

**(E) GOVERNMENT FINANCE****Part A - The Financial Year 1966/67**

The fiscal operations of the Government for the financial year October, 1966 to September, 1967, with corresponding data for previous financial years are summarised in Tables II(E) 1 and II (E) 6. As indicated therein, the salient features of Government's fiscal operations in the financial year 1966/67 were as follows :—

(a) Total revenue was Rs. 1,954.7 million as compared with Rs. 1,833.3 million in 1965/66 and Rs. 1,816.4 million in 1964/65.

(b) Total voted expenditure<sup>(1)</sup> was Rs. 2,520.0 million as compared with Rs. 2,388.9 million in 1965/66 and Rs. 2,274.6 million in 1964/65. Of this total, recurrent expenditure was Rs. 1,895.3 million, compared with Rs. 1,860.5 million in 1965/66 and Rs. 1,803.4 million in 1964/65; while expenditure chargeable to capital votes was Rs. 624.7 million, as compared with Rs. 528.4 million and Rs. 471.2 million in 1965/66 and 1964/65 respectively.

(c) Operations on advance accounts resulted in a net payment of Rs. 40.7 million. This compares with a net payment of Rs. 10.4 million and a net receipt of Rs. 27.8 million in 1965/66 and 1964/65 respectively.

(d) The net cash deficit resulting from these operations was Rs. 606.0 million, as compared with Rs. 566.0 million in 1965/66 and Rs. 430.4 million in 1964/65.

(e) The net cash deficit in 1966/67 was financed by borrowing Rs. 348.3 million from domestic market sources, obtaining Rs. 208.6 million by way of foreign finance and securing Rs. 72.2 million from domestic non-market sources; the excess after meeting the deficit being used to augment cash balances, including Commodity Aid counterpart funds, by Rs. 23.3 million.

(f) The expansionary impact of the net cash deficit when adjusted for a change in U.S. Aid counterpart funds was Rs. 55.2 million as compared with Rs. 122.4 million in 1965/66 and Rs. 34.7 million in 1964/65.

**Revenue**

In Table 19 of Appendix II, the original estimates and the actual (provisional) revenue collections for 1966/67 are shown together with the actual revenue collections for 1965/66, under the main heads of revenue as appearing in the Government Estimates. A satisfactory feature of Government fiscal operations in 1966/67 is the significant increase in revenue collections over those in the previous financial year. Actual (provisional) revenue for 1966/67 at Rs. 1,954.7 million was Rs. 121.4 million or 6.6 per cent higher than the corresponding figure (Rs. 1,833.3 million) for 1965/66.

(1) Representing the total under items 1 (B) (i) and 1 (B) (ii) of Table 11 (E) 1.

Over the ten-year period 1956/57 to 1966/67, revenue has increased by 5 per cent (compound) annually, and over the past 5 financial years by 4 per cent (compound) annually. It is apparent therefore that the revenue increase in 1966/67 has been better than the average annual increase over the past 5 years, and, as mentioned in the Annual Report of 1966, also stands in marked contrast to its performance in the financial year 1965/66. In that year, revenue increased by Rs. 16.8 million or only 0.9 per cent.

*Per capita* revenue, which had recorded a fall in 1965/66, rose significantly in the financial year 1966/67. This increase re-established the rising trend in *per capita* revenue experienced in the five financial years ending 1964/65. Revenue (*per capita*) which was Rs. 162 in 1964/65, and fell to Rs. 160 in 1965/66 rose to Rs. 166 in 1966/67.

As compared with the original estimate of Rs. 2,033.0 million, the actual revenue collected in 1966/67 showed a shortfall of Rs. 78.3 million. The corresponding over-estimation of revenue for 1965/66 was Rs. 64.6 million, in 1964/65 it was Rs. 4.9 million and in 1963/64, Rs. 28.6 million.

Table II (E) 2 depicts in detail the salient changes in the important items of actual revenue (provisional) in 1966/67, compared with those of actual revenue for 1965/66 and the original estimates for 1966/67.

*Revenue from imports*<sup>(1)</sup> in 1966/67 was Rs. 675 million higher than in the previous financial year. The increase in revenue, obtained mainly from licence fees on imports under licence (Rs. 21.3 million), and import duties on motor spirits and liquid fuel (Rs. 46.7 million) and grain and flour (Rs. 10.8 million) amounted to Rs. 78.8 million. This increase was offset to some extent mainly by a decrease in duty collections on sugar (Rs. 6.5 million) and 'other goods' (Rs. 17.1 million). The higher revenue from licence fees was due to a larger volume of imports subject to licence fees, the levying of a licence fee of 10 per cent on all textile imports<sup>(2)</sup> and an increase to 10 per cent of the existing licence fee on several imported goods, as proposed in the Budget Speech for 1967/68 on July 25, 1967.<sup>(3)</sup> The rise in import duty collections on motor spirits and liquid fuel and flour was due to an increase in the volume of imports. Duty collections on rice, sugar and 'other goods' fell because of a decrease in the quantity imported.

In marked contrast to the increase in revenue collections from imports, revenue from taxes on exports in 1966/67, recorded a fall by as much as Rs. 25.7 million (10 per cent) when compared with that in 1965/66. While revenue collections from taxes on tea<sup>(4)</sup> increased slightly, by Rs. 2.8 million, the duty collections on rubber and coconut products declined sharply by Rs. 18.5 million and Rs. 11.2 million respectively.

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

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

(3) Government Gazette Nos. 14758/8 of July 26, 1967; 14760/6 of August 9, 1967 and 14764/6 of September 4, 1967. Since the increase in licence fee came first into effect on July 26, 1967, a part of this increase has accrued to the revenue collections of 1966/67.

(4) Including the tea tax.

TABLE II (E) 1

## Government Net Cash

	1955/56	1956/57	1957/58	1958/59	1959/60
<b>1. Net Cash surplus/Deficit (—)</b>	-1.2	-196.4	-222.3	-413.4	-417.5
<b>A. Revenue —</b>	1,257.2	1,260.5	1,280.0	1,330.4	1,403.8
<b>B. Expenditure (i.e. total payments excluding net receipt or payment on borrowing and lending operations)</b>	-1,258.4	-1,456.9	-1,502.3	-1,743.8	-1,821.3
(i) Recurrent expenditure(a)(b)*	-1,014.4	-1,105.2	-1,280.1	-1,432.2(g)	-1,511.9(h)
(ii) Capital expenditure(a)*	-211.0	-213.3	-282.6	-303.4	-306.6
(iii) Expenditure chargeable to National Development Reserve	4.0	5.1	3.0	2.4	1.5
(iv) Unissued stores and materials(c)	1.2	14.5	—	10.5	7.1
(v) Advances to Government Departments. (c)	-30.3	115.8	54.5	17.1	5.8
(vi) Ceylon-China trade account(c)	—	—	—	—	—
(vii) Miscellaneous (c)	0.1	3.0	8.9	0.8	—
<b>Financing of the Deficit</b>					
<b>2. Net Cash Receipts or Payments (—) resulting from Government borrowing and lending operations and receipts of foreign grants : —</b>	12.2	175.4	174.7	351.8	411.6
<b>A. Domestic non-market borrowing and repayments (including sundry loans) —</b>	-36.5	9.4	72.5	27.6	57.4
(i) Administrative borrowing	—	—	—	—	49.3
(ii) Deposits(d)	10.8	9.0	73.9	27.3	13.0
(iii) Miscellaneous funds(e)	4.8	2.3	20.1	4.2	2.7
(vi) Loans to Public Institutions and Public officers(f)	20.9	16.1	21.5	3.9	7.6
<b>B. Domestic market borrowing and repayment of borrowing</b>	47.0	169.7	81.9	294.6	330.5
(i) Rupee Loans	74.5	94.9	45.0	95.0	134.8
Less contributions to sinking funds	35.5	27.6	23.1	26.3	27.7
(ii) Treasury Bills	39.0	67.3	21.9	68.7	107.1
(iii) Central Bank advances	8.0	3.0	74.6	179.0	228.2
(iv) Tax Reserve Certificates	—	96.3	13.8	41.1	3.1(h)
<b>C. Foreign Finance</b>	1.7	15.1	20.3	5.8	7.9
(i) Project loans	5.2	18.6	23.7	35.5	29.3
Less contributions to sinking funds and direct repayments of public debt from revenue	3.5	3.5	3.4	5.9	5.6
(ii) Commodity loans	1.7	15.1	20.3	29.6	23.7
Less repayments	—	—	—	—	—
(iii) Grants	—	—	—	—	—
<b>4. Changes in cash balances and commodity aid counterpart funds</b>	11.0	21.0	47.5	61.7	6.0
(i) Cash balances (including readily realisable assets)	11.0	21.0	47.5	61.7	6.0
(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 advance for loan works and losses on advances 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), 2C(i) and 2C (ii).

(c) Indicates net change at the end of financial year. Details of the Ceylon-China trade account are not separately available for the years 1955/56 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**

1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67(k)
- 462.5	456.1	391.7	461.7	430.4	566.0	606.0
- 1,513.9	1,620.6(j)	1,593.4(j)	1,759.0(j)	1,816.4(j)	1,833.3(j)	1,954.7(j)
- 1,976.4	2,076.6	1,985.3	2,220.7	2,246.8	2,399.3	2,560.7
- 1,540.8(h)	- 1,580.7(h)	- 1,596.4(h)	- 1,834.1(h)	- 1,803.4(h)	- 1,860.5(h)	- 1,895.3(h)
- 419.9	480.6	402.3	402.5	471.2	528.4	624.7
- 1.5	0.7	0.3	0.2	0.1	...	...
1.9	2.4	8.6	5.2	2.7	15.5	2.5
- 15.9	10.2	7.6	45.9	97.9	11.3	55.0
- 0.2	26.0	20.3	61.0	70.4	6.6	15.1
	1.2	5.6	6.2	2.3	0.4	1.7
462.5	496.3	319.3	416.3	410.9	648.4	629.1
29.4	104.5	33.8	1.9	50.3	112.2	72.2
- 2.9	11.9	0.4	17.2	8.6	41.7	40.5
39.4	86.5	27.6	17.4	68.2	76.6	43.5
- 1.0	4.8	0.1	2.5	3.1	0.2	1.4
- 6.1	1.3	5.9	4.6	6.2	6.3	10.4
409.4	338.9	333.1	322.8	260.9	418.2	348.3
214.9	145.0	205.0	245.0	253.1	325.0	340.0
29.2	35.0	38.9	44.6	51.2	58.9	67.5
185.7	110.0	166.1	200.4	201.9	266.1	272.5
198.4	248.0	124.1	128.4	50.5	124.3	75.3
20.6(h)	21.0(h)	36.6(h)	19.4(h)	8.3(h)	28.3(h)	7.0(h)
4.7	1.9	6.3	13.4	0.2	0.5	6.5
23.7	52.9	92.0	95.4	99.7	118.0	208.6
16.3	44.5	68.7	75.7	92.8	77.2	42.4
5.9	9.7	7.8	12.2	17.2	35.9	44.9
10.4	34.8	60.9	63.5	75.6	41.3	2.5
—	—	—	—	—	35.2	193.9
—	—	—	—	—	—	2.1
—	—	—	—	—	35.2	191.8
13.3	18.1	31.1	31.9	24.1	41.5	19.3
...	40.2	0.4	45.4	19.5	82.4	23.3
...	40.2	0.4	45.4	19.5	47.2	20.6
—	—	—	—	—	35.2	43.9

(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) Excludes 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, Rs. 21.1 million in 1965/66 and 2.0 million in 1966/67 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 figures of revenue given in this Table differ from those published in the Government Accounts. For explanations see foot-note (b) of Appendix Table 18.

(k) Provisional.

TABLE II (E) 2

## Revenue of the Government

	Original Estimates 1966/67		Actual (provisional) 1966/67		Actual 1965/66		Changes in 1966/67 (actual provisional) over 1965/66	Excess or shortfall (—) in 1966/67 (actual provisional) in relation to original estimates 1966/67
	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage		
1. Import Duties: (a) of which	611.0	30.1	544.3	27.8	476.8	26.0	67.5	—66.7
(a) Cotton yarn, twist etc.	50.0	2.5	43.9	2.2	36.2	2.0	7.7	— 6.1
(b) Grain & flour	21.0	1.0	30.0	1.5	19.2	1.0	10.8	9.0
(c) Kerosene oil, motor spirits etc.	160.0	7.9	173.7	8.9	127.0	6.9	46.7	13.7
(d) Tobacco & cigarettes	30.0	1.5	28.1	1.4	28.8	1.6	— 0.7	— 1.9
(e) Sugar	30.0	1.5	26.2	1.3	32.7	1.8	— 6.5	— 3.8
(f) Transport equipment	55.0	2.7	49.2	2.5	43.5	2.4	5.7	— 5.8
(g) Other goods (b)	219.0	10.8	140.4	7.2	157.5	8.6	—17.1	—78.6
(h) Licence fees on imports (c)	23.0	1.1	34.4	1.8	13.1	0.7	21.3	11.4
2. Export Duties: (d) of which	306.0	15.1	230.1	11.8	255.8	14.0	—25.7	—75.9
(a) Tea (including Tea Tax) (d)	226.0	11.1	205.2	10.5	202.4	11.0	2.8	—20.8
(b) Rubber	21.0	1.0	—1.5(e)	—0.1	17.0	0.9	—18.5	—22.5
(c) Coconut	52.7	2.6	19.9	1.0	31.1	1.7	—11.2	—32.8
3. Excise revenue: (f) of which	344.3	16.9	354.9	18.2	318.2	17.4	36.7	10.6
(a) Profit from arrack	106.0	5.2	106.8	5.5	118.0	6.4	—11.2	0.8
(b) Duty on country-made liquor	13.2	0.6	12.7	0.6	14.7	0.8	—2.0	— 0.5
(c) Tobacco Tax	132.0	6.5	138.8	7.1	120.0	6.5	18.8	6.8
(d) Turnover Tax	66.0	3.2	72.2	3.7	39.1	2.1	33.1	6.2
4. Income Tax	260.0	12.8	310.0	15.9	275.4	15.0	34.6	50.0
5. Estate Duty	9.0	0.4	8.8	0.5	10.6	0.6	— 1.8	— 0.2
6. Personal Tax	20.0	1.0	13.1	0.7	12.0	0.7	1.1	— 6.9
7. National Lottery	12.0	0.6	11.9	0.6	9.5	0.5	2.4	— 0.1
8. Gross receipts of Govt. enterprises of which	259.8	12.8	250.3	12.8	247.5	13.5	2.8	— 9.5
(a) Railway revenue	101.5	5.0	102.1	5.2	99.9	5.4	2.2	0.6
(b) Electrical Dept. revenue	64.2	3.2	56.9	2.9	50.7	2.8	5.2	— 8.3
(c) Postal & Telecommunication revenue	57.1	2.8	56.9	2.9	54.8	3.0	2.1	— 0.2
(d) Port & Harbour	28.5	1.4	33.8	1.7	33.8	1.8	—	5.3
9. Other revenue	210.9	10.4	231.3	11.8	227.5	12.4	3.8	20.4
Total	2,033.0	100.0	1,954.7(g)	100.0	1,833.3(g)	100.0	121.4	—78.3

Source : Central Bank of Ceylon.

- (a) Includes licence fees on imports which are under licence.  
 (b) An item shown in the Government Revenue Classification.  
 (c) Which are under licence.  
 (d) Includes the Tea Tax and revenue classified under Sub-Head 3 - Sundries in Head 1 - Customs.  
 (e) The negative amount under this item is due to refunds from revenue.  
 (f) Excludes the Tea Tax which is classified under Excise Revenue in the Government Revenue Classification.  
 (g) These figures of revenue differ from the published figures in the Government Accounts due to the reasons given in foot-note (b) of Table 18 of Appendix II.

Collections from the (specific) export duty on tea fell by Rs. 7.6 million to Rs. 158.0 million. This decrease was the result of a contraction of 22.3 million lbs. (5 per cent) in the volume of tea exported.<sup>(1)</sup> The increase in collections from taxes on tea was therefore due entirely to an increase of Rs. 10.4 million in collections from the (*ad-valorem*) tea tax.

The fall in export duty collections on rubber was due to a drop in the f.o.b. price<sup>(2)</sup> in spite of an increase in the volumes exported. The average f.o.b. price of all grades of rubber declined sharply by 11 cts. (10 per cent) to Rs. 1.04 per lb. The volume of exports, which had increased over the two previous financial years increased further by 26.8 million lbs. to 306.6 million lbs. in the financial year under consideration.

A fall in the export duty receipts from all three major coconut products resulted in a decline in revenue of Rs. 11.2 million (36 per cent). Duty collections on copra fell by Rs. 3.3 million, while those on the export of coconut oil and desiccated coconut fell by Rs. 5.0 million and Rs. 2.8 million respectively, when compared with the duty collections in 1965/66. The decline in duty collections on copra and desiccated coconut resulted from a fall both in the price<sup>(3)</sup> and in the volume exported, whereas the fall in duty collections from the export of coconut oil was due to a fall in prices which more than offset the slight increase in the volume of exports. Exports of coconut oil increased by 2.2 thousand tons,<sup>(4)</sup> while the export volume of copra and desiccated coconut decreased by 7.7 thousand tons<sup>(5)</sup> and 1.3 thousand tons,<sup>(6)</sup> respectively. The price trends in all three types of coconut products were also not encouraging. The f.o.b. price of copra declined by Rs. 1.99 per cwt, that of desiccated coconut by Rs. 10.65 per cwt., and that of coconut oil by Rs. 11.16 per cwt. As a consequence, the average price (f.o.b.) for all three types of coconut products which had fallen in the previous financial year, fell further by Rs. 8.96 (or 13 per cent) to Rs. 62.47 per cwt.

Profits from the sale of arrack and duties on country made liquor,<sup>(7)</sup> which had shown an increasing trend of revenue collections in the last five financial years, fell by Rs. 11.2 million and Rs. 2.0 million, respectively in the financial year under consideration. This decline is explained by the fact that while actual collections for the financial year 1965/66 amounted to Rs. 103.0 million, an additional Rs.15.0 million from past profits was credited to revenue in that year; the profits credited to revenue in 1966/67 represented receipts in that year only. The fall in revenue from the latter was due to the drop in the volume of sales of these types of liquor.

In contrast to the decrease in revenue from export duties and excises from liquor, revenue collections from the tobacco tax and turnover tax continued to increase. Revenue collections from the tobacco tax rose by Rs. 18.8 million (16 per

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- (1) Exports of tea in 1966/67 were 452.2 million lbs. as against 474.5 million lbs. in 1965/66.
  - (2) Export duties on rubber are based on a sliding scale.
  - (3) Export duties on coconut products are based on a sliding scale.
  - (4) Exports of coconut oil in 1965/66 were 69.9 thousand tons as compared with 72.1 thousand tons in 1966/67.
  - (5) Exports of copra in 1965/66 were 26.3 thousand tons as compared with 18.7 thousand tons in 1966/67.
  - (6) Exports of desiccated coconut in 1965/66 were 47.6 thousand tons as compared with 46,3 thousand tons in 1966/67.
  - (7) Foreign liquor type, i.e. beer, gin, brandy and rum.

cent) and this rise was due to an increase in the sales of cigarette tobacco and in the excise duty on tobacco by Rs. 4.50 a lb.<sup>(1)</sup> The Annual Reports of 1965 and 1966 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 5 year period 1961/62 to 1966/67 revenue from the tobacco tax has increased at a rate of 17 per cent (compound) annually.

Revenue from the Turnover Tax, which was Rs. 34.8 million in 1964/65 and Rs. 39.1 million in 1965/66, increased by Rs. 33.1 million, to provide Rs. 72.2 million or 4 per cent of total revenue collections in the financial year under consideration. This increase is consequent on an increase in the rates of the Business Turnover Tax in July 1966, and an increase in the turnover of articles liable at the higher rate of 5 per cent. It is pertinent at this point to stress the revenue earning potential of this tax which was first introduced only in October 1963. With the persistent decline in revenue from export duties and the structural changes that have taken place in the economy over the last decade, the judicious use of this tax may well produce a buoyant source of Government revenue in future years.

Income tax receipts<sup>(2)</sup> in 1966/67 increased by Rs. 34.6 million to Rs 310.0 million. The increase is due to more effective assessment and measures to combat tax evasion through intensified investigation, work done by the Regional Offices and registration of new tax payers. Similarly, the increase in collections from the personal tax represents the progressive reduction of outstanding assessments of previous years.

Revenue from the *National Lottery* and *gross receipts of trading enterprises*<sup>(3)</sup> were the other two items of significance which recorded variations in 1966/67. Receipts from the National Lottery increased by Rs 2.4 million, while the gross receipts of trading enterprises increased by Rs. 2.8 million to Rs. 250.3 million, in spite of the fact that a part of the profits on Broadcasting has been excluded as the Department was converted into a Corporation during the financial year.<sup>(4)</sup> Of significance was the increase in the receipts of the Electrical and Railway Departments by Rs. 5.2 million and Rs. 2.2 million, respectively, in the financial year under review.

### Expenditure

Total voted expenditure of the Government,<sup>(5)</sup> for the period 1955/56 to 1966/67, 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. The Table also depicts a time series of current expenditure,<sup>(6)</sup> capital expenditure<sup>(7)</sup> and total expenditure of the Government adjusted for expenditure incurred on advance account operations.

According to provisional figures currently available, total voted expenditure of the Government in 1966/67 amounted to Rs. 2,520.0 million, exceeding the expenditure of the previous financial year by Rs. 131.1 million (or 5.5 per cent) compared with an increase of Rs. 114.3 million or 5.0 per cent. in 1965/66. This increase was nevertheless smaller than the annual rate of 6.9 per cent in the growth of expenditure experienced over the ten financial years ending 1965/66.

(1) This increase came into effect on July 26, 1967 (Gazette No. 14,758/6 of 25.7.67); a part of this increase has thus accrued to revenue collections of 1966/67.

(2) Excluding surcharge on income-tax.

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

(4) On January 5, 1967.

(5) Excluding sinking fund contributions and direct repayments of public debt from revenue.

(6) After deducting capital items in recurrent votes.

(7) By including capital items in recurrent votes and expenditure chargeable to National Development Reserve, with expenditure chargeable to capital votes.

**TABLE II (E) 3**

**Expenditure of Government**

Rupees Million

	Expenditure chargeable to recurrent votes			Expenditure chargeable to capital votes (d)	Total voted Expenditure (vi)=(iii)+(iv)	Expenditure chargeable to the National Development Reserve (vi)	Total Capital Expenditure(e) (vii)=(ii)+(iv)+(vi)					Net Receipts (-) or Payments on advance account operations (f) (viii)	Total Expenditure (g) (ix)=(v)+(vi)+(viii)	
	Current Expenditure(a)	Capital items in recurrent votes	Total (c)				Acquisition, Construction and Maintenance of Real Assets			Acquisition of Financial Assets				Total
							Grants to Government Corporations and Agencies	Grants to local authorities	Central Government Capital formation	Loans to Government Corporations	Loans to local authorities			
	(i)	(ii)	(iii)				(iv)	(v)	(vi)					
1955/56	862.8	151.6	1,014.4	211.0	1,225.4	4.0	51.7	12.6	273.1	26.2	3.0	366.6	29.0	1,258.4
1956/57	976.7	128.5	1,105.2	213.3	1,318.5	5.1	51.4	10.7	269.1	13.1	2.0	346.9	133.3	1,456.9
1957/58	1,118.2	161.9	1,280.1	282.6	1,562.7	3.0	91.3	12.1	289.3	52.8	2.0	447.5	-63.4	1,502.3
1958/59	1,274.4	157.8	1,432.2	303.4	1,735.6	2.4	76.6	9.4	331.7	45.9	—	463.6	5.8	1,743.8
1959/60	1,365.4	146.5	1,511.9	306.6	1,818.5	1.5	86.5	9.6	310.5	48.0	—	454.6	1.3	1,821.3
1960/61	1,471.3	69.5(b)	1,540.8	419.9	1,960.7	1.5	115.0	8.1	326.7	31.1	10.0	490.9	14.2	1,976.4
1961/62	1,498.1	82.6	1,580.7	480.6	2,061.3	0.7	101.5	8.8	367.4	75.7	10.5	563.9	14.6	2,076.6
1962/63	1,534.0	62.4	1,596.4	402.3	1,998.7	0.3	74.0	8.4	378.6	1.0	3.0	465.0	-13.7	1,985.3
1963/64	1,753.6	80.5	1,834.1	402.5	2,236.6	0.2	66.8	8.4	383.5	20.0	4.5	483.2	-16.1	2,220.7
1964/65	1,731.9	71.5	1,803.4	471.2	2,274.6	0.1	122.5	8.3	385.1	21.9	5.0	542.8	-27.9	2,246.8
1965/66	1,792.0	68.5	1,860.5	528.4	2,388.9	...	168.8	11.6	382.2	29.3	5.0	596.9	10.4	2,399.3
1966/67 Original estimates	1,891.8	81.2	1,973.0	761.7	2,734.7	...	251.8	15.9	553.4	16.8	5.0	842.9	n a.	2,734.7
Actual (Provisional)	1,818.5	76.8	1,895.3	624.7	2,520.0	...	232.1	13.7	422.1	28.6	5.0	701.5	40.7	2,560.7
1967/68 Original estimates	1,999.5	79.7	2,079.2	782.5	2,861.7	...	276.4	14.7	550.0	16.1	5.0	862.2	n. a.	2,861.7

Source : Central Bank of Ceylon.

- (a) See item 22 of Table 21 in Appendix II. A functional breakdown of current expenditure is given in that Table.
- (b) 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.
- (c) See item 1 B (i) of Table II (E) 1.
- (d) See item 1 B (ii) of Table II (E) 1.
- (e) See item 23 of Table 21 in Appendix II. A functional breakdown of capital expenditure is given in that Table.
- (f) Total of items 1 B (iv) to (vii) of Table II (E) 1.
- (g) See item 1 B of Table II (E) 1, and item 27 of Table 21 in Appendix II.



The increase of Rs. 131.1 million in 1966/67, was the combined result of an increase in both recurrent and capital expenditure. While recurrent expenditure increased by only Rs. 34.8 million (or 2 per cent), perhaps the most satisfactory feature of Government fiscal operations in 1966/67 was the increase in expenditure chargeable to capital votes by as much as Rs. 96.3 million (18 per cent) to Rs. 624.7 million; the highest achieved in any financial year.

When compared to the original estimates of voted expenditure for 1966/67,<sup>(1)</sup> the actual (provisional) expenditure of that year indicated a shortfall of Rs. 214.7 million. This was due to under-expenditures on capital votes of Rs. 137.0 million (18 per cent) and Rs. 77.7 million (4 per cent) on recurrent votes. In 1965/66 actual recurrent expenditure exceeded its estimate by 2 per cent.

### Current Expenditure

As indicated in Table II(E) 3, actual (provisional) current expenditure in 1966/67 was only Rs. 26.5 million (or 2 per cent) higher than the current expenditure in 1965/66. In that year current expenditure increased by 4 per cent. The percentage increase in 1966/67 is also much lower than the 8 per cent annual rate of increase in current expenditure which occurred in the ten year period 1955/56 to 1965/66.

Government current expenditure for the financial years 1964/65 to 1966/67, which is shown in greater detail in Table 21 of the Statistical Appendix of this Report, is summarised in Table II (E) 4 below :—

**TABLE II (E) 4**  
**Current Expenditure 1964/65 to 1966/67**

Rupees Million

	Actual 1964/65		Actual 1965/66		Actual (provisional) 1966/67		Original estimates 1966/67		Original estimates 1967/68	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Administration...	243.6	14.1	257.7	14.4	273.3	15.0	276.5	14.6	303.7	15.2
2. Social Services ...	491.5	28.4	500.6	27.9	528.0	29.0	522.6	27.6	580.5	29.0
of which—										
(a) Education ...	329.0	19.0	331.6	18.5	347.7	19.1	347.4	18.4	382.0	19.1
(b) Health ...	153.5	8.9	159.6	8.9	170.2	9.4	163.8	8.7	186.0	9.3
3. Economic services ...	124.4	7.2	122.1	6.8	137.7	7.6	144.5	7.6	167.3	8.4
4. Government enterprises* ...	246.9	14.3	259.2	14.5	267.5	14.7	258.2	13.6	273.5	13.7
5. Transfer payments ...	625.5	36.1	652.4	36.4	612.0	33.7	690.0	36.5	674.5	33.7
of which—										
(a) Food subsidies	290.0	16.7	290.0	16.2	193.0	10.6	307.3	16.2	217.5	10.9
(b) Interest on public debt...	105.9	6.1	123.1	6.9	143.4	7.9	139.7	7.4	159.4	8.0
(c) Pensions ...	143.3	8.3	141.4	7.9	146.0	8.0	156.4	8.3	164.4	8.2
6. Total current expenditure ...	1,731.9	100.0	1,792.0	100.0	1,818.5	100.0	1,891.8	100.0	1,999.5	100.0

Source : Central Bank of Ceylon.

\* Comprising the current payments of the Railway, Electrical, Posts and Telecommunications, the Port Commission and the Broadcasting Department. The Broadcasting Department was converted to a Corporation on January 5, 1967.

+ These figures are as given in Treasury ledgers.

(1) Excluding sinking fund contributions and direct repayments of public debt from revenue.

The increased expenditure on current account in 1966/67 compared to that of 1965/66, is accounted for by an increase in expenditure on social services (Rs. 27.4 million), economic services (Rs. 15.6 million), administration (Rs. 15.6 million) and on government enterprises (Rs. 8.3 million) offset in part by a decline in transfer payments of Rs. 40.4 million.

The increased expenditure on social services was due to higher current expenditure on health and education, which is to be expected in a situation of an increase in population and in the number of school-going children. The rise in expenditure on economic services reflected increases in current expenditure on agriculture and irrigation, and on communications, while the increase in expenditure on administration was mainly due to higher expenditure on civil administration.

The decrease in transfer payments was wholly on account of a sharp drop in the net food subsidy. The actual food subsidy for 1965/66, together with the original estimates and provisional figures of the outturn of food operations in 1966/67 are shown in Table II(E) 5. The original estimate as appearing in the Budget, and a revised estimate of the net food subsidy for the financial year 1967/68 are also shown for purposes of comparison.

**TABLE II (E) 5**  
**Food Subsidy—1965/66 to 1967/68**

	Rupees Million				
	1965/66	1966/67 (Original estimates)(1)	1966/67 (Provisional)	1967/68 (Original estimates)	1967/68 (Revised estimates) (2)
1. Subsidy to the consumer on im- rice ... ..	181.2	163.2	205.1	211.9	286.4
2. Subsidy to the producer and con- sumer on locally produced rice ...	269.9	333.0	206.6	213.2	237.2
3. Subsidy on locally produced red onions ... ..	5.3	4.5	5.3	6.0	6.0
4. Distribution expenses and other charges ... ..	33.5	33.0	38.7	40.6	46.8
5. Total gross subsidy (1 to 4) ...	489.9	533.7	455.7	471.7	576.4
6. Profit on the sale of sugar ...	202.4	199.9	216.6	201.8	230.4
7. Profit on the sale of flour ...	0.5	20.7	42.7	46.4	45.5
8. Profit on the sale of other goods ...	13.2	5.9	3.4	6.0	-3.9(3)
9. Total (6 to 8) ... ..	216.1	226.5	262.8	254.2	272.0
10. Net food subsidy (5 - 9) ...	273.8	307.3	193.0	217.5	304.5

*Source* : The Food Commissioner.

The Government decided on December 18, 1966 to change the ration and the price of rice. In place of two measures of subsidised rice per ration book, per head, Government decided to issue one measure free. This policy decision and the consequent changes in the pattern of cereal consumption resulted in a reduction in the net food subsidy bill in 1966/67 by Rs. 80.8 million as compared with that of 1965/66. This reduction was the combined result of several factors.

(1.) Estimated before the December, 1966 decision relating to rice distribution.

(2.) Estimated after the devaluation in November, 1967.

(3.) Anticipated loss.

The profits from the sale of flour and sugar increased by Rs. 42.2 million and Rs. 14.2 million respectively, as compared with 1965/66. The large profits on the sale of flour was made possible by an increase in the volume of sales of 123,656 tons or 46 per cent and an increase in the sale price of flour by 5 cents per pound<sup>(1)</sup>. Profits on the sale of sugar, on the other hand, was on account of a fall in the landed cost of sugar in 1966/67 as compared to the level of prices in 1965/66. While the sale price to the consumer remained constant, the average landed cost of sugar declined by Rs. 38 per ton to Rs. 440 per ton. As against this, the subsidy to the consumer on imported rice increased by Rs. 23.9 million as compared with 1965/66. This happened despite a substantial fall in the quantity of rice purchased abroad, as a result of a sharp increase in the average landed cost of rice which increased from Rs. 586.47 to Rs. 648.58 per ton; an increase of Rs. 62.11 or 11 per cent. The volume of purchases, however, fell by 168,440 tons to 380,733 tons in 1966/67 or by 31 per cent. As indicated in Table II(E)5 the subsidy on the production and consumption of local rice declined by Rs. 63.3 million. This was partly on account of a fall in the quantity of rice purchased from the Commissioner of Agrarian Services and subsequently sold to the consumer, from 388,660 tons in 1965/66 to 215,600 tons in 1966/67. Distribution expenses and other charges increased by Rs. 5.2 million. As a consequence, the gross subsidy which was Rs. 489.9 million in 1965/66 fell by Rs. 34.2 million to Rs. 455.7 million in the financial year under review.

The net food subsidy taking into account profits from the sale of sugar, flour and other goods and the producer's subsidy on onions fell by Rs. 80.8 million as compared with 1965/66.

The volume of imported cereals (rice and flour) in the financial year 1966/67 is of significance, especially in view of the December 1966 decision relating to the distribution of rice. The actual sales of imported cereals in 1965/66 was 0.830 million tons, whereas the sales of imported cereals in 1966/67 was 0.769 million tons.<sup>(2)</sup> There was thus a fall of 0.061 million tons (or 7.3 per cent) in the sales of imported cereals in the financial year under review.

### Capital Expenditure

The actual (provisional) figure of capital expenditure in 1966/67, as indicated in Table II(E) 3, was Rs. 701.5 million. This figure consists of 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 chargeable to the National Development Reserve. Total capital expenditure defined in this manner, exceeded the corresponding figure in 1965/66 by Rs. 104.6 million or 18 per cent. Over the 10 year period 1955/56 to 1965/66 capital expenditure increased at an average annual rate of 5 per cent (compound). It is seen therefore that the increase in capital expenditure in 1966/67 was also much higher than the growth rate achieved in the ten previous financial years.

On further analysis it is seen that the significant element of growth in capital expenditure was in capital grants to government corporations. Grants to corporations which were Rs. 122.5 million (or 23 per cent of total capital expenditure) in 1964/65, increased to Rs. 168.8 million (or 28 per cent) in 1965/66 and to Rs. 232.1 million (33 per cent) in 1966/67. On the other hand, central Government fixed capital formation which was Rs. 385.1 million in 1964/65, declined slightly in 1965/66, and increased by Rs. 39.9 million, to total Rs. 422.1 million in 1966/67, which is the highest level so far in any financial year.

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- (1) As announced in the Budget Speech of July 29, 1966.  
See also Government Gazette No. 14,706/1 of July 29, 1966.
- (2) On data obtained from the Food Commissioner.

Table 21 of Appendix II presents a functional classification of capital expenditure. It is seen that there was a significant increase in expenditure on economic services (Rs. 92.9 million). Within the category of economic services, expenditure on manufacture and mining increased by Rs. 53.4 million, communications by Rs. 23.7 million; and agriculture and irrigation by Rs. 15.9 million. Capital expenditure on social services also increased by Rs. 16.0 million; there being an increase in expenditure incurred on health, housing and education.

### **Advance Account Operations**

Operations on advance accounts during 1966/67, resulted in a net payment of Rs. 40.7 million, as compared with a net payment of Rs. 10.4 million in 1965/66. On the information presently available, details of these payments cannot be provided. However, the net payment was mainly due to an increase in advances to Government departments, partly offset by a balance in favour of China under the Rubber/Rice Agreement with the Peoples' Republic of China.

### **Net Cash Deficit**

The net cash deficit of Rs. 606.0 million for the financial year 1966/67 was the highest ever recorded. This was Rs. 40.0 million (or 7 per cent) more than the net cash deficit (Rs. 566.0 million) of 1965/66. The increase in the net cash deficit of 1966/67 was due to an increase of Rs. 96.3 million in expenditure chargeable to capital votes, Rs. 34.8 million in recurrent expenditure and Rs. 30.3 million in payment on account of advance account operations, offset in part by an increase of Rs. 121.4 million in revenue receipts. Although the net cash deficit increased by Rs. 40.0 million in 1966/67 this increase was much smaller than the increase in 1965/66 when the net cash deficit increased by as much as Rs. 135.6 million or 32 per cent.

The actual (provisional) net cash deficit for 1966/67 was also higher than the original estimate for that year by Rs. 29.8 million. The increase in the actual net cash deficit for 1966/67 as compared to the original estimate of that year was due to a shortfall in revenue receipts (Rs. 78.3 million), offset in part by a shortfall of Rs. 48.5 million in expenditure.<sup>(1)</sup> The fall in expenditure was on account of a fall both in recurrent<sup>(2)</sup> and capital<sup>(3)</sup> expenditure of Rs. 28.4 million and Rs. 60.8 million respectively, in spite of a net payment of Rs. 40.7 million on advance account operations.

### **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.

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

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

(3) After allowing for a 10 per cent under-expenditure in capital votes in the Original Estimates.

**TABLE II (E) 6**  
**Financing of the Deficit**

Rupees Million

	1965/66		1966/67 (Provisional)		
1. Foreign finance					
(a) Project loans (gross) ...	77.2		42.4		
Less: contributions to sinking funds and repayments ...	35.9	41.3	44.9	- 2.5	
(b) Commodity loans (gross) ...	35.2		193.9		
Less: repayments ...	—	35.2	2.1	191.8	
(c) Grants ...	—	41.5	118.0	19.3	208.6
2. Domestic Non-Market Borrowing ...		112.2			72.2
3. Domestic Market Borrowing from the Banking System (1) ...					
(a) Central Bank ...	179.7		125.7		
(b) Commercial Banks ...	-17.4	162.3	-74.5	51.3	
4. Domestic Market Borrowing from non-bank sources ...					
Gross amount borrowed ...	314.8		364.5 <sup>(2)</sup>		
Less: contributions to sinking funds	58.9	255.9	67.5	297.0	
5. Change in Cash Balances and Commodity Aid Counterpart Funds ...					
(a) Cash Balances ...	-47.2*		20.6		
(b) Commodity Aid Counterpart Funds (gross credits) ...	-35.2*		-193.9*		
Less: amount utilised for budgetary purposes ...	—	-35.2*	-82.4*	150.0	-43.9*
				-23.3*	
6. Net Cash Deficit ...		566.0			606.0
7. Decline in U.S. Aid Counterpart Funds		42.5			27.2
8. Net expansionary impact of Government fiscal operations (3+5+7) ...		122.4			55.2

Source: Central Bank of Ceylon.

\* Minus sign indicates an increase.

- (1) These figures do not take into account the value of Government import (food) bills held by the banking system.
- (a) During the financial year 1965/66 the value of outstanding bills increased by Rs. 22.7 million to Rs. 76.0 million as at the end of September, 1966.
- (b) During the financial year 1966/67, the value of outstanding bills increased by Rs. 46.3 million to Rs. 122.3 million as at the end of September, 1967.
- (2) Inclusive of a sum of Rs. 53.4 million of Government Securities purchased by savings institutions and Government agencies, consequent on a repurchase by the Central Bank, of Central Bank Securities held by these agencies.

The net cash deficit of Rs. 606.0 million resulting from the fiscal operations in the financial year 1966/67 was financed by borrowing Rs. 297.0 million from domestic non-bank sources, obtaining Rs. 208.6 million by way of foreign assistance, Rs. 72.2 million from domestic non-market sources and Rs. 51.3 million from the banking system. Cash balances (including counterpart funds) increased by Rs. 23.3 million.

The net cash deficit for 1966/67, for the reasons mentioned earlier in this section, increased by Rs. 40.0 million. However, the expansionary component of the net cash deficit declined both in absolute terms and as a ratio of the deficit in the financial year under consideration when compared with that of 1965/66. The expansionary impact of the deficit in 1966/67 was Rs. 55.2 million and was Rs. 67.2 million less than the corresponding figure for 1965/66. The expansionary component of the net cash deficit as a ratio of the deficit also fell from 21.6 per cent in 1965/66 to 9.1 per cent in 1966/67. This was largely due to the greatly increased reliance on foreign finance and domestic non-bank sources for financing the deficit associated with a diminution of borrowing from the banking system.

As indicated in the Table II (E) 6 the net borrowing of Rs. 51.3 million from the banking system was solely on account of a greatly increased reliance on the Central Bank for budgetary purposes. Borrowing from the Central Bank increased by Rs. 125.7 million and consisted of an increase of Rs. 119.3 million in treasury bills and Rs. 7.0 million in Central Bank advances offset in part by a small decrease (Rs. 0.6 million) in Central Bank's holdings of Government securities. On the other hand there was a net decrease in borrowing from commercial banks<sup>(1)</sup>. This decrease (Rs. 74.5 million) was the combined result of a fall in holdings of Government securities (Rs. 42.7 million) and treasury bills (Rs. 31.9 million), partly offset by a rise of Rs. 0.1 million in commercial bank holdings of tax reserve certificates.

Net market borrowing from non-bank sources in 1966/67 of Rs. 297.0 million was higher than that of 1965/66 (Rs. 255.9 million). The amount of resources realised in 1966/67 includes however a sum of Rs. 53.4 million of Government securities purchased by savings institutions, consequent on a repurchase by the Central Bank, of its own securities. Net of this figure, it can be seen that market borrowing from non-bank sources has in fact fallen in the financial year under consideration. The significance of this decline is best appreciated when it is seen that in the period 1961/62 to 1965/66 contributions by this sector had shown an average annual increase of Rs. 36.6 million. It also serves to emphasize the need to increase finances from this source in future financial years, especially if Government borrowing from expansionary sources are to be kept at a tolerable level. In this connection the payment of a higher rate of interest on Government borrowings to enable the savings institutions to pay a higher rate of interest on savings has been recommended by the Monetary Board.

Savings institutions, the Employees' Provident Fund, and departmental and other official funds significantly improved their share of contributions to Government securities in 1966/67. In Table II (E) 7 is set out the contributions by major non-bank investor groups to government securities (including treasury bills and tax reserve certificates) in 1966/67, with comparative data for the three previous financial years.

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(1.) This excludes credit to the Government from the commercial banks in the form of holdings of import bills as stated in footnote (1) of table II (E) 6.

TABLE II (E) 7

**Contributions to Government Securities by Major Non-Bank  
Investor Groups**

Rupees Million

	1963/64	1964/65	1965/66	1966/67	Increase in 1966/67 over 1965/66
Savings Institutions ... ..	28.9	37.9	37.0	88.6*	51.6
Employees' Provident Fund ... ..	65.6	70.0	74.7	85.3	10.6
Insurance Corporation ... ..	29.0	42.2	46.2	47.9	1.7
Other State Corporations ... ..	3.5	—	—	—0.7	—0.7
Departmental and other official funds	9.6	13.8	2.0	16.3	14.3
Other provident and pension funds ...	22.0	28.4	41.1	41.3	0.2
Other insurance funds ... ..	7.6	3.4	10.3	0.1	—10.2
Companies, clubs and insitutions ...	12.3	—2.1	6.1	—12.3	—18.4
Individuals ... ..	1.2	2.7	15.2	6.5	— 8.7

*Source* : Central Bank of Ceylon.

\* Inclusive of Rs. 53.4 million of Government securities purchased by savingsns institutions consequent on a re-purchase, by the Central Bank, of Central Bank securities held by these institutions

Foreign finance<sup>(1)</sup> received in 1966/67 amounted to Rs. 255.6 million, as compared with Rs. 153.9 million in the previous financial year and Rs. 116.9 million in 1964/65. Since sterling loan sinking fund contributions and other foreign loan repayments amounted to Rs. 47.0 million, net foreign assistance in 1966/67 totalled Rs. 208.6 million. The corresponding figures for 1965/66 and 1964/65 were Rs. 118.0 million and Rs. 99.7 million, respectively.

As indicated in Table II(E)6 the significant increase in foreign finance that occurred in 1966/67 was on account of loan finance; and that too in the form of commodity loans. A more detailed analysis of foreign loan assistance is given in the section on Foreign Debt in this Report. It would be sufficient at this stage to point out the diminished significance of project loan assistance (both gross and net) and grants for public sector capital formation in the financial year 1966/67.

In Table II (E)8 are detailed the receipts of foreign assistance by type and source. Foreign grants which amounted to Rs. 41.5 million in 1965/66 fell to Rs. 19.3 million in 1966/67. The Canadian Government, as in the previous financial year, provided the largest amount of grant aid (Rs. 12.8 million). The Australian Government and United Nations Organizations also provided grant aid of Rs. 4.6 million and Rs. 1.5 million, respectively.

### 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.

(1) Excluding technical assistance, and free milk powder and flour made available by the "CARE" Organisation.

**TABLE II (E) 8**  
**Net Receipts of Foreign Assistance**

Rupees Million

	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
<b>Loans:</b>						
1. I.B.R.D. ... ..	25.6	21.2	11.3	5.0	- 1.2	- 0.3
2. Canada ... ..	- 1.3	0.8	- 0.2	11.4	2.5	8.1
3. China ... ..	- 1.0	—	12.4	18.9	9.7	- 4.9
4. U.K. ... ..	0.4	10.4	4.9	-2.3	10.6	49.4
5. U.S.A. ... ..	7.6	-0.7	2.7	-1.2	23.8	31.0
6. U.S.S.R. ... ..	3.4	13.5	32.0	28.8	9.3	-10.0
7. West Germany ... ..	—	11.5	0.4	7.4	6.7	66.2
8. Yugoslavia ... ..	—	4.3	—	-0.3	0.8	- 1.4
9. Poland ... ..	—	—	—	2.4	0.1	0.1
10. France ... ..	—	—	—	5.5	1.6	10.8
11. Japan ... ..	—	—	—	—	10.0	31.3
12. India ... ..	—	—	—	—	2.6	8.0
13. German Democratic Republic ... ..	—	—	—	—	—	1.1
<b>Grants:</b>						
<b>Colombo Plan:</b>						
1. Australia ... ..	—	2.5	—	3.9	0.3	4.6
2. Canada ... ..	4.4	5.7	5.7	5.1	25.6	12.8
3. Japan ... ..	—	—	0.3	—	—	—
4. New Zealand ... ..	—	—	—	—	—	0.1
<b>Other:</b>						
1. China ... ..	8.3	19.7	24.5	15.1	2.5	—
2. U.S.A. ... ..	1.6	0.9	1.4	—	12.1	0.2
3. West Germany ... ..	3.8	2.3	—	—	—	—
4. United Nations ... ..	—	—	—	—	1.0	1.5
5. Czechoslovakia ... ..	—	—	—	—	—	—
6. United Kingdom ... ..	—	—	—	—	—	—
<b>Total of Loans and Grants</b>	<b>52.9</b>	<b>92.0</b>	<b>95.4</b>	<b>99.7</b>	<b>118.0</b>	<b>208.6</b>

Source : Central Bank of Ceylon

The increases in gross debt and net debt in the financial year 1966/67 were Rs. 578.2 million and Rs. 514.7 million, respectively. Corresponding figures for the previous financial year were Rs. 558.5 million and Rs. 495.7 million, respectively. The increase in gross debt of Rs. 478.2 million was composed of an increase of Rs. 310.2 million in rupee securities, Rs. 190.5 million in foreign debt, Rs. 75.0 million in treasury bills, and Rs. 9.0 million in Central Bank advances, offset by a reduction of Rs. 6.5 million in tax reserve certificates. The increases in total public debt (both gross and net) in the financial year 1966/67 was higher than in any of the previous four financial years.

It is also of significance that the foreign debt component of total net debt has increased by 2.6 percentage points in the financial year under review. A steadily rising trend of foreign debt is now discernible; net foreign debt more than doubled in absolute terms over the last four financial years. Net domestic debt increased by only half over the same period.

### Domestic Debt

Gross domestic debt, which stood at Rs. 4,194.5 million on September 30, 1966, increased by Rs. 387.7 million by the end of the financial year 1966/67. The composition of the debt as on that date was as follows : rupee securities Rs. 2,784.8 million, treasury bills Rs. 1,500.0 million, tax reserve certificates Rs. 25.7 million, Central Bank advances Rs. 271.6 million and national development bonds Rs.0.1 million.



**TABLE II (E) 9**

**Total Public Debt <sup>(1)</sup>**

End of September	Gross Debt					Net Debt ( )				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
<b>A. Values (Rs. Mn.)</b>										
Foreign ... ..	407.1	412.1	489.3	548.8	739.3	311.5	373.5	446.6	521.1	708.0
Domestic ... ..	3,030.2	3,375.3	3,695.5	4,194.5	4,582.2	2,753.9	3,062.5	3,325.3	3,746.5	4,074.3
<b>Total</b> ... ..	<b>3,437.3</b>	<b>3,787.4</b>	<b>4,184.8</b>	<b>4,743.3</b>	<b>5,321.5</b>	<b>3,065.4</b>	<b>3,436.0</b>	<b>3,771.9</b>	<b>4,267.6</b>	<b>4,782.3</b>
<b>B. Percentages</b>										
Foreign ... ..	11.8	10.9	11.7	11.6	13.9	10.2	10.9	11.8	12.2	14.8
Domestic ... ..	88.2	89.1	88.3	88.4	86.1	89.8	89.1	88.2	87.8	85.2
<b>Total</b> ... ..	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source : Central Bank of Ceylon.

(1) Excluding National Housing Debentures and State Mortgage Bank Debentures which amounted to Rs. 75.0 million and Rs. 33.3 million respectively as at end of September, 1967.

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

Table II (E) 10 contains data on the composition and changes in the domestic public debt as at the end of September, 1966 and 1967.

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

End of September	Rupee Loans							Total	
	Gross	Sinking funds (1)	Net	Treasury bills (1)	Tax reserve certifi- cates	Central Bank advances (2)	National develop- ment bonds (3)	Gross	Net
1966	2,474.6	448.9	2,026.6	1,425.0	32.2	262.6	0.1	4,194.5	3,746.5
1967	2,784.8	507.8	2,276.9	1,500.0	25.7	271.6	0.1	4,582.2	4,074.3
Change (4)	+310.2	+59.8	+250.3	+75.0	-6.5	+9.0	—	+387.7	+327.8

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. 82.4 million as at end of September, 1966 and Rs. 84.4 million as at end of September, 1967 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. 7.0 million over the financial year.
- (3) The value of National Development Bonds issued and outstanding at the end of September, 1966 and 1967, amounted to Rs. 70,802 and Rs. 67,542 respectively. These bonds issued by the Commissioner of Inland Revenue carry a statutory rate of interest of 5 per cent per annum.
- (4) + sign denotes an increase.

The maturity pattern of gross domestic debt as at September 30, 1967 with corresponding data for the four previous financial years is shown in Table II (E) 11. In the Annual Report for 1966 it was observed that the term structure of domestic debt had lengthened over the last three financial years. This tendency has been continued in the financial year 1966/67. Domestic debt with over twenty years to latest date of maturity comprised 31.7 per cent of total domestic debt, an increase of 5.0 percentage points during the financial year. Correspondingly, the unfunded debt component fell by 1.8 percentage points to constitute 39.2 per cent of the total as at the end of September, 1967.

#### Rupee Securities :

Fifteen rupee loans amounting to Rs. 390.8 million were issued in the course of the financial year. Of these, three loans, amounting to Rs. 50.9 million, were conversion loans, and one, a 5-7 year  $3\frac{1}{2}$ % loan amounting to Rs. 3.6 million was a cash issue. The balance eleven (21-25 year) loans aggregating Rs. 336.3 million, were also cash issues at  $4\frac{1}{2}$  per cent. Net of conversion loans the resources raised by rupee securities was Rs. 340.0 million. Of the three conversion loans, the  $3\frac{1}{2}$  per cent Loan 1970/72 was raised in part conversion of the  $3\frac{1}{4}$  per cent Loan 1965/67, the  $3\frac{1}{2}$  per cent Loan 1972/75 was raised in part conversion of the  $2\frac{3}{4}$  per cent Loan 1965/67, while the  $3\frac{1}{4}$  per cent Loan 1970/71 was raised in part conversion of the  $3\frac{1}{4}$  per cent Loan 1965/67 "B" Series, which matured during the year. The other twelve issues were entirely for cash. A classification of the allotments is shown in Table II (E) 12.

**TABLE II (E) 11**

**Domestic Debt—Analysis by Maturity**

(As at end of September)

Rupees Million

Years to Maturity	1963		1964		1965		1966		1967	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Unfunded debt**	1,346.6	44.4	1,465.9	43.4	1,545.9	41.8	1,719.8	41.0	1,797.4	39.2
Funded debt — Under 5 years*	246.2	8.1	205.8	6.1	245.5	6.6	292.1	7.0	252.6	5.5
Between 5-10 years* ...	365.4	12.1	445.0	13.2	392.3	10.6	354.5	8.5	367.7	8.0
Between 10-15 years* ...	222.9	7.4	216.6	6.4	336.6	9.1	386.0	9.2	386.0	8.4
Between 15-20 years* ...	249.1	8.2	247.0	7.3	127.1	3.4	324.1	7.7	324.1	7.1
Over 20 years* ...	600.0	19.8	795.0	23.6	1,048.1	28.4	1,118.0	26.7	1,454.4	31.7
Total ...	3,030.2	100.0	3,375.3	100.0	3,695.5	100.0	4,194.5	100.0	4,582.2	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 subscriptions to Government Securities 1966/67

Rupees Million

	4½% Loan 1987/91 'H' Series	4½% Loan 1987/91 'I' Series	4½% Loan 1987/91 'J' Series	4½% Loan 1988/92	4½% Loan 1988/92 'B' Series	3½% Loan 1970/72+		3½% Loan 1987/74	4½% Loan 1988/92 'C' Series	4½% Loan 1988/92 'D' Series	4½% Loan 1988/92 'E' Series	3½% Loan 1972-75†		4½% Loan 1988/92 'F' Series	3½% Loan 1970/71‡		4½% Loan 1988/92 'G' Series	4½% Loan 1988/92 'H' Series	Total	Per cent- age
						Con- ver- sion	Cash					Con- ver- sion	Cash		Con- ver- sion	Cash				
Commercial banks ...	—	—	—	—	—	6.0	—	2.0	—	—	—	2.2	—	—	3.3	—	—	—	13.5	3.5
Co-operative banks ...	—	—	—	—	—	—	—	—	—	—	0.3	—	—	—	—	—	—	—	0.3	0.1
Savings institutions	1.6	27.9	4.0	3.2	5.2	—	—	—	—	0.8	12.9	—	—	8.1	—	—	11.1	—	74.7**	19.1
Sinking funds	12.5	6.8	2.9	10.1	5.8	—	13.8	—	10.0	2.3	—	—	7.1	—	16.2	—	6.4	2.4	96.3	24.6
Departmental and other official funds ...	1.6	—	0.3	—	1.3	—	—	0.1	—	2.5	2.5	0.2	—	0.3	—	—	1.4	—	10.2	2.6
Trusts, benevolent, pension and provident funds																				
1. Employees' Provident Fund	8.2	6.0	6.4	5.6	7.7	—	—	—	14.3	6.0	7.0	—	—	10.8	—	—	9.3	4.0	85.0*	21.8
2. Others ...	5.5	2.8	6.2	2.8	4.7	...	0.1	0.1	2.4	3.6	3.3	...	0.1	6.1	1.5	—	1.9	2.0	43.1	11.0
Insurance fund																				
1. Insurance Corporation ...	4.0	3.0	3.5	7.5	—	—	—	1.0	3.0	6.5	7.5	—	—	2.9	—	—	3.0	6.0	47.9	12.3
2. Insurance companies	1.2	1.7	1.4	—	0.1	0.1	—	0.1	—	2.1	0.4	—	—	1.5	0.1	—	1.5	0.4	10.6	2.7
Other companies ...	...	—	—	...	...	—	—	—	0.1	...	...	—	—	0.1	—	—	0.1	—	0.3	0.1
Individuals, clubs and institutions	0.3	1.8	0.4	0.9	0.2	...	...	0.3	1.7	1.2	1.2	—	...	0.3	—	—	0.3	0.3	8.9	2.3
Total ...	35.0	50.0	25.0	30.0	25.0	6.2	13.9	3.6	31.4	25.0	35.0	2.4	7.2	30.0	5.0	16.2	35.0	15.0	390.8	100.0

Source: Central Bank of Ceylon.

+ Raised in part conversion of the 3½% Loan 1965/67 due for repayment in March, 1967.

† Raised in part conversion of the 2½% Loan 1965/67 due for repayment in July, 1967.

‡ Raised in part conversion of the 3½% Loan 1965/67 'B' Series, due for repayment in August, 1967.

\*\* Includes a sum of Rs. 53.4 million of Government securities purchased by savings institutions consequent on a repurchase by the Central Bank, of Central Bank securities held by these institutions.

As indicated in Table II(E) 12, Sinking Funds absorbed Rs. 96.3 million (24.6 per cent) of the loans floated. The other major contributors were the Employees' Provident Fund Rs. 85.0 million (21.8 per cent), Savings Institutions<sup>(1)</sup> Rs. 74.7 million (19.1 per cent), the Insurance Corporation Rs. 47.9 million (12.3 per cent) and trusts, benevolent, pension and provident funds other than the Employees' Provident Fund 43.1 million (11.0 per cent).

A classification of the ownership of Government Securities in 1965/66 and 1966/67 together with comparative data for the previous three financial years is given in Table II(E) 13.

**TABLE II (E) 13**  
**Ownership of Rupee Securities—1962/63 to 1966/67**

	Rupees Million				
	1962/63	1963/64	1964/65	1965/66	1966/67
(a) Banking Sector ... ..	304.0	329.5	326.0	324.5	281.2
Central Bank ... ..	11.5	9.1	8.0	8.0	7.4
Commercial banks ... ..	292.6	320.4	318.0	316.4	273.7
(b) Non-bank Sector ... ..	1,379.5	1,580.0	1,823.6	2,150.2	2,503.6
Savings institutions ... ..	408.2	435.6	474.4	511.6	600.5
Sinking funds ... ..	219.8	256.2	302.5	407.0	474.2
Departmental and other official funds ... ..	97.9	107.5	121.8	123.8	140.0
Employees' Provident Fund ... ..	228.8	287.8	360.1	434.8	519.8
Insurance Corporation ... ..	16.4	45.4	87.6	133.8	181.6
Other State corporations ... ..	—	3.5	3.5	3.5	2.9
Co-operative banks ... ..	9.7	9.7	7.0	7.0	7.3
Other* ... ..	404.8	434.2	466.7	528.7	577.2
	1,683.6	1,909.4	2,149.6	2,474.6	2,784.8

Source : Central Bank of Ceylon.

\* Comprising Trusts, Benevolent, Pension and Provident Funds, Insurance Companies, Other Companies, Clubs and Institutions and Individuals.

A significant feature of the ownership pattern of securities over the last five financial years is the sizeable contribution made by the semi-government sector.<sup>(2)</sup> In the period 1962/63 to 1966/67 the holdings of these institutional investors increased from 58 per cent to 69 per cent of total rupee securities. The contributions of resources by the Employees' Provident Fund and the Insurance Corporation has increased steadily. In fact the Employees' Provident Fund is the largest single holder of Government securities.

The rate of interest on long term (21 to 25 year) Government loans which was increased from 4 $\frac{1}{4}$  per cent to 4 $\frac{1}{2}$  per cent on June 1, 1963, has remained at that level since.

- (1) Comprising the Post Office Savings Bank, the Ceylon Savings Bank and the Savings Certificates Fund. The total inclusive Rs. 53.4 million of Government Securities purchased by these savings institutions consequent on a repurchase by the Central Bank, of Central Bank Securities held by these institutions.
- (2) As represented by savings institutions, sinking funds, departmental funds, Employees Provident Fund, the Insurance Corporation and other state corporations.

## Treasury Bills

The volume of treasury bills outstanding at the beginning of the financial year 1966/67 was Rs. 1,425.0 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 issued and outstanding stood at Rs. 1,500.0 million, resulting in an increase of Rs. 75.0 million during the financial year, and leaving no unutilised balance out of the existing limit of treasury bill issues.<sup>(1)</sup>

Holdings of treasury bills by the banking system as at the end of September, 1967 were Rs. 1,456.7 million (97.1 per cent of the total outstanding) as compared with Rs. 1,369.3 million (96.1 per cent) as at September 30, 1966. Of this total, Central Bank holdings of treasury bills were Rs. 1,377.2 million (91.8 per cent of the total outstanding) as at the end of September, 1967, compared with Rs. 1,257.9 million (88.3 per cent) as at September 30, 1966.

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.

## Tax Reserve Certificates

Out of a total authorised issue of Rs. 250.0 million, tax reserve certificates amounting to Rs. 240.7 million have been issued up to end of September 1967. Rs. 25.7 million of certificates remained unsurrendered at that date. The amount unsurrendered at the end of the previous financial year was Rs. 32.2 million, resulting therefore in a decline in this type of debt obligations of Rs. 6.5 million.

The rate of interest on tax reserve certificates which was increased from 1 per cent to 1½ per cent in August, 1961, has remained at that level since then.

## Central Bank Advances

Advances to Government under section 89 of the Monetary Law Act amounted to Rs. 262.6 million at the end of 1965/66. The corresponding figure at the end of September 1967, was Rs. 271.6 million, resulting in an increase of Rs. 9.0 million during, the financial year under consideration. The figures at the end of each financial year, includes however, special loans towards payment of Ceylon's membership subscriptions to international financial organizations of Rs. 82.4 million and Rs. 84.4 million, respectively. Net of these payments, Central Bank advances increased by Rs. 7.0 million in 1966/67.

## Foreign Debt

In 1966/67, gross foreign debt (i.e. net of repayments, but before deducting sinking funds), increased by Rs. 190.5 million, as compared with an increase of Rs. 59.6 million in 1965/66. Total withdrawals, in the financial year under review amounted to Rs. 236.2 million, of which Rs. 42.3 million was on account of project loans; the balance Rs. 193.9 million representing the foreign liabilities under commodity loans provided to Ceylon. Repayments during the financial year consisted almost wholly of project loan liabilities and amounted to Rs. 45.7 million. Gross foreign debt (i.e. net of repayments, but before deducting sinking funds), therefore increased by Rs. 190.5 million in 1966/67, as against an increase of Rs. 59.5 million in the previous financial year. Details of the increase in 1966/67 are given in Table II (E) 14, and analysed below.

(1) The authorised limit of the treasury bill issue was raised by Rs. 250 million to Rs. 1,750 million by Parliament on January 27, 1968.

TABLE II (E) 14

## Foreign Loans

Rupees Million

	Withdrawals during 1966/67	Repayments during 1966/67	Increase during 1966/67*	Liability as at September 30, 1967
(a) Sterling Loans ...	—	—	—	83.3+
(b) Project Loans ...				
(i) I.B.R.D. Loans ...	6.6	7.0	-0.4	138.1
(ii) U.S.I.C.A. Loans ...	—	0.4	-0.4	52.5
(iii) U.S.D.L.F. Loans ...	—	1.0	-1.0	8.7
(iv) U.S.A.I.D. Loans ...	—	—	—	7.0
(v) West German (Kreditanstalt) Loans ...	18.6	4.3	14.2	38.9
(vi) U.K. Line of Credit ...	2.0	5.9	-3.9	16.3
(vii) U.S.S.R. Line of Credit ...	1.5	11.5	-10.0	82.3
(viii) Chinese Loans ...	—	4.9	-4.9	45.3
(ix) Canadian Loans ...	5.7	1.2	4.5	7.9
(x) Canadian E.C.I.C. Credit ...	5.8	3.8	1.9	19.0
(xi) French S.O.C.E.A. Credit ...	0.5	1.5	-1.0	6.0
(xii) Yugoslavian Line of Credit ...	—	1.5	-1.4	3.4
(xiii) Polish Line of Credit ...	0.5	0.5	—	2.5
(xiv) German Democratic Republic Line of Credit ...	1.1	—	1.1	1.1
(c) Commodity Loans ...				
(i) U.S.A.I.D Loans ...	32.4	—	32.4	32.4
(ii) West German (Kreditanstalt) Loans ...	52.0	—	52.0	53.2
(iii) U. K. Loans ...	54.5	—	54.5	73.4
(iv) Canadian Loan ...	1.7	—	1.7	4.1
(v) French Government Loan ...	11.9	—	11.9	11.9
(vi) Japanese Loans ...	31.3	—	31.3	41.4
(vii) Indian Government Loan ...	10.1	2.1	8.0	10.6
Total ...	236.2	45.7	190.5	739.3+

Source: Central Bank of Ceylon

## Project Loans

Foreign assistance by way of project loans is for public sector projects, and the utilisation of such foreign assistance amounted to Rs. 42.3 million in 1966/67. Since repayments in that financial year amounted to Rs. 43.5 million, there was a net reduction of foreign liabilities on account of project loans of Rs. 1.2 million. The diminished significance of foreign project assistance to the public sector is apparent when it is seen that in 1965/66 there was a net increase in project assistance of Rs. 48.9 million, while in 1964/65 the net increase was as much as Rs. 77.9 million.

As indicated in Table II (E) 14 the major portion of the project assistance utilised came from West Germany (Rs. 18.6 million), for the cement industry, cast iron foundry and the development of the Port of Colombo; from the I.B.R.D. (Rs. 6.6 million) for the Norton Bridge Hydro and Grandpass Thermal projects; and from Canada (Rs. 11.5 million) for the supply of equipment and engineering services for the Maskeliya Oya Hydro project and for the development of the Katunayake Airport.

\* i.e. withdrawals less repayments.

+ Sinking funds maintained for the redemption of sterling securities amounted to Rs. 31.3 million. Adjusted for these sinking funds the net total liability amounted to Rs. 708.0 million.

— Sign indicates a net repayment.

## Commodity Loans

Foreign assistance by way of commodity loans was first availed of in the year 1965/66, and differs from project loans in that it consists mainly of assistance to the private sector. In the financial year 1965/66, foreign liabilities totalling Rs. 35.2 million were incurred<sup>(1)</sup>. Foreign assistance in that year consisted mainly of loans from the United Kingdom (Rs. 18.9 million), for the import of fertilizer, vehicles and spares, and base metals; from Japan (Rs.10.0 million), for the import of fertilizers, textiles, and motor tyres and tubes; and from India (Rs. 2.6 million) for the import of dried chillies and textiles.

In the financial year 1966/67, utilisation of commodity aid increased significantly and amounted to Rs. 193.9 million. This consisted mainly of loans from the United Kingdom (Rs. 54.5 million), for the import of industrial raw materials and fertilizer; from West Germany (Rs. 52.0 million), for the import of fertilizer and motor spares; from the United States (Rs. 32.4 million), for the import of fertilizer and motor accessories; from Japan (Rs. 31.3 million) for the import of textiles, and motor spares and accessories; from France (Rs. 11.9 million) for the import of vehicles and motor accessories; and from India (Rs. 10.1 million) for the import of textiles and dried fish.

The foreign liability outstanding on account of commodity loans at the end of the financial year 1966/67, after taking into account a repayment of Rs. 2.1 million on the Indian Government loan, was Rs. 227.0 million. This constituted over 30 per cent of the gross foreign debt outstanding as at that date.

Table 27 of Appendix II presents in summary form the rupee counterpart funds generated and their utilisation for budgetary purposes in the period under review<sup>(2)</sup>. At the end of the financial year 1965/66, Rs. 36.9 million had been credited to this account; there being no withdrawals by the Government. In the financial year 1966/67 there were credits totalling Rs. 195.2 million to this account. Since a sum of Rs. 150.0 million was utilised during that financial year for budgetary purposes, the amount outstanding in the account increased by Rs. 45.2 million to Rs. 82.1 million.

## Borrowing by semi-Government Institutions

The Central Bank followed the same policy as in the four previous financial years of channelling all available resources to Government needs, and advising the Government to lend out of loan funds, any monies to the Commissioner of National Housing, depending on the needs of the institutions and the state of Government finances.

### 1. National Housing Department

There were no issues of National Housing Debentures in 1966/67; the total of National Housing Debentures issued and outstanding remaining at Rs. 75.0 million. Direct loans sanctioned by Government increased by Rs. 26.0 million to Rs. 121.0 million by the end of September 1967. The value of sinking funds established for the redemption of National Housing Debentures stood at Rs. 37.4 million.

(1) See Table II(E) 1 item 2C(ii).

(2) The differences in the figures appearing in this Table and in Table II (E) 1 and II (E) 14 is explainable in terms of lags in accounting as between the Central Bank and the Ceylon Government Treasury.



## 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 the Bank's operations during the financial year was carried out through overdraft facilities provided by the banking system. While the borrowing limits of the State Mortgage Bank were increased by Rs. 5.0 million to Rs. 75.6 million, overdrafts guaranteed under Sections 73, 75 and 84 of the State Mortgage Bank Ordinance, also increased by Rs. 5.0 million to Rs. 42.3 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 1966/67.

### Part B - The Financial Year 1967/68

#### Budget 1967/68

The original estimates of revenue and expenditure for the financial year 1967/68 as approved by Parliament on September, 28 1967 are summarised in the table below.

TABLE II (E) 15  
Original Budget Estimates 1967/68

		Rupees Million
(a) Recurrent expenditure (votes 1, 2, 4 and 6)	2,204.8	
Less 2½ per cent under-expenditure*	51.9	2,152.9
(b) Capital expenditure (votes 3, 5 and 7)	782.5	
Less 15 per cent under-expenditure	117.4	665.1
(c) Total expenditure [(a) + (b)]		2,818.0
(d) Revenue (inclusive of new tax receipts)		2,049.9
(e) Budget deficit [(c) - (d)]		768.1
(f) Less contributions to sinking funds and direct repayments of public debt		125.6
(g) Estimated net cash deficit		642.5

Source: Central Bank of Ceylon and Ceylon Government Treasury.

The Budget deficit of Rs. 768.1 million was to be financed as follows:—

	Rs. million
(a) Local loans	350.0
(b) Foreign aid (project)	125.0
(c) Use of Commodity Aid counterpart funds	150.0
(d) Administrative borrowing	25.0
(e) Profits and reserves of state corporations and undertakings‡	22.0;

Leaving an unbridged gap of Rs. 96.1 million to be financed by borrowing from the banking system.

\* 2½ per cent of Rs. 2,079.2 million, being the amount after deducting sinking fund contributions and direct repayments of public debt from revenue (Rs. 125.6 million, from recurrent expenditure).

‡ The Budget Speech envisaged the use of Rs. 30.0 million from the profits and reserves of state-corporations and undertakings. Since Rs. 8.0 million has been included as revenue, the balance Rs. 22.0 million is shown as a financing item of the Budget deficit.

## Revenue

The estimated revenue for the current financial year 1967/68, inclusive of a receipt of Rs. 118.0 million from measures proposed in the budget was Rs. 2,049.9 million. This, compared with the actual (provisional) revenue of Rs. 1,954.7 million in 1966/67, shows an increase of Rs. 95.2 million in the Budget estimate of revenue for the current financial year.

The increase in the Estimates of Rs. 95.2 million over the actual revenue collections of the previous year was mainly on account of higher revenues anticipated from excise duties (Rs. 30.5 million), licences etc. (Rs. 65.4 million), postal and telecommunication receipts (Rs. 11.4 million), interest, annuities and dividends, (Rs. 10.1 million), miscellaneous receipts (Rs. 37.3 million), offset in part by decreases in revenue receipts from custom duties (Rs 21.2 million), port and harbour dues (Rs. 3.9 million) and income tax etc. (Rs. 36.3 million).

## Tax Proposals and other measures

The new tax proposals and other measures included in the Budget were expected to result in an increase of revenue by Rs. 118 million, and an increase of expenditure by Rs. 60 million.

	Rs. million	
	Revenue	Expenditure
1. Increase of import licence fee	+ 80.0	
2. Increase in excise duty on tobacco	+ 15.0	
3. Speedier recovery of income tax arrears	+ 15.0	
4. Transfer to revenue from profits of State Corporations and Undertakings	+ 8.0	
5. Interim allowances to Government and local Government employees and pensioners	—	- 60.0 (increase)
Total	+ 118.0	- 60.0

### 1. Licence fee on imports

The existing licence fee of 1 per cent (other than on textiles which were already charged a licence fee of 10 per cent), was increased to 10 per cent<sup>(1)</sup>. Certain goods were exempted from this increase. They were milk, milk foods, infants and invalids' foods, cotton yarn, drugs and pharmaceuticals, fertilizers, kerosene, newsprint, mammoities and other small implements for agricultural use. Imports of Government Departments, including those of the Food Commissioner continued to be wholly exempt from any licence fee. This measure was expected to yield an additional revenue of Rs. 80 million.

### 2. Tobacco Tax

The excise duty on tobacco of Rs. 28.50 per lb. was increased by Rs. 4.50 per lb<sup>(2)</sup>. This was expected to bring in an additional revenue of Rs. 15 million.

(1) Government Gazette Nos. 14,758/8 of July 26 1967; 14,760/6 of August 9, 1967; and 14,764/9 of September 4, 1967.

(2) Government Gazette 14,758/6 of July 25, 1967.

### 3. Speedier recovery of income tax arrears

An additional revenue of Rs. 15 million was expected through speedier recovery of income tax arrears. For this purpose the collection machinery of the Inland Revenue Department was to be strengthened.

### 4. Use of reserves and profits of State Corporations and Undertakings

Government expected to utilise a sum of Rs. 30 million from the reserves and profits of State Corporations and Undertakings. Of this sum, Rs. 8 million<sup>(1)</sup> was to accrue to Government revenue, and the balance of Rs. 22 million was to be made available for financing the Budget deficit.

### 5. Business turnover tax

Representations had been made regarding hardship caused by the imposition of the business turnover tax on certain small industries like tea chests, cigars, ayurvedic drugs, joss sticks, driedfish, bricks etc. In these industries, production is mainly by manual labour and no machinery of any consequence is being used. With a view to alleviating hardship, it was proposed to reduce the rate of tax from the existing 5 per cent. to 1 per cent. The consequent revenue loss was estimated to be negligible.

### 6. Interim allowances to Government and Local Government employees and pensioners

With a view to affording some relief to the lower paid categories of public officers and Local Government employees, Government decided to pay an interim allowance, pending on overall review of salaries in the public service by a Commission. Those whose salaries did not exceed Rs. 100 per month were to receive an interim allowance of Rs. 20 per month. Those employees whose salaries exceeded Rs. 100 per month but did not exceed Rs. 300 per month, were to receive an allowance of Rs. 10 per month. Pensioners including widows getting a pension not exceeding Rs. 100 per month were to receive an additional allowance of Rs. 10 per month. Those who received pensions above Rs. 100 per month but not exceeding Rs. 300 per month, were entitled to Rs. 5 per month. It was expected that these measures would involve an additional expenditure of Rs. 60 million an year<sup>(2)</sup>.

### Expenditure

The total voted expenditure for 1967/68<sup>(3)</sup> was estimated at Rs. 2,861.7 million. Of the total, recurrent expenditure (votes 1, 2, 4 & 6) accounted for Rs. 2,079.2 million, while expenditure chargeable to capital votes (votes 3, 5 and 7) was Rs. 782.5 million. When the usual provision for a 2½ per cent under-expenditure in respect of recurrent expenditure, and 15 per cent under-expenditure for capital votes was made, total voted expenditure was expected to be Rs. 2,692.4 million. This figure was Rs. 172.4 million more than the actual (provisional) voted expenditure<sup>(3)</sup> of Rs. 2,520.0 million for 1966/67, and represented an increase of Rs. 132.0 million in recurrent expenditure and Rs. 40.4 million in capital expenditure.

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(1) Classified under Head 10, sub-head 3 and Head 11, sub-head 14 of the revenue Estimates.

(2) These measures were implemented with effect from October, 1967.

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

## Current Expenditure

Total recurrent expenditure in the current financial year was estimated at Rs. 2,204.8 million. When capital items under recurrent expenditure, the provision for a 2½ per cent under-expenditure and the provision for sinking fund contributions were deducted from this figure, the resultant current expenditure amounted to Rs. 1,947.6 million, as against an actual (provisional) outlay of Rs. 1,818.5 million in 1966/67.

The increase in estimated current expenditure in 1967/68 (Rs. 181.0 million) as compared with the actual (provisional) expenditure in 1966/67 was mainly on account of increases in expenditure on administration (Rs. 30.4 million), pensions (Rs. 18.4 million), net food subsidy (Rs. 24.5 million), economic services (Rs. 29.6 million), interest on public debt (Rs. 16.0 million) and social services (Rs. 52.5 million).

## Capital Expenditure

The provision of Rs. 782.5 million for expenditure chargeable to capital votes in the estimate for 1967/68, (26 per cent. of total voted expenditure), is the highest provided in any year, and is higher than the provision made in the original estimates for 1966/67 by Rs. 20.8 million. Even after allowing for an under-expenditure of 15 per cent. (Rs. 117.4 million) the level of capital expenditure expected is higher than the actual (provisional) expenditure of 1966/67 by Rs. 40.4 million. When capital items under recurrent expenditure votes are added and a provision for under-expenditure is made, total estimated capital expenditure amounts to Rs. 744.8 million. This represents an increase of Rs. 43.3 million over the actual (provisional) expenditure (Rs. 701.5 million) for 1966/67.

## Other measures proposed in the Budget

### (1) Agriculture

A new scheme of rural credit was finalised and was to be inaugurated from the 1967/68 Maha season. Under this scheme, commercial banks were to take over from the Department of Agrarian Services, the function of granting loans to Co-operative Societies for the purpose of cultivation of approved crops mainly paddy. The Central Bank would provide the required refinance to enable the commercial banks to lend to Co-operative Societies. In view of the risks involved in lending to small farmers for the cultivation of these crops, the Government was to guarantee such loans granted by commercial banks. The Central Bank, on behalf of the Government was to guarantee these loans up to 75 per cent of the amount in default, while the lending banks were to bear the balance 25 per cent. The amount of credit to be issued per acre was increased from Rs. 175 to Rs. 220. It was anticipated that the total amount of credit to be granted under the new scheme would increase considerably from its present annual level of about Rs. 33 million.

### (2) Industry

It was proposed to introduce new legislation for the encouragement, promotion and development of industries in the private sector. The Industrial Development Board was to be reconstituted within the frame-work of this legislation to undertake further responsibilities in the field of industrial promotion. This organisation was to set up new agencies such as an Investment Information Centre, an Export Promotion Centre, an Industrial Supplies Agency and a Management, Development and Productivity Centre. It was also proposed to set up industrial estates in the districts of Galle, Kandy and Jaffna. Statutory provision was also to be made for the setting up of an Industrial Advisory Council, and Industrial Panels for various sectors of industry. The proposed legislation also contemplated the establishment of a special Industrial Development Fund, to which, both the Government and the Manufacturing Industries were to make their contributions.

**(3) Re-organisation of credit and savings institutions**

- (a) The two previous Budget Speeches had announced the Government's intention of repealing restrictions imposed on foreign banks by the Finance Act of 1961<sup>(1)</sup>.
- (b) In accordance with the recommendations of the People's Bank Commission, legislation was to be presented early in order to transfer the Debt Redemption Scheme from the People's Bank to the State Mortgage Bank.
- (c) Legislation was to be presented to amalgamate the Post Office Savings Bank, the Ceylon Savings Bank and the National Savings Movement, into a National Savings Bank.
- (d) Amendments to the State Mortgage Bank Act and the Agricultural and Industrial Credit Corporation Act, with a view to broadening the scope of activities of these institutions, were being prepared and would be presented to Parliament in the near future.
- (e) The People's Bank Act was to be amended in accordance with the recommendations of the People's Bank Commission.
- (f) A Commission was to be appointed to inquire into the activities of the Bank of Ceylon and make recommendations designed to make the institution contribute more to the country's economic development<sup>(2)</sup>.

**(4) Implementation of the recommendations of the Tax Commission**

The Taxation Commission which was appointed to make a detailed study of the tax structure and make recommendations, had submitted its report. The recommendations were being studied.

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- (1) A bill has since been placed before Parliament.
  - (2) A Commission of Inquiry has since been appointed for the following purposes :—
    - “(1) to inquire into and report on the working and administration, during the period commencing on the twenty-seventh day of July, 1961, and ending on the twenty-ninth day of February, 1968, of the Bank of Ceylon (hereinafter referred to as the “ Bank ”) with special reference to the following matters :—
      - (a) the extent to which the Bank has, within the limits permitted by banking practice and the statutory provisions under which it operates, assisted in the economic development of Ceylon and the extent to which the Bank has provided financial assistance, by way of loans, overdrafts or other accommodation, to citizens of Ceylon, for the promotion of business, industrial and agricultural enterprises ;
      - (b) whether the Bank has granted any loan, overdraft or other accommodation to any person or institution, without adequate security or adequate safeguards or contrary to accepted principles of banking practice ;
      - (c) whether any member of the Board of Directors of the Bank or any officer or employee thereof has directly or indirectly acted in any manner prejudicial to the interests of the Bank ; and
    - (2) to make such recommendations as the Commissioners may consider necessary in regard to the aforesaid matters and in regard to any other matter connected with, or incidental to, the aforesaid matters in respect of which they may receive representations, and, in particular, in regard to the steps that should be taken to secure the efficient and smooth working of the Bank so as to enable the Bank adequately to meet the credit requirements of Ceylon nationals and to play a more effective role in accelerating the economic development of Ceylon.”

**(5) The Public Service**

- (a) In order to ensure the maximum utilization of the large sums of money which have been provided for capital and recurrent expenditure it was decided to recruit an additional staff of about 5,400 next year at a cost of over Rs. 15 million. Most of this staff was to be distributed among the Ministries of Education, Agriculture, and Posts and Telecommunications.
- (b) In order to improve progressively the standards of Government accounting and to streamline financial procedures, greater emphasis was to be placed on management accounting. The Treasury has initiated a special diploma course in accounting for officers in the Government Accountants' Service in collaboration with the Institute of Chartered Accountants. Action has been taken to afford facilities for promising young officers in the public service to be trained as Chartered Accountants. Both these schemes would result in Government having a corps of qualified accountants to scrutinize closely the vast investments by the Government.
- (c) In the last Budget Speech reference was made to the appointment of several committees to examine and report on the Ceylon Administrative Service, the establishment of unified engineering and scientific services, and the general question of administrative reforms. All these committees have completed their assignments and the recommendations in respect of the Administrative Service and general administrative reforms have already been implemented, while the question of setting up unified services for engineering and scientific personnel was receiving active consideration.

**Note on the Fiscal Measures taken after Devaluation**

On November 22, 1967 the Government of Ceylon altered the par value of the Ceylon rupee by 20 per cent under section 69 (2) of the Monetary Law Act<sup>(1)</sup>.

With a view to softening the impact of higher prices on the cost of living the Government decided to adopt the following measures simultaneously with the devaluation of the rupee.

- (1) The weekly measure of rice distributed on the ration would continue to be given free, despite the fact that the devaluation itself would increase the rupee price paid by the Government for its rice imports.
- (2) The increase in the rupee cost of dhall imported by the Government is to be absorbed by the Government and not passed on to the consumer.
- (3) As a measure of further encouragement to increasing Ceylon's domestic production of paddy, which in turn reduces Ceylon's import of rice, the guaranteed price of paddy was increased by Rs. 2, i.e. from Rs. 12 to Rs. 14 per bushel, with effect from 1st December, 1967<sup>(2)</sup>.

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(1) Government Gazette Extraordinary No. 14775/14 of November 22, 1967 and Government Gazette No. 14775/15 of November 22, 1967.

(2) Government Gazette No. 14776/5 of November 25, 1967.

- (4) With the objective of providing relief to lower paid categories of public servants and Local Government employees, the Government decided to pay with effect from 1st December, 1967 a further interim allowance of Rs. 15 per month to all public servants and local Government employees whose basic salary is Rs. 300 and below, and an allowance of Rs. 10 per month for pensioners whose pension does not exceed Rs. 300. This allowance was in addition to the interim allowance varying from Rs. 10 to Rs. 20 per month granted by the Government in the current Budget.

### Revenue Measures

With a view of securing a part of additional incomes accruing to exporters, as a result of the devaluation, appropriate adjustments in export duties were adopted, as noted below. In adjusting these duties, consideration was given to prevailing and prospective prices and costs of production of different export commodities, so that there would be an equitable distribution of the additional incomes.

- (a) The export duty on tea was increased by 5 cents, to 40 cents per lb (1). The Tea Export Duty Rebate Scheme which was expected to cost the Government Rs. 45 million in the financial year 1967/68 was withdrawn(2).
- (b) A new export duty of 3 cents per lb. was imposed on rubber in addition to the present sliding scale(3).
- (c) The sliding scale of export duty on coconut products was revised to siphon off approximately 50 per cent. of the increased prices accruing on cocount products(4).
- (d) Export duties on cocoa and cinnamon quills were increased by Rs. 25, to Rs. 30 per 100 lbs. in the case of cocoa, and by 35 cents to 50 cents per lb. in the case of cinnamon quills(4).

In order to meet part of the increase in the landed cost of certain items, the following measures were also introduced :

- (a) An increase in the retail price of white sugar by 5 cents per lb(5).
- (b) An increase in the retail price of flour by 5 cents per lb(6).
- (c) An increase in the prices of certain petroleum products with effect from November 23, 1967.(7)

The increases in the recurrent and capital expenditure of the Government resulting from the devaluation and the measures taken at the time may be somewhat higher than the increases in revenue. As a result, the Budget deficit may increase beyond the figure of Rs. 768.1 million originally estimated for the current financial year.

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- (1) Government Gazette No. 14775/17 of 22nd November, 1967.
- (2) Commencing January 2, 1968, the Government reintroduced a modified scheme of tea rebate, under which 5 cents is paid on each lb. of low and medium grown tea sold at the Colombo Tea Auctions.
- (3) Government Gazette No. 14775/17 of 22nd November, 1967.
- (4) Government Gazette No. 14775/17 of 22nd Nov. 1967 and Government Gazette No. 14776/2 of November 23, 1967.
- (5) Government Gazette No. 14776/3 of 23rd November, 1967.
- (6) Government Gazette No. 14776/3 of 23rd November, 1967.
- (7) Press release by Ceylon Petroleum Corporation on 23/11/67.