(F) GOVERNMENT FINANCE

A summary of the Government's fiscal operations in the financial year 1969/70 (i. e. October, 1969 to September, 1970), with the corresponding data for the nine previous financial years and the original estimates for the years 1969/70 and 1970/71 are presented in Table II (F) 1 below. In the text and tables that follow a detailed classification and analysis of data for 1969/70 and 1970/71 are made.

The total revenue in the financial year under review, 1969/70 was Rs. 2,736 million while the total expenditure was Rs. 3,886 million. The latter consisted of the voted expenditure of Rs. 3,685 million and payments in respect of certain "Advance Accounts"[1] of Rs. 201 million. The resulting Budget deficit of Rs. 1,150 million was financed by a record domestic market borrowing of Rs. 815 million, foreign finance of Rs. 339 million and domestic non-market borrowing (net administrative borrowing) of Rs. 22 million. The excess from these sources after meeting the Budget deficit helped to augment cash balances (including foreign aid counterpart funds) by Rs. 26 million. When account is taken of the "debt repayment etc."[2] of Rs. 214 million, the net cash dcficit for the year 1969/70 was Rs. 936 million.

The total expenditure for 1969/70 was higher than the original Budget estimates by Rs. 93 million. This increase, which occurred despite decreases of Rs. 50 million and Rs. 58 million in recurrent expenditure and captial expenditure respectively, was mainly the result of advance account payments amounting to Rs. 201 million, not provided for in the original estimates for the year. On the other hand, total revenue, was also Rs. 98 million less than originally anticipated. Consequently, the Budget deficit showed an increase of Rs. 191 million over the originally estimated figure. Towards financing this deficit the domestic market borrowing contributed Rs. 358 million more than originally forecast while there was a shortfall of Rs. 163 million in the expected foreign finance. Administrative borrowings of Rs. 22 million not originally anticipated at Budget time together with the sharp increase in domestic market borrowing which more than offset the shortfall in foreign finance, helped to bridge the Budget deficit as well as to augment the cash balances of the Government by Rs. 26 million.

The net expansionary impact of the budgetary operations in 1969/70 was Rs. 428 million[3], which turned out to be very much higher than the originally anticipated figure of Rs. 80 million. The net public debt at the end of the financial year was Rs. 7,237 million, having increased by Rs. 998 million since the end of the previous financial year.

In the financial year 1970/71, revenue and expenditure are estimated to be Rs. 2,878 million and Rs. 4,058 million respectively. The resulting Budget deficit of Rs. 1,180 million is to be financed by domestic market borrowing of Rs. 542 million and foreign finance of Rs. 638 million. The expansionary impact of the Budget is estimated to be Rs. 97 million.

1. Please see footnote at page 160
2. Please see footnote (e) of Table II (F) 1.
3. Vide Table II (F) 9.

Summary of Government Fiscal

Items	1960/61	1961/62	1962/63	1963/64
1. **Revenue**	1,514	1,621	1,593	1,759
2. **Expenditure**	2,014	2,122	2,032	2,278
2·1 Recurrent expenditure*(c)* ..	1,578	1,626	1,643	1,891
2·2 Capital expenditure*(d)* ..	421	481	403	403
2·3 Advance accounts and other ..	14	15	– 14	– 16
3. Budget deficit	500	501	439	519
4. Debt repayment*(e)*	37	45	47	57
5. Net cash deficit	463	456	392	462
6. **Financing of Budget deficit**				
6·1 Domestic non-market borrowing ..	29	105	– 34	– 2
6·2 Domestic market borrowing ..	441	374	372	368
6·3 Foreign Finance	30	63	100	108
6·4 Decline in cash balances ..	...	– 40	...	45
7. **Financing of net cash deficit**				
7·1 Domestic non-market borrowing ..	29	105	– 34	– 2
7·2 Domestic market borrowing ..	409	339	333	323
7·3 Foreign finance	24	53	92	95
7·4 Decline in cash balances ..	...	– 40	...	45
8. Expansionary impact of fiscal operations ..	234	190	162	163
9. Public Debt outstanding (net) ..	2,333	2,689	3,065	3,436

(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.

(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 1960/61 to 1970/71[(a)]

Rs. Million

	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70		1970/71 Original
						Original(b)	Provisional	
	1,816	1,833	1,955	2,156	2,497	2,834	2,736	2,878
	2,337	2,515	2,677	3,007	3,445	3,793	3,886	4,058
	1,893	1,976	2,012	2,321	2,544	2,923	2,873	3,089
	471	528	625	714	852	870	812	969
	– 28	10	42	– 29	49	—	201	—
	520	682	723	850	947	959	1,150	1,180
	90	116	117	135	160	236	214	249
	430	566	607	716	788	722	936	932
	50	112	72	10	52	—	22	—
	334	498	418	630	358	457	815	542
	117	154	256	247	426	502	339	638
	20	– 82	– 22	– 36	111	—	– 26	—
	50	112	72	10	52	—	22	—
	261	418	348	552	271	361	720	440
	100	118	209	190	354	362	220	491
	20	– 82	– 22	– 36	111	—	– 26	—
	35	122	56	267	179	80	428	97
	3,772	4,268	4,782	5,689	6,239	n.a.	7,237	n.a.

Source: Central Bank of Ceylon.

(d) Includes expenditure chargeable to National Development Reserve.

(e) Includes sinking fund payments, direct repayments and contributions to international financial organizations.

The steady increase in revenue and expenditure over the preceding ten year period (except in 1962/63) has been commented upon in the Annual Reports of 1968 and 1969. As could be seen in Table II (F) 1 above, this trend continued into 1969/70. However, since 1960/61 whereas Government revenue increased by 81 per cent., expenditure has increased by 93 per cent. Consequently, the failure of the increased revenue to match the increased expenditure requirements of the Government has resulted in consistently and progressively increasing Budget deficits, (again with the exception of 1962/63). The Budget deficits have run at an average level of Rs. 870 million in the last five years as against an average level of Rs. 496 million in the preceding five years.

In the last ten years, revenue increased on an average by 6.1 per cent. (compound) per annum, while expenditure increased by 6.8 per cent. (compound) per annum (recurrent expenditure 6.2 per cent. and capital expenditure 10.2 per cent.). In the last five years, the average rate of annual increase was even higher. In that period, revenue rose by 8.3 per cent. and expenditure by 9. 1 per cent. per annum (recurrent expenditure 7.7 per cent. and capital expenditure 8.9 per cent.). It will thus be seen that Government expenditure has been rising at a faster rate than Government revenue in the last ten years. It is also to be noted that in the last five years the rate of increase in recurrent expenditure has been greater than the increase in capital expenditure.

The consistently increasing Budget deficits have been financed by increased borrowing from domestic and foreign sources. The marked increase in gross foreign resources utilized for budgetary purporses has been a noteworthy feature in recent times. The contribution of such resources to financing the Budget deficits has increased progressively since 1960/61 and reached a level of 45 per cent. in 1968/69. Although the amount of gross foreign resources available in 1969/70 declined by Rs. 87 million compared with that of the previous year, it still contributed 29 per cent. towards financing the Budget deficit of the year. In the last five years gross foreign resources utilized for budgetary purposes was Rs. 1,422 million as compared with Rs. 418 million in the preceding five year period 1960/61 to 1964/65. Moreover, in 1970/71 a record Rs. 638 million (consisting of Rs. 525 million of commodity aid and Rs. 113 million of project aid) is expected from foreign sources to help finance the Budget deficit. The increased reliance on foreign finance for budgetary purposes is also reflected in the progressive increase in the foreign debt component of the public debt outstanding (net) from 10 per cent. in 1960/61 to 21 per cent. in 1969/70.

While the heavy recourse to external resources has helped to contain the expansionary financing in a period of rising Government expenditure, the shortfall in the expected foreign finance was one of the main causes for the sharp increase in the expansionary impact of fiscal operations in 1969/70. In that year, the net debt outstanding rose by Rs. 998 million consisting of Rs. 784 million of domestic debt and Rs. 114 million of foreign debt. At the end of the year under review, public debt outstanding (net) stood at Rs. 7,237 million consisting of Rs. 5, 686 million of domestic debt and Rs. 1,551 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 was explained in detail in a note in the last year's Annual Report[1].

After certain adjustments have been made in the revenue and expenditure figures in 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.

TABLE II (F) 2

Revenue and Expenditure of the Government 1965/66 to 1970/71 – Reconciliation

Rs. Million

Items	1965/66	1966/67	1967/68	1968/69	1969/70 (Original Estimates)	1969/70 (Provisional)	1970/71 (Original Estimates)
1. Revenue (Heads 1 to 16) ..	**1,833·3**	**1,954·8**	**2,156·4**	**2,497·3**	**2,833·9**	**2,736·4**	**2,878·0**
Add: Profits from food sales *(a)* ..	210·0	263·6	282·4	291·6	261·7	259·1	155·3
Less: Rice subsidy tax *(b)* ..	0·3	0·3	1·9	3·1	2·0	3·5	3·0
2. Total revenue ..	**2,043·0**	**2,218·1**	**2,436·9**	**2,785·8**	**3,093·6**	**2,992·0**	**3,030·3**
3. Recurrent Expenditure (votes 1, 2. 4 & 6) *(c)* ..	**1,860·5**	**1,895·3**	**2,186·2**	**2,384·2**	**2,832·8**	**2,658·9**	**2,912·7**
Less: Net food subsidy *(d)* ..	290·0	193·0	297·5	334·5	361·8	337·0	464·0
Add: Losses on food sales *(e)* .	487·4	465·5	578·7	620·4	621·5	599·1	614·4
Less: Capital items in recurrent votes *(f)* ..	84·1	94·1	114·0	116·0	206·6	124·6	113·8
Add: Current items in capital votes *(g)* ..	22·8	23·2	39·1	58·2	56·8	53·5	60·0
4. Current Payments ..	**1,996·8**	**2,096·7**	**2,392·4**	**2,612·3**	**2,942·7**	**2,849·8**	**3,009·3**
5. Capital Expenditure (votes 3, 5 & 7) *(g)* ..	**528·4**	**624·7**	**714·4**	**852·0**	**930·0**	**812·0**	**1,140·7**
Add: Capital items in recurrent votes *(f)* ..	84·1	94·1	114·0	116·0	206·6	124·6	113·8
Less: Current items in capital votes *(g)* ..	22·8	23·2	39·1	58·2	56·8	53·5	60·0
6. Capital Payments ..	**589·7**	**695·4**	**789·2**	**909·8**	**1,079·8**	**883·1**	**1,194·5**

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 financial 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 (provisional) also excludes the cost of purchase of FEECs in respect of 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) Lossess 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 (Original Estimates) 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.

1. Please see "A note on the Economic and Functional Classification of the Receipts and Payments of the Government of Ceylon" p. 186

2. REVENUE

The rate of increase of Government revenue receipts which had been rising over the past three years, slowed down somewhat in 1969/70. Government revenue increased by Rs. 206 million or 7 per cent. in the financial year 1969/70 as against the increases of Rs. 175 million or 9 per cent. Rs. 219 million or 10 per cent. and Rs. 349 million or 14 per cent. respectively in the financial years 1966/67, 1967/68 and 1968/69.

The actual revenue receipts of 1969/70 to some extent are strictly not comparable with those of the previous years and with the original estimates for the year on account of the conversion of the Department of Government Electrical Undertakings in November 1969 into the Ceylon Electricity Board and the exclusion of its figures from the actual revenue in 1969/70. On the other hand, the inclusion of the revenue from FEECs payable on government imports has tended to inflate the figures of Government revenue in 1969/70 and the original estimates for 1970/71. A more realistic comparison, isolating the effects of these two sources of revenue would still, however, present the same picture of a slow down in the rate of increase of revenue receipts in 1969/70.

Details of Government receipts for the last nine years together with the original estimates for 1970/71 are given in Table 35 of Appenix II. A summary of Government revenue in the last two years and the original estimates for 1969/70 and 1970/71 are in Table II (F) 3 below.

As in the past, current receipts accounted for the bulk of the total revenue of Rs. 2,992 million in 1969/70. Capital receipts, though recording a significant increase over the previous year and increasing their share from 1 per cent to 2 per cent. still remained negligible. Taxes on production and expenditure contributed a little over two-thirds of the total Government revenue in 1969/70. The increase in revenue in 1969/70 over the previous financial year was mainly on account of higher receipts from income tax (Rs. 93 million), turnover tax (Rs.136 million), sale of FEECs (Rs. 161 million), export duties (Rs. 27 million), and profits and dividends from State Corporations (Rs.20 million). On the otherhand, there were offsetting decreases mainly in revenue from import duties (Rs.154 million), profits from food sales [1] and from gross receipts of Government Electrical Undertakings (Rs. 113 million). Receipts from the turnover taxes have more than doubled over the previous financial year while receipts from the sale of FEECs continued to increase compensating the declining trend in import duty collections.

The actual (provisional) revenue for 1969/70, however, when compared with the original Budget estimates shows a shortfall of Rs. 102 million or 3 per cent. The major contributories to this decline are turnover tax (Rs. 35 million), import duties (Rs. 18 million), sale of FEECs (Rs. 94 million) and the decline in the revenue from the Department of Government Electrical Undertakings (Rs. 136 million). The effect of the above shortfalls was substantially offset by exesses in revenue from income tax (Rs. 111 million), export duties (Rs. 29 million) and gross receipts of the Ceylon Government Railway (Rs. 11 million).

1. Consisting almost entirely of profit from the sale of flour and sugar.

TABLE II (F) 3

Revenue of the Government 1968-69 to 1970-71[a]

Rupees Million

Sources	1968/69	1969/70 Original Estimates	1969/70 Actual Provisional	1970/71 Original Estimates
1. Current Receipts	**2,747·2**	**3,060·6**	**2,937·3**	**2,968·0**
1·1 Taxes from personal & corporate income	**343·9**	**330·0**	**441·1**	**425·0**
1·1·1 Income Tax	343·0	330·0	440·6	425·0
1·1·2 Other	0·9	—	0·5	—
1·2 Taxes on production and expenditure ..	**1,900·3**	**2,157·9**	**2,048·9**	**2,042·1**
1·2·1 General sales and turnover taxes ..	111·0	282·0	247·4	293·8
1·2·2 Selective sales taxes .	278·3	264·9	275·8	300·8
(a) Tobacco tax	219·7	220·0	218·3	242·5
(b) Tea tax	42·3	30·8	41·6	38·9
(c) Other	16·3	14·1	15·9	19·4
1·2·3 Import duties	460·2	324·0	306·5	288·0
(a) Vegetable products ..	27·3	23·5	25·7	40·8
(b) Prepared foodstuffs, beverages, tobacco etc., ...	70·6	67·0	61·1	55·5
(c) Mineral products ..	154·8	39·0	39·4	8·0
(c) Products of the chemical and allied industries ..	25·0	27·0	25·7	27·0
(e) Artificial resins, plastic materials, rubber etc., ..	19·2	19·0	16·0	15·0
(f) Paper making material etc. ..	13·1	14·0	8·5	13·0
(g) Textiles and textile articles ..	29·4	35·0	18·0	28·5
(h) Base metal and articles of metal	27·4	30·0	20·2	21·5
(i) Machinery and mechanical appliances, electrical equipment etc.,	37·4	28·0	31·8	31·5
(j) Vehicles, aircraft, vessels etc., ..	27·9	18·0	31·4	27·0
(k) Others	20·8	18·5	19·8	12·2
(l) Import licence fees ..	7·3	5·0	8·9	8·0
1·2·4 Receipts from sale of FEECs ..	285·2	540·0	446·0	457·0
1·2·5 Export duties	300·3	298·2	327·2	331·8
(a) Tea	177·4	185·0	171·6	180·3
(b) Rubber	64·1	41·3	79·0	70·0
(c) Coconut	45·7	40·2	53·1	46·0
(d) Others	13·1	31·7	32·5	36·5
1·2·6 Licence taxes ..	41·4	41·4	40·3	44·7
1·2·7 Property transfer taxes ..	22·0	20·7	22·2	20·7
1·2·8 Surplus of Government monopolies.	110·3	125·0	124·4	150·0
1·2·9 Profit from food sales ..	291·6	261·7	259·1	155·3
1·3 Interest and dividends received ..	**18·8**	**49·4**	**41·5**	**63·8**
1·3·1 Profits and dividends from state corporations	11·5	43·0	31·4	57·3
1·3·2 Other	7·3	6·4	10·1	6·5
1·4 Gross receipts of trading enterprises ..	**371·6**	**401·4**	**283·6**	**302·7**
1·4·1 Railway	131·0	129·3	139·9	134·8
1·4·2 Electricity ..	115·0	137·7	1·8	3·2
1·4·3 Postal and telecommunications ..	69·5	77·2	72·9	93·4
1·4·4 Ports and harbours ..	41·0	37·3	44·4	52·0
1·4·5 Other	15·1	19·9	24·6	19·3
1·5 Other current receipts	**112·6**	**121·9**	**122·2**	**134·4**
1·5·1 National lottery	18·2	21·0	13·6	17·0
1·5·2 Other	94·4	100·9	108·4	117·4
2. Capital Receipts	**38·5**	**33·0**	**54·7**	**62·2**
2·1 Transfers from capital accounts of domestic sector	28·7	22·0	29·2	31·3
2·1·1 Estate duty	14·3	9·0	12·0	15·0
2·1·2 Personal tax	13·7	13·0	17·0	16·3
2·1·3 Other	0·7	—	0·2	—
2·2 Other capital receipts	**9·8**	**11·0**	**25·5**	**30·9**
3. Total Revenue	**2,785·8**	**3,093·6**	**2,992·0**	**3,030·2**

Source: Central Bank of Ceylon.

(a) For details of items given above, please see footnotes to Table 35 of Appendix II.

In the current financial year 1970/71, Government revenue is expected to increase by only Rs. 38 million or 1 per cent. The significant increases expected are from the turnover tax (Rs. 46 million), tobacco tax (Rs. 24 million), sale of FEECs (Rs. 11 million), surplus of Government monopolies (Rs. 26 million), profits and dividends from State Corporations (Rs. 26 million), gross receipts of postal and telecommunication services (Rs. 21 million), other current receipts (Rs. 12 million) and capital receipts (Rs. 8 million). The effect of the above increases is substantially offset by the decreases expected mainly in income tax (Rs. 16 million), import duties (Rs. 19 million) and profit from food sales (Rs. 104 million).

Taxes on Personal and Corporate Income

Income tax on individuals and firms constitute almost the entirety of the revenue from this source.[1] The significant increases of Rs. 97 million in 1969/70 over the previous year and of Rs. 111 million over the original estimates for the year were due to several factors. Firstly, a sum of Rs. 60 million was collected in advance from corporations and a few selected companies during 1969/70. Secondly, the better economic conditions had resulted in an increased trade income. Thirdly, additional revenue was collected through investigations carried out in certain trades where large scale tax evasion was suspected. In addition, better returns were submitted by a good number of tax payers whose affairs had been previously investigated. Finally, there was a widening of the tax net by the addition of new tax payers.

The anticipated revenue from income tax in 1970/71, though much higher than the original estimate for the previous year, is lower than the actual (provisional) revenue in 1969/70 by Rs. 16 million. Of the Rs. 425 million anticipated in 1970/71, Rs 100 million is to be collected in the form of tax arrears consequent to the demonetisation of the Rs. 100 and Rs. 50 notes. Thus, after allowing for this additional revenue, the original estimates for 1970/71 forecast a slightly reduced revenue from income tax as compared with the original estimates for 1969/70. Apart from this difference being accounted for by normal variations, this may also be due to the traditional caution exercised in forecasting such revenue. It is noteworthy that the actual collection of income tax 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), selective sales taxes (e. g. excise duty on tobacco and the ad-valorem tea tax), import duties, export duties, receipts from sale of FEECs, surplus of Government monopolies (i. e. arrack) and profits from food sales (e. g. flour and sugar).

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1 Although no breakdown between individuals and firms is available, it is generally estimated that the former account for about 40 per cent. and the latter for about 60 per cent. of the revenue collected.

(a) Turnover tax

In the Annual Reports for 1968 and 1969, the buoyancy of this source of Government revenue was commented upon. This buoyancy was sustained in 1969/70 though not to the extent forecast. Receipts from this tax on the turnover of manufactures and other businesses in this year were Rs. 136 million higher than in the previous year (thereby more than doubling themselves). The receipts, however, were Rs. 35 million lower than the original estimate for 1969/70. In 1970/71, receipts from the turnover tax are expected to be Rs. 294 million, thus contributing Rs. 47 million more to the Government revenue than in the previous financial year. The share of turnover tax in total Government revenue has thus progressively increased from 3 per cent. in 1967/68 to slightly over 6 per cent. in 1969/70 and is expected to increase still further to 7 per cent. in 1970/71.

The increased receipts from turnover tax in 1969/70, as compared with the previous year, were principally due to the introduction of the turnover tax on the manufacture of petroleum products, the inclusion of a number of items like the manufacture of cigarettes which were previously exempted from this tax, the lowering of the exemption limit of turnover tax from Rs. 100,000 to Rs. 75,000 and an upward revision of rates in respect of some items.[1] It was also due to the higher turnover resulting from a higher level of business activity. The introduction of the turnover tax on petroleum products was effected along with the virtual elimination of the imports of such products and the abolition of the import duty on crude and base oils. The shortfall in actual receipts as compared with the original estimates was mainly on account of the turnover tax payment of the Ceylon Petroleum Corporation for the last quarter of 1969/70 falling outside the financial year. The late commencement of production by the Petroleum Refinery, too, contributed to this shortfall. The further enhancement of revenue expected from turnover tax in 1970/71 is principally on account of the upward revision of rates on a number of items.[2]

(b) Selective Sales Taxes

The revenue from selective sales taxes fell by Rs. 3 million in 1969/70, as compared with the previous financial year. It, nevertheless, showed an excess of Rs. 11 million over the original estimates. The fall was mainly on account of slightly reduced receipts from tobacco tax and tea tax. The excess of Rs.11 million over the originally estimated revenue for 1969/70 from this source was mainly on account of a higher receipt of Rs. 11 million from tea tax collections and Rs. 2 million from other tax receipts, which were offset slightly by a lower receipt of Rs. 2 million from tobacco tax. The fall of Rs. 2 million from tobacco tax was mainly due to a decline in the sale of cigarettes and pipe tobacco. The increase in the ad-valorem tea tax receipts was mainly due to the better than anticipated tea prices that prevailed in the London and Colombo Auctions.

In 1970/71, the revenue from selective sales taxes is expected to be higher by Rs. 25 million than in the previous year. Tobacco tax revenue is expected to increase substantially by Rs. 24 million, mainly on account of the increase in the

1. Details of these changes were given in the Annual Report, 1969 pg. 181.
2. Details of this revision are given later on in this report. Please see Section. "The Budget 1970/71".

excise duty on tobacco by Rs. 5 per pound. Tea tax revenue is expected to decline by Rs. 3 million, while revenue from other taxes is expected to increase by Rs. 4 million.

(c) Import duties

The declining trend in import duty collections as a source of revenue for the Government, particularly after the introduction of the FEEC Scheme, was commented upon in the two previous years' Annual Reports. This trend continued in 1969/70 and the import duty collections fell sharply by Rs. 154 million or 34 per cent. over the previous year. Almost all major categories of imports as listed in Table II (F) 3 showed decreases in duty collections over the previous year. The decreases were considerable in respect of mineral products (Rs. 115 million) while the other significant decreases were textiles and textile articles (Rs. 11 million), prepared foodstuffs, beverages, tobacco etc. (Rs. 10 million) and base metals and articles of metal (Rs. 7 million). The increases were in respect of vehicles, aircraft, vessels etc. (Rs. 4 million) and products of the chemical and allied industries (Rs. 1 million). Import licence fee collections, too, increased by Rs. 2 million.

Apart from the general factor of foreign exchange difficulties and the consequent decline in the volume of imports there were certain specific reasons for decreases of duty collected in each category of imports. The decrease in the duties on mineral products was the result of the virtual elimination of the import of refined petroleum products and the reduction in duty on imports of raw materials for the refinery of the Ceylon Petroleum Corporation. The extra legal waiver granted to Salu Sala Ltd., in respect of duties on its imports of certain textiles primarily accounted for the decrease in respect of textiles and textile products, while the other decreases were mainly accounted for by the reduction in the volume of imports. The increase in respect of motor vehicles was mainly on account of increased imports.

The import duty collections in 1969/70 were also Rs. 18 million lower than the orginal estimates for the year. This decrease was largely due to imports being less than anticipated.

In the financial year 1970/71 revenue from import duties is expected to decline further by Rs. 19 million mainly on account of a reduced volume of imports. This decrease is expected to be the net effect of decreases in mineral products (Rs. 31 million), vehicles, aircraft, vessels etc. (Rs. 4 million) and increased collections mainly from textile and textile products (Rs. 11 million) and vegetable products (Rs. 15 million). The decrease in respect of mineral products is attributable to the expected further decrease in the import of refined petroleum products while collections in respect of textiles are expected to increase as a result of the withdrawal of the concessions granted (in the form of an extra legal waiver) to Salu Sala Ltd., for import of textiles duty free.[1]

1. A detailed explanation of the measures proposed in regard to import duties is given in the later section on "The Budget 1970/71."

(d) Receipts from the sale of FEECs

The revenue from this source in 1969/70 rose sharply by Rs. 161 million over the previous year and was mainly due to the fact that foreign payments of most of the Government departments were made subjects to the surrender of FEECs. The receipts in 1969/70, however, were Rs. 94 million, lower than the original estimate for the year. This shortfall is primarily attributable to the suspension of the sale of FEECs with effect from May, 29, 1970 (mainly for O. G. L. imports) and to the higher payments made on account of minor exports. In 1970/71, revenue from the sale of FEECs is expected to increase by only Rs. 11 million mainly due to the expected reduction in the volume of imports.

(e) Export Duties

Revenue from export duties increased by Rs. 27 million in 1969/70 as compared with the previous year. This increase was accounted for by increased duty collections from minor exports (Rs. 19 million), coconuts (Rs. 7 million) and rubber (Rs. 6 million), partly offset by a decrease in duties on tea (Rs. 6 million). The considerable increase in duties collected on minor exports (collections were more than double that of the previous year) was mainly the result of subjecting, during 1969/70, some duty free minor exports like cinnamon chips, citronella oil and graphite to ad-valorem duties ranging from 10 per cent. to 40 per cent. The increased collections from coconut exports were mainly on account of the higher prices for Philippine's copra at the London Auctions (on which the sliding scale of duty is based) and an increase in the volume of coconut oil export. Except for the minor item of fresh nuts in this group, the revenue from all three major coconut exports of copra, coconut oil and desiccated coconut increased. The increase in the duties collected from rubber was primarily the result of an increase in the export volume of 31 million pounds (an increase of 10 per cent.), partly offset by a decline in the rubber prices in the Singapore market (on which the ad-valorem duties on rubber are based) particularly during the last quarter of the financial year when the volume of exports was high. It was also partly due to the fact that the bills of entry relating to the previous year's shipments were passed during 1969/70. The duties collected on tea exports decreased mainly on account of a decrease of 30 million pounds. (a decrease of 6 per cent.) in the volume of exports, and also due to a slight increase in the relative share of packeted tea in total tea exports.

When compared with original Budget estimates, the export duty revenue showed an excess of Rs. 29 million. This excess was the net effect of excesses of Rs. 29 million from rubber, Rs. 13 million from coconuts and Rs. 1 million from minor exports, partly offset by a shortfall of Rs. 13 million from tea. The sharp increase in rubber duty collections was mainly on account of a better than expected increase in the volume of rubber exports, referred to above. The increase in duties from coconut exports were primarily the result of the higher prices for copra at the London Auctions and the consequent increases in the ad-valorem duties. The decline in the revenue from tea was mainly due to the less than anticipated volume of tea exports and an increase in the relative share of packeted tea in total exports.

In 1970/71, revenue from export duties is estimated to increase by Rs. 5 million. While the revenue from tea and minor exports are expected to increase by Rs. 9 million and Rs. 4 million respectively, the revenue from coconuts and rubber are expected to decrease respectively by Rs. 7 million and Rs. 1 million.

(f) Licence and Property transfer taxes

The revenue from licence taxes (arrack tavern rents, toddy tapping licence fees and radio licence fees etc.), and property transfer taxes (stamps, tax on transfer of motor cars etc.), remained almost at the same level as in 1968/69. As compared with the budget estimate for 1969/70, however, there was a small increase of Rs. 2 million in stamp duty collections. In 1970/71 the revenue from these sources is expected to increase by Rs. 3 million.

(g) Surplus of Government Monopolies

This revenue item, which consists almost entirely of the profit made by the Government on the sale of arrack registered an increase of Rs. 14 million in 1969/70. The revenue was only fractionally lower than the budgeted estimate for the year. The increased revenue was due to increased sales of arrack, particulary of the relatively cheaper-blend of coconut arrack and spirits. In 1970/71 a further increase of Rs. 26 million is expected from this source, mainly on the basis of increased sales.

(h) Profits from Food Sales

This source of Government revenue consists mainly of the profits from the sale of sugar and flour. Such profits registered a fall of Rs. 33 million in 1969/70 as against the original estimated fall of Rs. 30 million for the same year. In 1970/71, the profits are estimated to fall sharply by a further Rs. 104 million. The reasons for this decline in the profits from food sales will be given in the later section on the net food subsidy.

Interest and Dividends

The revenue from this source increased significantly by Rs. 23 million in 1969/70. Increased contributions to the exchequer by public corporations and public companies by way of profits and dividends were mainly responsible for this. Such contributions increased by Rs. 20 million. The receipts from this source, however, were Rs. 8 million lower than the budgeted estimate. In 1970/71, interest and dividends are expected to increase further by Rs. 22 million[1]

Receipts from Trading Enterprises

The Gross receipts from the Government's trading enterprises (mainly the Railway, Postal & Telecommunication Services and Ports)[2] were Rs. 88 million lower in 1969/70. The main reason for this sharp fall has been the exclusion of the receipt of the Department of Government Electrical Undertakings from the

1 A sum of Rs. 57.3 million is expected in 1970/71 as profits and dividends from State corporations. For a more detailed account of contribution by state corporations please see the later sections on 'the Budget, 1970/71'.

2 The receipts shown in Table II (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 re-imbursements (Head VIII), Interest and Annuities etc. (Head X).

budgetary accounts consequent to its reconstitution in November, 1969 as a public corporation – the Ceylon Electricity Board. The revenue from trading enterprises in 1969/70, too, was Rs. 118 million lower than the Budget estimate for the year because the latter included the anticipated receipts from the Electrical Department. Higher receipts, however, were recorded by all other enterprises, in 1969/70, particularly by Railway (Rs. 9 million). In 1970/71, receipts from trading enterprises are expected to increase by Rs. 19 million. This increase is on account of higher anticipated receipts from Postal & Telecommunication Services (Rs. 21 million) and from Port & Harbour Services (Rs. 8 million) offset by a fall in receipts expected from the Railway (Rs. 5 million).

Other Current Receipts

The current revenue from other miscellaneous sources in 1969/70 was Rs. 10 million more than in the previous year. Though the receipts from the National Lottery fell by Rs. 5 millon, this fall was more than offset by increased receipts of Rs. 14 million from other miscellaneous sources. In 1970/71, other current receipts are expected to be higher by Rs. 12 million of which Rs. 3 million is expected from the National Lottery.

Capital Receipts

Capital Receipts included under revenue consisting mainly of estate duty, personal tax (i. e. Wealth and Gifts taxes) and repayments of advance from the Consolidated Fund were Rs. 16 million more than in the previous year. Most of this increase was in respect of other capital receipts of which the major item was a repayment by the Ceylon Electricity Board of an advance (made from the Consolidated Fund) of Rs. 15 million. In 1970/71, revenue from these sources is expected to be higher by Rs. 8 million mainly due to increased estate duty collections (Rs. 3 million) and "Other capital receipts" (Rs. 5 million).

3. EXPENDITURE

Total Government expenditure in the financial year 1969/70 amounted to Rs. 3,886 million, consisting of Rs. 3,685 million of voted expenditure and Rs. 201 million of advance account payments. This showed an increasee of Rs. 441 million or 13 per cent. over the total expenditure of the previous year, comprising an increase of Rs. 329 million in expenditure under recurrent votes, partly offset by a fall of Rs. 40 million in expenditure under capital votes, and an increase of Rs. 152 million in payments under advance accounts. The actual (provisional) expenditure exceeded Budget estimates by Rs. 93 million or 2 per cent. on account of a net payment of Rs. 201 million under advance accounts for which no provision was made in the Budget, partly off set by shortfalls of Rs. 50 million in expenditure under recurrent votes, and of Rs.58 million in expenditure under capital votes.

Details of expenditure for the financial years 1968/69 to 1970/71 are given in Table II (F) 4 below:

TABLE II (F) 4

Government's Expedditure 1968/69 to 1970/71

Rs. Million

Items	1968/69	1969/70 Original Estimates	1969/70 Provisional	1970/71 Original Estimates
1. Voted Expenditure ..	3,396	3,793	3,685	4,058
1·1 Recurrent expenditure[1] ..	2,544	2,923	2,873	3,089
1 2 Capital expenditure[1] ..	852	870	812	969
2. Advance account operations ..	49	—	201	—
3. Total expenditure ..	3,445	3,793	3,886	4,058

Source: Central Bank of Ceylon.

1 See footnote (c) to Table II (F) 1.

The above Table shows the provision made in the Budget for recurrent and capital expenditure. When supplementary estimates passed during the course of the financial year 1969/70 amounting to Rs. 100 million under recurrent votes and Rs. 34 million under the capital votes are taken into account, the total provision in respect of recurrent and capital expenditure amounts to Rs. 3,023 million and Rs. 904 million, respectively.

The Budget for 1970/71 provides for a total expenditure of Rs. 4,058 million or Rs. 172 million over the actual (provisional) expenditure for 1969/70. The Budget provisions for 1970/71 show an increase of Rs. 216 million in expenditure under recurrent votes and an increase of Rs. 157 million in expenditure under capital votes as compared with the actual (provisional) expenditure under the respective votes in 1969/70. No provision is made in the Budget estimates for advance account operations which accounted for a payment of Rs. 201 million in 1969/70.

Table 35 in Appendix II provides an economic and functional classification of Government expenditure. On the basis of this classification current expenditure amounts to Rs. 2,850 million and capital expenditure to Rs. 883 million which together with advance account payments show a total expenditure of Rs. 3,928 million for the financial year 1969/70. In the previous year total expenditure amounted to Rs. 3,573 million, comprising Rs. 2,612 million of current expenditure, Rs. 910 million of capital expenditure and a payment of Rs. 51 million under advance accounts. In 1969/70 the total expenditure increased by Rs. 355 million or 10 per cent.

Current Expenditure

Government's current expenditure which recorded an increase of Rs. 220 million or 9 per cent in 1968/69 increased further by Rs. 238 million or 9 per cent in 1969/70. The enhanced current expenditure in 1969/70 includes the additional payments on account of the consolidation of salaries and wages of Government employees and a portion of the FEEC expenditure of Government Departments partly offset by the effect of the conversion of the Electrical Department into a public corporation (which explains the substantial reduction in the gross payments of trading enterprises). In the financial year 1970/71, the estimated increase in current expenditure is Rs. 159 million or 6 per cent.

TABLE II (F) 5

Current Expenditure of the Government (a) 1967/68 to 1970/71

Items	1967/68		1968/69		1969/70				1970/71 (Original)	
					Original		Provisional			
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Administration	331·9	13·9	343·2	13·1	421·0	14·3	410·4	14·4	429·6	14·3
1·1 Civil	255·5	10·7	260·5	10·0	328·8	11·2	318·4	11·2	332·6	11·1
1·2 Defence	76·4	3·2	82·7	3·1	92·2	3·1	92·0	3·2	97·0	3·2
2. Social Services	596·8	24·9	642·9	24·6	723·3	24·6	732·9	25·7	752·1	25·0
2·1 Education	377·1	15·8	410·6	15·7	464·4	15·8	472·4	16·6	484·6	16·1
2·2 Health	196·1	8·2	210·0	8·0	233·0	7·9	235·7	8·3	240·1	8·0
2·3 Other	23·6	1·0	22·3	0·9	25·9	0·9	24·8	0·9	27·4	0·9
3. Economic Services	109·0	4·6	120·1	4·6	140·7	4·8	130·3	4·6	161·0	5·4
3·1 Agriculture & Irrigation	51·8	2·2	57·0	2·2	70·6	2·4	66·5	2·3	78·4	2·6
3·2 Communication	24·1	1·0	26·5	1·0	29·0	1·0	24·2	0·9	31·7	1·1
3·3 Other	33·1	1·4	36·6	1·4	41·1	1·4	39·6	1·4	50·9	1·7
4. Gross Payments of Trading Enterprises	288·1	12·0	301·0	11·5	326·7	11·1	249·9	8·8	250·0	8·3
5. Intra-Governmental Payments	3·9	0·2	4·0	0·2	4·0	0·1	4·3	0·2	4·5	0·2
6. Transfer Payments	1062·7	44·4	1201·1	46·0	1310·2	44·5	1281·9	45·0	1372·6	45·6
6·1 Subsidieis	610·3	25·5	668·8	25·6	670·5	22·8	647·6	22·7	665·6	22·1
of which: Food Subsidies	(578·7)	(24·2)	(620·4)	(23·7)	(621·5)	(21·1)	(599·1)	(21·0)	(614·4)	(20·4)
6·2 Interest on Public Debt	166·5	7·0	206·2	7·9	262·5	8·9	253·3	8·9	309·0	10·3
6·3 Pensions	154·9	6·5	161·1	6·2	168·9	5·7	182·9	6·4	186·5	6·2
6·4 Households	44·0	1·8	40·4	1·5	57·3	1·9	63·1	2·2	59·3	2·0
6·5 To Local Authorities	52·5	2·2	61·9	2·4	69·5	2·4	58·9	2·1	60·8	2·0
6·6 Other	34·5	1·4	62·7	2·4	81·5	2·8	76·1	2·7	91·4	3·0
7. Total	2392·4	100·0	2612·3	100·0	2942·7 (b)	100·0	2849·8 (b)	100·0	3009·3 (b)	100·0

Source: Central Bank of Ceylon.

(a) See footnotes to Table 35 of Appendix II.

(b)) Includes unallocable FEEC xpenditure amounting to Rs. 16·8 million for 1969/70 (Original) Rs. 40·1 million for 1969/70 (Provisional) and Rs. 39·5 million for 1970/71.

(a) Administration

In the year under review, current expenditure on civil administration and defence increased by Rs. 58 million and Rs. 9 million, respectively, primarily on account of enhanced salary and wage payments consequent to the consolidation of salaries and wages of Government employees. The current administrative expenses accounted for about 14 per cent. of the total current expenditure in 1969/70. In 1970/71, current expenditure on administration is estimated to increase further by Rs. 19 million.

(b) Social Services

Current expenditure on social services in 1969/70 increased by Rs. 90 million or 14 per cent comprising increases of Rs. 62 million on education, Rs. 26 million on health and Rs. 3 million on other social services. The current expenditure on social services accounted for about one-fourth of Government's total current expenditure. In 1970/71, current expenditure on social services is expected to increase further by Rs. 19 million or 3 per cent.

(c) Economic Services

Current expenditure on economic services in 1969/70 amounted to Rs. 130 million recording an increase of Rs. 10 million or 8 per cent. over that of the previous financial year. The enhanced current expenditure was mainly on account of an increase of Rs. 9 million in expenditure on agriculture and irrigation. Expenditure on economic services accounts for about 5 per cent. of the total current expenditure. In 1970/71, current expenditure on economic services is estimated to be higher by Rs. 31 million or 24 per cent.

(d) Gross Payments of Trading Enterprises

Payments by trading enterprises of Government declined substantially from Rs 301 million in 1968/69 to Rs. 250 million in 1969/70. This was mainly on account of the reconstitution of the Department of Government Electrical Undertakings into a public corporation which resulted in the exclusion of its payments from Government Accounts. In 1970/71, too, the payments of trading enterprises of the Government are expected to be about Rs. 250 million.

(e) Current Transfers

Current transfers increased by Rs. 81 million or 7 per cent. in 1969/70 comprsing increases of Rs. 47 million on interest payments, Rs. 22 million on pensions, Rs. 23 million on transfers to the household sector and Rs. 13 million under 'other' transfers partly offset by decreases of Rs. 21 million on subsidies[1] and Rs. 3 million on transfers to local authorities. As in the last few years, current transfers accounted for about 45 per cent. of the total current payments. In 1970/71, current transfers are estimated to increase further by Rs. 91 million or 7 per cent. mainly on account of increases of Rs. 18 million on subsidies, Rs. 56 million on interest payments and Rs. 15 million on other transfers.

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

Capital Expenditure

Government's capital expenditure in 1969/70, as shown in Table II (F) 6, amounted to Rs. 883 million showing a decline of Rs. 27 million or 3 per cent. The total capital expenditure excludes a major portion of the capital expenditure of the Electrical Department (for reasons mentioned earlier) but includes the FEEC payments on capital expenditure. Consequently, the data relating to total capital expenditure in 1969/70 are not comparable with those of previous financial years. However, even after allowing for the effect of the two above-mentioned factors the capital expenditure in 1969/70 shows a decline in contrast to a growth rate of 14 per cent. (compound) acheived in the previous five-year period.

In 1969/70, capital expenditure consisted of Rs. 518 million (or 59 per cent.) of capital expenditure of Government departments, Rs. 320 million (or 36 per cent.) of capital transfers and Rs. 46 million (or 5 per cent.) of acquisition of financial assets. In the previous financial year the comparable data were Rs. 526 milli on (or 58 per cent.), Rs. 332 million (or 37 per cent.) and Rs. 51 million (or 6 per cent.), respectively. The decrease of Rs. 27 million in capital expenditure in 1967/70 comprise decreases of Rs. 8 million in capital expenditured of Government Departments, Rs. 13 million in capital transfers and Rs. 6 million in acquisition of financial assets. In the previous financial year the increase of Rs. 121 million in capital expenditure comprised increases of Rs. 32 million in capital expenditure of Government Departments, Rs. 65 million in capital transfers and Rs. 24 million in acquisition of financial assets.

In 1970/71, the gross capital expenditure is expeted to be Rs. 1,195 million comprising Rs. 785 million of capital expenditure of Government Departments, Rs. 358 million of capital transfers and Rs. 52 million of acquisition of financial assets. Thus, capital expenditure of Government Departments is expected to be Rs. 267 millipn higher than in 1969/70. Capital transfers and acquisition of financial assets are also anticipated to increase by Rs. 38 million and Rs. 7 million, respectively, in 1970/71.

(a) Capital expenditure of Government Departments

The capital expenditure of Government Departments in the year under review amounted to Rs. 518 million showing a decline of Rs. 8 million or 2 per cent. over that of the previous year. This decline was mainly on account of a fall of Rs. 19 million in expenditure on economic services, partly offest by increases of Rs. 3 million on civil administration and Rs. 8 million on social services. The decline in the expenditure on economic services was mainly on account of a fall of Rs. 36 million on power (which as explained earlier was due to the conversion of the Electrical Department into a Board) and Rs. 7 million on trade partly offest by increases of Rs. 5 million on agriculture and irrigation, Rs. 4 million on manufacture and mining and Rs. 15 million on communication. The increase of Rs. 8 million on social services comprise increases of Rs. 9 million on education, and Rs. 1 million on health, partly offest by a decline of Rs. 2 million on housing.

TABLE II (F) 6

Capital Expenditure of the Government (a) 1967/68 to 1970/71

Items	1967/68 Amount Rupees Million	1967/68 Percentage	1968/69 Amount Rupees Million	1968/69 Percentage	1969/70 Original Estimates Amount Rupees Million	1969/70 Original Estimates Percentage	1969/70 Provisional Amount Rupees Million	1969/70 Provisional Percentage	1970/71 Original Estimates Amount Rupees Million	1970/71 Original Estimates Percentage
1. Acquisition, Construction and Maintenance of Real Assets	**493.9**	**62.6**	**526.2**	**57.8**	**750.6b**	**69.5**	**518.0**	**58.7**	**784.5b**	**65.7**
1.1 Civil Administration	**13.1**	**1.7**	**16.7**	**1.8**	**24.1**	**2.2**	**19.4**	**2.2**	**18.8**	**1.6**
1.2 Social Services	**93.8**	**11.9**	**112.9**	**12.4**	**140.6**	**13.0**	**120.6**	**13.7**	**202.6**	**17.0**
1.2.1 Education	33.1	4.2	31.6	3.5	52.1	4.8	40.1	4.5	68.2	5.7
1.2.2 Health	24.5	3.1	37.5	4.1	41.8	3.9	38.0	4.3	47.3	4.0
1.2.3 Housing	30.6	3.9	35.8	3.9	36.1	3.3	34.1	3.9	50.0	4.2
1.2.4 Other	5.6	0.7	8.0	0.8	10.6	1.0	8.4	1.0	37.1	3.1
1.3 Economic Services	**387.0**	**49.0**	**396.6**	**43.6**	**552.2**	**51.1**	**378.0**	**42.8**	**548.8**	**45.9**
1.3.1 Agriculture & Irrigation	140.0	17.7	168.1	18.5	227.5	21.0	172.8	19.6	250.8	21.0
1.3.2 Fisheries	0.1	...	0.1	...	2.3	0.2	1.0	0.1	18.3	1.5
1.3.3 Manufacture & mining	24.2	3.1	5.0	0.5	10.8	1.0	8.8	1.0	16.6	1.4
1.3.4 Trade	3.4	0.4	13.9	1.5	9.0	0.8	7.0	0.8	34.2	2.9
1.3.5 Communication	154.9	19.6	170.0	18.7	242.2	22.4	185.1	21.0	228.9	19.2
1.3.6 Power	64.4	8.2	39.5	4.3	60.4	5.6	3.3	0.4	—	—
2. Capital Transfers	**267.9**	**33.9**	**332.4**	**36.5**	**296.9**	**27.5**	**319.5**	**36.2**	**357.7**	**29.9**
2.1 Local Authorities	**13.0**	**1.6**	**14.0**	**1.5**	**14.1**	**1.3**	**15.5**	**1.8**	**15.5**	**1.3**
2.2 Public Corporations	**210.1**	**26.6**	**285.6**	**31.4**	**259.2**	**24.0**	**282.8**	**32.0**	**317.0**	**26.5**
2.2.1 Agriculture & Irrigation	70.9	9.0	70.0	7.7	70.8	6.6	77.2	8.7	161.1	13.5
2.2.2 Fisheries	15.6	2.0	16.7	1.8	14.9	1.4	14.1	1.6	11.0	0.9
2.2.3 Manufacture & Mining	106.1	13.4	182.8	20.1	158.1	14.6	175.5	19.9	116.9	9.8
2.2.4 Other	17.5	2.2	16.2	1.8	15.4	1.4	16.0	1.8	28.0	2.3
2.3 Other	**44.8**	**5.7**	**32.8**	**3.6**	**23.6**	**2.2**	**21.2**	**2.4**	**25.2**	**2.1**
3. Acquisition of Financial Assets	**27.4**	**3.5**	**51.2**	**5.6**	**32.3**	**3.0**	**45.6**	**5.2**	**52.3**	**4.4**
4. Total	**789.2**	**100.0**	**909.8**	**100.0**	**1079.8**	**100.0**	**883.1**	**100.0**	**1194.5**	**100.0**

Source: Central Bank of Ceylon.

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

(b) The component items will not add upto this sub-total as it contains unallocable FEEC expenditure. See also foot-note (c) to Table 35 of Appendix II.

In 1970/71, capital expenditure of Government Departments is expected to be Rs. 785 million consisting of Rs. 19 million on civil administration, Rs. 203 million on social services and Rs. 549 million on economic services. Thus, the capital expenditure of Government Departments is expected to be Rs. 267 million more than in 1969/70 comprising mainly increases of Rs. 82 million on social services and Rs. 171 million on economic services. The bulk of the increase in the capital expenditure of Government Departments is mainly on account of a provision of Rs. 200 million under the Employment Programme. The increase in capital expenditure on social services is mainly on account of enhanced provision of Rs. 28 million on education, of Rs. 9 million on health, of Rs 16 million on housing and of Rs. 29 million on other social servces. The increase of Rs. 171 million in the expenditure on economic services comprises increases of Rs. 78 million on agriculture and irrigation, of Rs. 17 million on fisheries, of Rs. 8 million on manufacture and mining, of Rs. 27 million on trade and of Rs. 44 million on communication, partly offset by a decrease of Rs. 3 million on power

(b) Capital Transfers

In 1969/70, capital transfers of the Government amounted to Rs. 320 million and was Rs. 13 million lower than in 1968/69. A major portion of the total capital transfers (Rs. 283 million or 89 per cent.), as in the previous year, was received by public corporations while capital transfers to local anthorities and 'others' amounted to Rs. 16 million and Rs. 21 million, respectively. In 1970/71, capital transfers are expected to amount to Rs. 358 million, of which, the portion to be channelled to public corporations is estimated at Rs. 317 million or 89 per cent.

Capital transfers to corporations in the industrial sector, which accounted for 62 per cent. of the total capital transfers to public corporations, declined by Rs. 7 million in 1969/70. This decline was mainly on account of a sharp fall of Rs. 64 million in the contributions to the capital of the National Textile Corporation (Tulhiriya Project) partly offset by increases in the contributions to several corporations-the major ones being the Eastern Paper Mills Corporation (Rs. 21 million) and the Ceylon Plywoods Corporation (Rs. 18 million) In 1970/71, capital transferes to corporations in the agricultural sector show a substantial increase of Rs. 84 million while transfers to industrial corporations are estimated to decline by Rs. 59 million. The former is due to the allocations granted to the newly set up Mahaweli Development Board and the latter decline reflects the decrease in the grants to the National Textile Corporation (Tulhiriya Project).

(c) Acquisition of Financial Assets

In 1969/70, Government expenditure on acquisition of financial assets amounted to Rs. 46 million, the major items being loans of Rs. 25 million to the National Housing Fund and Rs. 8 million to the Local Loans and Development Fund and a contribution of Rs. 6 million to the capital of Hotel Services (Ceylon) Ltd. In the financial year 1970/71, acquisition of financial assets by the Government is expected to be Rs. 52 million, which includes loans of

Rs. 20 million, to the National Housing Fund and Rs. 10 million to the Local Loans and Development Fund and an allocation of Rs. 8 million for the granting of loans for self-employment under the Employment Programme.

4. 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 sudsidy in the guaranteed prices paid to producers of rice and red onions, against which are set off the profits made on the import and sale of sugar and flour. The profits/losses involved in the import and sale of certain other goods such as lentils, maldive fish etc., the distribution expenses and other charges in respect of the above mentioned goods and Rice Subsidy Tax are also taken into account in computing the net food subsidy.[1]

Details of the net food subsidy in the last three years along with the original estimates for 1969/70 and 1970/71 are presented below in Table II (F) 7.

TABLE II (F) 7

"Net Food Subsidy" — 1967/68 to 1970/71

Rs. Million

Items	1967/68	1968/69	1969/70 (Original Esti-mates)	1969/70 (Provi-sional)	1970/71 (Original Esti-mates)
1. Subsidy to the consumer on imported rice	279·9	276·1	237·2	263·9	524·8(a)
2. Subsidy to the producer & consumer on locally produced rice ..	250·3	269·2	319·6	252·5	
3. Subsidy on locally produced red onions ..	6·8	6·8	8·0	8·0	8·5
4. Distribution expenses and other charges ..	37·2	51·8	48·5	61·1	79·9
5. Loss on sale of other goods(b) ..	4·1	5·4	8·2	3·6	1·2
6. Value of rice ration coupons surrendered in lieu of repayment of loans by co-operative societies ..	0·4	11·1	—	10·0	—
7. Total Gross Subsidy (1 to 6) ..	578·7	620·4	621·5	599·1	614·4
8. Profit on sale of sugar ..	239·5	254·6	210·6	222·6	120·1(c)
9. Profit on sale of flour ..	41·0	33·9	49·1(d)	33·0	32·2
10. Rice subsidy tax ..	1·9	3·1	2·0	3·5	3·0
11. Total (8 to 10) ..	282·4	291·6	261·7	259·1	155·3
12. Net Food Subsidy .	296·3	328·8	359·8	340·0	459·1

Source: Food Commissioner.

(a) It is not possible to provide a reliable estimate of issues (imported and local rice) under the first and second measure. Hence item 1 and 2 are not computed.

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

(c) Net of a sum of Rs. 86·1 million being cost of FFECs on imports of sugar.

(d) Includes a rebate of Rs. 20·6 million on import of flour under U. S. PL 480.

1 Since 1967/68 an additional item i. e. the value of rice ration coupons surrendered in lieu of repayment ofloans issued by Co-operative Societies is shown separately.

The net food subsidy showed an increase of Rs. 11 million in 1969/70 as against an increase of Rs. 33 million in the previous financial year.

The increase in 1968/69 was due mainly to an increase of Rs. 19 million in the subsidy on local rice, an increase of Rs. 15 million in the distribution expenses and other charges and the inclusion of Rs. 10 million in respect of rice ration coupons surrendered in lieu of repayment of loans granted by co-operative societies, all of which increased the gross food subsidy by Rs. 41 million. This increase in the gross subsidy bill was partly offset by an increase of Rs. 9 million in the receipts from profits from the sale of sugar and flour and the rice subsidy tax. The profit from the sale of sugar showed an increase of Rs. 15 million while the profit from the sale of flour declined by Rs. 7 million. The increase in the subsidy on local rice was mainly brought about by an increase in the issue by 37,200 long tons or by 18 per cent. The increase in the profit from the sale of sugar was largely on account of increased sales of 30,000 tons (12 per cent.) partly offset by an increase in the average import price from Rs. 559 to Rs. 576, while the decrease in the profit from sale of flour was primarily on account of an increase in the average import price by 9 per cent. to Rs. 681 per long ton.

The increase in the provisional figure of net food subsidy in 1969/70 over the previous year occurred despite a decrease of Rs. 21 million in the gross subsidy. This fall in the gross subsidy was primarily due to a decrease of Rs. 17 million in the subsidy on local rice and a decrease of Rs. 12 million in the subsidy on imported rice which together more than offset an increase of Rs. 9 million in distribution expenses and other charges. The subsidy on local rice decreased mainly on account of a fall in the issue of some 21,200 tons (a decrease of 9 per cent.). The decrease in the subsidy on imported rice was the result of a marked fall in the average landed cost of rice from Rs. 920 to Rs. 787 (a fall of 14 per cent.) offset partly by an increase of 58,700 long tons or 22 per cent. in the issue of such rice. However, a decrease of Rs. 30 million in the receipts from profits from the sale of sugar and flour and from the rice subsidy tax more than offset the decrease in the gross food subsidy. Consequently, the net food subsidy increased by Rs. 11 million. The decrease in the receipts from profits in the sale of sugar and flour and from rice subsidy tax was mainly on account of a considerable fall of Rs. 32 million or 13 per cent. in the profit on the sale of sugar brought about largely as a result of a sharp increase in the average import price from Rs. 576 to Rs. 765 per ton (an increase of 33 per cent.).

In 1970/71 the net food subsidy is estimated to increase sharply by Rs. 119 million or 35 per cent. This increase is primarily the result of the proposal to subject the import of sugar to FEECs which is expected to add Rs. 86 million to the total sugar import bill. In addition, the import price of sugar which rose sharply in 1969/70 was expected to increase still further in 1970/71. Consequently the profit from the sale of sugar was expected to drop by Rs. 103 million, which mainly accounts for the fall of roughly the same magnitude in the expected receipts from sugar, flour profits and from the rice subsidy tax. On the other hand, the gross fcod subsidy is expected to increase by Rs. 15 million. This increase is mainly the result of an increase of Rs. 8 million in the subsidy on local and imported rice, an increase of Rs. 19 million in respect of distribution charges and other expenses, partly offset by a decrease of Rs. 2 million in the losses on the sale of other goods. The expected increase in the subsidy on local and imported rice and in the distribution expenses and other charges is primiarly on account of the decision to issue an additional measure of rice at 75 cents per measure with effect from September 26, 1970.

5. **UNDER-EXPENDITURE BY MINISTRIES**

Table II (F) 8 below gives a ministry-wise breakdown of the total provision (including supplementary estimates) and the corresponding actual expenditure in respect of expenditure under capital votes for the three financial years 1967/68 to 1969/70.

In the financial year 1969/70, while the total provision in respect of capital votes amounted to Rs. 964 million, the actual expenditure was Rs. 812 million, showing an under expenditure of Rs. 152 million or 16 per cent. In the previous financial year the under-expenditure was Rs. 143 million or 14 per cent. and in 1967/68, Rs. 124 million or 15 per cent. The total provision for the financial year 1969/70 included the entire original estimates in respect of the Electrical Department while the actual figures contain only one month's expenditure, since the Department was converted into a Board in November, 1969. Furthermore, expenditure under capital votes included part of the cost of FEFCs on capital payments whereas there was no provision for FEEC expenditure under capital votes. In view of these factors a realistic estimation of under expenditure cannot be made.

The table also indicates that the preponderant part of the total under expenditure in 1969/70 had occurred in the votes of the Ministry of Irrigation, Power and Highways which accounts for roughly one-third of Government capital expenditure. As observed earlier, a part of the large under-expenditure under this Ministry is attributable to the inclusion of the votes of the Electrical Department in the original estimates and the subsequent conversion of the Department into the Ceylon Electricity Board. Even when allowance is made for this factor, the resultant under-expenditure is a substantial figure of Rs. 63.0 million or 23 per cent. as compared with Rs. 9.3 million or 3 per cent in 1967/68 and Rs. 39.1 million or 12 per cent. in 1968/69. The Ministry of Agriculture and Lands showed an under-expenditure of Rs. 19.6 million or 16 per cent. in 1969/70 as compared with Rs. 25.7 million or 27 per cent. in 1967/68 and Rs. 8.9 million or 9 per cent. in 1968/69. A notable feature of the Capital Budget in 1969/70 is the performance of three Ministries – Ministry of Industries and Scientific Affairs, Ministry of Communications and the Ministry of Finance – where the actual expenditure has exceeded the provision. Under the Ministry of Industries and Scientific Affairs, one of the large capital spending Ministries, such excess amounted to Rs. 17.1 million in 1969/70 as compared with under-expenditures of Rs. 10.9 million or 7 per cent. in 1967/68 and Rs. 25.6 million or 12 per cent. in 1968/69.

TABLE II (F) 8

Capital Expenditure by Ministries - 1967 / 68 to 1969 / 70 *(a)*

Rs. Million

Ministry	1967 / 68			1968 / 69			1969 / 70		
	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 etc. not falling under ministries ..	0·2	0·1	0·1	0·1	0·1	—	0·1	0·1	—
2. Ministry of Defence and External Affairs ..	9·9	7·0	2·9	11·1	8·8	2·3	9·1	8·8	0·3
3. Ministry of Planning & Employment ..	...	...	...	11·1	11·1	—	15·7	10·8	4·9
4. Ministry of Irrigation, Power & Highways *(b)*..	295·7	286·4	9·3	334·1	295·0	39·1	335·5	217·1	118·4
5. Ministry of Foreign & Internal Trade ..	3·6	1·7	1·9	13·6	10·7	2·9	4·9	4·2	0·7
6. Ministry of Education ..	36·8	24·8	12·0	36·9	26·6	10·3	40·0	34·4	6·0
7. Ministry of Shipping & Tourism ..	24·3	17·0	7·3	40·4	30·8	9·6	24·3	23·8	0·5
8. Ministry of Labour ..	2·4	2·5	- 0·1	6·1	5·6	0·5	4·6	3·5	1·1
9. Ministry of Public Administration, Local Government and Home Affairs ..	36·8	25·5	11·3	43·1	34·6	8·5	48·1	45·5	2·6
10. Ministry of Industries and Scientific Affairs .	146·9	136·0	10·9	214·7	189·1	25·6	147·6	164·7	- 17·1
11. Ministry of Finance ..	29·7	26·7	3·0	28·2	26·8	1·4	37·7	38·6	- 0·5
12. Ministry of Communications ..	48·4	32·9	15·5	46·8	33·7	13·1	39·1	47·1	- 8·0
13. Ministry of Plantation Industry ..	40·6	40·6	—	36·8	36·8	—	28·9	28·9	—
14. Ministry of Justice ..	0·2	0·2	—	0·1	0·2	- 0·1	0·3	0·3	—
15. Ministry of Agriculture and Lands ..	94·0	68·3	25·7	96·9	88·0	8·9	121·9	102·3	19·6
16. Ministry of Fisheries ..	30·5	16·6	13·9	20·6	18·8	1·8	19·2	16·6	2·6
17. Minitry of Housing & Construction ..	1·6	8·6	- 7·0	7·0	7·0	—	42·3	33·5	8·8
18. Ministry of Posts & Telecommunications ..	18·3	5·8	12·5	17·5	9·2	8·3	16·9	9·4	7·5
19. Ministry of Health ..	11·1	10·8	0·3	17·0	11·6	5·4	13·9	12·3	1·6
20. Ministry of Information & Broadcasting ..	5·2	1·7	3·5	9·7	5·4	4·3	10·1	7·8	2·3
21. Ministry of Social Services ..	0·6	0·3	0·3	0·5	0·3	0·2	0·7	0·2	0·5
22. Ministry of Cultural Affairs ..	2·0	1·5	0·5	2·3	1·8	0·5	2·2	1·6	0·6
23. Ministry of Parliamentary Affairs & Sports ..	0·1	—	0·1	—	—	—	0·5	0·4	0·1
24. Ministry of Constitutional Affairs ..	—	—	—	—	—	—	0·1	—	0·1
Total ..	838·5	714·4	124·1	994·5	852·0	142·5	964·2	812·0	152·2

Source: Central Bank of Ccylon

(a) For purposes of comparison, figures for 1967/68, 1968/69 and 1969/70 have been reclassified to conform, as far as possible, to the latest allocation of departments and functions under the different Ministries as appearing in the Estimates of the Revenue and Expenditure of the Government of Ceylon for the financial year 1970/71. The figures of "Total Provision" include supplementary estimates, while the figures of "Actual Expenditure" include foreign loan expenditure awaiting charge to votes. These figures are also net of sinking fund contributions direct repayments of public debt and special payments to international financial organizations.
A minus sign in the "Under Expenditure" column indicates an excess of actual expenditure over the total provision.

(b) In the financial year 1967/68 and 1968/69, the expenditure of the Public Works Department has been classified under the Ministry of Irrigation, Power and Highways. In 1969/70, this Department was divided into the Department of Highways and the Department of Buildings, the latter falling under the Ministry of Housing and Construction. Hence the figures for the two Ministries for 1969/70 may not be comparable with those for the two previous years.

The capital expenditure of the Ministry of Communications, too, shows an excess of Rs. 8.0 million in 1969/70 as against under-expenditures of Rs. 15.5 million or 32 per cent. in 1967/68 and Rs. 13.1 million or 28 per cent. in 1968/69.

6. ADVANCE ACCOUNTS

Government's "Advance Accounts"[1] activities in 1969/70 resulted in a net payment of Rs. 201 million as against a net payment of Rs. 49 million in the previous financial year. The net payment, in 1969/70, which contributed substantially to the increase in the net cash deficit for the year, was due to payments of Rs. 125 million to Government Departments, Rs. 56 million under the Ceylon/China trade account, and Rs. 22 million for stores, partly offset by a miscellaneous receipt of Rs. 2 million. The payment of Rs. 49 million in the previous financial year was mainly the result of a payment of Rs. 61 million to Government Departments, partly offset by an increase of Rs. 12 million in the balance in favour of China under the Ceylon/China trade account. The large payment of Rs. 125 million to Government Departments in 1969/70 was on account of the repayment of food bills amounting to Rs. 92 million which were outstanding at the end of the previous financial year while the payment of Rs. 56 million under the Ceylon/China trade account reflected a reduction in the balance that was owing to the People's Republic of China under this trade agreement.

7. THE DEFECIT AND ITS FINANCING

The Government Budget for 1969/70 originally anticipated a net cash deficit of Rs.722 million. The final outturn of Government budgetary operations, however, resulted in a very much higher deficit of Rs. 936 million (provisional) as compared with the deficit of Rs. 788 million in the previous year. The deficit for 1969/70 is the highest ever recorded. In recent years, there has been a trend towards progressively increasing net cash deficits. The reasons for this have been analysed in earlier sections.

The increase of Rs. 148 million in the net cash deficit in 1969/70 was the combined effect of increases of Rs. 275 million in recurrent expenditure and Rs. 152 million in expenditure in respect of advance account operations[2] partly offset by an increase of Rs. 239 million in revenue receipts and a decrease of Rs. 40 million in expenditure chargeable to capital votes.

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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 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 permitted 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.

2 On account of advance account operations, there were net payments of Rs. 48.7 million and Rs. 201.1 million respectively in 1968/69 and 1969/70.

The net cash deficit for the year 1969/70 also exceeded the original estimates for that year by Rs. 214 million. This increase was due to a net payment of Rs. 201 million in advance account operations, which was not envisaged in original estimates, and a shortfall of Rs. 98 million in revenue, partly offset by shortfalls in capital and recurrent expenditure amounting to Rs. 158 million and Rs. 28 million respectively.

In the current financial year 1970/71, the net cash deficit is estimated to be Rs. 932 million or Rs. 4 million lower than in 1969/70. Though expenditure is expected to increase by Rs. 172 million, an estimated increase of Rs. 142 million in revenue receipts, together with an increased provision of Rs. 35 million, in respect of debt repayment is expected to result in this small decrease in the net cash deficit for 1970/71.

Financing of the deficit

Tables II (F) 9 gives data in respect of the sources of finance and the expansionary impact of the net cash deficit for the years 1966/67 to 1969/70 together with the relevant original estimates for the current year 1970/71.

The net cash deficit of Rs. 936 million in 1969/70 was financed by borrowing Rs. 454 million from domestic bank sources, Rs. 266 million from domestic non-bank market sources, Rs. 22 million from domestic non-market sources and by obtaining Rs. 220 million from foreign assistance. As a consequence, cash balances (including counterpart funds) increased by Rs. 26 million. On the other hand, the net cash deficit of Rs. 932 million in the current year 1970/71 is to be financed by means of enhanced foreign assistance of Rs. 491 million, and by mobilising Rs. 344 million from the domestic non-bank sector. The balance sum of Rs. 97 million is to be financed by bank borrowing.

The net expansionary impact of Government's fiscal operations in 1969/70 amounted to Rs. 428 million showing a sharp increase of Rs. 249 million over the expansionary impact of such operations in the previous financial year. This increase in the expansionary impact was mainly due to the increased magnitude of the net cash deficit itself[1], accompanied by decreases in resources obtained from foreign sources and domestic non-market sources (administrative borrowings) while an increase in resources available from the domestic non-bank market sources helped to reduce the extent of bank borrowing.

Thus, the ratio of the expansionary component of the total net cash deficit which declined from 37.4 per cent in 1967/68 to 22.7 per cent in 1968/69 increased substantially to 45.7 per cent. in 1969/70.

In 1969/70 the Government increased its indebtedness to the Central Bank by Rs. 376 million while its indebtedness to the commercial banks, too, increased by Rs. 77 million. The borrowings from the Central Bank increased

1 This increase and the consequent increase in borrowings from the banking system was partly due to the retirement of food bills amounting to Rs. 92 million which were outstanding at the end of the previous financial year.

TABLE II (F) 9

Financing of the Net Cash Deficit – 1966/67 to 1970/71.

Rupees Million

Sources	1966/67			1967/68 *(b)*			1968/69 *(b)*			1969/70 Actual (Provisional)			1970/71 Original Estimates
1· Foreign Finance													
(a) Project loans (gross) ..	42·4			38·8			93·9			53·3			
Less contributions to sinking funds and repayments ..	44·9	–2·5		47·8	– 9·0		47·0	46·9		72·2	– 18·9		
(b) Non-Project (Commodity) loans (gross) ..	193·9			178·9			312·2			229·1			
Less repayments ..	2·1	191·8		8·7	170·2		25·0	287·2		46·5	182·6		
(c) Grants ..		19·3	208·6		29·0	190·2		19·5	353·6		56·5	220·2	490·9
2· Domestic non-market borrowing ..			72·3			9·8			52·2			21·8	–
3· Domestic market borrowing from the banking system (c)													
(a) Central Bank ..		125·7			302·1			114·9			376·4		
(b) Commercial banks ..		–74·5	51·3		1·4	303·5		–46·8	68·1		77·1	453·5	97·1
4· Domestic market borrowing from non-bank sources													
Gross amount borrowed ..		364·5*(d)*			324·0			287·8			359·2		
Less contributions to sinking funds ..		67·5	297·0		75·7	248·3		85·3	202·5		93·2	266·0	343·5
5· Decline in cash balances and foreign aid counterpart funds													
(a) Cash balances ..		21·5			–48·4			62·9			– 30·6		
(b) Foreign aid counterpart funds (gross credits) ..	– 193·9			– 187·7*(e)*			– 318·7*(e)*			– 268·4*(e)*			
Less amount used for budgetary purposes ..	150·0	–43·9	– 22·4	200·0	12·3	– 36·1	367·0	48·3	111·2	273·4	5·0	– 25·6	–
6· Net cash deficit ..			606·8			715·7			787·6			935·6	931·5
7· Decline in U.S. aid counterpart funds ..			27·2			—			–0·3			...	–
8· Net expansionary impact of Government fiscal opeartions (3+5+7) ..			56·1			267·4			179·0			427·9	97·1

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 PL 480 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 years 1967/68 to 1969/70 the figure of credits to the foreign aid counterpart funds exceeds the receipts from non-project (commodity) loans due to the fact that the proceeds of some Grants which were received in the from of commodities were also credited to the counterpart funds.

sharply by Rs. 262 million over that of the previous year while borrowings from the commercial banks increased by Rs. 124 million[1]. The borrowings from the Central Bank in the year under review consisted of an increase in Central Bank's holdings of Government Securities of Rs. 137 million, of Treasury Bills of Rs. 197 million and an increase of Rs. 43 million in Central Bank Advances outstanding. The increase in indebtedness to commercial banks was the result of an increase of Rs. 82 million in Government Securities, of Rs. 3 million in Tax Reserve Certificates partly offset by a decline of Rs. 8 million in Treasury Bill holdings.

Net domestic market borrowings from non-bank sources in 1969/70 of Rs. 266 million were higher than that of the previous year by Rs. 64 million as compared to a decrease of Rs. 46 million in 1968/69 over that of the previous year.

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

Rs. Million

Contributors	1966/67	1967/68	1968/69	1969/70	increase in 1968/69 over 1967/68	increase in 1969/70 over 1968/69
1. Savings institutions ..	88·6 *(b)*	41·5	0·6	11·0	– 40·9	[illegible]4
2. Employees' Provident Fund ..	85·2	92·1	101·6	98·0	9·5	[illegible]
3. Other provident and pension funds ..	41·3	30·2	28·6	46·1	– 1·6	[illegible]
4. Departmental and other offical funds ..	16·3 *(b)*	7·0	3·7	5·4	– 3·3	1·7
5. Insurance Corporation ..	47·9	52·8	42·4	45·5	10·4	3·1
6. Other insurance funds ..	0·1	4·2	3·5	8·8	– 0·7	5·3
7. Other state corporations ..	– 0·7	—	—	– 0·7	—	– 0·7
8. Companies, clubs and institutions ..	-12·3	– 1·6	5·6	5·6	7·2	—
9. Individuals ..	6·5	0·1	– 3·2	10·5	– 3·3	13·7

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 Government Securities purchased by savings institutions and Government agencies consequent on a redemption of Central Bank Securities held by these institutions.

1 The Government reduced its indebtedness to the commercial banks by Rs. 47 million in 1968/69 while its indebtedness in 1969170 increased by Rs. 77 million.

With the exception of the Employees' Provident Fund and "Other state corporations" i.e. mainly the Ceylon Petroleum Corporation, there had been a general increase in net contributions of the non-bank sector to the Government loan programme in 1969/70. Of significance are the substantial increases in the contributions from the "Other provident and pension funds", savings institutions and individuals.

Total foreign finance available to the Government in the year to meet its fiscal operations amounted to Rs. 339 million consisting of Rs. 53 million in project loans, Rs. 229 million in non-project (commodity) loans and Rs. 57 million in grants. Net of contributions to Sinking Funds and repayments, foreign finance amounted to Rs 220 million as compared to Rs. 354 million in the previous year. In fact, there was a net payment of Rs. 19 million in respect of project loans on account of Sinking Fund contributions and repayments being higher than the receipts of such loans for the year[1]. However, the net receipts of non-project (commodity) loans of Rs.183 million and grants amounting to Rs. 57 million, more than offset the net payments in respect of project loans.

A noteworthy feature of foreign aid utilisation in recent years has been the increase in non-project (commodity) loans. Although in 1969/70 commodity loan receipts declined by Rs. 83 million to Rs. 229 milllion, these still accounted for 24 per cent of the net cash deficit. There was a significant increase in the grant component of foreign finance in 1969/70. After having declined in recent years, this increased to provide 26 per cent. of total foreign finance in that year. However, loan finance, as in the previous years, has accounted for the major share of foreign finance.

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

1 Rather than reflecting a real repayment burden, this net payment is exaggerated as a result of repayments being recorded at FEEC rates, since 1969170, while receipts are recorded at official rates of exchange.

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	1969/70 (Provisional)
1. Loans	**60·9**	**63·5**	**75·6**	**76 5**	**189 3**	**161·2**	**334·1**	203·0*a*
1·01 I.B.R.D.	21·2	11·3	5·0	–1·2	–0·3	–7·7	–8·4	–9·3
1·02 I.D.A.	—	—	—	—	—	—	—	4·7
1·04 Canada	0·8	–0·2	11·4	2·5	8·1	8·6	8·5	6·0
1·05 Peoples Republic of China	—	12·4	18·9	9·7	–4·9	–5·5	–5·5	4·8
1·06 U K.	10·4	4·9	–2·3	10·6	49·4	51·9	37·0	38·2
1·06 U.S.A.	–0·7	2·7	–1·2	23·8	31·0	45·6	177·9	49·8
1·07 U.S.S.R.	13·5	32·0	28·8	9·3	–10·0	–8·3	–9·6	–9·2
1·08 Federal Republic of Germany	11·5	0·4	7·4	6·7	66·2	25·0	17·4	29·3
1·09 Yugoslavia	4·3	...	–0·3	0·8	–1·4	–0·7	–0·8	–0·4
1·10 Poland	—	—	2·4	0·1	0·1	1·4	–0·6	–0·9
1·11 France	—	—	5·5	1·6	10·8	22·0	1·6	10·2
1·12 Japan	—	—	—	10·0	31·3	24·0	18·3	13·7
1·13 India	—	—	—	2·6	8·0	–3·4	16·9	23·6
1·14 German Democratic Republic	—	—	—	—	1·1	8·3	79·6	28·3
1·15 Denmark	—	—	—	—	—	—	1·6	8 0
1·16 Italy	—	—	—	—	—	—	—	6·3
2 Grants	**31·1**	**31·9**	**24 1**	**41·5**	**19·2**	**29·0**	**19·5**	**56·5**
2·01 Colombo Plan	8·2	6·0	9·0	25·9	17·5	22·1	1·4	23·1
2·01·1 Australia	2·5	—	3·9	0·3	4·6	—	0·1	4·8
2·01·2 Canada	5·7	5·7	5·1	25·6	12·8	22·1	—	15·9
2·01·3 Japan	—	0·3	—	—	—	—	—	2·4
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**	**33·3**
2·02·1 United Nations	—	—	—	1·0	1·5	6·3	3·1	2·0
2·02·2 Peoples Republic of China	19·7	24·5	15·1	2·5	—	...	...	4·7
2·02·3 U.S.A.	0·9	1·4	...	12·1	0·2	0·5	0·8	6·6
2·02·4 Federal Republic of Germany	2·3	—	...	—	—	—	—	6·4
2·02·5 Czechoslovakia	—	—	—	—	...	—	—	—
2·02·6 United Kingdom	—	—	—	—	...	...	14·3	13·6
3. Total of Loans and Grants	**92·0**	**95·4**	**99·7**	**118·0**	**208 6**	**190·2**	**353·6**	**259 5**

Source: Central Bank of Ceylon,

(*a*) This figure of total loans will not compare with the corresponding figures in Table 30 of Appendix II because a sum of Rs. 39·2 million being FEECS payable on re-payments of foreign loans has not been taken into account in this Table.

8. PUBLIC DEBT

In the financial year 1969/70, the Gross Public Debt increased by Rs. 985 million to Rs. 7,873 (Rs. 7,932 million, if the liability of Government departments on suppliers' credit is added). Of the total Gross Public Debt outstanding, Rs. 6,295 million or 80 per cent was accounted for by domestic borrowing while the balance (Rs. 1,578 million or 20 per cent) comprised the foreign debt. The Net Public Debt[1] increased by Rs. 998 million to Rs. 7,237 million.

Detailed particulars regarding ownership and composition of Public Debt are shown in Tables 37 and 38 at Appendix II, and a summary is presented in Table II (F) 12 below.

TABLE II (F) 12
Total Public Debt – 1966 to 1970 (*a*)

As at end of September	1966		1967		1968		1969		1970	
	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%	Amount Rs. m.	%
1. Gross Debt	4,743.3	100·0	5,321.5	100·0	6,270.8	100·0	6,888.5	100·0	7,873.2	100·0
1·1 Foreign	548·8	11·6	739·3	13·9	1,074.3	17·1	1,375.5	20·0	1,578.4	20·1
1·2 Domestic	4,194.5	88·4	4,582.2	86·1	5,196.5	82·9	5,513.0	80·0	6,294.8	79·9
2. Net Debt(*b*)	4,267.6	100·0	4,782.3	100·0	5,689.3	100·0	6,238.9	100·0	7,236.8	100·0
2·1 Foreign	521·1	12·2	708·0	14·8	1,038.3	18·3	1,337.3	21·4	1,550.9	21·4
2·2 Domestic	3,746.5	87·8	4,074.3	85·2	4,651.0	81·7	4,901.6	78·6	5,685.9	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. 32·2 million respectively, as at end of September, 1970; (ii) Debt of Rs. 59·1 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.

In the financial year under review, the increases of Rs. 985 million and Rs. 998 million in gross debt and net debt, respectively, were higher when compared with the increases of Rs. 618 million and Rs. 590 million, respectively, recorded in the previous financial year. Of the increase of Rs. 985 million in the gross debt in the financial year 1969/70, Rs. 782 million (80 per cent) was on account of domestic borrowing and Rs. 203 million (20 per cent) on account of foreign borrowing. In the previous financial year the increases in domestic and foreign components of gross debt were of the order of Rs. 317 million and Rs. 301 million, respectively. Thus, the increase of Rs. 782 million in gross domestic debt in 1969/70 was appreciably higher than the increase in the previous financial year. Meanwhile, the increase of Rs. 203 million in the foreign debt liability in 1969/70 was considerably lower when compared with the increase in the previous financial year.

In the financial year 1970/71, the Government proposes to raise Rs. 445 million from domestic non-bank sources and Rs. 658 million from foreign sources, the latter comprising Rs. 133 million of project loans and Rs. 525 million of non-project (commodity) loans.

1. i.e. Gross Public Debt less contributions to Rupee Loan Sinking Funds and Sterling Loan Sinking Funds.

Domestic Debt

The gross domestic debt, which stood at Rs. 6,295 million at the end of the financial year 1969/70, showed an increase of Rs. 782 million, over the previous financial year. Table II (F) 13 below, shows the composition and change in the domestic debt as at the end of September of the last four years.

TABLE II (F) 13

Changes in the Composition of Domestic Public Debt - 1966 to 1970

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 Funds(a)	Net					Gross	Net
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
1970 ..	3,924·9	608·9	3,316·0	1,950·0	45·4	374·4	0·1	6,294·8	5,685.9
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
Change 1970/69 ..	+515·8	- 2·5	+518·3	+200·0	+20·9	+ 45·1	—	+781·8	+784.3

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. 89·4 million and Rs. 92·0 million at the end of September, 1969 and 1970 respectively the Central Bank advances increased by Rs. 42·6 million in 1969/70· 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 1969 amounted to Rs. 58,828 million and remained unchanged at the end of September, 1970.

The increase in the gross domestic debt of Rs. 782 million comprised increases of Rs. 516 million in Rupee Loans, Rs. 200 million in treasury bills, Rs. 21 million in Tax Reserve Certificates and Rs. 45 million in Central Bank advances. In the previous year, the increase of Rs. 317 million in the domestic debt was the combined effect of increases of Rs. 291 million in Rupee Loans, Rs. 25 million in Central Bank advances and a marginal increase in Tax Reserve Certificates.

There were no significant structural changes in the gross domestic debt outstanding in the financial year ending September 30, 1970. While the share of Rupee Securities remained the same at 62 per cent, there was a marginal decline in the share of treasury bills from 32 per cent to 31 per cent. In the meantime, the changes in the ratios of Central Bank advances and Tax Reserve Certificates were negligible.

At Table II (F) 14, an analysis by maturity of the gross domestic debt as at end of September, 1970 with corresponding data for the four previons financial years is given.

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TABLE II (F) 14

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

Years to Maturity	1966		1967		1968		1969		1970		1971	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn	Percentage
1. Unfunded debt *(a)* ..	1,719·9	41·0	1,797·3	39·2	2,078·6	40·0	2,103·8	38·2	2,369·9	37·6	2470.6	35·4
2. Funded debt *(b)* ..	2,474·6	59·0	2,784·8	60·8	3,117·9	60·0	3,408·6	61·8	3,924·9	62·4	4,511·9	64·6
2·1 First 5 years ..	292·1	7·0	330·6	7·2	452·1	8·7	534·9	9·7	491·1	7·8	397·4	5·7
2·2 5 to 10 years ..	354·4	8·4	289·6	6·3	315·7	6·1	235·8	4·3	383·2	6·1	492·7	7·1
2·3 10 to 15 years ..	386·0	9·2	386·0	8·4	249·1	4·8	247·0	4·5	534·6	8·5	1,352·4	19·4
2·4 15 to 20 years ..	324·1	7·7	421·8	9·2	600·0	11·5	795·0	14·4	1,047·4	16·6	1,118·0	16·0
2·5 20 to 25 years ..	1,118·0	26·7	1,356·8	29·6	1,501·0	28·9	1,595·9	29·0	1,468.5	23·3	1,151·4	16·5
3. Total	4,194·5	100·0	4,582·1	100·0	5,196·5	100·0	5,512·4	100·0	6,294·8	100·0	6,982·5	100·0

Source: Central Bank of Ceylon.

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

(b) As at latest date of maturity.

In 1969/70 the ratio of unfunded debt (consisting mainly of treasury bills) to funded debt (comprising entirely Rupee Securities) continued to be approximately at 2:3 as in the preceding four financial years. Nevertheless, there appears to be a gradual decline in the share of unfunded debt (from 41 per cent. as at end of September, 1966 to 38 per cent. as at September, 30 1970). There had also been a decline in the share of securities with less than 5 years to maturity and securities maturing in 20 to 25 years. Meanwhile, there had been a relative increase in the share of securities maturing in 5 to 20 years. This is partly the result of a shift in 1969/70 from the issue of long-term loans to medium-term loans to mobilise resources. Last year's Annual Report[1] observed that there was some scope for spreading the debt repayment more evenly by floatation of short and medium term loans as the maturities were unevenly distributed. Despite the issue of short and medium term loans in preference to long term loans in the year under review, there is still scope for the floatation of short and medium term loans.

(a) Rupee Securities

In the financial year 1969/70, fifteen Government loans were floated for a sum of Rs. 579 million. Of this amount, Rs. 27 million was accounted for by 3 Conversion loans. In the previous financial year, eleven Government loans were raised for a sum of Rs. 340 million. (There were no Conversion loans in 1968/69). This significant increase in the contribution to Government loans in 1969/70 was mainly on account of enhanced contributions by the commercial banks[2] and savings institutions[3] which contributed Rs. 118 million (or 20 per cent.) and Rs. 156 million[4] (or 27 per cent.) respectively. The other major subscribers were the Employees' Provident Fund (Rs. 98 million or 17 per cent.), sinking funds (Rs. 83 million or 14 per cent.), trusts, benevolent, pension and provident funds other than the Employees' Provident Fund (Rs. 54 million or 9 per cent.) and Insurance Corporation of Ceylon (Rs. 46 million or 8 per cent.).

Details of subscriptions to each Rupee Loan floated in 1969/70 are given in Table 40 of Appendix II. Table II (F) 15 summarises the subscriptions to Rupee Loans floated in the last four financial years.

The resources mobilised by the Government by way of Rupee Loans increased sharply in 1969/70, in contrast to the declining trend experienced in the previous financial years. This was mainly due to an increase in the contribution

1. Annual Report, 1969. Page 168.

2. Consequent to the settlement of the outstanding food (import) bills of Rs. 125 million by the Government, the banking system contributed Rs. 118 million to the Ceylon Government Loan 1982–85 'F' Series.

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

4. Of this amount, Rs. 155·5 million was subscribed by the Post Office Savings Bank. The sale of low-yielding securities amounting to Rs. 144 million by the Post Office Savings Bank to the Central Bank enabled the former to contribute Rs. 140 million to the Ceylon Government Loan 1882–85 'F' Series.

TABLE II (F) 15

Classification of Subscriptions to Rupee Securities *(a)*

Subscriber	1966/67 Amount Rs. Mn.	1966/67 %	1967/68 Amount Rs. Mn.	1967/68 %	1968/69 Amount Rs. Mn.	1968/69 %	1969/70 Amount Rs. Mn	1969/70 %
1. Bank Sector ..	**13·5**	**3·5**	**0·8**	**0·2**	**0·6**	**0·2**	**117·5**	**20·3**
1·1 Commercial banks ..	13·5	3·5	0·8	0·2	0·6	0·2	117·5	20·3
2. Non-Bank Sector ..	**377·3**	**96·5**	**358·9**	**99·7**	**339·~~4~~**	**99·8**	**461·7**	**79·7**
2·1 Savings institutions ..	74·6	19·1	48·8	13·6	36·0	10·6	156·1	26·9
2·2 Sinking funds ..	96·3	24·6	114·1	31·7	111·8	32·9	83·0	14·3
2·3 Departmental and other official funds	10·2	2·6	9·5	2·6	8·4	2·5	6·2	1·1
2·4 Employees' Provident Fund ..	85·0	21·8	92·~~6~~4	25·7	101·3	29·8	97·9	16·9
2·5 Insurance Corporation	47·9	12·3	53·2	14·8	42·5	12·5	45·5	7·9
2·6 Private provident and pension funds ..	43·1	11·0	29·2	8·1	36·8	10·8	53·9	9·3
2·7 Insurance companies	10·6	2·7	4·4	1·2	0·6	0·2	16·1	2·8
2·8 Other companies ..	0·3	0·1	0·8	0·2	0·2	0·1	0·6	0·1
2·9 Individuals, clubs and institutions ..	9·2	2·3	6·6	1·8	1·5	0·4	2·5	0·4
3. Total ..	**390·8**	**100·0**	**~~395·7~~ 359·7**	**100 0**	**340 0**	**100·0**	**579·2**	**100·0**

(a) Refers to Rupee Loans only.

Source: Central Bank of Ceylon.

of the Bank Sector[1] which had progressively reduced its intake of Government Securities during the last four years. The savings institutions, which had contributed Rs. 36 million in 1968/69, also increased their contributions considerably to Rs. 156 million[2] in 1969/70. Meanwhile, the contribution by the non-bank private sector also increased from Rs. 39 million in 1968/69 to Rs. 73 million in 1969/70. The enhanced subscriptions by the non-bank private sector was mainly from the private trusts, benevolent, pension and provident funds (other than the Employees Provident Fund). 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 their contributions through the years (except for a decrease in 1968/69) recorded a sharp increase of Rs. 89 million in their contributions in the financial year 1969/70. This was mainly on account of a rise in the contribution by savings institutions. As in the previous financial years this sector continued to provide the main support for Rupee Loans floated, although its share decreased from 88 per cent. in 1968/69 to 67 per cent. in 1969/70. Details of the ownership of Rupee Securities as at September 30, 1970 together with comparative data for the previous four financial years are presented in Table II (F) 16 below.

1. Consequent to the settlement of the outstanding food (import) bills of Rs. 125 million by the Government, the banking system contributed Rs. 118 million to the Ceylon Government Loan 1982—85 'F' Series.
2. Of this amount, Rs. 155·5 million was subscribed by the Post Office Savings Bank. The sale of low-yielding securities amounting to Rs. 144 million by the Post Office Savings Bank to the Central Bank enabled the former to contribute Rs. 140 million to the Ceylon Government Loan 1882—85 'F' Series.

TABLE II (F) 16

Ownership of Rupee Securities – As at the end of years ~~1965~~/66 to 1969/70 *(a)*

1966/6

Rupees Million

Owners		1965/66	1966/67	1967/68	1968/69	1969/70
1. Bank Sector	..	**324·5**	**281·2**	**328·8**	**367·0**	**586·0**
1.1 Central Bank	..	8·0	7·4	70·0	111·8	249·0
1.2 Commercial banks	..	316·4	273·7	258·8	255·3	337·0
2. Non – Bank Sector	..	**2,150·2**	**2,503·6**	**2,789·0**	**3,042·0**	**3,338·9**
2.1 Savings institutions	..	511·6	600·5	641·2	641·7	651·5
2.2 Sinking funds	..	407·0	474·2	532·3	614·1	696·2
2.3 Departmental and other official funds	..	123·8	140·0	147·1	150·8	156·2
2.4 Employees' Provident Fund	..	434·8	519·8	612·1	713·5	811·4
2 5 Other provident funds	..	322·9	364·3	394·5	423·2	469·3
2.6 Insurance Corporation	..	133 8	181·6	234·5	276·9	322·4
2.7 Insurance companies	..	136·6	136·5	140·7	139·0	149·8
2.8 Other state corporations	..	3·5	2·9	2·9	2·9	2·2
2.9 Others *(b)*	..	76·3	83·8	83·7	79·8	79·8
3. Total	..	**2,474·6**	**2,784·8**	**3,117 9**	**3,409·1**	**3,924·9**

Source: Central Bank of Ceylon.

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

Rupee Securities held by the public, at the end of the financial year under review, amounted to Rs. 3,925 million, recording an increase of Rs. 516 million or 15 per cent. While the bank sector accounted for Rs. 219 million of this increase, the non-bank sector accounted for Rs. 297 million.

In the financial year 1969/70, while the Central Bank increased its holdings by Rs. 137 million, the commercial banks increased their portfolio of Rupee Securities by Rs. 82 million. The increase in the Central Bank holdings was due to purchase of securities amounting to Rs. 144 million (partly offset by stocks which matured in the course of the year) by the Bank from the Post Office Savings Bank to enable the latter to invest in new Government stocks. Thus, the Central Bank continued in the year under review its policy of giving support (though indirectly) to Government's Rupee loan programme.

In the non-bank sector, the semi-government institutions represented by the savings institutions, sinking funds, Employees' Provident Fund and Insurance Corporation of Ceylon continued to hold the major portion of the Rupee Securities. The increase in the holdings of the savings institutions[1] in the year, however, was insignificant when compared with the other semi-government institutions.

(b) Treasury Bills

The amount of treasury bills issued and outsanding at the end September, 1970 stood at Rs 1,950 million recording an increase of Rs 200 million during the year. There was no net increase in the issue of treasury bills in the previous year. The authorised limit for the issue of treasury bills remained unchanged in the financial year 1969/70, at Rs. 1,950 million.

1. Ceylon Savings Bank, Post Office Savings Bank and Savings Certificates fund.

At Table 41 of Appendix II particulars of treasury bill issues are given and a classification of the ownership of treasury bills at the end of September, 1970 with 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 1965/66 – 1969/70

Rupees Million.

Owners	1965/66	1966/67	1967/68	1968/69	1969/70
1 Bank Sector ..	**1,369.3**	**1,456.7**	**1,682.2**	**1,691.4**	**1,880.3**
1.1 Central Bank ..	1,257.9	1,377.2	1,586.3	1,637.3	1,833.8
1.2 Commercial Banks ..	111.4	79.5	95.9	54.1	46.5
2. Non-Bank Sector ..	**55.7**	**43.3**	**67.8**	**58.6**	**69.7**
2.1 Sinking funds ..	42.9	36.6	60.3	41.4	55.3
2.2 Employees' Provident Fund ..	—	0.3	—	0.3	0.3
2.3 Other provident funds ..	0.2	0.1	0.1	...	...
2.4 Savings institutions ..	0.4	0.2	1.1	1.3	2.4
2.5 Insurance companies ..	5.8	6.0	6.0	11.2	8.9
2.6 Other (a) ..	6.4	0.1	0.3	4.5	2.8
3. Total	1,425.0	1,500.0	1,750.0	1,750.0	1,950.0

Source: Central Bank of Ceylon

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

The bank sector accounted for Rs. 189 million of the increase of Rs. 200 million in treasury bill issues, and the balance Rs. 11 million was absorbed by the non-bank sector. In the Bank sector, while the holdings of the Central Bank increased by Rs 197 million the commercial banks had reduced their holdings by Rs 8 million. In the non-bank sector, the only significant change in the treasury bill holding was in respect of sinking funds. The treasury bills market continues to rely mainly on the Central Bank and its holdings of treasury bills have progressively increased from Rs. 1,258 million at the end of 1965/66 to Rs. 1,834 million at the end of 1969/70.

The treasury bill rate stood at 3.64 per cent per annum at the commencement of the financial year. It rose progressively to 4.76 per cent, per annum on February 15, 1970 and has remained at that level up to the end of September, 1970. Central Bank support for treasury bills was at 3.24 per cent. per annum throughout the financial year 1969/70.

(c) Tax Reserve Certificates

Out of a total authorised issue of Rs. 400 million, Tax Reserve Certificates amounting to Rs. 354 million have been issued up to the end of September, 1970 and the amount of issues unsurrendered at that date was Rs. 45 million. The amount unsurrendered at the end of the preceding year was Rs. 25 million. This type of debt obligation, therefore, increased by Rs. 21 million during the financial year. This is the highest increase for any financial year and the unsurrendered amount is also the highest, since the commencement of issues of Tax Reserve Certificates in 1957.

The rate of interest of 2 per cent[1] at the commencement of the financial year, was increased to 3 per cent with effect from March 31, 1970.

(d) Central Bank Advances

Advances to the Government by the Central Bank under Section 89 of the Monetary Law Act amounted to Rs. 45 million in the financial year 1969/70. This included a special loan of Rs. 2.5 million for the payment of Ceylon's membership subscriptions to the Asian Development Bank. Central Bank advances during the previous year were Rs. 25 million.

The total of such advances amounted to Rs. 374 million up to the end of September, 1970, while it stood at Rs. 329 million at the end of the previous year. Special loans to the Government granted by the Bank for the payment of Ceylon's membership subscriptions to international financial organisations at the end of September, 1969 and the end of September, 1970 were Rs. 89 million and Rs. 92 million respectively.

Foreign Debt

The total foreign debt (gross)[2] outstanding at the end of September, 1970 amounted to Rs. 1,578 million. The increase in gross foreign debt in the financial year 1969/70 amounted to Rs. 188 million, excluding the effect of revaluation of Deutsche Mark on October 26, 1969 which increased the externel debt by Rs. 15 million. In comparison, the increase in gross foreign debt in the previous year before taking into consideration the devaluation of French Franc (which reduced Ceylon's indebtedness by Rs. 5 million) amounted to Rs. 306 million.

The quantum of foreign loans utilized in the financial year 1969/70 amounted to Rs. 283 million, of which, Rs. 61 million (or 22 per cent) was by way of project loans and Rs. 221 million (or 78 per cent) by was of non-project (commodity) loans. The resources obtained in the previous year by way of project loans and non-project (commodity) loans amounted to Rs. 94 million and Rs. 283 million, respectively. Thus the quantum of foreign assistance in the year under review was considerably lower than in the preceding year.

The repayments of foreign loans in 1969/70 amounted to Rs. 94 million, of which, Rs. 18 million (or 19 per cent) was in respect of Sterling loans, Rs. 46 million (or 49 per cent) in respect of project loans and Rs 30 million (or 32 per cent) in respect of non-project (commodity) loans. Net of repayments, the gross external debt increased by Rs. 188 million. Taking into account the combined effect of a decrease of Rs. 11 million in Sterling loan sinking funds and the enhancement of Ceylon's foreign debt by Rs 15 million as a result of the revaluation of Deutsche Mark, the net external liability increased by Rs. 214 million. In the previous year, external borrowings less repayments amounted to Rs. 306 million. In 1968/69, net of appreciation of Rs. 2 million in Sterling loan

1. This rate was introduced with effect from September 7, 1968.
2. i. e. Net of repayments but before deducting contributions to Sterling loan sinking funds.

sinking funds and the effect of the devaluation of the French Franc (which reduced external debt by Rs 5 million) the net external liability recorded an increase of Rs. 299 million.

The details of withdrawals, repayments and liability of external debt are given in Table II (F) 18 below.

TABLE II (F) 18

Foreign Loans

Rupees Million

Type and Source	Withdrawals in 1969/70	Repayments in 1969/70	Increase in 1969/70	Liability as at September 30, 1970
1. Sterling Loans	–	17·9	17·9	71·4 *(a)*
2. Project Loans	61·2	46·3	14·9	521·5
2·01 I.B.R.D.	–	9·3	–9·3	146·7
2·02 German Democratic Republic	30·2	1·9	28·3	117·7
2·03 U.S.S.R.	0·6	9·8	–9·2	75·7
2·04 Federal Republic of Germany *(b)*	14·7	5·9	8·8	66·5 *(f)*
2·05 Canada *(c)*	1·9	5·2	–3·3	34·2
2·06 People's Republic of China	–	5·5	–5·5	28·8
2·07 U.S.A. *(d)*	–	1·5	–1·5	22·6
2·08 Denmark	8·0	–	8·0	9·6
2·09 International Development Association	4·7	–	4·7	4·7
2·10 United Kingdom	0·1	3·2	–3·1	3·9
2·11 National and Grindlays Bank	–	–	–	3·1
2·12 Polish People's Republic	–	0·9	–0·9	–
2·13 Federal People's Republic of Yugoslavia	1·0	1·4	–0·4	2·6
2·14 France	–	1·7	–1·7	1·5
3 Non-Project (Commodity) loans	221 3	30·2	191·1	985·5
3·01 U.S.A. *(e)*	53·2	1·9	51·3	377·3
3·02 United Kingdom	45·5	1·0	44·5	220·5
3·03 Federal Republic of Germany *(b)*	20·2	–	20·2	135·8 *(f)*
3·04 Japan	25·7	12·0	13·7	107·8
3·05 France	23·2	11·3	11·9	50·5
3·06 India	27·6	4·0	23·6	50·5
3·07 Canada	9·3	–	9·3	26·8
3·08 People's Republic of China	10·3	–	10·3	10·3
3·09 Italy	6·3	–	6·3	6·3
4. Grand Total	282·5	94·4	188·1	1578·4 *(a)*

Source: Central Bank of Ceylon

(a) Rs. 27.5 million of this amount is covered by Sterling Loan Sinking Funds.

(b) Comprise Kreditanstalt Fur Wiederaufbau loans

(c) Includes Export Credit Insurance Corporation credits

(d) Includes loans from (i) International Co-operation Administration, and (ii) Development Loan Fund

(e) Comprise P.L 480 Loans and loans from Agency for International Development

(f) Includes increase in liability as a result of revaluation of Deutsche Mark

(a) Sterling Loans

The total debt outstanding on account of Sterling Loans at the end of the financial year 1969/70, stood at Rs. 71 million as compared to Rs. 89 million at the end of the previous financial year. The decline in liability was on account of the repayment of Ceylon 5 per cent. Stock 1960-70.

(b) Project Loans

Project loans utilised in 1969/70 amounted to Rs 61 million. Net of repayments of Rs. 46 million, the increase in liability on account of borrowings under project loans is, therefore, Rs 15 million. In contrast, during the previous year, a receipt of Rs. 94 million offset by a repayment of Rs. 45 million increased such liabilities by Rs. 49 million.

The outstanding liability on project loans utilised stood at Rs. 522 million at the end of the period under review. This represented 33 per cent. of the gross foreign debt outstanding. The amount outstanding on this account at the end of the previous financial year was Rs 502 million or 36 per cent. of gross foreign debt outstanding at the end of that year. The increase of Rs. 20 million in external liability on account of project loans includes the effect of the revaluation of the Deutsche Mark, which increased the liability by Rs. 5 million.

(c) Non-Project Commodity Loans

Utilisation in 1969/70 under the "Commodity Aid" programme amounted to Rs. 221 million as compared with Rs. 283 million in the preceding year. The increase in liability on account of borrowings under the "Commodity Aid" Programme less repayments amounted to Rs. 191 million.

The commodities imported under the "Commodity Aid" programme in the financial year 1969/70 are as follows:-

U. S. A. - commercial vehicles, tractors, machinery, wheat flour and fertilizer;

U. K. - fertilizer, engineering stores, motor spares, raw materials, tractors-machinery, ticket machines, marine engines, tyres, building materi, als, motor cycles and wheat flour;

Federal Republic of Germany - fertilizer, motor spares, machinery, commercial vehicles and wheat flour;

Japan - commercial vehicles, tractors, fishing nets, machinery, fertilizer, motor cycles, tyres, tubes, raw materials and base metals;

France - tractors, machinery, fertilizer, commercial vehicles, ticket machines, motor spares, electrical equipmennt, engineering stores, base metals, tyres and tubes;

India - commercial vehicles, electrical equipment, telecommunication equipment, motor spares, machinery, pipes and engineering stores;

Canada - newsprint, asbestos, fibre and wheat flour;

People's Republic of China - rice; and

Italy - fertilizer and motor spares.

The outstanding external liability on account of non-project (commodity) loans at the end of the financial year 1969/70 was Rs. 986 million while the amount outstanding at the end of the previous year was Rs. 785 million. The increase of Rs. 201 million in external liability on account of non-project (commodity) loans includes the effect of the revaluation of the Deutsche Mark which increased the liability by Rs. 10 million.

In the year under review, Rs. 269 million was credited to the Ceylon Government Foreign Aid Counterpart Fund[1] and Rs. 271 million was withdrawn, reducing the outstanding balance in the Fund by Rs. 2 million during the financial year. The corresponding figures for the previous year were Rs. 282 million as credits, Rs. 367 million as withdrawals and a fall of Rs 85 million in the Fund balance. Data relating to the Rupee funds generated on account of imports under non-project (commodity) loans and their utilization for the budgetary purposes are given in Table 42 of Appendix II.

Sinking Funds

The approximate market value of the Sterling loan sinking funds and the Rupee loan sinking funds at the end of September 1970 were Rs. 28 million and Rs. 609 million, respectively, while at the end of the previous year, they were Rs.38 million and Rs. 611 million, respectively.

The market value of the Sterling loan sinking funds declined by Rs 11 million in 1969/70 due to a repayment of Ceylon 5 per cent Stock 1960–70 amounting to Rs. 17 million partly offset by investments of new contributions (of Rs. 1 million), interest earned on past investments (of Rs. 1 million) and an appreciation of market value of past investments (of Rs. 3 million).

The market value of the Rupee loan sinking funds declined by Rs. 3 million in the same period as a result of repayments of loans[2] (of Rs. 37 million) and depreciation of past investments (of Rs. 91 million) partly offset by investments of new contributions (of Rs. 93 million) and interest earned on past investments (of Rs. 32 million).

9. BORROWING BY SEMI-GOVERNMENT INSTITUTIONS

National Housing Fund

There was no borrowing in 1969/70 through the issue of National Housing Debentures. The total National Housing Debentures issued and outstanding amounting to Rs. 116 million and the authorised limit of Rs. 220 million for the issue of Debentures remained unchanged during the financial year. Meanwhile, the market value of sinking funds established for the redemption of National Housing Debentures depreciated slightly and stood at Rs. 45 million at the end of the year.

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1. See note to Table 42 of Appendix II.

2. Loans referred to are (i) 3 per cent. Victory Loan 1967—70 (Rs 23 million) and balance unconverted portions of (ii) 3 ½ per cent. Loan 1967–69 (Rs. 3 million), (iii) 3 ½ per cent. Loan 1957–59 'B' Series (Rs. 6 million), and (iv) 3 ½ per cent. Loan 1968-70 (Rs 5 million).

The Government sanctioned Rs. 26 million to the National Housing Department as direct loans during the financial year 1969/70. This increased the total of such loans to Rs. 181 million at the end of the year.

State Mortgage Bank

In the financial year 1969/70, there were no issues of State Mortgage Bank Debentures. The Debentures issued and outstanding, therefore, remained at Rs. 32 million.

The overdrafts[1] obtained from commercial banks increased slightly from Rs. 42.4 million to Rs. 42. 5 million during the financial year. Together with the outstanding Debentures amounting to Rs. 32 million, the indebtedness of the State Mortgage Bank thus totalled Rs. 75 million at end September, 1970 leaving a balance of Rs. 1 million unutilized in the borrowing limit of Rs. 76 million which remained at the same level throughout the year.

10. THE BUDGET 1970/71

The Budget for the financial year 1970/71 was presented in the House of Representatives on October 25, 1970 and was approved on December 31, 1970. Unlike in previous years, the Budget for the financial year beginning on October 1, 1970, was presented, after the commencement of the relevant financial year because the new Government, which assumed office in May, 1970, required time to formulate its Budget. The expenditure for the period October to December was authorized by a Vote-on-Account which was passed by Parliament.

The salient features of the Budget, taking into account the new proposals announced in the Budget, are summarised in Table II (F) 19 below.

The 'Pre-Budget Estimates' column of the above table summarises the revenue and expenditure proposals in the Draft Estimates which are tabled in Parliament before the Budget Speech. It shows the total revenue that would have accrued at the existing rates of taxation, while the expenditure figures reflect almost the entirety of the expenditure programme of the Government for the new financial year, including new capital projects.

The 'Original Budget Estimates' column shows the revenue, expenditure and financing proposals in the final estimates approved by Parliament. It provides the total revenue after taking into account the new revenue proposals contained in the Budget Speech, and the total expenditure after allowing for the Government's decision to bring the import of sugar under the FEEC Scheme and also incorporates the amendments to the expenditure estimates made at the Committee Stage of the Budget. This column, also, shows the resources that are to be mobilized by the Government for financing the deficit.

The revenue for 1970|71 (inclusive of new proposals) was estimated at Rs. 2,878 million. This represents an increase of Rs. 44 million over the original Budget Estimates, and Rs. 142 million over the actual revenue of the previous

1. All overdrafts are guaranteed under Section 73 of the State Mortgage Bank Ordinance.

TABLE II (F) 19

Original Budget Estimates - 1970/71

Rs. million

Items	Pre-Budget Estimates	Original Budget Estimates
1. **Recurrent Expenditure**	2,823	2,913
(votes 1,2,4, and 6)		
Less 2½% under-expenditure	71	73
	2,752	2,840
2. **Capital Expenditure**	1,379	1,389
(votes 3,5, and 7)		
Less 15% under-expenditure*(a)*	169	171
	1,290	1,218
3. **Total Expenditure**	3,962	4,058
4. **Total Revenue**	2,520	2,878
5. **Budget Deficit**	1,442	1,180
Less Contributions to sinking funds etc.	249	249
6. **Net Cash Deficit**	1,193	932
7. **Financing of Budget Deficit**		
7·1 Domestic market borrowing from non-bank sources		445
7·2 External finance		638
7·2·1 Project loans and grants		113
7·2·2 Non-project (commodity) loans		525
7·3 Unbridged gap (bank borrowing)		97
8. **Financing of Net Cash Deficit**		
8·1 Domestic market borrowing from non-bank sources		343
8·2 External finance		491
8·2·1 Project loans and grants		26
8·2·2 Non-project (commodity) loans		465
8·3 Unbridged gap (bank borrowing)		97*(b)*

Source: Central Bank of Ceylon.

(a) Under-expenditure is calculated on capital expenditure less sinking fund contributions and direct repayments of public debt.

(b) Includes the effect of Committee Stage amendments

financial year. On the other hand, total expenditure, adjusted for the anticipated under-expenditure, amounts to Rs. 4,058 million showing an increase of Rs. 265 million over the original Budget Estimates and Rs. 172 million over the actual expenditure figure of the previous financial year.

The resulting Budget dificit of Rs. 1,180 million for 1970/71 shows an increase of Rs. 221 million over the original estimates and an increase of Rs. 30 million over the actual deficit of the previous financial year. The Budget defjcit of Rs. 1,180 million is to be financed by Rs. 445 million of domestic non-bank market borrowing, Rs. 525 million of non-project (commodity) loans and Rs. 113 million of project aid, leaving an unbridged gap of Rs. 97 million to be covered by borrowings from the domestic banking system.

Of the Rs. 445 million to be borrowed from domestic non-bank market sources for financing the Budget deficit, a sum of Rs. 170 million is to be mobilised through certain measures proposed in the Budget. These are the Compulsory Savings Scheme, amendments to the Employees' Provident Fund Act and an increase in the interest rate on Government Securities. The total estimated foreign borrowing of Rs. 638 million represents the highest ever estimated utilisation of foreign aid for any year.

(A) New Revenue Proposals.

The Government Estimates (Pre-Budget Estimates) for 1970|71 incorporates several increases in revenue, at existing rates of taxes, over the previous financial year. Apart from such increases, several new revenue measures were announced in the Budget Speech. These new measures, which were expected to result in an increase in revenue of Rs. 328 million for the whole of the financial year, are summarised in Table II (F) 20 below.

TABLE II (F) 20
New Revenue Proposals

Rs. Million

Reference to items in Table II (F) 3.	Items	Expected Revenue (whole Year)	Expected Revenue in 1970/71
1·1·1	Tax collections arising from demonetisation ..	100·00	100·00
1·2·1	Business turnover tax	29·00	21·75
1·2·1	Bank debits tax	20·00	15·00
1·2·2	Excise duties (cigarettes, beer, bottled toddy) ..	35·00	26·25
1·2·3	Rationalisation of the import duty structure ..	60·00	45·00
1·2·5	Increase in export duty on Graphite ..	1·00	0·75
1·2·6	Licence fee on motor vehicles	7·00	5·25
1·3·1	Special levy on Corporations	45·00	33·75
1·4·3	Revisions of postal telegraph, and telephone charges	15·00	11·25
1·4·4	Increase in Port charges	7·00	5·25
1·5	Temporary Residence Permit tax	4·00	3·00
2·1·2	Capital levy	5·00(*a*)	3·75
	Total Revenue ..	328·00	271·00

Source: Central Bank of Ceylon

(*a*) This Capital levy is to be recovered over a period of 3 years of which Rs. 5 million is expected in the first full year.

Most of these revenue measures, however, would be in operation for only three-fourths of the financial year, since the Budget was presented and passed after the commencement of the financial year. Hence it was proposed in the Budget Speeeh to allow for a loss of one-fourth of this revenue, except in the case af tax arrears arising from the demonetisation. The last column of Table II (F) 20 shows the amount expected to be realised during the financial year from each new revenue measure, after allowing for this loss of revenue. Furthermore, the table does not reckon with a number of tax reliefs and exemptions which were provided for in the Budget Speech, the revenue consequences of these being treated as insignificant.

(i) Tax collections arising from demonetisation

With a view to bringing to the surface the considerable amount of hoarded currency, it was announced that the Rs. 100 and Rs. 50 notes shall cease to be legal tender with effect from November 3, 1970[1]. Between October 27, 1970 and November 2, 1970 (both days inclusive) any person who had currency notes of these denominations could present them to a bank and obtain new currency of the same denomination as has been surrendered, upto a maximum of Rs. 1,000. (This limit was successively reduced to Rs. 250 and Rs. 100 subsequently). Amounts in excess of this limit would be surrendered to the bank where an individual had an account or in the case of an individual who did not have such an account to a bank of his choice. From November 3, 1970 to November 25, 1970 (both days inclusive) owners of currency notes of these denominations could deposit their holdings in a commercial bank or the Post Office Savings Bank. (The terminal date was subsequently advanced to November 15, 1970). Banks and all Government and semi-Government institutions were to be made legally obliged to provide information regarding such deposits to the Inland Revenue Department. All depositors who had arrears of tax in respect of any of the six preceding tax years were given the option of paying the arrears at the rate of 33⅓ per cent. of the entirety of their income for the period or at 50 per cent. of their deposits, which ever was more. This anti-hoarding measure was expected to provide a revenue of Rs. 100 million as additional tax collections.

(ii) Business Turnover Tax on Manufacturing Industries.

The following changes[2] were proposed in the turnover tax in respect of manufacturing industries.

(a) to increase the rate on super and regular petrol from the existing 32 per cent. to 37 per cent.;

(b) to increase the rate on cosmetics, air conditioners, stainless steelware including cutlery and kitchen table ware, refrigerators, radios and paints and varnishes from the existing 20 per cent. to 25 per cent.;

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1 Prevention of the Avoidance of Tax Act, No. 26 of 1970.

2 The Ceylon Government Gazette Extraordinary No. 14,929/10 of October 26, 1970.

(c) to increase to 20 per cent. the existing rate of 10 per cent. on confectionery, jewellery, precious and semi-precious stones, readymade garments and other apparel made out of textiles other than pure cotton textiles manufactured by the person making the readymade garments, and aluminium, brass and enamel hollow-ware including kitchen and table ware.

(d) to increase to 15 per cent. the existing rate of 10 per cent on chocolate and cocoa powder, brandy, gin, rum, whisky, wine and rectified spirits, biscuits other than those produced exclusively by manual labour, aerated water, asbestos products and readymade garments and other apparel made out of pure cotton textiles manufactured by the person making the readymade garments;

(e) to increase to 10 per cent. the existing rate of 5 per cent. on canned, preserved or otherwise processed fruits, vegetables, food and drink, coal gas, cigars, wooden furniture including cabinets, safes and office furniture, electrical machinery, apparatus, appliances and other electrical goods and brief cases, suitcases, travelling bags and other bags;

(f) to reduce the rate on the business of assembling or manufacturing motor lorries from 25 per cent. to 5 per cent.;

(g) to reduce the rate in respect of aluminium brass and enamel ware manufactured exclusively by manual labour from 15 per cent. to 3 per cent.;

(h) to reduce the rate in respect of handloom textiles manufactured by businesses other than co-operative societies from 5 per cent. to one per cent.

The increased rate of turnover tax on super and regular grade of petrol manufactured by the Ceylon Petroleum Corporation was to be passed on to the consumer in the form of a price increase of 25 cents per gallon for each grade of petrol.

The net additional revenue expected from the changes in the rates of turnover tax was Rs. 29 million of which Rs. 21.75 million was expected to be collected during the current financial year.

(iii) Bank debits tax

This tax which was orginally introduced in 1957 and repealed in 1965 was to be re-introduced. It was observed that the removal of the tax has had no effect on the quantum of cheques in use and it was presumned that its re-introduction would have no adverse effect on the cheque habit. The tax was to be one tenth of one per cent. of the total debits to each current account in each calendar month[1]. Provision was to be made to exempt particular classes of debits. This tax would bring in Rs. 20 million of additional revenue in a full year and Rs. 15 million in the current financial year.

1. Bank Debits Tax Act No. 27 of 1970

(iv) Excise duties

The following changes[1] in excise duties were proposed in respect of tobacco, beer and bottled toddy.

(a) The excise duty on tobacco was to be increased by Rs. 5 per lb. to Rs. 42.50 per lb. This would have the effect of increasing the retail price of a cigarette by one cent.

(b) The excise duty on beer that had remained unchanged for ten years was to be increased by Rs. 2.50 per gallon involving an increase of 42 cents in the retail price of a bottle.

(c) The excise duty on bottled toddy was to be increased by 10 cents per bottle

(v) Rationalisation of the Import Duty Structure

The rationalisation and simplification of the existing unwieldy and anomalous import tariff, envisages a simplification of the import tariff into six basic duty rate bands.[2] The basic consumer items that enter into the cost of living, basic industrial raw materials and important items of machinery for agriculture and industry were either to be free of duty or charged nominal rates. A 'Standard' rate taking into consideration the availability of foreign exchange, revenue requirement and the fact that a licence fee is not leviable on imports under normal licencing procedure, was to be fixed at 60 per cent. An imported item was to be assigned to this duty rate band, unless there were special reasons to transfer it to the free, nominal or concessionary rate bands on the one hand, or to a protective or maximum rate band on the other. The rate bands above the standard rate are designed to provide protection to domestic production; to induce the progressive manufacture of components locally and to promote new ventures in fields with potential for future development. The highest rate bands are to include the residual groups of commodities consisting almost wholly of non-essential and luxury items.

The new import tariff structure was expected to yield an additional revenue of Rs. 60 million in a full year and Rs. 45 million in the current financial year. This sum of Rs. 45 million was expected to be collected more specifically in the following manner:

(a) Increase in the import duty on beedi leaves from 21 cts. to Rs. 5 per pound;

(b) Withdrawal of the concession granted to Salu Sala Ltd., for the import of textiles free of duty;

(c) The imposition of a nominal rate of duty of 5 per cent. on a large number of raw material and capital goods imports hitherto allowed duty free.

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1. The Ceylon Government Gazette Extraordinary No 14, 929 of October 25, 1970
2. The Ceylon Government Gazette Extraordinary No. 14, 929/5 of Oct. 26, 1970

(vi) Increase in export duty on Graphite

The export of graphite (plumbago), being a non-traditional export is entitled to FEECs, curently earns a premium of 55 per cent. With the imposition of an export duty of 25 per cent. in August 1969, the net premium on graphite exports was reduced to 30 per cent. It was proposed to increase this duty to 50 per cent.[1] leaving a net premium to the local producers of 5 per cent. The anticipated revenue from this measure was Rs. 1 million in a full year and Rs. 0.75 million in the current financial year.

(vii) Licence fee on motor vehicles

As the fees currently levied by the Motor Traffic Department appeared to be too small in return for the services provided by the State, the fees on the transfer of cars, lorries, and motor coaches and the fees in respect of driving licences, extension of driving licences and annual licences on motor vehicles were to be revised. These measures were expected to provide Rs. 7 million in a full financial year and Rs. 5.25 million in the current financial year.

(viii) Special Levy on Corporations

It was proposed to make provision in the Finance Bill for the net annual profits of State Corporations, after charging depreciation and providing for tax liabilities to be applied for the following purposes in that order:

(a) for the payment to the Consolidated Fund of such sum as may be determined by the Minister of Finance in consultation with the Minister concerned;

(b) for such other purposes including the payment of a bonus to employees of the institution as may be determined by the Board with the approval of the Minister concerned;

(c) the balance of such annual profits for payment to general and special reserves.

Accordingly, the Government is expected to receive an additional revenue of Rs. 60 million[2] in a full year and Rs 33.75 million in the current financial year by way of a special levy on Boards and Corporations in which capital has been invested by the Government. The sum of Rs. 60 million expected as revenue to the Consolidated Fund is to be collected from the various institutions of which the principal contributories are the Co-operative Wholesale Establishment (Rs. 15 million), Ceylon Cement Corporation (Rs. 10 million), Ceylon Petroleum Corporation (Rs. 10 million), Ceylon Insurance Corporation (Rs. 5 million), and the Ceylon Electricity Board (Rs. 5 million).

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1. The Ceylon Government Gazette Extraordinary No. 14, 929/3 of October 25, 1970.
2. Of this amount a sum of Rs. 15 million had already been taken into account in preparing the pre-budget revenue estimates for 1970/71 and hence the additional revenue available to finance the deficit is Rs. 45 million, in a full year.

(ix) Revision of postal, telegraph and telephone charges

The revision of rates proposed involves increases in postal charges on foreign mail, inland telegrams, telephone charges both local and trunk calls, and rentals. The changes proposed were an increase of 5 cents on local telephone calls both in Colombo and in the outstations and an increase of 5 cents in the charges per extra word on inland telegrams. The cost of the first ten words of such telegrams was to remain unchanged at 75 cents. The rental on business telephones was to be increased by Rs. 100 per annum, while the rental on private telephones was to be increased by Rs. 50 per annum. The above changes were expected to provide an additional revenue of Rs. 15 million in a full year and Rs. 11.25 million in the current financial year.

(x) Increase in Port charges.

The existing port charges were not revised at the time the rupee was devalued in 1967. To prevent the consequent loss in foreign exchange earnings and to bring such earnings to the pre-devaluation level it was proposed to increase the port charges by approximately 25 per cent. The additional revenue expected was Rs 7 million in a full year and Rs. 5.25 million in the current financial year,

(xi) Temporary Residence Permit Tax

It was proposed to re-introduce the Temporary Residence Permit tax which was in force earlier. This tax would enable the Government to recover from non-citizens, profitably employed or having a business in Ceylon, part of the cost of the benefits they or their dependents receive in the form of rice subsidy, free schooling and free medical services. It was also expected to act as an incentive for as many visa holders as possible to leave Ceylon on their own. Provision was, however, to be made to exempt certain categories of persons including those covered by the Indo-Ceylon Agreement of 1964. The tax would be Rs. 500/- per annum and would yield Rs. 4 million in a full year. The expected revenue from this tax for the current financial year was, however, Rs. 3 million.

(xii) Capital levy

It was proposed to impose a once-and-for-all capital levy on the aggregated net wealth of a family and on the net wealth of a single individual as at March 31, 1970. This levy, meant for the high income brackets, operates on the net wealth of over Rs. 200,000. Where a family or an individual owns a residence, the exemption limit was to be Rs. 250,000. The net wealth will be computed on the same basis as for the existing wealth tax.

The levy was to be charged on a progressive rate schedule with the first four slabs of Rs. 200,000 each to be taxed at 3%, 5%, 10% and 15% respectively. The balance was to be taxed at 25%. Provision was to be made for the discharge of the tax liability in property for wealth tax payers unable to pay this levy in cash. This measure was expected to provide Rs. 5 million in the first year[1] and Rs. 3.75 million in the current financial year.

1. This capital levy is to be recovered over a period of 3 years of which Rs. 5 million is expected in the first full year.

(xiii) Other proposals

Apart from the new revenue proposals mentioned above, there were a few tax modifications which were provided for in the Budget Speech, the revenue consequences of which were treated as insignificant.

They are as follows:

(a) Adjustment to rates of income tax on individuals:

The rates of income tax on individuals were to be modified to ensure a steady rate of progression over the range of taxable income to about Rs. 50,000, above which the maximum rate of 65 per cent applies. This was to be done by reducing the two existing slabs of Rs. 3,600 at 17½ per cent. and at 20 per cent. to two slabs of Rs. 2,400 at these two respective rates. Another modification was a change in the slabs taxable at 40 per cent. A slab of Rs. 7,200 to be taxed at 40 per cent. and two slabs of Rs. 10,000 each to be taxed at 50 per cent. 60 per cent. respectively were to be introduced.

(b) Rice subsidy tax:

It was proposed in the Budget Speech to abolish the Rice subsidy tax with effect from 1st October, 1970. This tax was levied on persons whose assessable income is Rs. 12,000 and over per annum and was payable at the rate of Rs. 1.25 by each ration book holder for each unit of 4 lbs of rice or 8 lbs of paddy per week as the case may be, on his ration. It was observed that the tax was unduly burdensome both to the tax payer and to the Inland Revenue Department and that the collections from this tax were not commensurate with the administrative difficulties and inconveniences involved.

(c) Imports under FEECs:

It was announced that the import of books and periodicals, two wheel tractors, implements and spares, cotton yarn and raw cotton were to be exempt from FEECs. At the same time, to compensate for the consequent loss in revenue from FEECs, the import of sugar, maize and the imports of the Sri Lanka Sugar Corporation, the Ceylon Transport Board and the Ceylon Electricity Board were subject to the surrender of FEECs.

(d) Pioneering status:

It has been the practice to grant tax reliefs to those industries on which 'pioneer status' was conferred by the Ministry of Industries. It was announced in the Budget Speech that the basis of granting pioneering status required modification in the context of the re-orientation of the industrial policy of the Government. The grant of this status would now require, inter alia, broadbased ownership of the enterprise, the restriction of its distributable profits and the publication in its annual statement of accounts of all benefits accruing to directors and their nominees. An enterprise qualifying for 'pioneering status' has to satisfy any one of the following criteria: be export oriented up to say 50 per cent. of the turnover; be located in underdeveloped or non-industrialised parts of the country; produce any commodity which had not in a substantial sense been produced hitherto and is considered an essential consumer commodity; or be engaged in any other activity which is strictly considered to be of a pioneering nature and is approved as deserving encouragement. An enterprise which seeks 'pioneering status' on the basis of having satisfied any one of these criteria cannot at a later stage switch its eligibility to yet another, to the exclusion of the original conditions.

(B) Expenditure Measures

The Government expenditure proposals for the financial year 1970/71 were incorporated in the Draft Estimates tabled in Parliament prior to the Budget Speech. There were no significant additional proposals announced in the Budget Speech except for the proposals to bring the import of sugar under the FEEC scheme – a measure which was expected to add Rs. 87 million to the total import cost of sugar. Of the amendments made at the Committee Stage of the Budget was a provision of Rs. 10 million for the proposed State Film Corporation.

One significant item included in the Government capital expenditure estimates was the provision of a sum of Rs. 200 million for an accelerated employment programme directed to meet the immediate pressure of unemployment. This short-term employment programme was to be the first phase in a comprehensive development plan to be drawn up by the Ministry of Planning & Employment. The programme was to consist of 16 projects and village development programmes designed to create job opportunities for approxmately 100,000 persons. It was expected to create a range of jobs including new administrative and managerial cadres, apprenticeships in industry and trade, and in an extensive nationwide programme of village development and selected projects in agriculture.

(C) Measures for the Mobilisation of Resources for Financing the Budget Deficit

The Budget Speech in addition to the new revenue proposals, also contained certain non-tax proposals, which would be used to finance the overall Budget deficit. They were as follows:

(i) Compulsory Savings Scheme

A Compulsory Savings Scheme for inividuals and companies was to come into operation on 1st January, 1971 and was to be in operation for one calendar year only.[1] Government corporations, charitable institutions and similar associations of persons were excluded.

The Scheme was to apply to all persons with annual incomes in excess of Rs. 6,000 except those employees in the income range of Rs. 6,000 to Rs. 12,000 who will be paying an additional 2 per cent. to the Employees' Provident Fund. Companies had to pay 50 per cent. of the profit available after payment of income tax and dividends as compulsory savings. A ceiling of 12 per cent was placed on all company dividends, and companies declaring dividends in excess of 12 per cent. were to be liable to pay the whole of such excess as compulsory savings. These compulsory savings deposits with the Government were to carry interest at the rate of 5 per cent.

The rates at which compulsory savings were to be deducted are as follows

1.	Tax payers whose total income is between Rs. 6,000 and Rs. 12,000 (except employees who contribute to the E.P.F.).	2 per cent of total income.
2.	Tax payers whose total income is between Rs. 12,000 and Rs. 25,000.	5 per cent of total income.
3.	Tax payers whose total income is between Rs. 25,000 and Rs. 60,000.	10 per cent. of total income.
4.	Tax payers whose total income is between Rs. 60,000 and Rs. 140,000.	15 per cent. of total income.
5.	Tax payers whose total income is in excess of Rs. 140,000.	20 per cent. of total income.
6.	Companies as regards profits available after payment of income tax and dividends.	50 per cent. of total income.

The above rates have an effect of placing a ceiling on individual incomes at Rs. 3,500 and a ceiling on all company dividends at 12 per cent. As a measure of relief to certain wealth tax payers who may be in difficulties with regard to their tax payment, it was proposed to allow their liability to wealth tax for the year of assessment 1971/72 to be met out of compulsory savings.

This non-tax proposal was expected to yield Rs. 105 million which was to be invested in Government Securities. (The proposed Compulsory Savings Scheme in respect of companies was subsequently withdrawn and the present rates of income tax on companies are to be increased).

Compulsory Savings Act, No. 6 of 1971.

(ii) Employees' Provident Fund

Widespread changes in the implementation of the Employees' Provident Fund Act were proposed to mobilise additional resources.[1] These involve increase in rates, extension of coverage and collection of arrears.

(a) The rates of contributions to the E.P.F. were to be increased to 6 per cent by the employee and 9 per cent. by the Employer as against the existing rates of 4 per cent. and 6 per cent. respectively.

(b) The present coverage of the E.P.F. Act was to be extended by lowering the limit to include establishments with single employees, and all casual employees.

(c) The collection of arrears by the Labour Department and the Central Bank was to be facilitated by amending the E.P.F. Act to give the Commissioner of Labour powers comparable to those enjoyed by the Commissioner of Inland Revenue. In addition, in place of the existing flat rate, a graduated rate of surcharges of arrears was to be introduced as a deterrent against non-payment of contributions.

These proposals were expected to result in Rs. 70 million of increased collections in a full year. Of this sum Rs. 35 million or half year's collections was expected to be available through investments in Government Securities for the purpose of financing the overall Budget deficit in the current financial year.

(iii) Interest rates

The interest on savings deposits with the Post Office Savings Bank was to be increased from 3.6 per cent. to 7.2 per cent. per annum. The new rate of interest was to come into effect from 1st January, 1971. It was also proposed to increase the rate of interest payable on 5 to 7 year Government Securities from 6 per cent to 9 per cent. The increase in the holdings of Government Securities consequent on the revision of interest rates was estimated at Rs. 30 million during the current financial year.

Hence, a net sum of Rs. 170 million was expected from these three non-tax proposals, for purposes of financing the overall Budget deficit for the current financial year. This sum is made up as follows:

	Rs. Million
Increasing in holdings of Govt. Securities as a result of Compulsory Saving Scheme	105.0
EPF – Increase in rates, extension of coverage and collection of arrears	35.0
Increase in holdings of Govt. Securities consequent on revision of interest rates	30.0
	170.0

1. Employees' Provident Fund (Amendment.) Act, No. 8 of 1971.

(D) Other Measures Announced in the Budget Speech

(i) PAYE Scheme

A Pay-as-you-earn scheme for income tax is to be introduced with effect from 1st October, 1971. As it would be necessary to register all tax payers liable for tax deduction for implementing this scheme (involving the registration and assessment of at least 25,000 new cases in addition to those tax payers who have already been registered) it was proposed to exempt from tax all persons whose assessable income is below Rs. 6,000 for the years of assessment 1969-70 and 1970-71. Apart from this change, the existing provisions will continue to govern the assessment and recovery of taxes in respect of 1970-71 and the earlier years.

Provision was to be made for the Inland Revenue Department to accept the tax deducted under the PAYE scheme as a final settlement of tax in respect of persons whose assessable income is below Rs. 12,000. The full amount paid by employees in respect of their Provident Fund and W & O P contribution, as well as the insurance premia is to be deducted from the salary before calculation of tax. A further allowance of Rs. 300 per annum in respect of employment income, for the purpose of eliminating claims for interest paid up to Rs. 300 per annum is to be given in preparing the tax tables for the PAYE scheme. With effect from year of assessment 1972/73, assessment of income from all sources will be on a current year basis. Under this arrangement, persons in receipt of income from sources other than employment will pay tax calculated in advance on the basis of estimated self-assessment.

(ii) Uniform accounting period for the public sector.

Another significant change to be effected would be the adoption of the calendar year as the standard accounting year for the whole of the public sector with effect from 1st January, 1972. This change, which will cover Government as well as Public Corporations and Statutory Boards, is expected to eliminate the difficulties in comparison of results and the unnecessary clerical work, errors and inconsistencies which ensue as a result of the use of different accounting periods by these bodies.

(iii) Amendments to the Inland Revenue Act.

With the prevention of tax evasion as one of its aims, the secrecy provisions of the Inland Revenue Act were to be altered to provide for the mutual exchange of information between the Exchange Control, Inland Revenue, the Customs Department and certain officers nominated by the Inspector General of Police. This measure is expected to facilitate investigations of the Departments concerned and lead to a greater collation of information between them. The Inland Revenue Act was also to be amended to exempt rewards received by informers other than public servants from income tax.

(iv) Foreign Exchange Amnesty

A foreign exchange/ income tax amnesty was to be granted to those Ceylonese who held funds abroad without the permission of the Controller of Exchange[1]. The repatriation of their funds during a prescribed period were to be free of both

1. Foreign Exchange Amnesty Act, No. 1 of 1971.

income tax and Exchange Control inquiries as to the manner or circumstances in which such monies were accumulated and held abroad. The amnesty which was to be effective till January 31, 1971 (the provisional date was subsequently extended up to 31st March 1971), will not apply to any persons who have been held to be gulity of any foreign exchange malpractices and to persons whose activities in respect of exchange dealings are under investigation.

It was also proposed to create a special fund to enable Ceylonese employed abroad to remit home certain amounts of foreign currency at regular intervals. The monies so remitted are to accumulate at the FEEC rate while earning interest comparable with the commercial bank rate for fixed deposits. They are to be exempt from income tax and were to be made available for use in Ceylon on the remitter's return.

(v) Gemming Corporation

It was proposed to set up a statutory body in the form of a Gemming Corporation to cover all aspects of the gem industry. The country has hitherto been deprived of the foreign exchange benefits of the gemming industry, and this loss has been estimated to be well over Rs. 100 million per annum. In addition to providing opportunities to individuals to engage in gem mining it is also expected to provide training facilities in modern methods of cutting and polishing gems.

11. **OTHER FISCAL MEASURES**

Other significant fiscal measures taken in 1970 which concern mainly the business turn over tax, are given below:

(a) The manufacture of barbed wire which was subject to a tax of 3 per cent. was exempted[1] from business turnover tax with effect from November 3, 1970.

(b) The turnover tax on the manufacture of safety matches was reduced[2] from 15 per cent. to 3 per cent. with effect from July 1, 1970.

(c) The following were subject to a business turnover tax of 25 per cent.[3] with effect from June 30, 1970:

(i) Business of selling accessories, components, spare parts and other materials for the assembly or manufacture of motor vehicles (other than motor cycles and scooters);

(ii) Business of assembly or manufacture of motor vehicles (other than motor cycles and scooters) including the services rendered in connection with such assembly or manufacture.

(iii) Business of selling motor vehicles (other than motor cycles and scooters) assembled or manufactured in Ceylon.

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1. Ceylon Govt. Gazette No. 14896/3 of November 3, 1970.
2. Ceylon Govt. Gazette No. 14907 of May 22, 1970.
3. Ceylon Govt. Gazette No. 14912/5 of June 20, 1970.