(F) GOVERNMENT FINANCE

The main features of the Government's fiscal operations in the financial year 1970/71 (i.e. October 1970 to September 1971) with the corresponding data for the nine previous financial years and the original estimates for 1970/71 and 1971/72 are presented in Table II (F) 1. It should be noted that the financial year 1971/72 covers a period of 15 months from October 1, 1971 to December 31, 1972, in view of the Government's decision to adopt the calendar year as the financial year with effect from January 1, 1973. In the text and tables that follow, a detailed classification and analysis of the data for 1970/71 and 1971/72 are made. Wherever appropriate, the figures for the 15 month period of the financial year 1971/72 have been presented on a *pro rata* 12 month basis, to enable a meaningful comparison with the data for the previous financial years.

The total revenue in the financial year under review, 1970/71, was Rs 2815 million while total expenditure was Rs 4143 million. The latter consisted of the voted expenditure of Rs 4035 million and payments in respect of "Advance Accounts"[1] of Rs 108 million. Total revenue and expenditure increased by Rs 79 million (or 2.9 per cent) and Rs 257 million (or 6.6 per cent) respectively over the previous financial year. The recurrent expenditure of Rs 3225 million shows a marked increase of Rs 352 million (or 12.3 per cent) over that of 1969/70. On the other hand, the expenditure chargeable to capital votes of Rs 810 million remained almost at the same level attained in the previous financial year.

The resulting budget deficit of Rs 1327 million turned out to be the largest recorded to date. It was financed by domestic market borrowing of Rs 693 million, foreign finance of Rs 370 million, and domestic non-market borrowing (net administrative borrowings) of Rs 140 million. In addition, cash balances (including counterpart funds) were drawn down by Rs 123 million to finance the balance portion of the deficit.[2] When allowance is made for a "debt repayment"[3] of Rs 244 million, the net cash deficit for the year 1970/71 was Rs 1083 million.

Compared with the original budget proposals, total expenditure in 1970/71 was higher by Rs 85 million. Considering the fact that supplementary estimates amounting to Rs 333 million (consisting of Rs 209 million in respect of recurrent votes and Rs 124 million in respect of capital votes), were passed by Parliament during the course of the financial year, the increase in expenditure has been kept within manageable proportions. A high proportion of the supplementary estimates passed were either directly or indirectly the result of the additional commitments the Government had to meet on account of the counter-insurgency operations during the year. The increase in expenditure would have been much higher but for the fact that capital expenditure fell far short of the original estimates for the year. This in itself was partly the result of the disturbed

1 Please see footnote at page 154.
2 Please see footnote at page 155.
3 Please see footnote (d) of Table II (F) 1.

conditions in the country during the year. In particular, of the Rs 200 million voted for the employment programme, only Rs 8 million was spent on tish account. A net payment of Rs 108 million in respect of Advance Accounts, not provided for in the original estimates of the year, also contributed to the increase in total expenditure. On the other hand, total revenue was Rs 63 million less than originally anticipated. Consequently, the budget deficit showed an increase of Rs 147 million over the originally estimated figure. Towards financing this increased deficit, domestic market borrowing contributed Rs 151 million more than originally forecast. Domestic non-market borrowing i. e. administrative borrowings, of Rs 140 million, not originally anticipated in the budget, and a heavy drawing down of cash balances (including counterpart funds) to the tune of Rs 123 million, helped to contribute the balance amount. Together, the increase in the three sources of finance made up for the substantial shortfall of Rs 268 million in expected foreign finance.

The net expansionary impact of the budgetary operations in 1970/71 was Rs 231 million[1]. Although this turned out to be higher than the originally anticipated figure of Rs 97 million, it represents a considerable improvement when compared with the position in 1969/70. The net public debt at the end of the financial year stood at Rs 8108 million, having increased by Rs 871 million since the end of the financial year 1969/70.

Revenue and expenditure in the current financial year 1971/72 (15 months) are estimated at Rs 3945 million and Rs 5743 million respectively. The latter consists of Rs 4432 million of recurrent expenditure and Rs 1186 million of capital expenditure. For the first time, a provision of a net payment (of Rs 125 million) in respect of Advance Account Operations has been made. It has been thepractice in the past to regard the impact of these operations on the Budget as balancing, whereas, in fact, in the more recent years, there have been substantial outpayments on these accounts. Consequently, the eventual budget deficits had been larger than originally anticipated, and with no provision made in the original estimates, they led invariably to an increase in the net expansionary impact of fiscal operations. It should be noted that the original estimates, as they are presented in the Table, take into account certain modifications made to the budget proposals which increased the budget deficit from Rs 1513 million, as forecast in the Budget Speech, to Rs 1798 million[2]. This budget deficit is to be financed by domestic market borrowing of Rs 1086 million and foreign finance of Rs 712 million. The expansionary impact of the budget would now amount to Rs 446 million, inclusive of Rs 161 million borrowings from the banking system forecast in the budget.

It will be seen from Table II (F) 1 that there has been a steady increase in revenue as well as expenditure over the last ten years (with the exception of 1962-63). However, the increase in revenue has not kept pace with the increase in expenditure. Whereas, since 1961/62, Government revenue increased by 74 per cent, the increase in expenditure has been 95 per cent. Although the resource

1 Please see footnote at page 155.

2 For a fuller account of these changes see Section on "The Budget 1971/72" at page 174.

Summary of Government Fiscal

Items	1961/62	1962/63	1963/64	1964/65
1. Revenue	**1,621**	**1,593**	**1,759**	**1,816**
2. Expenditure	**2,122**	**2,032**	**2,278**	**2,337**
2.1 Recurrent expenditure*(b)* ..	1,626	1,643	1,891	1,893
2.2 Capital expenditure*(c)* ..	481	403	403	471
2.3 Advance accounts and other ..	15	– 14	– 16	– 28
3. Budget deficit	**501**	**439**	**519**	**520**
4. Debt repayment*(d)*	**45**	**47**	**57**	**90**
5. Net cash deficit	**456**	**392**	**462**	**430**
6. Financing of Budget deficit				
6.1 Domestic non-market borrowing ..	105	– 34	– 2	50
6.2 Domestic market borrowing ..	374	372	368	334
6.3 Foreign Finance	63	100	108	117
6.4 Decline in cash balances ..	– 40	...	45	20
7. Financing of net cash deficit				
7.1 Domestic non-market borrowing ..	105	– 34	– 2	50
7.2 Domestic market borrowing ..	339	333	323	261
7.3 Foreign finance	53	92	95	100
7.4 Decline in cash balances ..	– 40	...	45	20
8. Expansionary impact of fiscal operations ..	**190**	**162**	**163**	**35**
9. Public Debt outstanding (net) ..	**2,689**	**3,065**	**3,436**	**3,772**

(a) These figures will differ from those in Government Accounts for reasons given in footnotes to Table 31 and 33 of Appendix II.

(b) For the sake of comparability, sinking fund payments, direct repayment of public debt from revenue 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 1961/62 to 1971/72[(a)]

Rs. Million

1965/66	1966/67	1967/68	1968/69	1969/70	1970/71 Original Estimates	1970/71 Provisional	1971/72 Original Est. (12 months period*)	1971/72 Original Est. (15 months period)
1,833	1,955	2,156	2,497	2,736	2,878	2,815	3,156	3,945
2,515	2,677	3,007	3,445	3,886	4,058	4,143	4,594	5,743
1,976	2,012	2,321	2,544	2,873	3,089	3,225	3,546	4,432
528	625	714	852	812	969	810	949	1,186
10	42	– 29	49	201	—	108	100	125
682	723	850	947	1,150	1,180	1,327	1,438	1,798
116	117	135	160	214	249	244	307	384
566	607	716	788	936	932	1,083	1,131	1,414
112	72	10	52	16	—	140	—	—
498	418	630	358	815	542	693	869	1,086
154	256	247	426	345	638	370	570	712
– 82	– 22	– 36	111	– 26	—	123(e)	—	—
112	72	10	52	16	—	140	—	—
418	348	552	271	720	440	585	736	920
118	209	190	354	226	491	235	395	494
– 82	– 22	– 36	111	– 26	—	123(e)	—	—
122	56	267	179	428	97	231(e)	357	446
4,268	4,782	5,689	6,239	7,237	n.a.	8,108	n.a.	n.a.

Source: Central Bank of Ceylon.

(c) Includes expenditure chargeable to National Development Reserve.
(d) Includes sinking fund payments, direct repayments, and contributions to international financial organizations.
(e) Please see footnote on page 155.
* On a *pro-rata* basis.

mobilisation effort has been substantial, particularly since 1967/68, increases in total expenditure since that year, too, have outstripped the noteworthy increases in revenue. Consequently, there has been a progressive increase in the budget deficit recorded over the years (again with the exception of 1962/63). The deficits have run at an average level of Rs 999 million in the last five years as against an average level of Rs 532 million in the preceding five years.

In the last ten years, revenue increased on an average by 6.3 per cent (compound) per annum while expenditure increased by 7.7 per cent (compound) per annum, (recurrent expenditure 7.9 per cent and capital expenditure 5.9 per cent). In the last five years the average rate of annual increase was even higher. In that period, revenue rose by 9.5 per cent and expenditure by 11.5 per cent per annum (recurrent expenditure 12.6 per cent and capital expenditure 6.7 per cent). It will thus be seen that despite a higher rate of increase in Government revenue, expenditure has been rising at a still faster rate during the last five years. It is also to be noted that in the last five years it is the recurrent expenditure that has contributed largely to the increase in total expenditure. In absolute terms, capital expenditure has, in fact, declined since 1968/69 when it stood at Rs 852 million.

The progressive increase in budget deficits had been financed by increased borrowings from domestic and foreign sources. Foreign resources have, in recent times, made substantial contributions towards financing the budget deficits. Their contributions have increased progressively since 1961/62 and reached a level of 45 per cent of the total budget deficit in 1968/69. Since that year, however, their share has decreased gradually, and in 1970/71 it amounted to about 28 per cent. This decline has been primarily due to the decreased receipts of foreign assistance (compared particularly with originally anticipated receipts). Gross foreign resources utilised in 1969/70 and 1970/71 for budgetary purposes amounted to Rs 345 million and Rs 370 million[1] as against the originally anticipated amounts of Rs 502 million and Rs 638 million respectively. The expected foreign finance in 1971/72 (12 months) is Rs 570 million. The decline in the relative share of foreign finance may represent a shift towards increased mobilisation of domestic resources for financing the budget deficits. The last two budgets have made a conscious attempt to do so with a view to achieving internal stability and to reducing external imbalance.

The considerable improvement in the expansionary impact of fiscal operations in 1970/71, despite the marked shortfall in expected foreign finance, was brought about by increased recourse to domestic non-bank market borrowing and administrative borrowings. Of the total domestic market borrowing of Rs 693 million in 1970/71, Rs 586 million came from non-bank sources.[2] Administrative borrowings amounted to Rs. 140 million in the year under review. The borrowings from both domestic and foreign sources are reflected in the net debt outstanding as at the end of 1970/71 which rose by Rs. 871 million. The increase consisted of Rs. 655 million of domestic debt and Rs. 216 million of

1. Please see footnote at page 155.

2. For a detailed account of borrowings from the domestic non-bank market sources please see Section on "Public Debt", page 160.

foreign debt. At the end of the year under review, public debt outstanding (net) stood at Rs 8,108 million, consisting of Rs 6,340 million of domestic debt and Rs 1,768 million of foreign debt.

Table II (F) 2 presents data in respect of current surpluses or deficits and of capital expenditure during the last ten years, together with the relevant original estimates for 1970/71. It also shows how revenue and recurrent expenditure of the Government have fared in relation to the growth in GNP during the same period.

This Table shows in summary form the broad nature of the problem that has developed over the last decade. The average level of Government capital expenditure (including debt repayments) during the last five years, i.e. Rs. 936 million, has been running at nearly double the average level attained in the first five years, i.e. Rs. 528 million. It is true that an increasing proportion of the capital expenditure shown in the Table represents debt repayments. However, the trend remains basically the same in respect of capital expenditure excluding debt repayments. While the capital expenditure of the Government almost doubled during the last five years, the current account, the surplus on which represents Government savings, has recorded substantial deficits in more recent years. Even the surpluses attained in the other years have either been very little or negligible. The surpluses and deficits in the current account over the past ten years have occurred with a degree of irregularity, that it is difficult to talk of a trend. However, it is clear that during the last five years the Governtment has not been able to generate sufficient surpluses on current account to finance the considerably increased capital expenditure.

The Table also shows that the growth rate of recurrent expenditure since 1967/68, has continued to outstrip the growth of GNP. The Government revenue-GNP ratio throughout the last ten years has been around 23 per cent, with a slight upward trend since 1967/68. Incrementally, however, Government revenue has risen by Rs. 1000 million since 1964/65 and Ceylon has managed, by the standards of most developing countries, to maintain a high tax – GNP ratio over the years. Yet it is this comparatively high level of taxation that increases the need for Government savings. Government savings become increasingly important to the extent that private savings capacity is reduced by reduction in disposable incomes. Moreover, the Compulsory Savings Scheme during 1971/72 is aimed at limiting disposable incomes to Rs. 2,000 per month. Government savings also become important to the extent that transfer expenditures of the Government encourage private consumption rather than savings. Almost one-half of the total current expenditure of the Government is made up of transfer payments, of which, the gross food subsidy accounts for roughly one-half while pensions, interest on public debt, reliefs etc., account for the balance.

An important aspect of the budgetary problem confronting Ceylon is that the Government revenue and expenditure policies become crucial in the implementation of the Five-Year Plan. As the Plan rightly emphasizes, ".......... Government's pattern of expenditure must necessarily shift from non-productive expenditure to outlays on productive investments that increase both employment

TABLE II (F) 2

Revenue, Expenditure and Current Account Savings

Item	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71 Provi-sional	1971/72[1] Original Estimates
1. Revenue Rs. (Mn.) ..	1621	1593	1759	1816	1833	1955	2156	2497	2736	2815	3156
2. Recurrent expenditure less debt repayment[2] (Rs. Mn.).	1596	1582	1818	1775	1870	1937	2157	2433	2860	3089	3338
3. Current account surplus (+) / deficit (–) (Rs. Mn.) ..	25	11	– 59	41	– 37	18	–1	64	–124	–274	–182
4. Capital expenditure[3] (Rs. Mn.) ..	526	450	460	561	644	742	849	1012	1026	1054	1493
5. Revenue as % of G.N.P. ..	24·9	23·4	24·1	24·2	23·7	23·6	21·8	23·2	23·5	23·8	—
6. Recurrent expenditure as % of G.N.P. ..	24·5	23·3	24·9	23·7	24·3	23·4	21·8	22·6	24·6	26·1	—

Source: Central Bank of Ceylon.

1. Proportionate amounts for a 12 month period.
2. Adjusted for net receipts/payments on advance account activities.
3. Including sinking fund contributions and direct repayments of public debt.

and the material wealth of the country".[1] The necessary condition for such a shift is a surplus of Government's revenue over its current expenditure. It is estimated that the surplus on Government's current account will rise from Rs. 112 million in 1972 to Rs. 383 million in 1976.[2] These Government savings are expected to finance 4 per cent of the gross investment of Rs. 2,565 million planned for 1972, rising progressively to 11 per cent of the planned investment of Rs. 3,394 million in 1976. Current account surpluses of such dimensions, when viewed in the light of past experience, require a major change in budgetary policy. It will depend essentially on the Government's ability to contain the increase in current expenditure within limits imposed by the potential for raising increased revenue and the need to generate an adequate surplus. It will also depend on fiscal and tax measures which will divert to Government revenue a portion of the increase in incomes during the Plan-Period. Although the Budgets for 1970/71 and 1971/72 have made a conscious attempt to keep these objectives broadly in view, the current account, which was originally anticipated to produce a surplus of Rs. 57 million in the Budget for 1971/72, has now turned into a deficit of Rs. 229 million (Rs. 182 million for 12 months), as a result of the modification and non-implementation of certain budgetary proposals.[3]

The budgetary problem confronting Ceylon basically arises from the fact that, while, on the one hand, the tax-GNP ratio is comparatively high, on the other, the structure of commitment of social policies - particularly food subsidies and education - has entailed growing recurrent expenditure commitments. Had Ceylon experienced rapid economic growth, it is possible that these expenditure commitments would have been met, and, in addition, that adequate funds could have been mobilized for stimulating and sustaining a high rate of growth of the economy. When allowance is made for the foreign exchange and structural problems of the economy, the problem remains that the internal resources required to exploit the growth opportunities cannot be generated so long as growth of Government expenditure continues to stimulate consumption at the expense of investment. Moreover, with the growth rate of recurrent expenditure outstripping the growth of GNP in the past few years, unless savings rise at a faster rate, aggregate demand will rise with its consequent adverse impact on the balance of payments position and the prospects for stable growth as well. A concerted attempt to keep the growth of recurrent expenditure low, in order to generate higher surpluses on current account, therefore becomes imperative.

The ensuing analysis of Government receipts and payments in the last few years is based on the revised economic and functional classification of Government transactions adopted in the 1969 Annual Report.[4] To arrive at the current and capital components of Government revenue and expenditure, certain adjustments have been made in the revenue and expenditure figures in Government Accounts.

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1 The Five Year Plan, page 24

2 These current account surpluses, however, are based on the revised economic and functional classification of receipts and payments.

3 The comparable current account position on the basis of the revised economic and functional classification would be a deficit of Rs. 155·7 million (Rs. 124·6 million for 12 months) whereas the Budget proposals would have produced a surplus of Rs. 130·6 million (Rs. 104·5 million for 12 months).

For further details on the Budget please see Section on "Budget 1971/72" page 174.

4 Please see "A Note on the Economic and Functional Classification of the Receipts and Payments of the Government of Ceylon" at page 186 of the Annual Report 1969.

It should be noted that the Government estimates of revenue for 1971/72 have, for the first time, been presented on the basis of an economic and functional classification.[1] A reconciliation of the revenue figures and the expenditure figures for the years since 1966/67 with those published in the Government Accounts is made in Table II (F) 3 below:-

TABLE II (F) 3

Revenue and Expenditure of the Government 1966/67 to 1971/72 - Reconciliation

Rupees Million

Items	1966/67	1967/68	1968/69	1969/70	1970/71 (Original Estimates)	1970/71 Provisional	1971/72(h) (Original Estimates)
1. **Revenue** (Heads 1 to 16) ..	1,954·8	2,156·4	2,497·3	2,736·4	2,878.0	2,815·3	3,944·5
Add: Profits from food sales *(a)* ..	263·6	282·4	296·4	248·0	155·3	96·3	—
Less: Rice subsidy tax *(b)* ..	0·3	1·9	3·1	3·5	3·0	2·7	—
2. **Total Revenue** ..	2,218·1	2,436·9	2,790·6	2,980·9	3,030·3	2,908·9	3,944·5
3. **Recurrent Expenditure** (votes 1, 2, 4 & 6) *(c)* ..	1,895·3	2,186·2	2,384·2	2,658·9	2,912.7	2,980·5	4,172·9
Less: Net food subsidy *(d)* ..	193·0	297·5	334·5	337·0	464·0	508·0	—
Add: Losses on food sales *(e)*	465·5	578·7	625·2	574·3	614·4	601·4	—
Less: Capital items in recurrent votes *(f)* ..	94·1	114·0	116·0	124·6	113·8	108·6	141·0
Add: Current items in capital votes *(g)* ..	23·2	39·1	58·2	53·5	60·0	118·7	128·5
4. **Current Payments** ..	2,096·7	2,392·4	2,617·1	2,825·0	3,009·3	3,084·0	4,160·4
5. **Capital Expenditure** (votes 3, 5, & 7) *(c)* ..	624·7	714·4	852·0	812·0	1,140·7	809·7	1,481·8
Add: Capital items in recurrent votes *(f)* ..	94·1	114·0	116·0	124·6	113·8	108·6	141·0
Less: Current items in capital votes *(g)* ..	23·2	39·1	58·2	53·5	60·0	118·7	128·5
6. **Capital Payments** ..	695·4	789·2	909·8	883·1	1,194·5	799·6	1,494·3

Source: Central Bank of Ceylon

(a) Profits from the sale of flour, sugar and certain other foodstuffs–Vide Table II (F) 8.
(b) A tax of Rs. 52 per annum levied on rice ration book holders (including their dependants) 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 and 1970/71 (provisional) also exclude the sums of Rs. 39·2 million and Rs. 30·9 million respectively, being cost of FEECs in respect of direct repayments of foreign debt and refund of FEECs payment to certain State Corporations. The latter amount is included under capital expenditure.
(d) Consists of producer and consumer subsidy on rice and onions less profits from sale of sugar, flour and certain other items as shown in the Government Accounts.
(e) Losses on purchase and issue of rice, onions and other foodstuffs–Vide Table II (F) 8.
(f) Consists mainly of expenditure on maintenance of capital works and salaries of personnel engaged in capital works.
(g) Consists mainly of defence expenditure and current transfers included under capital votes.
(h) For a period of 15 months (from 1·10·71 to 31·12·72). In the Original Budget estimates of 1971/72 profits from food sales are shown as receipts under revenue and the subsidies are shown on a gross basis under expenditure. Therefore, these items do not feature in the reconciliation of the figures for 1971/72.

1· Please see page 177.

2. REVENUE

The revenue receipts of the Government, which had consistently registered increases over the past four years, decreased by Rs. 72 million or 2 per cent in the financial year 1970/71. This is in contrast to increases of Rs. 219 million or 10 per cent, Rs. 354 million or 14 per cent and Rs. 190 million or 7 per cent respectively in the financial years 1967/68, 1968/69 and 1969/70.

Details of Government receipts for the last nine years, along with the Original Estimates for 1971/72, are given in Table 36 of Appendix II. A summary of Government revenue in the last two financial years, together with the Original Estimates for 1970/71 and 1971/72, are presented in Table II (F) 4.

Current receipts, as in the past, accounted for the bulk of the total Government revenue of Rs. 2,909 million in 1970/71. Capital receipts remained at the same level as in the previous year, and formed only 2 per cent of total receipts.

Taxes on production and expenditure contributed about two-thirds of the total Government revenue as in the previous financial year. The decline in the revenue in 1970/71 over the previous financial year was mainly on account of lower receipts from profits from food sales (Rs. 152 million), export duties (Rs. 61 million), sale of FEECs (Rs. 50 million) and import duties (Rs. 24 million). The effect of the above decreases were, however, partly offset by increased receipts from general sales and turnover taxes (Rs. 94 million), profits and dividends from State Corporations (Rs. 40 million), tobacco tax (Rs. 29 million), surplus of Government monopolies (Rs. 25 million) and gross receipts of trading enterprises (Rs 20 million).

The receipts from the sale of FEECs have, in the previous two financial years, contributed substantially to Government revenue, and more than offset the decrease in import duty collections. They, however, decreased for the first time since their introduction in 1970/71. It should be noted that these receipts fell despite an additional receipt of Rs. 135 million which was received on account of the import of sugar being subjected to FEECs in 1970/71. Receipts from turnover taxes of Rs. 341 million were 38 per cent more than in 1969/70. It is noteworthy that collections of turnover taxes have more than trebled since 1968/69.

The actual (provisional) revenue for 1970/71 also fell short of the original Budget estimates by Rs. 126 million or 4 per cent. The major contributaries to this shortfall were export duties (Rs. 66 million), sale of FEECs (Rs. 61 million), profits from food sales (Rs. 63 million), other capital receipts (Rs. 17 million) and property transfer taxes (Rs. 11 million). The effect of the above shortfalls was partly offset by higher than expected receipts from turnover taxes (Rs. 47 million), income tax (Rs. 18 million), profits and dividends from State Corporations (Rs. 14 million) and personal tax (Rs. 10 million).

The *pro-rata* 12 months revenue in the current financial year 1971/72 is expected to increase by Rs. 247 million or 9 per cent. The notable increases expected are Rs. 41 million each from general sales and turnover taxes and gross

TABLE II (F) 4

Revenue of the Government 1969-70 to 1971-72[a]

Rupees Million

Sources	1969/70	1970/71 Original Esti-mates	1970/71 Actual Provi-sional	1971/72 12* months	1971/72 15 months
1. Current Receipts	2,926·2	2,972·1	2,854·2	3,086·6	3,858·1
1·1 Taxes from personal & corporate income	441·1	425·0	444·1	460·8	576·0
1·1·1 Income tax	440·6	425·0	443·4	460·8	576·0
1·1·2 Other	0·5	—	0·7	—	—
1·2 Taxes on production and expenditure ..	2,037·8	2,046·2	1,869·4	2,031·9	2,539·8
1·2·1 General sales and turnover taxes ..	247·4	293·8	341·1	382·0	477·5
1·2·2 Selective sales taxes ..	275·8	300·8	302·2	331·6	414·5
(a) Tobacco tax	218·3	242·5	247·7	280·0	350·0
(b) Tea tax	41·6	38·9	37·0	30·8	38·5
(c) Other	15·9	19·4	17·5	20·8	26·0
1·2·3 Import duties	306·5	288·0	282·2	267·4	334·2
(a) Vegetable products ..	25·7	40·8	32·1	40·0	50·0
(b) Prepared foodstuffs, beverages, tobacco etc., ...	61·1	55·5	70·1	56·0	70·0
(c) Mineral products ..	39·4	8·0	15·9	8·0	10·0
(c) Products of the chemical and allied industries ..	25·7	27·0	31·4	30·0	37·5
(e) Artificial resins, plastic materials, rubber etc.. ..	16·0	15·0	12·8	11·0	13·7
(f) Paper making material etc., ..	8·5	13·0	7·9	12·0	15·0
(g) Textiles and textile articles ..	18·0	28·5	35·5	32·0	40·0
(h) Base metal and articles of metal	20·2	21·5	16·1	18·0	22·5
(i) Machinery and mechanical appliances, electrical equipment etc.,	31·8	31·5	22·6	24·8	31·0
(j) Vehicles, aircraft, vessels etc., ..	31·4	27·0	20·3	21·6	27·0
(k) Others	19·8	12·2	16·2	13·0	16·3
(l) Import licence fees ..	8·9	8·0	1·3	1·0	1·2
1·2·4 Receipts from sale of FEECs ..	446·0	457·0	395·8	426·4	533·0
1·2·5 Export duties	327·2	331·8	265·9	285·5	356·9
(a) Tea	171·6	180·3	162·7	171·3	214·1
(b) Rubber	70·6	69·0	13·7	14·2	17·8
(c) Coconut	53·1	46·0	54·6	61·4	76·8
(d) Others	32·5	36·5	34·9	38·6	48·2
1·2·6 Licence taxes	40·3	44·7	45·8	51·1	63·9
1·2·7 Property transfer taxes ..	22·2	20·7	10·1	20·6	25·8
1·2·8 Surplus of Government monopolies .	124·4	150·0	149·0	160·0	200·0
1·2·9 Profits from food sales ..	248·0	159·4	96·3	107·2	134·0
1·3 Interest and dividends received ..	41·5	63·8	81·0	108·6	135·7
1·3·1 Profits and dividends from State Corporations	31·4	57·3	71·4	100·3	125·4
1·3·2 Other	10·1	6·5	9·6	8·3	10·3
1·4 Gross receipts of trading enterprises ..	283·6	302·7	303·9	345·0	431·3
1·4·1 Railway	139·9	134·8	139·8	165·8	207·2
1·4·2 Electricity	1·8	3·2	2·4	1·9	2·4
1·4·3 Postal and telecommunications ..	72·9	93·4	84·9	104·5	130·6
1·4·4 Ports and harbours ..	44·4	52·0	50·6	52·9	66·1
1·4·5 Other	24·6	19·3	26·1	20·0	25·0
1·5 Other current receipts	122·2	134·4	136·8	140·3	175·3
1·5·1 National lottery	13·6	17·0	10·0	12·2	15·2
1·5·2 Other	108·4	117·4	126·8	128·1	160·1
2. Capital Receipts	54·7	62·2	54·7	69·1	86·4
2·1 Transfers from capital accounts of domestic sector	29·2	31·3	40·4	34·2	42·8
2·1·1 Estate duty	12·0	15·0	14·4	12·0	15·0
2·1·2 Personal tax	17·0	16·3	25·9	22·2	27·8
2·1·3 Other	0·2	—	0·1	—	—
2·2 Other capital receipts	25·5	30·9	14·3	34·9	43·6
3. Total Revenue	2,980·9	3,034·3	2,908·9	3,155·7	3,944·5

Source: Central Bank of Ceylon.

(a) For details of items given above, please see footnotes to Table 36 of Appendix II.

* On a *pro-rata* basis.

receipts of Government trading enterprises, Rs. 31 million from sale of FEECs, Rs. 32 million from tobacco tax, Rs. 29 million from profits and dividends of State Corporations, Rs. 20 million from export duties and Rs. 17 million from income tax. Smaller increases are also expected from property transfer taxes, surplus of Government monopolies, profits from Government food sales and licence taxes. The effect of the above increases is expected to be slightly offset by a decline of Rs. 15 million in import duty collections.

Taxes on Personal and Corporate Income

Income tax on individuals and firms constitutes almost the entirety of the revenue from this source.[1] The increase in income tax collections in 1970/71 over the previous financial year was only Rs. 3 million. The collections were, however, Rs. 19 million more than the original estimate for the year. The orginal estimate of Rs. 425 million included an expected receipt of Rs. 100 million from the demonetisation exercise of October/November, 1971. In the event, total tax collections on account of demonetisation amounted to only Rs. 13 million. Of this sum, Rs. 8.5 million was collection of arrears of tax, Rs. 1.7 million was additional tax collected, while the balance amount was collected under amnesty declarations. Despite the shortfall in the expected receipts from demonetisation, it is noteworthy that actual collections were, in fact, more than the original estimate in 1970/71. The 10 per cent increase in the income tax payable by companies for the Year of Assessment 1970/71, which was introduced in lieu of compulsory savings contributions originally expected from firms, partly accounts for this increase. In addition, an expeditious issue of assessment in respect of previous years in anticipation of the switch-over to PAYE system helped to increase collections. Better enforcement of taxes, particularly through decentralisation, the prompter collections of arrears as well as investigations carried out in certain trades where large scale evasion was suspected, also contributed to the increase in collections of income tax.

The anticipated revenue from income tax in 1971/72 is Rs. 461 million (12 months). It shows an increase of Rs. 17 million over the collections in 1970/71. The introduction of the PAYE system with effect from October 1971 is expected to widen the tax net by the addition of new tax-payers. Further, the 10 per cent increase in the income tax payable by companies in lieu of compulsory savings is expected to continue to be in force during the Year of Assessment 1971/72. Thus, unlike in the past two years where the originally anticipated collections were estimated to be lower than the actual collections of the preceding years, the receipts during 1971/72 are expected to exceed the actual receipts of 1970/71. It is noteworthy that the actual collection of income tax has consistently exceeded the original forecasts in the last few years.

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

Taxes on Production and Expenditure

This item comprises general sales and turnover taxes (consisting almost entirely of business turnover tax and the Bank debits 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. sugar, flour and maldive fish).

(a) Turnover tax

During the last few years, turnover taxes have become establised as a buoyant source of revenue to the Government. Receipts from this tax on the turnover of manufactures and other businesses have increased on an average by 54 per cent (compound) per annum over the last five years. Receipts from turnover taxes in 1970/71 were Rs. 94 million higher than in the previous financial year and Rs. 47 million higher than the original estimates for 1970/71. In 1971/72 receipts from this source are expected to contribute a further Rs. 41 million over their contributions to Government revenue in the financial year under review If this anticipated increase were to be realised, turnover taxes will account for 12 per cent of total revenue as against the 4 per cent they contributed in 1968/69.

The increased receipts from turnover tax in 1970/71, as compared with the previous year, were primarily due to the increase in the rates of tax on various manufactured items, particularly that on petrol, introduced in 1970/71.[1] Further, a turnover tax of 5 per cent was introduced on the business of accepting wagers, with effect from April 1971. Improved enforcement of the tax by the Inland Revenue Department also contributed to the increased tax receipts. The expected increase of Rs. 41 million in turnover tax collections in 1971/72 (12 months) is due mainly to a further increase in the rate of tax on petrol from 37 per cent to 48 per cent as well as to an additional Rs. 10 million from the imposition of turnover tax on pawn-broking business.[2]

(b) Selective sales taxes

The revenue from selective sales taxes increased by Rs. 26 million in 1970/71 as compared with the previous financial year. This increase was mainly on account of an increase of Rs. 29 million in the receipts from tobacco tax, partly offset by a decline in tea tax receipts of Rs. 5 million. The increase in the excise duty on tobacco from Rs. 37.50 per lb. to Rs. 42.50 per lb. in 1970/71 accounted for this increase. Ad-valorem tea tax collections declined due to the lower level of prices at the London Auctions. Actual receipts of selective sales taxes were almost the same as the originally estimated receipts in 1970/71.

In 1971/72, (12 months) the revenue from selective sales taxes is expected to be Rs. 29 million more than in the year under review. Tobacco tax receipts are expected to increase by Rs. 32 million on account of a further increase in

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1. For details of these changes please see page 180 of Annual Report 1970.

2. Details of these measures are given later in this Report. Please see section on "The Budget 1971/72".

the excise duty on tobacco to Rs. 47.50 per lb. announced before the Budget Speech for 1971/72. Tea tax revenue is expected to fall further by Rs. 6 million in 1971/72.

(c) Import duties

The declining trend in import duty collections, particularly since the introduction of the FEECs Scheme, continued into 1970/71. They were lower by Rs. 24 million as compared with the collections during the previous financial year. Import duty collections recorded major decreases in respect of Mineral products (Rs. 24 million), Vehicles etc. (Rs. 11 million) and Machinery etc. (Rs. 4 million). These decreases were partly offset by significant increases of Rs. 18 million in respect of Textiles and Rs. 9 million in respect of Foodstuffs, beverages, etc. The delays in obtaining imports which were earmarked for 1970/71 and the generally lower volume of imports explained the general decrease in import duty collections. It should also be noted that the O.G.L. Scheme was in operation during the first eight months of 1969/70. The sharp decrease in duty collections on mineral products was mainly due to decreased imports of refined petroleum products. The withdrawal of the concession granted to Salu Sala Ltd., for the import of textiles free of duty resulted in increased duty collections on textiles. Revenue from import duties also showed a decline of Rs. 6 million as compared with the original estimates for the financical year under review.

In 1971/72 (12 months) revenue from import duty collections is expected to decrease further by Rs. 15 million, largely on account of the lower volume of imports expected during the year.

(d) Receipts from sale of FEECs

Revenue from sale of FEECs declined by Rs. 50 million in 1970/71 in contrast to a substantial increase of Rs. 161 million in the previous year. This decline has occurred despite the decision to subject the import of sugar to FEECs. FEECs paid on the import of sugar amounted to Rs. 135 million in 1970/71. The fall in the receipts from sale of FEECs was due mainly to the lower level of imports and to the heavy utilization of import credits during the course of the financial year. The receipts in 1970/71 were, also, lower than the budgeted estimates by Rs. 61 million. In 1971/72 (12 months) revenue from the sale of FEECs is estimated to be Rs. 426 million, an increase of Rs. 31 million, over the actual receipts in 1970/71.

(e) Export duties

The export duty collections in 1970/71 showed a decline of Rs.61 million over the previous year. Duty collections from rubber declined substantially by Rs. 57 million and those from tea by Rs. 9 million. An increase of Rs. 2 million each from collections on coconut and minor exports slightly offset the above decreases. The depressed prices for rubber and the damage to production caused by insurgent activities resulting in a reduced volume of rubber exports jointly contributed to the decline in duty collections. The f.o.b. rubber prices in the Singapore market (on which the ad-valorem duties on rubber are based) fell below the minimum of 94 cents per lb. making the sliding scale inoperable since June 1971. This resulted in only a flat rate collection of 3 cents on each lb. since that month. The shortfall of Rs. 9 million in the duty collections on tea is partly due to the delay in passing Customs entries and partly to a slight reduction in the volume of exports. The export duty collections in 1970/71, also, showed a decline of Rs. 66 million over the original estimates, mainly for the same reasons.

In 1971/72, (12 months) export duty collections are expected to increase by Rs. 20 million. All categories of exports are estimated to bring in increased collections during the year, mainly due to an expected improvement in the prices of some of the export commodities.

(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.) decreased by Rs. 7 million over the previous year. This was the net effect of an increase in licence taxes by Rs. 6 million and a decrease in property transfer taxes by Rs. 12 million. The revenues from this category of taxes were almost as originally expected. However, when compared with the original estimates for 1970/71, property transfer taxes decreased by Rs. 11 million while licence taxes increased by Rs. 1 million. The shortfall in the former was due to the decrease in expected stamp duty collections. The revenue from licence and property transfer taxes in 1971/72 (12 months) is expected to increase by Rs. 16 million, mainly due to the introduction of licence fees on pawn-brokers, and to the abolition of the tree tax and the re-introduction of the tavern system in the Jaffna Peninsula.

(g) Surplus of Government monopolies

This revenue item consists entirely of the profit made by the Government on the sale of arrack. In 1970/71, revenue from this source registered an increase of Rs. 25 million over the previous year and was only fractionally lower than the budgeted estimate. The increase in revenue was mainly brought about by increased sales of arrack. In 1971/72, profits are expected to increase by Rs. 11 million on account of increased sales.

(h) Profits from food sales

This source of Government revenue consists generally of the profits from sale of sugar, flour and maldive fish. Profits from the sale of foodstuffs showed a substantial decline of Rs. 152 million in 1970/71 when compared with the previous year. The decline over the original estimates, however, was only Rs. 63 million. In 1971/72 the estimates provide for an increase of Rs. 11 million. The reasons for the changes are discussed in detail in the later section on the net food subsidy.[1]

Interest and Dividends

The revenue from this source increased significantly by Rs. 40 million over the previous year. Increased contributions to the Exchequer by public corporations and public companies accounted for the entire increase. The receipts from this source were also higher than the budgeted estimate by Rs. 17 million. It is

1 Please see page 147.

expected to increase by a further Rs. 29 million in 1971/72. The increased contributions to the Exchequer by public corporations are the result of a special levy on corporations introduced in the Budget for 1970/71. The expected contributions from each of these corporations in 1971/72 have been listed in the Budget Speech for the same year.

Receipts from Trading Enterprises

The gross receipts from trading enterprises (mainly Railway, Postal and Telecommunications and Ports)[1] were Rs. 20 million higher in 1970/71. They were, however, only fractionally higher than the original estimates.

The receipts from Railway were at the same level as in the previous year. In June, 1971 the Railway introduced new revenue measures which were designed to improve its financial position. These included the revision of passenger fares and freight charges. The additional revenue anticipated was Rs. 26 million in one full year. Of this, Rs. 9 million was expected to accrue during the financial year 1970/71. This increase, however, was not realised mainly because of the curtailed Railway services as a result of the insurgent activity. Receipts, however, were Rs. 5 million more than the budgeted estimate.

The receipts from Postal and Telecommunications showed an increase of Rs. 12 million over the previous year. However, they were Rs. 9 million less than the original estimates. The enhanced receipts are primarily due to the upward revision of Postal and Telegraph rates and of Telephone rentals which were introduced with effect from October, 1970.[2] The lower receipts, as compared with the estimated figure, could be attributed to the disturbed conditions in the country as a result of insurgent activities. In 1971/72, an enhanced receipt of Rs. 20 million is anticipated as a result of the increase in postal charges, particularly on ordinary letters and postcards.[3]

The revenue from Ports increased by Rs. 6 million when compared with the previous year and corresponded to the originally anticipated amount during the financial year under review. The increase is largely due to increases in Port charges by approximately 25 per cent. In 1971/72, the receipts are expected to increase further by Rs. 2 million.

Other Current Receipts

Current receipts from other miscellaneous sources in 1970/71 were Rs. 15 million more than in the previous year and were slightly higher than the original estimates. An increased receipt of Rs. 18 million from other miscellaneous sources was partly offset by a lower receipt of Rs. 4 million from National Lottery. In 1971/72 other current receipts are expected to increase only by Rs. 1 million, despite an additional revenue of Rs. 10 million anticipated as a result of the imposition of a fee of 25 cents per visit on O.P.D. patients.

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1 The receipts shown in Table II (F) 4 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).

2 For details of these rate revisions please see page 184 of Annual Report 1970.

3 For details of these rate revisions please see section on "The Budget 1971/72"

Capital Receipts

(a) Transfer from capital accounts of domestic sector.

This source of revenue consists mainly of Estate duty and Personal tax (i. e. Wealth and Gifts taxes). The receipts from this source were Rs. 11 million more than in the previous year and Rs. 9 millon more than the original estimates. Estate duty showed an increase of Rs. 2 million in 1970/71, while Personal tax brought in an enhanced receipt of Rs. 9 million, largely due to better enforcement of Wealth and Gifts taxes. Assessments issued on new tax-payers also contributed to this increase. In 1971/72, revenue from this source is expected to be lower by Rs. 6 million.

(b) Other capital receipts

This item consisting of repayments of advances made from the Consolidated Fund, decreased by Rs 11 million in 1970/71; thus fully offsetting the increase in transfers from capital accounts of domestic sector. Other capital receipts were also Rs 17 million lower than the original estimates. In 1971/72, other capital receipts are expected to increase by Rs 21 million. The repayments of advances, particularly from the Ceylon Electricity Board, are expected to increase during the year.

3. EXPENDITURE

The total expenditure of the Government in the financial year 1970/71 amounted to Rs 4143 million, comprising Rs 4035 million of voted expenditure and Rs 108 million of "advance account" payments. This represented an increase of Rs 257 million or 7 per cent over the total expenditure of the previous year. An increase of Rs 352 million in expenditure under recurrent votes, partly offset by a slight fall of Rs 2 million in expenditure under capital votes and by a sharp decrease of Rs 93 million in payments under advance accounts, accounted for this increase. The actual (provisional) expenditure, also, exceeded the Budget estimates by Rs 85 million or 2 per cent. A net payment of Rs 108 million under advance accounts, for which no provision was made in the Budget, and an increase of Rs 136 milllion in expenditure in recurrent votes, partly offset by a decrease of Rs 159 million in expenditure under capital votes, account for this excess.

Details of expenditure for the financial years 1969/70 to 1971/72 are presented in Table II (F) 5.

TABLE II (F) 5

Government's Expenditure 1969/70 to 1971/72

Rs. Million

Items	1969/70	1970/71		1971/72 Original Est.	
		Original Estimates	Provisional	12 months period*	15 months period
1. Voted Expenditure	3,685	4,058	4,035	4,494	5,618
1·1 Recurrent expenditure[1]	2,873	3,089	3,225	3,546	4,432
1·2 Capital expenditure[1]	812	969	810	949	1,186
2. Advance account operations	201	—	108	100	125
3. Total expenditure	3,886	4,058	4,143	4,594	5,743

Source: Central Bank of Ceylon.

* On a *pro-rata* basis.

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

The above Table shows the provision made in the Budget for recurrent and capital expenditures. Supplementary estimates passed during the course of the financial year 1970/71 amounted to Rs 209 million under recurrent votes and Rs 124 million under capital votes. Consequently, the total provision in respect of recurrent and capital expenditures in 1970/71 amounted to Rs. 3298 million and Rs 1093 million, respectively.

The original estimates for 1971/72 provide, *pro-rata*, for a total expenditure of Rs 4594 million for 12 months. The total expenditure estimated for a period of 15 months is Rs 5743 million. The estimated *pro-rata* total expenditure for 1971/72 is Rs 451 million more than the actual (provisional) expenditure for 1970/71. The original estimates also show an increase of Rs 321 million in expenditure under recurrent votes and Rs 139 million in expenditure under capital votes as compared with the actual (provisional) expenditure under the respective votes in 1970/71. Unlike in the past, the original estimates also provide for a sum of Rs 100 million as expected net payments in respect of advance account operations.

An economic and functional classification of Government expenditure is provided in Table 36 in Appendix II. On the basis of this classification, current expenditure amounts to Rs 3084 million and capital expenditure to Rs 800 million. Together with advance accounts payments of Rs 109 million, total expenditure would amount to Rs 3992 million. In the previous financial year, total expenditure amounted to Rs 3917 million, comprising Rs 2825 million of current expenditure, Rs 883 million of capital expenditure and a net payment of Rs 208 million in respect of advance accounts. In 1970/71, total expenditure increased by only Rs 75 million or 2 per cent as against an increase of Rs 339 million or 9 per cent in the previous year.

Current Expenditure

Current expenditure of the Government which registered an increase of Rs 208 million or 8 per cent in 1969/70, increased further by Rs 259 million or 9 per cent in 1970/71. In 1971/72 (12 months) the current expenditure is expected to increase *pro-rata* by Rs 244 million or 8 per cent. Details of the current expenditure for the last three years and 1971/72 are summarised in Table II (F) 6.

(a) Administration.

Current expenditure on civil administration and defence rose by Rs 11 million and Rs 84 million respectively in 1970/71. The unusually large increase in the defence expenditure, which almost doubled itself in 1970/71, was mainly the result of increased expenditure commitments that arose on account of the insurgency. Purchase of vehicles and equipment accounted for the bulk of this expenditure. Enhanced wage payments in respect of new recruits to the armed services accounted for the balance. The increased expenditure in respect of Police and Prison Services largely explains the increase in expenditure on Civil Administration. Current administrative expenses accounted for 16 per cent of the total current expenditure in 1970/71. In 1971/72 current expenditure on

TABLE II (F) 6

Current Expenditure of the Government (a) 1968/69 to 1971/72

Items	1968/69		1969/70		1970/71				1971/72 (Original)		
					Original		Provisional		For 12 months*	For 15 months	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Amount Rs. Mn.	Percentage
1. Administration	343·2	13·1	410·4	14·5	429·6	14·3	504·8	16·4	560·9	701·1	16·9
1·1 Civil	260·5	10·0	318·4	11·3	332·6	11·1	329·2	10·7	411·2	514·0	12·4
1·2 Defence	82·7	3·1	92·0	3·3	97·0	3·2	175·6	5·7	149·7	187·1	4·5
2. Social Services	642·9	24·6	732·9	25·9	752·1	25·0	746·6	24·2	807·5	1009·4	24·3
2·1 Education	410·6	15·7	472·4	16·7	484·6	16·1	483·4	15·7	526·3	657·9	15·8
2·2 Health	210·0	8·0	235·7	8·3	240·1	8·0	238·1	7·7	252·2	315·2	7·6
2·3 Other	22·3	0·9	24·8	0·9	27·4	0·9	25·1	0·8	29·0	36·3	0·9
3. Economic Services	120·1	4·6	130·3	4·6	161·0	5·4	151·9	4·9	150·9	188·6	4·5
3·1 Agriculture & Irrigation ..	57·0	2·2	66·5	2·4	78·4	2·6	75·0	2·4	76·0	95·0	2·3
3·2 Communication	26·5	1·0	24·2	0·9	31·7	1·1	29·7	1·0	29·8	37·3	0·9
3·3 Other	36·6	1·4	39·6	1·4	50·9	1·7	47·2	1·5	45·1	56·3	1·4
4. Gross Payments of Trading Enterprises ..	301·0	11·5	249·9	8·8	250·0	8·3	251·0	8·1	257·5	321·9	7·7
5. Intra-Governmental Payments ..	4·0	0·2	4·3	0·2	4·5	0·2	4·7	0·2	4·0	5·0	0·1
6. Transfer Payments	1205·9	46·1	1257·1	44·5	1372·6	45·6	1409·0	45·7	1523·4	1904·2	45·8
6·1 Subsidies	673·6	25·7	622·8	22·0	665·6	22·1	652·2	21·1	728·6	910·7	21·9
of which: Food Subsidies ..	(625·2)	(23·9)	(574·3)	(20·3)	(614·4)	(20·4)	(601·4)	(19·5)	(658·2)	(822·8)	(19·8)
6·2 Interest on Public Debt ..	206·2	7·9	253·3	9·0	309·0	10·3	336·5	10·9	387·3	484·1	11·6
6·3 Pensions	161·1	6·1	182·9	6·5	186·5	6·2	224·8	7·3	227·8	284·8	6·8
6·4 Households	40·4	1·5	63·1	2·2	59·3	2·0	50·8	1·6	54·3	67·9	1·6
6·5 To Local Authorities	61·9	2·4	58·9	2·0	60·8	2·0	60·2	2·0	61·8	77·2	1·9
6·6 Other	62·7	2·4	76·1	2·7	91·4	3·0	84·5	2·7	63·6	79·5	1·9
7. Total	2617·1	100·0	2825·0(b	100·0	3009·3 (b)	100·0	3084·0 (b)	100·0	3328·3	4160·4(b)	100·0

Source: Central Bank of Ceylon.

* On a *pro-rata* basis

(a) See footnotes to Table 31 and 36 of Appendix II.

(b) Includes unallocable FEECs amounting to Rs. 40·1 million for 1969/70, Rs. 39·5 million for 1970/71 (Original), Rs. 16·0 million for 1970/71 (provisional) and Rs. 30·2 million for 1971/72.

administration is estimated to further increase by Rs 56 million. The bulk of this increase is in respect of Civil Administration, which has been accounting for a gradually increasing share of total current expenditure over the past few years.

(b) Social services

Current expenditure on social services increased by only Rs 14 million (or 2 per cent) in 1970/71 in contrast to increases of Rs 46 million and Rs 90 million in 1968/69 and 1969/70 respectively. The increase in 1970/71 was mainly on account of increases of Rs 11 million on education and Rs 2 million on health. Current expenditure on social services accounted for about one-fourth of the total current expenditure in 1970/71. In 1971/72 it is estimated to increase by Rs 61 million or 8 per cent.

(c) Economic services

Current expenditure on economic services amounted to Rs 152 million in 1970/71 showing an increase of Rs 22 million or 17 per cent over the previous year. The increases were mainly in respect of agriculture and irrigation, and communication, expenditures on which increased by Rs 9 million and Rs 6 million respectively. Expenditure on economic services accounted for 5 per cent of the total current expenditure in 1970/71. In 1971/72, current expenditure on economic services is expected to decrease slightly.

(d) Gross payments of trading enterprises

Payments by Government trading enterprises comprising the Railway, Postal and Telecommunications and Ports registered an increase of only Rs 1 million over the previous year. In 1971/72, too, the payments by trading enterprises of the Government are expected to be at the same level as in the year under review.

Current Transfers

Current transfers, which accounted for 46 per cent of the total current expenditure in 1970/71, increased by Rs 152 million over the previous year. In 1969/70 they had increased by Rs 51 million. The main contributories to the increase in 1970/71 were, interest on public debt (Rs 83 million), pensions (Rs 42 million) and food subsidies (Rs 27 million). These increases were partly offset by a decrease of Rs 12 million in transfers to the household sector. The increase of Rs 83 million in interest on public debt was brought about as a result of higher than anticipated volume of borrowing as well as by increased interest rates payable on new borrowings. The payment of pensions and gratuities consequent to the enforcement of retirement at the age of 55 years explains the increase in the pensions bill. The reasons for the increase in the food subsidy are explained in detail in a later section on "Net Food Subsidy".

In 1971/72, current transfers are expected to increase by Rs 114 million or 8 per cent, mainly as a result of an increase of Rs 76 million on subsidies (of which food subsidy accounts for Rs 57 million) and an increase of Rs 51 million in interest on public debt. A decrease of Rs 21 million under 'other' transfers partly offsets the effect of the above increases. The increase of Rs 3 million provided for in respect of pensions appears to be very low in relation to the increases in past years.

Capital Expenditure

Capital expenditure of the Government, as shown in Table II (F) 7 amounted to Rs 800 million in 1970/71. It declined by Rs 84 million or 10 per cent in the year under review. In 1969/70, too, capital expenditure registered a decline of Rs 27 million or 3 per cent. In contrast, capital expenditure had grown at the rate of 14 per cent (compound) per annum in the five years ending 1969/70.

In 1970/71, capital expenditure consisted of Rs 437 million (or 55 per cent) of capital expenditure of Government Departments, Rs 320 million (or 40 per cent) of capital transfers and Rs 43 million (or 5 per cent) of acquisition of financial assets. In the previous year the comparable data were Rs 518 million (or 59 per cent), Rs 320 million (or 36 per cent) and Rs 46 million (or 5 per cent) respectively. The decrease of Rs 84 million in capital expenditure in 1970/71 was on account of decreases of Rs 82 million in capital expenditure of Government Departments and Rs 3 million in acquisition of financial assets. Capital transfers were at the same level as that of the previous year. In the previous financial year, the decrease of Rs 27 million in capital expenditure comprised decreases of Rs 8 million in capital expenditure of Government Departments, Rs 13 million in capital transfers and Rs 6 million in acquisition of financial assets.

In 1971/72, the estimated gross capital expenditure (12 months) is expected to be Rs 1,195 million – an increase of Rs 396 million or nearly 50 per cent over the 1970/71 figure. The estimated capital expenditure consists of Rs 773 million of capital expenditure of Government Departments, Rs 375 million of capital transfers and Rs 47 million of acquisition of financial assets. The bulk of this increase i. e. Rs 337 million, is in respect of capital expenditure of Government Departments, while capital transfers and acquisition of financial assets are also expected to increase by Rs 55 million and Rs 4 million, respectively.

(a) Capital expenditure of Government Departments

Capital expenditure of Government Departments in 1970/71 amounted to Rs 437 million, showing a decline of Rs 82 million or 16 per cent over that of the previous year. The decline was mainly accounted for by a reduction of Rs 68 million in expenditure on economic services and a reduction of Rs 18 million in expenditure on social servicees. These reductions were partly offset by an increase of Rs 2 million in expenditure on civil administration. The reduced expenditure on economic services was mainly due to a fall in expenditure of Rs 41 million on agriculture and irrigation, Rs. 34 million on communication and Rs 4 million on manufacture and mining, partly offset by an increase of Rs 13 million on trade. The decline of Rs. 18 million in expenditure on social services comprises decreases of Rs 20 million on housing, Rs 10 million on health, partly offset by increases of Rs 9 million under "other" services and Rs 4 million on education.

TABLE II (F) 7

Capital Expenditure of the Government [a] 1968/69 to 1971/72

Items	1968/69 Amount Rupees Million	1968/69 Percentage	1969/70 Amount Rupees Million	1969/70 Percentage	1970/71 Original Amount Rupees Million	1970/71 Original Percentage	1970/71 Provisional Amount Rupees Million	1970/71 Provisional Percentage	1971/72 Original For 12 months* Amount Rupees Million	1971/72 Original For 15 months Amount Rupees Million	1971/72 Original For 15 months Percentage
1. Acquisition, Construction and Maintenance of Real Assets	**526.2**	**57.8**	**518.0**	**58.7**	**784.5**	**65.7**	**436.5**[b]	**54.6**	**773.4**	**966.7**[b]	**64.7**
1.1 Civil Administration	**16.7**	**1.8**	**19.4**	**2.2**	**18.8**	**1.6**	**21.6**	**2.7**	**45.9**	**57.3**	**3.8**
1.2 Social Services	**112.9**	**12.4**	**120.6**	**13.7**	**202.6**	**17.0**	**103.1**	**12.9**	**196.8**	**246.0**	**16.5**
1.2.1 Education	31.6	3.5	40.1	4.5	68.2	5.7	43.6	5.4	64.1	80.1	5.4
1.2.2 Health	37.5	4.1	38.0	4.3	47.3	4.0	27.7	3.5	38.8	48.5	3.2
1.2.3 Housing	35.8	3.9	34.1	3.9	50.0	4.2	14.0	1.8	60.3	75.4	5.0
1.2.4 Other	8.0	0.8	8.4	1.0	37.1	3.1	17.8	2.2	33.6	42.0	2.8
1.3 Economic Services	**396.6**	**43.6**	**378.0**	**42.8**	**548.8**	**45.9**	**310.2**	**38.8**	**515.8**	**644.7**	**43.1**
1.3.1 Agriculture & Irrigation	168.1	18.5	172.8	19.6	250.8	21.0	131.5	16.4	185.4	231.7	15.5
1.3.2 Fisheries	0.1	...	1.0	0.1	18.3	1.5	3.3	0.4	8.2	10.2	0.7
1.3.3 Manufacture & mining	5.0	0.5	8.8	1.0	16.6	1.4	5.0	0.6	23.4	29.3	2.0
1.3.4 Trade	13.9	1.5	7.0	0.8	34.2	2.9	19.5	2.4	23.6	29.5	2.0
1.3.5 Communication	170.0	18.7	185.1	21.0	228.9	19.2	150.9	18.9	275.2	344.0	23.0
1.3.6 Power	39.5	4.3	3.3	0.4	—	—	—	—	—	—	—
2. Capital Transfers	**332.4**	**36.5**	**319.5**	**36.2**	**357.7**	**29.9**	**320.3**	**40.1**	**375.3**	**469.1**	**31.4**
2.1 Local Authorities	**14.0**	**1.5**	**15.5**	**1.8**	**15.5**	**1.3**	**15.5**	**1.9**	**15.3**	**19.1**	**1.3**
2.2 Public Corporations	**285.6**	**31.4**	**282.8**	**32.0**	**317.0**	**26.5**	**281.4**	**35.2**	**325.4**	**406.8**	**27.2**
2.2.1 Agriculture & Irriagtion	70.0	7.7	77.2	8.7	161.1	13.5	118.1	14.8	161.8	202.3	13.5
2.2.2 Fisheries	16.7	1.8	14.1	1.6	11.0	0.9	11.0	1.4	17.6	22.0	1.5
2.2.3 Manufacture & Mining	182.8	20.1	175.5	19.9	116.9	9.8	118.2	14.8	109.0	136.3	9.1
2.2.4 Other	16.2	1.8	16.0	1.8	28.0	2.3	34.2	4.3	37.0	46.3	3.1
2.3 Other	**32.8**	**3.6**	**21.2**	**2.4**	**25.2**	**2.1**	**23.4**	**2.9**	**34.6**	**43.2**	**2.9**
3. Acquisition of Financial Assets	**51.2**	**5.6**	**45.6**	**5.2**	**52.3**	**4.4**	**42.8**	**5.4**	**46.8**	**58.5**	**3.9**
4. Total	**909.8**	**100.0**	**883.1**	**100.0**	**1194.5**	**100.0**	**799.6**	**100.0**	**1195.4**	**1494.3**	**100.0**

Source: Central Bank of Ceylon.

(a) See foot-notes to Table 31 and 36 of Appendix II.

(b) Includes unallocable FEECs amounting to Rs. 1·6 million for 1970/71 (provisional) and Rs. 18·7 million for 1971/72.

* On a *Pro-rata* basis.

In 1971/72, capital expenditure (12 months) of Government Departments, is estimated to be Rs 773 million, consisting of Rs 46 million on civil administration, Rs 197 million on social services and Rs 516 million on economic services. Capital expenditure of Government Departments is expected to be Rs 337 million more in 1971/72 comprising increases of Rs 206 million on economic services, Rs 94 million on social services and Rs 24 million on civil administration. The increase in capital expenditure on civil administration is mainly due to the provision for the purchase of vehicles and wireless equipment amounting to Rs 15 million under the Ministry of Defence and External Affairs. The increase of Rs 94 million in capital expenditure on social services comprises increases of Rs 21 million on education, Rs 11 million on health, Rs 46 million on housing and Rs 16 million on account of other services. The increase of Rs 206 million in capital expenditure on economic services is mainly due to increases of Rs 124 million on communication, Rs 54 million on agriculture and irrigation and Rs 18 million on manufacture and mining.

(b) Capital transfers

In 1970/71, capital transfers of the Government amounted to Rs 320 million. They were at the same level as in the previous year. As in previous years, a major portion of the total capital transfers (Rs. 281 million or 88 per cent) was received by public corporations, while capital transfers to local authorities and 'others' amounted to Rs 16 million and Rs 23 million, respectively. In 1971/72, capital transfers are estimated to be Rs 375 million, of which Rs 325 million (or 87 per cent) is expected to be channelled to public corporations.

Capital transfers to public corporations in the agricultural sector and in the industrial sector amounted to Rs. 118 million each in 1970/71. Capital transfers to corporations in the agricultural sector showed an increase of Rs. 41 million while those to corporations in the industrial sector declined by Rs. 57 million. The increase in transfers to corporations in the agricultural sector was mainly due to an initial grant of Rs. 48 million to the Mahaweli Development Board. The decline in transfers to corporations in the industrial sector was mainly due to the reduced contributions received by the National Textile Corporation (Rs. 34 million), Eastern Paper Mills Corporation (Rs. 12 million), Ceylon Plywoods Corporation (Rs. 8 million) and State Fertilizer Manufacturing Corporation (Rs 11 million). An initial grant of Rs. 15 million to the State Gem Corporation partly offset these reductions. Capital transfers to the fishing sector increased by Rs. 11 million.

In 1971/72, capital transfers to corporations in the agricultural sector are expected to increase further by Rs. 44 million while the transfers to those in the industrial sector are expected to decline by Rs. 9 million. The increase of Rs. 44 million in the agricultural sector is mainly on account of an additional allocation of Rs. 38 million granted to the Mahaweli Development Board. Public corporations in the agricultural sector have, during the past two financial years, tended to receive a larger proportion of the total capital tranfers.

(c) Acquisition of financial assets

In 1970/71, financial assets acquired by the Government amounted to Rs. 43 million showing a decrease of Rs. 3 million over the previous year. The major financial assets acquired were the result of a loan of Rs. 20 million to the National Housing Fund and a loan of Rs. 10 million to the Local Loans and Development Fund. In 1971/72, acquisition of financial assets is expected to be Rs. 47 million, which again includes loans of Rs. 20 million and Rs. 10 million to the National Housing Fund and the Local Loans and Development Fund, respectively.

4. THE NET FOOD SUBSIDY

In the past, the cost to the Government on account of the ration distribution scheme and the Guaranteed Price Scheme in respect of rice and certain other commodities, i.e. cost of food subsidy, has been presented on a net basis as an expenditure item in the Government Accounts. The Net Food Subsidy thus shown was, essentially, arrived at by deducting the profits on the import and sale of mainly sugar and flour from the total cost of food subsidy. In the Estimates of Revenue and Expenditure of the Government for 1971/72, however, the actual cost of food subsidy, i.e. the gross food subsidy, is shown as an expenditure item, whereas the profits from the sale of foodstuffs are shown as a revenue item. This departure from past practice is in keeping with the new economic and functional basis on which the revenue estimates for 1971/72 were presented.

The Government's gross food subsidy consists of its net payments on account of the issue of rice on ration and the producer subsidy in the guaranteed prices paid to the producers of rice and red onions. The distribution expenses and other charges in respect of rice are also taken into account in computing the gross food subsidy.[1] Profits from sale of foodstuffs consist essentially of profits made on the import and sale of sugar.[2] The profits or losses involved in the import and sale of certain other foodstuffs such as flour, maldive fish, dhall and red onions are appropriately shown either as part of the gross food subsidy or as part of profits from sale of foodstuffs in any one year.

Table II (F) 8 presents the details of the gross food subsidy and profits arising from the sale of foodstuffs for the last three years along with the original estimates for 1970/71 and 1971/72.[3] The resulting net food subsidy is also shown in the Table as in previous years.

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1. In 1968/69 and 1969/70 an additional item, i. e., the value of rice ration coupons surrendered in lieu of repayment of loans granted by co-operative societies is shown separately. Also please see footnote 2 of Table II (F) 8.

2. Upto 1969/70, profits from the sale of flour, exclusive of distribution expenses, also formed a major part of profits from sale of foodstuffs.

3. The original estimates of the Food Commissioner for 1971/72 (15 months) are at variance with the final estimates i. e. original estimates of food subsidy as passed by Parliament. The former reflect a reduction in the subsidy in respect of rice of Rs. 40 million only as against which the final estimates do not make any provisions for any reduction. There are minor variations in respect of profits on sale of sugar and maldive fish too as between the two estimates for the same year. Hence for 1971/72 Table II (F) 8 gives separately the estimates of net food subsidy as per the Food Commissioner's estimate and as per the estimates as approved by Parliament.

TABLE II (F) 8

Net Food Subsidy

(Rs. Million)

Items	1968/69	1969/70	1970/71 Original Estimates	1970/71 Provisional	1971/72 For 12 months* Original Estimates as per approved estimates	1971/72 For 12 months* Original Estimates as per Food Commissioner	1971/72 For 15 months Original Estimates as per approved estimates	1971/72 For 15 months Original Estimates as per Food Commissioner
I. Gross Food Subsidy								
1. Subsidy to the consumer on imported rice[1] ..	276·1	254·1	524·8	515·0	597·6	564·4	747·1	705·7
2. Subsidy to the producer and consumer on locally produced rice[1]	269·2	252·0						
Add: Distribution expenses and other charges[2] ..	51·8	48·5	79·9	73·2	48·5	45·2	60·6	56·5
3. Subsidy on locally produced red onions ..	6·8	4·6	8·5	7·2	7·2	—	9·0	—
4. Losses on sale of–								
(a) Dhall	11·0	12·0	4·8	6·3	5·2	6·4	6·5	8·0
(b) Red Onions	0·6	2·0	1·0	0·2	0·1	—	0·1	—
(c) Flour, including distribution expenses etc ..	—	—	—	—	—	11·0	—	13·7
5. Value of rice ration coupons surrendered in lieu of repayment of loans by co-operative societies ..	11·1	3·1	—	—	—	—	—	—
6. Less: Miscellaneous receipts ..	1·4	2·0	0·5	0·5	0·4	0·4	0·5	0·5
7. **Gross Food Subsidy**	**625·2**	**574·3**	**618·5**	**601·4**	**658·2**	**626·6**	**822·8**	**783·4**
II. Profits From Sale of Foodstuffs								
1. Sugar (net of distribution expenses etc.)[3] ..	254·6	220·9	120·1	78·7	102·7	100·3	128·4	125·4
2. Flour (net of distribution expenses etc.) ..	33·9	20·3	32·2	10·8	0·4	—	0·5	—
3. Maldive fish	4·4	4·1	4·1	4·1	4·1	6·7	5·1	8·4
Add: Rice subsidy tax	3·5	2·7	3·0	2·7	—	—	—	—
4. **Profits**	**296·4**	**248·0**	**159·4**	**96·3**	**107·2**	**107·0**	**134·0**	**133·8**
III. Net Food Subsidy (I.7–II.4)	**328·8**	**326·3**	**459·1**	**505·1**	**551·0**	**519·6**	**688·8**	**649·6**

Source: Food Commissioner.

* On a *pro rata* basis.

1 It is not possible to provide a reliable estimate of issues (imported and local rice) under the first and second measure for 1970/71 and 1971/72. Hence item 1 and 2 have not been computed for these two years.

2 Prior to 1971/72, the distribution expenses and other charges shown in the table represent the total of such expenses on account of rice, sugar and flour, since no breakdown of such expenses in terms of the 3 commodities was available. For 1971/72 these expenses have been apportioned to each of the three commodities.

3 Includes the effect of FEECs payment on the import of sugar as follows:
1970/71:— Rs. 86·1 million (Original Estimates); Rs. 135·0 million (Provisional).
1971/72 (15 months):– Rs. 121·5 million (Original Estimates as per Food Commissioner); Rs. 149.6 million (Original Estimates as per approved estimates).

(a) The Gross Food Subsidy

The gross food subsidy increased by Rs. 27 million or 5 per cent in 1970/71 (provisional) as against a decrease of Rs. 51 million or 8 per cent in the previous year. The decrease in 1969/70 was due mainly to a reduction of Rs. 39 million or 7 per cent in the subsidy on rice. Decreases of Rs. 8 million in respect of rice ration coupons surrendered in lieu of repayment of loans granted by co-operative societies, Rs. 3 million on distribution expenses and other charges and Rs. 2 million on subsidy on locally produced red onions, partly offset by an increase of Rs. 2 million on subsidy on other subsidiary foodstuffs, also accounted for the fall in the gross subsidy. The subsidy on riçe decreased mainly as a result of a fall in the average landed cost of imported rice from Rs. 921 to Rs. 780 per long ton. The increase of 15,290 long tons in the issue of imported rice and a decrease of 19,276 long tons in the issue of local rice, reinforced the effect of the import price reduction. It should be noted that the per unit subsidy on local rice is higher than that on imported rice.

The increase in gross food subsidy in 1970/71 over the previous year was Rs. 27 million or 5 per cent. The subsidy on rice increased by only Rs. 9 million or 2 per cent, despite increased issues of both imported and local rice. The total rice issued under ration increased by 368,051 long tons. No breakdown of this total issue in terms of imported and local rice is, however, available. The comparatively small increase in the subsidy on rice was once again primarily due to a fall in the average landed cost of imported rice from Rs. 780 to Rs.668 per long ton. The effect of this price decrease was more than offset by the effect of the increase in total issues of rice under ration. The increase in the total issues was essentially due to the decision to issue an additional measure of rice at 75 cents with effect from September 26, 1970. In 1970/71 the distribution expenses and other charges, too, increased by Rs. 25 million on account of the increased issues of rice consequent to the issue of the second measure of rice. The subsidy on locally produced red onions showed an increase of Rs. 3 million. Meanwhile, the subsidy on dhall decreased by Rs. 6 million.

It should be noted that in 1971/72 the final estimates of gross food subsidy as passed by Parliament are at variance with the estimates as provided by the Food Commissioner. Table II (F) 8 therefore presents details of both estimates.

The original estimates, as approved by Parliament, expect an increase of Rs. 57 million or 9 per cent in the gross food subsidy for 1971/72 (12 months), over the previous year. According to this estimate, the subsidy on rice is expected to increase by Rs. 83 million or 16 per cent. However, this increase is partly offset by a fall of Rs. 25 million in the distribution charges. The estimated increase in the subsidy on rice is mainly due to the expected increase in the purchase of local rice. These purchases are expected to increase from 400,000 long tons in 1970/71 to 600,000 long tons in 1971/72. No change is expected in the import price of rice in 1971/72. The reduction of Rs. 25 million in distribution charges is the result of apportioning the distribution charges in respect of all commodities handled by the Food Commissioner to each of these commodities separately. It has been the practice in the past to show the total distribution expenses in respect of all commodities handled by the Food Commissioner including those on sugar and flour, too, as part of gross food subsidy.

The original estimates for 1971/72 (12 months) as provided by the Food Commissioner, however, estimate a lower increase of Rs. 25 million or 4 per cent in gross food subsidy over 1970/71. The subsidy on rice is expected to increase by Rs. 49 million or 10 per cent. As compared with the approved estimates, this lower increase is mainly due to the decision to increase the price of the second measure of rice under ration by 25 cents. For the first time in recent history, the sale of flour is expected to show a loss of Rs. 11 million, and hence forms part of the gross food subsidy. The profits from the sale of flour have gradually declined since 1967/68 when its price was last increased by 5 cents a pound. The loss expected on the sale of flour in 1971/72 is mainly the result of netting off the distribution expenses in respect of this commodity against its whittled down profits. An increase in the import price of wheat flour from Rs. 671 to Rs. 703 per long ton expected during 1971/72 is also responsible for the conversion of profits into losses. The Food Commissioner's estimates for 1971/72 do not provide for a subsidy on locally produced red onions, presumably on account of the increase in prices consequent to the ban on import of red onions.

(b) Profits from Sale of Foodstuffs.

The receipts from the sale of foodstuffs in 1970/71 recorded a sharp fall of Rs. 152 million or 61 per cent. In 1969/70 they decreased by Rs. 48 million or 16 per cent.

The decrease in the receipts in 1969/70 was due mainly to an increase in the average landed cost of imported sugar from Rs. 673 to Rs. 727 per long ton. Consequently, receipts from the sale of sugar decreased by Rs. 34 million or 13 per cent. Sugar import prices since 1967/68 have increased by almost 30 per cent and contributed to a gradual decline in profits from the sale of this commodity. Profits from the sale of flour, too, decreased by Rs. 14 million, largely as a result of sales being effected in Colombo than in outstations.[1] In addition, a higher price valuation on the opening and closing stocks also contributed to the decrease in profits from the sale of flour.

The sharp fall in 1970/71 of Rs. 152 million in the receipts from the sale of foodstuffs was mainly on account of subjecting the import of sugar to FEECs which had the effect of increasing the cost of sugar by Rs. 135 million. Moreover, the increase in the import price of sugar from Rs. 727 to Rs. 887 per long ton also contributed substantially towards the decline in the profits from the

1 It should be noted that the outstation retail price of flour is 2 cents above its Colombo retail price. This price differential is maintained on account of the higher distribution expenses involved in outstation sales. In 1969/70, as explained elsewhere, the distribution expenses in respect of flour were included in the total distribution expenses of all commodities handled by the Food Commissioner and shown as part of gross food subsidy. As a result, although the total quantity of sales increased by 25,000 tons, the profits therefrom were less than proportionate to the increase in sales.

sale of sugar. The decline of Rs. 10 million in the receipts from sale of flour was mainly due to an increase in the landed cost from Rs. 685 to Rs. 713 per long ton. A reduction in the consumption of flour by 66,000 tons (or 15 per cent) also accounts for the decreased receipts.

It will be seen in Table II (F) 8 that in 1971/72, except for a few minor variations, the original estimates as passed by Parliament correspond basically to the estimates as provided by the Food Commissioner.

The declining trend in the profits from sale of foodstuffs witnessed during the last three financial years is expected to be reversed during 1971/72. Receipts from sale of foodstuffs are expected to increase by Rs. 11 million in 1971/72, mainly as a result of the increase in sugar profits despite an expected increase in the landed cost of sugar by Rs. 50 per ton. The profits on the sale of flour are expected to be negligible, according to the original estimates and, in fact, turn into a loss of Rs. 11 million as per the Food Commissioner's estimates. The higher receipts expected are, therefore, mainly the result of the Government's decision to introduce a two-tier price structure for sugar, by which sugar is to be rationed at a weekly rate of ½ pound per person at 72 cents per pound, while off-ration sugar is to be sold at Rs. 1/50 per pound.[1] Small increases are also expected in the profits from the sale of Maldive fish.

(c) *Net Food Subsidy*

The net food subsidy, i.e. gross food subsidy less profits from the sale of foodstuffs, recorded a substantial increase of Rs. 179 million (or 55 per cent) in 1970/71. This was mainly the result of a marked fall of Rs. 152 million in the profits from the sale of foodstuffs. In 1969/70 the net food subsidy had recorded an increase of Rs. 3 million over the previous financial year. The reasons for the changes in net food subsidy during the last two years have already been analysed in detail in the preceding sections.

5. UNDER-EXPENDITURE BY MINISTRIES

The total provision (inclusive of supplementary estimates) and the corresponding actual figures in respect of expenditure under capital votes, for the three financial years 1968/69 to 1970/71 are given on the basis of ministries in Table II (F) 9.

In the financial year 1970/71, the actual expenditure in respect of capital votes was Rs. 810 million, while the total provision amounted to Rs. 1,265 million. The resulting under-expenditure, therefore, was Rs. 455 million or 36 per cent. In the financial year 1969/70, the under-expenditure on a total provision of Rs. 964 million was Rs. 152 million or 15 per cent. In 1968/69, out of a total provision of Rs. 995 million, under-expenditure was Rs. 143 million or 14 per cent. The under-expenditure of 36 per cent for 1970/71 is the highest recorded in recent years.

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1. The ration has since been fixed at 2 lbs. per person per month w.e.f. March, 1972.

TABLE II (F) 9

Capital Expenditure by Ministries – 1968 / 69 to 1970 / 71 *(a)*

Rs. Million

Ministry	1968 / 69			1969 / 70			1970 / 71		
	Total Provision	Actual Expenditure	Under Expenditure	Total Provision	Actual Expenditure	Under Expenditure	Total Provision	Actual Expenditure	Under Expenditure
1. Governor General, Prime Minister, Supreme Court Judges etc. not falling under ministries ..	0·1	0·1	—	0·1	0·1	—	0·2	0·1	0·1
2. Ministry of Defence and External Affairs ..	11·1	8·8	2·3	9·1	8·8	0·3	62·9	70·7	–7·8
3. Ministry of Planning & Employment ..	11·1	11·1	—	15·7	10·8	4·9	209·5	17·9	191·6
4. Ministry of Irrigation, Power & Highways *(b)* ..	334·1	295·0	39·1	335·5	217·1	118·4	344·6	225·2	119·4
5. Ministry of Foreign & Internal Trade ..	13·6	10·7	2·9	4·9	4·2	0·7	4·1	2·0	2·1
6. Ministry of Education ..	36·9	26·6	10·3	40·0	34·4	6·0	47·6	37·3	10·3
7. Ministry of Shipping & Tourism ..	40·4	30·8	9·6	24·3	23·8	0·5	27·5	23·3	4·3
8. Ministry of Labour ..	6·1	5·6	0·5	4·6	3·5	1·1	4·2	2·4	1·8
9. Ministry of Public Administration, Local Government and Home Affairs ..	43·1	34·6	8·5	48·1	45·5	2·6	21·6	19·9	1·7
10. Ministry of Industries and Scientific Affairs .	214·7	189·1	25·6	147·6	164·7	–17·1	132·2	99·5	32·7
11. Ministry of Finance ..	28·2	26·8	1·4	37·7	38·6	– 0·5	52·8	49·3	3·5
12. Ministry of Communications ..	46·8	33·7	13·1	39·1	47·1	– 8·0	54·5	50·4	4·1
13. Ministry of Plantation Industry ..	36·8	36·8	—	28·9	28·9	—	36·4	32·7	3·7
14. Ministry of Justice ..	0·1	0·2	– 0·1	0·3	0·3	—	0·4	0·4	...
15. Ministry of Agriculture and Lands ..	96·9	88·0	8·9	121·9	102·3	19·6	137·8	106·1	31·7
16. Ministry of Fisheries ..	20·6	18·8	1·8	19·2	16·6	2·6	14·6	13·6	1·0
17. Ministry of Housing & Construction ..	7·0	7·0	—	42·3	33·5	8·8	58·6	34·4	24·1
18. Ministry of Posts & Telecommunications ..	17·5	9·2	8·3	16·9	9·4	7·5	20·9	6·9	14·0
19. Ministry of Health ..	17·0	11·6	5·4	13·9	12·3	1·6	12·2	7·6	4·6
20. Ministry of Information & Broadcasting ..	9·7	5·4	4·3	10·1	7·8	2·3	19·2	7·9	11·3
21. Ministry of Social Services ..	0·5	0·3	0·2	0·7	0·2	0·5	0·5	0·2	0·3
22. Ministry of Cultural Affairs ..	2·3	1·8	0·5	2·2	1·6	0·6	2·0	1·6	0·4
23. Ministry of Parliamentary Affairs & Sports ..	—	—	—	0·5	0·4	0·1	0·5	0·4	0·1
24. Ministry of Constitutional Affairs ..	—	—	—	0·1	—	0·1	—	—	—
Total ..	994·5	852·0	142·5	964·2	812·0	152·2	1264·8	809·8*(c)*	455·0

Source: Central Bank of Ceylon

(a) For purposes of comparison, figures for 1968/69 and 1969/70 have been re-classified 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 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 previous year.

(c) Includes a sum of Rs. 30·9 million, being refund of FEECs payments to certain corporations, which has been shown under recurrent votes in the Government Accounts.

The main reason for the high under-expenditure in the majority of ministries in 1970/71 was the setback their capital programmes suffered as a result of the insurgency. It will be observed that the preponderant portion (69 per cent) of the under-expenditure in 1970/71 has occurred in the votes of the Ministries of Planning and Employment, and Irrigation, Power and Highways. The Ministries of Industries and Scientific Affairs, Agriculture and Lands, Housing and Construction, Posts and Telecommunications and Information and Broadcasting, too, recorded noticeable amounts of under-expenditure. Out of its total provision of Rs. 210 million, the Ministry of Planning and Employment has spent only a sum of Rs. 18 million. Thus, almost nine-tenths of the provisions of this Ministry remained unspent at the end of the financial year. The under-expenditure of this Ministry in 1969/70 was 31 per cent. The very high under-expenditure of the Ministry of Planning in 1970/71 was due to the low level of expenditure in respect of the "Short-term Employment Programme". The actual expenditure incurred under this Programme was only Rs. 16 million as against the total provision of Rs. 208 million. The virtual non - implementation of the employment programme was primarily due to the disturbed conditions in the country during the year. The under-expenditure of Rs. 119 million, or 35 per cent, recorded by the Ministry of Irrigation, Power and Highways shows a marked increase over that of 1968/69 and 1969/70, when they were 23 per cent and 12 per cent respectively. This is mainly due to reduced expenditures on the provisions made for capital expenditures in respect of economic development falling under "Vote No. 7" of the various departments of this Ministry. The re-organization of the technical services of the Ministry of Irrigation, Power and Highways, which involved the setting up of the territorial engineering service and the setback received as a result of the insurgency, broadly explain this high under-expenditure. The Ministries of Industries and Scientific Affairs and Agriculture and Lands show under-expenditure of Rs. 33 million (or 25 per cent) and Rs. 32 million (or 23 per cent) respectively. In contrast, the actual expenditure of the Ministry of Industries and Scientific Affairs exceeded the original provisions by 12 per cent in 1969/70. The Ministry of Agriculture and Lands, however, had recorded under-expenditures of 16 per cent in 1969/70. The under-expenditure by the Ministries of Housing and Construction, Posts and Telecommunications and Information and Broadcasting in 1970/71 amounted to Rs. 24 million or 41 per cent, Rs. 14 million or 67 per cent and Rs. 11 million or 58 per cent, respectively, whereas in 1969/70 they stood at 21 per cent, 44 per cent and 23 per cent respectively. In 1968/69, the under-expenditures by the Ministry of Posts and Telecommunications was 47 per cent and that of the Ministry of Information and Broadcasting was 44 per cent, while the Ministry of Housing and Construction was able to spend its allocations in full.

It will also be observed that the only Ministry where actual expenditure exceeded the provision was the Ministry of Defence and External Affairs. The actual capital expenditure of this Ministry has exceeded the total provision of Rs. 63 million by Rs.8 million. This is hardly surprising in view of the fact that it was one of the Ministries that felt the direct expenditure impact of the insurgency.

6. ADVANCE ACCOUNTS

Government's operations on "Advance Accounts"[1] in the financial year 1970/71 resulted in a total net payment of Rs. 108 million, comprising net payments of Rs. 73 million under the Ceylon/China trade account, Rs. 26 million to Government Departments, Corporations and Public Officers, Rs. 9 million for stores and Rs. 2million for miscellaneous payments. The net payment in 1969/70 was a record Rs. 201 million, consisting of payments of Rs. 125 million to Government Departments, Corporations and Public Officers, 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 reduced payments of Rs. 93 million in 1970/71 over that of 1969/70 was brought about by decreases of Rs. 99 million in payments to Government departments etc., and Rs. 13 million for stores, partly offset by an increased payment of Rs. 17 million under the Ceylon/China trade account and an increase in miscellaneous payments of Rs. 2 million. The payment of Rs. 73 million under the Ceylon/China trade account, against an outstanding balance of Rs. 54 million in favour of the People's Republic of China, under this trade agreement, resulted in a balance of Rs. 19 million in favour of Ceylon as at end of September 1971. The net payment of Rs. 26 million to Government Departments etc., was mainly due to the out-payments of Rs. 38 million to the Ceylon Transport Board, Rs. 18 million to the Ceylon State Engineering Corporation and Rs. 15 million to the Railway, partly offset by a receipt of Rs. 45 million on account of food supplies.

7. THE DEFICIT AND ITS FINANCING

The original Budget estimates of the Government for 1970/71 anticipated a net cash deficit of Rs 932 million. The final budgetary outturn, however, resulted in a higher deficit of Rs 1,083 million (provisional) as compared with the deficit of Rs 936 million in the previous financial year. In recent years, there has been a trend towards progressively increasing net cash deficits. The reasons for this have been analysed in the earlier sections. The increases in the net cash deficit during 1969/70 and the year under review have been particularly high.

It will be observed that the net cash deficit in 1970/71 has increased by Rs 147 million over that of the previous financial year. This was the combined effect of an increase of Rs 322 million in recurrent expenditure, partly offset by an increase of Rs 79 million in revenue receipts and by decreased expenditures of Rs 93 million and Rs 2 million on advance account operations and capital expenditure, respectively.

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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 easily be ascertained in advance, it is useful 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 net results of an activity can be reasonably forecast, however, the surplus or deficit of such activity is voted in the estimates ,e. g., the Net Food Subsidy.

The net cash deficit for 1970/71. also exceeded the original estimates for that year by Rs 153 million. This was due to the combined effect of the increases of Rs 141 million in recurrent expenditure, a net payment of Rs 108 million in advance account activities not originally envisaged in the Budget, and a shortfall of Rs 63 million in revenue receipts, partly offset by a decrease of Rs 159 million in capital expenditure.

The net cash deficit for the current financial year, 1971/72, estimated at Rs 1,131 million for a 12 months period (Rs 1,414 million for 15 months) shows an increase of Rs 48 million over that of 1970/71. Though, for the 12 months period of 1971/72, the revenue is expected to increase by Rs 341 million and the advance account operations to result in a decrease of Rs 8 million, it is anticipated that recurrent and capital expenditures would rise by Rs 258 million and Rs 139 million respectively, and thereby increase the net cash deficit by Rs 48 million.

Financing of the deficit

Table II (F) 10 presents data in respect of sources of finance and the expansionary impact of the net cash deficit for the years 1967/68 to 1970/71 together with the relevant original estimates for the current year 1971/72.

It will be seen that in 1970/71 the net cash deficit of Rs 1,083 million was financed by borrowing Rs 479 million from domestic non-bank market sources; Rs 141 million from domestic non-market sources; Rs 107 million from domestic bank sources and by obtaining Rs 234 million of foreign assistance. To supplement these resources the cash balances (including foreign aid counterpart funds) were reduced by Rs 123 million.[1]

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1. According to the provisional Balance Sheet of the Government (vide Statement of Assets and Liabilities) the cash balances of the Government at the beginning and end of the financial year were Rs. 29·4 million and Rs. 32·7 million respectively. They thus increased by Rs. 3.3 million over the year. On the other hand, whereas the opening balance of the Central Bank Foreign Aid Counterpart Funds (Commodities) was Rs. 13·6 million, the closing balance showed an overdrawn position of Rs. 112·8 million. Hence, this Fund would appear to have been reduced by Rs. 126.4 million over the year. The combined effect of these two operations would therefore amount to drawing down of cash balances to the extent of Rs. 123·1 million. The overdrawn position in the Central Bank Foreign Aid Counterpart Funds as in the Balance Sheet has arisen because the opening balance plus the receipts of Rs. 245·6 million during the course of the financial year, were insufficient to meet Rs. 372·1 million withdrawals made for budgetary purposes from the Fund.

   The actual cash position in the Foreign Aid Counterpart Fund account as maintained by the Central Bank, however, showed a favourable negligible balance as at end of September 1971 in contrast to the overdrawn position of Rs. 112·8 million shown in the Government Balance Sheet. This discrepancy has arisen on account of lags in recording the commodity aid receipts in the accounts of the Foreign Aid Counterpart Fund as shown in the Government Balance Sheet. Such receipts to this Fund are shown in Government Accounts on the basis of records maintained by the Registrar of Public Debt, whereas the actual cash proceeds of commodity aid receipts are more promptly recorded in the accounts of this Fund maintained by the Central Bank. The time lag in recording receipts of non-project (commodity) aid by the Public Debt Department arises essentially because recording of such receipts is done only after receipt of confirmation from the donor Government.

   If, therefore, the overdrawn amount of Rs. 112·8 million is treated as un-recorded receipts of non-project (commodity) aid for the year under review, the combined effect of these operations on cash balances and on the Central Bank Foreign Aid Counterpart Fund would result in such funds being drawn to the extent of only Rs. 10·2 million (an increase in cash balances of Rs. 3·4 million and a decrease in counterpart funds of Rs. 13·6 million.)

TABLE II (F) 10

Financing of the Net Cash Deficit – 1967/68 to 1971/72(a)

Rupees Million

Sources	1967/68(b)			1968/69(b)			1969/70			1970/71 Actual (Provisional)			1971/72 Original Estimates: 12 months period*	1971/72 Original Estimates: 15 months period
1. Foreign Finance														
(a) Project loans (gross) ..	38·8			93·9			53·3			141·1(d)				
Less contributions to sinking funds and repayments ..	47·8	– 9·0		47·0	46·9		72·5	– 19·2		82·8	58·3			
(b) Non-Project (Commodity) loans (gross) ..	178·9			312·2			229·1			169·0				
Less repayments ..	8·7	170·2		25·0	287·2		46·5	182·6		52·8	116·2			
(c) Grants ..		29·0	190·2		19·5	353·6		62·8	226·2		59·9	234·4	395·8	493·6
2. Domestic non-market borrowing ..			9·8			52·2			15·5			140·5	—	—
3. Domestic market borrowing from the banking system (c)														
(a) Central Bank ..		302·1			114·9			376·4			– 160·9			
(b) Commercial banks ..		1·4	303·5		– 46·8	68·1		77·1	453·5		267·7	106·8	356·8	446·0
4. Domestic market borrowing from non-bank sources														
Gross amount borrowed ..		324·0			287·8			359·2			585·9			
Less contributions to sinking funds .		75·7	248·3		85·3	202·5		93·2	266·0		107·4	478·5	379·6	474·4
5. Decline in cash balances and foreign aid counterpart funds														
(a) Cash balances ..		– 48·4			62·9			– 30·6			– 3·3			
(b) Foreign aid counterpart funds (gross credits) ..	– 187·7(e)			– 318·7(e)			– 268·4(e)			–245·6				
Less amount used for budgetary purposes ..	200·0	12·3	– 36·1	367·0	48·3	111·2	273·4	5·0	– 25·6	372·1	126·4	123·1(f)	—	—
6. Net cash deficit ..			715·7			787·6			935·6			1083·3	1,131·2	1,414·0
7. Decline in U.S. aid counterpart funds ..			—			– 0·3			...			1·4	—	—
8. Net expansionary impact of Government fiscal operations (3+5+7) ..			267·4			179·0			427·9			231·3(f)	356·8	446·0

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. 122·3 million, Rs. 100·7 million and Rs. 92·4 million at the end of September 1967, 1968 and 1969 respectively.

(d) Includes a cash loan of Rs. 100 million from the People's Republic of China.

(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 form of commodities were also credited to the counterpart funds.

(f) Please see foot-note at page 155.

* On a *pro-rata* basis.

In 1971/72 (15 months) the estimated net cash deficit of Rs 1414 million is to be financed by Rs 494 million of foreign finance and by mobilising Rs 474 million from the domestic non-bank market sources. An unbridged gap of Rs 446 million would result in borrowing from the banking system (including the Rs 161 million of such borrowings anticipated in the Budget Speech) of the same magnitude, if further measures to raise additional resources are not implemented during 1971/72.

The net expansionary impact of Government's fiscal operations in 1970/71 amounted to Rs 231 million. However, when allowance is made for the delay in recording receipts of non-project (commodity) aid, the actual expansionary impact will amount, at a maximum, to only Rs. 118 million. It was considerably lower (by Rs 197 million) than the impact in 1969/70, although the net cash deficit increased in magnitude during the year under review. The net receipts of foreign assistance in 1970/71 showed only a slight increase over 1969/70,[1] while resources mobilised from domestic non-bank market sources increased substantially by Rs 213 million. Administrative borrowings of Rs. 141 million showed a considerable increase of Rs 125 million over 1969/70. Allowing for the heavy drawing down of cash balances (including foreign aid counterpart funds), it is clear that domestic non-bank market borrowings and administrative borrowings helped to limit the extent of bank borrowing in 1970/71 to a modest Rs 106 million.

The ratio of expansionary component of the total net cash deficit which increased from 22.7 per cent in 1968/69 to 45.7 per cent in1969/70 declined to 21.4 per cent in 1970/71.[2]

In 1970/71 the Government reduced its indebtedness to the Central Bank by Rs 161 million. This consists of a repayment of Rs 163 million on account of Treasury Bills and Rs 2 million in respect of Rupee loans, partly offset by an increase in advances of Rs 4 million. Meanwhile, the Government increased its indebtedness to the commercial banks by Rs. 268 million. This borrowing comprised Rs 251 million in Treasury Bills, Rs 13 million in Tax Reserve Certificates and Rs 4 million in Rupee loans. The net effect of these operations was an increase of Rs 107 million in the liability of the Government to the banking system, in sharp contrast to the increase of Rs 454 million in 1969/70.

The net resources mobilized by the Government from domestic non-bank sources of Rs 479 million in the year is the highest on record in recent years. The borrowing from this source, which showed a moderate increase of Rs 63 million in 1969/70 over that of 1968/69, recorded a very substantial rise of Rs 213 million in 1970/71 over that of the previous year. A detailed analysis of the reasons for this increased support to Government's loan programme from domestic non-bank sources is given in the later sections of this Report.

Table II (F) 11 presents the net contributions (i.e. changes in holdings of Government Securities) of the non-bank investor groups for the last four financial years.

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1. Please see foot-note at page 155.
2. If an adjustment is made on account of the overdrawn cash balance position referred to above, the expansionary component of the net cash deficit would amount to a mere 10.9 per cent in 1970/71.

TABLE II (F) 11

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

Rs. Million

Contributors	1967/68	1968/69	1969/70	1970/71	Increase in 1969/70 over 1968/69	Increase in 1970/71 over 1969/70
1. Savings institutions ..	41·5	0·6	11·0	180·7	10·4	169·7
2. Employees' Provident Fund ..	92·1	101·6	98·0	143·0	- 3·6	45·0
3. Other provident and pension funds ..	30·2	28·6	46·1	44·5	17·5	- 1·6
4. Departmental and other official funds ..	7·0	3·7	5·4	6·9	1·7	1·5
5. Insurance Corporation ..	52·8	42·4	45·5	60·7	3·1	15·2
6. Other insurance funds ..	4·2	3·5	8·8	- 1·8	5·3	-10·6
7. Other state corporations ..	—	—	- 0·7	—	- 0·7	0·7
8. Companies, clubs and institutions ..	- 1·6	5·6	5·6	5·6	—	—
9. Individuals ..	0·1	- 3·2	10·5	2·5	13·7	- 8·0

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.

There has been a general increase in the net contributions of the non-bank investor groups to the Government loan programme in 1970/71, excepting those from private pension funds and insurance companies. The contributions of Government savings institutions, particularly from, the Post Office Savings Bank, increased remarkably in 1970/71. The Employees, Provident Fund too increased its contributions by 50 per cent during the year under review.

Domestic non-market borrowings in 1970/71 amounted to Rs 141 million and helped to finance the deficit to a much greater extent (13 per cent) than in recent years. This is largely accounted for by an increase in deposits of Rs 153 million offset by repayment of administrative borrowings of Rs 29 million.

Total foreign finance available to the Government in the year to meet the fiscal operations amounted to Rs 370 million, consisting of Rs 141 million in project loans, Rs 169 million in non-project (commodity) loans and Rs 60 million in grants. Net of contributions to sinking funds and repayments, foreign finance amounted to Rs 234 million as compared with Rs 226 million in the previous year. During the financial year under review, project loans and non-project (commodity) loans, net of repayments, amounted to Rs 58 million and Rs 116 million, respectively. It should be noted that if the Rs 100 million cash loan from the People's Republic of China, which has been classified as a project loan, were to be excluded, there would have in fact been a net payment of Rs 42 million in respect of project loans. In the previous year there was a net payment of Rs 19 million in respect of project loans.

Loan finance accounted for the major share of foreign finance as in previous years. However, the total amount of grants received was almost the same as in 1969/70 and accounted for 16 per cent of the total foreign finance in the year under review. Net receipts of non-project (commodity) loans which had decreased by Rs 105 million in 1969/70 again registered a decrease of Rs 66 million. These receipts, which financed 24 per cent of the net cash deficit in 1969/70 helped finance only 11 per cent of such deficit in the year under review.

Table II (F) 12 below gives details of net receipts of foreign assistance by type and source in the last seven years.

TABLE II (F) 12

Net Receipts of Foreign Assistance

Rupees Million.

Type and Source	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71 (Provisional)
1. Loans	**75·6**	**76·5**	**189·3**	**161·2**	**334·1**	**202·8a**	**220·6a**
1·01 A.D.B.	—	—	—	—	—	—	9·2
1·02 I.B.R.D.	5·0	-1·2	-0·3	-7·7	-8·4	-9·3	-7·7
1·03 I.D.A.	—	—	—	—	—	4·7	20·1
1·04 Canada	11·4	2·5	8·1	8·6	8·5	6·0	7·5
1·05 People's Republic of China	18·9	9·7	-4·9	-5·5	-5·5	4·8	137·7
1·06 U.K.	-2·3	10·6	49·4	51·9	37·0	38·2	11·4
1·07 U.S.A.	-1·2	23·8	31·0	45·6	177·9	49·8	34·4
1·08 U.S.S.R.	28·8	9·3	-10·0	-8·3	-9·6	-9·2	-7·1
1·09 Federal Republic of Germany	7·4	6·7	66·2	25·0	17·4	29·0	1·5
1·10 Yugoslavia	-0·3	0·8	-1·4	-0·7	-0·8	-0·4	-1·3
1·11 Poland	2·4	0·1	0·1	1·4	-0·6	-0·9	-0·9
1·12 France	5·5	1·6	10·8	22·0	1·6	10·2	1·5
1·13 Japan	—	10·0	31·3	24·0	18·3	13·7	8·2
1·14 India	—	2·6	8·0	-3·4	16·9	23·6	4·7
1·15 German Democratic Republic	—	—	1·1	8·3	79·6	28·3	-9·2
1·16 Denmark	—	—	—	—	1·6	8·0	3·4
1·17 Italy	—	—	—	—	—	6·3	7·2
2. Grants	**24·1**	**41·5**	**19·2**	**29·0**	**19·5**	**62·8**	**59·9**
2·01 Colombo Plan	9·0	25·9	17·5	22·1	1·4	26·2	24·1
2·01·1 Australia	3·9	0·3	4·6	—	0·1	4·8	6·0
2·01·2 Canada	5·1	25·6	12·8	22·1	—	18·7	18·1
2·01·3 Japan	—	—	—	—	—	2·7	—
2·01·4 New Zealand	—	—	0·1	...	1·3	—	—
2·02 Other	**15·1**	**15·6**	**1·7**	**6·8**	**18·2**	**36·6**	**35·7**
2·02·1 United Nations	—	1·0	1·5	6·3	3·1	2·0	5·0
2·02·2 People's Republic of China	15·1	2·5	—	...	...	4·7	7·9
2·02·3 U.S.A.	...	12·1	0·2	0·5	0·8	6·6	4·8
2·02·4 Federal Republic of Germany	...	—	—	—	—	9·7	5·7
2·02·5 Czechoslovakia	—	—	...	—	—	—	—
2·02·6 United Kingdom	—	—	...	...	14·3	13·6	9·4
3. Total of Loans and Grants	**99·7**	**118·0**	**208·6**	**190·2**	**353·6**	**265·6**	**280·5**

Source: Central Bank of Ceylon.

(a) These figures of total loans will not compare with the corresponding figures in Table 31 of Appendix II because the sums of Rs. 39·2 million and Rs. 46·1 million being FEECs. payable on re-payments of foreign loans for the years 1969/70 and 1970/71 respectively have not been taken into account in this Table.

8. PUBLIC DEBT

At the end of September 1971, the gross public debt[1] stood at Rs. 8,783 million (Rs. 8,848 million, if the liability of Government Departments on Suppliers' Credit is added), having recorded an increase of Rs. 910 million in the financial year 1970/71. Of the total gross public debt outstanding, 80 per cent or Rs. 6,983 million was on account of domestic debt while the balance of Rs. 1,800 million comprised borrowing from foreign sources. Net of sinking funds (in respect of both Rupee loans and Sterling loans), the total public debt increased by Rs. 871 million to Rs. 8,108 million.

Details of composition and ownership of this debt as at the end of September of each year are shown in Tables 38 and 39 respectively at Appendix II, and a summary is presented in Table II (F) 13 below.

TABLE II (F) 13

Total Public Debt – 1967 to 1971 (*a*)

As at end of September	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
1. Gross Debt	**5,321.5**	**100·0**	**6,270.8**	**100·0**	**6,888.5**	**100·0**	**7,873.2**	**100·0**	**8,782.8**	**100·0**
1·1 Foreign	739·3	13·9	1,074.3	17·1	1,375.5	20·0	1,578.4	20·1	1,800.1	20·5
1·2 Domestic	4,582.2	86·1	5,196.5	82·9	5,513.0	80·0	6,294.8	79·9	6,982.6	79·5
1. Net Debt(*b*)	**4,782.3**	**100·0**	**5,689.3**	**100·0**	**6,238.9**	**100·0**	**7,236.8**	**100·0**	**8,108.0**	**100·0**
2·1 Foreign	708·0	14·8	1,038.3	18·3	1,337.3	21·4	1,550.9	21·4	1,767.6	21·8
2·2 Domestic	4,074.3	85·2	4,651.0	81·7	4,901.6	78·6	5,685.9	78·6	6,340.4	78·2

Source : Central Bank of Ceylon.

(*a*) Excluding (i) National Housing and State Mortgage Bank Debentures which amounted to Rs. 105·0 million and Rs. 32·3 million respectively, as at end of September, 1971; (ii) Debt of Rs. 64·8 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 1970/71 the increases of Rs. 910 million and Rs. 871 million in gross debt and net debt respectively, were lower when compared with the increases of Rs. 985 million and Rs. 998 million, respectively, recorded in the previous financial year. The increase of Rs. 910 million in gross public debt consisted of Rs. 222 million (24 per cent) in foreign debt and Rs. 688 million (76 per cent) in domestic debt. In the previous financial year, the increases in foreign and domestic debt components of gross debt were in the order of Rs. 203 million (21 per cent) and Rs. 782 million (79 per cent) respectively.

As commented upon in the last year's Annual Report[2] the gross domestic debt had recorded an appreciable increase in 1969/70 (this increase being more than double the increase recorded in 1968/69), while the increase in gross foreign debt in the same year was considerably lower when compared with that of the previous financial year. Yet, the share of foreign debt in gross debt

1. The term "public debt" here refers to the domestic and foreign borrowings of the Government of Ceylon only, excluding therefrom the debt of semi-government institutions such as public corporations and local authorities. Also, a debt amounting to Rs. 65 million as at September 30, 1971, on account of imports by Government Departments under Suppliers' Credit, is not included.
2. Annual Report, 1970. Page 166.

had increased marginally in 1969/70 (from 20.0 per cent to 20.1 per cent). In contrast, in 1970/71, the increase in domestic debt was Rs. 94 million lower while the increase in foreign debt was Rs. 19 million higher than the respective increases recorded in the previous financial year. The share of foreign debt in gross debt in 1970/71 again increased marginally to 20.5 per cent. Thus, there was an increased reliance on external resources during the year under review. It will also be observed that over the period 1966/67 to 1970/71 there had been a steady increase in the foreign debt component of gross debt from 13.9 per cent to 20.5 per cent.

During the financial year 1971/72,[1] the Government intends to raise Rs. 640 million[2] from domestic non-bank sources and Rs. 662 million from foreign sources. The latter figure consists of Rs. 162 million of project loans, Rs. 500 million of non-project (commodity) loans and a cash loan of Rs. 50 million.[3]

Domestic Debt

The gross domestic debt as at the end of the financial year 1970/71 stood at Rs. 6,983 million, having increased by Rs. 688 million (or 11 per cent) over the previous financial year. The composition of domestic debt and the changes therein as at the end of last five financial years are shown in Table II (F) 14 below.

TABLE II (F) 14

Composition of Domestic Public Debt and Changes – 1966 to 1971

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
1971 ..	4,511·9	642·2	3,869·6	2,025·0	66·0	379·5	0·2	6,982·6	6,340.4
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
Change 1971/70 ..	+587·0	+ 33·3	+553·6	+ 75·0	+20·6	+ 5·1	+0·1	+687·8	+654.5

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. 92·0 million and Rs. 93·2 million at the end of September, 1970 and 1971 respectively, the Central Bank advances increased by Rs. 3·9 million in 1970/71. 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 1970 amounted to Rs. 58,828 and increased to Rs. 216,894 at the end of September 1971.

1. From October 1, 1971 to December 31, 1972.
2. Including compulsory savings amounting to Rs. 40 million.
3. The spill-over from the loan of Rs. 150 million from People's Republic of China, negotiated during the financial year 1970/71.

The increase of Rs. 688 million in gross domestic debt consisted of increases of Rs. 587 million in Rupee loans, Rs. 75 million in Treasury Bills, Rs. 21 million in Tax Reserve Certificates, Rs. 5 million in Central Bank Advances and a marginal increase in National Development Bonds. In the previous year, there was an increase of Rs. 782 million which was the combined effect of 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.

During the year under review, the share of Rupee Securities in the gross domestic debt outstanding increased from 62 per cent to 65 per cent, while the share of Treasury Bills decreased from 31 per cent to 29 per cent. There were only marginal changes in the respective shares of Central Bank Advances, Tax Reserve Certificates and National Development Bonds.

A noteworthy feature of Government domestic borrowing in recent years is the increased reliance on Rupee loans for Government finance from domestic sources. The share of Rupee Securities in gross domestic debt outstanding has increased steadily over the period 1965/66 to 1970/71 from 59 per cent to 65 per cent. During the year under review, such borrowing amounted to 85 per cent of gross domestic borrowing. The amount mobilised through the issue of Treasury Bills recorded a fall of Rs 125 million over the increase in the previous year, contributing principally to the smaller increase in gross domestic debt in 1970/71 over that of the previous year. Tax Reserve Certificates, which during 1969/70 brought in an exceptionally large sum (Rs. 20.9 million) when compared with previous years, contributed an almost equivalent amount in 1970/71.

The maturity pattern of gross domestic debt as at end of September, 1971 with corresponding data for the four previous financial years is shown in Table II (F) 15.

In 1970/71, the share of domestic funded debt (consisting entirely of Rupee Securities) in total domestic debt increased by 3 percentage points, while the share of unfunded debt (consisting mainly of Treasury Bills) declined by the same magnitude. There has been a gradual decline in the share of unfunded debt – it declined from 39 per cent as at end of September, 1967 to 35 per cent as at end of September 1971. The changes in the composition of domestic debt which mainly account for this have been mentioned earlier. In terms of broad magnitudes, however, the ratio of unfunded debt to funded debt continued to be approximately at 2:3 as in the preceding four financial years.

In 1970/71, almost the entirety of loans floated were of 10 to 12 year maturity.[1] The share of the group of securities of 10 to 15 year maturity, thus increased markedly to 19.4 per cent as at end of September, 1971 from only 8.5 per cent as at the end of the previous financial year. The shares of securities maturing in the next five years and in 20 to 25 years declined from 8 per cent and 23 per cent respectively as at end of September, 1970 to 6 per cent and 17 per cent respectively as at end of financial year 1970/71. Though the shift in the maturity pattern from long-term loans to

1. A 9 per cent Conversion loan of 5 to 7 year maturity was also floated during 1970/71.

TABLE II (F) 15

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

Years to Maturity	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
1. Unfunded debt *(a)* ..	**1,797·3**	**39·2**	**2,078·6**	**40·0**	**2,103·8**	**38·2**	**2,369·9**	**37·6**	**2,470·6**	**35·4**
2. Funded debt *(b)* ..	**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 ..	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 ..	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	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 ..	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 ..	1,356·8	29·6	1,501·0	28·9	1,595·9	29·0	1,468·5	23·3	1,151·4	16·5
3. Total	**4,582·1**	**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.

medium-term loans during 1970/71 has corrected the uneven distribution as between these two categories of loans, scope for spreading the debt repayment burden more evenly through the floatation of short-term loans still appears to exist.

(a) Rupee Securities

In 1970/71, thirteen Rupee loans were floated. Of these, three were Conversion loans. Each of the ten cash issues were of 10–12 year duration and carried an interest rate of 9 per cent per annum. The aggregate sum raised through Rupee loans was Rs. 681 million, of which Conversion loans accounted for Rs. 86 million. This compares with Rs. 579 million raised in 1969/70, of which Rs. 27 million was raised through Conversion loans.

Details of subscriptions to each Rupee loan floated in 1970/71 are given in Table 41 of Appendix II. Table II (F) 16 below summarises the subscriptions to Rupee loans floated in the last four financial years.

TABLE II (F) 16

Classification of Subscriptions to Rupee Securities *(a)*

Subscribers	1967/68		1968/69		1969/70		1970/71	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Bank Sector ..	**0·8**	**0·2**	**0·6**	**0·2**	**117·5**	**20·3**	**12·7**	**1·9**
1·1 Commercial banks ..	0·8	0·2	0·6	0·2	117·5	20·3	12·7	1·9
2. Non-Bank Sector ..	**358·9**	**99·7**	**339·4**	**99·8**	**461·7**	**79·7**	**668·1**	**98·1**
2·1 Savings institutions ..	48·8	13·6	36·0	10·6	156·1	26·9	216·0	31·7
2·2 Sinking funds ..	114·1	31·7	111·8	32·9	83·0	14·3	161·8	23·8
2·3 Departmental and other official funds	9·5	2·6	8·4	2·5	6·2	1·1	9·4	1·4
2·4 Employees' Provident Fund ..	92·4	25·7	101·3	29·8	97·9	16·9	143·0	21·0
2·5 Insurance Corporation	53·2	14·8	42·5	12·5	45·5	7·9	60·8	8·9
2·6 Private provident and pension funds ..	29·2	8·1	36·8	10·8	53·9	9·3	62·1	9·1
2·7 Insurance companies	4·4	1·2	0·6	0·2	16·1	2·8	6·3	0·9
2·8 Other companies ..	0·8	0·2	0·2	0·1	0·6	0·1	0·8	0·1
2·9 Individuals, clubs and institutions ..	6·6	1·8	1·5	0·4	2·5	0·4	7·9	1·2
3. Total ..	**359·7**	**100·0**	**340·0**	**100·0**	**579·2**	**100·0**	**680·7**	**100·0**

(a) Refers to Rupee loans only. *Source:* Central Bank of Ceylon.

It will be seen that the resources mobilised by the Government by way of Rupee loans have increased substantially since 1968/69. This progressive increase in the flow of funds from domestic sources was due mainly to the increased support received from the non-bank sector and, in particular, from savings institutions,[1] sinking funds, Employees' Provident Fund, Insurance Corporation of

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

Ceylon, private provident and pension funds. The non-bank private sector,[1] too, has progressively increased its intake of Government Securities. Meanwhile, the bank sector has markedly reduced its intake of Government Securities since 1967/68. The contributions of this sector, which had dropped to less than Rs. 1 million in 1967/68 and in 1968/69, increased to Rs. 118 million in 1969/70. This contribution by the banking system in 1969/70, however, was directly linked to the settlement by the Government, in the same year, of the outstanding food (imports) bills amounting to Rs. 125 million. In 1970/71, the contributions from commercial banks formed only 2 per cent of the total subscriptions to Rupee Securities.

The main avenues of funds for contributions to Government Securities in the past were the Government and semi-government sources comprising the savings institutions, Insurance Corporation of Ceylon, sinking funds, official funds and the Employees' Provident Fund. This sector which accounted for 88 per cent of the contributions to Rupee securities in each of the financial years 1967/68 and 1968/69, reduced its intake to 66 per cent in 1969/70, but increased it again to 87 per cent in 1970/71. The magnitude of these shares shows the heavy dependence of the performance of the Government loan programme on this sector.

In 1970/71, the major contributors to Rupee Securities were savings institutions (Rs. 216 million or 32 per cent), sinking funds (Rs. 162 million or 24 per cent), Employees' Provident Fund (Rs. 143 million or 21 per cent), the Insurance Corporation of Ceylon (Rs. 61 million or 9 per cent) and private pension and provident funds (Rs. 61 million or 9 per cent). The increased support from the Government and semi-government institutions to Rupee Securities in 1970/71, in the main, stems directly and indirectly from certain measures proposed in the Budget for 1970/71 and implemented thereafter. These were the demonetisation of Rs. 100 and Rs. 50 notes, the proposal to increase the rate of interest on Government loans, and the increase in the rates of contributions and extension of coverage in respect of the Employees' Provident Fund.

The contributions of savings institutions (comprising the Post Office Savings Bank, Ceylon Savings Bank and Savings Certificates' Fund) which reached an all-time high in 1969/70, attained a new record level of Rs. 216 million in 1970/71. Of this, Rs. 128 million was from the Post Office Savings Bank (P. O. S. B.) while Rs. 88 million came from the Ceylon Savings Bank (C. S. B.) After the demonetisation exercise of October/November 1970, the deposits held with the P. O. S. B. recorded a substantial increase (about Rs. 81 million in October and November) and the bulk of these deposits has been channelled into the Government loan programme. The new rates of interest offered to the depositors may also have been instrumental in maintaining deposits of the P. O. S. B. at a high level. Of the contributions from the C. S. B., Rs 33 million was re-investment consequent to the sale of low yeilding Rupee stock by the C. S. B. to the Central

1. Comprising private provident and pension funds, insurance and other companies, individuals, clubs and institutions.

Bank. The bulk of the balance investment may be attributable to the increase in deposits held by the C. S. B. for which the demonetisation and higher interest rates may have, in turn, contributed in a large way.

The next largest contributor to the Rupee Securities in 1970/71 was the Sinking Funds. The investment capacity of Sinking Funds is purely determined by liquidity considerations; prevailing interest rates have no bearing on their investment programmes. The conversion of the 3 per cent National Development Loan 1965/70 (face value Rs. 64.8 million) enabled the Sinking Funds, which had been building up its stock of Treasury Bills during the latter part of 1969/70 to facilitate encashment of this maturing stock, to shift a major portion of its investments from Treasury Bills to Rupee loans in 1970/71. Moreover, the shortening of the terms of the loans from 21-25 years to 10-12 years has resulted in an increase in the rate of Sinking Funds contributions (from an annual contribution of 2¾ per cent for a 21-25 years stock to 5 per cent for a 10-12 years stock); this, together with higher interest rates earned, had widened the investment capacity of Sinking Funds.

The contributions of the Employees' Provident Fund were also significantly higher in 1970/71 (Rs. 143 million as compared with Rs. 98 million in 1969/70). The higher subscription of the E. P. F. was primarily the result of the increase, with effect from January 1971, in the rates of contribution of employees (from 4 per cent to 6 per cent) and employers (from 6 per cent to 9 per cent). The current bond rate appears to be the prime factor responsible for the significant increase (from Rs. 46 million in 1969/70 to Rs. 61 million in 1970/71) in contributions from the Insurance Corporation of Ceylon.

Subscriptions by the non-bank private sector rose from Rs. 39 million in 1968/69 to Rs. 73 million in 1969/70 and Rs. 77 million in 1970/71. These enhanced receipts from the private sector (an increase of Rs. 38 million since 1968/69) could be attributed primarily to the competitiveness of the Government paper vis-a-vis other forms of investment—this being mainly due, inturn, to the increase in the rate of interest and the shortening of the period of maturity. The increase in investible funds of the private provident funds, consequent to the enhancement of the rates of E. P. F. contributions of employers and employees, together with the uncertainty prevalent in the private share market, may also have helped to increase the attraction of the Government bond market to the private sector. In the non-bank sector, the contributions from insurance companies, however, registered a fall of Rs. 10 million over 1969/70. This is to be explained by the fact that insurance companies faced with the gradual decline in their investible funds are primarily guided by liquidity considerations and the fact that prevailing interest rates have little bearing on their investment policy.

A classification of ownership of Rupee Securities at the end of the financial year 1970/71 together with comparative data for the previous four financial years are given in Table II (F) 17.

TABLE II (F) 17

Ownership of Rupee Securities(a) – As at the end of financial years 1966/67 to 1970/71

Rupees Million

Owners	1966/67	1967/68	1968/69	1969/70	1970/71
1. Bank Sector	**281·2**	**328·8**	**367·0**	**586·0**	**588·2**
1.1 Central Bank	7·4	70·0	111·8	249·0	247·5
1.2 Commercial banks	273·7	258·8	255·3	337·0	340·7
2. Non – Bank Sector	**2,503·6**	**2,789·0**	**3,042·0**	**3,338·9**	**3,923·7**
2.1 Savings institutions	600·5	641·2	641·7	651·5	832·6
2.2 Sinking funds	474·2	532·3	614·1	696·2	846·9
2.3 Departmental and other official funds	140·0	147·1	150·8	156·2	163·2
2.4 Employees' Provident Fund	519·8	612·1	713·5	811·4	954·4
2.5 Other provident funds	364·3	394·5	423·2	469·3	513·1
2.6 Insurance Corporation	181·6	234·5	276·9	322·4	383·1
2.7 Insurance companies	136·5	140·7	139·0	149·8	145·5
2.8 Other state corporations	2·9	2·9	2·9	2·2	2·2
2.9 Others (b)	83·8	83·7	79·8	79·8	82·7
3. Total	**2,784·8**	**3,117·9**	**3,409·1**	**3,924·9**	**4,511·9**

Source: Central Bank of Ceylon.

(a) Refers to Rupee loans only.

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

The total amount of Government Securities held by the public increased in 1970/71 by Rs. 587 million (or 15 per cent) to Rs. 4512 million. This increase was almost entirely due to the increase in the holdings of the non-bank sector; the increase in the holdings of the banking sector being only Rs. 2 million.

The increase in the banking sector was due to an increase of Rs. 4 million in holdings by commercial banks partly offset by a decline of Rs. 2 million in Central Bank's holdings. During 1970/71, the Central Bank purchased securities amounting to Rs. 33 million from the Ceylon Savings Bank (which was more than offset by stocks which matured in the course of the year) 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 the Government's Rupee loan programme.

The non-bank sector increased its holdings by Rs. 585 million. Chiefly responsible for this very high increase were Savings Institutions, Sinking Funds and Employees' Provident Fund which recorded increases of Rs. 181 million, Rs. 151 million and Rs. 143 million respectively. Since 1968/69 the Employees' Provident Fund has held the highest amount of Rupee Securities which in 1970/71 amounted to Rs. 954 million. Closely following behind were Savings Institutions and Sinking Funds which had to their credit securities worth Rs. 833 million and Rs. 847 million respectively, as at the end of the financial year 1970/71.

(b) Treasury Bills

The amount of Treasury Bills issued and outstanding as at end of September, 1971 stood at Rs. 2,025 million, recording an increase of Rs. 75 million during the year 1970/71. The authorised limit of Treasury Bills, which was raised to Rs. 2,050 million on September 25, 1970 by a resolution of Parliament, remained unchanged during the year under review.

Particulars of Treasury Bill issues are given at Table 42 of Appendix II. A classification of the ownership of Treasury Bills at the end of the financial year 1970/71 together with comparable data for the previous four financial years is given in Table II (F) 18 below.

TABLE II (F) 18

Ownership of Treasury Bills - As at the end of financial years 1966/67 - 1970/71

Rupees Million.

Owners	1966/67	1967/68	1968/69	1969/70	1970/71
1. Bank Sector ..	**1,456·7**	**1,682·2**	**1,691·4**	**1,880·3**	**1,969·6**
1·1 Central Bank ..	1,377·2	1,586·3	1,637·3	1,833·8	1,670·5
1·2 Commercial Banks ..	79·5	95·9	54·1	46·5	299·1
2. Non-Bank Sector ..	**43·3**	**67·8**	**58·6**	**69·7**	**55·4**
2·1 Sinking funds ..	36·6	60·3	41·4	55·3	40·8
2·2 Employees' Provident Fund ..	0·3	—	0·3	0·3	0·3
2·3 Other provident funds ..	0·1	0·1	...	...	0·8
2·4 Savings institutions ..	0·2	1·1	1·3	2·4	2·0
2·5 Insurance companies ..	6·0	6·0	11·2	8·9	11·4
2·6 Other (a) ..	0·1	0·3	4·5	2·8	0·2
3. Total	**1,500·0**	**1,750·0**	**1,750·0**	**1,950·0**	**2,025·0**

Source: Central Bank of Ceylon.

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

The increase of Rs. 75 million in the Treasury Bill issues was accounted for by the bank sector which increased its holdings by Rs. 89 million and the non-bank sector which reduced its holdings by Rs. 14 million. Within the banking sector, the commercial banks increased their ownership by Rs. 253 million while the Central Bank decreased its holdings by Rs. 163 million. The heavy purchases of Treasury Bills by the commercial banks were made out of funds received by them consequent on the demonetisation exercise in October, 1970. Nevertheless, the Treasury Bill Market continues to rely mainly on the Central Bank. Central Bank's holdings of Treasury Bills were 83 per cent of the total amount outstanding as at end of September, 1971.

The decline in holdings by the non-bank sector was almost totally due to the fall in holdings by the Sinking funds. Small increases were, however, registered by private provident funds and insurance companies.

The Treasury Bill rate which stood at 4.76 per cent per annum at the commencement of the financial year under review, increased to 4.798 per cent with effect from June 15, 1971. Subsequently, the Treasury Bill rate increased to 5 per cent on July 1, 1971 and has remained almost unchanged, until the end of the financial year.[1] The Central Bank's support for Treasury Bills was at 3.24 per cent per annum throughout the financial year under review.

(c) Tax Reserve Certificates

Of the authorised issue of Rs. 450 million, Tax Reserve Certificates amounting to Rs. 413 million have been issued upto the end of September, 1971 and the amount of Certificates not surrendered as at that date was Rs. 66 million. The amount unsurrendered at the end of the previous financial year was Rs. 45 million. Hence, there was an increase of Rs. 21 million in this type of debt obligation, equalling the increase in the previous financial year. The unsurrendered amount as at the end of 1970/71 is the highest ever recorded since the commencement of issues of Tax Reserve Certificates in 1957.

There was no change in the interest rate of 3 per cent on Tax Reserve Certificates during 1970/71. This rate came into effect on March 31, 1970.

(d) Central Bank Advances

Central Bank Advances to Government[2] in the financial year increased by Rs. 5 million as compared with an increase of Rs. 45 million in 1969/70. The advances during 1970/71 included a special loan amounting to Rs. 1.2 million granted by the Central Bank towards payment of Ceylon's quota subscriptions to the International Monetary Fund.

At the end of September, 1971 Central Bank Advances to Government amounted to Rs. 380 million as compared with Rs. 374 million at the end of the previous financial year. Special loans granted by the Central Bank for payment of Ceylon's membership subscriptions to international financial organizations amounted to Rs. 93 million at the end of 1970/71 and Rs. 92 million at the end of the previous financial year.

Foreign Debt

The total foreign debt (gross)[3] outstanding at the end of September, 1971 amounted to Rs. 1,800 million. The increase in gross foreign debt in the financial year 1970/71 amounted to Rs. 222 million. In comparison, the increase in gross foreign debt in the previous year was Rs. 188 million.[4]

Foreign loans utilized in the financial year 1970/71 amounted to Rs. 310 million, of which Rs. 141 million[5] (or 46 per cent) was by way of project loans and Rs. 169 million (or 54 per cent) by way of non-project (commodity) loans.

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1. An intermediate issue on August 25, 1971 was floated at 4·984 per cent.
2. Under Section 89 of the Monetary Law Act.
3. i. e. Net of repayments but before deducting contributions to Sterling Loan Sinking Fund.
4. Excludes the effect of revaluation of Deutsche Mark on October 26, 1969 which increased the external debt by Rs. 15 million.
5. Includes a cash loan of Rs. 100 million from the People's Republic of China, classified as a project loan by the Department of Public Debt, Central Bank.

However, when allowance is made for the cash loan of Rs. 100 million from People's Republic of China, the amount of project loans utilized would be reduced to Rs. 41 million. The resources obtained in the previous year by way of project loans and non-project (commodity) loans amounted to Rs. 61 million (or 22 per cent) and Rs. 221 million (or 78 per cent) respectively.

The increased utilization of foreign resources in the year under review was greatly facilitated by the receipt of the cash loan from the People's Republic of China. Net of this cash loan, the utilization of both project and non-project (commodity) loans would have been less in 1970/71 when compared with the previous financial year. The unsettled conditions in the country may partly account for the decreased utilization of project aid during the financial year under review.

Foreign finance has been, in recent years, an important source of budgetary finance. Table II (F) 19 below shows the original estimates, i. e. as estimated in the Budget for the financial year, and the actuals in respect of receipts of foreign finance since 1965/66.

TABLE II (F) 19

Original Estimates and Actual Receipts of Foreign Finance

Rupees Million

Type of Aid	1965/66		1966/67		1967/68		1968/69		1969/70		1970/71	
	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual
Project Aid inclusive of Grants ..	175·0	118·7	125·0	61·7	125·0	67·0	213·0	113·4	176·8	116·1	111·3	201·0*
Non-Project (Commodity) Aid ..	—	35·2	150·0	193·9	150·0	178·9	263·0	312·2	325·0	229·1	525·0	169·0

Source: Central Bank of Ceylon.

*Includes Rs. 100 million cash loan by the People's Republic of China.

It will be seen that the budgetary utilization of external resources (inclusive of grants) increased from Rs.154 million in 1965/66 to Rs. 426 million in 1968/69. Though the utilization in the subsequent two years was less than the peak reached in 1968/69, it was still Rs. 370 million in 1970/71. As mentioned earlier, receipts of non-project (commodity) aid, in particular, have helped to finance the budget deficit on an increasing scale since 1965/66 when they first entered the budgetary picture as a source of finance. Such receipts have, however, fallen short of the expectations of the Budgets during the last two financial years—the shortfall being very marked in 1970/71. The actual use of project aid (including grants) has consistently fallen short of the budgetary expectations.[1] This consistent shortfall in project aid could well be due to both initial procedural delays and delays in implementation of projects. A more accurate forecasting of potential receipts of foreign finance and their utilization for budgetary purposes, however, appears desirable.

1. The inclusion of the cash loan of Rs. 100 million as a project loan in 1970/71 has, however, made the actual receipts exceed the originally estimated receipts in 1970/71.

The repayments of foreign loans in 1970/71 amounted to Rs. 88 million of which Rs. 53 million (or 60 per cent) was in respect of project loans and Rs. 36 million (or 40 per cent) in respect of non-project (commodity) loans. Net of repayments, the gross external debt increased by Rs. 222 million. Taking into account an increase of Rs. 5 million in Sterling Loan Sinking Fund, the net external liability increased by Rs. 217 million. In the previous year, external borrowings less repayments amounted to Rs. 188 million. In 1969/70, when account is taken of a depreciation of Rs. 11 million in Sterling Loan Sinking Fund and the effect of revaluation of the Deutsche Mark (which increased the external debt by Rs. 15 million) the net external liability recorded an increase of Rs. 214 million.

The details of withdrawals, repayments and liabilities on account of sterling, project and non-project loans are given in Table II (F) 20 below.

TABLE II (F) 20

Foreign Loans

Rupees Million

Types and Sources	Withdrawals in 1970/71	Repayments in 1970/71	Increase in 1970/71	Liability as at September 30, 1971
1. Sterling Loans	–	–	–	**71·4*(a)***
2. Project Loans	**141·1**	**52·7**	**88·3**	**609·9**
2·01 I.B.R.D.	0·9	8·6	–7·8	139·0
2·02 German Democratic Republic	2·4	11·6	–9·2	108·5
2·03 U.S.S.R.	2·7	9·8	–7·1	68·6
2·04 Federal Republic of Germany *(b)*	1·7	6·0	–4 3	62·3
2·05 Canada *(c)*	0·3	5·4	–5·1	29·1
2·06 People's Republic of China	100·0	5·5	94·5	123·3
2·07 U.S.A. *(d)*	–	0·3	–0·3	22·2
2·08 Denmark	3·4	–	3·4	13·0
2·09 International Development Association	20·1	–	20·1	24·8
2·10 United Kingdom	0·4	1·8	–1·4	2·6
2·11 National and Grindlays Bank	–	–	–	3·9
2·12 Polish People's Republic	–	0·9	–0·9	2·1
2·13 Federal People's Republic of Yugoslavia	–	1·3	–1·3	1·3
2·14 France	–	1·5	–1·5	–
2·15 Asian Development Bank	9·2	–	9·2	9·2
3. Non-Project (Commodity) Loans	**169·0**	**35·6**	**133·4**	**1,118·9**
3·01 U.S.A. *(e)*	36·6	1·8	34·7	412·0
3·02 United Kingdom	16·0	2·1	13·9	234·4
3·03 Federal Republic of Germany *(b)*	5·7	–	5·7	141·5
3·04 Japan	20·1	11·9	8·2	116·0
3·05 France	17·4	14·4	3·1	53·6
3·06 India	9·2	4·5	4·7	55·0
3·07 Canada	12·6	–	12·6	39·4
3·03 People's Republic of China	43·3	–	43·3	53·6
3·09 Italy	8·1	0·9	7·2	13·5
4. Grand Total	**310·1**	**88·3**	**221·7**	**1,800·1*(a)***

Source: Central Bank of Ceylon

(a) Rs. 32.6 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, loans from International Co-operation Administration and loans from Agency for International Development.

(a) Sterling Loans

The gross debt outstanding on account of Sterling loans remained at Rs. 71 million throughout the financial year 1970/71, there being no borrowing or repayments during that year. The net debt, however, declined from Rs. 44 million to Rs. 39 million due to an increase of Rs. 5 million in the Sterling Loan Sinking Fund.

(b) Project Loans

Project loans utilised in 1970/71 amounted to Rs. 141 million.[1] Net of repayments of Rs. 53 million,[2] the increase in liability on account of borrowings under project loans is, therefore, Rs. 88 million. Project loans utilised in 1970/71, excluding the cash loan from the People's Republic of China, amounted to Rs. 41 million. Since repayments in respect of such loans totalled Rs. 53 million during the financial year, there would have, in fact, been a reduction in liability on account of such borrowings of Rs. 12 million. In contrast, during the previous year, a receipt of Rs. 61 million, offset by a repayment of Rs. 46 million[2], increased such liabilities by Rs. 15 million.

The major donors of the project aid received during the year under review were the International Development Association (Rs. 20 million) and the Asian Development Bank (Rs. 9 million). Of the project aid received from the I.D.A., Rs. 13 million or 33 per cent of the total project aid utilized in the year, was in respect of the Mahaweli Development Project. The other major beneficiaries were the Drainage and Reclamation Project (Rs. 3 million) and the Ceylon Highway Development Project (Rs. 2 million). The major beneficiaries of project aid from the Asian Development Bank were the Tanker Berth Project (Rs. 6 million) and the Uda Walawe Scheme (Rs. 4 million).

The outstanding liability on project loans utilized stood at Rs. 610 million at the end of the financial year 1970/71. This represented 34 per cent of the gross foreign debt outstanding. The amount outstanding on this account at the end of the previous financial year was Rs. 522 million or 33 per cent of gross foreign debt outstanding at the end of that year.

(c) Non-Project (Commodity) Loans

Utilization in 1970/71 under the "Commodity Aid Programme" amounted to Rs. 169 million as compared with Rs. 221 million in the preceding year. The increase in liability on account of borrowing under the "Commodity Aid Programme" less repayments, amounted to Rs. 133 million.[2]

The major imports under the "Commodity Aid Programme" in the financial year 1970/71 were, wheat flour, rice, fertilizer, industrial raw material and machinery, textiles commercial vehicles and motor spares. The major donors

1. Includes cash loan of Rs. 100 million obtained from People's Republic of China.

2. This figure will not compare with the corresponding figures in Table II (F) 10 and in Table 31 fo Appendix II since FEECs payable on repayment of foreign loans are not taken into account here.

of such aid were the People's Republic of China (Rs. 43 million), U.S.A. (Rs. 37 million), Japan (Rs. 20 million), France (Rs. 17 million), U.K. (Rs. 16 million) and Canada (Rs. 13 million).

The outstanding external liability on account of non-project (commodity) loans at the end of the financial year 1970/71 was Rs. 1,119 million while the amount outstanding at the end of the previous year was Rs. 986 million.

In the year under review, Rs. 283 million was credited to the Ceylon Government Foreign Aid Counterpart Fund[1] and an equal amount withdrawn for budgetary purposes, leaving a negligible balance in the Fund as at the end of the financial year. In the previous financial year the amounts credited and withdrawn were Rs. 269 million and Rs. 271 million respectively.

Data relating to the Rupee funds generated on account of imports under non-project (commodity) loans and their utilisation for budgetary purposes are given in Table 43 of Appendix II.

External Suppliers' Credit[2]

The external liability of the Government on account of imports by Government Departments under Suppliers' Credit stood at Rs. 65 million at the end of September, 1971. Such liabilities at the end of September 1970, amounted to Rs. 59 million. External liability on this account, therefore, increased by Rs. 6 million during the financial year 1970/71. Of the total outstanding liability at the end of the financial year, Ceylon Government Railway and the Department of Fisheries accounted for Rs. 43 million (or 66 per cent) and Rs. 15 million (or 23 per cent) respectively.

Sinking Funds

The approximate market value of the Sterling Loan Sinking Funds and Rupee Loan Sinking Funds at the end of September 1971, were Rs. 33 million and Rs. 642 million, respectively, while at the end of the previous year, they were Rs. 28 million and Rs. 609 million, respectively.

The market value of the Sterling Loan Sinking Funds increased by Rs. 5 million in 1970/71 due to investment of new contributions (of Rs. 1 million), interest earned on past investments (of Rs. 1 million) and an appreciation of market value of investments (of Rs. 3 million).

The market value of Rupee Loan Sinking Funds increased by Rs. 33 million. This increase was the result of investment of new contributions (of Rs. 107 million) and of interest earned on past investments (of Rs. 37 million) partly offset by repayments of loans[3] (of Rs. 8 million) and a depreciation in the market value of past investments (of Rs. 103 million).

1. See note to Table 43 of Appendix II.
2. External Suppliers' Credit on account of imports by Government departments are no included as part of 'Public Debt'
3. Loans referred to are the balance unconverted portions of –
   (i) 3 1/4 per cent Loan 1970/71 (Rs. 3 million),
   (ii) 3 per cent National Development Loan 1965/70 (Rs. 5 million).

9. BORROWING BY SEMI-GOVERNMENT INSTITUTIONS

(a) National Housing Fund

There were no issues of National Housing Debentures during the financial year under review. There was, however, a repayment of National Housing Debentures in a sum of Rs. 10 million on November 16, 1970. The total of National Housing Debentures issued and outstanding at the end of 1970/71 amounted to Rs. 106 million, and the authorized limit of Rs. 220 million for the issue of debentures remained unchanged during the financial year. The approximate market value of Sinking Funds established for the redemption of National Housing Debentures stood at Rs. 36 million at the end of the same period.

Meanwhile, the direct loans to the National Housing Department sanctioned by the Government in the year under review amounted to Rs. 20 million, bringing the total outstanding at the end of the financial year to Rs. 201 million.

(b) State Mortgage Bank

There was only one issue of State Mortgage Bank Debentures for a sum of Rs. 1,750,000 of 10-12 year maturity carrying interest at 9 per cent per annum during the financial year 1970/71. This issue was to enable the repayment of an equal amount of maturing debentures. The debentures issued and outstanding which amounted to Rs. 32,250,000 at the end of September 1970, therefore, stood at the same level at the end of September, 1971.

The resources obtained from the Banking System in the form of overdrafts decreased slightly from Rs 31.3 million to Rs. 31.2 million during the financial year[1]. Together with the outstanding debentures amounting to Rs. 32.3 million, the indebtedness of the State Mortgage Bank thus totalled Rs. 63.5 million. This leaves a balance of Rs. 12.5 million unutilized in the borrowing limit of Rs. 76 million which remained unchanged during the financial year under review.

10. THE BUDGET 1971/72

The Budget for the financial year 1971/72 was presented to the House of Representatives on November 10, 1971, and was approved on December 23, 1971. This Budget covers a period of 15 months from October 1, 1971, to December 31, 1972, in view of the Government's decision to adopt the calendar year as the financial year with effect from January 1, 1973.

As in the previous financial year, the Budget was presented after the commencement of the financial year. In view of this delay, the Parliament authorised the expenditure for the period October to December 1971 by a Vote-on-Account.

The Budget, as presented to the House of Representatives, contained several proposals for the mobilisation of domestic resources through new revenue measures and a reduction of consumption expenditure. It aimed at reducing the

1. Overdrafts amounting to Rs. 42.5 million were guaranteed under Section 73 of the State Mortgage Bank Ordinance.

Food Subsidy Bill with a view to easing the budgetary burden. Two of the proposals were withdrawn or partly modified subsequently. The salient features of the Budget, before and after modification, are summarised in Table II (F) 21 below.

TABLE II (F) 21

Original Budget Estimates - 1971/72(a)

Rs. million

Items (1)	Pre-Budget Estimates (2)	Budget Estimates (3)	Original Estimates (4)
1. **Recurrent Expenditure** (votes 1,2,4, and 6) ..	4,173	4,073(b)	4,173
Less 3% under-expenditure ..	125	125	125
	4,048	3,948	4,048
2. **Capital Expenditure** (votes 3,5, and 7) ..	1,866	1,866	1,866
Less 20% under-expenditure(c) ..	296	296	296
	1,570	1,570	1,570
3. **Advance Account** ..		125	125
4. **Total Expenditure** ..	5,618	5,643	5,743
5. **Total Revenue** ..	3,819	4,130	3,945
6. **Budget Deficit** ..	1,799	1,513	1,798
Less Contributions to sinking funds etc. ..	384	384	384
7. **Net Cash Deficit** ..	1,451	1,129	1,414
8. **Financing of Budget Deficit**			
8·1 Domestic market borrowing from non-bank sources ..		640(d)	640(d)
8·2 External finance			
8·2·1 Project loans and grants ..		162	162
8·2·2 Non-project (commodity) loans ..		500	500
8·2·3 Cash loan ..		50	50
8·3 Unbridged gap ..		161	446
9. **Financing of Net Cash Deficit**			
9·1 Domestic market borrowing from non-bank sources ..		474	474
9·2 External finance			
9·2·1 Project loans and grants ..		53	53
9·2·2 Non-project (commodity) loans ..		391	391
9·2·3 Cash loan ..		50	50
9·3 Unbridged gap ..		161	446

Source: Central Bank of Ceylon.

(a) For the period October 1, 1971 to December 31, 1972.

(b) Excludes the decrease of. Rs. 100 million in expenditure on account of the change in the price of second measure of rice.

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

(d) Inclusive of compulsory savings amounting to Rs. 40 million.

The "Pre-Budget Estimates" shown in Column (2) of the above table present a summary of the revenue and expenditure figures as contained in the Draft Estimates which were tabled in Parliament before the Budget Speech. It shows the total revenue that would accrue at existing rates of taxation, plus other receipts, while expenditure figures reflect almost the entirety of the expenditure programme of the Government (including new capital projects) for the new financial year.

Column (3) "Budget Estimates" give the total expected revenue, expenditure, and the method of financing the budget deficit, as envisaged in the Budget Speech. It should be noted that these revenue estimates include expected receipts from the new proposals as well as the existing measures. The expenditure data are lower than the Pre-Budget estimates by Rs. 100 million because allowance has been made for the expected fall in expenditure as a result of the increase of 25 cts. in the price of the second measure of rice under ration.

In Column (4), the "Original Estimates" refer to revenue, expenditure and financing proposals as approved by Parliament. It takes into account the effect of the unmodified and modified revenue proposals. Among the new revenue proposals one was withdrawn while yet another was modified. The proposal to raise the price of wheat flour by 15 cts. per lb. was withdrawn. The proposal to introduce a two-tier price structure for sugar with $\frac{1}{2}$ lb. per week per individual at a price of - /72 cts. per lb. and an off-ration price of Rs. 1.50 per lb. was amended so as to increase the issue under ration to $\frac{3}{4}$ lb. per week. On the expenditure side, the final estimates as approved by Parliament do not reflect the Rs. 100 million expenditure reduction expected as a result of the increase in the price of the second measure of rice under ration.[1] The effect of these changes in the Budget proposals was to increase the un-financed gap in the budget deficit to Rs. 446 million (inclusive of the Rs. 161 million expected to be financed through borrowings from the banking system as per "Budget Estimates").

The revenue expected as per the Original Estimates for 1971/72 (inclusive of new proposals) is Rs. 3,945 million. The *pro-rata* revenue for 12 months amounts to Rs. 3,156 million representing an increase of Rs. 278 million over the Original Budget Estimates and Rs. 341 million over the actual revenue of the previous financial year. On the other hand, total expenditure, adjusted for anticipated under-expenditure, amounts to Rs. 5,743 million. The relevant *pro-rata* total expenditure for 12 months amounts to Rs. 4,594 million, and shows an increase of Rs. 536 million over the Original Budget Estimates and Rs. 695 million over the actual expenditure of the previous financial year.

The Budget deficit in 1971/72 is estimated at Rs. 1,798 million. On a *pro-rata* basis, for a twelve month period, the deficit would amount to Rs. 1,438 million. This would represent an increase of Rs. 258 million over the originally estimated deficit of the previous financial year. When compared with the actual deficit of 1970/71, however, it shows a decrease of Rs. 111 million

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1. The actual reduction in expenditure, since expected, as per revised estimates of the Food Commissioner is Rs. 40 million. See Section 4 on "The Net Food Subsidy".

The Budget deficit of Rs. 1,798 million for 1971/72 is to be financed by Rs. 640 million of domestic non-bank market borrowing and Rs. 712 million of foreign finance (project loans, grants and non-project loans) leaving an unbridged gap of Rs. 446 million. In contrast, the "Budget Estimates" of the deficit was Rs. 1,513 million expected to be financed by the same volume of domestic non-bank market borrowing and foreign finance, leaving an unbridged gap of Rs 161 million which was to have been financed by the issue of Treasury Bills to the banking system. The total estimated domestic non-bank market borrowing, which on a *pro-rata* 12 months basis amounts to Rs. 512 million (including compulsory savings), represents the highest ever estimated utilization of this form of finance, for any year.[1]

The Budget for 1971/72 brought in some significant changes in the form of presentation of the Government estimates.

The revenue estimates were, for the first time, presented on an economic and functional basis using the standard system of classification recommended by the United Nations. These revenue estimates are presented in the form of a statement of total receipts of the Consolidated Fund, including proceeds from Government's borrowing operations, and are thus more comprehensive than the earlier statements of revenue. The classification adopted in the statement of receipts is statistically related to a national accounting framework, which forms the basis of economic planning.

The expenditure estimates of the seventeen departments under the three Ministries of Education, Finance and Health have been prepared for the first time on the basis of programmes. Programme budgeting re-presents the budget in terms of clearly identifiable programmes and activities and introduces physical data which will present a basis for evaluating budgetary performance against the Budget plan. It seeks to emphasize the primary function of the Budget as an instrument of management without in any way diminishing the importance of financial accountability, and provides a more rational basis for directing and controlling Government spending. It is expected that the estimates of other Ministries, too, will progressively be converted to the programme basis in the ensuing years.

The Budget for 1971/72 is also significant in that, for the first time, provision for a net payment on account of "Advance Account Operations"[2] was provided for in the estimates approved by Parliament. It has been the practice in the past to regard the impact of these operations on the Budget as balancing, whereas, in fact, in the more recent years, there have been substantial out-payments on these accounts. It may be recalled that the net payment in 1969/70 on Advance Account Operations reached a record figure of Rs. 201 million. The justification for not providing for the net position in respect of Advance Accounts in the Budget had been that the receipts and payments of these wholly or partially

1. Although Rs. 445 million was expected from domestic non-bank market borrowing in 1970/71 an amount of Rs. 595 million was, in fact, realised.
2. Please see footnote on page 154.

self-financing activities of the Government cannot easily be ascertained in advance. However, the consistency with which the payments have exceeded the receipts in recent years and the absence of a provision in respect of the net position in the Original Estimates have resulted in heavy pressures on the Treasury's cash resources. Consequently, the eventual budget deficits have been very large in relation to the anticipated deficits at the beginning of the financial year. The provision for the net payment in respect of Advance Account Operations of Rs. 125 million for 1971/72 represents, therefore, an attempt to forecast these liabilities with a view to minimising their eventual impact on the budget.

New Revenue and Expenditure Proposals as in the Budget Speech.

The Pre-Budget estimates for 1971/72 incorporate several increases in revenue, at existing rates of taxes, over the previous financial year.[1] Apart from such increases, several new revenue and expenditure proposals were announced in the Budget Speech. Most of these proposals would, however, be effective for less than the 15 month period which the Budget for 1971/72 is expected to cover. The revenue and expenditure proposals were expected to result in an increase of Rs. 312 million in the revenue and a decrease of Rs. 100 million in expenditure. The impact of these proposals on revenue and expenditure is summarised in Table II (F) 22 below:

TABLE II (F) 22

New Revenue and Expenditure Proposals

Rs. Million

Reference to items in Table II (F) 4.	Items	Increase (+) or Decrease (–)	
		Revenue	Expenditure
1·2·1	Changes in the rates and extension of coverage of turnover taxes ..	+ 15	—
1·1·1 and 1·2·1	Additional collections of income and turnover taxes from pawn-brokers ..	+ 10	—
1·2·6	Abolition of the tree tax system ..	+ 10	—
1·4·3	Revision of postal charges ..	+ 10	—
1·5·2	Hospital charges ..	+ 10	—
1·2·6	Additional collections on account of licence fees from pawn-brokers ..	+ 1	—
1·2·9	Change in the price of flour ..	+ 125	—
1·2·9	Change in the price of sugar ..	+ 131	—
—	Change in the price of second measure of rice	—	– 100
	Total Change ..	+ 312	– 100

1· These include the following revenue measures introduced with effect from October 27, 1971:

(i) Increase of the turnover tax on the manufacture of super and regular petrol from 37 per cent to 48 per cent.

(ii) Increase in the excise duty on tobacco by Rs. 5 per lb. from Rs. 42.50 to Rs. 47.50 per lb.

The Pre-Budget Estimates also include a sum of Rs. 100 million as contributions from State Corporations, in the form of a special levy, expected during 1971/72.

A. New Revenue Proposals.

(i) Business Turnover Tax

The following changes in the business turnover tax were proposed:[1]

(a) to exempt the sale of dried fish from the turnover tax (the existing rate being 1 per cent) at the manufacturing level;

(b) to exempt the manufacture of barbed wire from the turnover tax (the existing rate being 1 per cent) at the wholesale and retail stages[2];

(c) to levy a rate of 5 per cent on the "turnover" of auctioneers, commission agents and brokers, financial institutions, money-lending and pawn-broking business;

(d) to levy a rate of 1 per cent on tutories and similar educational institutions.

In addition, certain revisions are to be made in the law pertaining to the business turnover tax.

(a) It is proposed to collect the turnover tax on a current year basis with effect from October 1, 1971. Under the existing law, the liability of a person to turnover tax for a year of assessment depends on whether his turnover for the previous accounting period is greater or less than Rs. 75,000. It had been obvious that this "previous accounting year basis" of assessment was confusing and created opportunities for tax evasion. The basis of collection would now be the turnover for the year of assessment itself and not the turnover for the preceding year.

(b) It is proposed to amend the law relating to turnover tax so that any person who has a total turnover in excess of Rs. 18,750 for any quarter in a year, is liable to the tax on that part of his total turnover as represents his liable turnover. Further, it is proposed to make it obligatory for every person who has a turnover in excess of Rs. 18,750 for any quarter of the year, to furnish a return regardless of whether he is chargeable or not. According to the existing law, a person is chargeable with tax only where his liable turnover exceeds Rs. 75,000 for the year of assessment, and returns have to be furnished only by persons who are chargeable with turnover tax. It is anticipated that this measure would minimise cases of tax avoidance and also result in additional revenue. Where the aggregate turnover of a business, however, is less than Rs. 75,000 for the four quarters of the year of assessment, provision will be made for the refund of the excess of tax paid.

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1. Ceylon Government Gazette Extraordinary No: 14,983/9 of November 10, 1971.
2. At the same time, the importation of barbed wire was to be subjected to the full cost of FEECs.

(c) It is proposed to re-define "turnover" as presently defined in the Finance Act of 1963 to include receipts of auctioneers, commission agents and brokers as well as the gross amount of loans given, interest and other charges levied by financial institutions. The turnover of private tutories and similar educational institutions will also be included.

These proposals relating to the business turnover tax (excluding the turnover tax on pawn-broking) are estimated to bring in an additional revenue of Rs. 15 million.

(ii) Additional collections of Income and Turnover Taxes from Pawn-brokers.

It was felt that most of the pawn-brokers operating in the country are not contributing the correct taxes; only a small proportion of them declare to the Inland Revenue the actual rate of interest of 2 to 3 per cent, they charge per month. The legal rate of interest permitted by the Pawn Brokers Ordinance, therefore, was increased from 1 per cent to 2 per cent. Whilst recognising existing realities, this would also assist the Inland Revenue in its tax enforcement effort. Together with the proposal to bring pawn-broking business within the ambit of the business turnover tax, this proposal is expected to provide an additional revenue of Rs. 10 million.

(iii) Abolition of Tree Tax System.

The Tree Tax System which had been in existence in the Jaffna Peninsula for the last 35 years was to be abolished on account of the defects and malpractices in the system. The middlemen who collected the proceeds have utilised this system to exploit the tappers. The Tree Tax System is also said to have paved the way for the employment of illegal immigrants. When compared with the administrative cost involved, this system has also been a poor source of revenue.

It was announced that from March 1972,[1] the tavern system would be re-introduced in the Jaffna Peninsula replacing the present Tree Tax System. The present tappers were to be encouraged to form co-operative societies and tender for the supply of toddy. An additional revenue of Rs. 10 million is expected from this source.

(iv) Revision of Postal Charges.

The following revisions were made in respect of postal charges with a view to reducing the deficit between operational expenses and revenue in the postal services of the Postal and Telecommunications Department:

(a) to raise the rate on ordinary letters from 10 cents to 15 cents;

(b) to raise the rate of post-cards from 5 cents to 10 cents;

(c) to raise the rates of printed matter from 10 cents to 15 cents for every ounce and from 4 cents to 5 cents for every additional ounce.

1. It is now to be re-introduced w.e.f. May 1, 1972.

The 10 cents letters and 5 cents post-cards, in particular, account for approximately three quarters of the cash revenue of postal services.

This measure is expected to yield an additional revenue of Rs. 10 million.

(v) **Hospital Charges.**

A nominal fee of 25 cents per visit was levied from those seeking treatment at out-patients' departments in Government hospitals. It is expected that this measure would serve as a deterrent to wastage and over-crowding in out-patients' departments. This fee was to be collected through the sale of postage stamps to patients at out-patients' departments. The daily room rate in the Merchants Ward of the General Hospital, Colombo, and in Class I wards of all hospitals was raised by Rs. 10 a day and the charges of Class II wards were raised by Rs. 5 a day. The charge levied on employers, of estate labourers who seek medical treatment, was increased by Rs. 2.50 a day.

An increase of Rs. 10 million in revenue is expected from this source.

(vi) **Additional collections of licence fees from Pawn-brokers.**

The licence fee charged annually from pawn-brokers was to be increased to Rs. 1,000. The anticipated additional revenue is estimated at Rs. 1 million.

(vii) **Change in the Price of Flour.**[1]

The price of flour was increased by 15 cents per pound to 48 cents per pound. It is anticipated that this measure would tend to decrease the rising foreign exchange cost on flour by reducing the local consumption of flour. This measure is expected to provide an additional revenue of Rs. 125 million.

(viii) **Change in the Price of Sugar.**

A two-tier price structure for sugar was introduced. Under this scheme, each individual was entitled to half pound of sugar per week at the controlled rate of 72 cents per pound.[2] Sugar, off-ration, was to be freely available for purchase at the price of Rs. 1.50 per pound. Apart from a saving on the foreign exchange cost of Rs. 55 million, it is expected that this measure would yield an additional revenue of Rs. 131 million.[3]

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1. This measure was withdrawn with effect from 13th November, 1971. Vide Ceylon Government Gazette Extraordinary No. 14,984/4 of 13.11.1971.

2. The ration was increased to 3 pounds of sugar per month with effect from 13th November, 1971.

   The monthly sugar ration has since been reduced again to 2 pounds with effect from March, 1972.

3. The expected increase in revenue now is Rs. 70 million.

B. New Expenditure Proposals

Change in the price of second measure of rice.

The price of the second measure of rice under the rice ration scheme was raised from 75 cents to Re. 1/-. This step was necessitated by the fact that the Government's burden of subsidy on rice to the consumer has increased at a considerable rate during the past.

The reduction in expenditure expected as a result of this proposal is Rs. 100 million.[1]

C. Other Measures announced in the Budget Speech—

(i) Amendments to the Compulsory Savings Act.

The following changes are to be made in the Compulsory Savings Scheme.

(a) The Compulsory Savings Scheme is to be extended for at least another two years.

(b) The statutory year for compulsory savings will hereafter be the income tax year of assessment for 12 months beginning April 1, and ending on 31st March in the year following.

(c) The collection of compulsory savings is to be simplified by fixing contributions at 40 per cent of the income tax, where an individual receives income that is liable in its entirety to income tax. Those who received income exempt from income tax will be required to contribute as compulsory savings, the income tax that would have been payable if such income were liable to tax, and a further 40 per cent of such tax. From the year of assessment of 1972/73, income tax and compulsory savings will be worked on a self-assessment basis as part of an integrated system.

(d) Single individuals whose income is less than Rs. 12,000 per annum are to be exempt from making compulsory savings contributions. As a measure of relief to middle income groups, the exemption limit will progressively be increased with the family circumstances — in the case of a family with four children or dependants, it will increase to Rs. 15,100.

(e) Where the income after deducting income tax, and compulsory savings collected at the rate of 40 per cent of such tax, exceeds Rs. 2,000 per mensem, the entirety of such excess will have to be paid as additional compulsory savings contributions.

(f) Companies in receipt of exempt income will be required to contribute to the Compulsory Savings Scheme 50 per cent of such income. Companies engaged in export trade are to be granted special concessions.

1. Although this proposal was implemented, the final estimates as passed by Parliament, i.e. Original Estimates do not reflect this reduction in expenditure See footnote 1 of page 176.

It is expected to raise a sum of Rs. 40 million in the form of compulsory savings contributions.

(ii) **Taxation.**

It is proposed to introduce a self-assessment for income tax and wealth tax with effect from the year of assessment 1972/73.

The rate of tax on the limited liability companies which was increased by 10 per cent for the year of assessment 1970/71 in lieu of compulsory savings contributions is to continue to operate in the years of assessment after 1970/71, on account of the fact that the Compulsory Savings Scheme would be enforced for a further period.

(iii) **Social Clubs**

In view of the fact that a large number of social clubs are engaged in undesirable and anti-social activities, they are to be brought under the supervision of law enforcement officers. With this object in view, it is proposed to register these clubs on an annual payment of Rs. 600 and the receipts gained from these sources are to be diverted to local bodies.

(iv) **Superannuation Scheme for Public Servants and Employees of State Corporations and other similar Institutions.**

It is proposed that all new appointments to the permanent establishment of the Government which are made on or after 1st January, 1972, should either be on the basis of a contributory pension scheme or of a provident fund.[1] This step was necessitated by the fact that the cost of the pensions bill had risen at a considerable rate during the past years. Total cost of the pensions bill as a percentage of Government expenditure rose from 4.0 per cent in 1950/51 to 7.0 per cent in 1970/71. It increased as a percentage of Government revenue from 3.6 per cent to 7.1 per cent during the same period. It is projected that expenditure on pensions would increase from Rs. 224 million in 1971/72 to Rs. 255 million in 1974/75. This proposal will not have any impact on the pensions bill of the Government for a very long time.

(v) **Audit Provisions and Valuation.**

The shortcomings of the existing accounting practices have paved the way for malpractices in respect of reports and certificates relating to accounts of companies, partnerships and individuals. Revenue from taxation as well as foreign exchange receipts, too, are adversely affected by such defects. In view of this, it is proposed to appoint a Committee to consider these matters and to submit draft legislation and regulations.

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1. It has since been decided that, initially, this should be on the basis of a provident fund scheme.

In order to improve the quality of auditing in State Corporations it is proposed to set up a Government Bureau of Audit and Management Services. Apart from evaluating the efficiency and performance of Corporations, this bureau will undertake advice on management and other related activities. The bureau will assist and advise on the auditing of accounts of Government Departments as well as on those of local bodies, banks, co-operative and other enterprises.

In view of the key role the Valuer has to play in a developing economy, the feasibility of setting up an Institute of Valuers in Ceylon, to regulate the activities of the profession and organise a course of studies at the University level, is to be studied. Consideration is to be given to the idea of giving the Valuation Department a statutory status.

(vi) **State Gem Corporation.**

Certain concessions are made in respect of taxation to ensure the effective operation of the State Gem Corporation. It is proposed to present legislation granting a three months amnesty from income tax and business turnover tax to all persons in Ceylon who sell gems to the Corporation. Further, it is proposed to amend the Inland Revenue Act, No. 4 of 1963, whereby, after the amnesty period, any profits arising from the sale of gems by any person in Ceylon to the Corporation, or from the export of gems through the Corporation, would be exempt from income tax. Business turnover tax, however, will be payable after the expiration of the amnesty, on the turnover from the sale of gems. Although these proposals are expected to result in a considerable loss to revenue, the likely foreign exchange benefits are expected to outweigh such losses.

(vii) **State Distilleries Corporation.**

It is proposed to establish a State Distilleries Corporation in order to expand the total production of arrack to meet the increase in demand and to improve its quality. This corporation would take over all existing distilleries, and distilling of arrack will be the sole monopoly of the corporation.[1]

11. OTHER FISCAL MEASURES.

Other significant fiscal measures adopted during the financial year 1970/71 are given below–

(a) The import duty on beedi leaves which was raised to Rs. 5/- per lb. from 21 cts. per lb., as part of rationalisation of import duties with the Budget for 1970/71, was reduced to Rs. 3.50 per lb. by an extra-legal waiver by the Hon. Minister of Finance.

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1. It has since been decided by the Government that the corporation would take over only the commercial functions of the Excise Department.

(b) A turnover tax of 5 per cent was imposed on the business of accepting wagers or of entering into or negotiating transactions by way of wagers, or any business of a like nature, with effect from April 5, 1971 [1]

(c) The income tax payable by companies for theYear of Assessment 1970/71 was increased by 10 per cent, i.e. from 50 per cent to 60 per cent.[2] This measure was adopted in view of the decision not to apply the Compulsory Savings Scheme to companies as was originally proposed in the Budget for 1970/71.

(d) The business turnover tax on super and regular petrol was raised from 37 per cent to 48 per cent with effect from October 28, 1971.[3]

(e) With effect from October 28, 1971 the tobacco tax on the manufacture of cigarettes and pipe tobacco was raised from Rs. 42.50 to Rs. 47.50 per lb.[3]

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1. Ceylon Govt. Gazette Extraordinary No. 14,952/5 of April 5, 1971.
2. Inland Revenue Amendment Act, No. 33 of 1971.
3. Ceylon Govt. Gazette Extraordinary No. 14,981/5 of October 27, 1971.