(F) PUBLIC FINANCE

The salient features of Government's fiscal operations in the financial year 1968/69 (i.e. October, 1968 to September, 1969), with corresponding data for nine previous financial years and the original estimates for 1969/70 are presented in Table II (F) 1 below. A detailed classification and analysis of data for 1968/69 and 1969/70 is made in the text and the tables that follow, especially in Table 30 of Appendix II.

In the financial year 1968/69, total revenue was Rs. 2,497 million and total expenditure was Rs. 3,445 million. The latter consisted of voted expenditure of Rs. 3,396 million and payments in respect of certain "Advance Accounts'[1] of Rs. 49 million. The resulting Budget deficit of Rs. 947 million was financed by foreign finance of Rs. 426 million, domestic market borrowing of Rs. 358 million, domestic non-market (net administrative borrowing) borrowing of Rs. 52 million and a drawing down of cash balances (including Foreign Aid Counterpart Funds) of Rs. 111 million. Allowing for "debt repayment etc."[2] of Rs. 160 million, the net cash deficit was Rs. 788 million.

When compared with the original Budget proposals, total expenditure was higher by Rs. 244 million. A major part of this increase (Rs. 110 million) was on account of capital expenditure, and the rest was accounted for by recurrent expenditure (Rs. 85 million) and advance account payments (Rs. 49 million). Total revenue, was also Rs. 159 million more than anticipated, and this curtailed the increase in the Budget deficit to Rs. 85 million. On the financing side, there were shortfalls in domestic market borrowing and foreign finance of Rs. 28 million and Rs. 50 million respectively, which were more than offset from two sources which were not anticipated at Budget-time, viz., administrative borrowing of Rs. 52 million and drawing down of cash balances (including foreign aid counterpart funds) of Rs. 111 million.

The net expansionary impact of the budgetary operations in 1968/69 is estimated at Rs. 179 million[3] which turned out to be much higher than the originally anticipated figure of Rs. 12 million. The net public debt at the end of the financial year stood at Rs. 6,239 million.

In the current financial year 1969/70, revenue is estimated to be Rs. 2,834 million and expenditure, Rs. 3,793 million. The resulting Budget deficit of Rs. 959 million is to be financed by domestic market borrowing of Rs. 457 million and foreign finance of Rs. 502 million. The expansionary impact of the budget is estimated to be Rs. 80 million.

It will be seen from Table II(F)1 below, that in the last ten financial years 1958/59 to 1968/69, Government revenue has increased steadily every year except in one year 1962/63, when a decrease was recorded. The same observation could be made with regard to Government expenditure. In the last ten years,

1 Please see explanatory footnote at page 121.
2 Please see footnote 5 of Table II (F) 1.
3 Vide Table II (F) 9.

Summary of Government Fiscal

Items	1959/60	1960/61	1961/62	1962/63
1. Revenue	**1,404**	**1,514**	**1,621**	**1,593**
2. Expenditure	**1,892**	**2,014**	**2,122**	**2,032**
2.1 Recurrent expenditure[c]	1,582	1,578	1,626	1,643
2.2 Capital expenditure[d]	308	421	481	403
2.3 Advance accounts and other	1	14	15	- 14
3. Budget deficit	**488**	**500**	**501**	**439**
4. Debt repayment[e]	70	37	45	47
5. Net cash deficit	**418**	**463**	**456**	**392**
6. Financing of Budget deficit				
6.1 Domestic non-market borrowing	57	29	105	- 34
6.2 Domestic market borrowing	395	441	374	372
6.3 Foreign finance	29	30	63	100
6.4 Decline in cash balances	6	...	- 40	...
7. Financing of net cash deficit				
7.1 Domestic non-market borrowing	57	29	105	- 34
7.2 Domestic market borrowing	331	409	339	333
7.3 Foreign finance	24	24	53	92
7.4 Decline in cash balances	6	...	- 40	...
8. Expansionary impact of fiscal operations	**251**	**234**	**190**	**162**
9. Public Debt outstanding (net)	**1,913**	**2,333**	**2,689**	**3,065**

a. These figures will differ from those in Government Accounts for reasons given in footnotes to Table 30 and 32 of Appendix II

b. After allocating FEEC expenditure of Government Departments vide pages 142 to 143.

c. For the sake of comparability, sinking fund payments, direct repayment of debt and contributions to international financial organizations which are classified since 1968/69 as capital expenditure, have been transferred to recurrent expenditure.

TABLE II (F) 1

Operations 1959/60 to 1969/70[a]

Rupees Million

1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 Original	1968/69 Provisional	1969/70 Original[b]
1,759	**1,816**	**1,833**	**1,955**	**2,156**	**2,339**	**2,497**	**2,834**
2,278	**2,337**	**2,515**	**2,677**	**3,007**	**3,201**	**3,445**	**3,793**
1,891	1,893	1,976	2,012	2,321	2,459	2,544	2,923
403	471	528	625	714	742	852	870
- 16	- 28	10	42	-29	—	49	—
519	520	682	723	850	862	947	959
57	90	116	117	135	161	160	236
462	430	566	607	716	701	788	722
- 2	50	112	72	10	—	52	—
368	334	498	418	630	386	358	457
108	117	154	256	247	476	426	502
45	20	- 82	- 22	- 36	—	111	—
- 2	50	112	72	10	—	52	—
323	261	418	348	552	298	271	361
95	100	118	209	190	403	354	362
45	20	- 82	- 22	- 36	—	111	—
163	**35**	**122**	**56**	**267**	**12**	**179**	**80**
3,436	**3,772**	**4,268**	**4,782**	**5,689**	n.a.	**6,239**	n.a.

Sorrce: Central Bank of Ceylon

d. Includes expenditure chargeable to National Development Reserve.

e. Includes sinking fund payments, direct repayments and contributions to internationalf inancial organizations.

revenue increased on an average by 6.6 per cent. (compound) per annum, while expenditure increased by 7.0 per cent. (compound) per annum (recurrent expenditure 5.7 per cent, and capital expenditure 10.9 per cent.) The average rate of annual increase was even higher in the last five years. In that period, revenue rose by 7.4 per cent and expenditure, by 8.7 per cent. per annum, (recurrent expenditure 5.3 per cent. and capital expenditure 5.9 per cent.) It will thus be observed that on an average, Government expenditure has been rising at a faster rate than Government revenue in the last ten years. However, these averages might conceal a more recent trend where the increase in revenue (in percentage though not in absolute terms) has been higher than the increase in expenditure. In 1968/69, for instance, revenue rose by 15.8 per cent, compared to a 14.6 per cent. increase in expenditure and in 1969/70, the budgeted increases are of the order of 13.5 per cent. for revenue and 10.1 per cent. for expenditure.

In absolute terms, however, increases in expenditure have outstripped increases in revenue. This has resulted in consistently increasing Budget deficits (again, except in 1962/63), which have been financed by increased borrowing from domestic and foreign sources.

In this context, a noteworthy feature in recent times has been an increasing reliance on foreign finance for budgetary purposes. In the last five years 1964/65 to 1968/69, gross foreign resources utilized for budgetary purposes was Rs. 1,199 million as compared to Rs. 329 million utilized in the preceding five year period 1959/60 to 1963/64. In fact, the foreign resources utilized in 1968/69 alone were higher than the total for the five year period 1959/60 to 1963/64.

In domestic borrowing, it will be seen that there has been a lesser recourse to expansionary financing of Budget deficits in the last five years than in the preceding five year period. The estimated expansionary impact of fiscal operations in the last five years totalled Rs. 660 million, while the corresponding figure for the preceding five-year period was Rs. 1,000 million. It is evident that expansionary financing in a period of rising Government expenditures in the last five years has been contained at this level by a heavier recource to external resources. This is reflected in the increases in public debt outstanding in the respective periods. In the last five years, the net debt outstanding rose by Rs. 2,803 million, consisting of Rs. 1,839 million of domestic debt and Rs. 964 million of foreign debt. In the preceding five years, the total net debt rose by Rs. 1,911 million, consisting of Rs. 1,738 million of domestic debt and Rs. 174 million of foreign debt.

The ensuing analysis of Government's receipts and payments in the last few years is based on a revised economic and functional classification of Government transactions which differs slightly from the figures published earlier.

After certain adjustments have been made in the revenue and expenditure figures of Government accounts, it has been possible to derive the current and capital components of Government revenue and expenditure. A reconciliation of these figures with those published in the Government accounts is made in Table II (F) 2 below, and the nature of the adjustments made in the reclassification is explained in the technical note at pages 186 to 188.

TABLE II (F) 2

Revenue and Expenditure of the Government 1964/65 to 1969/70 - Reconciliation

Rupees million

Items	1964/65	1965/66	1966/67	1967/68	1968/69 (Original Estimates)	1968/69 (Provisional)	1969/70 (Original Estimates)
1. **Revenue** (Heads 1 to 16) ..	1,816·4	1,833·3	1,954·8	2,156·4	2,338·5	2,497·3	2,833·9
Add: Profits from food sales (*a*) ..	186·0	209·7	263·3	276·4	296·6	293·7	251·5
Less: Rice subsidy tax (*b*) ..	0·5	0·3	0·3	1·9	3·5	3·1	2·0
2. **Total revenue** ..	2,001·9	2,042·7	2,217·8	2,430·9	2,631·6	2,787·9	3,083·4
3. **Recurrent Expenditure** (votes 1,2,4 & 6) (c) ..	1,803·4	1,860·5	1,895·3	2,186·2	2,356·8	2,384·2	2,832·8
Less: Net food subsidy (*d*) ..	290·0	290·0	193·0	297·5	334·5	334·5	361·8
Add: Losses on food sales (*e*) .	442·3	487·4	465·5	574·6	631·1	623·2	613·3
Less: Rice subsidy tax (*b*) ..	0·5	0·3	0·3	1·9	3·5	3·1	2·0
Less: Capital items in recurrent votes (*f*) ..	83·4	89·6	97·4	115·6	125·6	117·2	208·2
Add: Current items in capital votes (g) ..	18·0	21·3	23·2	37·5	52·4	57·0	57·2
4. **Current payments** ..	1,889·8	1,989·3	2,903·1	2,383·3	2,576·5	2,609·6	2,931·4
5. **Capital Expenditure** (votes 3,5 & 7) (c) ..	471·2	528·4	624·7	714·4	872·7	852·0	930·0
Add: Capital items in recurrent votes (*f*) ..	83·4	89·6	97·4	115·6	125·6	117·2	208·2
Less: Current items in capital votes (g) ..	18·0	21·3	23·2	37·5	52·4	57·0	57·2
6. **Capital payments** ..	536·7	596·7	698·7	792·5	945·8	912·1	1,080·9

Source: Central Bank of Ceylon.

(*a*) Profits from the sale of flour, sugar and certain other foodstuffs.

(*b*) A tax of Rs. 52 per annum levied on rice ration book holders whose assessable income exceeds Rs. 12,000 per annum.

(c) Sinking fund contributions, direct repayments of public debt and special payments to international organizations are excluded from recurrent expenditure upto the financial year 1967/68 and from capital expenditure from 1968/69 onwards. The figure of recurrent expenditure for 1969/70 also excludes the cost of purchase of FEECs in respect of sterling loan sinking fund contributions and direct repayment of foreign debt.

(*d*) Consists of producer and consumer subsidy on rice and onions less profits from sale of sugar, flour and certain other items — vide Table II (F) .7

(*e*) Losses on purchase and issue of rice, onions and other foodstuffs.

(*f*) Consists mainly of expenditure on maintenance of capital works and salaries of personnel engaged in capital works and in 1969/70 the cost of purchase of FEECs in respect of capital expenditure amounting to Rs. 78·1 million.

(*g*) Consists mainly of defence expenditure and current transfers included under capital votes.

REVENUE

Past Annual Reports have observed that buoyancy of Government revenue was one of the satisfactory features of budgetary operations in the last two years. An improved performance was noticeable in the financial year 1968/69 when Government revenue recorded an increase of Rs. 357 million or nearly 15 per cent.

Details of Government receiptsf or the last five years are given in Table 35 A of Appendix II and similar details for several previous years (under the former classification) are given at Table 35 of Appendix II. A summary of Government revenue in the last two years and the budgeted figures for 1969/70 are presented in Table II (F) 3 below.

Current revenue in 1968/69, as in the past, has accounted for the bulk of Governent revenue, capital receipts being negligible. Of current revenue, taxes on production and expenditure have contributed about two-thirds of total Government revenue. The increase in the revenue in 1968/69 mentioned earlier was mainly on account of higher receipts from income tax (Rs. 27 million), turnover tax (Rs. 32 million), tobaccco tax (Rs. 51 million), sale of FEECs (Rs 208 million), export duties (Rs. 36 million) and gross receipts of government enterprises (Rs. 36 million). Offsetting these were decreases in revenue from import duties (Rs. 54 million). It is noteworthy that while the share of import duties in Government revenue had declined, the increase in the share of receipts from the sale of FEECs has more than compensated this decrease.

When compared with the original Budget estimates, the actual (though provisional) revenue for 1968/69 shows an increase of Rs. 158 million or 6 per cent. This was mainly due to increased receipts from income tax (Rs. 68 million), turnover tax (Rs. 19 million), tobacco tax (Rs. 25 million), import duties (Rs. 51 million) and export duties (Rs. 59 million) etc. which more than offset a shortfall in the anticipated revenue from FEEC sales (Rs. 75 million).

In the current financial year 1969/70, Government revenue is expected to increase further by Rs. 295 million or nearly 11 per cent. As in the previous year, notable increases in revenue are anticipated from turnover tax (Rs. 171 million), sale of FEECs (Rs. 255 million), and gross receipts of Government enterprises (Rs. 30 million). On the other hand, decreases are expected in income tax revenue (Rs. 13 million), tea tax (Rs. 12 million), import duties (Rs. 136 million) and profits from food sales[1] (Rs. 42 million),

Taxes on Personal and Corporate Income

Revenue from this source consisted almost entirely of income tax on individuals and firms.[2] The enhanced revenue in 1968/69 over the previous year and the original estimate for the year was due to several factors. First, there was a better than-anticipated performance by several public sector industrial and commercial

1. Consisting almost entirely of profit from the sale of flour and sugar.
2. Although no breakdown between individuals and firms is available, it is generally estimated that the former accounts for about 40 per cent and the latter to about 60 per cent of revenue collected.

TABLE II (F) 3

Revenue of the Government 1967 - 68 to 1969 - 70a

Rupees Million

Sources	1967 – 68 Actual	1968 – 69 Original Estimates	1968 – 69 Actual Provisional	1969 – 70 Original Estimates
1. Current Receipts	**2,398.1**	**2,596.0**	**2,749.3**	**3,050.4**
1.1 Taxes from personal & corporate income	**317.6**	**275.0**	**343.9**	**330.0**
1.1.1 Income Tax	315.9	275.0	343.0	330.0
1.1.2 Other	1.7	—	0.9	—
1.2 Taxes on production and expenditure	**1,618.0**	**1,822.2**	**1,902.4**	**2,147.7**
1.2.1 General sales and turnover taxes	79.2	92.0	111.0	282.0
1.2.2 Selective sales taxes	238.7	258.8	278.3	264.9
(a) Tobacco tax	168.4	195.0	219.7	220.0
(b) Tea tax	56.0	50.0	42.3	30.8
(c) Other	14.3	13.8	16.3	14.1
1.2.3 Import duties	514.0	409.4	460.2	324.0b
(a) Grain & Flour	23.3	22.1	22.7	n.a.
(b) Sugar	33.5	31.2	34.1	n.a.
(c) Cotton yarn, twist etc.	27.5	11.1	16.0	n.a.
(d) Tobacco and cigarettes	30.9	27.0	22.4	n.a.
(e) Kerosene oil, motor spirits etc.	135.3	159.0	138.2	n.a.
(f) Fertilizers	11.9	18.8	12.8	n.a.
(g) Hardware and building materials other than cement	16.7	12.0	16.5	n.a.
(h) Transport equipment	38.8	30.0	56.4	n.a.
(i) Industrial raw materials	22.0	5.0	0.8	n.a.
(j) Others	107.2	92.0	137.6	n.a.
(k) Import licence fees	67.0	1.2	2.7	5.0
1.2.4 Receipts from sale of FEECS	77.0	360.0	285.2	540.0
1.2.5 Export duties	264.5	241.7	300.3	298.2
(a) Tea	177.3	183.0	177.4	185.0
(b) Rubber	10.1	9.0	64.1	41.3
(c) Coconut	68.1	42.6	45.7	40.2
(d) Others	9.0	7.1	13.1	31.7
1.2.6 Licence taxes	37.8	37.2	41.4	41.4
1.2.7 Property transfer taxes	20.4	15.5	22.0	20.7
1.2.8 Surplus of Government monopolies	110.0	111.0	110.3	125.0
1.2.9 Profit from food sales	276.4	296.6	293.7	251.5
1.3 Interest and dividends received	**21.2**	**18.7**	**18.8**	**49.4**
1.3.1 Profits and dividends from state corporations	15.0	13.8	11.5	43.0
1.3.2 Other	6.2	4.9	7.3	6.4
1.4 Gross receipts of trading enterprises	**335.2**	**364.1**	**371.6**	**401.4**
1.4.1 Railway	124.6	123.8	131.0	129.3
1.4.2 Electricity	105.9	122.3	115.0	137.7
1.4.3 Postal and telecommunications	64.0	64.3	69.5	77.2
1.4.4 Ports and harbours	36.3	36.6	41.0	37.3
1.4.5 Other	4.4	17.1	15.1	19.9
1.5 Other current receipts	**106.1**	**114.5**	**112.6**	**121.9**
1.5.1 National lottery	15.4	18.0	18.2	21.0
1.5.2 Other	90.7	96.5	94.4	100.9
2. Capital Receipts	**32,8**	**35.6**	**38.5**	**33.0**
2.1 Transfers from capital accounts of domestic sectors	**23.2**	**25.0**	**28.7**	**22.0**
2.1.1 Estate duty	9.0	9.0	14.3	9.0
2.1.2 Personal tax	13.6	16.0	13.7	13.0
2.1.3 Other	0.6	—	0.7	—
2.2 Other capital receipts	**9.6**	**10.6**	**9.8**	**11.0**
3. Total Revenue	**2,430.9**	**2,631.6**	**2,787.9**	**3,083.4**

Source: Central Bank of Ceylon

(a) For details of items given above, please see footnotes to Table 35A of Appendix II and the note on the Economic and Functional classification of the Receipts and Payments of the Government of Ceylon at pages 186 to 188.

(b) Details of import duties on the basis given earlier are not available owing to the adoption of a new Import/Export classification.

enterprises. Secondly, there was additional revenue forthcoming from improved assessments due to investigations into suspected tax evasion. Thirdly, there was a widening of the tax-net by the addition of new taxpayers.

The anticipated income tax revenue in 1969/70, though much higher than the Budget estimate for the previous year, is lower than the actual (provisional) revenue in 1968/69 by Rs. 14 million. This may be attributed to an expected reduction in profits of firms due to siphoning-out of a portion of profits by the turnover taxes and FEEC payments. It may also be due to the traditional caution exercised in forecasting such revenue. It is noteworthy that actual income tax revenue has consistently exceeded the original forecasts in the last few years.

Taxes on Production and Expenditure

This item comprises general sales and turnover taxes (consisting almost entirely of turnover tax), selectives ales taxes (e. g. tax on tobacco and tea) import duties, export duties, receipts from FEEC sales, surplus of Government monopolies (i. e. arrack) and receipts from food sales (e. g. flour and sugar).

(a) Turnover Tax

It was observed in the last year's Annual Report that turnover tax (along with tobacco tax) has emerged as a buoyant source of Government revenue. In fact, receipts from this tax on the turnover of manufacturers and other businesses in 1968/69 were Rs. 32 million higher than in the previous year and Rs. 19 million higher than the original estimate for 1968/69. In 1969/70, it is expected to contribute Rs. 171 million more to Government revenue than in 1968/69. If this is realized, it will account for 9 per cent of total Government revenue, in sharp contrast to the 3 per cent it accounted for, in 1967/68. The improvement in receipts in 1968/69 was due to enhancement of the tax-rate from 5 to 10 per cent in respect of certain manufactures, the inclusion of incomes from professions and services under the tax, and the simplifcation of procedures by imposing the tax on the aggregate turnover of each branch of business.[1] It was also due to the higher turnover resulting from a higher level of business activity. The further and sharp enhancement of revenue expected in 1969/70 is on account of the lowering of the exemption limit from Rs. 100,000 to Rs. 75,000 per annum, changes in the basis of taxation of oil imports from import duties to turnover tax, introduction of certain higher rates and the inclusion of cigarette manufacturing under the tax.[2]

(b) Selective Sales Taxes

The increase in revenue of Rs. 40 million from selective sales taxes in 1968/69 over the previous year was mainly on account of enhanced revenue of Rs. 51 million from tobacco tax, and Rs. 2 million from other taxes, which was partly offset by a fall in revenue from tea tax of Rs. 14 million. Also, the revenue from these taxes was Rs. 20 million higher than the original Budget

1. Annual Report·1968. p. 203
2. Details of these decisions are given later on in the Report.

estimate for 1968/69 owing mainly to a higher receipt of Rs. 25 million from tobacco tax and a lower receipt of Rs. 8 million from tea tax. The higher collection of tobacco tax was due chiefly to the increase in the tobacco tax from August, 1968. Moreover, inspite of price increases, sales of tobacco products showed an increase. On the other hand, the decrease in the ad-valorem tea tax collections was due to the lower level of tea prices that prevailed at the Colombo and London Auctions.

In 1969/70, the revenue from selective sales taxes is expected to be lower by Rs. 13 million than in the previous year. While the tobacco tax revenue is expected to be at about the same level as in the previous year, because the August, 1969 price increases are expected to have some adverse effect on cigarette sales, the tea tax revenue is expected to decline by a further Rs. 12 million.

(c) Import duties

Last year's Annual Report observed that there was a declining trend in import duties as a source of Government revenue.[1] This trend continued in 1968/69. Although the import duty revenue in 1968/69 was Rs. 51 million higher than the Budget estimate for the year (largely because of higher revenue from miscellaneous imports), it was yet Rs. 54 million lower than that of the previous year. This decrease was largely on account of cotton yarn and twist (Rs. 12 million), tobacco (Rs. 9 million), industrial raw materials (Rs. 21 million) and import licence fees (Rs. 64 million), partly offset by increased receipts from transport equipment (Rs. 18 million) and miscellaneous imports (Rs. 30 million). The decrease in revenue from the first two items was partly the result of a decrease in the volume of imports. In the case of cotton yarn and twist it was also due to extra-legal waivers of duty on imports of Salu Sala Ltd.[2] On the other hand, the decreases in revenue from industrial raw materials and import licence fees was on account of the virtual abolition of these revenue-sources in 1968 along with the introduction of the Foreign Exchange Entitlement Certificates Scheme. Meanwhile, the increase in revenue from transport equipment and other miscellaneous imports was consequent on the increase in imports of lorry chassis, car engines and other items under Open General Licence.

In the financial year 1969/70, import duty revenue is expected to decline further by Rs. 136 million. Details of this change on the basis given earlier are not available owing to the adoption of a new import classification, but one of the main reasons for this decrease was the change in the method of taxation of oil (petroleum) imports from import duties to turnover tax after the coming on stream of the Oil Refinery.[3]

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1 Annual Report, 1968. p. 168

2. A semi-Government public company which enjoys a monopoly of cotton textile imports (except direct-user imports) to Ceylon.

3. A detailed explanation of this measure is given in the later section on "The Budget 1969/70".

(d) Receipts from the Sale of FEECs

The revenue from FEEC sales in 1968/69 was Rs. 208 million higher than in the previous year. This covers the operation of the Scheme for a full year, whereas the previous year's receipts were for a period of five months. The receipts in 1968/69, however, were Rs. 75 million lower than the budgeted estimate. In 1969/70 a sharp increase of Rs. 255 million in FEEC revenue is anticipated. A major portion (Rs. 200 million) of this increase will arise from the foreign payments of Government Departments which have been made subject to the surrender of FEECs.

(e) Export duties

Revenue from export duties in 1968/69 was Rs. 36 million more than in the previous year. This was mostly on account of an enhanced revenue from rubber exports, of Rs. 54 million. Of the other two major exports, export duty revenue from tea was at the same level as in the previous year, while the revenue from coconut exports fell sharply by Rs. 22 million. Other minor exports brought in an additional revenue of Rs. 4 million.

When compared with the original Budget estimates, the export duty revenue showed an increase of Rs. 59 million. This increase was the net effect of increases of Rs. 55 million from rubber, Rs. 3 millon from coconuts and Rs. 6 million from other minor exports, partly offset by a decrease of Rs. 6 millon from tea.

In 1967/68, rubber export duty collections rose by Rs. 12 million despite a decline in the average export (f. o. b.) price by 11 cents, owing to an increase in export-volume of 5 million lbs. and a levy of an additional specific duty of 3 cents per pound since November, 1969. (The rubber exports are taxed on an ad-valorem scale). The sharper increase in revenue in 1968/69 was the combined result of a further increase in exports of 6 million pounds, a notable increase in average export price of 35 cents, and the additional specific duty referred to. Tea export duty revenue, which increased by Rs. 19 million in 1967/68 (owing to an increase in exports of 3 million pounds and the increase in the export duty by 5 cents to 40 cent per pound), was static in 1968/69 because the actual exports in the year were at about the same level as in the previous year.

Export duty revenue from coconut products which recorded a three-fold increase in 1967/68 over the previous year (on account of sharp price increases and higher export volumes), recorded a decrease of Rs. 22 million or by one-third in 1968/69. Except for the minor item of nuts, the revenue from the three major coconut exports showed decreases. Revenue from copra declined by Rs. 2 million because a fall in the export price more than offset a slight increase in export volume. In the case of coconut oil, a slight rise in export price was inadequate to compensate a fall in export-volume and the revenue was lower by Rs. 9 million. The sharpest decline was in respect of desiccated coconut, where a combined fall in export price and volume contributed to a fall of Rs. 12 million in revenue. In 1969/70, the revenue from coconut exports is expected to drop by a further Rs. 6 million mainly on account of an anticipated shortfall in revenue from desiccated coconut.[1]

(f) Licence and Property Transfer taxes

The revenue from licence taxes (arrack tavern rents, toddy tapping licence fees, radio licence fees etc.) and property transfer taxes (stamps, tax on transfer of motor cars etc.) were Rs. 5 million more in 1968/69. The increase was mainly on account of licence taxes. In 1969/70 the revenue from these sources are expected to be at the same level as in the previous year.

(g) Surplus of Government Monopolies

This revenue item consisted entirely of the profit made by the Government in the sale of arrack. The revenue from this source in 1968/69 was at about the same level as in the previous year and was only fractionally lower than the Budget estimate for the year. When account is taken, however, of a credit of Rs. 6 million of past profits to the 1967/68 figure, the revenue in 1968/69 was higher by Rs. 6 million. This was due to increased sales of arrack, particularly of the relatively cheaper blend of coconut arrack and spirits. The budgeted increase of Rs. 15 million in arrack profits in 1969/70 is based on an anticipated further increase in sales.

(h) Profits from Food Sales

This item comprising mainly the profits from the sale of sugar and flour showed an increase of Rs. 17 million in 1968/69 over the previous year. In 1969/70, the profits are estimated to fall by Rs. 42 million. Reasons for these changes will be given in the later section on the net food subsidy.

Interest and Dividends

The decline in revenue from this source of Rs. 2 million in 1968/69 was due to lower receipts of dividends and profits from public corporations and public companies. This decrease, inspite of an emerging trend of greater economic viability of public corporations could be attributed to self-financing of certain capital projects by certain profit-making corporations and to increases in wages in most corporations. In 1969/70, however, a higher receipt of about Rs. 31 million is anticipated from public corporations.

Receipts from Trading Enterprises

The gross receipts from Government's trading enterprises (mainly the Railway, Electricity, Postal & Telecommunication Services and Ports)[2] were Rs. 36 million higher in 1968/69. They were also Rs. 8 million more than the

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1 For a more detailed explanation of the trade movements, please see the later section on "Foreign Trade."

2. The receipts shown in table 11 (F) 3 are higher than the revenue shown under these Departments in Government Accounts. The difference is due to the inclusion of relevant items of reimbursements (Head VIII), Interest and Annuities etc. (Head X). For details please see Technical Note at pages 186 to 188.

Budget estimate for the year. The increase was on account of higher receipts recorded by all the enterprises. In 1969/70, receipts from this source are expected to increase by a further Rs. 30 million, mainly in view of higher anticipated receipts from Electricity (Rs. 23 million)[1] and Postal and Telecommunication Services (Rs. 8 million). A slight fall in receipts is expected from the Railway.

Other Current Receipts

The current revenue from other miscellaneous sources in 1968/69 was Rs. 7 million more than in the previous year. The National Lottery accounted for Rs. 3 million of this increase. In 1969/70, revenue from these sources is anticipated to be higher by Rs. 9 million, of which another Rs. 3 million increase is expected from the Lottery.

Capital Receipts

Capital receipts consisting mainly of estate duty and personal tax were Rs. 6 million more than in the previous year. Most of this increase was accounted for by estate duty collections. In 1969/70, such capital receipts are expected to fall by Rs. 6 million, again owing to a decrease in estate duty.

EXPENDITURE

The total expenditure of the Government in the financial year 1968/69 amounted to Rs. 3,445 million, comprising voted expenditure of Rs. 3,396 million and "advance account" payments of Rs. 49 million. This represented an increase of Rs. 438 million or 15 per cent over the total expenditure of the previous year, and an increase of Rs. 244 million or 8 per cent over the Budget estimates for the year.

Details of expenditure from 1967/68 to 1969/70 are given in Table II (F) 4 below.

TABLE II (F) 4
Government's Expenditure 1967/68 to 1969/70

Rs. Million

Items	1967/68	1968/69		1969/70
		Original Estimate	Provisional	Original Estimate
1. Voted expenditure ..	3,035	3,201	3,396	3,793
1.1 Recurrent expenditure ..	2,321	2,459	2,544	2,923
1.2 Capital expenditure ..	714	742	852	870
2. Advance account operations ..	– 29	–	49	–
3. Total expenditure ..	3,007	3,201	3,445	3,793

Source: Central Bank of Ceylon

When account is taken of Rs. 80 million of supplementary estimates on recurrent votes and Rs. 122 million of supplementary estimates on capital votes which were approved during 1968/69, the total gross anticipated recurrent and capital expenditures of the Government[2] in 1968/69 get enhanced to Rs. 2598 millon and Rs. 994 million respectively. Thus, the final out-turn of expenditure

1. The Department of Government Electrical Undertakings was re-constituted as a public corporation called "The Ceylon Electricity Board" on November 1, 1969.
2. Includes the originally anticipated under-expenditure on Government expenditure. Hence, this figure will be higher than expenditure given in the text.

in 1968/69 represents an under expenditure of 2.1 per cent on recurrent votes and 14.3 per cent on capital votes. In the previous year, the comparable ratios of under expenditure were 3.6 per cent on recurrent votes and 14.8 per cent on capital votes. In fact, there has been a progressive reduction in under-expenditure since 1966/67.

The Budget for 1969/70 provides for a total expenditure of Rs. 3,793 million showing an increase of Rs. 348 million or 10 per cent over the provisional figures for 1968/69. The increase of Rs. 379 million in recurrent expenditure was the major factor that contributed to the increase in total expenditure while estimated capital expenditure also showed an increase of Rs. 18 million. On the other hand no provision was made for operations of the advance account activities, in contrast to a net payment of Rs. 49 million in 1968/69.

When the Government's expenditure provisions are reclassified on an economic and functional basis,[1] current expenditure of the Government in 1968/69 amounts to Rs. 2,610 million and capital expenditure to Rs. 912 million. Along with the net payment on advance accounts, the total expenditure amounts to Rs. 3,571 million. This was Rs. 424 million higher than the total net expenditure of the previous year. A detailed breakdown of this expenditure is given at Table 35A of Appendix II.

Current Expenditure

The current expenditure of the Government which rose by Rs. 290 million or 14 per cent in 1967/68, increased further by Rs. 226 million or 9 per cent in 1968/69. In the current year 1969/70, a bigger increase of Rs. 322 million or 12 per cent is anticipated. Details of current expenditure for the last five years and 1969/70 are given in Table 35A of Appendix II and data for the last three years and 1969/70 are summarized in Table II (F) 5 below.

(a) Administration

Current expenditure on civil administration and defence rose by Rs. 5 million and Rs. 6 million respectively in 1968/69. This increase was much lower than the increase of Rs. 41 million of the previous year, which got enhanced owing to the payments of "interim allowances" to Government employees. In 1969/70, the current administration expences are estimated to again appreciate sharply (by Rs. 77 million) mainly on account of the salary increases awarded to Government employees.

(b) Social Services

Current expenditure on social services has generally accounted for about one-fourth of Government's total current payments.

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1. Net of sinking fund contributions, loan repayments and contributions to internatioual financial organizations. The adjustments are shown in Table II (F) 3 and explained in the Technical note at pages 186 to 188.

TABLE II (F) 5
Current Expenditure of the Government (a) 1966/67 to 1969/70

Items	1966/67		1967/68		1968/69 Original		1968/69 Provisional		1969/70 (Original)	
	Amount Rupees million	Percentage	Amount Rupees million	Percentage	Amount Rupees million	Percentage	Amount Rupees million	Percentage	Amount Rupees million	Percentage
1. Administration	**287.8**	**13.7**	**328.4**	**13.8**	**339.1**	**13.2**	**339.3**	**13.0**	**416.0**	**14.2**
1.1 Civil ..	221.1	10.5	252.0	10.6	256.5	10.0	256.6	9.8	323.8	11.0
1.2 Defence ..	66.7	3.2	76.4	3.2	82.6	3.2	82.7	3.2	92.2	3.1
2. Social Services ..	**530.9**	**25.4**	**597.5**	**25.1**	**647.0**	**25 1**	**647.5**	**24.8**	**728.8**	**24.9**
2.1 Education ..	340.4	16.3	396.6	16.7	422.0	16.4	415.2	15.9	470.0	16.0
2.2 Health ..	168.4	8.0	178.1	7.5	202.4	7.9	210.0	8.0	233.0	7.9
2.3 Other ..	22.1	1.1	22.8	1.0	22.6	0.9	22.3	0.9	25.8	0.9
3. Economic Services ..	**107.7**	**5.1**	**112.5**	**4.7**	**130.6**	**5.1**	**123.9**	**4.7**	**160.6**	**5.5**
3.1 Agriculture & Irrigation.	51.3	2.4	51.8	2.2	60.0	2.3	57.0	2.2	78.1	2.7
3.2 Communications ..	24.1	1.2	27.6	1.2	31.8	1.2	30.3	1.1	31.9	1.1
3.3 Other ..	32.3	1.5	33.1	1.3	38.8	1.5	36.6	1.4	50.6	1.7
4. Gross Payments of Trading Enterprises ..	**256.7**	**12.3**	**288.1**	**12.1**	**293.4**	**11.4**	**300.9**	**11.5**	**327.0**	**11.2**
5. Intra-Governmental payments ..	**3.7**	**0.2**	**3.9**	**0.2**	**3.8**	**0.1**	**4.0**	**0.2**	**4.0**	**0.1**
6. Transfer payments ..	**906.3**	**43.3**	**1052.9**	**44.2**	**1162.6**	**45.1**	**1194.0**	**45.8**	**1278.2**	**43.6**
6.1 Food Subsidies ..	465.2	22.2	572.7	24.0	627.6	24.4	620.1	23.7	611.3	20.9
6.2 Interest on public debt ..	143.5	6.9	166.5	7.0	192.0	7.5	206.2	8.0	262.5	9.0
6.3 Pensions ..	128.7	6.1	154.9	6.5	149.2	5.8	161.1	6.2	168.9	5.8
6.4 Other, to private current accounts ..	102.5	4.9	99.5	4.2	115.7	4.5	119.5	4.6	131.2	4.5
6.5 To local authorities ..	42.0	2.0	50.5	2.1	60.4	2.3	60.7	2.3	67.5	2.3
6.6 Other ..	24.4	1.2	8.8	0.3	17.7	0.7	26.4	1.0	36.8	1.3
7. Total ..	**2093.1**	**100.0**	**2383.3**	**100.0**	**2576.5**	**100.0**	**2609.6**	**100.0**	**2931.4**	**100.0**

Source: Central Bank of Ceylon.

(a) See foot-notes to Table 35A of Appendix II.

In 1967/68, such expenditure rose by Rs. 67 million on account of increases on education of Rs. 56 million and on health of Rs. 10 million.[1] In 1968/69, there was an overall increase of Rs. 50 million owing to a rise of Rs. 19 million on education and Rs. 32 million on health. The previous year's increase mainly reflected the enhanced wages on account of the payment of "Interim allowances". The 1968/69 increase was mainly due to an increase in health expenditure which was the result of the measures taken to prevent a threatened re-emergence of malaria on an epidemic scale.

1. Of the total estimated cost of the 1968 and 1969 salary revisions, a part was allocated to capital expenditure.

In 1969/70, such social service expenditure is estimated to be higher by Rs. 81 million or 13 per cent, mainly on account of an increase of Rs. 55 million in education and Rs. 23 million in health. A considerable portion of this expenditure consists of enhanced wages to those Government servants who are employed in those services.

(c) Economic Services

Current payments on economic services (which account for about 5 per cent of total current expenditure) rose by Rs. 11 million or 10 per cent in 1968/69. About one-half of this increase was on agriculture and irrigation. In 1969/70, the economic services are estimated to cost Rs. 37 million more. Agriculture and irrigation account for two-thirds of this increase, indicating the emphasis placed by the Government on agricultural development.

(d) Gross Payments of Trading Enterprises

These payments mostly by the Railway, Electrical, Port, Postal and Telecommunication services of the Government which rose by Rs. 31 million or 12 per cent in 1967/68 (mostly owing to wage increases by "interim allowances") showed a moderate increase of Rs. 13 million or 4 per cent in 1968/69. In 1969/70 such payments are estimated to be higher by Rs. 20 million or 9 per cent, again chiefly on account of wage increases in the public sector.

(e) Current Transfers

As in the previous years, an increase in the transfer payments on current account was the major factor responsible for the increase in total current expenditure. Such transfers, which rose by Rs. 147 million or 16 per cent in 1967/68 (mainly owing to a Rs. 108 million increase in the gross food subsidy[1]) increased by a further Rs. 141 million or 13 per cent in 1968/69. An enhanced increase in the gross food subsidy[1] of Rs. 47 million, and higher interest cost of public debt (Rs. 40 million) were the main contributory factors. In 1969/70, however, a smaller increase in transfer payments is anticipated. The budgeted increase of Rs. 84 million includes an increase of Rs. 56 million in public debt interest, and a decrease of Rs. 9 million in the gross food subsidy. In view of the latter decrease, the ratio of the food subsidy to total current payments is expected to decline to 21per cent.

Capital Expenditure

In 1968/69, capital expenditure of the Government, as shown in Table II(F) 6 amounted to Rs. 912 million, showing an increase of Rs. 120 million or 15 per cent as compared to an increase of Rs. 94 million or 13 per cent. recorded in the previous year. A satisfactory feature in the last five years has been the progressive increase in capital expenditure from Rs. 537 million in 1964/65 to Rs. 912 million in 1968/69, registering an average (compound) growth rate of 14 per cent.

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1. For details, please see later section on Net Food Subsidy and Table II (F) 7.

TABLE II (F) 6

Capital Expenditure of the Government[a] 1966/67 to 1969/70

Items	1966/67		1967/68		1968/69 Original Estimates		1968/69 Provisional		1969/70 Original Estimates	
	Amount Rupees Million	Percentage	Amount Rupees Million	Percentage	Amount Rupees Million	Percentage	Amount Rnpees Million	Percentage	Amount Rupees Million	Percentage
1. Acquisition construction and maintenance of real assets ..	420.0	60.1	493.8	62.4	586.1	62.0	526.1	57.7	750.2[b]	69.4
1.1 Civil Administration	11.9	1.7	13.1	1.7	16.1	1.7	16.7	1.8	24.0	2.2
1.2 Social Services ..	79.5	11.4	94.2	11.9	117.2	12.4	113.0	12.4	140.8	13.0
1.2.1 Education ..	26.4	3.8	33.4	4.2	40.5	4.3	31.8	3.5	52.2	4.8
1.2.2 Health ..	20.9	3.0	24.5	3.1	33.0	3.5	37.3	4.1	41.8	3.9
1.2.3 Housing ..	26.0	3.7	30.7	3.9	34.6	3.7	35.9	3.9	36.2	3.3
1.2.4 Other ..	6.2	0.9	5.6	0.7	9.1	0.9	8.0	0.9	10.6	1.0
1.3 Economic Services ..	328.6	47.0	386.5	48.8	452.8	47.9	396.4	43.5	551.7	51.0
1.3.1 Agriculture irrigation ..	110.8	15.7	139.8	17.6	175.0	18.5	167.9	18.4	227.3	21.0
1.3.2 Manufacture mining ..	7.9	1.1	23.9	3.0	11.1	1.1	5.0	0.5	10.8	1.0
1.3.3 Communications ..	161.0	23.0	154.9	19.5	189.5	20.0	170.0	18.7	242.3	22.4
1.3.4 Power ..	46.9	6.7	64.4	8.1	71.5	7.6	39.5	4.3	60.1	5.6
1.3.5 Other ..	2.0	0.3	3.5	0.5	5.7	6.1	14.0	1.5	11.2	1.0
2. Capital transfers	243.7	34.9	271.3	34.2	315.6	33.4	342.5	37.6	298.5	27.6
2.1 Local Authorities ..	13.9	2.0	14.2	1.8	15.7	1.7	15.4	1.7	15.9	1.5
2.2 Public Corporations	198.9	28.5	212.5	26.8	263.2	27.8	291.6	32.0	255.3	23.6
2.2.1 Agriculture irrigation ..	38.5	5.5	65.9	8.3	62.5	6.6	70.0	7.7	57.5	5.3
2.2.2 Fisheries ..	23.0	3.3	15.6	2.0	17.9	1.9	16.7	1.8	14.9	1.4
2.2.3 Manufacture and mining ..	120.2	17.2	115.5	14.6	170.3	18.0	190.1	20.8	173.4	16.0
2.2.4 Other ..	17.2	2.5	15.5	2.0	12.5	1.3	14.8	1.6	9.5	0.9
2.3 Other ..	30.9	4.4	44.6	5.6	36.7	3.9	35.5	3.9	27.3	2.5
3. Acquisition of financial assets ..	35.0	5.0	27.4	3.5	44.1	4.7	43.5	4.8	32.2	3.0
4. Total ..	698.7	100.0	792.5	100.0	945.8	100.0	912.1	100.0	1080.9	100.0

Source: Central Bank of Ceylon.

(a) See foot-notes to Table 35A of Appendix II.
(b) The component items will not add up to this sub-total for reasons given in foot-note (c) of Table 35A of Appendix II.

It will be seen that in 1968/69, capital expenditure consisted of Rs. 526 million or 58 per cent. of capital expenditure of Government Departments Rs. 343 million or 38 per cent. of capital transfers and Rs. 44 million or 5 per cent. of acquisition of financial assets. The comparative data for the preceding financial year were Rs. 494 million or 62 per cent. Rs. 271 million or 34 per cent. and Rs. 27 million or 3 per cent. respectively. Thus the increase of Rs. 120 million in capital expenditure in 1968/69 comprises increases of Rs. 32 million in capital expenditure of Government Departments, Rs. 71 million in capital transfers and

Rs. 16 million in acquisition of financial assets. In the previous financial years, while capital expenditure of Government Departments and capital transfers recorded increases of Rs. 74 million and Rs. 28 million, respectively, expenditure in respect of acquisition of financial assets declined by Rs. 8 million.

The higher increase in capital transfers in 1968/69 was on account of several capital-intensive projects undertaken by public corporations. Over the years, capital transfers to public corporations have emerged as a significant item of Government's capital expenditure. This can be attributed to the growth of public corporations either by the establishment of new ventures or by the transfer of various commercial activities of the Government to such corporations. In the last 3 years, capital transfers to corporations have accounted for more than one quarter of the Government's capital budget.

It should be noted, however, that many public corporations incur additional capital expenditure either with their own funds (e.g. profits) or by borrowing from commercial banks and foreign suppliers (e.g. external suppliers' credit). Thus, the Government Budget has come to reflect only a part of public-sector capital-formation. On the other hand, certain public corporations keep a part of their Government grants as deposits with the Treasury and this under-utilization is not reflected in the Government Accounts. Current evidence indicates that the self-financing by public corporations exceed the under-utilization of allotted funds and hence, the net result is an under-statement of the extent of public sector activity.

Of the estimated gross capital expenditure of Rs. 1081 million[1] in the current financial year 1969/70, capital expenditure of Government Departments is anticipated to be Rs. 750 million, while capital transfers and acquisition of financial assets are estimated to be Rs. 299 million and Rs. 32 million, respectively. Thus, capital expenditure of Government Departments is expected to be Rs. 169 million higher than in 1968/69. Meanwhile, capital transfers and acquisition of financial assets are anticipated to be lower than the previous financial year by Rs. 44 million and Rs. 11 million, respectively.

(a) Capital Expenditure of Goverment Departments

The capital expenditure of Government Departments in 1968/69 amounted to Rs. 526 million showing an increase of Rs. 32 million or 6 per cent. as compared to an increase of Rs. 74 million or 18 per cent. in the previous year. The increase of Rs. 32 million in 1968/69 consisted of increases of Rs. 10 million on economic services, of Rs. 19 million on social services and of Rs. 4 million on civil administration. The comparable increases in the previous year were Rs. 58 million, Rs. 15 million, and Rs. 1 million, respectively. In the current year 1969/70, it is anticipated that capital expenditure of Government Departments

1 Without allowing for under-expenditure.

would be Rs. 750 million, showing an increase of Rs. 224 million or 43 per cent. when compared with 1968/69. This increase comprises increases of Rs. 155 million on economic services, of Rs. 28 million on social services and of Rs. 7 million on civil administration.

Economic Services

It will be seen that a major portion of the capital expenditure of Government Departments in 1968/69, as in the previous years, was on economic services. This accounted for Rs. 396 million or 44 per cent. in the year when compared to Rs. 387 million or 49 per cent. in 1967/68, and Rs. 329 million or 47 per cent. in 1966/67. The increase of Rs. 10 million in the year on economic services is the net effect of increases of Rs. 28 million on agriculture and irrigation and of Rs. 15 million on communication, and of Rs. 11 million on 'other', partly offset by decreases of Rs. 19 million on manufacture and mining, andRs. 25 million on power. In the previous year, increases of Rs. 29 million on agriculture and irrigation, of Rs. 16 million on manufacture and mining, and of Rs. 18 million on power, partly offset by a decline of Rs. 6 million on communication resulted in a net increase of Rs. 58 million in the expenditure on economic services.

In 1969/70 capital expenditure on economic services is estimated to increase further by Rs. 155 million, comprising enhanced provisions of Rs. 59 million on agriculture and irrigation, of Rs. 6 million on manufacture and mining, of Rs. 72 million on communication and of Rs. 21 million on power, partly offset by a decline of Rs. 3 million on other items.

Social Services

The capital expenditure on social services, which is also significant, amounted to Rs. 113 million in 1968/69 or Rs. 19 million more than in the previous year. Enhanced expenditure of Rs. 13 million on health, Rs. 5 million on housing and a decline of Rs. 2 million on education were the major component items. In the previous year capital expenditure on education, health and housing showed increases of Rs. 7 million, Rs. 4 million, and Rs. 5 million, respectively. In 1969/70, capital expenditure on social services is estimated to increase further by Rs. 28 million, comprising mainly enhanced provisions of Rs. 20 million on education and Rs. 5 million on health.

(b) Capital transfers

Capital transfers of the Government in 1968/69 amounted to Rs. 343 million and was Rs. 71 million higher than in the previous year. Of the total tranfers, a major portion (Rs. 292 million or 85 per cent.) was received by public corporations, while capital transfers to local authorities and 'others' were Rs. 15 million and Rs. 36 million, respectively. In the previous year too, the public corporations, accounted for Rs. 213 million or 79 per cent. of all capital transfers. In the current year 1969/70, capital transfers of the Central Government are estimated to be Rs. 299 million, of which, Rs. 255 million or 86 per cent. is anticipated to be channelled to public corporations.

Of the capital transfers to public corporations in the last 3 years, a major share was received by industrial corporations. In 1968/69, they accounted for Rs. 190 million or 65 per cent. Of this, Rs. 125 million was in respect of the textile project at Tulhiriya of the National Textile Corporation. The corporations in the agricultural sector accounted for Rs. 70 million or 24 per cent in 1968/69. This consisted almost entirely of grants to the River Valleys Development Board for its Uda Walawe and other water-resource development projects. The total amount of capital transfers to public corporations in 1968/69 increased by Rs. 75 million over the previous year. It will be apparent that this was mainly due to the Tulhiriya textile project. In 1969/70, such capital transfers are estimated to be Rs. 255 million or lower by Rs. 36 million over 1968/69. Of this, the Tulhiriya Project which is nearing completion will account for Rs. 50 million. The other major projects are the intergrated wood manufacturing complex at Avissawella of the Ceylon Plywood Coporation (Rs. 33 million), the Paper board project of the Eastern Paper Mills Corporation (Rs. 10 million), the Fertilizer Factory of the State Fertilizer Manufacturing Corporation (Rs. 20 million) and the Fisheries Corporation (Rs. 15 million).

(c) Acquisition of Financial Assets

Financial assets acquired by the Government in 1968/69 amounted to Rs. 44 million as against Rs. 27 million in the previous year, showing an increase of Rs. 17 million or 61 per cent. This increase was mainly on account of a capital contribution of Rs. 8 million to Lanka-Leyland Ltd. and a loan of Rs. 7 million to Port (Cargo) Corporation. In the current financial year 1969/70, acquisition of financial assets by the Government is estimated to be Rs. 32 million. Of this amount, 15 million is to be in respect of a loan to the National Housing Fund and Rs. 8 million on account of a loan to the Local Loans and Development Fund.

THE NET FOOD SUBSIDY

The Government's net food subsidy consists of its net payments on account of the issue of rice on ration, the producer subsidy in the higher prices paid to producers of rice and onions, against which are set off the profits made on the import and sale of sugar, flour and certain other goods such as lentils and maldive fish. The distribution expenses of the goods and other charges and the Rice Subsidy Tax are also reckoned.

The table II (F) 7 below presents the details of this net food subsidy in the last few years and the estimates for 1969/70.

TABLE II (F) 7

Net Food Subsidy—1966/67 to 1969/70

Rupees million

Items	1966/67	1967/68	1968/69 (Original Estimates)	1968/69 (Provisional)	1969/70 (Original Estimates)
1. Subsidy to the consumer on imported rice	218·5	279·9	317·0	264·4	237·2
2. Subsidy to the producer and consumer on locally produced rice ..	206·1	250·3	265·8	297·7	319·6
3. Subsidy on locally produced red onions ..	6·3	6·8	7·5	2·5	8·0
4. Distribution expenses and other charges ..	34·6	37·6	40·9	58·5	48·5
5. Rice subsidy tax ..	0·3	1·9	3·5	3·1	2·0
6. Total gross subsidy (1+2+3+4−5) ..	465·2	572·7	627·6	620·1	611·3
7. Profit on the sale of sugar ..	224·8	239·5	241·3	247·3	210·6
8. Profit on the sale of flour ..	35·8	41·0	56·1	60·9(*a*)	49·1(*a*)
9. Profit on the sale other goods (*b*) ..	2·7(*c*)	− 4·1	− 0·9	−14·5	− 8·2
10. Total (7+ 8+9) ..	263·3	276·4	296·6	293·7	251·5
11. Net food subsidy (6 − 10) ..	201·8(*c*)	296·3	331·0	326·4	359·8

Source: The Food Commissioner.

(a) Includes rebates on imports of flour under U. S. PL480 amounting to Rs. 28·3 million in 1968/69 and Rs. 20·6 million in 1969/70.

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

(c) Profit on sale of other goods and net food subsidy for 1966/67 differ from the figures shown in last year's Report because thess figures now exclude a sum of Rs. 31·3 million being net income in respect of years previous to 1966/67 and other adjustments.

There was an increase of Rs. 30 million[1] in the net food subsidy in 1968/69 in contrast to an increase of Rs. 95 million in the previous year. The increase in the previous year was due mainly to a sharp rise in the average landed cost of imported rice by 49 per cent to Rs. 976 per long ton, (partly offest by a reduction in the issue of imported rice by 20 per cent to 301,300 tons), and a rise in local rice subsidy due to the higher price paid to producers (again partly offset by a fall in issues by 14 per cent to 204,000 tons), which was slightly compensated by enhanced profits from sugar and flour. In 1968/69, however, subsidy on imported rice was lower by Rs. 16 million on account of a fall in the landed cost of imported rice by 6 per cent to Rs. 921 per long ton and by a reduction in the issue of imported rice to 280,000 tons or by 7 per cent. On the other hand, the subsidy on local rice increased by Rs. 48 million in the year. This was on account of the higher guaranteed price paid to producers and the increase in the issue of local rice to 260,600 tons or by 27 per cent.[2] Meanwhile, the distribution expenses and other charges increased by Rs. 21 million. Consequently, net of a decline of Rs. 4 million in the subsidy on locally produced onions and a marginal increase in rice subsidy tax, the total gross subsidy increased

1. Please see footnotes to Table II (F) 7

2. This clearly shows how the net food subsidy increases as imported rice is substituted by local rice in the issues under ration, independent of any over all increase in the quantity of rice issued due to increase in population etc.

by Rs. 47 million to Rs. 620 million. The increased revenue of Rs. 27 million from the sale of flour[1] and sugar, party offset by an increase of Rs. 10 million in the loss incurred on account of the sale of other goods, however, enabled the Government to contain the increase in the net food subsidy of 1968/69 to Rs. 30 million. In the current financial year 1969/70, the net food subsidy is expected to rise by Rs. 34 million to Rs. 360 million.

UNDER-EXPENDITURE BY MINISTRIES

In Table II (F) 8, the total provision and the actual expenditure in respect of capital votes of each Ministry are compared for a three year period 1966/67 to 1968/69.

TABLE II (F) 8

Capital Expenditure By Ministries - 1966/67 to 1968/69 (a)

Rupees Million.

Ministry	1966/67			1967/68			1968/69		
	Total Provision	Actual Expenditure	Under-expenditure	Total Provision	Actual Expenditure	Under-expenditure	Total Provision	Actual Expenditure	Under-expenditure
1· Governor-General, Prime Minister, Supreme Court Judges etc. not falling under Ministries ..	0·1	...	0·1	0·2	0·1	0·1	10·1	10·1	—
2· Defence and External Affairs	10·7	7·6	3·1	11·9	7·4	4·5	11·1	8·8	2·3
3· Planning and Economic Affairs	...	...	—	...	...	—	0·8	0·7	0·1
4· Information and Broadcasting	0·7	0·3	0·4	1·3	0·1	1·2	8·1	1·9	6·2
5· State	9·3	4·5	4·8	8·4	5·5	2·9	8·3	7·6	0·7
6· Finance	33·2	32·9	0·3	27·9	25·8	2·1	27·5	27·4	0·1
7· Land, Irrigation and Power	212·7	173·0	39·7	264·6	245·1	19·5	268·0	233·0	35·0
8· Home Affairs	26·3	16·8	9·5	17·5	12·4	5·1	22·5	14·3	8·2
9· Health	13·1	7·2	5·9	11·1	10·8	0·3	17·0	12·6	4·4
10· Nationalised Services ..	23·9	14·9	9·0	40·3	33·1	7·2	26·0	18·4	7·6
11· Industries and Fisheries .	169·6	153·1	16·5	156·9	141·0	15·9	239·9	212·9	27·0
12· Commerce and Trade ..	0·1	...	0·1	0·1	...	0·1	8·7	8·7	—
13· Justice	0·2	0·1	0·1	0·2	0·2	—	0·1	0·1	—
14· Local Government ..	27·0	20·3	6·7	25·7	20·8	4·9	29·6	26·6	3·0
15· Agriculture and Food ..	86·1	73·6	12·5	109·4	87·3	22·1	119·8	111·4	8·4
16· Education and Cultural Affairs	37·4	23·1	14·3	38·3	26·3	12·0	38·7	28·3	10·4
17· Labour and Employment .	2·4	1·2	1·2	2·4	2·5	—	6·1	5·6	0·5
18· Public Works, Posts and Telecommunications ..	73·2	58·4	14·8	71·3	61·1	10·2	100·7	86·6	14·1
19· Communications ..	64·7	37·6	27·1	48·4	32·9	15·5	46·8	33·7	13·1
20· Social Services ..	0·1	...	0·1	0·6	0·3	0·3	0·5	0·3	0·2
21· Scientific Research and Housing	0·4	...	0·4	2·0	1·6	0·4	4·5	3·2	1·3
Total ..	791·3	624·7	166·6	838·5	714·4	124·1	994·5	852·0	142·5

Source : Central Bank of Ceylon.

(a) For purpose of comparison, figures for 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.

1 The figure includes a rebate paid by the Government to the Food Commissioner of Rs. 28·3 million on account of U. S. PL 480 flour imports.

It will be observed that in 1968/69 the actual capital expenditure was Rs. 852 million as against a total provision of Rs. 995 million resulting in an under-expenditure of Rs. 143 million or 14 per cent. In the previous two years i. e. 1966/67 and 1967/68, under-expenditure amounted to Rs. 167 million or 21 per cent and Rs. 124 million or 15 per cent, respectively.

In the year under review the major capital-spending Ministries were Land, Irrigation and Power (Rs. 233 million), Industries and Fisheries (Rs. 213 million), Agriculture and Food (Rs. 111 million) and Public Works, Post and Telecommunication (Rs. 87 million) which in aggregate accounted for 76 per cent of the capital budget. The under-expenditure of the Ministry of Land, Irrigation and Power which had been progressively declining from Rs. 44 million or 21 per cent in 1965/66, to Rs. 40 million or 19 per cent in 1966/67, to Rs. 20 million or 7 per cent in 1967/68, increased to Rs. 35 million or 13 per cent in 1968/69. The Ministry of Industries and Fisheries a recorded shortfall of Rs. 27 million or 11 per cent while the corresponding figures in the years 1965/66,1966/67 and 1967/68 were Rs. 16 million or 13 per cent, Rs. 17 million or 10 per cent, and Rs. 16 million or 10 per cent, respectively. In the case of the Ministry of Agriculture and Food, the actual expenditure fell short by Rs. 8 million or 7 per cent in 1968/69 as against Rs. 22 million or 20 per cent in 1967/68, Rs. 13 million or 15 per cent in 1966/67 and Rs. 3 million or 4 per cent in 1965/66. Meanwhile the under-expenditure of the Ministry of Public Works, Posts and Telecommunications, amounted to Rs. 14 million or 14 per cent in the year as compared to Rs. 10 million or 14 per cent in 1967/68, and Rs. 15 million or 20 per cent in 1966/67.

ADVANCE ACCOUNTS

Operation on "Advance Accounts"[1] in 1968/69 resulted in a net payment of Rs. 49 million, in contrast to the net receipt of Rs. 29 million recorded in the previous year. The net payment was mainly due to an increase in advances to Government departments by Rs. 61 million, which was partly offset by an increase of Rs. 12 million in the balance in favour of the People's Republic of China under the Rubber/Rice Agreement. In the previous year, advances to departments were Rs. 71 million, but this was more than offset by an increase of Rs. 95 million in the balance in favour of China.

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1. "Advance accounts" relate to certain wholly or partially self-financing activities of the Government, which are mostly of a commercial nature. There are three main categories of of such accounts, viz Stores Accounts, Trading Accounts and Special Accounts. As the receipts and payments of most of these activities cannot be easily ascertained in advance, it is usual for a token provision to be made in the Government Estimates and they are permited to utilize their receipts to meet their expenditures, subject to limits specified in Part II of Government Estimates. Where the net results of an activity can be reasonably forecast, however, the surplus or deficit of such activity is voted in the estimates, e. g. the Net Food Subsidy.

THE DEFICIT AND ITS FINANCING

Net Cash Deficit

The Government Budget for 1968/69 originally anticipated a net cash deficit of Rs. 701 million. The final outturn of Government budgetary operations, however, resulted in a deficit of Rs. 788 million (provisional) as compared to the deficit of Rs. 716 million in the previous year. For reasons given earlier, the net cash deficit in recent years has been showing a progressively increasing trend.

The increase of Rs. 72 million in the Net Cash deficit in 1968/69 was the net result of increases of Rs. 198 million in recurrent expenditure, of Rs. 138 million in expenditure chargeable to Capital Votes, and of Rs. 77 million in expenditure on account of advance account operations[1] partly offset by an increase of Rs. 341 million in revenue receipts.

The net cash deficit in the year under review also exceeded the original estimate by Rs. 86 million. This increase was the combined effect of increases of Rs. 86 million in recurrent expenditure, Rs. 110 million in expenditure chargeable to capital votes and Rs. 49 million in expenditure on account of advance accounts partly offset by an increase of Rs. 159 million in revenue.

In the current financial year 1969/70, the net cash deficit is estimated to be Rs. 772 million or Rs. 16 million lower than in 1968/69. This is due to an anticipated increase in revenue of Rs. 337 million which more than offsets an ncrease in expenditure of Rs. 321 million.

Financing of the Deficit

Table II (F) 9 presents data in respect of financing of the net cash deficit in the years 1966/67 to 1969/70, and the estimated expansionary impact of such financing.

It will be seen that in 1968/69, the net cash deficit of Rs. 788 million was financed by obtaining Rs. 354 million of foreign assistance and by borrowing Rs. 203 million from domestic non-bank sources, Rs. 68 million from domestic bank sources and Rs. 52 million from domestic non-market sources. To supplement these resources the cash balances (including counterpart funds) were reduced by 111 million. On the other hand, the net cash deficit of Rs. 772 million in the current year 1969/70 is to be financed by means of enhanced foreign assistance of Rs. 412 million and by mobilising Rs. 281 million from the domestic non-bank sector. The balance Rs. 80 million is to be financed by bank borrowing.

The expansionary impact of government's fiscal operations in the year amounted to Rs. 179 million[2] as compared to Rs. 267 million in the previous year. This decrease in the expansionary impact is mainly attributable to a substantial increment in foreign assistance and an appreciable increase in domestic

1. On account of advance account operations, there was a net receipt of Rs. 28.5 million in 1967/68 and a net payment of Rs. 48.7 million in 1968/69.
2. cf. footnotes (b) and (c) of Table II (F) 9.

TABLE II (F) 9
Financing of the Deficit - 1965/66 to 1969/70 (*a*)

Rupees Million

Sources	1965/66			1966/67			1967/68(b)			1968/69(b) Actual (provisional)			1969/70 Original Estimates		
1. Foreign finance															
(a) Project loans (gross) ..	77·2			42·4			38·8			93·9					
Less contributions to sinking funds and repayments ..	35·9	41·3		44·9	−2·5		47·8	− 9·0		47·0	46·9				
(b) Non-Project (Commodity) loans (gross)	35·2			193·9			178·9			312·2					
Less repayments ..	–	35·2		2·1	191·8		8·7	170·2		25·0	287·2				
(c) Grants		41·5	118·0		19·3	208·6		29·0	190·2		19·5	353·6			411·5
2. Domestic non-market borrowing ..			112·2			72·3			9·8			52·2			–
3. Domestic market borrowing from the banking system (c)															
(a) Central Bank .		179·7			125·7			302·1			114·9				
(b) Commercial banks ..		−17·4	162·3		−74·5	51·3		1·4	303·5		−46·8	68·1			79·5
4. Domestic market borrowing from non-bank sources															
Gross amount borrowed ..		314·8			364·5(d)			324·0			287·8				
Less: contributions to sinking funds ..		58·9	255·9		67·5	297·0		75·7	248·3		85·3	202·5			281·1
5. Decline in cash balances and foreign aid counterpart funds															
(a) Cash balances ..		−47·2			21·5			−48·4			62·9				–
(b) Foreign aid counterpart funds (gross credits)	−35·2			−193·9			−187·7(e)			−318·7(e)			−325·0		
Less amount used for budgetary purposes	–	−35·2	−82·4	150·0	−43·9	−22·4	200·0	12·3	−36·1	367·0	48·3	111·2	325·0	–	–
6. Net cash deficit ..			566·0			606·8			715·7			787·6			772·1
7. Decline in U.S. Aid counterpart funds			42·5			27·2			—			− 0·3			–
8. Net expansionary impact of Government fiscal operations (3+5+7) ..			122·4			56·1			267·4			179·0			79·5

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*) A sum of Rs. 28·9 million under PL480 loans received in the financial year 1967/68 has been credited in Government Accounts as non-project (commodity) aid receipts in the financial year 1968/69. If the relevant adjustments are made, the expansionary impact of fiscal operations in the two financial years will be Rs. 238·5 million and Rs. 207·9 million respectively.

(*c*) 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. 76·0 million, Rs. 122·3 million, Rs. 100·7 million and Rs. 92·4 million at the end of September 1966, 1967, 1968 and 1969 respectively.

(*d*) 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.

(*e*) In the financial year 1967/68 and 1968/69the figure of credits to the foreign aid counterpart fund exceeds the receipts from non-project (commodity) loans due to the fact that the proceeds of some grants which were received in the form of commodities were also credited to the counterpart fund.

non-market (administrative) borrowing. These two sectors in aggregate financed 52 per cent of the net cash deficit in 1968/69 as compared to 28 per cent in the previous year. Consequently the ratio of the expansionary component to the net cash deficit fell from 37 per cent in 1967/68 to 23 per cent in 1968/69.

In 1968/69 the Government increased its indebtedness to the Central Bank by Rs. 115 million. This borrowing consisted of an increase in Central Bank's holdings of Government securittes of Rs. 42 million, of Treasury bills of Rs. 51 million and an increase of Rs. 22 million in Central Bank advances. On the other hand, the Government reduced its indebtedness to commercial banks by Rs. 47 million.[1] The net effect was an increase of Rs. 68 million in the liability of the Government to the banking system, in sharp contrast to the previous year's increase of Rs. 304 million.

The net resources mobilised by the Government from the non-bank domestic market sources which amounted to Rs 203 million in the year is the lowest on record in the last four financial years. The reasons for the dwindling support to Government's loan programme from this sector are analysed in detail later on.

In Table II (F) 10 below, the net contributions, (i. e. changes in holdings of Government securities) of the non-bank investor groups are presented for the last four financial years.

TABLE II (F) 10

Contributions to Government Securities (*a*) by non-bank investor groups

Rupees Million

Contributors	1965/66	1966/67	1967/68	1968/69	Increase in 1967/68 over 1966/67	Increase in 1968/69 over 1967/68
1. Savings institutions ..	37·0	88·6(*b*)	41·5	0·6	—47·1	—40·9
2. Employees' Provident Fund ..	74·7	85·2	92·1	101·6	6·9	9·5
3. Other provident and pension funds ..	41·1	41·3	30·2	28·6	—11·1	— 1·6
4. Departmental and other official funds ..	2·0	16·3(*b*)	7·0	3·7	— 9·3	— 3·3
5. Insurance Corporation ..	46·2	47·9	52·8	42·4	4·9	—10·4
6. Other insurance funds ..	10·3	0·1	4·2	3·5	4·1	— 0·7
7. Other state corporations ..	—	— 0·7	—	—	0·7	—
8. Companies, clubs and institutions ..	6·1	—12·3	— 1·6	5·6	10·7	7·2
9. Individuals ..	15·2	6·5	0·1	— 3·2	— 6·4	— 3·3

Source: Central Bank of Ceylon.

(*a*) This table presents the net change in holdings of rupee securities, treasury bills and tax reserve certificates by the given institutions.

(*b*) Includes Rupees 53.4 million of Goverment securities purchased by savings institutions and Government Agencies consequent on a redemption of Central Bank securities held by these institutions.

It will be seen that with the exception of the Employees' Provident Fund, and companies, clubs and istitutions, there had been a general decline in the net contributions of the non-bank sector to the Government loan programme in 1968/69. Of significance are the substantial reductions in the contributions of savings institutions and the Insurance Coporation of Ceylon.

1. Please see footnote (c) to Table II (F) 9.

Foreign finance available to the Government in the year to meet its fiscal operations amounted to Rs. 426 million consisting of Rs. 94 million of project loans, Rs. 312 million of non-project (commodity) loans and Rs. 20 million as grants. Net of contributions to sinking funds and repayment, foreign finance received in 1968/69 amounted to Rs. 354 million as compared to Rs. 190 million in the previous year. The increase of Rs. 164 million in foreign assistance comprises increases of Rs. 56 million under project loans and Rs. 117 million under non-project (commodity) loans partly offset by a decline of Rs. 9 million in the amount of grants received.

Noteworthy features of foreign aid utilization in recent years were first, the decline in the grant component and secondly, the notable increase in non-project (commodity) loans. In absolute terms, non-project (commodity) loans had been increasing from Rs. 35 million in 1965/66 to Rs. 312 million in 1968/69. In fact, non-project loans accounted for 36 per cent of the net cash deficit in the year under riview, while in the previous year its share was only 24 per cent.

The Table II (F) 11 below gives details of net receipts of foreign assistance by type and source in the last seven years.

TABLE II (F) 11
Net Receipts of Foreign Assistance

Rupees Million

Type and Source	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69 (Provisional)
1. Loans: ..	**60·9**	**63·5**	**75·6**	**76·5**	**189·3**	**161·2**	**334·1**
1·01 I.B.R.D. ..	21·2	11·3	5·0	-1·2	- 0·3	-7·7	-8·4
1·02 Canada ..	0·8	-0·2	11·4	2·5	8·1	8·6	8·5
1·03 Peoples Republic of China ..	—	12·4	18·9	9·7	- 4·9	-5·5	-5·5
1·04 U.K. ..	10·4	4·9	-2·3	10·6	49·4	51·9	37·0
1·05 U.S.A. ..	-0·7	2·7	-1·2	23·8	31·0	45·6	177·9
1·06 U.S.S.R. ..	13·5	32·0	28·8	9·3	-10·0	-8·3	-9·6
1·07 Federal Republic of Germany ..	11·5	0·4	7·4	6·7	66·2	25·0	17·4
1·08 Yugoslavia ..	4·3	...	-0·3	0·8	- 1·4	-0·7	-0·8
1·09 Poland ..	—	—	2·4	0·1	0·1	1·4	-0·6
1·10 France ..	—	—	5·5	1·6	10·8	22·0	1·6
1·11 Japan ..	—	—	—	10·0	31·3	24·0	18·3
1·12 India ..	—	—	—	2·6	8·0	-3·4	16·9
1·13 German Democratic Republic ..	—	—	—	—	1·1	8·3	79·6
1·14 Denmark ..	—	—	—	—	—	—	1·6
2. Grants: ..	**31·1**	**31·9**	**24·1**	**41·5**	**19·2**	**29·0**	**19·5**
2·01 **Colombo Plan:** ..	8·2	6·0	9·0	25·9	17·5	22·1	1·4
2·01·1 Australia ..	2·5	—	3·9	0·3	4·6	—	0·1
2·01·2 Canada ..	5·7	5·7	5·1	25·6	12·8	22·1	—
2·01·3 Japan ..	—	0·3	—	—	—	—	—
2·01·4 New Zealand ..	—	—	—	—	0·1	...	1·3
2·02 **Other:**	22·9	25·9	15·1	15·6	1·7	6·8	18·2
2·02·1 United Nations ..	—	—	—	1·0	1·5	6·3	3·1
2·02·2 Peoples Republic of China ..	19·7	24·5	15·1	2·5	—	...	...
2·02·3 U.S.A. ..	0·9	1·4	...	12·1	0·2	0·5	0·8
2·02·4 Federal Republic of Germany ..	2·3	—	...	—	—	—	—
2·02·5 Czechoslovakia ..	—	—	—	—	...	—	—
2·02·6 United Kingdom ..	—	—	—	—	...	...	14·3
3 Total of Loans and Grants ..	**92·0**	**95·4**	**99·7**	**118·0**	**208·6**	**190·2**	**353·6**

Source: Central Bank of Ceylon.

PUBLIC DEBT

At the end of September, 1969 the Gross Public Debt[1] stood at Rs. 6,889 million (Rs. 7,020 million, if the liability of Government departments on suppliers' credit is added) having recorded an increase of Rs. 618 million in the financial year 1968/69. Of the total gross Public Debt outstanding, 80 per cent or Rs. 5,513 million was on account of domestic borrowings while the balance of Rs. 1,376 million comprised borrowings from foreign sources. Net of sinking funds, the total Public debt increased by Rs. 550 million to Rs. 6,239 million.

Details of ownership and composition of this debt are shown in Tables 37 and 38 of Appendix II and a summary is presented in Table I I(F) 12 below.

TABLE II (F) 12

Total Public Debt – 1965 to 1969 (*a*)

As at end of September	1965		1966		1967		1968		1969	
	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%
1. Gross Debt ..	4,184.8	100·0	4,743.3	100·0	5,321.5	100·0	6,270.8	100·0	6,888.5	100·0
1·1 Foreign ..	489·3	11·7	548·8	11·6	739·3	13·9	1,074.3	17·1	1,375.5	20·0
1·2 Domestic ..	3,695.5	88·3	4,194.5	88·4	4,582.2	86·1	5,196.5	82·9	5,513.0	80·0
2. Net Debt(*b*) ..	3,771.9	100·0	4,267.6	100·0	4,782.3	100·0	5,689.3	100·0	6,238.9	100·0
2·1 Foreign ..	446·6	11·8	521·1	12·2	708·0	14·8	1038·3	18·3	1,337.3	21·4
2·2 Domestic .	3,325.3	88·2	3,746.5	87·8	4,074.3	85·2	4,651.0	81·7	4,901.6	78·6

Source : Central Bank of Ceylon.

(*a*) Excluding (i) National Housing and State Mortgage Bank Debentures which amounted to Rs. 116·0 million and Rs. 32·3 million respectively, as at end of September, 1969; (ii) Debt, of Rs. 131·2 million on account of imports of Government Departments under Suppliers' Credit; (iii) Promissory notes issued in favour of international financial organizations.

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

Of the increase of Rs. 618 million in the gross public debt, about one half or Rs. 301 million was on account of foreign debt and the rest, on account of domestic borrowing. Although the increase in the foreign debt is lower than the increase in the previous year, when an allowance is made for the enhancement of the previous year's liability on account of the Rupee and Sterling devaluations of 1967, the increase in this year's foreign debt liability was appreciably higher than the annual increases in previous financial years. On the other hand, the increase in the domestic debt liability in the year under review of Rs. 317 million was considerably lower than the record increase of Rs. 614 million in the previous year. This was mainly the result of increased reliance on external resources for budgetary operations and difficulties faced in mobilizing domestic resources, especially from non-bank sources.

1 The term "Public debt" here refers to the domestic and foreign borrowings of the Government of Ceylon only, and therefore it excludes the debt of semi-government institutions such as public corporations local authorities and other Government agencies and funds. Also a debt amounting to Rs. 131.2 million as at September 30, 1969 on account of imports by Government departments under Suppliers' Credit is not included, since comparable data as at the end of the previous financial years are not available.

During the current financial year 1969/70, the Government intends to raise Rs. 375 million from domestic non-bank sources and Rs. 502 million from foreign sources. The latter figure consists of Rs. 177 million of project loans and Rs. 325 million of non-project (commodity) loans.

Domestic Debt

In the financial year under review, the gross domestic debt increased by Rs. 317 million (or by 6 per cent.) to Rs. 5,513 million. The composition and changes in the domestic debt as at the end of the last four financial years are shown in Table II(F)13 below.

TABLE II (F) 13

Changes in the Composition of Domestic Public Debt - 1965 to 1969

Rupees Million

As at end of September	Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Advances (b)	National Development Bonds (c)	Total	
	Gross	Sinking Fund(a)	Net					Gross	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
1969 ..	3,409·1	611·4	2,797·7	1,750·0	24·5	329·3	0·1	5,513·0	4,901.6
Change 1966/65 ..	+325·0	+ 77·8	+247·2	+125·0	− 0·5	+ 49·5	−	+499·0	+421.2
Change 1967/66 ..	+310·2	+ 59·8	+250·3	+ 75·0	− 6·5	+ 9·0	−	+387·7	+327.8
Change 1968/67 ..	+333·1	+ 37·7	+295·5	+250·0	− 1·7	+ 32·9	−	+614·3	+576.7
Change 1969/68 ..	+291·2	+ 65·9	+225·3	—	+ 0·5	+ 24·8	—	+316·5	+250.6

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 A.D.B. Net of these loans which amounted to Rs. 86.9 million and Rs. 89.4 million at the end of September, 1968 and 1969 respectively the Central Bank advances increased by Rs. 22.3 million in 1968/69. These special loans exclude promissory notes issued in favour of international financial organizations.

(c) The value of National Development Bonds issued and outstanding at the end of September, 1968 amounted to Rs. 58,828 million and remained unchanged at the end of September, 1969.

The increase in gross domestic debt of Rs. 317 million consisted of in creases of Rs. 291 million in Rupee loans, Rs. 25 million in Central Bank advances and a marginal increase in Tax Reserve Certificates. There was no change in the amount of Treasury Bills outstanding. In the previous year, the increase of Rs. 614 million in the domestic debt was the combined effect of increases of Rs. 333 million in Rupee loans, Rs. 250 million in Treasury Bills and Rs. 33 million in Central Bank advances, offset by a slight reduction in Tax Reserve Certificates.

Thus, the share of Rupee Securities in the total gross domestic debt outstanding increased from 60 per cent in the previous year to 62 per cent while the share of Treasury Bills decreased from 34 to 32 per cent. There were only marginal changes in the respective shares of Central Bank advances, Tax Reserve Certificates and National Development Bonds.

TABLE II (F) 14

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

Years to Maturity	1965 Amount Rs. mn.	1965 Percentage	1966 Amount Rs. mn.	1966 Percentage	1967 Amount Rs. mn.	1967 Percentage	1968 Amount Rs. mn.	1968 Percentage	1969 Amount Rs. mn.	1969 Percentage
1. Unfunded debt *(a)* .	**1,546·0**	**41·8**	**1,719·9**	**41·0**	**1,797·3**	**39·2**	**2,078·6**	**40·0**	**2,103·8**	**38·2**
2. Funded debt *(b)* ..	**2,149·6**	**58·2**	**2,474·6**	**59·0**	**2,784·8**	**60·8**	**3,117·9**	**60·0**	**3,408·6**	**61·8**
2·1 First 5 years ..	245·6	6·6	292·1	7·0	330·6	7·2	452·1	8·7	534·9	9·7
2·2 5 to 10 years ..	393·0	10·6	354·4	8·4	289·6	6·3	315·7	6·1	235·8	4·3
2·3 10 to 15 years ..	336·6	9·1	386·0	9·2	386·0	8·4	249·1	4·8	247·0	4·5
2·4 15 to 20 years ..	127·0	3·4	324·1	7·7	421·8	9·2	600·0	11·5	795·0	14·4
2·5 20 to 25 years ..	1,047·4	28·3	1,118·0	26·7	1,356·8	29·6	1,501·0	28·9	1,595·9	29·0
3. Total	**3,695·6**	**100·0**	**4,194·5**	**100·0**	**4,582·1**	**100·0**	**5,196·5**	**100·0**	**5,512·4**	**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.

A noteworthy feature of Government domestic borrowing in 1968/69 was the reliance on Rupee Loans (and to some extent, Central Bank advances) for Government finance. No net borrowings were made by the issue of Treasury Bills in sharp contrast to the frequent and heavy borrowings by Treasury Bills in previous years.

The maturity pattern of gross domestic debt as at the end of September, 1969 with corresponding data for the four previous financial years is shown in Table II(F)14.

In 1968/69 the share of domestic funded debt (consisting entirely of rupee securities)in total debt increased by 2 percentage points, while the share of unfunded debt (consisting mainly of Treasury Bills) declined by the same magnitude. This was due to the changes in the composition of domestic debt mentioned earlier. It will also be seen that in the last few years, there had been a gradual shift in the maturity pattern in favour of securities maturing in the first 5 years and securities maturing in 20 to 25 years, while there had been a relative decline in the share of securities maturing in the period in between. In fact, while about 10 per cent of the domestic debt will be maturing in the next five years, 29 per cent of such debt will mature 20 to 25 years hence. This is largely the result of the policy in the last few years of floating long-term securities. The maturity pattern indicates that there is some scope for spreading the debt repayment burden more evenly by floatation of short and medium term loans.

(a) Rupee Securities

In 1968/69, eleven long-term Rupee Loans, (all maturing in 21 to 25 years) were raised for an aggregate sum of Rs. 340 million. There were no conversion loans. This sum was lower than the original Budget estimate of Rs. 375 million. In the previous financial year, there were twelve issues for a sum of Rs. 360 million. Of these one loan for a sum of Rs. 10 million was for conversion, while the rest were 21 to 25 year cash loans.

Details of subscriptions to each Rupee Loan floated in 1968/69 are given in Table 40 of Appendix 11. Table 11 (F) 15 summarises the subscriptions to Rupee Loans floated in the last four financial years.

Of the sum of Rs. 340 million raised in 1968/69, Rs. 112 million or 33 per cent. was subscribed by the sinking funds, while Employees' Provident Fund accounted for Rs. 101 million or 30 per cent. The other major subscribers were the Insurance Corporation of Ceylon, (Rs. 43 million or 13 per cent.) and savings institutions[1] (Rs. 36 million or 11 per cent.) and Trusts, Benevolent, Pension and Provident funds other than Employees' Provident Fund (Rs. 37 million or 11 per cent.).

1 Comprising the Post Office Savings Bank, the Ceylon Savings Bank, and the Savings Certificates Fund.

TABLE II (F) 15

Classification of Subscriptions to Rupee Securities *(a)*

Subscriber	1965/66 Amount Rs. Mn.	1965/66 %	1966/67 Amount Rs. Mn.	1966/67 %	1967/68 Amount Rs. Mn.	1967/68 %	1968/69 Amount Rs. Mn.	1968/69 %
1. Bank Sector ..	**17·9**	**5·1**	**13·5**	**3·5**	**0·8**	**0·2**	**0·6**	**0·2**
1·1 Commercial banks ..	17·9	5·1	13·5	3·5	0·8	0·2	0·6	0·2
2. Non-Bank Sector ..	**333·5**	**95·0**	**377·3**	**96·5**	**358·9**	**99·7**	**339·4**	**99·8**
2·1 Saving Institutions ..	37·2	10·6	74·6	19·1	48·8	13·6	36·0	10·6
2·2 Sinkings Funds ..	104·5	29·8	96·3	24·6	114·1	31·7	111·8	32·9
2·3 Department and other official funds	3·7	1·1	10·2	2·6	9·5	2·6	8·4	2·5
2·4 Employees' Provident Fund ..	74·6	21·2	85·0	21·8	92·6	25·7	101·3	29·8
2·5 InsuranceCorporation	46·2	13·2	47·9	12·3	53·2	14·8	42·5	12·5
2·6 Provident and pension funds ..	39·2	11·2	43·1	11·0	29·2	8·1	36·8	10·8
2·7 Insurance Companies	10·6	3·0	10·6	2·7	4·4	1·2	0·6	0·2
2·8 Other Companies ..	0·5	0·1	0·3	0·1	0·8	0·2	0·2	0·1
2·9 Individuals, clubs .. and Institutions ..	17·0	4·8	9·2	2·3	6·6	1·8	1·5	0·4
3. Total ..	351·2	100·0	390·8	100·0	359·7	100·0	340·0	100·0

Source: Central Bank of Ceylon.

(a) Refers to Rupee loans only.

It will be seen that the resources mobilised by the Government by way of Rupee Loans has been falling since 1966/67 and the sum raised in 1968/69 was lower than the amounts raised in each of the last four financial years. This progressive decline in the flow of funds from domestic sources is mainly on account of a considerable decline in the contributions of the non-bank private sector. The contributions of this sector dropped from Rs. 67 million in 1965/66, to Rs. 63 million in 1966/67, Rs. 41 million in 1967/68 and Rs. 39 million in 1968/69. Meanwhile the bank sector too has progressively reduced its intake of Government securities from Rs. 18 million in 1965/66 to less than Rs. 1 million in 1968/69. On the other hand, the semi-government institutions (comprising the Employees' Provident Fund, sinking funds, long term savings institutions, Insurance Corporation of Ceylon and Departmental and other official funds) which had been increasing its contributions in the period up to 1967/68 recorded a decrease in 1968/69. This decrease of Rs. 18 million was mainly on account of decreases in the contributions of savings institutions, Insurance Corporation and sinking funds partly offset by an increase in the contributions of the Employees' Provident Fund. Nevertheless, this sector continued, as in the past years to provide the main support for rupee securities floated. This sector, which absorbed nearly 76 per cent of the securities raised in 1965/66 increased its share to 80 per cent in 1966/67 and to 88 per cent in 1967/68 and 1968/69. Thus the performance of Government loan programmes have come to depend heavily on this sector.

The dwindling support to Government loan programmes from the bank and the non-bank private sector is substantially explainable in terms of the availability of more attractive investment opportunities outside the public sector. This was partly the result of the higher level of private sector economic activity observed in recent years, which has increased the demand for resources by the private sector. This is evidenced by the frequent increases in the last few years in the interest rates payable on savings held with commercial banks and financial intermediaries. It appears that the private sector has emerged as a strong contender with the Government for the available resources. It is also possible that the withdrawal of the exemption from wealth tax of investments in Government Securities had an adverse effect on the private sector. Moreover, the relatively low interest rates paid by semi-government savings institutions placed them in a disadvantageous position vis-a-vis commercial banks and other financial institutions in the competition for savings.

A classification of the ownership of Government Securities at the end of the financial year 1968/69 together with the comparative data for the previous four financial years is given in Table II(F)16.

TABLE II (F) 16

Ownership of Rupee Securities – As at the end of years 1964/65 to 1968/69 *(a)*

Rupees Million

Owners	1964/65	1965/66	1966/67	1967/68	1968/69
1. Bank Sector	**326·0**	**324·5**	**281·2**	**328·8**	**367·0**
1.1 Central Bank	8·0	8·0	7·4	70·0	111·8
1.2 Commercial banks	318·0	316·4	273·7	258·8	255·3
2. Non – Bank Sector	**1,823·6**	**2,150·2**	**2,503·6**	**2,789·0**	**3,042·0**
2.1 Savings institutions	474·4	511·6	600·5	641·2	641·7
2.2 Sinking funds	302·5	407·0	474·2	532·3	614·1
2.3 Departmental and other official funds	121·8	123·8	140·0	147·1	150·8
2.4 Employees' Provident Fund	360·1	434·8	519·8	612·1	713·5
2.5 Other Provident Funds	281·9	322·9	364·3	394·5	423·2
2.6 Insurance Corporation	87·6	133·8	181·6	234·5	276·9
2.7 Insurance companies	132·1	136·6	136·5	140·7	139·0
2.8 Other State corporations	3·5	3·5	2·9	2·9	2·9
2.9 Others *(b)*	59·7	76·3	83·8	83·7	79·8
3. Total	2,149·6	2,474·6	2,784·8	3,117·9	3,409·1

Source: Central Bank of Ceylon

(a) Refers to Rupee Loans only.
(b) Comprising Co-operative banks, other companies, clubs, institutions and individuals.

The total amount of Government securities held by the public increased in 1968/69 by Rs. 291 million (or 9 per cent.) to Rs. 3409 million. Of this increase, the bank sector accounted for Rs. 38 million and the non-bank sector, for Rs. 253 million.

The increase in the holdings of the banking system was the net effect of the increase of Rs. 42 million in the holdings by the Central Bank, which was partly offset by a decline of Rs. 4 million in the amount held by the commercial banks. It will be seen that in the 5 year period from 1964/65 to 1968/69, the commercial banks have been gradually reducing their stock of Government Securities while the Central Bank had substantially increased its holdings of Rupee Securities. The increase in the Central Bank holdings was due to purchases of securities by the Bank from the sinking funds and the Post Office Savings Bank. Purchases from the former was to enable the sinking funds to repay maturing Government loans and the purchases from the latter were to enable the Post Office Savings Bank to invest in National Housing Debentures.

In the non-bank sector the semi-government institutions, namely Employees' Provident Fund, Savings Institutions, Sinking Funds, Insurance Corporation of Ceylon, and Departmental Funds held the bulk of Government Securities. At the end of September, 1969 these institutions together held 70 per cent of the outstanding Government securities, recording a marginal increase in its holdings over the previous year.

(b) Treasury Bills

There was no net increase in the issues of Treasury Bills in the year under review. Hence, the Treasury Bills issued and outstanding remained at Rs. 1,750 million. The authorised limit, however, was raised by the Parliament from Rs. 1,750 million to Rs. 1,950 million on August 18, 1969.

Particulars of Treasury Bill issues are given at Table 41 of Appendix II. A classification of the ownership of Treasury Bills at the end of the financial year 1968/69 together with the comparative data for the previous four financial years is given in Table II (F) 17 below:

TABLE II (F) 17

Ownership of Treasury Bills – As at the end of years 1964/65 – 1968/69

Rupees Million.

Owners	1964/65	1965/66	1966/67	1967/68	1968/69
1. Bank Sector	**1233·8**	**1369·3**	**1456·7**	**1682·2**	**1691·4**
1·1 Central Bank	1106·5	1257·9	1377·2	1586·3	1637·3
1·2 Commercial Banks	127·3	11·4	79·5	95·9	54·1
2. Non-Bank Sector	**66·2**	**55·7**	**43·3**	**67·8**	**58·6**
2·1 Sinking Funds	64·4	42·9	36·6	60·3	41·4
2·2 Employees' Provident Fund	—	—	0·3	—	0·3
2·3 Other Provident Funds	0·1	0·2	0·1	0·1	...
2·4 Savings Institutions	0·6	0·4	0·2	1·1	1·3
2·5 Insurance Companies	—	5·8	6·0	6·0	11·2
2·6 Other (a)	1·1	6·4	0·1	0·3	4·5
3. Total	1300·0	1425·0	1500·0	1750·0	1750·0

Source: Central Bank of Ceylon.

(a) Comprising co-operative banks, other companies, clubs, institutions and individuals.

The amount of Treasury Bills held by the banking system increased from Rs. 1682 million as at the end of September, 1968 to Rs. 1691 million as at the end of September, 1969. Thus there was a shift in the ownership of Treasury Bills from the non-bank to the bank sector of Rs. 9 million. This was due to the increase in the Central Bank's holdings of Treasury Bills of Rs. 51 million partly offset by a reduction of Rs. 42 million of Treasury Bills held by the commercial banks. It will be observed that in the last 5 financial years, the Central Bank had been progressively increasing its stock of Treasury Bills (from Rs. 1107 million as at the end of 1964/65 to Rs. 1637 million as at the end of 1968/69) whereas the commercial banks have shown a tendency to reduce their stock of Treasury bills (from Rs. 127 million as at the end of 1964/65 to Rs. 54 million as at the end of 1968/69). The decrease in holdings of the non-bank sector was mainly on account of a decrease of Rs. 19 million by sinking funds offset partly by increases in the holdings of insurance companies by Rs. 5 million and "others" by Rs. 4 million. Thus, while there has been a shift in ownership from the non-bank to bank sector, there has been a further shift within the bank sector from commercial banks to the Central Bank. Hence, the Central Bank has increased its ownership of Treasury Bills from 91 per cent to 94 per cent of the amount outstanding during the year under review.

The Treasury Bill rate which stood at 3.64 per cent per annum at the beginning of the financial year continued at that level till the end of September 1969.

(c) Tax Reserve Certificates

Of the authorised issue of Rs. 300 million, Tax Reserve Certificate amounting to Rs. 288 million have been issued up to end of September, 1969 and the amount of Certificates not surrendered at that date was Rs. 24.5 million.s The amount not surrendered at the end of the previous financial year was Rs. 24.0 million, and hence there was an increase of Rs. 0.5 million in this type of debt obligation. In the previous financial year, however, there was a decline of Rs. 1.7 million.

The rate of interest on Tax Reserve Certificates which was increased from 1½ per eent to 2 per cent with effect from September 7, 1968 remained unchanged during the year. The previous rate of 1½ per cent had been in effect since August, 1961.

(d) Central Bank Advances

Central Bank advances to Government in the financial year increased by Rs. 25 million as compared to an increase of Rs. 33 million in 1967/68. The advances during the year, however, included special loans granted by the Central Bank towards payment of Ceylon's membership subscriptions to the Asian Development Bank of Rs. 2.5 million.

At the end of September, 1969, Central Bank advances to Government amounted to Rs. 329 million whereas it was Rs. 305 million at the end of the previous year. The total special loans granted by the Central Bank for payment of Ceylon's membership subscriptions to international financial organizations amounted to Rs. 87 million at the end of September, 1968 and Rs. 89 million at the end of September, 1969.

Foreign Debt

The gross foreign debt (i.e. net of repayments but before deducting contributions to Sterling Loan Sinking fund) stood at Rs. 1,376 million at the end of September, 1969. The increase in the year amounted to Rs. 301 million or 28 per cent. This increase takes into account the effect of the devaluation of of French Franc on August 10, 1969 which reduced Ceylon's indebtedness to France in Rupee terms by Rs. 5 million. In the previous financial year the increase in gross foreign debt (net of the combined effect of the devaluations of the Pound Sterling and the Ceylon Rupee) was of the order of Rs. 191 million or 26 per cent.

Foreign loans utilised in the financial year 1968/69 amounted to Rs. 377 million of which Rs. 94 million (25 per cent) was on account of project loans and the rest was on account of non-project (commodity) loans, amounting to Rs. 283 million (75 per cent). In the previous financial year, project loans and non-project (commodity) loans were of the order of Rs. 35 million (14 per cent) and Rs. 208 million (86 per cent) respectively. In absolute terms, there was an increased utilization of non-project (commodity) loans than project loans.

A noteworthy feature of recent years has been the emergence of foreign finance as a major item of budgetary finance. As mentioned earlier, the budgetary utilization of external resources has progressively increased from Rs. 112 million in 1965/66 to Rs 377 million in 1968/69. It should be noted, however, that the actual use of project aid has consistently fallen short of expectations as enunciated at the time of the presentation of Government Budgets. The following table illustrates –

TABLE II (F) 18

Original Estimate and Actual Receipts of Foreign Finance

Rs. million

Type of Aid	1965/66		1966/67		1967/68		1968/69	
	Original Estimate	Actual	Original Estimate	Actual	Original Estimate	Actual	Original Estimate	Actual
Project Aid ..	175·0	77·2	125·0	42·4	125·0	38·8	213·0	93·9
Non-Project (Commodity) Aid ..	–	35·2	150·0	193·9	150·0	178·9	263·0	312·2

Source: Central Bank of Ceylon

The shortfall in project aid could be due to initial procedural delays. A more accurate forecasting, however, of potential external receipts and their utilization for budgetary finance appears desirable.

The repayment of foreign loans in the financial year amounted to Rs. 71 million of which Rs. 45 million (64 per cent) was in respect of project loans and Rs. 26 million (36 per cent), in respect of non-project (commodity) loans. Net of appreciation of Rs. 2.2 million in sterling loans sinking fund, the effect of the devaluation of the French Franc (which reduced the external debt of Ceylon by Rs. 5 million) and repayments of foreign loans, the external debt[1] increased by Rs. 299 million in the year 1968/69. The corresponding increase in the previous year (excluding the increase of Rs. 144 million in external debt on account of the devaluations of the Pound Sterling and Ceylon Rupee and an appreciation of Rs. 4.7 million in Sterling Loan Sinking Fund) was Rs. 186 million. Details of the increase in liabilities on account of sterling, project and non-project (commodity) loans are given in Table II (F) 19 and analysed below -

TABLE II (F) 19

Foreign Loans

Rupees Million

Type and Source	Withdrawals in 1968/69	Repayments in 1968/69	Increase in 1968/69	Liability as at September 30, 1969
1. Sterling Loans	–	–	–	89·3
2. Project Loans	93·8	45·2	48·6	501·6
2·01 I.B.R.D.	–	8·4	–8·4	156·0
2·02 U.S.A. *(a)*	1·8	1·8	...	24·0
2·03 United Kingdom .. .	0·4	4·7	–4·3	7·0
2·04 U.S.S.R.	0·2	9·8	–9·6	84·9
2·05 Federal Republic of Germany *(b)* ..	4·8	5·4	–0·6	52·7
2·06 German Democratic Republic ..	80·0	0·4	79·6	89·3
2·07 People's Republic of China ..	–	5·5	–5·5	34·3
2·08 Canada *(c)*	4·0	5·0	–1·0	37·5
2·09 National and Grindlays Bank ..	–	–	–	3·9
2·10 France *(d)*	–	1·9	–1·9	3·2
2·11 Yugoslavia	0·8	1·6	–0·8	3·1
2·12 Poland	0·2	0·7	–0·5	4·1
2·13 Denmark	1·6	–	1·6	1·6
3. Non-Project (Commodity) loans	283 2	25·6	257·6	784·6
3·01 U.S.A. *(e)*	149·5	0·5	149·0	326·0
3·02 Federal Republic of Germany *(b)* ..	18·0	–	18·0	105·6
3·03 United Kingdom	42·4	0·2	42·2	176·0
3·04 Canada	9·6	–	9·6	17·5
3·05 France	11·2	7·6	3·6	38·6
3·06 Japan	30·3	12·0	18·3	94·1
3·07 India	22·2	5·3	16·9	26·8
4. Grand Total	377·0	70·8	306·2	1375·5

Source: Central Bank of Ceylon

(a) Includes loans from (i) International Co-operation Administration, and (ii) Development Loan Fund.
(b) Kreditanstalt Fur Wiederaufbau loans.
(c) Includes Export Credit Insurance Corporation credits.
(d) Societe Eau et Assainissement – Socomen (SOCEA) Credits.
(e) Includes loans from (i) International Co-operation Administration (ii) Agency for International Development (iii) and P.L. 480 Loans.

1 Excluding Suppliers' Credit to Government departments

(a) Project Loans

The utilisation of foreign assistance by way of project loans[1] amounted to Rs. 94 million in 1968/69. Net of repayments of Rs. 45 million, the external liability on account of project loans increased by Rs. 49 million. In the previous financial year, by contrast, a sum of Rs. 35 million was utilised while repayments amounted to Rs. 44 million, thereby causing a reduction of Rs. 9 million in external liability on account of project loans.

Of the project loans utilized in the year, Rs. 80 million or 85 per cent was provided by the German Democratic Republic for the Textile Project at Tulhiriya. The other significant donors were the Federal Republic of Germany (Rs. 5 million) for the paper industry and Canada (Rs. 4 million) for the supply of equipment and services for Maskeli-Oya Electricity Project.

The amount outstanding on account of project loans at the end of 1968/69, net of repayments, stood at Rs. 502 million. This constituted 36 per cent of the gross foreign debt outstanding as at that date. At the end of the preceding financial year the comparable amount outstanding was Rs. 453 million. Thus, net of the effect of the devaluation of the French Franc, the outstanding liability increased by Rs. 48 million in the year under review.

(b) Non - Project (Commodity) Loans

Imports in 1968/69 under the "Commodity Aid Programmes" amounted to Rs. 283 million whereas in the previous year, it was Rs. 208 million. Assistance in the from of commodities was mainly provided by the United States of America (Rs. 150 million) for the import of flour, fertilizer, machinery and spares, and motor vehicles ; by the United Kingdom (Rs. 42 million) for the import of industrial raw materials and machinery, fertilizers, machinery and spares and motor vehicles; by Japan (Rs. 30 million) for the import of fertilizers, textiles, industrial raw materials and machinery, and motor vehicles; and by India (Rs. 22 million) for the import of motor vehicles and spares, earth moving and construction equipment, electrical and telecommunication equipment and industrial machinery and spares.

The foreign liability outstanding in respect of non-project (commodity) loans at the end of September, 1969 was Rs. 785 million, whereas at the end of the previous financial year it stood at Rs. 532 million. Net of the effect of the devaluation of the French Franc (which reduced external liability in respect of non-project (commodity) loans by Rs. 4.6 million), the increase in liability in 1968/69 on account of imports under the "Commodity Aid Programmes" was Rs. 253 million.

In the year under review, credits to the Foreign Aid Counterpart Fund amounted to Rs. 282 million while the amount withdrawn for budgetary purposes was Rs. 367 million. The net effect was a reduction of Rs. 85 million in the amount outstanding in the Counterpart Fund. In the previous financial

1 Disbursements under PL 480, I. C. A. and A. I. D. loans, hitherto treated as project loans, are now treated as non project (commodity) loans. Hence, data in respect of project and non project (commodity) loans published in this Report will differ from those of the previous year's Report.

year the amounts credited and withdrawn were Rs. 205 million and Rs. 200 million, respectively. Data relating to the rupee funds generated on account of imports under non-project (commodity) aid and their utilisation for budgetary purposes for the last three financial years are summarised in Table 42 of Appendix II.

(c) External Suppliers' Credit

The external liability of the Government on account of imports of Government departments under Suppliers' Credit at the end of September, 1969 stood at Rs. 131 million. Since the comparable data at the end of the previous years are not available, the net increase in external liability on account of Suppliers' Credit utilised cannot be ascertained for the year 1968/69.

In 1969, the total imports under Suppliers' Credit amounted to Rs. 176 million as compared to Rs. 118 million in 1968. Of the imports under Suppliers' Credit in 1969 Rs. 53 million was in respect of imports by Government departments, Rs. 122 million in respect of imports by public corporations and Rs. 1 million in respect of imports by the private sector.

Sinking Funds

The approximate market value of the Sterling Loan Sinking Funds and Rupee Loan Sinking Funds (established for the redemption of sterling loans and rupee loans respectively) at the end of September, 1969 were Rs. 38 million and Rs. 611 million respectively, whereas at the end of the previous year they were Rs. 36 million and Rs. 545 million respectively.

The increase of Rs. 2 million in 1968/69 in the market value of the investmet of Sterling Loan Sinking Funds was mainly on account of investments of new contributions (Rs. 1 million) and interest earned (Rs. 2 million) on past investments, partly offset by a depreciation of Rs. 1 million in the market value of past investments. There were no repayments of sterling loans in the year.

In the case of the Rupee Loan Sinking Funds, Rs. 86 million of contributions and Rs. 27 million of interest earned on past investments were invested. Moreover, the market value of past investments appreciated by Rs. 5 million. These increases were partly offset by the repayment of the 3½ per cent National Loan 1964–69 amounting to Rs. 49 million and a payment of Rs. 2 million to the Treasury on account of a surplus in the Sinking Fund of the above loan. The combined effect of these operations was an increase of Rs. 66 million in the approximate market value of Rupee Loan Sinking Funds in the year under review.

BORROWING BY SEMI-GOVT. INSTITUTIONS

National Housing Fund

There were two issues of National Housing Debentures in the financial year 1968/69 amounting to Rs. 23 million. They were issued on November 1, 1968 and May 4, 1969 for sums of Rs. 13 million and Rs. 10 million, respectively, carrying interest at 5½ per cent per annum. The first issue is repayable between 1989 and 1993 while the latter is repayable between 1990 and 1994. These two issues were absorbed by the Post Office Savings Bank in full· Thus the total of National Housing Debentures issued and outstanding at the end of 1968/69 amounted to Rs. 116 million. The authorized limit of debentures remained unchanged at the previous year's level of Rs. 220 million. The approximate market value of Sinking Funds established for the redemption of National Housing Debentures stood at Rs. 45.2 million at the end of the same period.

Meanwhile, the direct loans to the National Housing Department sanctioned by the Government in the year under review amounted to Rs. 15 million, bringing the total outstanding at the end of the financial year to Rs. 155 million.

State Mortage Bank

There was one issue of State Mortgage Bank Debentures in the year under review for a sum of Rs. 6 million. Meanwhile, the 3 per cent State Mortgage Bank Debentures 1965–1968 maturing on November 1, 1968 was repaid in full. Hence, at the end of September, 1969 the Debentures issued and outstanding declined by Rs. 1 million (from Rs. 33.3 million at the end of 1967/68).

The resources obtained by the Bank from the banking system amounted to Rs. 4 million. Overdrafts guaranteed under section 73 of the State Mortgage Bank Ordinance remained at the same level of Rs. 42 million, of which Rs. 25 million was utilised. The amount of the overdraft facility utilised at the end of of the previous year was Rs. 21 million.

The borrowing limit of the Bank remained unchanged at the previous year's level of Rs. 76 million. The Bank's total borrowing as at the end of the year, however, amounted to Rs. 58 million of which Rs. 32 million was in respect of Debentures issued and the balance, on account of overdrafts. Thus the Bank had an unutilized borrowing capacity of Rs. 18 million consisting of Rs. 1 million of Debenture issues and Rs. 17 million of overdraft facilities.

THE BUDGET 1969/70.

The Budget for the financial year 1969/70 was presented to the House of Representatives on August 2, 1969 and was approved on August 23, 1969. The salient features of the Budget, taking into account the new revenue and expenditure proposals, are summarised in Table II (F) 20 below.

TABLE II (F) 20

Original Budget Estimates – 1969/70

Rs. million

Items	Pre-Budget Estimates	Original Budget Estimates	Original Budget estimates after allocating FEEC expenditure of Government departments *(a)*
1. **Recurrent Expenditure** (votes 1,2,4, and 6) ..	**2557·5**	**2882·5*(b)***	**2753·8**
Less 2½% under-expenditure ..	63·9	67·0*(c)*	67·0
	2493·6	2815·5	2686·8
2. **Capital Expenditure** (votes 3,5, and 7) ..	**1116·7**	**1116·7**	**1245·4**
Less 15% under-expenditure*(d)* ..	139·5	139·5	139·5
	977·2	977·2	1105·9
3. **Total Expenditure** ..	**3470·8**	**3792·7**	**3792·7**
4. **Total Revenue** ..	**2527·9**	**2833·9**	**2833·9**
5. **Budget Deficit** ..	**942·9**	**958·8**	**958·8**
Less Contributions to sinking funds etc.	186·8	186·8	236·4
6. **Net Cash Deficit** ..	**756·1**	**772·0**	**772·4**
7. **Financing of Budget Deficit**			
7·1 Domestic market borrowing from non-bank sources ..		375·0	375·0
7·2 External finance			
7·2·1 Project loans ..		176·8	176·8
7·2·2 Non-project loans ..		325·0	325·0
7·3 Unbridged gap (bank borrowing) ..		82·0	82·0
8. **Financing of Net Cash Deficit**			
8·1 Domestic market borrowing from non-bank sources ..		281·1	281·1
8·2 External finance			
8·2·1 Project loans ..		119·4	87·8
8·2·2 Non-project loans ..		292·1	274·0
8·3 Unbridged gap (bank borrowing) ..		79·5	79·5

Source: Central Bank of Ceylon.

(a) The details of this allocation is given elsewhere.

(b) Includes Rs. 200 million as the estimated cost of purchase of FEECs by Government departments which has been classified in the Estimates as Recurrent expenditure.

(c) For the sake of consistency, this figure assumes under-expenditure in the vote of Rs. 125 million for the increase in salaries of Government employees.

(d) Under-expenditure is calculated on capital expenditure less sinking fund contributions, direct repayments of public debt and special payments to international financial organizations.

The above Table initially presents as 'Pre-Budget Estimates', a summary of the revenue and expenditure proposals as contained in the Draft Estimates which are tabled in Parliament before the Budget Speech. The second column shows as 'Original Budget Estimates,' the revenue, expenditure and financing proposals as presented in the final estimates as approved by Parliament. These final estimates included a single item of Rs. 200 million under recurrent expenditure on account of Government expenditure on purchase of Foreign Exchange Entitlement

Certificates which should have been allocated among various spending departments. An attempt was made to apportion this expenditure[1] and the results are shown in the final column. These may be referred to as the 'Original Adjusted Budget Estimates.'

The estimated revenue for 1969/70 (inclusive of new proposals) was Rs. 2,834 million. This represented an increase of Rs. 495 million over the original Budget estimate and Rs. 337 million over the actual budgetary revenue of the previous year. On the other hand, the estimated expenditure (inclusive of new proposals but net of an anticipated under-expenditure) of Rs. 3,793 million was Rs. 592 million higher than the original Budget provisions and Rs. 348 million higher than the actual expenditure of the previous year.

The resulting Budget deficit in 1969/70 was Rs. 959 million, which was higher than the previous year's original estimate by Rs. 96 million and higher than the actual deficit by Rs. 12 million. The Budget deficit of 1969/70 was to be financed by Rs. 375 million of domestic non-bank market borrowing and a record Rs. 502 million of foreign borrowing, leaving an unbridged gap of Rs. 82 million which will be financed by the issue of new Treasury Bills. On the current pattern of subscriptions to Treasury Bills, the latter proposal will largely result in borrowing from the banking system.

Furthermore, the financing proposals are re-presented on a net-cash basis in the above table. Of the deduction of Rs. 187 million from the budget deficit of the original Budget estimates for 1969/70 on account of sinking fund contributions, direct repayment of loans and contributions to international financial organizations, Rs. 94 million was on account of Rupee loans, Rs. 57 million was on account of project loans, Rs. 33 million was in respect of non-project (commodity) loans and Rs. 3 million was on account of contributions to the Asian Development Bank. When the foreign payments are enhanced on account of FEECs in the original adjusted Budget estimates, the project and non-project loan repayments would increase by Rs. 32 million and Rs. 18 million respectively. This results in a higher loan repayment figure of Rs. 236 million.

New Revenue and Expenditure Proposals

Apart from the increases in revenue and expenditure over the previous financial year which were incorporated in the Government Estimates for 1969/70, several new revenue and expenditure measures were announced in the Budget Speech. These new measures were expected to result in a net increase in expenditure of Rs. 19 million. They are summarized in Table II (F) 21 below.

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1. Details of this apportionment are given later on.

TABLE II (F) 21

New Revenue & Expenditure Proposals

Rs. Million

Revenue		Expenditure	
Item	Increase (+) or Decrease (—)	Item	Increase (+) or Decrease (—)
1. Sale of FEECs to Government Departments ..	+ 200·0	1. Purchase of FEECs by Government Departments ..	+ 200·0
2. Export duties ..	+ 20·0		
3. Business turnover tax			
3·1 Change in rates ..	+ 10·0		
3·2 Inclusion of cigarettes ..	+ 20·0	2. Salaries, overtime and travelling etc. of Government servants ..	+ 125·0
3·3 Reduction of exemption limit ..	+ 20·0		
4. Revision of telephone tariff ..	+ 6·0		
5. Profits from State Corporations ..	+ 30·0		
Total ..	+ 306·0	Total	+ 325·0

Source: Central Bank of Ceylon

(a) New revenue proposals

Several new revenue proposals were announced in the Budget Speech. Some of them were expected to yield additional revenue while others were designed merely to modify the form of taxation of certain products but to yield the same amount of revenue as in the previous year.

(i) Taxation of petroleum products

The Petroleum Refinery and the Lubricant Blending Plant have commenced operations. This will lead to a virtual elimination of imports of refined petroleum products in this financial year. In order to obtain the same amount of revenue that would have accrued if refined petroleum products had continued to be imported, the products of the Refinery and the Blending Plant will be subject to a business turnover tax of 32 per cent. at the manufacturing level. For this purpose, the law exempting the turnover of a new business in the first year of assessment from turnover tax is to be amended. In determining the rate of turnover tax, account has been taken of the fact that imports of crude oil for the Refinery and base oil for the Blending Plant are subect to FEECs. Allowing for FEEC-premia receivable by the Petroleum Corporation on exports of bunkers and naptha, it is estimated that in this financial year, a sum of Rs. 45 million would be received as FEEC revenue on imports of crude and base oils. The present customs duties on crude and base oils will be removed. These measures are expected to yield the same amount of revenue that would have accrued if refined petroleum products had continued to be imported.

(ii) Exports duties

Some non-traditional exports,[1] which are entitled to earn FEECs are subject to export duties at present ranging from 50 cents per pound for cinnamon quills to Rs. 200 per 100 pounds for cardamoms while others like cinnamon chips,

1. All exports other than that of Tea, Rubber and Coconuts are deemed to be 'non-traditional'

citronella oil and graphite are duty-free. These exports will in future be subject to ad-valorem export duties ranging from 10 per cent to 40 per cent.[1] The additional revenue expected by this proposal is Rs. 20 million.

(iii) Business Turnover Tax on manufacturing industries

The following changes in the business turnover tax were announced -

(a) to levy a tax of 25 per cent in respect of assembly of motor cars and 15 per cent in respect of scooters and motor cycles;

(b) to increase the tax from 10 to 20 per cent in respect of air conditioners, cosmetics, perfumes, hair dressing and toilet re quisites (excluding hair oil and tooth powder), distemper, emulsion' enamel, lacquer and oil paints including paint removers, thinners' varnish, lacquer and French polish, kerosene cookers, radios and, accessories, components and spare parts, textiles other than pure cotton textiles and stainless steel ware;

(c) to increase the tax from 10 to 15 per cent in respect of aluminium, brass and enamel hollow-ware, confectionery excluding chocolates, and electric fans;

(d) to reduce the tax from 10 to 3 per cent on hand-made confectionery and biscuits; from 10 to 1 per cent on handloom textiles made by co-operative societies, and from 5 to 1 per cent on fishing boats.

These proposals are estimated to bring in an additional revenue of Rs. 10 million.

(iv) Removal of exemption of cigarettes from the Business Turnover Tax

The exemption of cigarette manufacture and sale from turnover tax is to be removed, making the wholesalers and retailers liable to a tax of 1 per cent and the manufacturers to a tax of 1 per cent. The additional revenue from this proposal is estimated to be Rs. 20 million.

(v) Reduction of exemption limit for Business Turnover Tax

Section 120 of the Finance Act No. 11 of 1963 is to be amended to reduce the present exemption limit for business turnover tax from Rs. 100,000 to Rs. 75,000. The turnover of certain articles which are now exempt from the turnover tax will continue to be exempt. This measure is expected to yield an additional revenue of Rs. 20 million.

(vi) Revision of the telephone tariff

A new telephone tariff is to be introduced with effect from October 1, 1969 in order to increase telephone charges. The most significant changes will be an increase in the rate per metered call in the "Greater Colombo Area" from

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1. The Ceylon Government Gazette Extraordinary No. 14,864/8 of August 2, 1969.

15 cents to 20 cents and the introduction of a rate of 15 cents per call at other metered exchanges. This measure is expected to provide an additional revenue of Rs. 6 million.

(vii) Profits of State Corporations

Government is expected to receive an additional revenue of Rs. 30 million by way of profits from State Corporations, the principal contribution being Rs. 20 million by the Co-operative Wholesale Establishment.

(viii) Wealth Tax in respect of Government Securities

In the Budget Speech for 1968/69, it was proposed to withdraw the exemption of investments in Government Securities from wealth tax. Securities purchased prior to August 2, 1968, however, were to be exempt up to the year of assessment commencing April 1, 1973. It is proposed to withdraw this time limit so that such securities will be totally exempt.

(ix) Sale of FEECs to Government Departments

Government has decided to bring the foreign exchange payments of most Government Departments within the scope of the Foreign Exchange Entitlement Certificate Scheme, thus increasing the total volume of the nation's foreign exchange payments falling within the Scheme. In the words of the Hon. Minister of Finance, by this measure, the "Government's foreign exchange payments, both for capital and recurrent purposes, will be valued on a more realistic basis". Accordingly, FEEC revenue is expected to show an increase of Rs. 200 million, but this measure will not provide any additional resources to Government, as the increase in revenue is likely to be matched by an increase in expenditure of the same magnitude.

(b) New Expenditure Measures

The major portion of Government's expenditure proposals for the financial year were incorporated in the draft estimates of revenue and expenditure tabled in Parliament prior to the Budget Speech. The following additional proposals were announced in the Budget Speech.

(i) Increase in salaries and emoluments of public servants

The Government announced its intention to implement the recommendations of the Salaries and Cadres Commission in respect of the payment of salaries, travelling allowances and overtime to public servants, with effect from 1st October, 1969. As a result, recurrent expenditure is estimated to increase by Rs. 125 million in the financial year 1969/70.

(ii) Purchase of FEECs by Government Departments

Following the decision to bring foreign payments of most Government departments under the FEEC scheme, the additional expenditure was estimated at Rs. 200 million.

(c) Other Measures announced in the Budget Speech

(i) Increase in the tea promotion cess

With a view to providing additional funds for the acceleration of the rate of replanting of tea under the Tea Replanting Subsidy Scheme, it was proposed to increase the tea promotion cess from the present 4 cents per pound to 5 cents per pound with a corresponding reduction in the export duty on tea.

(ii) Reduction in the tax on limited liability companies

In the Budget Speech for 1968/69, the Hon. the Minister of Finance announced his intention to appoint a committee to examine the proposal to reduce the rate of income tax on companies from the present 50 per cent to 25 per cent in order to encourage the growth of companies with a broad-based ownership. The proposal was referred to the committee appointed to report on the question of the establishment of Investment Trusts. The recommendations of this committee are now under consideration.

(iii) Programme Budgeting

Certain structural changes in the Budget are expected to be introduced in order to make the budget a more effective instrument of economic development. It is envisaged to re-present the Budget in terms of clearly identifiable programmes and activities, and to introduce physical data which will permit a basis for evaluating budgetary performance against the budget plan. Such "Programme Budgeting" will also provide a means of determining responsibility for deviations from approved programmes and of assessing administrative performance. For a beginning, a few departments have been selected for preparation of such programme budgets on an experimental basis. Such programme budgets for nineteen selected departments under the Ministries of Education and Cultural Affairs Health, and Land, Irrigation and Power have been published.[1]

(d) Foreign Payments of Government Departments

The Hon. the Minister of Finance announced on August 2, 1969, that most foreign exchange payments of Government departments and Corporations which were under Category A, will be made liable to surrender of FEECs, with effect from October 1, 1969. In terms of this decision, only the following payments of Government departments and Corporations will remain in Category A, the rest being transferred to Category B.[2]

(i) Imports of Government Departments

(*a*) Drugs, by the Health and the Ayurveda Departments.

(*b*) Vegetable seed and potato seed, by the Department of Agriculture.

(c) Food imports, by the Food Commissioner's Department.

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1. Ministry of Finance; Programme Budgets for the Ministries of Education and Cultural, Affairs, Health and Land, Irrigation and Power, Department of Government Printing Colombo, 1969.

2. Ministry of Planning and Economic Affairs Circular No. 62 of September 9, 1969, and subsequent decisions.

(ii) *Imports by Government Corporations and Agencies*

(a) Raw materials, machinery, packing materials and spares required for manufacture of —

(i) Fertilizer, by the Ceylon Fertilizer Corporation and the State Fertilizer Manufacturing Corporation.
(ii) Flour, by the State Flour Milling Corporation.
(iii) Animal foods, by the Ceylon Oils and Fats Corporation.
(iv) Sugar, by the Sri Lanka Sugar Corporation.
(v) Milk (powdered, condensed or fresh), by the National Milk Board.
(vi) Ayurvedic drugs, by the Ayurvedic Drugs Corporation.

(b) All imports and non-merchandise payments of-

(i) Ceylon Electricity Board.
(ii) Ceylon Transport Board.
(iii) Tea Research Institute.
(iv) Rubber Research Institute.
(v) Coconut Research Institute.
(vi) Ceylon Coconut Board.
(vii) Ceylon Tea Propaganda Board.
(viii) Coconut Fibre Board.

(c) Food imports by the Co-operative Wholesale Establishment.

As mentioned earlier, the additional cost to Government ministries and departments in purchase of certificates for foreign payments in the financial year 1969/70 has been estimated at Rs. 200 million. This entire sum has been voted as Head 47 (Ministry of Finance) Vote 2 Miscellaneous Services. On the basis of particulars sent by various ministries and departments to the ministry of Planning of such foreign payments budgeted for in 1969/70, it is likely that this additional expenditure will be distributed as follows:

TABLE II (F) 22

Estimated Expenditure of Government Departments on FEECs-1969/70

Rupees Million

Items	Estimated foreign exchange component subject to FEECs		Payment for FEECs at 55%	
1. Recurrent Expenditure				
1·1 Import items in departmental votes ..	35·9		19·7	
1·2 Import items in Advance Accounts ..	24·4		13·4	
1·3 External Affairs abroad and other invisible payments	19·4		10·7	
1·4 Interest on foreign loans	43·7		24·1	
1·5 Unallocable	6·2*	129·6	3·4	71·3
2. Capital Expenditure				
2·1 Import items in departmental votes ..	82·1		45·2	
2·2 Import items in Advance Accounts ..	48·8		26·9	
2·3 Repaymets of foreign loans	90·4		49·7	
2·4 Unallocable	12·5*	233·8	6·9	128·7
Total		363·4		200·0

Source: Central Bank of Ceylon.

The unallocable amount was apportioned between recurrent and capital votes in the ratio of 1:2.

OTHER FISCAL MEASURES

Other significant fiscal measures taken in 1969 are given below–

Export Duty on Tea

Export duty on tea[1] (excluding instant tea, tea in packets and tea in bags) was reduced by Rs. 1/- per 100 lb. from Rs. 40/- to Rs. 39/-. Export duty on tea in packets (net weight not exceeding 1 kilogram or 2. 2 lbs.) and tea in bags (net weight not exceeding 12 ounces or 240 grams with the words "Pure Ceylon Tea Packed in Ceylon") was reduced by 1 cent per lb. from 25 cts. to 24 cts. per lb.

Import Duties

Duty on import of cement[2] was reduced by Rs. 2. 50 per cwt. from Rs. 3.00 to -/50 cts. Cinematographic cameras and equipment[2] imported for use in the film industry have been made duty free. Urea imports which was duty free had been made subject to a duty of 12½ per cent.[3]

Foreign Exchange Entitlement Certificates

The following changes[4] were made in the sale price of Foreign Exchange Entitlement Certificates (per Certificate of Rs. 100).

(a) For spot purchases and sales, from Rs. 44 to Rs. 55

(b) For forward purchases for delivery within 4 months, from Rs. 43 to Rs. 54.

(c) For forward sales for delivery within 4 months, from Rs. 45 to Rs. 56.

Business Turnover Tax

Manufacture of safety matches which was exempt from turnover tax was subjected to tax at 15 per cent,[5] with effect from January 1, 1970.

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1. Ceylon Govt. Gazette No. 14887/1 of October 24, 1969
2. Ceylon Govt. Gazette No. 14839/6 of February 5, 1969 and 14857/1 of June 7, 1969.
3. Ceylon Govt. Gazette No. 14853/2 of May 10, 1969.
4. Central Bank Circular No. FEEC. 1/69/B of June 18, 1969.
5. Ceylon Govt. Gazette No. 14884/1 of December 26, 1969.

A NOTE ON THE ECONOMIC AND FUNCTIONAL CLASSIFICATION OF THE RECEIPTS AND PAYMENTS OF THE GOVERNMENT OF CEYLON

Until last year, the Central Bank's Annual Reports (in Table 22 of Appendix II) carried an economic and functional classification of Government's receipts and payments for several years. As far as possible, this classification followed accepted international practice, as consolidated and presented in the United Nations Manual for Classification of Government Transactions.[1] As the Bank's classification yet fell short of the requirements for economic planning, a Working Committee on the National Accounts of Ceylon consisting of representatives of the United Nations Development Programme's National Economic Planning and Programming Project in Ceylon, the Ministry of Planning and Economic Affairs, the Department of Census and Statistics and the Central Bank of Ceylon was appointed to recommend improvements. This Working Committee's proposals, again based on standard international practice and the U. N. Manual referred to, were taken into account by the Central Bank in preparing the revised classification of government receipts and payments for 1964/65 to 1969/70, which is given in Table 35A of Appendix II of the present Report. As there was insufficient time to revise the entire series which was carried in earlier reports, the former unrevised data for years prior to 1964/65 are shown in a separate table, namely, Table 35 of Appendix II. The Tables II (F) 3, II (F) 5, and II (F) 6 of the text contain summary versions of the revised classification. The reconciliation of the revenue and expenditure figures of the Government Accounts and the reclassified receipts and payments as given in Table 35A of Appendix II, is shown in the Table II (F) 2.

It should be noted, however, that although most of the refinements proposed by the Working Committee were incorporated in the revised classification, certain suggestions could not be implemented mainly owing to the non-availability of finite and disaggregated data. For instance, the suggestion that the international practice of showing only the net receipts or payments of government trading enterprises be adopted could not be implemented owing to the lackof sufficient data and the complexity of accounting procedures of these enterprises. Hence, the receipts and payments of these enterprises are shown, as in the past, on a gross basis. It is intended, however, to incorporate these refinements and to extend the classification backwards in the future Annual Reports.

The main revisions made in the re-classification are summarized below.

Payments

In Government Accounts, expenditure falling under each "Head" is divided into seven "Votes". Votes 1, 2, 4 and 6 are termed "Recurrent Expenditure", and Votes 3, 5 and 7, "Capital Expenditure". However, recurrent expenditure contains items of a capital nature, and the capital votes contain certain current items. In the revised classification, these items are appropriately transferred to derive the Government's Current and Capital expenditure.

1. United Nations: A Manual for Economic and Functional Classification of Government Transactions, New York, 1958.

The capital items in the recurrent expenditure votes were transferred to capital expenditure after a careful scrutiny of the Accounts and interviewing officers of various government departments. Where such capital items were not clearly identifiable,. the capitial component was extracted by applying ratios ranging from 10 to 70 per cent. The major items thus allocated were -

(a) Purchase of office furniture and equipment.

(b) Repairs to machinery, maintenance of buildings and irrigation works etc.

(c) Maintenance of roads.

(d) Maintenance expenditure of the Railway and the Port Commission, and

(e) Recurrent expenditure of the Survey department, the Irrigation department, and the Agricultural Corps.

The current items given under Capital Votes of the government which were also appropriately re-classified were -

(a) the capital expenditure of the Army, the Navy and the Air Force (except the portion devoted to economic development) - This follows standard international practice.

(b) assistance to cultivators for the purchase of fertilizer and subsidy grants to the Coconut Fertilizer Subsidy Fund.

(c) grants to certain public corporations for running expenses and meeting financial losses.

Another important adjustment was the treatment of the Net Food Subsidy which comprises the loss on the purchase and issue of rice, onions and certain other foodstuffs offset by the profit on the purchase and sale of flour, sugar and certain other foodstuffs. In the revised classification, the total loss on rice and onions etc. is shown as a current payment and the total profit on flour and sugar etc. is shown on the receipts side.

The current expenditure obtained on this basis is divided into purchases of goods and services and transfer payments. Purchase of goods and services are further sub-divided into functional categories. The payments of trading enterprises (viz. the Railway, Electrical, Postal Departments and the Port Commission) are shown on a gross basis for reasons given earlier. Capital payments are divided into acquisition, construction and maintenance of real assets, capital transfers and acquisition of financial assets. Capital transfers comprise mainly the contributions to the capital of Public Corporations. Acquisition of financial assets comprise mainly of loans to Government agencies and institutions such as the National Housing Fund, Loans and Development Fund, the Ceylon Transport Board and the Port (Cargo) Corporation.

Receipts

The revenue is presented in the Government Accounts under sixteen "Heads". These include book-credits and exclude certain foreign aid receipts. In the current classification, these book-credits are excluded while the foreignaid items are included under "capital transfers from abroad". Meanwhile, for reasons given earlier, the profits from the sale of flour and sugar etc. and the gross receipts of trading enterprises are shown as items of revenue.

The revenue thus obtained is divided into current receipts and capital receipts. These are further sub-divided into major economic and functional categories. To this figure of revenue, the receipts from borrowing and lending operations (and grants) are added to derive the total resources obtained by the Government.

Cash Balances

The difference between total payments and total receipts is shown in the cash adjustment item, viz. the change in cash balances and the Foreign Aid Counterpart Fund.