

(F) GOVERNMENT FINANCE

The Government's fiscal operations for the financial year October, 1967 to September, 1968 with corresponding data for previous financial years are shown at Table 17 of Appendix II. Data for the last three years are summarised in Table II(F) 1 below.

TABLE II (F) I

Government's Fiscal Operations (a)

Items	Rupees Million			
	1965/66	1966/67	1967/68 Actual (Provisional)	1968/69 Original Estimates
1. Net Cash Surplus/Deficit (—)	- 566.0	- 606.8	- 715.7	- 701.2
A. Revenue	1,833.3	1,954.8	2,156.4	2,338.5
B. Expenditure	- 2,399.3	- 2,561.6	- 2,872.1	- 3,039.7
(i) Recurrent expenditure	- 1,860.5	- 1,895.3	- 2,186.2	- 2,297.9
(ii) Capital expenditure	- 528.4	- 624.7	- 714.4	- 741.8
(iii) Advance accounts and other (b)	- 10.4	- 41.6	+ 28.5	—
2. Financing of the Deficit	566.0	606.8	715.7	701.2
A. Net receipts from loans and grants	648.4	629.2	751.8	701.2
(i) Net domestic non-market borrowing	112.2	72.3	9.8	—
(ii) Net domestic market borrowing	418.2	348.3	551.8	298.0
(iii) Net foreign finance	118.0	208.6	190.2	403.2
B. Decline in cash balances(c)	- 82.4	- 22.4	- 36.1	—
3. Expansionary impact of fiscal operations (d)	122.4	56.1	267.4	11.5

Source: Central Bank of Ceylon

(a) Please see footnotes to Table 17 of Appendix II.

(b) Total of items I B (iv) to I B (vii) of Table 17 of Appendix II.

(c) Minus (—) sign indicates an increase.

(d) For details, please see Table II (F) 8

Total revenue in the year under review, 1967/68 was Rs. 2,156.4 million while the total voted expenditure¹ was Rs. 2,900.6 million. Both revenue and voted expenditure increased by 10.3 per cent. and 15.1 per cent. respectively over the previous year. Recurrent expenditure at Rs. 2,186.2 million was 15.3 per cent above the 1966/67 level. The expenditure chargeable to capital votes increased to Rs. 714.4 million from Rs. 624.7 million in the previous year. Advance account operations in 1967/68 resulted in a net receipt of Rs. 28.5 million in contrast to a net payment of Rs. 41.6 million in 1966/67. The net cash deficit as a result of these operations amounted to Rs. 715.7 million, as compared with Rs. 606.8 million and Rs. 566.0 million in 1966/67 and 1965/66 respectively. The net cash deficit of 1967/68 was financed by borrowing Rs. 551.8 million from domestic market sources, obtaining Rs. 190.2 million from foreign finance and securing Rs. 9.8 million from domestic non-market sources. The expansionary impact of the net cash deficit, when adjusted for changes in U.S. Aid counterpart funds, was Rs. 267.4 million. This was in contrast to the expansionary impact of Rs. 56.1 million in 1966/67 and Rs. 122.4 million in 1965/66.

1 Total of items I B (i) and I B (ii) of Table II (F) 1 and Table 17 of Appendix II.

The financial year 1967/68 in which the above changes took place was an eventful year in the field of Government finance. This was due to several important economic reforms which were initiated after the presentation of the Budget for 1967/68, which in turn had significant effects on Government fiscal operations. First, the Rupee was devalued in November, 1967, and this enhanced the import-component of Government expenditure. A further increase in expenditure resulted from the payment of an additional "interim" allowance to Government servants and pensioners. The new duties levied on certain major exports immediately after devaluation and the improvement in rupee prices of major exports after devaluation resulted in enhanced revenue to the Government. Secondly, the introduction of the Foreign Exchange Entitlement Certificate Scheme in May, 1968 resulted in further enhancement of Government revenue, partly offset by a shortfall in revenue due to the abolition of import-licence fees on most imports and the reduction in or abolition of certain import duties at the same time. Incidentally, the alteration of the basis of taxation of imports from the wholesale market value to c.i.f. value which resulted from the adoption of the Brussels Tariff Nomenclature in August, 1968 led to a further diminution in revenue. The sum-total of the effects of these reforms was a radical change in the final out-turn of Government fiscal operations, from what was anticipated at the time of the presentation of the Budget for 1967/68.

During the current financial year 1968/69, revenue is estimated to be Rs. 2,338.5 million, while the voted expenditure is estimated to be Rs. 3,039.7 million. The latter consists of Rs. 2,297.9 million of recurrent expenditure and Rs. 741.8 million of capital expenditure. The net cash deficit is thus estimated to be Rs. 701.2 million, which is expected to be financed by a borrowing from domestic market sources of Rs. 298.0 million and a record anticipated receipt from foreign sources of Rs. 403.2 million. The expansionary impact of the net cash deficit is estimated to be only Rs. 11.5 million.

REVENUE

The Annual Report for 1967 observed that the substantial increase in revenue (by Rs. 121.4 million or 6.6 per cent) was one of the satisfactory features of Government budgetary operations during the financial year 1966/67. A greater buoyancy of Government revenue was observed during the financial year 1967/68 when the actual (provisional) revenue increased further by Rs. 201.6 million or 10.3 per cent to Rs. 2,156.4 million.

Figures of Government revenue for the last thirteen years and estimates for 1968/69 are summarised in Table 19 of Appendix II. It will be seen therefrom that over the ten-year period 1958/59 to 1967/68, Government revenue has increased on an average by 5.35 per cent (compound) annually and over the last five financial years by 6.24 per cent (compound) annually. Thus, the rate of increase in 1967/68 has been considerably higher than the average rates of increase during the last five years as well as the last ten years.

TABLE II (F) 2
Revenue of the Government—1966/67 to 1968/69

Sources	1966/67		1967/68 Original Estimates		1967/68 Actual (provisional)		1968/69 Original Estimates	
	Amount Rs Mn.	Per- centage	Amount Rs Mn.	Per- centage	Amount Rs Mn	Per- centage	Amount Rs Mn.	Per- centage
1. Import Duties: (a)	544.3	27.8	579.8	28.9	514.0	23.8	409.4	17.5
of which:								
(a) Grain & Flour	30.0	1.5	21.6	1.1	23.2	1.1	22.1	0.9
(b) Sugar	26.2	1.3	30.8	1.5	33.5	1.6	31.2	1.3
(c) Cotton yarn, twist etc.	43.9	2.2	21.7	1.1	27.5	1.3	11.1	0.5
(d) Tobacco and Cigarettes	28.1	1.4	48.0	2.4	30.9	1.4	27.0	1.2
(e) Kerosene oil Motor spirits etc.	173.7	8.9	120.0	6.0	135.3	6.3	159.0	6.8
(f) Fertilizers	10.5	0.5	15.1	0.8	11.9	0.6	18.8	0.8
(g) Hardware & build- ing materials other than Cement	11.4	0.6	7.6	0.4	16.7	0.8	12.0	0.5
(h) Transport - equipment	49.2	2.5	59.2	3.0	38.8	1.8	30.0	1.3
(i) Machinery	18.6	1.0	22.5	1.1	15.7	0.7	9.0	0.4
(j) Industrial raw materials	12.7	0.6	32.1	1.6	22.0	1.0	5.0	0.2
(k) Other goods (b)	46.8	2.4	48.6	2.4	50.0	2.3	39.0	1.7
(l) Licence fees on imports (c)	34.4	1.8	100.6	5.0	67.0	3.1	1.2	0.1
2. Receipts from sale of FEECs (d)	—	—	—	—	77.0	3.6	360.0	15.4
3. Export Duties: (e)	230.0	11.8	237.3	11.8	318.9	14.8	289.8	12.4
of which:								
(a) Tea (including tea tax) (e)	205.2	10.5	206.8	10.3	223.3	10.8	233.0	10.4
(b) Rubber	— 1.5(f)	— 0.1	1.0	...	10.1	0.5	9.0	0.4
(c) Coconut	19.8	1.0	25.9	1.3	68.1	3.2	42.6	1.8
4. Excise Revenue: (g)	355.0	18.2	387.6	19.3	393.8	18.3	433.0	18.5
of which:								
(a) Profit from sale of arrack	106.8	5.5	110.0	5.5	110.0	5.1	111.0	4.7
(b) Duty on country made liquor	12.8	0.7	16.2	0.8	14.1	0.7	13.4	0.6
(c) Tobacco tax	138.8	7.1	165.0	8.2	168.4	7.8	195.0	8.3
(d) Turnover tax	72.2	3.7	71.0	3.5	79.2	3.7	92.0	3.9
5. Income Tax	310.0	15.9	270.0	13.5	315.9	14.6	275.0	11.8
6. Estate Duty	8.8	0.5	9.0	0.4	9.0	0.4	9.0	0.4
7. Personal Tax	13.1	0.7	17.0	0.8	13.6	0.6	16.0	0.7
8. National Lottery	11.9	0.6	13.2	0.7	15.4	0.7	18.0	0.8
9. Gross receipts of Govt. enterprises (h)	250.2	12.8	267.8	13.4	273.4	12.7	280.7	12.0
of which:								
(a) Railway	102.1	5.2	103.1	5.1	106.7	4.9	104.3	4.5
(b) Electrical Dept.	55.9	2.9	66.5	3.3	65.8	3.5	74.8	3.2
(c) Postal and Tele- communication	56.9	2.9	68.3	3.4	64.6	3.0	65.0	2.8
(d) Port & Harbour	33.8	1.7	29.9	1.5	36.3	1.7	36.6	1.6
10. Other revenue	231.5	11.8	240.0	11.2	225.3	10.4	248.8	10.6
Total	1,954.8	100.0	2,005.7(i)	100.0	2,156.4(i)	100.0	2,338.5	100.0

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) Introduced (with effect from) May 6, 1968.
 (e) Includes the tea tax and revenue classified under sub-head 3- Sundries in Head I - Customs.
 (f) The negative amount under this item is due to refunds from revenue.
 (g) Excludes the tea tax which is classified under Excise Revenue in the Government revenue classification.
 (h) The actual figure 1966/67 includes Rs. 1.6 million being revenue from the Broadcasting Department which was converted into a Corporation with effect from January 5, 1967.
 (i) These figures of revenue differ from the published figures in the Government Accounts due to the reasons given in foot-note (b) of Table 19 of Appendix II.

Per-capita revenue (based on mid-calendar year population figures)¹ which showed a rising trend in the five financial years ending 1964/65, declined marginally to Rs. 160 in 1965/66 and increased to Rs. 166 in 1966/67. In 1967/68 it increased substantially to Rs. 180 due to the higher rate of increase of revenue vis-a-vis the rate of increase of population.

When compared with the original estimates of revenue of Rs. 2,005.7 million in 1967/68, the actual (provisional) revenue in 1967/68 showed an increase of Rs. 150.7 million. This was in contrast to an over-estimate of total revenue made in two previous financial years of Rs. 64.6 million and Rs. 78.3 million respectively. The higher out-turn in 1967/68 was largely due to revenue from export duties, income tax and receipts of Government enterprises being higher than anticipated. On the other hand, the revenue from import duties was lower than estimated, due mainly to the abolition of the import licence fee on most imports.

In the current financial year 1968/69, the total revenue anticipated is Rs. 2,338.5 million. This amounts to an increase of Rs. 182.1 million or 8.4 per cent. over 1967/68. Although the rate of increase is lower than that of 1967/68, it is yet higher than the average rate of increase (compound) during the last ten or five years. The anticipated increase is mainly due to increased revenue from the sale of Foreign Exchange Entitlement Certificates, excise duties, and receipts from Government enterprises, which in aggregate is expected to exceed substantially an anticipated decrease in revenue from import duties and export duties.

The detailed items of Government revenue for 1966/67 (actual), 1967/68 (original), 1967/68 (actual provisional) and 1968/69 (original) are contrasted at Table II (F) 2 above.

Customs Revenue²

Customs Revenue, consisting of import duties (including licence fees on imports) and export duties (including tea tax) increased by Rs. 58.6 million or by 7.6 per cent. to Rs. 832.9 million in 1967/68. This was due to an increase of Rs. 88.9 million or 38.7 per cent. in export duties which more than offset a decline of Rs. 30.3 million or 5.6 per cent. in import duties. In the financial year 1968/69, customs revenue is expected to decline by Rs. 133.7 million or 16.1 per cent. This is due to an anticipated decline of Rs. 29.1 million or 9.1 per cent. in export duties and a further anticipated decline of Rs. 104.6 million or 20.4 per cent. in import duties. It should be noted, however, that these decreases are more than offset by anticipated higher receipts from the sale of Foreign Exchange Entitlement Certificates.

Import Duties

Revenue from Imports³ which increased by Rs. 67.5 million or 14.2 per cent. in 1966/67, declined by Rs. 30.3 million or 5.6 per cent. in 1967/68. The major shortfall was in the revenue from kerosene oil, motor spirits

1 According to the Registrar-General, the estimated mid-year population in 1968 was 11,964,000.

2 Figures of imports and exports are based on Customs data.

3 Includes licence fees on imports which are under licence. The licence fees, except in the case of certain aid imports, were abolished in May, 1968.

and liquid fuel which declined by Rs. 38.4 million, in contrast to a substantial increase of Rs. 46.7 million in the previous year. This was due to a lower level of imports of these items in 1967/68 than in the previous year. Similar decreases in revenue due to fall in imports were observed in the case of grain and flour (Rs. 6.8 million) and cotton yarn and twist (Rs. 16.4 million). In the case of transport equipment and machinery, the declines of Rs. 10.4 million and Rs. 2.9 million respectively were due to a decrease in value of imports as well as a reduction of the import duty.¹ These major decreases were partly offset by increases in revenue receipts from sugar (Rs. 7.3 million), hardware and building materials (Rs. 5.3 million), industrial raw materials (Rs. 9.3 million) and 'other goods' (Rs. 3.2 million). These increases were due mainly to a higher volume of imports.

The actual (provisional) revenue from import duties in 1967/68, on the other hand, was lower than the original estimated revenue for the same year by Rs. 65.8 million or by 11.3 per cent. This shortfall was mainly due to a decrease in the anticipated revenue from licence fees on imports under licence (Rs. 33.6 million), transport equipment (Rs. 20.4 million), tobacco and cigarettes (Rs. 17.1 million), industrial raw materials (Rs. 10.1 million) and machinery (Rs. 6.8 million) which was partly offset by an increase in revenue from kerosene oil, motor spirits and liquid fuel (Rs. 15.3 million), hardware and building equipment (Rs. 9.1 million) and cotton yarn and twist (Rs. 5.8 million). The substantial decline in revenue from import licence fees was due to the abolition of the levy on most imports in May, 1968, at the time of the introduction of the Foreign Exchange Entitlement Certificate Scheme.

In the financial year 1968/69, the revenue from imports is estimated to fall by Rs. 104.6 million or 20.4 per cent over 1967/68. This is largely due to a further reduction in import licence fees (which are now levied only on certain aid-imports) of Rs. 65.8 million. Other major anticipated decreases are in respect of duty collections from industrial raw materials (Rs. 17.0 million), cotton yarn and twist (Rs. 16.4 million) and 'other goods' (Rs. 11.0 million). These will be partly compensated by estimated revenue increases from kerosene oil, motor spirits etc. (Rs. 23.7 million) and fertilizer (Rs. 6.9 million).

Thus, a declining trend is observed in import duties as a source of Government revenue. In fact, import duties which accounted for 27.8 per cent. of Government revenue in 1966/67, constituted 23.8 per cent. in 1967/68 and are expected to decline further to 17.5 per cent. in 1968/69. This is due mainly to certain changes in the import tariff system initiated in 1968 whose effects would be felt from 1967/68 onwards.

The major change was the introduction of the Foreign Exchange Entitlement Certificate Scheme on May 6, 1968.² Under this Scheme, which was operated by the Central Bank inter alia import items were classified into three

1. Ceylon Government Gazette No. 14,813/2 and 14,814/1 of August 2, 1968, and August 9, 1968 respectively.

2. Ceylon Government Gazette No. 14,800/3 of May 5, 1968. For a detailed account of this Scheme, please see the section on 'Foreign Trade' of this Annual Report.

schedules, namely, Schedule I consisting of Government food imports, drugs, fertilizer, petroleum products and imports for manufacture of drugs and agricultural implements, subject to quotas; Schedule II consisting of items subject to quotas which required import licences and Schedule III consisting of items (mainly industrial raw materials) which could be imported under Open General Licence. All imports under Schedules II and III had to be supported by Foreign Exchange Entitlement Certificates. These Certificates were initially sold by tender by the Central Bank, and since June 26, 1968 sold at a flat rate of Rs. 44 per Certificate of Rs. 100. Along with this reform, import duties on a large number of items were reduced. For instance, duties on the import of industrial machinery and parts and basic raw materials for use in local manufacturing industries were abolished. (In a few instances, however, import duties were raised to prevent an over-importation of items). At the same time, the licence-fee on imports was abolished except in the case of imports under "Special Aid Licences".¹

The Ceylon Customs Tariff was changed to the internationally accepted Brussels Tariff Nomenclature with effect from August 3, 1968.² Incidentally this too resulted in a reduction in import duty collections due primarily to the alteration of the basis of taxation from the wholesale market value to the c.i.f. value.³

The general decline in import duties, however, should be considered in conjunction with the increased revenue from the new source of revenue to the Government, namely, the Foreign Exchange Entitlement Certificate Scheme. The net receipts from the scheme in 1967/68 were Rs. 77.0 million and the anticipated revenue in 1968/69 is Rs. 360.0 million.⁴ The former accounted for 3.6 per cent. of total revenue in 1967/68 while the latter accounts for 15.4 per cent. of anticipated revenue in 1968/69.

Export Duties

Although there was a decline in revenue from imports, the revenue from taxes on exports in 1967/68 increased by Rs. 88.9 million or 38.7 per cent. This was in contrast to the previous year 1966/67 when the import revenue increased by Rs. 67.5 million or 14.2 per cent and export revenue declined by Rs. 25.8 million or 10.1 per cent.

The sharp increase in exports revenue in 1967/68 was due mainly to increased revenue from the three major exports. Revenue from tea exports increased by Rs. 28.1 million or 13.7 per cent. in 1967/68, compared to a rise of only Rs. 2.8 million or 1.4 per cent. in the previous year. Of this, the specific export duty collections (which fell by Rs. 7.6 million to Rs. 158.0

1. Imports under Commodity Aid under Open General Licence and imports financed by loans from international institutions (both of which are exempt from FEECs, but require Special Licences) are liable to a fee of 15 per cent and 20 per cent ad valorem, respectively.

2. Ceylon Government Gazette No. 14,813/2 of August 2, 1968.

3. A Committee is now examining further reform of the Customs Tariff and further changes, therefore, could be anticipated in the near future.

4. On the latest trends, it appears that only a sum of about Rs. 270.0 million is realisable in 1968/69.

million in 1966/67) increased by Rs. 19.3 million to Rs. 177.3 million, as a result of an increase in volume of exports by 2.6 million pounds¹ and the increase in the export duty by 5 cents to 40 cents per pound² in November, 1967.

Revenue from the ad-valorem tea tax which rose by Rs. 10.3 million to Rs. 47.2 million in 1966/67, increased further by Rs. 8.8 million to Rs. 56.0 million in 1967/68. This increase was chiefly due to the improvement in rupee-prices of tea at the Auctions after the devaluation of the Rupee in November, 1967. In 1968/69, the revenue from tea is estimated to remain at the same level as in 1967/68 by reason of an estimated fall in price offsetting an estimated increase in exports.

Export duty collection on rubber³ declined by Rs. 18.5 million in 1966/67⁴ owing to a fall in the f.o.b. price by 11 cents (10 per cent) which more than offset an increase in export-volume of 26.8 million pounds. In 1967/68, there was an increase of Rs. 11.5 million in export duty collections, despite a further decline in the f.o.b. price by 11 cents (11 per cent). This was mainly due to an increase in export volume of 4.8 million pounds,¹ a levy (since November, 1967) of a specific duty of 3 cents per pound on exports, and a general improvement in prices since May, 1968. In 1968/69, the revenue from rubber exports is estimated to decline by Rs. 1.1 million (or 11 per cent) due to an anticipated decline in price from the high-levels reached in mid 1968.

The most substantial increase in revenue from export duties in 1967/68 occurred in the case of coconut products (which are taxed on a sliding scale) where the increase was Rs. 48.3 million or 243.9 per cent. During the previous year there was a decline in revenue of Rs. 11.2 million or 36.0 per cent. The increase during the year under review was due partly to the increase in the sliding scale of coconut export duties in November, 1967 immediately after the devaluation of the Ceylon Rupee⁵ and partly to a general improvement in export-prices and export volume. The revenue from copra in 1967/68 increased by Rs. 5.0 million or 138.9 per cent. in contrast to a decline of Rs. 3.3 million or 47.8 per cent during the previous financial year, due to a 5.7 per cent. increase in export volume and a 37.1 per cent increase in average export-price. The duty collections from desiccated coconut rose sharply by Rs. 23.6 million or 406.9 per cent. as against a decline of Rs. 2.8 million or 32.6 per cent. in the previous year. This was due to a 35.3 per cent. increase in export-volume and a 77.8 per cent. increase in average export-price. The revenue collection on the other major coconut product, coconut oil, increased by Rs. 19.5 million

1. This was inspite of a month-long strike in April, 1968 which affected the movement of products.

2. Ceylon Government Gazette No. 14,775/17 of November 22, 1967.

3. Export duties are based on a sliding scale geared to the average weekly prices prevailing at London. In addition, a specific duty of 3 cents per pound is levied since November 23, 1967.

4. In 1966/67, there was a negative sum of Rs. 1.5 million under revenue, due to refunds from revenue.

5. Government Gazette No. 14,775/17 of November 22, 1967. Please also see Annual Report 1967, pp. 174—175.

or 196.9 per cent. in 1967/68 as compared with a decline of Rs. 5.1 million or 34.2 per cent during the previous year. In this instance, a 47.1 per cent. increase in the average f.o.b. price more than offset an 18.9 per cent. decline in export-volume.

Excise Revenue

Excise revenue which increased by Rs. 36.8 million or 11.6 per cent. in 1966/67, increased further by Rs. 38.8 million or 10.9 per cent. in 1967/68. This was due mainly to an all-round increase from the major sources, namely sale of arrack, duty on country-made liquor,¹ tobacco tax and turnover tax. In 1968/69 excise revenue is estimated to increase by a further Rs. 39.2 million or 10.0 per cent. due largely to estimated increases of tobacco tax and turnover tax of Rs. 26.6 million and Rs. 12.8 million respectively.

Profit from Sale of Arrack

Profits from the sale of arrack which showed an increase of Rs. 3.8 million² or 3.2 per cent, in 1966/67, increased by Rs. 3.2 million or 2.9 per cent. in 1967/68. Duty on country-made liquor which declined by Rs. 2.0 million in 1966/67, increased by Rs. 1.3 million in 1967/68. The increases were due to higher sales of arrack and other liquor during the year. In the case of arrack it was also due to the increase in the price of coconut arrack by Rs. 2/- per bottle with effect from August 3, 1968.³ In 1968/69, profits from arrack sales are estimated to increase marginally by Rs. 1.0 million.

Tobacco Tax

Revenue from Tobacco Tax, on the other hand, showed a substantial increase. The revenue which increased by Rs. 18.8 million or 15.7 per cent. in 1966/67, rose sharply by Rs. 29.6 million or 21.3 per cent. in 1967/68. This was due to an increase in the sales of cigarette tobacco and the increase in the Excise Duty on tobacco by Rs. 4.50 per pound with effect from July 26, 1967,⁴ the full impact of which was felt during the financial year 1967/68.

Past Annual Reports have commented on the significant growth of the Tobacco Tax as a source of revenue, and the year 1967/68 showed a continuance of this trend. During the 5 year period 1963/64 to 1967/68, revenue from tobacco tax has increased at a rate of 16.0 per cent. (compound) per annum. In 1968/69, the revenue from tobacco is estimated to increase by Rs. 26.6 million or 15.8 per cent.

-
1. 'Country - made liquor' refers to locally manufactured beverages such as beer, gin, brandy and rum but excludes arrack.
 2. According to Government records, there was a decline in revenue under this item in 1966/67 of Rs. 11.2 million. This was due to an inflation of the 1965/66 revenue by Rs. 15.0 million of past profits credited during the year. Net of this amount, there was an increase of Rs. 3.8 million, vide Annual Report 1967, p 101.
 3. Ceylon Government Gazette No. 14,758/6 of July 25, 1967.
 4. Ceylon Government Gazette No. 14,758/6 of July 25, 1967.

Turnover Tax

Another growingly important source of revenue in recent times has been the Turnover Tax. This tax which increased by Rs. 4.3 million in 1965/66 and Rs. 33.1 million or 84.7 per cent in 1966/67, increased further by Rs. 7.0 million or 9.7 per cent in 1967/68. The steep increase in the previous year was due to an increase in rates as well as coverage¹ and the increase in 1967/68 was due to the higher level of activity in firms which were liable for this tax, and a further increase in rates. In the financial year 1968/69, the revenue is estimated to increase by a further Rs. 12.8 million, mainly due to an increase in rates and a widening of the coverage.²

When the final (provisional) out-turn is contrasted with the original estimates for 1967/68, there was an increase in excise revenue of Rs. 6.2 million. This was due to higher than anticipated earnings¹ from turnover tax and tobacco tax of Rs. 8.2 million and Rs. 3.4 million respectively and a shortfall in respect of country-made liquor of Rs. 2.1 million.

On the whole, excise revenue accounted for 18.3 per cent of total revenue in 1967/68. This was in contrast to 18.2 per cent. in 1966/67 and 17.4 per cent. in 1965/66. In 1968/69, the ratio is estimated to be 18.5 per cent. Of the total Government revenue, the contribution of tobacco tax increased from 7.1 per cent. in 1966/67 to 7.8 per cent. in 1967/68 and is estimated to increase its share to 8.3 per cent. in 1968/69. Corresponding figures for turnover tax of 3.7 per cent. 3.6 per cent. and 3.9 per cent. also show an increasing trend. When contrasted with the comparable declining ratios of profits from arrack sales and duty on country-made liquor, the tobacco and turnover taxes emerge as buoyant sources of Government revenue in the future.

Income Tax, Estate Duty and Personal Tax

Receipts from Income Tax which rose substantially by Rs. 34.6 million or 12.6 per cent. in 1966/67, increased marginally by Rs. 5.9 million or 1.9 per cent. in 1967/68. It was thus possible to maintain the high level of revenue of the preceding year which was attained by more effective assessment and measures to combat tax evasion. The increase was also due to additional taxes levied on a large number of taxpayers after re-scrutinization of assessments of past years, registration of new taxpayers, crediting of monthly recoveries (pending assessment) to revenue and an increase in trade income over the previous year. Meanwhile, estate duty and personal tax (i.e. wealth and gift taxes) showed marginal increases in 1967/68.

When compared with the original estimates, the actual (provisional) figures of income tax for 1967/68 indicate an increase of Rs. 45.9 million, while personal tax indicates a shortfall of Rs. 3.4 million. The reasons for the change in incometax receipts are the same as given above. In 1968/69, income tax collections are estimated to decline by Rs. 40.9 million or 12.9 per cent. due mainly to the estimated decline in Ceylon's export earnings. Personal tax is expected to increase by Rs. 2.4 million.

1. Vide Annual Report 1967. p. 102

2. For details, please see later section on "New Revenue and Expenditure Proposals"

Receipts from income tax, estate duty and personal tax accounted for 15.3 per cent. of total revenue in 1967/68, as compared to 17.1 per cent. in 1966/67. Of this, income tax alone accounted for 14.3 per cent. in 1967/68 as against 15.9 per cent. in 1966/67. The decline in the share could be attributed to the relatively slower growth of income tax as a revenue-earner as compared with other more buoyant revenue-sources.

Other Revenue

Receipts from the National Lotteries which increased by Rs. 2.4 million in 1966/67, rose by Rs. 3.5 million in 1967/68 and are estimated to increase further by Rs. 2.6 million in 1968/69. The increase in 1967/68 was due mainly to the introduction of two new sweeps with more prizes in that year.

In 1966/67, the gross receipts of Government trading enterprises increased by Rs. 2.8 million inspite of the fact that a part of the proceeds on Broadcasting had been excluded consequent on the conversion of the department to a public corporation in January, 1967. In 1967/68, there was a substantial increase in receipts of Rs. 23.2 million or 9.3 percent, due largely to increased receipts from the Electrical Department (Rs 9.9 million), Postal and Telecommunications Department (Rs. 7.7 million) and the Railway Department (Rs. 4.6 million). In 1968/69, the total receipts are estimated to rise by only Rs 7.3 million. This is accounted for by an increase in electrical revenue of Rs 9.0 million and marginal increases from Posts and Telecommunication, port and harbour, partly offset by an anticipated decline in the revenue of the Railway of Rs. 2.4 million.

EXPENDITURE

Total expenditure of the Government, comprising voted expenditure of Rs. 2,900.6 million and a negligible amount of expenditure chargeable to the National Development Reserve¹ net of a receipt of Rs. 28.5 million on advance account operations, amounted to Rs. 2,872.1 million in the financial year 1967/68. Details of such expenditure for the years 1960/61 to 1967/68 and the estimates for 1968/69 are given in Table (F) 3 below.

The resultant increase of Rs. 310.5 million or 12.1 per cent. in expenditure over the previous year 1966/67 was due mainly to an increase in voted expenditure of Rs. 380.6 million or 15.1 per cent. and the net receipt of Rs. 28.5 million from advance accounts which was in contrast to a net payment of Rs 41.6 million during the previous year. The substantial increase in voted expenditure was largely a result of a 15.3 per cent. or Rs. 290.9 million increase in expenditure chargeable to recurrent votes² which (as will be explained later) was due mainly to the "interim" allowances paid to Government employees and pensioners and an increase in the net food subsidy. Meanwhile, the expenditure chargeable to capital votes³ increased by Rs. 89.7 million or 14.4 per cent.

-
1. A special reserve from which expenditure on the University of Ceylon, Peradeniya has been incurred.
 2. Votes 1, 2, 4 and 6.
 3. Votes 3, 5 and 7.

TABLE II (F) 3
Expenditure of the Government

Rupees Million

Items of Expenditure	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 Original Estimates	1967/68 Actual (Provisional)	1968/69 Original Estimates
1. Total voted expenditure ..	1,960.7	2,060.3	1,998.7	2,236.6	2,274.6	2,388.9	2,520.0	2,861.7	2,900.6	2,229.4
(a) Expenditure chargeable to recurrent votes (a) ..	1,540.8	1,580.7	1,596.4	1,834.1	1,803.4	1,860.5	1,895.3	2,079.2	2,186.2	2,356.7
(i) Current expenditure (b) ..	1,471.3	1,498.1	1,534.0	1,753.6	1,731.9	1,792.0	1,818.5	1,999.5	2,107.7	2,284.0
(ii) Capital items in recurrent votes ..	69.5	82.6	62.4	80.5	71.5	68.5	76.8	79.7	78.4	72.7
(b) Expenditure chargeable to capital votes (c) ..	419.9	480.6	402.3	402.5	471.2	528.4	624.7	782.5	714.4	872.7
2. Expenditure chargeable to the National Development Reserve ..	1.5	0.7	0.3	0.2	0.1	...	...	...	...	...
3. Total capital expenditure (d) (3 = 1 (a) ii + 1 (b) + 2) ..	490.9	563.9	465.0	483.2	542.8	596.9	701.5	862.2	792.8	945.4
(a) Acquisition, construction and maintenance of real assets ..	449.8	477.7	461.0	458.7	515.9	562.6	667.9	841.1	766.4	913.8
(i) Grants to Government corporations and agencies ..	115.0	101.5	74.0	66.8	122.5	168.8	232.1	276.4	269.0	316.9
(ii) Grants to local authorities ..	8.1	8.8	8.4	8.4	8.3	11.6	13.7	14.7	13.1	14.6
(iii) Central Government capital formation ..	326.7	367.4	378.6	383.5	385.1	382.2	422.1	550.0	484.3	582.3
(b) Acquisition of financial assets ..	41.1	86.2	4.0	24.5	26.9	34.3	33.6	21.1	26.4	31.6
(i) Loans to Government corporations ..	31.1	75.7	1.0	20.0	21.9	29.3	28.6	16.1	19.9	23.6
(ii) Loans to local authorities ..	10.0	10.5	3.0	4.5	5.0	5.0	5.0	5.0	6.5	8.0
4. Net receipts (-) or payments on advance account operations (e) ..	14.2	14.6	-13.7	-16.1	-27.9	10.4	41.6	n. a.	-28.5	n. a.
5. Total expenditure (f) (5 = 1 + 2 + 4) ..	1,976.4	2,076.6	1,985.3	2,220.7	2,246.8	2,399.3	2,561.1	2,861.7	2,872.1	3,229.4

Source: Central Bank of Ceylon.

(a) See item IB (i) of Table II (F) 1.

(b) See item 22 of Table 22 in Appendix II. A functional breakdown of current expenditure is given in that Table

(c) See item IB (ii) of Table II (F) 1.

(d) See item 23 of Table 22 in Appendix II. A functional breakdown of capital expenditure is given in that Table.

(e) Total of items IB (iv) to (vii) of Table 17 in Appendix II.

(f) See item 1B of Table II (F) 1, and item 27 of Table 22 in Appendix II.

When compared with the original Budget proposals, the actual (provisional) expenditure during 1967/68 showed an increase of Rs 12.4 million or 0.4 per cent. This was due mainly to an increase of Rs. 40.9 million in voted expenditure which was partly offset by the net receipt from advance account operations. The increase in voted expenditure was due to an enhancement of recurrent expenditure of Rs 109.0 million or 5.2 per cent, and a shortfall of Rs 68.1 million or 8.7 per cent, in expenditure chargeable to capital votes.

The original (Budget) estimates of expenditure for the current financial year 1968/69 at Rs. 3,229.4 million shows a further increase of Rs. 357.3 million or 12.4 per cent over the actual expenditure of 1967/68. The main cause for this increase was an anticipated Rs 328.8 million or 11.3 per cent rise in voted expenditure comprising increases under recurrent and capital votes of Rs 170.6 million or 7.8 per cent and Rs 158.3 million or 22.2 per cent, respectively.¹

A significant increase in Government expenditure has been a notable feature in recent years. Total expenditure which had increased at an average rate (compound) of 5.8 per cent, during the ten financial years ending 1966/67, increased by 12.1 per cent, in 1967/68 and is expected to increase further by 12.4 per cent in 1968/69. The increases in recent years are accounted for by increases in recurrent expenditure and in expenditure chargeable to capital votes. The former which increased at an average rate of 5.7 per cent, in the ten years referred to, increased by 15.3, per cent, in 1967/68 and is expected to increase by 7.8 per cent, in 1968/69. On the other hand, the expenditure chargeable to capital votes increased by an average rate of 12.4 per cent, up to 1966/67, increased by 14.4 per cent, in 1967/68 and is estimated to rise by 22.2 per cent in 1968/69. It should be noted, however, that there are certain items of a capital nature included in the Government estimates under recurrent expenditure. When these items are transferred to capital expenditure, the average rate of increase of capital expenditure during the ten years ending 1966/67 was 8.0 per cent. In 1967/68, this rate rose to 13.0 per cent, and in 1968/69, it is estimated to go up by 19.2 per cent.

Voted Expenditure

As mentioned earlier, voted expenditure in 1967/68 was Rs. 2,900.6 million, consisting of Rs. 2,186.2 million of recurrent expenditure and Rs. 714.4 million of expenditure chargeable to capital votes. When certain expenditures of a capital nature (amounting to Rs. 78.4 million) are transferred from recurrent votes to capital votes, the current expenditure of the Government in 1967/68 amounted to Rs. 2,107.7 million and the capital expenditure amounted to Rs. 792.8 million.² Thus, 72.7 per cent, of Government's voted expenditure in 1967/68 was accounted for by current expenditure and the balance 27.3 per cent by capital expenditure. In the previous financial year, capital expenditure accounted for 27.8 per cent, and during the ten previous years, the share of capital expenditure had been, on an average, only 8.0 per cent.

When compared with the original estimates for 1967/68, voted expenditure showed a rise of Rs. 40.9 million or 1.4 per cent. This was the result of an increase under recurrent votes of Rs. 109.0 million and an under expenditure of Rs. 68.1 million under capital votes. When capital items in recurrent votes are transferred, the comparable figures were an increase of Rs. 110.2 million in current expenditure and a shortfall of Rs. 69.4 million in capital expenditure.

1. Receipts or payments under advance account operations are not known at the time of Budget preparation and hence, only a token provision is made in the Budget estimates.
2. Please see Table 22 of Appendix II, for a functional classification of this expenditure.

In the current financial year, the increase in the estimated total voted expenditure of Rs. 328.8 million consisted of estimated increases of Rs. 170.5 million and Rs. 158.3 million under recurrent and capital votes respectively. After reclassification, this would consist of increases in current expenditure of Rs. 176.3 million or 8.4 per cent, and in capital expenditure of Rs. 152.6 million or 19.2 per cent.

Current Expenditure

The current expenditure of the Government which increased by Rs. 26.5 million or 1.5 per cent in 1966/67, increased by a record Rs. 289.2 million or 15.9 per cent to Rs. 2,107.7 million during 1967/68. This increase compares with an annual average rate of increase of 6.4 per cent during the ten years ending September, 1967.

Details of current expenditure during the last 12 years along with the estimates for 1968/69 are shown at Table 22 of Appendix II, and figures for the last 3 years are summarised in Table II (F) 4 below.

TABLE II (F) 4
Current Expenditure 1965/66 to 1968/69

Items	1965/66		1966/67		1967/68 Actual (Provisional)		1967/68 Original estimates		1968/69 Original estimates	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Administration ..	257.7	14.4	273.3	15.0	304.9	14.5	303.7	15.2	332.2	14.5
2. Social Services ..	500.6	27.9	528.0	29.0	603.9	28.7	580.5	29.0	643.1	28.2
of which										
(a) Education ..	331.6	18.5	347.7	19.1	397.6	18.9	382.0	19.1	426.2	18.7
(b) Health ..	159.6	8.9	170.2	9.4	194.4	9.2	186.0	9.3	205.7	9.0
3. Economic Services ..	122.1	6.8	137.7	7.6	153.2	7.3	167.3	8.4	192.0	8.4
4. Government enterprises (a) ..	259.2	14.5	267.5	14.7	295.8	14.0	273.5	13.7	301.9	13.2
5. Transfer Payments ..	652.4	36.4	612.0	33.7	749.9	35.6	674.5	33.7	814.8	35.7
of which										
(a) Food subsidies ..	290.0 ^b	16.2	193.0 ^b	10.6	297.5 ^b	14.1	217.5	10.9	334.5	14.6
(b) Interest on public debt ..	123.1	6.9	143.4	7.9	166.4	7.9	159.4	8.0	191.9	8.4
(c) Pensions ..	141.4	7.9	146.0	8.0	174.0	8.3	164.4	8.2	168.1	7.4
6. Total current expenditure (c) ..	1,792.0	100.0	1,818.5	100.0	2,107.7	100.0	1,999.5	100.0	2,284.0	100.0

Source: Central Bank of Ceylon

- (a) Comprising the current payments of the Railway, Electrical, Posts and Telecommunications the Port Commission and the Broadcasting Department which was converted into a Corporation on January 5, 1967.
- (b) These figures are as given in Treasury ledgers.
- (c) Excluding sinking fund contributions and direct repayments of public debt from revenue and special payments to international financial organisations.

The substantial increase in expenditure on current account during 1967/68 was due mainly to heavy increases in respect of Transfer Payments (Rs. 137.9 million or 22.5 per cent.), Social Services (Rs. 75.9 million or 14.4 per cent.) and Administration (Rs. 31.6 million or 11.6 per cent). There were also additional outlays on Economic Services (Rs. 15.5 million or 11.3 per cent.) and Government Enterprises (Rs. 28.3 million or 10.6 per cent).

The Net Food Subsidy

The increase of Rs. 173.9 million in transfer payments in 1967/68 was largely due to an increase in the net food subsidy¹ by Rs. 104.5 million² or 54.1 per cent. The actual food subsidy during 1965/66, 1966/67 and the provisional figures for 1967/68 along with the original estimates for 1967/68 and 1968/69 are shown in Table II (F) 5 below.

TABLE II (F) 5
Food Subsidy—1965/66 to 1968/69

Items	Rupees million				
	1965/66	1966/67	1967/68 Original Estimates	1967/68 (Provi- sional)	1968/69 Original Estimates
1. Subsidy to the consumer on imported rice	181.2	218.5	211.9	295.9	317.0
2. Subsidy to the producer and consumer on locally produced rice	269.9	206.1	213.2	236.1	265.8
3. Subsidy on locally produced red onions	5.3	6.3	6.0	7.1	7.5
4. Distribution expenses and other charges	31.4	34.6	40.6	50.3(b)	40.9
5. Total gross subsidy (1 to 4)	487.8	465.5	471.7	589.4	631.1
6. Profit on the sale of sugar	202.4	224.8	201.8	240.9	241.3
7. Profit on the sale of flour	0.5	35.8	46.4	57.4	56.1
8. Profit on the sale other goods (d)	11.1(a)	34.0(b)	6.0	- 6.2(c)	- 0.9(c)
9. Total (6 to 8)	214.0	294.6	254.2	292.1	296.6
10. Net food subsidy (5 minus 9)	273.8	170.8	217.5	297.5	334.5

Source: The Food Commissioner.

(a) Includes a net income of Rs. 9.5 million in 1965/66 and Rs. 30.1 million in 1966/67 in respect of previous years.

(b) Includes marine losses amounting to Rs. 9.8 million

(c) This is mainly because of the Government's decision to absorb the additional expenditure incurred on the purchases of dhall or lentils as a result of the devaluation of the Ceylon Rupee and the increase in the world market prices of these commodities.

(d) Includes lentils, maldive fish, red onions, whole wheat etc.

1. By long-standing convention, the Government's net food subsidy consists of Government's net payments on account of issue of rice on ration and on certain price-support policies for rice and onions, and net receipts (profits) on sale of sugar, flour and other goods.
2. This amount represents the difference between the two years as indicated in the Treasury ledgers. However, final data provided by the Food Commissioner indicate an increase of Rs 126.7 million in the net food subsidy during 1967/68.

It was mentioned in last year's Annual Report that the changes in the rice-ration made in December, 1966 and increased profits from the sale of flour and sugar partly resulted in a reduction of the Government's net food subsidy during 1966/67.¹ The full effects of the changes in the pattern of cereal consumption consequent on the Government's decision of December, 1966 were felt during the year 1967/68. The main contributory factors to the sharp increase in the net food subsidy were an increase in the gross subsidy on account of imported rice by Rs. 77.4 million or 35.4 per cent. and on account of locally produced rice by Rs. 30.0 million or 14.6 per cent. The former was due partly to a sharp rise in the average landed cost of imported rice by Rs. 334 to Rs. 988 per long ton (or by 51 per cent) during 1967/68. It was partly offset by a reduction in the issue of imported rice under ration from 380,196 tons in 1966/67 to 310,000 tons in 1967/68. The rise in the local rice subsidy was due chiefly to the higher price of Rs. 14 per bushel of paddy paid to the producer under the Guaranteed Price Scheme since December 1, 1967. There was also a decrease in the issue of local rice under ration from 238,159 tons in 1966/67 to 210,000 tons during 1967/68. This was due to reduction in purchases of local rice by the Commissioner of Agrarian Services from 223,865 tons in 1966/67 to 210,000 tons in 1967/68. This decrease, inspite of the increase in the guaranteed price could be attributed to higher free-market prices, at least in respect of certain varieties of rice. Meanwhile, the distribution expenses and other charges of food items showed an increase of Rs. 15.7 million, Rs. 9.8 million of which was a marine loss.

Altogether, the issue of rice under ration declined from 617,014 tons in 1966/67 to 520,000 tons in 1967/68. This decline is in sharp contrast to an issue of 946,056 tons in 1965/66. The gross food subsidy on rice, however, did not fall due to the price changes mentioned above.

On the other hand, the profits in 1967/68 from the sale of flour and sugar (which are mostly imported) increased by Rs. 21.6 million and Rs. 16.1 million respectively. This was inspite of an increase in the average landed cost of flour from Rs. 540 to Rs. 597 per ton and of sugar from Rs. 481 to Rs. 544 per ton. The higher profits were due mainly to the increase in the selling price of flour and sugar by 5 cents per pound since November, 1967,² and in the case of flour, due to an increase in consumption by 37,709 long tons or 9.6 per cent. It is also noteworthy that the Government which made a profit of about Rs. 3.9 million from sale of other food items (such as lentils) in 1966/67, incurred a loss of Rs. 6.2 million in 1967/68 because of its decision not to pass to the consumer the additional import-cost of lentils consequent on the rupee-devaluation.

The net food subsidy, therefore, taking into account profits from sale of flour and sugar and a producer-subsidy on onions, accounted for Rs. 297.5 million in 1967/68. This was Rs. 126.7 million higher than in 1966/67,³ and

1. Vide. Annual Report 1967. pp.105-106

2. Ceylon Government Gazette, No. 14,763/3 of November 23, 1968.

3. Please see foot-note 2 of the previous page.

Rs. 80.0 million more than the original estimate for 1967/68. In 1968/69, the net subsidy is expected to increase by a further Rs. 37.0 million. Detailed particulars are given in Table II (F) 5.

(b) *Other Transfer Payments*

The other major factors responsible for the growth of transfer payments in 1967/68 were the Interest on Public Debt, which rose by Rs. 23.0 million or 16.0 per cent. (as compared to an increase of Rs. 20.3 million or 16.5 per cent. during the previous year) and Pension payments which increased by Rs. 28.0 million or 19.2 per cent. (as compared to an increase of Rs. 4.6 million or 3.3 per cent. during 1966/67). The former was due to the steady growth of public debt and the increase in its value due to the devaluation of the Rupee¹ and the latter due to the payment of 'interim' allowances to Government pensioners since 1967.

(c) *Social Services*

The current expenditure on social services (i.e. education, health, housing etc) in 1967/68 increased by Rs. 75.9 million or 14.4 per cent as compared to an increase of Rs. 27.4 million or 5.5 per cent. during the previous year. The average annual rate of increase (compound) of such expenditure during the ten years ending September, 1967 was 7.0 per cent. and during the last five years ending September, 1967 was 4.2 per cent. Thus the increase during 1967/68 was appreciably higher than the average increase in recent years. This was mainly due to a Rs. 49.9 million or 14.4 per cent. increase in expenditure on education and a Rs. 24.2 million or 14.2 per cent increase in expenditure on health during 1967/68. Expenditure on education had increased at an average annual rate (compound) of 8.1 per cent. over the last ten years and at 4.5 per cent. over the last five years ending September, 1967. Corresponding rates for health had been 5.2 per cent. and 3.5 per cent. respectively. Thus, while the progressive annual increases in expenditure on education and health could be attributed to the increased facilities that had to be provided along with the increase in population and in the number of school-going children, the abnormal increase in 1967/68 could be further accounted for by the payment of 'interim' allowances to education and health personnel.

(d) *Administration*

The other major increase in payments on current account was registered in respect of Administration (consisting of Civil Administration and Defence). Current expenses on administration during 1967/68 increased by Rs. 31.6 million or 11.6 per cent as against an increase of Rs. 15.6 million or 6.1 per cent in the previous year. This increase was higher than the average annual increase during the last 5 years ending September, 1967 of 3.1 per cent. Of this increase in 1967/68, Rs. 20.7 million was accounted for by Civil Administration and the balance Rs. 10.9 million by Defence. They work out to a 9.5 per cent increase on Civil Administration and a 19.4 per cent increase on Defence. As in the case of social services, these increases, were due not only to the normal annual increase, but also to the 'interim' allowances paid during the year.

1. Please see later section on Public Debt.

(e) Economic Services and Government Enterprises

Increases were also recorded in 1967/68 in respect of Economic Services (agriculture, irrigation, fisheries, manufacture, mining, trade and communications) of Rs. 15.5 million or 11.3 per cent. and Government Enterprises (Railway, Electrical and Postal and Telecommunication departments and the Port Commission) of Rs. 28.3 million or 10.6 per cent. While the former increase was lower than the previous year's increase of 12.8 per cent, the latter increase was more than three times the previous year's increase of 3.2 per cent. The reasons for these increases are the same as given in the previous paragraph.

In the current financial year 1968/69, a further increase of Rs. 176.3 million or 8.4 per cent over 1967/68 is anticipated in current expenditure. This is accounted for by estimated increases of Rs. 64.9 million or 8.7 per cent. in Economic Services Rs. 38.8 million or 25.3 per cent. in Transfer Payments, Rs. 39.2 million or 6.5 per cent. in Social Services, Rs. 27.3 million or 9.0 per cent in Administration and Rs. 6.1 million or 2.1 per cent in Government Enterprises. The noteworthy increase anticipated in Economic Services is due to the increased emphasis to be placed on agricultural and irrigation development during the current year.

Capital Expenditure

The actual (provisional) figure of capital expenditure in 1967/68, as shown in Table II (F) 3 amounted to Rs. 792.8 million. This figure is composed of expenditure classified under Votes 3, 5 and 7, capital items included under the recurrent expenditure votes 1, 2, 4 and 6 and a negligible amount met from the National Development Reserve. Capital expenditure thus defined exceeded the figure for 1966/67 by Rs. 91.3 million or 13.0 per cent, as compared to an increase of Rs 104.6 million or 17.5 per cent during the previous year. Over the ten-year period 1957/58 to 1966/67, the annual average rate of increase in capital expenditure was 7.3 per cent (compound). Thus the increase in capital expenditure in 1967/68, although lower than in the previous year, was much higher than the average growth rate achieved in the previous financial years.

(a) Budgetary analysis

Table II (F) 3 also reveals that the increase in capital expenditure in 1967/68 was mainly on account of an increase of Rs. 62.2 million or 14.7 per cent in Central Government fixed capital formation and Rs. 36.9 million or 15.9 per cent. on grants to Government Corporations. Thus Central Government fixed capital formation and grants to Government corporations in 1967/68 had reached the highest level achieved for any financial year. Also, out of the total budgetary capital expenditure in 1967/68, Central Government capital formation accounted for Rs. 484.3 million or 61.1 per cent, while grants and loans to public corporations amounted to Rs. 288.9 million or 36.4 per cent. During the previous year, Central Government capital formation was Rs. 422.1 million or 60.2 per cent and grants and loans to public corporations and other agencies was Rs. 260.7 million or 37.2 per cent.

The actual (provisional) figure of capital expenditure for 1967/68, on the other hand was Rs. 69.4 million or 8.0 per cent lower than the original estimates for the year. This was almost entirely due to a shortfall of Rs. 68.1 million in expenditure under the capital expenditure votes (i.e. 3,5 and 7). Such under-expenditure compares favourably with under-expenditures of 18.0 per cent in 1966/67 and 8.6 per cent in 1965/66 and signifies an important feature of fiscal operations in 1967/68. The shortfall in 1967/68 was almost entirely in respect of Central Government fixed capital formation.

The original estimates of capital expenditure for 1968/69, as defined earlier, amounted to Rs. 945.4 million. This included a provision of Rs. 872.7 million under capital votes, the highest for any financial year. When an anticipated under-expenditure of 15 per cent (Rs. 130.9 million) under these votes was allowed the total net capital expenditure amounted to Rs. 814.5 million, which was Rs. 21.7 million more than the figure for the previous financial year 1967/68.

In terms of the gross provision (i.e. before allowing for anticipated under-expenditure) the capital expenditure for 1968/69 is Rs. 152.6 million higher than the actual (provisional) figure for the previous financial year 1967/68. This is due to enhanced provisions of Rs. 98.0 million for Central Government fixed capital formation and Rs. 47.9 million for grants to Corporations.

TABLE II (F) 6
Capital Expenditure - 1965/66 to 1968/69(a)

Items	Rupees million									
	1965/66		1966/67		1967/68(b) Actual (Provisional)		1967/68 Original Estimates		1968/69 Original Estimates	
	Amo- unt	%	Amo- unt	%	Amo- unt	%	Amo- unt	%	Amo- unt	%
1. Acquisition, construction and maintenance of real assets	562.6	94.3	667.9	95.2	766.4	96.7	841.1	97.6	913.8	96.7
(a) Administration	20.5	3.4	28.1	4.0	31.5	4.0	42.7	5.0	39.9	4.2
(b) Social Services	70.2	11.8	86.2	12.3	97.7	12.3	124.5	14.4	134.2	14.2
of which:										
(i) Education	31.0	5.2	35.1	5.0	40.4	5.1	55.6	6.4	56.5	6.0
(ii) Health	11.2	1.9	17.6	2.5	20.6	2.6	20.2	2.3	21.7	2.3
(iii) Housing	27.5	4.6	33.3	4.7	36.3	4.6	47.8	5.5	55.3	5.8
(c) Economic Services	366.2	61.4	459.1	65.4	528.8	66.7	513.5	59.6	590.9	62.5
of which:										
(i) Agriculture & irrigation	162.3	27.2	178.2	25.4	254.9	32.2	228.2	26.5	262.4	27.8
(ii) Fisheries	30.6	5.1	26.0	3.7	17.2	2.2	32.0	3.7	19.3	2.0
(iii) Manufacture & mining	89.1	14.9	142.5	20.3	153.8	19.4	156.7	18.2	198.0	20.9
(iv) Communication	83.2	13.9	106.9	15.2	98.7	12.4	92.6	10.7	105.0	11.1
(d) Government enterprises	105.7	17.7	94.5	13.5	108.4	13.7	160.4	18.6	148.8	15.7
2. Acquisition of financial assets	34.3	5.7	33.6	4.8	26.4	3.3	21.1	2.4	31.6	3.3
3. Total capital expenditure	596.9	100.0	701.5	100.0	792.8	100.0	862.2	100.0	945.4	100.0
of which:										
Capital maintenance	63.9	10.7	73.7	10.5	69.3	8.7	76.1	8.8	75.2	8.0

Source: Central Bank of Ceylon

(a) Please see footnotes to Table 22 of Appendix II

Functional Analysis

A functional classification of capital expenditure is given in Table 22 of Appendix II of this Report and the figures for the years 1965/66 to 1968/69 are summarised in Table II (F) 6 above.

It will be observed that the capital expenditure at Rs. 792.8 million in 1967/68 increased by Rs. 91.3 million or 13.0 per cent over the previous year. As in the previous year, an increase (of Rs. 69.7 million) in expenditure on economic services has been the main factor contributing to the increase in capital expenditure. Within the category of economic services, expenditure on agricultural and irrigation increased by Rs. 76.7 million (or 43.0 per cent) and manufacture and mining by Rs. 11.3 million (or 7.9 per cent), while expenditure on fisheries and communications declined by Rs. 8.8 million and Rs. 8.2 million respectively. Capital expenditure on social services and Government enterprises too showed increases.

It could also be seen that Economic Services accounted for 66.7 per cent of total capital expenditure in 1967/68. This category has progressively increased its share of total capital expenditure from 57.1 per cent in 1964/65, 61.4 per cent in 1965/66, and 65.4 per cent in 1966/67 to the ratio given above. Within this category, agriculture and irrigation, and manufacture and mining accounted for 32.2 per cent. and 19.4 per cent. respectively, of total capital expenditure in 1967/68. This denotes an increase in their shares over the previous three years, at the expense of the declining shares of fisheries and communication. This could be attributed to the special emphasis placed in recent times on agricultural development and the expansion policies followed by public industrial corporations.

It should be noted however that the actual (provisional) capital expenditure in 1967/68 was Rs. 69.4 million or 8.0 per cent lower than the original estimates for the year. This shortfall was due to under-expenditure in respect of Government enterprises (Rs. 52.0 million), social services (Rs. 26.8 million) and administration (Rs. 11.2 million), while the amount spent on economic services exceeded the estimates (by Rs 15.3 million).

The original estimates of capital expenditure¹ for 1968/69 showed an increase of Rs 152.6 million or 19.2 per cent over 1967/68. This is accounted for by estimated increases on economic services of Rs. 62.1 million, on Government enterprises of Rs. 40.4 million, on social services of Rs. 36.5 million and on administration of Rs. 8.4 million. Within the category of economic services, enhanced provisions have been made in respect of manufacture and mining (Rs. 44.2 million), agriculture and irrigation (Rs. 7.5 million) and communications (Rs. 6.3 million). The increased allocations for Government enterprises was due mainly on account of enhanced provisions for the Postal Department and the Railway. Meanwhile, the increased provision for social services was accounted for by increases on housing (Rs. 19.0 million) and on education (Rs. 16.1 million).

1. Adjusted for capital items in recurrent votes, but before allowing for under-expenditure.

TABLE II (F) 7

Capital Expenditure By Ministries - 1965/66 to 1967/68 (a)

Ministry	Rupees Million.								
	1965/66			1966/67			1967/68		
	Total Provi- sion	Actual Expen- diture	Under- expen- diture	Total Provi- sion	Actual Expen- diture	Under- expen- diture	Total Provi- sion	Actual Expen- diture	Under- expen- diture
1. Governor-General, Prime Minister, Supreme Court Judges etc. not falling under Ministries	0.1	0.1	-	0.1	...	0.1	0.2	0.1	0.1
2. Defence and External Affairs	7.3	5.7	1.6	10.7	7.6	3.1	11.9	7.4	4.5
3. Planning and Economic Affairs	...	...	-	...	...	-	...	...	-
4. Information and Broadcasting	0.5	0.3	0.2	0.7	0.3	0.4	1.3	0.1	1.2
5. State	2.0	1.4	0.6	9.3	4.5	4.8	8.4	5.5	2.9
6. Finance	36.4	36.0	0.4	33.2	32.9	0.3	27.9	25.8	2.1
7. Land, Irrigation and Power	207.4	163.4	44.0	212.7	173.0	39.7	264.6	245.1	19.5
8. Home Affairs	29.4	16.3	13.1	26.3	16.8	9.5	17.5	12.4	5.1
9. Health	2.3	2.8	-	13.1	7.2	5.9	11.1	10.8	0.3
10. Nationalised Services	16.8	13.8	3.0	23.9	14.9	9.0	40.3	33.1	7.2
11. Industries and Fisheries	120.9	104.8	16.1	169.6	153.1	16.5	156.9	141.0	15.9
12. Commerce and Trade	0.5	0.5	-	0.1	...	0.1	0.1	...	0.1
13. Justice	...	0.1	...	0.2	0.1	0.1	0.2	0.2	-
14. Local Government	23.7	19.1	4.6	27.0	20.3	6.7	25.7	20.8	4.9
15. Agriculture and Food	63.8	61.2	2.6	86.1	73.6	12.5	109.4	87.3	22.1
16. Education and Cultural Affairs	27.8	20.7	7.1	37.4	23.1	14.3	38.3	26.3	12.0
17. Labour and Employment	2.7	0.9	1.8	2.4	1.2	1.2	2.4	2.5	-
18. Public Works, Posts and Telecommunications	54.7	40.7	14.0	73.2	58.4	14.8	71.3	61.1	10.2
19. Communications	51.7	40.6	11.1	64.7	37.6	27.1	48.4	32.9	15.5
20. Social Services	...	0.1	-	0.1	...	0.1	0.6	0.3	0.3
21. Scientific Research and Housing	...	...	-	0.4	...	0.4	2.0	1.6	0.4
Total	648.1	528.4	119.7	791.3	624.7	166.6	838.5	714.4	124.1

Source : Central Bank of Ceylon.

(a) For purposes of comparison, figures for 1965/66, 1966/67 and 1967/68 have been reclassified to conform to the latest allocation of departments under the different Ministries as appearing in the Estimates of the Revenue and Expenditure of the Government of Ceylon for the financial year 1968/69. The figures of 'Total Provision' include supplementary estimates.

(c) Under-expenditure by Ministries

In the Table II (F) 7 above the total provision and the actual expenditure under capital votes of each Ministry are compared for a three-year period 1965/66 to 1967/68.

It will be seen that during the financial year 1967/68, the actual capital expenditure was Rs. 714.4 million as against a total provision of Rs. 838.5 million resulting in an under-expenditure of Rs. 124.1 million or 14.8 per cent. In the previous two years i. e. in 1965/66 and 1966/67, under-expenditure amounted to Rs. 119.7 million or 18.5 per cent. and Rs. 166.6 million or 21.0 per cent. respectively. Thus, the year 1967/68 witnessed a significant improvement in the implementation of the Capital Budget. This may be partly attributed to the greater stress placed in recent times on plan-implementation.

In the financial year 1967/68, the major capital-spending Ministries were to be that of Land, Irrigation and Power (Rs. 264.6 million), Industries and Fisheries (Rs. 156.9 million) Agriculture and Food (Rs. 109.4 million) and Public Works, Posts and Telecommunications (Rs. 71.3 million), which together accounted for 71.8 per cent of the capital budget. The under-expenditure of the Ministry of Land, Irrigation and Power in 1967/68 amounted to Rs. 19.5 million or 7.4 per cent, as compared to Rs. 39.7 million or 18.7 per cent in 1966/67 and Rs. 44.0 million or 21.2 per cent 1965/66. In the case of the Ministry of Industries and Fisheries, the actual expenditure fell short by Rs 15.9 million or 10.1 per cent in 1967/68, whereas the corresponding figures for 1966/67 and 1965/66 were Rs. 16.5 million or 9.7 per cent. and Rs. 16.1 million or 13.3 per cent. respectively. Meanwhile, the under expenditure of the Ministry of Agriculture and Food in 1967/68 was Rs. 22.1 million or 20.2 per cent. as against Rs. 12.5 million or 14.5 per cent. and Rs. 2.6 million or 4.1 per cent. during the two previous financial years and that of Ministry of Public Works, Posts and Telcommunications was 14.3 per cent. in 1967/68 as against 20.2 per cent and 25.6 per cent in the previous years.

Advance Account Operations

Operations on Advance Accounts during 1967/68 resulted in a net receipt of Rs. 28.5 million as against a net payment of Rs. 41.6 million during the previous financial year. Details of these operations are presently not available. The net receipt in 1967/68, however, was due chiefly to an increase of Rs. 95.2 million in the balance in favour of the People's Republic of China under the Rubber/Rice Agreement partly offset by an increase in advances to Government departments of Rs. 70.9 million.

THE DEFICIT AND ITS FINANCING**Net Cash Deficit**

The net cash deficit (provisional) for the financial year 1967/68 was Rs. 715.7 million. It was Rs. 108.9 million more than the deficit of the previous year and was the highest ever recorded. This increase was due to an increase of

TABLE II (F) 8
Financing of the Deficit - 1964/65 to 1968/69 (a)

Sources	Rupees Million												
	1964/65			1965/66			1966/67			1967/68 Actual (provisional)			1968/69 Original Estimates
1. Foreign finance													
(a) Project loans (gross) ..	92.8		77.2		42.4		54.6						
Less contributions to sinking funds and repayments ..	17.2	75.6	35.9	41.3	44.9	- 2.5	47.8	6.8					
(b) Commodity loans (gross) ..	-		35.2		193.9		163.1						
Less repayments ..	-		-		2.1		8.7		154.4				
(c) Grants ..	24.1	99.7	41.5	118.0	19.3	208.6	29.0	190.2	403.2				
2. Domestic non-market borrowing ..	50.3		112.2		72.3		9.8						
3. Domestic market borrowing from the banking system (b)													
(a) Central Bank ..	- 39.5		179.7		125.7		302.1						
(b) Commercial banks ..	57.2	17.7	- 17.4	162.3	- 74.5	51.3	1.4	303.5	11.5				
4. Domestic market borrowing from non bank sources													
Gross amount borrowed ..	294.4		314.8		364.5(c)		324.0						
Less: contributions to sinking funds ..	51.2	243.2	58.9	255.9	67.5	297.0	75.7	248.3	286.5				
5. Decline in cash balances and commodity aid counterpart funds													
(a) Cash balances ..	19.5		- 47.2		21.5		- 48.4						
(b) Commodity aid counterpart funds (gross credits) ..	-		- 35.2		- 193.9		- 187.7 (d)		- 263.0				
Less amount used for budgetary purposes ..	-	19.5	-	- 35.2	- 82.4	150.0	- 43.9	- 22.4	200.0	12.3	- 36.1	263.0	-
6. Net cash deficit ..	430.4		566.0		606.8		715.7		701.2				
7. Decline in U. S. Aid counterpart funds ..	- 2.5		42.5		27.2		-		-				
8. Net expansionary impact of Government fiscal operations (3+5+7) ..	34.7		122.4		56.1		267.4		11.5				

Source: Central Bank of Ceylon.

(a) A minus sign indicates a repayment in respect of items 1 to 4 and 8 and an increase in the case of items 5 and 7.

(b) These figures do not take into account the value of Government import (food) bills held by the banking system. These outstanding food bills amounted to Rs. 53.3 million, Rs. 76.0 million, Rs. 122.3 million and Rs. 100.7 million at the end of September 1965, 1966, 1967 and 1968 respectively.

(c) Inclusive of Rs. 53.4 million of Government securities purchased by savings institutions and Government agencies consequent on a redemption of Central Bank Securities held by these institutions and agencies.

(d) In the financial year 1967/68, the figure of credits to the commodity aid counterpart fund exceeds the receipts from commodity loans due to the fact that the proceeds of some project loans and grants which were received in the form of commodities were also credited to the counterpart fund

Rs. 290.9 million in recurrent expenditure and an increase of Rs. 89.7 million in expenditure chargeable to capital votes, which was partly offset by an increase of Rs. 201.6 million in revenue receipts and a net change in advance account operations of Rs. 70.1 million.¹

The net cash deficit (actual-provisional) for 1967/68 was also higher than the original estimate for that year by Rs. 29.0 million. This increase was due to an increase in recurrent expenditure of Rs. 158.9 million and an increase of Rs. 49.3 million in expenditure chargeable to capital votes, which were partly offset by a net receipt of Rs. 28.5 million from advance account activities and an increase of Rs. 150.7 million in revenue.

In the current financial year 1968/69, the net cash deficit is estimated to be Rs. 701.2 million or Rs. 14.5 million lower than in 1967/68. This is due to an increase in estimated expenditure² of Rs. 167.6 million which is more than offset by an anticipated increase in revenue of Rs. 182.1 million.

Financing of the Deficit

Table II (F) 8 gives the sources of finance for and the expansionary impact of the net cash deficit for years 1964/65 to 1967/68 and according to the Budget proposals for 1968/69.

The net cash deficit of Rs. 715.7 million in 1967/68 was financed by borrowing Rs. 303.5 million from domestic bank sources,³ and Rs. 248.3 million from domestic non-bank market sources, and by obtaining Rs. 190.2 million from foreign assistance and Rs. 9.8 million from domestic non-market sources. As a consequence, cash balances (including counterpart funds) increased by Rs. 36.1 million.

The expansionary impact of Government's fiscal operations in the year 1967/68 was Rs. 267.4 million, representing an increase of Rs. 211.3 million over the expansionary impact of the previous years' fiscal operations⁴. Thus, the ratio of the expansionary component to the total net cash deficit which declined from 21.6 per cent. in 1965/66 to 9.2 per cent in 1966/67 increased substantially to 37.4 per cent. in 1967/68. This was primarily due to increased borrowing from the banking system for financing of the deficit accompanied by a decline in borrowing from foreign sources and domestic non-bank sources. It was also partly due to the retirement of Rs. 21.6 million of Government import bills held by the banking system.

It will be seen from Table II (F) 8 that the net increase in indebtedness of Rs 303.5 million to the banking system was almost entirely on account of its indebtedness to the Central Bank. In fact, the borrowing from the Central Bank increased by Rs. 176.4 million over the previous year to Rs. 302.1 million in 1967/68. This borrowing consisted of an increase in Central Bank's holdings of

1 As a result of advance account operations, there was a net payment of Rs 41.6 million in 1966/67 while there was a net receipt of Rs. 28.5 million in 1967/68.

2 Inclusive of net receipts or payments on advance account operations.

3 This excludes credit to the Government from commercial banks in the form of holding of import bills—Vide footnote (b) of Table II (F) 8.

4 Please see footnote (b) to Table II (F) 8

Government securities of Rs. 62.6 million, of treasury bills of Rs. 209.1 million and an increase of Rs. 30.4 million in Central Bank advances outstanding. In contrast, borrowing from commercial banks in 1967/68 amounted to Rs. 1.4 million as against a net decrease of Rs. 74.5 million in borrowing from the same source during the previous year.¹ This borrowing in 1967/68 was the combined result of an increase in holdings of treasury bills of Rs. 16.4 million partly offset by a fall in the holdings of rupee securities of Rs. 15.0 million and tax reserve certificates of Rs. 0.1 million.

Net domestic market borrowing from non-bank sources in 1967/68 of Rs. 248.3 million was lower than that of the previous year by Rs. 48.7 million compared to an increase of Rs. 41.1 million in 1966/67 over the previous year.² In the light of the fact that this sector had increased its contributions on an average by Rs 36.6 million per annum during the period 1961/62 to 1965/66, the Monetary Board recommended an increase in the rate of interest on Government borrowings and this was implemented with effect from April 18, 1968.³

As in 1966/67, savings institutions, the Employees' Provident Fund, other provident and pension funds, the Insurance Corporation, insurance companies and the departmental and other official funds increased their contributions to the Government securities (consisting of rupee securities, treasury bills and tax reserve certificates) during 1967/68. The Table II(F) 9 below gives the relevant figures in respect of non-bank investor groups for the last three financial years.

Total foreign finance received in 1967/68 amounted to Rs. 246.7 million consisting of Rs. 54.6 million in project loans, Rs. 163.1 million in commodity loans and Rs. 29.0 million in grants. This was lower than the gross receipts of the previous year by Rs. 8.9 million due to a decrease in receipts in respect of

TABLE II (F) 9
Contributions to Government Securities (a)
by non-bank investor groups

Contributors	Rupees Million					
	1964/65	1965/66	1966/67	1967/68	Increase in	
					1967/68 over 1966/67	1966/67 over 1965/66
1. Savings institutions ..	37.9	37.0	88.6(b)	41.5	-47.1	51.6
2. Employees' provident Fund ..	70.0	74.7	85.2	92.1	6.8	10.6
3. Other provident and pension funds ..	28.4	41.1	41.3	30.2	-11.1	0.2
4. Departmental and other official funds ..	13.8	2.0	16.3(b)	7.0	-9.3	14.3
5. Insurance Corporation ..	42.2	46.2	47.9	52.8	4.9	1.7
6. Other insurance funds ..	3.4	10.3	0.1	4.2	4.1	-10.2
7. Other state corporations ..	—	—	-0.7	—	0.7	-0.7
8. Companies, clubs and institutions ..	2.1	6.1	-12.3	-1.6	10.7	-18.4
9. Individuals ..	2.7	15.2	6.5	0.1	-6.4	-8.7

Source: Central Bank of Ceylon.

(a) Includes rupee securities, treasury bills and tax reserve certificates.

(b) Includes Rs. 53.4 million of Government securities purchased by savings institutions and Government agencies consequent on a redemption of Central Bank Securities held by these institutions.

¹ Please see footnote (b) to Table II(F) 8.

² Net market borrowing from non-bank sources in 1966/67 according to Table II (F) 8, shows an increase of Rs. 41.1 million, but this includes a sum of Rs. 53.4 million of Government securities purchased by Savings institutions etc. consequent on a repurchase by the Central Bank of Central Bank securities held by these institutions.

³ Please see page 195 of this Report.

commodity aid, partly offset by increases in grants and project loans. Net of sterling loan sinking fund contributions and direct repayment of foreign loans which amounted to Rs. 56.5 million in 1967/68 (as against a figure of Rs. 47.0 million during the previous year), the net foreign assistance in 1967/68 totalled Rs. 190.2 million.

As in the case of last year, loan finance accounted for a major share of foreign finance during 1967/68 although its share declined slightly. It accounted for 88.2 per cent. of gross foreign finance received in 1967/68 (the balance being grants) as compared with 92.4 per cent. in the previous year. Of this, the predominant form was commodity aid which accounted for 66.1 per cent of the total in 1967/68 as against 75.9 per cent in 1966/67. Meanwhile, although project aid and grants increased their respective shares, it is noteworthy that they yet occupy a relatively minor role in the financing of the budget.

The table II (F) 10 below gives details of net receipts of foreign assistance by type and source during the last seven years. Canada, as in the case of the two previous financial years, provided a major portion of grant-aid in 1967/68 while the United Nations also made a significant contribution. The major sources of loans have been the United Kingdom, United States of America, Federal Republic of Germany, Japan and France. A more detailed analysis of foreign loan assistance will be made in the section on "Public Debt" that follows.

TABLE II (F) 10
Net Receipts of Foreign Assistance

							Rupees Million
Type and Source	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68 Actual (Provisional)
1. Loans:	34.8	60.9	63.5	75.6	76.5	189.3	161.2
(a) I.B.R.D.	25.6	21.2	11.3	5.0	-1.2	-0.3	-7.7
(b) Canada	-1.3	0.8	-0.2	11.4	2.5	8.1	8.6
(c) Peoples Republic of China	-1.0	—	12.4	18.9	9.7	-4.9	-5.5
(d) U.K.	0.4	10.4	4.9	-2.3	10.6	49.4	51.9
(e) U.S.A.	7.6	-0.7	2.7	-1.2	23.8	31.0	45.6
(f) U.S.S.R.	3.4	13.5	32.0	28.8	9.3	-10.0	-8.3
(g) Federal Republic of Germany	—	11.5	0.4	7.4	6.7	66.2	25.0
(h) Yugoslavia	—	4.3	—	-0.3	0.8	-1.4	-0.7
(i) Poland	—	—	—	2.4	0.1	0.1	1.4
(j) France	—	—	—	5.5	1.6	10.8	22.0
(k) Japan	—	—	—	—	10.0	31.3	24.0
(l) India	—	—	—	—	2.6	8.0	-3.4
(m) German Democratic Republic	—	—	—	—	—	1.1	8.3
2. Grants:	18.1	31.1	31.9	24.1	41.5	19.2	29.0
(a) Colombo Plan:	4.4	8.2	6.0	9.0	25.9	17.5	22.1
i Australia	—	2.5	—	3.9	0.3	4.6	—
ii Canada	4.4	5.7	5.7	5.1	25.6	12.8	22.1
iii Japan	—	—	0.3	—	—	—	—
iv New Zealand	—	—	—	—	—	0.1	—
(b) Other:	13.7	22.9	25.9	15.1	15.6	1.7	6.8
i United Nations	—	—	—	—	1.0	1.5	6.3
ii Peoples Republic of China	8.3	19.7	24.5	15.1	2.5	—	—
iii U.S.A.	1.6	0.9	1.4	—	12.1	0.2	0.5
iv Federal Republic of Germany	3.8	2.3	—	—	—	—	—
v Czechoslovakia	—	—	—	—	—	—	—
vi United Kingdom	—	—	—	—	—	—	—
3 Total of Loans and Grants	52.9	92.0	95.4	99.7	118.0	208.6	190.2

Source: Central Bank of Ceylon.

PUBLIC DEBT

In the year under review (i.e. the year ending September, 1968) the gross public debt¹ increased by Rs. 920.4 million to Rs. 6,241.9 million while the net public debt¹ increased by Rs. 878.1 million to Rs. 5,660.4 million. Of the total gross debt, Rs. 5,196.5 million or 83.3 per cent was accounted for by domestic debt, and the balance Rs. 1,045.4 million or 16.7 per cent comprised the foreign component.

Detailed particulars of public debt are shown in Tables 24 and 25 of Appendix II. A summary of the domestic and foreign components of the public debt (gross and net) as at the end of the last five financial years is presented in Table II (F) 11 below.

TABLE II (F) 11
Total Public Debt(a)

As at end of September	1964		1965		1966		1967		1968	
	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%
1. Gross Debt	3,787.4	100.0	4,184.8	100.0	4,743.3	100.0	5,321.5	100.0	6,241.9	100.0
(a) Foreign	412.1	10.9	489.3	11.7	548.8	11.6	739.3	13.9	1,045.4	16.7
(b) Domestic	3,375.3	89.1	3,695.5	88.3	4,194.5	88.4	4,582.2	86.1	5,196.5	83.3
2. Net Debt(b)	3,436.0	100.0	3,771.9	100.0	4,267.6	100.0	4,782.3	100.0	5,660.4	100.0
(a) Foreign	373.5	10.9	446.6	11.8	521.1	12.2	708.0	14.8	1,009.4	17.8
(b) Domestic	3,062.5	89.1	3,325.3	88.2	3,746.5	87.8	4,074.3	85.2	4,651.0	82.2
3. Gross National Product at factor cost(c)	7,319.9		7,483.5		7,699.0		8,223.8		9,808.7	

Source : Central Bank of Ceylon.

(a) Excluding (i) National Housing and State Mortgage Bank Debentures which amounted to Rs. 93.0 million and Rs. 33.3 million respectively, as at end of September, 1968; (ii) Suppliers' credit negotiated by Government departments; (iii) Promissory notes issued in favour of international financial institutions.

(b) Gross debt less sinking funds in respect of Sterling and Rupee loans.

(c) For calendar years at current market prices.

In the financial year 1967/68, the increases in gross debt and in net debt (of Rs. 920.4 million and Rs. 878.1 million respectively) were higher than the corresponding increases during the preceding financial year (Rs. 578.2 million, and Rs.514.7 million respectively).

The increase in the gross debt was due to an increase of Rs. 614.3 million in gross domestic debt and an increase of Rs. 306.1 million in gross foreign debt. During the previous financial year the increases in domestic and foreign components of public debt were of the order of Rs. 387.7 million and Rs. 190.5 million, respectively. It should be noted, however, that the increase in the foreign debt in 1967/68 was partly due to the combined effect of Sterling and Rupee devaluations in November, 1967, (as will be explained later) which resulted in an appreciation of the rupee value of foreign debt by Rs. 144.4 million. In fact, the increase in the total public debt (both gross and net) in the financial year 1967/68 was substantially higher than the annual increases recorded in previous financial years.

It is noteworthy that the net foreign debt increased by Rs. 301.4 million or by 42.6 per cent. to Rs. 1,009.4 million at the end of September, 1968. Net of the increase due to Sterling and Rupee devaluations the increase amounted to

1 Please see footnote (a) to Table II(F) 11.

Rs. 157.0 million or 22.2 per cent. This further substantiates the observation made last year of a steadily increasing foreign debt. During the year under review, the foreign component of the total net debt increased by 3.0 percentage points in contrast to an increase of 2.6 percentage points during the previous year. As at September, 1968, the foreign debt accounted for 17.8 per cent. of the total net debt. In fact, the net foreign debt has more than doubled itself (the increase was 224.0 per cent.) during the last five years, while the domestic debt has increased by a little more than two-thirds (increase was 68.9 per cent).

It is also significant that the ratio of public debt to gross national product has been increasing during the last five years.¹ The gross debt which constituted 51.7 per cent. of the gross national product (at current factor cost) in 1964 increased to 63.6 per cent. in 1968. Of this, the ratio of foreign debt rose from 5.6 per cent. in 1964 to 10.7 per cent. in 1968. Meanwhile, the domestic debt ratio increased from 46.1 per cent. to 53.0 per cent. over the same period.

During the financial year 1968/69, the Government proposes to raise Rs. 375.0 million from the domestic non-bank sources and Rs. 476.0 million from foreign sources. The latter estimate consists of Rs. 213.0 million of project loans and Rs. 263.0 million of commodity loans.

Domestic Debt

The gross domestic debt which stood at Rs. 4,582.2 million at the end of the previous financial year increased by Rs. 614.3 million (or by 13.4 per cent) to Rs. 5,196.5 million at the end of September, 1968. Table II (F) 12 below contains data on the composition and the changes in the domestic debt as at the end of September of the last four years.

TABLE II (F) 12
Changes in the Composition of Domestic Public Debt

As at end of September	Rupees Million							Total	
	Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Ad- vances (b)	National Develop- ment Bonds (c)	Gross	Net
	Gross	Sinking Fund(a)	Net						
1965 ..	2,149.6	370.2	1,779.4	1,300.0	32.7	213.1	0.1	3,695.5	3,325.3
1966 ..	2,474.6	448.0	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
1968 ..	3,117.9	545.5	2,572.4	1,750.0	24.0	304.5	0.1	5,196.5	4,651.0
Change 1966/65(d) ..	+325.0	+ 77.8	+247.2	+125.0	- 0.5	+ 49.5	-	+499.0	+421.2
Change 1967/66(d) ..	+310.2	+ 59.8	+250.3	+ 75.0	- 6.5	+ 9.0	-	+387.7	+327.8
Change 1968/67(d) ..	+333.1	+ 37.7	+295.5	+250.0	- 1.7	+ 32.9	-	+614.3	+576.7

Source: Central Bank of Ceylon.

- (a) Representing the market value of investments held on behalf of sinking funds (including supplementary sinking funds).
 (b) Including special loans towards payment of membership subscriptions to the I. M. F., the I. B. R. D., the I. D. A. and the A. D. B. Net of these loans which amounted to Rs. 84.4 million and Rs. 86.9 million at the end of September, 1967 and 1968 respectively, the Central Bank advances increased by Rs. 30.4 million during 1967/68. These special loans exclude promissory notes issued in favour of international financial institutions.
 (c) The value of National Development Bonds issued and outstanding at the end of September 1967 and 1968 amounted to Rs. 67,542 and Rs. 58,828 respectively.
 (d) Plus (+) sign denotes an increase.

¹ The ratio has been worked out between Gross National Product figures for calendar years and public debt figures as at the end of financial years ending September. If public debt figures at end of Calendar year are used, the ratios will be somewhat higher.

TABLE II (F) 13
Domestic Debt—Analysis by Maturity

Years to Maturity	1964		1965		1966		1967		1968	
	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage	Amount Rs. mn.	Percentage
1. Unfunded debt (a)	1,465.9	43.4	1,545.9	41.8	1,719.8	41.0	1,797.4	39.2	2,978.8	40.0
2. Funded debt (b)	1,909.4	56.6	2,149.6	58.2	2,474.7	59.0	2,784.8	60.8	3,117.9	60.0
(a) Under 5 years	205.8	6.1	245.5	6.6	292.1	7.0	252.6	5.5	452.1	8.7
(b) Between 5–10 years	445.0	13.2	392.3	10.6	354.5	8.5	367.7	8.0	315.7	6.1
(c) Between 10–15 years	216.6	6.4	336.6	9.1	386.0	9.2	386.0	8.4	249.1	4.8
(d) Between 15–20 years	247.0	7.3	127.1	3.4	324.1	7.7	324.1	7.1	600.0	11.5
(e) Between 20–25 years	795.0	23.6	1,048.1	28.4	1,118.0	26.7	1,454.4	31.7	1,501.0	28.9
Total	3,375.3	100.0	3,695.5	100.0	4,194.5	100.0	4,582.2	100.0	5,196.5	100.0

Source : Central Bank of Ceylon.

(a) Comprising Treasury Bills, Tax Reserve Certificates, Central Bank advances and National Development Bonds.

(b) As at latest date of maturity.

The increase in gross domestic debt during the year under review was composed of increases of Rs. 333.1 million in rupee securities, Rs. 250.0 million in Treasury Bills and Rs. 32.9 million in Central Bank advances, slightly offset by a reduction of Rs. 1.7 million in Tax Reserve Certificates. In contrast, the corresponding increases during the previous year were Rs. 310.2 million of rupee loans, Rs. 75.0 million of Treasury Bills and Rs.9.0 million of Central Bank advances. There was a decline of Rs. 6.5 million in Tax Reserve Certificates.

Of the total gross domestic debt outstanding at the end of September, 1968, rupee securities accounted for Rs. 3,117.9 million or 60.0 per cent. The rest consisted of Treasury Bills of Rs. 1,750.0 million (or 33.6 per cent), Tax Reserve Certificates of Rs. 24.0 million (or 0.5 per cent), Central Bank advances of Rs. 304.5 million (or 5.9 per cent) and National Development Bonds of Rs. 0.1 million.

The maturity pattern of gross domestic debt as at September 30, 1968 with corresponding data for the four previous financial years is shown in Table II (F) 13

In the Annual Reports for 1966 and 1967 it was observed that the term structure of domestic debt lengthened over the last four years. In 1967/68, however, the domestic debt with over twenty year to latest date of maturity comprised 28.9 per cent of the total domestic debt, a fall of 2.8 percentage points during the financial year. The corresponding change during the last financial year was an increase of 5.0 percentage points. Meanwhile, debt with less than 5 years to maturity accounted for 8.7 per cent of the total debt, an increase of 3.2 per cent points during the financial year. During the previous financial year there was a decline by 1.5 percentage points. Funded debt on the other hand declined by 0.8 per cent during the year, while unfunded debt moved up by the same magnitude.

Rupee Securities

Twelve rupee loans for an aggregate sum of Rs. 359.7 million were raised by the Government during the course of the financial year 1967/68. Of these, eleven loans amounting to Rs. 350.0 million were entirely for cash. The remaining loan, the 3½ per cent Loan 1972-74 'B' Series was raised in conversion of the 3 per cent Loan 1965/67 which matured during the year. Net of this conversion loan, the resources raised by rupee securities was Rs. 350.0 million. Apart from the short-term conversion loan, the other loans raised were long-terms ones, maturing in 21 to 25 years.

During the preceding financial year, in contrast, fifteen rupee loans were raised for a sum of Rs. 390.8 million. Of these, three loans amounting to Rs. 50.8 million were for conversion. The resources raised amounted to Rs 340.0 million. Of the twelve loans raised for cash purposes, one loan was short-term and the rest were long-term, maturing in 21 to 25 years.

Table 27 of Appendix II gives the details of subscriptions to each rupee loan floated during 1967/68. A summary of subscription to rupee loans during the last four years is given in Table II (F) 14 below.

TABLE II (F) 14

Classification of Subscriptions to Rupee Securities (a)

Subscribers	1964/65		1965/66		1966/67		1967/68	
	Amount Rs. M.	Percen tage	Amount Rs. M.	Percen tage	Amount Rs. M.	Percen tage	Amount Rs. M.	Percen tage
1. Commercial banks ..	1.0	0.4	17.9	5.1	13.5	3.5	0.8	0.2
2. Co-operative banks ..	—	—	—	—	0.3	0.1	—	—
3. Saving institutions ..	38.8	14.7	37.2	10.6	74.7	19.1	48.8	13.6
4. Sinking funds ..	52.5	19.9	104.5	29.8	96.3	24.6	114.1	31.7
5. Departmental and other official funds ..	14.4	5.5	3.7	1.1	10.2	2.6	9.5	2.6
6. Trusts, benevolent, pension and provident funds								
(a) E.P.F. ..	72.4	27.4	74.6	21.2	85.0	21.8	92.6	25.7
(b) Other ..	31.5	11.9	39.2	11.2	43.1	11.0	29.2	8.1
7. Insurance funds								
(a) Insurance Corporation ..	42.2	16.0	46.2	13.2	47.9	12.3	53.2	14.8
(b) Insurance companies ..	6.6	2.5	10.6	3.0	10.6	2.7	4.4	1.2
8. Other companies ..	0.2	0.1	0.5	0.1	0.3	0.1	0.8	0.2
9. Individuals, clubs, and institutions ..	4.6	1.7	17.0	4.8	8.9	2.3	6.6	1.8
Total ..	263.9	100.0	351.2	100.0	390.8	100.0	359.7	100.0

Source: Central Bank of Ceylon

(a) Refers to Rupee loans only.

It will be seen that during 1967/68 sinking funds absorbed Rs. 114.1 million or 31.7 per cent of the amount raised. The other major contributors were the Employees' Provident Fund (Rs. 92.6 million or 25.7 per cent), Insurance Corporation (Rs. 53.2 million or 14.8 per cent), Savings Institutions¹ (Rs. 48.8 million or 13.6 per cent) and Trusts, Benevolent, Pension and Provident Funds other than Employees' Provident Fund (Rs. 29.2 million or 8.1 per cent).

The trend observed in the last year's Annual Report of increased support for Government borrowing by semi-Government institutions such as the Employees' Provident Fund, the Insurance Corporation of Ceylon, the sinking funds and public savings institutions continued during the year under review.² In fact, these institutions in aggregate contributed sums of Rs. 205.9 million, Rs. 262.5 million and Rs. 303.9 million, and 308.7 million respectively during the last four years, thus accounting for 78.0 per cent, 74.8 per cent, 77.8 per cent, and 85.8 per cent, respectively of the total contributions during the respective years.

A classification of the ownership of Government securities as at the end of the financial year 1967/68 together with comparative data for the previous four financial years is given in Table II (F) 15.

1. Comprising the Post Office Savings Bank, The Ceylon Savings Bank and the Savings Certificates Fund.
2. There was a decline in contribution by Savings institutions during 1967/68, although the amount contributed during the year was substantial.

TABLE II (F) 15

Ownership of Rupee Securities - 1963/64 to 1967/68 (a)

		Rupees Million				
Owners	1963/64	1964/65	1965/66	1966/67	1967/68	
A. Banking Sector	329.5	326.0	324.5	281.2	328.8	
1. Central Bank	9.1	8.0	8.0	7.4	70.0	
2. Commercial banks	320.4	318.0	316.4	273.7	258.8	
B. Non - Bank Sector	1,580.0	1,823.6	2,150.2	2,503.6	2,789.0	
1. Savings institutions	435.6	474.4	511.6	600.5	641.2	
2. Sinking funds	256.2	302.5	407.0	474.2	532.3	
3. Departmental and other official funds	107.5	121.8	123.8	140.0	147.1	
4. Employees' Provident Fund	287.8	360.1	434.8	519.8	612.1	
5. Other provident funds	253.7	281.9	322.9	364.3	394.5	
6. Insurance Corporation	45.4	87.6	133.8	181.6	234.5	
7. Other State corporations	3.5	3.5	3.5	2.9	2.9	
8. Insurance companies	128.7	132.1	136.6	136.5	140.7	
9. Others (b)	61.5	59.7	76.3	83.8	83.7	
Total	1,909.4	2,149.6	2,474.6	2,784.8	3,117.9	

Source: Central Bank of Ceylon

(a) Refers to Rupee Loans only.

(b) Comprising Co-operative banks, other companies, clubs, institutions and individuals.

It will be seen that the banking sector which showed a tendency to reduce its holdings of Government securities from 1963/64 to 1966/67, increased its holdings during 1967/68 by Rs. 47.6 million or 16.9 per cent. This was mainly due to a substantial increase in holdings by the Central Bank which more than offset a reduction in holdings by commercial banks. In fact, the Central Bank's holdings increased to Rs. 70.0 million in 1967/68 while its holdings during the previous four years had averaged to about Rs. 8.0 million. This increase was mainly due to purchase by the Central Bank of securities from the sinking funds. On the other hand, commercial banks have been progressively reducing their holdings since 1963/64.

The non-bank sector which has been increasing its holdings for several years, increased its share to Rs. 2,789.0 million in 1967/68. During the last five financial years, this sector has increased its relative share by 7.6 percentage points, from 81.9 per cent in 1962/63 to 89.5 per cent in 1967/68.

The major holders of Government securities in the non-bank sector were semi-government institutions such as the Employees' Provident Fund, the Insurance Corporation of Ceylon, sinking funds, savings institutions and departmental funds. The holdings of this semi-government sector which increased by 9.4 percentage points from 59.5 per cent to 68.9 per cent, during the period 1963/64 to 1966/67, moved up marginally to 69.6 per cent, in 1967/68. Thus, the tendency observed in the Annual Report of 1967 that the ownership-pattern of securities showed a heavy concentration in the semi-government sector, continued into the year under review.

The rate of interest on long-term (21 to 25 years) Government loans was increased from $4\frac{1}{2}$ per cent. to $5\frac{1}{2}$ per cent. per annum with the raising of the $5\frac{1}{2}$ per cent Loan 1989-93 on April 18, 1968. There was no change in the rate since then. The former rate of $4\frac{1}{2}$ per cent has been operative for nearly 5 years, since June 1, 1963.

Treasury Bills

The volume of treasury bills outstanding at the beginning of the financial year 1967/68 was Rs. 1,500.0 million. The authorised limit at that date was also Rs. 1,500.0 million. This limit was raised by Parliament to Rs. 1,750.0 million on January 27, 1968. The amount of treasury bills issued and outstanding at the end of the financial year 1967/68 stood at Rs. 1,750.0 million, resulting in an increase of Rs. 250.0 million during the year. Particulars of treasury bill issues are given at Table 28 of Appendix II.

Holdings of treasury bills by the banking system as at the end of September 1968 were Rs. 1,682.2 million (96.1 per cent of the total outstanding) as compared with Rs. 1,456.7 million (97.1 per cent of the total outstanding) as at September 30, 1967. Of this total, Central Bank holdings were Rs. 1,586.3 million (90.6 per cent of the total outstanding) as at the end of September, 1968, compared with Rs. 1,377.2 million (91.8 per cent. of the total outstanding) as at end of September 30, 1967. Thus, out of an increase of Rs. 225.5 million, the Central Bank accounted for Rs. 209.1 million.

The rate of interest on treasury bills stood at 3.0 per cent. per annum at the commencement of the financial year. It dropped to 2.93 per cent. per annum on November 2, 1967 and rose progressively to 3.64 per cent. per annum on June 15, 1968 and has remained at that level up to the end of the year. The Central Bank's support for treasury bills continued to carry interest at 1.0 per cent. per annum until it was raised to 2.0 per cent. per annum on November 1, 1968.

Tax Reserve Certificates

The authorised issue of Tax Reserve Certificates which stood at Rs. 250.0 million during 1966/67 was raised to Rs. 300.0 million on October 28, 1967. Out of this authorised issue, Tax Reserve Certificates amounting to Rs. 262.5 million have been issued up to end of September, 1968 and Rs. 24.0 million of Certificates had not been surrendered by that date. The amount not surrendered at the end of the previous financial year was Rs. 25.7 million thus resulting in a decline in this type of debt obligation of Rs. 1.7 million. There was a similar decline during the preceding year of Rs. 6.5 million.

The rate of interest on Tax Reserve Certificates was increased from $1\frac{1}{2}$ to 2 per cent per annum with effect from September 7, 1968. The previous rate of $1\frac{1}{2}$ per cent had been operative since August, 1961.

Central Bank Advances

At the end of September, 1968, Central Bank advances to Government amounted to Rs. 304.5 million. The corresponding figure at the end of September, 1967 was Rs. 271.6 million.

The increase during the year under review therefore was Rs. 32.9 million. These figures include, however, special loans granted by the Central Bank towards payment of Ceylon's membership subscriptions to international financial organizations of Rs. 86.9 million as at end of September, 1968 and Rs. 84.4 million at the end of the previous financial year. Net of these payments, Central Bank advances increased by Rs. 30.4 million in 1967/68.

Foreign Debt

The gross foreign debt (i.e. net of repayments, but before deducting sinking funds), increased from Rs. 739.3 million to Rs. 1,045.4 million at the end of the financial year 1967-68. The increase amounted to Rs. 306.1 million or 41.4 per cent. The corresponding increase during the previous financial year was Rs. 190.5 million or 34.7 per cent. This increase of Rs. 306.1 million in 1967/68 was partly due to the recomputation of Rupee equivalents in respect of foreign loans outstanding, due to the combined effect of the devaluations of the Pound Sterling on November 18, 1967 and the Ceylon Rupee on November 22, 1967.¹ Thus, there was an increase of Rs. 1.4 million (£ 106,211) in the external debt due to an upward adjustment of the Rupee value due to the 'gold-content clause' contained in certain aid-agreements, namely, the Polish People's Republic line of credit of Rs. 38.0 million (£ 2.85 million), the German Democratic Republic line of credit of Rs. 200.0 million (£ 15.0 million), and the Yugoslavian line of credit of Rs. 73.3 million (£ 5.5 million).² Also the devaluation of the Ceylon Rupee, resulted in an enhancement of the Rupee value of the foreign debt by Rs. 143.0 million. Thus, net of these increases due to devaluation of the Sterling and the Rupee, the gross foreign debt increased by Rs. 161.7 million during the financial year ending September, 1968.

Total withdrawals under foreign loans during the financial year under review amounted to Rs. 214.3 million of which Rs. 51.2 million (23.9 per cent) was on account of project loans. The balance of Rs. 163.1 million (76.1 per cent) represented the withdrawals under commodity loans.

Repayments during the financial year amounted to Rs. 52.6 million of which Rs. 43.9 million (83.5 per cent) was in respect of project loans and Rs. 8.7 million (16.5 per cent) in respect of commodity loans. The external debt of Ceylon³ therefore increased by Rs. 161.7 million. Details of the increase in liabilities on account of sterling, project and commodity loans are given in Table 11 (F) 16 and analysed below.

1. There were no foreign exchange transactions between the two dates of devaluation.
2. In terms of the 'gold-content clause' contained in the aforementioned agreements, the outstanding amounts of these lines of credit and the interest payable on them had to be adjusted in such a manner so that their equivalent in gold was the same as before the devaluation.
3. Excluding suppliers' credit to Government departments,

TABLE II (F) 16
Foreign Loans

Rupees Million

Type and Source	Withdrawals during 1967/68	Repayments during 1967/68	Increase during 1967/68	Liability as at September 30, 1968
1. Sterling Loans	-	-	-	89.3
2. Project Loans	51.2	43.9	7.3	525.6
(a) I.B.R.D.	-	7.7	-7.7	164.3
(b) U.S.A.				
(i) International Co-operation Administration	-	0.6	-0.6	63.8
(ii) Development Loan Fund	-	1.3	-1.3	9.6
(iii) Agency for International Development	-	-	-	7.0
(iv) Public Law 480	15.8	-	15.8	15.8
(c) United Kingdom	0.9	6.8	-5.9	11.3
(d) U.S.S.R.	0.5	8.9	-8.4	94.5
(e) Federal Republic of Germany(a)	9.8	5.4	4.4	53.3
(f) German Democratic Republic	8.3	-	8.3	9.7
(g) People's Republic of China	-	5.5	-5.5	39.8
(h) Canada (b)	9.0	3.8	5.2	38.5
(i) National and Grindlays Bank	3.9	-	3.9	3.9
(j) France (c)	-	1.7	-1.7	5.5
(k) Yugoslavia	0.9	1.6	-0.7	3.8
(l) Poland	2.0	0.6	1.4	4.6
3. Commodity Loans	163.1	8.7	154.4	430.5
(a) U.S.A. (d)	31.7	-	31.7	75.8
(b) Federal Republic of Germany (a)	20.6	-	20.6	87.6
(c) United Kingdom	55.0	-	55.0	133.9
(d) Canada	2.8	-	2.8	7.9
(e) France	24.2	0.5	23.7	39.7
(f) Japan	26.9	3.0	24.0	75.8
(g) India	1.9	5.2	-3.4	9.9
Grand Total	214.3	52.6	161.7	1045.4

Source: Central Bank of Ceylon

(a) Kreditanstalt Fur Wiederaufbau loans

(b) Includes Export credit Insurance Corporation credits.

(c) Societe Eau et Assainissement - Socoman (SOCEA) credits.

(d) Agency for International Development loans.

Project Loans

The utilisation of foreign assistance by way of project loans amounted to Rs. 51.2 million in 1967/68. Net of repayments of Rs. 43.9 million, foreign liabilities on account of project loans increased by Rs. 7.3 million. During the previous financial year, repayment of Rs. 43.5 million exceeded total utilisation of Rs. 42.3 million, thereby reducing foreign liabilities on account of project loans by Rs. 1.2 million.

As indicated in Table II (F) 16, the major portion of the project assistance utilised came from United States of America in the form of PL 480 loans. The proceeds accruing from the sales of agricultural commodities imported by Ceylon under these agreements have to be utilised for the development of

agriculture and agriculture-based industries in Ceylon. The other major donors were: Federal Republic of Germany (Rs. 9.8 million) for the cement industry, cast iron foundry, paper industry and the development of port facilities; Canada (Rs. 9.0 million) for the supply of equipment and services for the Maskeji-Oya Electricity Project and for the development of the Katunayake International Airport;¹ and Democratic Republic of Germany (Rs. 8.3 million) for the Textile Project at Thulhiriya.

The foreign liability outstanding on account of project loans at the end of September 1968, net of repayments, stood at Rs. 525.6 million. This constituted 50.3 per cent. of the gross foreign debt outstanding as at that date. At the end of the previous financial year the outstanding liability in respect of project loans was Rs. 428.9 million. Thus the outstanding liability increased by Rs. 96.7 million during the year under review. However, Rs. 89.3 million of this increase was due to the combined effect of the devaluation of the Pound Sterling and the Ceylon Rupee as explained earlier.

Commodity Loans

The value of imports under commodity loans during the financial year ending September, 1968, was Rs. 163.1 million in contrast to imports of Rs. 193.9 million during the previous financial year. Thus there was a decline in imports under commodity aid of Rs. 30.8 million during the year. In contrast the utilization of commodity aid in 1966/67 increased significantly by Rs. 158.7 million over the previous financial year. It should be noted, however, that the decline in utilisation of commodity aid in 1967/68 understates the real decline in quantum of goods imported due to the devaluation of the Ceylon Rupee.

Foreign assistance by way of commodity loans consisted mainly of loans from the United Kingdom (Rs. 55.0 million) for the import of fertilizer, industrial raw materials and machinery, and commercial vehicles; from United States (Rs. 31.7 million) for the import of flour, fertilizer, machinery and spares, and motor vehicles; from Japan (Rs. 26.9 million) for the import of textiles, fertilizer, and industrial raw materials and machinery; from France (Rs. 24.2 million) for the import of tractors, building materials, base metals, and tyres and tubes; and from Federal Republic of Germany (Rs. 20.6 million) for the import of fertilizer, industrial raw materials and machinery and motor spares.

The foreign liability outstanding on account of commodity loans at the end of 1966/67 was Rs. 227.0 million. During the year under review it increased by Rs. 203.5 million and at the end of September, 1968 stood at Rs. 430.5 million. Of this increase, devaluation of the Rupee accounted for a sum of Rs. 49.1 million. The amount of Rs. 430.5 million outstanding in respect of commodity loans utilised at the end of financial year 1967/68 represented 41.2 per cent. of the gross foreign debt outstanding as at that date.

1. Of the total estimated cost of Rs. 66.9 million for the construction of the Katunayake International Airport, which is now completed, the Canadian Government fully financed the foreign exchange cost of Rs. 39.8 million.

The rupee counterpart funds generated by commodity aid utilisation and their utilization for budgetary purposes during the year under review is summarised in Table 29 of Appendix II. During the financial year 1966/67 Rs. 195.2 million was credited to this account, while the amount withdrawn was Rs. 150 million. During the financial year ending September, 1968, amount credited and withdrawn were Rs. 204.6 million and Rs. 200.0 million respectively. The net effect was an increase of Rs. 4.6 million in the amount outstanding in the Commodity Aid Counterpart Fund.

External Suppliers' Credit

In recent times, there has been a remarkable growth of another source of financing of Ceylon's imports, namely External or Foreign Suppliers' Credit. This is a credit facility extended to an importer in Ceylon by an exporter of a foreign country ¹.

Data are available only on suppliers' credit negotiated. Hence, it is not possible to ascertain the total debt outstanding at any given time. On checking with such credit recipients it was revealed that mostly all suppliers' credit negotiated upto December, 1967 have been utilised. The following analysis which is based on sums negotiated, therefore, may be treated as a fair approximation of the amount of debt actually incurred.

The details of suppliers' credit negotiated by Public corporations and Government departments, since 1958 is given in Table II (F) 17 below.

TABLE II (F) 17
Suppliers' Credit negotiated by Government Departments and Public Corporations - 1958 to 1968(a)

		Rupees Million						
Recipients	1958(b)	1962(b)	1963	1964	1965	1966	1967	1968(c)
1. Government departments ..	-	-	-	-	1.2	7.3	84.1	75.0
2. Public corporations ..	12.2	2.7	4.9	14.7	8.6	120.9	37.6	124.7
Total ..	12.2	2.7	4.9	14.7	9.8	128.2	121.7	199.7
Cumulative Total ..	12.2	14.9	19.8	34.5	44.3	172.5	294.2	493.9

Source : Ministry of Planning & Economic Affairs, and Central Bank of Ceylon.

(a) All figures are provisional.

(b) According to available records, no Suppliers' Credit had been negotiated after 1958 and before 1962.

(c) As at December 15, 1968. Later figures are not available.

1. These credits are extended for periods longer than those of normal trade credits.

During the period 1958 to 1968, the amount of suppliers' credit negotiated by Government departments and Public corporations aggregated to Rs. 493.9 million of which Rs. 449.6 million was negotiated during the years 1966 to 1968. The major recipients of credit were the Public corporations accounting for Rs. 326.3 million (66.1 per cent). The balance of Rs. 167.6 million (33.9 per cent), was accounted for by Government departments. Thus, there has been a significant growth of a new form of external public debt during the last three years.

Most of the credit has been received from Italy (Rs. 102.7 million), Federal Republic of Germany (Rs. 93.9 million), United Kingdom (Rs. 74.2 million), Japan (Rs. 49.1 million), France (Rs. 47.1 million), India (Rs. 37.2 million), and Czechoslovakia (Rs. 32.5 million). These seven countries accounted for 88.4 per cent. of the credit negotiated.

Suppliers' credit so far negotiated had been wholly meant to provide capital and intermediary goods meant to develop economic overheads (i.e. transport, irrigation, electricity and port facilities) and the productive capacity of the industrial sector. The industrial sector appears to have benefitted most, having negotiated a sum of Rs. 228.4 million which was nearly half the total credit contracted. Within this sector, Petroleum (Refining and Blending) Industry appears to have obtained the maximum credit by accounting for Rs. 99.3 million or about 20 per cent. of the total suppliers' credit extended. Cement (Rs. 47.8 million or 9.7 per cent,) steel (Rs. 37.1 million or 7.5 per cent) and wood-based industries (Rs. 27.5 million or 5.6 per cent) were the other significant recipients of credit. Nearly 44.8 per cent or Rs. 221.1 million of suppliers' credit negotiated was to facilitate the provision of capital and intermediary goods to develop the economic overheads. Of this 'transport services' accounted for Rs. 118.4 million or 24.0 per cent (Rail Rs. 73.5 million or 14.9 per cent, Air Rs. 38.7 million or 7.8 per cent, and Road Rs. 6.1 million or 1.2 per cent). Meanwhile, the 'Electricity Services' accounted for Rs. 65.7 million or 13.3 per cent, and the construction of roads, dams, buildings, bridges, irrigation facilities etc., (including earth-moving) accounted for Rs. 35.6 million or 7.2 per cent.

BORROWING BY SEMI-GOVERNMENT INSTITUTIONS

During the last four years ending 1966/67, the Central Bank followed a policy of channelling all resources to Government needs and advising the Government to lend any moneys out of loan funds to the Commissioner of National Housing. During 1967/68, however, a departure was made from this policy.

National Housing Department

There were two issues of National Housing Debentures in 1967/68 amounting to Rs. 18.0 million. They were issued on February 23, 1968 and June 15, 1968 for sums of Rs. 10 million and Rs. 8 million, respectively, carrying an interest of 5½ per cent per annum and repayable between 1989 and 1993. The total of National Housing Debentures issued and outstanding as at the end of the financial year stood at Rs. 93.0 million. Meanwhile, the direct loans sanctioned by Government amounted to Rs. 19.0 million during the year

bringing the total outstanding at the end of the year to Rs. 140.0 million. The approximate market value of sinking funds established for the redemption of National Housing Debentures stood at Rs. 39.1 million.

State Mortgage Bank

There were no issues of State Mortgage Bank Debentures during the year under review. Hence, the debentures issued and outstanding remained at Rs. 33.3 million. The major portion of the Bank's operation, as in the case of the previous year, was carried out through overdraft facilities provided by the banking system. The borrowing limit of the Bank remained at the same level of Rs. 75.6 million at the end of the financial year. Overdrafts guaranteed under Section 73 of the State Mortgage Bank Ordinance totalled Rs. 42.4 million and the amount utilised during the year was Rs. 21.4 million. There was no balance in the borrowing limit of the State Mortgage Bank at the end of 1967/68.

Development Finance Corporation of Ceylon

During the financial year under review there were no withdrawals made by the Development Finance Corporation of Ceylon (D. F. C. C.) under the loan of U. S. \$ 4.0 million (Rs. 23.8 million) negotiated with the International Bank for Reconstruction and Development (I.B.R.D.) in November, 1967 to be utilised in accordance with the D.F.C.C. Act.¹ This loan carries a commitment charge of 3/8th of one per cent per annum on the unwithdrawn amount of the loan. Interest is to be determined by the I.B.R.D. as and when withdrawals are made by the D.F.C.C. The loan is to be repaid in 31 semi-annual instalments commencing in February, 1970, and ending in February, 1985.

THE BUDGET - 1968/69

The original estimates of revenue and expenditure were presented in the House of Representatives on August 2, 1968 and approved on September 12, 1968. The salient features of the Budget, taking into account the new revenue and expenditure proposals approved during the Budget debate, are summarized in Table II (F) 18 below.

The estimated revenue for 1968/69 inclusive of a net receipt of Rs. 17.0 million from new measures introduced with the Budget was Rs. 2,338.5 million. As mentioned earlier, this showed an increase of Rs. 182.1 million over the actual (provisional) revenue of the previous year. The estimated expenditure of Rs. 3,201.0 million (inclusive of new expenditures approved with the Budget of Rs. 13.0 million and net of an estimated under-expenditure of Rs. 189.8 million) was Rs. 196.7 million higher than the actual (provisional) expenditure during the previous year. The resulting budget deficit in 1968/69 was estimated to be Rs. 862.5 million. This was to be financed by domestic non-bank market borrowing of Rs. 375.0 million and external finance of Rs. 476.0 million, leaving an unbridged gap of Rs. 11.5 million which will probably be financed by borrowing from the banking system. Detailed comparisons of these estimates with the actual out-turn of the previous year were made early in this section.

1. As at March 4, 1969, U.S. \$1,743,673 (Rs. 10.4 million) had been allotted by the Development Finance Corporation to local applicants, of which \$ 237,297 (Rs 1.4 million) had been withdrawn.

TABLE II (F) 18
Original Budget Estimates - 1968/69

I t e m s	Rupees Million	
	Original Estimates 1968/69	
1. Recurrent expenditure (votes 1, 2, 4 & 6)(a)	2,518.1	
Less 2½% under-expenditure(b)	58.9	2,459.2
2. Capital expenditure (votes 3, 5 & 7)(a)	872.7	
Less: 15% under-expenditure	130.9	741.8
3. Total expenditure (1 + 2)		3,201.0
4. Revenue		2,338.5
<hr/>		
5. Budget deficit (3 - 4)		862.5
Less contributions to sinking funds and direct repayments of public debt (c)		161.3
<hr/>		
6. Estimated net cash deficit		701.2
<hr/>		
7. Financing of the Budget deficit		862.5
(a) Domestic market borrowing from non-bank sources		375.0
(b) External finance		
(i) Project Loans	213.0	
(ii) Commodity Aid counterpart funds	263.0	476.0
(c) Unbridged gap (Domestic market borrowing from bank sources)		11.5

Source: Central Bank of Ceylon.

- (a) In the 1968/69 Estimates, provision in respect of sinking fund contributions and direct repayments of public debt and special payments to international financial organizations has been made under Capital Expenditure Vote 3. In this table, such provision has been included under recurrent expenditure in order to facilitate comparison with previous years' figures.
- (b) i.e. 2½% of recurrent expenditure net of sinking fund contributions and direct repayments of public debt and special payments to international financial organizations.
- (c) Includes special payments to international financial organizations.

New Revenue and Expenditure proposals

The new tax and expenditure proposals included in the Budget were expected to result in a net increase of Rs. 17.0 million in revenue and Rs. 13.0 million in expenditure. They are summarized in Table II (F) 19 below:-

TABLE II (F) 19
New Revenue & Expenditure Proposals-1968/69

I t e m s	Rupees Million	
	Impact on	
	Revenue	Expenditure
1. Excise duties		
(a) Turnover Tax	+ 12.0	
(b) Tobacco Tax	+ 15.0	
(c) Profit from Sale of Arrack	+ 5.0	
2. Import duties (on textiles)	- 15.0	
3. Recurrent Expenditure		+ 3.3
4. Capital Expenditure		+ 9.7
<hr/>		
Total	+17.0	+ 13.0

Source: Central Bank of Ceylon.

Business Turnover Tax

The existing tax-rate of 5 per cent was increased to 10 per cent, in respect of the manufacture of aerated waters, asbestos cement products, hair dressing and toilet requisites, precious stone and jewellery, ready made garments, floor and wall tiles, paints and varnishes, metal furniture, certain electrical spares and accessories and electrical goods such as fans, refrigerators, air-conditioners and similar luxury goods.¹

Also, the base of the tax was broadened to include incomes from professions and services subject to the present exemption limit of Rs. 100,000. A tax of 1 per cent will be levied on such turnover.¹ Further, the law in respect of turnover tax was amended² so as to impose the tax on the aggregate turnover of all business of a like nature under one ownership. Earlier, the turnover tax was imposed separately on the turnover of each branch or business. Furthermore, the above amendment provided for the clarification of the existing law and for the exemption of specified agricultural undertakings from turnover tax.

Tobacco Tax

The existing excise duty on tobacco of Rs. 33 per pound was increased by Rs. 4.50 per pound.³ The anticipated additional revenue as a result was estimated at Rs. 15.0 million.

Sale price of ordinary arrack

The sale price of ordinary (pure coconut) arrack was raised from Rs. 8/- to Rs. 10/- per bottle.³ An additional revenue of Rs. 5.0 million was expected from this source.

Import duty on textiles

The existing import duty of 25 cents per yard on printed fabrics, white and dyed poplin and long cloth was abolished.⁴ The anticipated net loss to revenue as a consequence was Rs. 15.0 million.

Recurrent expenditure

Two additional votes for a total sum of Rs 3.3 million were approved. They consisted of Rs 3.0 million to meet the losses on the working of the Galle harbour and Rs 0.3 million to meet expenses of Ceylon's participation in the "Expo 70" exhibition.

Capital expenditure

The additional capital expenditure approved of Rs 9.7 million consisted of a vote of Rs 6.7 million as a loan to the Port (Cargo) Corporation and another vote of Rs. 3.0 million for minor irrigation works.

1. Ceylon Government Gazette No. 14,820/4 of September 26, 1968.

2. The Finance (amendment) Act No. 50 of 1968.

3. Ceylon Government Gazette No. 14,813/4 of August 2, 1968.

4. An extra legal waiver of import duty was granted to Lanka Salu Sala Ltd., which enjoys a monopoly of textile imports to Ceylon, on November 25, 1968.

Reform of the Tax System

There were other revenue measures and tax reforms proposed in the Budget Speech which would not come into immediate effect. These measures were proposed after taking into consideration the recommendations of the Report of the Taxation Inquiry Commission¹, the effects of the devaluation of the rupee in November, 1967 and the introduction of the Foreign Exchange Entitlement Certificate Scheme in May, 1968. A summary of the proposals is given below:

System of "Pay as you Earn" for Income Tax

With effect from April, 1970, income tax payable by employees will be deducted at source at the time the income is earned. At present, income tax is levied on the previous year's income, on the basis of returns submitted by taxpayers. This new scheme, which was recommended by the Taxation Inquiry Commission, will not only introduce administrative ease by reducing the need for obtaining returns from approximately 75,000 tax payers, but will also help to minimise tax evasion.

Reduction of Personal Income Tax

A new rate schedule of income tax in respect of resident individuals will be introduced with effect from the year of assessment 1969/70.² The main features of this revision are:-

- (i) A new schedule consisting of eleven slabs with the tax rate increasing from $7\frac{1}{2}\%$ to 65%. The first two slabs, which vary with family circumstances are to be taxed at $7\frac{1}{2}$ per cent. and 10 per cent. respectively. The next two slabs of Rs 2,400 each are to be taxed at $12\frac{1}{2}$ per cent, and 15 per cent. respectively. The next three slabs of Rs 3,600 each are to be taxed at $17\frac{1}{2}$ per cent, 20 per cent. and 25 per cent. respectively. The next two slabs of Rs 4,800 each are to be taxed at 30 per cent. and 40 per cent. respectively. The next two slabs of Rs 9,600 each are to be taxed at 50 per cent. and 60 per cent. respectively. The balance is taxable at 65 per cent. Thus, the present 80 per cent maximum marginal rate of tax will be reduced to 65%.
- (ii) The earned income relief for an individual will be increased from Rs. 500 to Rs. 900. As a result, a single individual entitled to earned income relief will not be liable for tax if his income does not exceed Rs. 3,900 as against the present limit of Rs 3,500. The corresponding new exemption limit for a person with maximum family allowances is Rs. 5,700, as against the present limit of Rs. 5,000.
- (iii) The tax-free allowances will be raised in respect of the wife from Rs. 500 to Rs. 600, and in respect of the children, from Rs. 250 each for the first four children to Rs. 600 for the first two children taken together and a further Rs. 600 for the next two children taken together.

1. Ceylon Sessional Paper No. 10 of 1968: Report of the Taxation Inquiry Commission Ceylon Government Press, Colombo, 1968.

2. The year of Assessment for Income tax purposes extends from April to March. In this instance, for example, the taxation during the year of assessment 1969/70 will be based on incomes earned during the period April, 1968 to March, 1969.

- (iv) The income tax rate schedule in respect of Hindu undivided families and non-resident individuals are also to be changed to correspond to the new rates chargeable on resident individuals.

Abolition of Savings Relief

The scheme of granting tax-relief in respect of approved savings introduced in the 1965/66 Budget is to be withdrawn with effect from the year of assessment 1969/70. Savings already made may be retained until March 31, 1970 or converted to approved investments. Any realization before that date will result in the recovery of the relief already granted. No relief will be granted for any new approved savings with effect from the year of assessment 1968/69 in respect of any approved savings made after August 2, 1968.

Tax Treatment of Relief

It is proposed to change the basis on which tax relief is granted on contributions to approved provident and pension funds, life insurance and annuity premia, approved donations and approved investments. Relief will in future be calculated by deducting from the assessable income an allowance equal to one-half of the payments in respect of the above items. The amount of the payment in respect of each of these items that will rank for relief will continue to be limited by the same provisions as at present. These changes which will come into effect from the year of assessment 1969/70, are expected to provide relief to lower income groups and simplify administration.

Other Changes in Income Tax

Certain changes will be made in the computation of income tax in respect of travelling and subsistence allowances paid to employees, subscriptions to professional and technical organisations, purchase of professional and technical books, emoluments of foreign experts, compensation for loss of office, expenses of repairs deductible from rent, and capital gains arising from the sale of private residences. For instance, emoluments of foreign experts will be exempt from tax during the period when the undertaking is exempt from tax. Furthermore, the tax on the capital gain arising from the first sale by the owner of a private residence will be deferred, provided another residence is constructed or purchased during a given period.

Wealth Tax

Investment in Government securities which was exempt from Wealth tax since July 1, 1959 will be treated as taxable wealth with effect from the assessment year 1969/70.

Withdrawal of the Tax-Holiday

The present five-year tax holiday granted to all new undertakings (employing more than 25 persons) is to be withdrawn. However, those undertakings which currently enjoy this concession and those which have already taken irrevocable steps to commence operations before March 31, 1969, and certain agricultural undertakings under "the Special Leases Scheme"¹ (which have been

1. A Scheme under which uncultivated Crown land is leased to private firms and individuals for development.

gazetted on or before a certain date) will continue to receive this benefit. In future, this concession will be granted only to "selected new undertakings of a pioneering character".¹

Company Taxation

With a view to encouraging the formation of public limited liability companies, a reduction of the present tax of 50 per cent. on companies to 25 per cent. in respect of new public limited liability companies with broad-based ownership for a period of 5 years will be considered. A Committee will be appointed to examine this proposal and legislation will be introduced shortly.

Customs Reform

With effect from August 3, 1968, the Ceylon Customs tariff was changed over to the internationally accepted Brussels Tariff Nomenclature.² This brought greater clarity and simplicity to the tariff schedule. Simultaneously, the method of duty computation changed over from the then prevalent basis of wholesale market value to the c. i. f. value. It was also proposed to present a new Customs Bill to simplify and codify the Customs law by replacing the existing Customs Ordinance which dates back to 1870. Furthermore, it was proposed to establish a unified Customs service, incorporating the four different services that prevail at present namely, Preventive, Appraisal, Baggage and Landing.

OTHER FISCAL MEASURES

An account of the fiscal measures taken in November 1968 and immediately thereafter, to soften the impact of higher prices on the cost of living and to secure a part of the additional incomes accruing to exporters as a result of the devaluation of the Ceylon rupee, was given in the Annual Report for 1967.³ Other significant fiscal measures taken during 1968 are given below.

Export duty on Tea

It was mentioned last year that the export duty on all teas were increased by 5 cents. to 40 cents. per lb. in November 1967.³ With a view to encouraging the export of teas in packeted form (rather than in bulk, as it is the usual practice to export), the export duty on packeted teas which do not exceed 1 kilogram (2.2 pounds) in weight, was reduced by 15 cents. to 25 cents. per lb.⁴ Furthermore with a view to promote the exports of soluble teas ("instant-tea"), the export duty was abolished in respect of such exports.⁵

Export duty on Precious Stones

The export duty of 5 per cent ad valorem on exports of precious and semi-precious stones was abolished in November, 1968.⁶ This was an additional inducement to foster legal traffic in gem-trading (granting of Foreign Exchange Entitlement Certificates for gem-exports being the earlier inducement.)

1. The Budget Speech 1968/69, page 57. Ceylon Government Press, Colombo, 1968.

2. Ceylon Government Gazette No. 14,813/2 of August 2, 1968.

3. Annual Report, 1967 pp. 125-126.

4. Ceylon Government Gazette No. 14,800/8 of May 5, 1968

5. Ceylon Government Gazette No. 14,822/4 of October 8, 1968.

6. Ceylon Government Gazette No. 14,828/1 of November 15, 1968

Measures introduced with the Foreign Exchange Entitlement Certificate Scheme

Licence Fee on Imports

With the introduction of the Foreign Exchange Entitlement Certificate Scheme on May 6, 1968, the existing licence fee of 10% on imports was abolished. However, certain aid imports under "Special Aid Licences" for which surrender of Foreign Exchange Entitlement Certificates are not required, are subject to a licence fee of 15 per cent in the case of commodity aid and 20 per cent in the case of loans from international institutions.

Import Duties

Imports of industrial machinery and parts, and basic raw materials (excluding processed articles, components, packs and containers) were made duty free. Component parts required for use in an assembly or manufacturing process were liable for a duty of 5% preferential and 15% general.

Customs Tariff

A new Customs Tariff based on the Brussels Tariff Nomenclature was introduced on August 3, 1968 replacing the Customs Tariff based on Standard International Trade Classification. Under the new tariff system all categories of imports are specifically classified and the import duties standardised on the following basis:

- (a) Duty Free: Food stuffs, chemicals, essential consumer goods and industrial and agricultural machinery.
- (b) 10% preferential and 20% general: Non-essential items.
- (c) 50 per cent. to 60 per cent. range: Duties imposed mostly for Government revenue purposes, on items such as photographic goods, electrical lighting and signalling equipment, microphones etc.
- (d) 100 per cent. protective rates: Duties imposed on certain items under Open General Licence in order to prevent over-importation or to protect local industries.
- (e) Upto 300 per cent. prohibitive rates: Duties imposed on items such as liquor, tobacco, luxury vehicles etc.

It should be noted that under the new tariff system, the method of computing import duties would be based on the "c. i. f. value" of the goods imported and not on the "whole sale market value."