis, it is seen that the rise in capital expenditure was almost wholly on economic services (Rs. 57.1 million). Within the category of economic services, expenditure on agriculture and irrigation increased by Rs. 30.0 million, fisheries by Rs. 27.5 million and communications by Rs. 20.2 million. In contrast expenditure on social services fell by Rs. 19.3 million; there being a fall in capital expenditure incurred on both housing and education.

Advance Account Operations

Operations on advance accounts during 1965/66 resulted in a net payment of Rs. 11.2 million in contrast to a net receipt of Rs. 27.9 million on these operations in 1964/65. With the information presently available, details of these accounts cannot be provided. However, the net payment was mainly due to a build up of stocks held by the Government Stores Department, and an increase in the balance in favour of Ceylon under the Rubber/Rice Agreement with the People's Republic of China offset in part by a repayment of advances made to Government departments.

Net Cash Deficit

The net cash deficit of Rs. 565.9 million for the financial year 1965/66 was the highest ever recorded. When compared with the net cash deficit of the previous financial year, it indicates an increase of Rs. 135.5 million (or 31 per cent). This was due to an increase of Rs. 57.1 million in recurrent expenditure, Rs. 56.5 million in expenditure chargeable to capital votes and an increase of Rs. 39.1 million in payments from advance account operations, offset in part by an increase of Rs. 16.8 million in revenue.

The actual (provisional) net cash deficit for 1965/66 was also higher than the original estimate for that year by Rs. 104.5 million. This was in contrast to the pattern of the previous financial year, when the actual net cash deficit was lower than the originally estimated deficit by Rs. 70.4 million. The increase in the actual net cash deficit for 1965/66 as compared to the original estimate of that

(1) On details as given in Table 21 of Appendix II.

year was the combined result of a short fall in revenue receipts of Rs. 64.6 million and an increase in expenditure ⁽¹⁾ of Rs. 40.2 million. The increase in expenditure was on account of a rise in recurrent expenditure of Rs. 79.4 million ⁽²⁾ and a net payment of Rs. 11.2 million, on advance account operations, offset in part by a fall in capital expenditure of Rs. 50.4 million on the amount originally estimated.

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

	1964/65		1965/66 (Provisional)	
1. Foreign finance				
(a) Loans				
(i) Gross amount borrowed ...	92.8		112.4	
(ii) Less contributions to sinking funds and repayments ...	<u>17.2</u>	75.6	<u>35.9</u>	76.5
(b) Grants ...		<u>24.1</u>	<u>41.5</u>	118.0
2. Domestic non-market borrowing ...		50.3		112.1
3. Domestic market borrowing from the banking system ...		17.7		162.3
4. Domestic market borrowing from non-bank sources				
(a) Gross amount borrowed ...		294.4		314.8
(b) Less contributions to sinking funds		<u>51.2</u>	<u>58.9</u>	255.9
5. Decline in government cash balances and commodity aid counterpart funds				
(a) Cash balances ...		19.5	-47.2*	
(b) Commodity aid counterpart funds ...		<u>19.5</u>	<u>-35.2*</u>	-82.4*
6. Net cash deficit ...		<u>430.4</u>		<u>565.9</u>
7. Decline in U.S. Aid counterpart funds ...		-2.5*		42.5
8. Net expansionary impact of Government fiscal operations (3+5+7) ...		34.7		122.4

Source : Central Bank of Ceylon.

* Minus sign indicates an increase.

The net cash deficit of Rs. 565.9 million resulting from the fiscal operations in the financial year 1965/66 was financed by borrowing Rs. 255.9 million from domestic market non-bank sources, borrowing Rs. 162.3 million from the banking

(1) Inclusive of net expenditure incurred on advance account operations.

(2) After allowing for a 2½ per cent under-expenditure in recurrent votes in the Original Estimates.

system, obtaining Rs. 118.0 million by way of foreign assistance and Rs. 112.1 million from domestic non-market sources. Cash balances (including counterpart funds) increased by Rs. 82.4 million.

The net cash deficit for 1965/66 on account of the reasons mentioned earlier in this section increased by Rs. 135.5 million when compared with the net cash deficit of the previous financial year. The increase in the magnitude of the expansionary component of Government fiscal operations ⁽¹⁾ (Rs. 87.7 million), though not as large as the increase in the net cash deficit, was nevertheless sizeable. Furthermore the expansionary component of the net cash deficit expressed as a ratio of the net cash deficit rose from 8.1 per cent in 1964/65 to 21.6 per cent in 1965/66. This was largely due to a greatly increased reliance on borrowing from the banking system offset only in part by the building up of cash balances and counterpart funds.

The Rs. 162.3 million borrowed from the banking system in 1965/66 came entirely from the Central Bank. Borrowing from the Central Bank increased by Rs. 179.7 million, comprising an increase of Rs. 151.4 million of treasury bills and an increase of Rs. 28.3 million in Central Bank advances to Government. On the other hand, and contrary to the pattern of the previous financial year, there was a net fall in borrowing from commercial banks. The decrease in the borrowing from the commercial banking system (Rs. 17.4 million), was the combined result of a fall in holdings of treasury bills (Rs. 15.9 million) and government securities (Rs. 1.6 million), partly offset by an increase of Rs. 0.1 million in commercial bank holdings of tax reserve certificates.

The figure of net market borrowing from non-bank sources in 1965/66 of Rs. 255.9 million showed a slight improvement over that of 1964/65 (Rs. 243.2 million). In the five year period 1959/60 to 1964/65 contributions by the domestic market's non-bank sector had shown an average annual increase of Rs. 31.3 million. It is apparent therefore, that contributions from this sector while increasing in absolute terms in 1965/66, has not been equivalent to the average annual increase of contributions from this sector in the five previous financial years.

Provident funds other than the Employees' Provident Fund, the Employees' Provident Fund, companies, clubs and institutions and individuals improved their share of contributions in the enlarged total for 1965/66. In Table II (E) 7, is set out the contribution by major investor groups to government securities (including treasury bills and tax reserve certificates) in 1965/66, with comparative data for the three previous financial years.

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

TABLE II (E) 7
Contributions to Government Securities by Major non-Bank
Investor Groups

					Rupees Million
	1962/63	1963/64	1964/65	1965/66	Increase in 1965/66 over 1964/65
1. Savings Institutions ...	14.3	28.9	37.9	37.0	- 0.9
2. Employees' Provident Fund ...	61.7	65.6	70.0	74.7	4.7
3. Insurance Corporation ...	16.4	29.0	42.2	46.2	4.0
4. Other State Corporations ...	—	3.5	—	—	—
5. Departmental and other official funds ...	6.5	9.6	13.8	2.0	-11.8
6. Other Provident and Pension Funds ...	31.2	22.0	28.4	41.1	12.7
7. Other insurance funds ...	6.0	7.6	3.4	10.3	6.9
8. Companies, clubs and insti- tutions ...	5.1	12.3	-2.1	6.1	8.2
9. Individuals ...	0.1	1.2	2.7	15.2	12.5

Source : Central Bank of Ceylon.

Foreign Finance

Foreign finance for capital expenditure received in 1965/66 amounted to Rs. 153.9 million as compared with Rs. 116.9 million in 1964/65, and Rs. 107.6 million in 1963/64. Sterling loan sinking fund contributions and other foreign loan repayments during these three years amounted to Rs. 35.9 million in 1965/66, Rs. 17.2 million in 1964/65 and Rs. 12.2 million in 1963/64.

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 a significant increase of Rs. 18.3 million in the financial year 1965/66.

TABLE II (E) 8
Receipts of Foreign Aid for Capital Expenditure

							Rupees Million
	1961/62	1962/63	1963/64	1964/65	1965/66		
	Net receipts	Net receipts	Net receipts	Net receipts	Amount received	Amount repaid	Net receipts
Loans :							
1. I.B.R.D. ...	25.6	21.2	11.3	5.0	5.3	6.5	-1.2
2. Canada ...	-1.3	0.8	-0.2	11.4	7.6	5.1	2.5
3. China ...	-1.0	—	12.4	18.9	13.8	4.0	9.7
4. U.K. ...	0.4	10.4	4.9	-2.3	23.7	13.0	10.6
5. U.S.A. ...	7.6	-0.7	2.7	-1.2	25.1	1.3	23.8
6. U.S.S.R. ...	3.4	13.5	32.0	28.8	9.4	0.2	9.3
7. West Germany ...	—	11.5	0.4	7.4	11.0	4.3	6.7
8. Yugoslavia ...	—	4.3	—	-0.3	1.7	0.9	0.8
9. Poland ...	—	—	—	2.4	0.7	0.5	0.1
10. France ...	—	—	—	5.5	1.6	—	1.6
11. Japan ...	—	—	—	—	10.0	—	10.0
12. India ...	—	—	—	—	2.6	—	2.6
Grants :							
Colombo Plan							
1. Australia ...	—	2.5	—	3.9	0.3	—	0.3
2. Canada ...	4.4	5.7	5.7	5.1	25.6	—	25.6
3. Japan ...	—	—	0.3	—	—	—	—
Other :							
1. China ...	8.3	19.7	24.5	15.1	2.5	—	2.5
2. U.S.A. ...	1.6	0.9	1.4	—	12.1	—	12.1
3. West Germany ...	3.8	2.3	—	—	—	—	—
4. United Nations ...	—	—	—	—	1.0	—	1.0
Total of loans and grants	52.9	92.0	95.4	99.7	153.9	35.9	118.0

Source : Central Bank of Ceylon.

TABLE II (E) 9

Total Public Debt ⁽¹⁾

End of September		Gross Debt					Net Debt ⁽²⁾				
		1962	1963	1964	1965	1966	1962	1963	1964	1965	1966
A. Values (Rs. Mn.)											
Foreign	...	345.2	407.1	412.1	489.3	548.8	259.1	311.5	373.5	446.6	521.1
Domestic	...	2,698.7	3,080.2	3,375.3	3,695.5	4,194.5	2,429.8	2,753.9	3,062.5	3,325.3	3,746.5
Total	...	3,038.9	3,487.3	3,787.4	4,184.8	4,743.3	2,688.9	3,065.4	3,436.0	3,771.9	4,267.6
B. Percentages											
Foreign	...	11.4	11.8	10.9	11.7	11.6	9.6	10.2	10.9	11.8	12.2
Domestic	...	88.6	88.2	89.1	88.3	88.4	90.4	89.8	89.1	88.2	87.8
Total	...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : Central Bank of Ceylon.

(1) Excluding National Housing Debentures and State Mortgage Bank Debentures which amounted to Rs. 75.0 million and Rs. 38.3 million respectively as at end of September, 1966.

(2) i.e. less value of Sinking Funds.

Public Debt

Data in respect of public debt are shown in Tables 23 and 24 of Appendix II. The significance of the domestic and foreign components of total public debt (gross and net), as at the end of the last five financial years is presented in Table II (E) 9 and analysed below.

The increases in gross debt and net debt during the financial year were Rs.558·5 million and Rs. 495·7 million respectively. Corresponding figures for the previous financial year were Rs. 397·4 million and Rs. 335·9 million respectively. The increase in gross debt of Rs. 558·5 million was composed of an increase of Rs. 325·0 million in rupee securities, Rs. 125·0 million in Treasury bills, Rs. 59·5 million in foreign debt and Rs. 49·5 million in Central Bank advances, offset by a reduction of Rs. 0·5 million in Tax Reserve Certificates. The increases in total public debt (both net and gross) in the financial year 1965/66 were higher than in any one of the previous four financial years.

It is also of significance that while the net foreign debt component of total debt increased from 9·6 per cent to only 12·2 per cent over the five financial years under consideration, in absolute terms it almost doubled, while the net domestic debt increased by only one and a half times over the same period.

Domestic Debt

The gross domestic debt which stood at Rs. 3,695·5 million at September 30, 1965, increased by Rs. 499·0 million to Rs. 4,194·5 million by the end of the financial year 1965/66. The composition of the debt as on that date was as follows : rupee securities Rs. 2,474·6 million, treasury bills Rs. 1,425·0 million, tax reserve certificates Rs. 32·2 million, Central Bank advances Rs. 262·6 million and national development bonds Rs. 0·1 million. Table II (E) 10 contain data on the composition and changes in the domestic public debt as at end of September, 1965 and 1966.

TABLE II (E) 10
Composition of Domestic Public Debt

								Rupees Million	
End of September	Rupees Loans			Treasury bills	Tax reserve certifi- cates	Central Bank advances (²)	National develop- ment bonds (³)	Total	
	Gross	Sinking funds(¹)	Net					Gross	Net
1965	2149·6	370·2	1779·4	1300·0	32·7	213·1	0·1	3695·5	3325·3
1966	2474·6	448·0	2026·6	1425·0	32·2	262·6	0·1	4194·5	3746·5
Change(⁴)	+325·0	77·8	+247·2	+125·0	- 0·5	+49·5	—	499·0	421·2

Source : Central Bank of Ceylon.

- (1) Representing the market value of investments held on behalf of sinking funds (including supplementary sinking funds).
- (2) Including special loans amounting to Rs. 61·2 million in September, 1965 and Rs. 82·4 million in September, 1966 towards payment of 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. 28·3 million over the financial year.
- (3) The value of national development bonds issued and outstanding at the end of September, 1966 amounted to Rs. 70,802.
- (4) + sign denotes an increase.

TABLE II (E) 11

Domestic Debt—Analysis by Maturity

(As at end of September)

Rupees Million

Years to Maturity	1962		1963		1964		1965		1966	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Unfunded debt †	1,178.4	43.7	1,346.6	44.4	1,465.9	43.4	1,545.9	41.8	1,719.8	41.0
Funded debt –										
Under 5 years*	272.7	10.1	246.2	8.1	205.8	6.1	245.5	6.6	292.1	7.0
Between 5 – 10 years*	229.5	8.5	365.4	12.1	445.0	13.2	392.8	10.6	354.5	8.5
Between 10–15 years*	180.2	6.7	222.9	7.4	216.6	6.4	336.6	9.1	386.0	9.2
Between 15–20 years*	386.0	14.3	249.1	8.2	247.0	7.3	127.1	3.4	324.1	7.7
Over 20 years*	446.8	16.6	600.0	19.8	795.0	23.6	1,048.1	28.4	1,118.0	26.7
Total	2,693.7	100.0	3,030.2	100.0	3,375.3	100.0	3,695.5	100.0	4,194.5	100.0

Source : Central Bank of Ceylon.

† Comprising Treasury Bills, Tax Reserve Certificates, Central Bank Advances and National Development Bonds.

* As at latest date of maturity.

TABLE II (E) 12
Classification of Allotments to Government Securities 1965/66

Rupees Million																
	4½% Loan 1986/90 'G' Series	4½% Loan 1986/90 'H' Series	8½% Loan 1970/73*		4½% Loan 1987/91	4½% Loan 1987/91 'B' Series	3½% Loan 1971/73	4½% Loan 1987/91 'C' Series	4½% Loan 1987/91 'D' Series	4½% Loan 1987/91 'E' Series	4½% Loan 1987/91 'F' Series	3½% Loan 1969/71**		4½% Loan 1987/91 'G' Series	Total	
			Con- version	Cash								Con- version	Cash		Amount	Per- centage
Commercial Banks ...	—	—	14.0	1.9	—	—	2.0	—	—	—	—	...	—	—	17.9	5.1
Savings Institutions ...	5.5	2.5	—	—	2.5	6.2	—	—	3.5	8.0	6.0	—	—	3.0	37.2	10.6
Sinking Funds ...	12.0	16.8	—	—	12.5	4.3	—	10.2	14.5	3.5	14.4	—	6.6	9.7	104.5	29.8
Department and other official funds ...	0.7	0.3	—	—	1.0	—	—	—	—	1.5	0.2	—	—	—	3.7	1.1
Trusts, benevolent, pension and provident funds ...																
(1) Employees' Provi- dent Fund ...	6.3	7.0	—	—	10.2	7.9	—	8.5	6.4	11.0	9.2	—	—	8.1	74.6	21.2
(2) Others ...	3.7	2.4	0.1	...	3.5	6.5	0.1	3.7	3.0	3.9	2.8	0.6	0.5	8.4	39.2	11.2
Insurance funds :—																
(1) Insurance Corporation ...	4.7	4.7	—	—	4.5	6.3	—	5.0	6.0	5.0	4.0	—	—	6.0	46.2	13.2
(2) Insurance Companies ...	0.9	0.3	0.3	1.5	0.2	2.0	1.5	0.2	0.9	1.3	0.3	0.1	—	1.1	10.6	3.0
Other Companies ...	0.2	—	—	—	—	—	—	—	0.1	0.1	...	—	—	0.1	0.5	0.1
Individuals, clubs and Institutions ...	1.1	1.0	—	0.6	0.6	1.8	4.2	4.5	0.7	0.7	0.6	0.1	...	1.1	17.0	4.8
TOTAL ...	35.0	35.0	14.4	4.0	35.0	35.0	7.9	32.1	35.0	35.0	37.5	0.7	7.1	37.5	351.2	100.0

Source : Central Bank of Ceylon.

* Raised in conversion of Ceylon Government 2½% Loan 1963/65 'B' Series due for repayment in December, 1965.

** Raised in conversion of Ceylon Government 3% Loan 1964/66 due for repayment in August, 1966.

The maturity pattern of gross domestic debt as at September 30, 1966 with corresponding data for the four previous financial years is shown in table II (E) 11. In the Annual Report for 1965 it was observed that the term structure of domestic debt had lengthened over the last two financial years. This tendency has been continued in the financial year 1965/66. Domestic debt over fifteen years to latest date of maturity comprised 34.4 per cent of total domestic debt, an increase of 2.6 percentage points during the financial year. Correspondingly, the unfunded debt component fell by 0.8 percentage points to constitute 41.0 per cent of the total as at the end of September, 1965.

Rupee Securities

Of the twelve rupee loans amounting to Rs. 351.2 million issued during the financial year 1965/66, two loans amounting to Rs. 26.2 million were conversion loans and, one a 5-7 year $3\frac{1}{2}$ per cent loan amounting to Rs. 7.9 million, was a cash issue. The balance nine (21-25 year) loans aggregating Rs. 317.1 million were also cash issues at $4\frac{1}{2}$ per cent. Of the two conversion loans, the $3\frac{1}{2}$ per cent Loan 1970/73 was raised in conversion of the $2\frac{1}{2}$ per cent Loan 1963-65 "B" series while the $3\frac{1}{2}$ per cent Loan 1969/71 was raised in conversion of the 3 per cent Loan 1964-66 which matured during the year. The other ten issues were entirely for cash. A classification of the allotments is shown in table II (E) 12.

As indicated in Table II (E) 12 sinking funds absorbed Rs. 104.5 million (29.8 per cent) of loans floated. The other major contributors were the Employees' Provident Fund Rs. 74.6 million (21.2 per cent), the Insurance Corporation Rs. 46.2 million (13.2 per cent), trusts, benevolent pension and provident funds other than the Employees' Provident Fund Rs. 39.2 million (11.2 per cent) and savings institutions Rs. 37.2 million (10.6 per cent).

A classification of allotments of Government securities in 1964/65 and 1965/66 together with comparative data for the previous two financial years is given in Table II (E) 13.

A striking feature in the pattern of subscriptions to Government securities in 1965/66 was the sharp increase in the proportion of securities absorbed by individuals, clubs and institutions (Rs. 17.0 million or 4.8 per cent of the total as against 1.7 per cent in the previous financial year.) This increase was consequent to the amendment of the Inland Revenue Act No. 4 of 1963 providing for investments made by individuals in Government securities to be treated as approved savings qualifying for relief under Section 69A of this Act, as illustrated by the allotment of the $3\frac{1}{2}$ per cent (5 to 7 year) loan and the 4 per cent (21 to 25 year) loan floated in March/April, 1966.

TABLE II (E) 13

Classification of Allotments of Government Securities
1962/63 to 1965/66

Rupees Million

	1962/63		1963/64		1964/65		1965/66		Change 1965/66 over 1964/65 Rs. Million
	Amount	Per- centage	Amount	Per- centage	Amount	Per- centage	Amount	Per- centage	
Banking Sector :									
Commercial banks ...	25.4	11.5	32.0	10.5	1.0	0.4	17.9	5.1	+16.9
Co-operative provin- cial banks ...	0.3	0.1	—	—	—	—	—	—	—
Non-Bank Sector :									
Savings institutions...	17.3	7.8	79.9(1)	25.4	38.8	14.7	37.2	10.6	— 1.6
Sinking funds ...	36.4	16.4	46.3	14.7	52.5	19.9	104.5	29.8	+52.0
Departmental and other official funds	7.5	3.4	21.4	6.8	14.4	5.5	3.7	1.1	—10.7
Trusts, benevolent, pension and provident funds :									
(1) Employees' Provident Fund	67.8	30.6	65.0	20.6	72.4	27.4	74.6	21.2	+ 2.2
(2) Other ...	36.6	16.5	25.8	8.2	31.5	11.9	39.2	11.2	+ 7.7
Insurance funds :									
(1) Insurance Corporation ...	12.9	5.8	29.0	9.2	42.2	16.0	46.2	13.2	+ 4.0
(2) Insurance companies ...	13.4	6.1	8.9	2.8	6.6	2.5	10.6	3.0	+ 4.0
Other state corpora- tions ...	—	—	3.5	1.1	—	—	—	—	—
Other companies ...	0.8	0.4	0.3	0.1	0.2	0.1	0.5	0.1	+ 0.3
Individuals, clubs and institutions ...	3.2	1.4	1.7	0.5	4.6	1.7	17.0	4.8	+12.4
Total ...	221.3	100.0	315.0	100.0	263.9(2)	100.0	351.2(3)	100.0	+87.3

Source : Central Bank of Ceylon.

- (1) Of this amount Rs. 52.5 million represents contributions to the 3½ per cent Conversion Loan 1974.
- (2) Of this amount Rs. 4.6 million represents contributions to the 3½ per cent Conversion Loan 1971, and Rs. 6.9 million to the 3½ per cent Conversion Loan 1972.
- (3) Of this amount Rs. 18.4 million represents contributions to the 3½ per cent Conversion Loan 1970/73 and Rs. 7.8 million to the 3½ per cent Conversion Loan 1969/71.

The rate of interest on long term (21 to 25) Government loans which was increased from 4½ 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 1965/66 was Rs. 1,300.0 million, the authorised limit at that date being Rs. 1,500.0 million. By the end of the financial year, the amount of treasury bills

outstanding stood at Rs. 1,425.0 million showing an increase of Rs. 125.0 million during the financial year and leaving an unutilised balance of Rs. 75.0 million out of the limit of Treasury bill issues.

Holdings of treasury bills by the banking system as at the end of September, 1966 were Rs. 1,369.3 million (96.1 per cent of the total outstanding) as compared with Rs. 1,233.8 million (94.9 per cent) as at September 30, 1965. Of this total, Central Bank holdings of treasury bills were Rs. 1,257.9 million (88.3 per cent of the total outstanding) as at the end of September, 1966 compared with Rs. 1,106.5 million (85.1 per cent) as at September 30, 1965.

There was no change in the rate of interest on treasury bills, which remained at 3.0 per cent per annum. Central Bank support for treasury bills also remained at 1.0 per cent per annum throughout the financial year.

Foreign Debt

Gross foreign debt (*i.e.* net of repayments, but before deducting sinking funds) recorded an increase of Rs. 59.6 million as compared with an increase of Rs. 77.1 million in 1964/65. The increase in 1965/66 is analysed in Table II (E) 14.

TABLE II (E) 14

Foreign Loans

			Rupees Million	
			Increase during 1965/66*	Liability as at September 30, 1966
(a) Project loans				
(i)	I.B.R.D. loans	...	- 1.2	138.5
(ii)	U.S.I.C.A. loans	...	17.8	52.8
(iii)	Chinese loans	...	9.7	50.2
(iv)	West German (Kreditanstalt) loan	...	5.5	24.7
(v)	Sterling loans	...	- 24.6	83.3†
(vi)	U.S.A.I.D. loan	...	7.0	7.0
(vii)	U.S. D.L.F. loans	...	- 1.0	9.7
(viii)	Canadian loan	...	- 1.3	3.4
(ix)	Canadian E.C.I.C. Credit	...	1.3	17.0
(x)	U.K. line of Credit	...	- 0.7	20.1
(xi)	U.S.S.R. line of Credit	...	9.3	92.3
(xii)	Yugoslavian line of Credit	...	0.8	4.9
(xiii)	Polish line of Credit	...	0.1	2.5
(xiv)	French S.O.C.E.A. Credit	...	1.6	7.1
(b) Commodity loans :				
(1)	Canada	...	2.4	2.4
(2)	United Kingdom	...	18.9	18.9
(3)	West Germany (Kreditanstalt)	...	1.2	1.2
(4)	Japan	...	10.0	10.0
(5)	India	...	2.6	2.6
TOTAL			59.6	548.8

* *i.e.* Withdrawals less repayments.

† Sinking funds maintained for the redemption of sterling securities amounted to Rs. 27.7 million. Adjusted for these sinking funds the net liability amounted to Rs. 521.1 million.

- Sign indicates a net repayment.

There were no withdrawals during the financial year 1965/66 in respect of the following loans although agreements have been signed :—

		Amount	Date of Agreement
1. Banque de Paris (France) Line of Credit ...	£	10,000,000	1.12.64
2. German Democratic Republic Line of Credit...	£	15,000,000	2. 2.65
3. Canadian Loan for Katunayake Development Project ...	C\$	1,500,000	22. 3.66
4. U.K./Ceylon Commodity Loan 1966 ...	£	1,570,000	14. 5.66
5. Kreditanstalt (West German) Loan* ...	DM	18,000,000	30. 6.66
6. Kreditanstalt (West German) Commodity Loan* ...	DM	25,000,000	20. 8.66
7. French Commodity Loan ...	Fr. Francs	40,000,000	31. 8.66
8. Japan/Ceylon Commodity Loan No. 2—1966 ...	Yen	1,800,000,000	6. 9.66
9. U.K./Ceylon Commodity Loan No. 2—1966 ...	£	2,000,000	26. 9.66

These loans have not been availed of during the financial year 1965/66 mainly on account of the following reasons :—

- (a) delays in the finalisation of procedures for the utilisation of the credit ;
- (b) delays in advises of disbursements where such disbursements were to be made direct by the lender governments as under the Canadian loan ;
- (c) a time lag in respect of the commodity loans between orders placed by the importers and the execution by suppliers particularly in respect of machinery.

Sinking Funds

At the end of the financial year 1965/66 the market value of sinking funds established for the redemption of the funded public debt was Rs. 475.7 million reflecting a net increase of Rs. 62.7 million during the financial year. The increase was made up as follows :—

Sinking Fund contributions	...	Rs. 60.3 million	
Interest on investments	...	Rs. 16.6 million	
Appreciation in market value of investments	...	Rs. 4.2 million	Rs. 81.1 million
<i>Less</i>			
Amount utilised for repayment of loans			Rs. 18.3 million
		Net increase	<u>Rs. 62.7 million</u>

Borrowing by Semi-Government Institutions

The Central Bank followed the same policy as in the three 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 depending on the needs of the institution and the state of Government finances.

* These loan agreements were in the nature of preliminary agreements.

(1) National Housing Department

There were no issues of National Housing Debentures ; the total of National Housing Debentures issued and outstanding remaining at Rs. 75.0 million. Direct loans sanctioned by Government increased from Rs. 70.0 million to Rs. 90.0 million by the end of September, 1966 ; an increase of Rs. 20.0 million during the financial year, leaving a balance borrowing power authorised by Parliament amounting to Rs. 50.0 million. The value of sinking funds established for the redemption of National Housing Debentures stood at Rs. 32.5 million.

(2) State Mortgage Bank

There were no new issues of State Mortgage Bank Debentures in the financial year under consideration ; the debentures issued and outstanding remaining at Rs. 33.3 million. The major portion of its operations was carried out through overdraft facilities provided by the banking system. While the borrowing limits of the State Mortgage Bank were increased by Rs. 3.0 million to Rs. 70.6 million, overdrafts guaranteed under Sections 73, 75 and 84 increased by Rs. 5.0 million to Rs. 37.4 million by the end of the financial year. Since debentures issued and outstanding amounted to Rs. 33.3 million, there was no balance in the borrowing limit at the end of the period under consideration.

Part B—Financial Year 1966/67**Budget 1966/67**

The original estimates of revenue and expenditure for 1966/67 as approved by Parliament on 26th September, 1966 are summarised in Table II (E) 15 below :—

TABLE II (E) 15
Original Budget Estimates

	Rupees Million	
(a) Recurrent expenditure (votes 1, 2, 4 and 6)	2,082.0	
Less 2½ per cent, under-expenditure*	49.8	2,032.7
(b) Capital expenditure (votes, 3, 5 and 7)	761.7	
Less 10 per cent under-expenditure	76.2	685.5
(c) Total expenditure ((a)+(b))		2,718.2
(d) Revenue (inclusive of new tax receipts)		2,033.0
(e) Budget deficit ((c)—(d))		685.2
(f) Less contributions to sinking funds and direct repayments of public debt		109.0
(g) Estimated net cash deficit		576.2

Source : Central Bank of Ceylon.

* 2½ per cent of Rs. 1,973.0 million, being the amount after deducting sinking fund contributions and direct repayments of public debt from revenue (Rs. 109.0 million) from recurrent expenditure.

The Budget deficit of Rs. 685·2 million is to be financed as follows :—

	Rupees Million
(a) Domestic non-bank borrowing ...	325·0
(b) Foreign Aid (project) ...	125·0
(c) Administrative borrowing ...	25·0
(d) Counterpart funds (Commodity Aid)...	150·0
	<u>625·0 ;</u>

there would thus be a gap of Rs. 60·2 million which would be financed by borrowing from the banking system.

Revenue

The estimated total revenue for the year 1966/67 (including a net receipt of Rs. 75·0 million from measures proposed in the Budget) was Rs. 2,033·0 million. This compared with the actual (provisional) revenue of Rs. 1,833·2 million in 1965/66. The Budget estimates of revenue for the current financial year thus showed an increase of Rs. 199·8 million over the actual (provisional) figure for the financial year 1965/66.

This increase of Rs. 199·8 million over the actual revenue collections of the previous year is composed mainly of higher revenues anticipated from Customs duties (Rs. 149·3 million), Excise duties (Rs. 51·3 million), Electrical Department (Rs. 13·5 million) and interest and annuities (Rs. 12·8 million), partly offset by decreases in revenue receipts from Income tax (Rs. 14·1 million) and Port and Harbour dues (Rs. 5·3 million).

The largest increase in revenue collections for 1966/67 is anticipated under Head I—Customs duties. Import duty collections are expected to bring in an increase of Rs. 124·3 million and export duty collections, an increase of Rs. 25·2 million. Import duty collections from cotton yarn, textiles etc. (Rs. 13·8 million), motor spirits and liquid fuel (Rs. 33·0 million), fertilizers (Rs. 3·4 million), transport equipment (Rs. 11·5 million) and sugar (Rs. 10·1 million) are expected to contribute significantly to this increase in revenue. The significant increases in export duty collections are in respect of coconut oil (Rs. 14·1 million) and rubber (Rs. 4·0 million).

New Tax Proposals and Other Revenue Measures

The new tax proposals and other revenue measures contained in the Budget are expected to increase revenue by Rs. 75·0 million and reduce expenditure by Rs. 25·0 million. These are as follows :—

Rupees Million		
	Revenue	Expenditure
1. Revision of import tariff	+ 15.0	
2. Increase in revenue from import duties as a result of increased volume of imports	+ 20.0	
3. Turnover taxes	+ 30.0	
4. Import licence fee on textile imports of the C.W.E.	+ 10.0	
5. Increase in price of flour		— 25.0 (decrease)
Total	<u>+ 75.0</u>	<u>— 25.0</u>

(i) Import Duties

The new revenue measures in respect of customs duties are based mainly on the recommendations of a special committee appointed to examine the anomalies in the present structure of customs tariff. In keeping with the recommendations of this special committee, a uniform rate of 30 per cent (General) was introduced to cover all raw material items in the pre-Budget tariff⁽¹⁾. In cases where it appeared that imported raw materials were likely to prevent the use or development of local raw materials the rate was increased. The result of the introduction of this uniform rate would be an increase in the duty payable in certain cases and a decrease in others.

The existing concessionary rate of 22 per cent (General) for raw materials, industrial machinery, equipment and parts was reduced to 10 per cent⁽²⁾. This was done in order to ensure that the basic industries essential to the rapid growth of the economy were given every possible incentive to expand. The new tariff which has been introduced to provide for this new lower rate, also prescribes that these concessions will be given only to 'essential industries.' In making these changes in import duties, care has been taken also to ensure that duties on items which were involved in the export trade were not raised.

The pre-Budget tariff contained a number of items on which prohibitively high rates in the region of 200 per cent to 300 per cent had been fixed to prevent their importation. The introduction of a detailed system of physical control of imports which had been built up over the recent years had made the continuation of these high rates unnecessary. Hence all rates in the customs tariff, with certain exceptions were scaled down to a maximum of 150 per cent (General)⁽³⁾. In certain cases, however, higher rates than this were allowed to remain as a protection for local industry and to penalise the importation of extravagant or luxury goods.

(1) *Government Gazette* No. 14706/4 of July 29, 1966.

(2) *Ibid.*

(3) *Ibid.*

Further changes made in the customs tariff include the substitution of specific duties for *ad valorem* duties for commodities such as butter, camphor, yeast, spirits and industrial talc. This substitution is an extension of the preference shown in favour of specific duties in the budget measures for the previous financial year.

The result of these changes in the customs tariff is a small increase in revenue in the region of Rs. 15·0 million. A further Rs. 20·0 million is expected as import duties from the increase in the volume of imports during the financial year 1966/67.

(ii) Estate Duty

As a measure of relief to low income groups, the exemption limit for estate duty was raised from Rs. 20,000 to Rs. 50,000. ⁽¹⁾ It has been estimated that out of a total assessed value of Rs. 8·0 million in respect of estates not exceeding Rs. 50,000, more than Rs. 6·0 million consists of immovable property and hence caused considerable hardships to families in the payment of estate duties particularly in instances where a number of children inherit property from their parents.

Where the value of any estate exceeds Rs. 50,000 the first slab taxable for estate duty will continue unchanged at Rs. 20,000 to Rs. 50,000 chargeable at 3 per cent. However, in order to provide relief for marginal cases where the value of an estate is just above Rs. 50,000, provision is made so that a net estate after payment of estate duty shall not be less than Rs. 50,000. The loss in revenue as a result of these measures is expected to be in the region of Rs. 150,000.

The procedure whereby properties situated in rural areas had their values reduced by 10 per cent for purposes of levying estate duty is to be revoked, and all properties for purpose of estate duty are to be valued at market rates. This has been done in view of the improved accessibility of most rural properties today.

The net effect of these measures together on revenue is not expected to be appreciable.

(iii) Turnover Taxes

While continuing to exempt business with a turnover of less than Rs. 100,000 per annum and also the articles which were completely exempt, the general rate of $\frac{1}{2}$ per cent applicable to all non-manufacturing businesses was increased to 1 per cent ⁽²⁾. The rate of 3 per cent was to continue in respect of businesses manufacturing barbed-wire, plywood and building materials except asbestos.

(1) Estate Duty (Amendment) Bill—Bill tabled.

(2) *Government Gazette* No. 14706/3 of July 29, 1966.

All other items of manufacture were made subject to a rate of 5 per cent at manufacturing level. ⁽¹⁾ The additional revenue accruing to the Government from these changes is expected to be around Rs. 30.0 million.

(iv) Licence Fees on Textile Imports

It was decided that the C.W.E. would be the sole importer for the textile trade. In view of this an import licence fee of 10 per cent on all textile imports was levied ⁽²⁾. This fee was to be recovered from the C.W.E. which would ensure that the price of cloth under the ration will not be increased to the consumer. Small quantities of cloth imported under direct user licensees were also made liable to this payment. The additional revenue expected from this measure is Rs. 10.0 million.

(v) Increase in the Price of Flour

The price of flour was increased by 5 cents a pound. This was done with a view to removing the subsidy on the sale of flour, which at the time of this increase in price amounted to Rs. 12.0 million per year, as a result of the increase in the world price of flour. This measure was also proposed with a view to contain the net food subsidy within that of 1965/66. The additional revenue expected from this measure, to be set off against the expenditure incurred in respect of the net food subsidy is about Rs. 25.0 million.

Expenditure

Total voted expenditure for 1966/67 is Rs. 2,843.7 million. Of this total, recurrent expenditure ⁽³⁾ (votes 1, 2, 4 and 6) accounts for Rs. 2,082.0 million, while capital expenditure (votes 3, 5 and 7) accounts for Rs. 761.7 million. When the usual provision for a 2½ per cent under-expenditure in respect of recurrent expenditure and the 10 per cent under-expenditure for capital votes are made, total voted expenditure is expected to be Rs. 2,718.2 million. This figure is Rs. 235.2 million more than the actual (provisional) total expenditure of Rs. 2,483.0 million for 1965/66; and represents an increase of Rs. 77.4 million in recurrent expenditure and Rs. 157.8 million in capital expenditure.

Current Expenditure

The total of recurrent expenditure (votes 1, 2, 4 and 6) is estimated at Rs. 2,082.0 million. When capital items under recurrent expenditure and provision for sinking fund contributions are deducted from this figure the resultant current expenditure amounts to Rs. 1,891.8 million. This compares with the actual (provisional) outlay of Rs. 1,792.0 million during 1965/66.

(1) Ibid.

(2) *Government Gazette* No. 14719/5 of November, 1, 1966.

(3) Inclusive of sinking fund contributions and direct repayments of public debt from revenue.

The increase in estimated current expenditure in 1966/67 (Rs. 99·8 million) as compared with the actual (provisional) expenditure in 1965/66 is mainly the result of increases in the expenditure on economic services (Rs. 22·4 million), net food subsidy (Rs. 17·3 million), education (Rs. 15·8 million), interest on public debt (Rs. 16·6 million), pensions (Rs. 15·0 million) and administration (Rs. 13·9 million).

Capital Expenditure

The provision of Rs. 761·7 million for expenditure chargeable to capital votes in the estimates for 1966/67, (nearly 27 per cent of the total voted expenditure) is the highest so far provided in any year and is higher than the provision made in the original estimates for 1965/66 by Rs. 183·6 million or 32 per cent. It is also expected that under-expenditure on capital votes which averaged 23 per cent during the last three years could be contained at 10 per cent in 1966/67 consequent on the removal of various bottlenecks. Even on the assumption of a 10 per cent under-expenditure on capital votes, capital expenditure provided for in the estimates for 1966/67 is Rs. 685·5 million, which would still be the highest expenditure voted for in any year. When capital items under recurrent expenditure votes and capital expenditure from extra-budgetary funds are added, total estimated capital expenditure amounts to Rs. 818·4 million ⁽¹⁾ which represents an increase of Rs. 150·4 million over the estimated expenditure for 1965/66 (Rs. 668·0 million), and an increase of Rs. 186·0 million over the actual (provisional) expenditure (Rs. 632·4 million) for 1965/66.

Other Measures Proposed in The Budget

(1) Tax Commission

In keeping with the declaration made in the Budget for 1965/66, to make a full review of the provisions relating to the determination of income, and tax incentives for the purpose of providing a more comprehensive and co-ordinated tax scheme, the Government has decided to appoint a Tax Commission. ⁽²⁾ The Commission is expected to study the entire structure of tax incentives and make appropriate recommendations. In view of the impending appointment of this Commission, the Finance Minister announced his intention of not proposing any changes with regard to the structure of income taxation in this year's Budget.

(2) Revision of Customs Tariff

The changes announced in the Budget with regard to the revision of Customs Tariff were of a preliminary nature pending an overall examination of the tariff to be done in consultation with the Customs Tariff Advisory Board set up recently by the Government.

(1) After allowing for a 10 per cent under-expenditure on expenditure chargeable to capital votes.

(2) A Taxation Enquiry Commission was appointed subsequently.

(3) Foreign Investment

With a view to encouraging private foreign investment the Government issued, in March, 1966, a statement outlining its policy on foreign investment. The main aspects of the new policy are as follows :—

- (a) Once an investment is approved, remittance of profits, dividends, interest and repatriation of capital will be permitted.
- (b) Necessary foreign managerial and technical personnel could be brought in, and remittances for the maintenance of families of foreign personnel employed, would be allowed.
- (c) Savings of foreign personnel employed, may be transferred abroad on retirement.
- (d) Reasonable royalty payments, technical service fees, etc., will also be permitted.
- (e) Foreign investors will be protected against expropriation and discriminatory treatment.

In keeping with this new policy on foreign investment, an investment guarantee programme was signed during the year with U.S.A., and another agreement is due to be signed with the Federal Republic of Germany for the promotion of foreign investment in Ceylon.⁽¹⁾

(4) Relaxation of The Moratorium

The Finance Minister announced his intention, subject to the vagaries of payment restrictions, of releasing funds held back under the moratorium at the rate of Rs. 1.0 million per month for the first 5 months of 1966 and Rs. 3.5 million per month for the remaining 7 months. The total release for 1966 on this basis will amount to Rs. 29.5 million as against Rs. 6.0 million for 1965. The Government also declared its policy of working towards the total elimination of the moratorium as the resources situation improves.

(5) Tourism

The Government expects to earn considerable foreign exchange from tourism, and, has in pursuance of this objective set up a Tourist Board in place of the present Tourist Bureau, to reorganise the tourist activities. A bill has been passed for the setting up of a Hotel Corporation to build suitable hotels for tourists.⁽²⁾

(6) Textile Imports

The Government has decided that the C.W.E. be the sole importer of textiles for the trade and that all these textiles be under price control.

(1) This agreement was signed and is awaiting ratification.

(2) Hotels Corporation Act. No. 14 of 1966.

(7) Re-organisation of Credit and Savings Institutions

(a) The Budget proposals repeated the previous year's intention to repeal shortly the restriction imposed on foreign banks by the 1961 Finance Act, so as to enable these banks to play a more effective role in the economic development of the country.

(b) The Government also proposes to amend the People's Bank Act taking into consideration the recommendations of the People's Bank Commission. The Government is already considering the recommendation of the People's Bank Commission, that since the debt redemption scheme of the People's Bank is a severe burden on the Bank, this scheme should be withdrawn from the Bank and entrusted to another organisation more appropriate for the purpose.

(c) The Government proposes to present shortly, legislation to set up a National Savings Bank, amalgamating the Post Office Savings Bank, Ceylon Savings Bank and the National Savings Movement, in keeping with the declaration made in last year's Budget.

(d) A bill to amend the Bank of Ceylon Ordinance of 1938 to bring it in conformity with the present position of the Bank as a State institution and to give it a wider role in financing economic development, is under preparation.