

(G) GOVERNMENT FINANCE

The ensuing analysis of Government fiscal operations is entirely based, unlike in previous years, on data as presented in Government Accounts. The analysis of Government expenditure and revenue which is usually done by reclassifying such accounts in terms of the revised economic and functional classification – a practice adopted by the Bank since 1969 – has not been attempted here due to the non-availability of data in time. It is proposed, however, to publish in the near future, the usual analysis as a special note in the Central Bank Monthly Bulletin.

The salient features of the Government fiscal operations in the financial year 1971/72 with the corresponding data for the nine previous financial years and the Approved Estimates for 1973 are presented in Table II (G) 1. The financial year 1971/72 covers a period of 15 months from October 1, 1971 to December 31, 1972. This is due to the decision of the Government to adopt the calendar year as the fiscal year with effect from January 1973. In the text and tables that follow, wherever appropriate, the figures for the 15 months period of the financial year 1971/72 have been presented on a *pro-rata* 12 months basis to enable a meaningful comparison with the data for the previous financial years and the years to follow.

In the financial year 1971/72, total revenue amounted to Rs. 4,102 million and total expenditure to Rs. 5,809 million. Recurrent expenditure of Rs. 4,233 million, capital expenditure of Rs. 1,507 million and net payments in respect of "Advance Accounts" of Rs. 68 million made up the total expenditure in 1971/72. While the increase in total expenditure in 1971/72, on a *pro-rata* 12 months basis, over the previous financial year was Rs. 504 million (or 12 per cent), the total revenue, too, increased substantially by Rs. 467 million (or 17 per cent). As in the previous financial year, it was the increase in recurrent expenditure of Rs. 405 million (or 14 per cent) which contributed largely to the increase in total expenditure. The expenditure chargeable to capital votes which had remained unchanged in 1970/71 increased by Rs. 67 million (or 8 per cent) in 1971/72. Payments in respect of "Advance Accounts", however, decreased by Rs. 54 million.

It should be noted that the accounts upto 1970/71 presented the data on food subsidy on a net basis – i.e., gross food subsidy less profits from sale of foodstuffs, and this amount was reflected as an expenditure item in the Accounts. Since 1971/72, however, food subsidy is presented on a gross basis as part of expenditure and profits from food sales as part of revenue. Hence, both the expenditure and revenue for 1971/72 would be overstated by the amount of profits from food sales of Rs. 43 million (*pro-rata*) in the same year. If an allowance is to be made for this factor, the increase in total revenue over 1970/71 would still be Rs. 424 million (or 15 per cent) while the increase in total expenditure would amount to Rs. 461 million (or 11 per cent).

The noteworthy increase in revenue in 1971/72 (*pro-rata*) over that of the previous financial year was mainly the result of increased receipts from the sale of FEECs (Rs. 140 million), profit from sale of arrack (Rs. 95 million), Business

Summary of Government Fiscal

Items	1962/63	1963/64	1964/65	1965/66
1. Revenue	1,593	1,759	1,816	1,833
2. Expenditure	2,032	2,278	2,337	2,515
2.1 Recurrent expenditure(b) ..	1,643	1,891	1,893	1,976
2.2 Capital expenditure(c) ..	403	403	471	528
2.3 Advance accounts and other ..	- 14	- 16	- 28	10
3. Budget deficit	439	519	520	682
4. Debt repayment(d)	47	57	90	116
5. Net cash deficit	392	462	430	566
6. Financing of Budget deficit				
6.1 Domestic non-market borrowing ..	- 34	- 2	50	112
6.2 Domestic market borrowing ..	372	368	334	498
6.3 Foreign Finance	100	108	117	154
6.4 Decline in cash balances	45	20	- 82
7. Financing of net cash deficit				
7.1 Domestic non-market borrowing ..	- 34	- 2	50	112
7.2 Domestic market borrowing ..	333	323	261	418
7.3 Foreign finance	92	95	100	118
7.4 Decline in cash balances	45	20	- 82
8. Expansionary impact of fiscal operations ..	162	163	35	122
9. Public Debt outstanding (net) ..	3,065	3,436	3,772	4,268

(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 1963/69 as capital expenditure, have been transferred to recurrent expenditure.

TABLE II (G) 1

Operations 1962/63 to 1973(a)

Rs. Million

1966/67	1967/68	1968/69	1969/70	1970/71	1971/72 Approved Estimates (15 months period)	1971/72 Provisional		1973 Approved Estimates
						15 months	12 months*	
1,955	2,156	2,497	2,736	2,815	3,945	4,102	3,282	3,880
2,677	3,007	3,445	3,886	4,143	5,743	5,809	4,647	5,161
2,012	2,321	2,544	2,873	3,225	4,432	4,645	3,716	4,133
625	714	852	812	810	1,186	1,096	877	928
42	- 29	49	201	108	125	68	54	100
723	850	947	1,150	1,327	1,798	1,707	1,366	1,281
117	135	160	214	244	384	412	330	406
607	716	788	936	1,083	1,414	1,295	1,036	874
72	10	52	16	140	—	249	199	50
418	630	358	815	693	1,086	1,004	803	690
256	247	426	345	370	712	598	478	541
- 22	- 36	111	- 26	123(e)	—	- 144	- 115	—
72	10	52	16	140	—	249	199	50
348	552	271	720	585	920	835	668	515
209	190	354	226	235	494	355	284	309
- 22	- 36	111	- 26	123(e)	—	- 144	- 115	—
56	267	181	425	218(e)	446	139	112	90(f)
4,782	5,689	6,239	7,237	8,108	n.a.	9,448	7,558	n.a.

Source: Central Bank of Ceylon.

(c) Includes expenditure chargeable to National Development Reserve.

(d) Includes sinking fund payments, direct repayments of public debt and contributions to international financial organizations.

(e) Please see footnote on page 155, of Annual Report-1971

(f) Vide footnote (b) to Table 2 (G) 14 at page 158.

* On a pro-rata basis.

Turnover Tax (Rs. 69 million), Tobacco Tax (Rs. 66 million) and receipts of Government trading enterprises i.e. Railway, Posts and Telecommunications and Port (Rs. 35 million). The increased receipts from these sources and other minor increases in revenue more than offset the decreases in revenue which occurred mainly in respect of profits from sale of foodstuffs (Rs. 37 million) export duties (Rs. 32 million) and import duties (Rs. 24 million). The increased receipts from FEECs were mainly the result of a large volume of deferred payments which were made during the course of the year, particularly in respect of sugar imports effected by the Food Commissioner in the previous year. The increased volume of sales of arrack, accounts for the substantial increase in the revenue from this source, while the increase in the rate of excise duty on tobacco by Rs. 5 per pound explains the increased receipts from Tobacco Tax. The increase in Turnover Tax collections occurred due to better enforcement efforts by the Department of Inland Revenue. The Department in the course of its enforcement effort inspected nearly 5,000 places of business, in addition to registering 2,500 new businesses. The revenue from Railway and Posts and Telecommunications, which were adversely affected by the unsettled conditions in the country during 1970/71, showed increases of Rs. 30 million and Rs. 20 million respectively, partly aided by the increase in tariffs during the course of the financial year.

The noteworthy increase in total revenue, despite the substantial increase in expenditure, has helped to limit the resulting Budget deficit to Rs. 1,707 million. This deficit on a *pro-rata* 12 months basis would amount to Rs. 1,366 million, which is only 39 million more than that of the previous financial year. The deficit of Rs. 1,707 million was financed by a substantial domestic market borrowing of Rs. 1,004 million, foreign finance of Rs. 598 million and a comparatively heavy non-market borrowing (net administrative borrowings) of Rs. 249 million. The excess from these sources after meeting the Budget deficit helped to augment cash balances (including foreign aid counterpart funds) by Rs. 144 million. It should, however, be noted that due to the interruption in the flow of revenue receipts to the Government, during the three months when employees of the commercial banks were on strike, the Government was compelled to raise Rs. 300 million by way of Treasury Bills (domestic market borrowings). The end of the strike just before the close of the financial year enabled the realisation of cheques drawn in favour of Government departments and helped to build up Government cash balances to the unusually high level of Rs. 144 million at the end of the financial year under review¹. The debt repayments during 1971/72 amounted to Rs. 412 million. Hence, the net cash deficit for the year was Rs. 1,295 million.

The total expenditure in 1971/72 exceeded the Approved Estimates for the year by Rs. 66 million. While recurrent expenditure exceeded the Approved Estimates by Rs. 185 million, expenditure chargeable to capital votes was Rs. 90 million less than originally anticipated. As compared with the original Budget proposals, while payments in respect of "Advance Accounts" were Rs. 57 million less, contributions to sinking funds and direct repayments of public debt have been Rs. 28 million more than originally estimated.

1. On the other hand, debit entries in respect of payments made by the Treasury are made at the time when cheques are drawn.

Recurrent expenditure has exceeded the Approved Estimates for the year mainly on account of the supplementary votes. During the course of the financial year under review, in addition to the net provision of Rs. 4,048 million in respect of recurrent votes, supplementary estimates amounting to Rs. 146 million were passed by the National State Assembly. The major supplementary estimates were on account of pensions and public service provident funds (Rs. 31 million) interest payments on public debt (Rs. 30 million) and Armed Forces (Rs. 23 million). During the course of the year, supplementary provisions chargeable to capital votes amounting to Rs. 79 million were also passed by the Assembly. Despite this, capital expenditure has been less than what was originally provided for, mainly due to substantial under-expenditure in respect of these provisions.

The performance on the revenue side has been very encouraging. The total revenue was Rs. 157 million more than originally forecast. Consequently, the Budget deficit was Rs. 91 million less than originally estimated. Towards financing this deficit, domestic market borrowing contributed Rs. 82 million less than originally forecast. Foreign finance, too, fell short of original expectations by Rs. 114 million. These shortfalls were more than offset by domestic non-market borrowings i.e. net administrative borrowings of Rs. 249 million not originally anticipated in the Budget. These operations resulted in the building up of cash balances (including foreign aid-counterpart funds) to the tune of Rs. 144 million.

The net expansionary impact of the budgetary operations in 1971/72 was Rs. 139 million which was significantly less than that of 1970/71. The withdrawal of certain proposals for 1971/72 had increased the unbridged gap in the Budget to Rs. 446 million. The impressive revenue performance has, however, enabled the Government to limit expansionary impact to almost a third of the original unbridged gap. It must, however, be remembered that capital expenditure has fallen below original expectations. The net public debt outstanding at the end of 1971/72 stood at Rs. 9,448 million, having increased in the course of the year by Rs. 1,340 million.

In the current financial year 1973, revenue and expenditure are estimated at Rs. 3,880 million and Rs. 5,161 million respectively. The latter consists of Rs. 3,727 million of recurrent expenditure, Rs. 928 million of capital expenditure and a provision for a net payment of Rs. 100 million in respect of "Advance Accounts". The Budget deficit for 1973, which is expected to be Rs. 1,281 million, is to be financed by domestic market borrowing of Rs. 600 million, foreign finance of Rs. 541 million and administrative borrowing of Rs. 50 million. The balance sum of Rs. 90 million is to be borrowed from the banking system.¹

While the rate of increase in revenue has exceeded the rate of increase in expenditure and helped somewhat to arrest the growing Budget deficit in 1971/72, it still remains true, as seen from Table II (G) 1, that over the past decade the increase in revenue has not kept pace with the increase in expenditure. Whereas

1. Please see footnote (b) of table II (G) 14 at page 158

since 1962/63, Government revenue increased by 103 per cent, increase in expenditure has been 127 per cent. The deficits have run at an average level of Rs. 1,128 million in the last five years as against an average level of Rs. 577 million in the preceding five years.

The rate of increase in revenue during the last ten years has been 8.1 per cent (compound) per annum while that of expenditure 9.5 per cent (compound) per annum (recurrent expenditure 9.3 per cent and capital expenditure 9.0 per cent). During the last five years, the disparity between the average rate of annual increase of revenue at 10.8 per cent (compound) and that of expenditure at 11.3 per cent (compound) recurrent expenditure 12.1 per cent and capital expenditure 5.3 per cent, has been narrowed somewhat. However welcome a trend this may be, it is to be noted that in the last five years the rate of increase in recurrent expenditure has quickened while that of capital expenditure has perceptibly slowed down. In absolute terms, too, the increase in capital expenditure has just regained the 1968/69 level, in the year under review.

There has been a determined effort to mobilise additional resources since 1967/68 and some particularly noteworthy increases in revenue have been obtained as in the year under review. Yet the persistent increases in recurrent expenditure over the years have continuously outstripped the increases in revenue and led to, at best, insignificant surpluses or, at worst, deficits in the Government's current account. It is clear that a more positive approach to curtailing recurrent expenditure, particularly transfer payments, is called for if the notable gains achieved on the revenue side are not to be frittered away. The required increase in the Government capital expenditure, in an environment in which the Government seeks to assume greater responsibility for promoting production, has led to progressive increases in the Budget deficits recorded over the years. While this in itself need not cause any great concern, the inability of the Government to generate sufficient and self sustaining surpluses in its current account requires a greater attention in the future.

The progressive increase in Budget deficits which has been financed by increased borrowing from domestic and foreign sources is bound to create problems of debt servicing and debt management. In recent years, domestic borrowing has contributed a major share of the Budget deficits in the face of increasing difficulties in obtaining sufficient amounts of foreign aid. Foreign resources, which contributed nearly 45 per cent of the Budget deficit in 1968/69, have since then contributed a gradually declining proportion of the Budget deficit. In 1971/72, while it is true that their share had increased once again to 35 per cent, the actual receipts of foreign finance have consistently been lower than the receipts expected in the Budgets, during the last few years¹. While a decline in relative share of foreign finance may represent a shift towards increased mobilisation of domestic resources, the consequent growth in domestic debt and problems of its servicing have also to be carefully looked into. The interest paid on both domestic debt and on foreign debt in 1971/72 (*pro-rata*) amounted to Rs. 413

1. Please see Table II (G) 12 at page 152.

million. It is significant that the rate of increase in such payments over the last five years has been 25 per cent (compound) as against an increase of 14 per cent in the previous five years. It is imperative that if debt servicing is not to present a major problem to the Government in future that the return on investments of such funds be adequately high to cover atleast a substantial part of the cost of borrowing of such funds¹. Considerations of internal financial stability would also warrant a reduction in the expansionary impact of the fiscal operations.

In 1971/72 (15 months) there was a shortfall of Rs. 114 million in expected foreign finance and Rupees 82 million in domestic market borrowing which was more than made up by an increase of Rs. 249 million in administrative borrowing. The borrowing from both domestic and foreign sources increased the net debt outstanding at the end of 1971/72 by Rs. 1,340 million. This increase consisted of Rs. 755 million of domestic debt and Rs. 585 million of foreign debt. At the end of the year under review, public debt outstanding (net) stood at Rs. 9,448 million, consisting of Rs. 7,095 million of domestic debt and Rs. 2,353 million of foreign debt.

2 FINANCING OF THE DEFICIT

The originally anticipated net cash deficit for 1971/72 was Rs. 1,414 million. The final budgetary outturn, however, has resulted in a lower deficit of Rs. 1,295 million. This deficit on a *pro-rata* 12 months basis would amount to Rs. 1,036 million which is Rs. 47 million less than the deficit in the previous financial year. It is also Rs. 119 million lower than the net cash deficit originally forecast for the year. The trend towards progressively increasing net cash deficits, evident in recent years, thus appears to have been arrested in 1971/72. The reasons for this have been analysed in the preceding section.

In the current financial year 1973, the net cash deficit is expected to decrease considerably by Rs. 162 million to Rs. 874 million.² Though recurrent expenditure, capital expenditure and "Advance Accounts" payments are expected to rise by Rs. 341 million, Rs. 51 million and Rs. 46 million respectively, a substantial increase in revenue of Rs. 598 million is expected to more than offset such increases and result in the reduction of the net cash deficit as compared with its level in 1971/72 (12 months on a *pro-rata* basis).

Table II (G) 2 presents data in respect of sources of finance and the expansionary impact of the net cash deficit for the years 1968/69 to 1971/72 together with the relevant Approved Estimates for 1973.

The net cash deficit of Rs. 1,295 million in 1971/72 (15 months) was financed by borrowing Rs. 552 million from domestic non-bank market sources, Rs. 249 million from domestic non-market sources, Rs. 283 million from domestic bank sources and by foreign finance amounting to Rs. 355 million. The surplus resources after bridging the net cash deficit resulted in augmenting cash balances amounting to Rs. 144 million.

1. The problems presented in respect of debt management have been discussed in detail in the note on "Public Debt". Please see pages 141 to 156

2. As per Approved Estimates.

Financing of the Net Cash

Sources	1968/69 (b)			1969/70		
1. Foreign Finance						
(a) Project loans (gross) ..	93.9			53.3		
Less contributions to sinking funds and repayments ..	47.0	46.9		72.5	- 19.2	
(b) Non-Project (Commodity) loans (gross) ..	312.2			229.1		
Less repayments ..	25.0	287.2		46.5	182.6	
(c) Grants ..		19.5	353.6		62.8	226.2
2. Domestic non-market borrowing ..		52.2			15.5	
3. Domestic market borrowing from the banking system (c)						
(a) Central Bank ..	114.9			376.4		
(b) Commercial banks ..	-45.3	69.6		74.1	450.5	
4. Domestic market borrowing from non-bank sources (c)						
Gross amount borrowed ..	286.3			362.2		
Less contributions to sinking funds ..	85.3	201.0		93.2	269.0	
5. Decline in cash balances and foreign aid counterpart funds						
(a) Cash balances ..	62.9			- 30.6		
(b) Foreign aid counterpart funds (gross credits) ..	-318.7(e)			- 268.4(e)		
Less amount used for budgetary purposes ..	367.0	48.3	111.2	273.4	5.0	- 25.6
6. Net cash deficit ..		787.6			935.6	
7. Decline in U.S. aid counterpart funds ..		-0.3			...	
8. Net expansionary impact of Government fiscal operations (3+5+7) ..		180.5			424.9	

(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 financial year 1968/69 will be Rs. 209.4 million.

(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. 92.4 million, at the end of September 1969. Also, excludes Tax Reserve Certificates held by the banking system which are now included under domestic market borrowing from non-bank sources.

TABLE II (G) 2

Deficit - 1968/69 to 1973(a)

Rupees Million

1970/71	1971/72 (Provisional)		1973 Approved Estimates
	12 months*	15 months	
141.1(d)	93.9	116.6(d)	
82.8 58.3	95.8 -2.5	119.8 -3.2	
169.0	325.2	406.6	
52.8 116.2	98.2 227.2	122.7 283.9	
59.9 234.4	59.7 284.3	74.6 355.3	309.5
140.5	198.8	248.6	50.0
-160.9	168.2	210.2	
254.5 93.6	58.2 226.4	72.7 282.9	89.5
599.1	577.0	721.2	
107.4 491.7	135.4 441.6	169.3 551.9	425.1
-3.3	-87.8	-109.8	
-245.6(e)	-342.6(e)	-428.2(e)	
372.1 126.4 123.1(f)	315.2 -27.4 -115.2	394.0 -34.2 -144.0	-
1083.3	1035.8	1294.7	874.1
1.4	-	-	-
218.1(f)	111.1	138.9	89.5

Source: Central Bank of Ceylon.

(d) Includes cash loans amounting to Rs. 100 million in 1970/71 and Rs. 50 million in 1971/72 from People's Republic of China.

(e) In the financial years 1968/69 to 1971/72 the figures 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 of Annual Report 1971.

* On a pro-rata basis.

In 1973, the estimated net cash deficit of Rs. 874 million is to be financed by mobilizing Rs. 425 million from domestic non-bank market sources and by Rs. 310 million of foreign finance. An amount of Rs. 50 million is also expected to be raised through administrative borrowings leaving Rs. 90 million to be borrowed from the banking system.¹

The net expansionary impact of Government fiscal operations in 1971/72 amounted to Rs. 139 million. When reduced to a 12 months *pro-rata* basis, this is considerably lower than that of 1969/70 and 1970/71. As compared with 1970/71, net receipts of foreign assistance increased by Rs. 50 million while resources mobilized from domestic non-bank market sources decreased by the same amount. Administrative borrowing increased by Rs. 58 million, while borrowing from the banking system increased by Rs. 133 million. Allowing for the increase in cash balances (including foreign aid counterpart funds) of Rs. 115 million the net expansionary impact in 1971/72 (12 months) was lower than that of the previous year by Rs. 107 million. As observed earlier, the unusually high cash balances built up at the end of the financial year were due to the Bank strike and appear likely to be a temporary phenomenon. Equally fortuitous is the extent of the increase in bank borrowing, particularly through Treasury Bills, which was necessitated by the interrupted flow of receipts to the Government during the Bank strike.

The ratio of expansionary component of the total net cash deficit which reached a record level of 45.4 per cent in 1969/70 and thereafter declined to 20.1 per cent in 1970/71, was further reduced to 10.7 per cent in 1971/72.

In 1971/72, the Government increased its indebtedness to the Central Bank by Rs. 210 million. This consisted of Rs. 220 million of Treasury Bills and of Rs. 40 million of advances partly offset by a repayment of Rs. 50 million of Rupee Loans. On the other hand, the Government's indebtedness to the commercial banking system amounted to Rs. 73 million consisting of Rs. 75 million in Treasury Bills partly offset by a repayment of Rs. 2 million in respect of Rupee Loans. The net effect of these operations was an increase of Rs. 283 million in the liability of the Government to the banking system. When reduced to a *pro-rata* twelve months basis, this shows an increase of Rs. 226 million as compared with the increase of Rs. 94 million in the previous financial year. The net resources mobilized by the Government from domestic non-bank sources amounted to Rs. 552 million which on a *pro-rata* 12 months basis amounts to Rs. 442 million as compared with a sum of Rs. 492 million mobilized in 1970/71. A detailed analysis of the Government loan programme is given in the later sections of this report.

Table II (G) 3 presents the net contributions (i. e. changes in holdings of Government Securities) of the non-bank investor groups for the last four financial years.

1. See footnote (b) to Table II (G) 14, page 158

TABLE II (G) 3
Contributions to Government Securities (a)
by non-bank investor groups

Contributors	Rs. Million						
	1968/69	1969/70	1970/71	1971/72		Increase in	
				12 * months	15 months	1970/71 over 1969/70	1971/72 (12 * months) over 1970/71
1. Savings institutions	0.6	11.0	180.7	93.8	117.3	169.7	- 86.9
2. Employees' Provident Fund	101.6	98.0	143.0	164.2	205.3	45.0	21.2
3. Other provident and pension funds	28.6	46.1	44.5	47.7	59.6	- 1.6	3.2
4. Departmental and other official funds	3.7	5.4	6.9	41.7	52.1	1.5	34.8
5. Insurance Corporation	42.4	45.5	60.7	55.2	69.0	15.2	- 5.5
6. Other insurance funds	3.5	8.8	- 1.8	- 9.7	- 12.1	- 10.6	- 7.9
7. Other state corporations	—	- 0.7	—	—	—	0.7	—
8. Companies, clubs and institutions	5.6	5.6	5.6	13.6	17.0	—	8.0
9. Individuals	- 3.2	10.5	2.5	- 1.9	- 2.4	- 8.0	- 4.4

Source: Central Bank of Ceylon.

* On a pro-rata basis

(a) This Table presents the net change in holdings of Rupee Securities, Treasury Bills and Tax Reserve Certificates by the given institutions.

In 1971/72 significant increases in the net contributions from the non-bank investor groups came from departmental and other official funds and from the Employees' Provident Fund. The contributions from the Government savings institutions, i. e., the National Savings Bank, which had increased remarkably in the previous year registered a sharp fall of Rs. 87 million in the year under review. Contributions from companies, clubs and institutions, although small in magnitude, increased significantly in 1971/72.

Domestic non-bank market borrowings in 1971/72 amounted to Rs. 249 million and helped to finance the deficit to a much greater extent (19 per cent) than in recent years. This is largely accounted for by an increase in deposits of Rs. 254 million offset by repayments of administrative borrowings of Rs. 5 million.

Total foreign finance available during the financial year 1971/72 (15 months) to meet the fiscal operations amounted to Rs. 598 million. It consisted of Rs. 117 million of project loans, Rs. 407 million of non-project (commodity) loans and Rs. 75 million of grants. Net of contributions to sinking funds and repayments, foreign finance amounted to Rs. 355 million. This would on a *pro-rata* 12 months basis amount to Rs. 284 million as compared with Rs. 234 million in the previous financial year. There has been a net repayment of Rs. 3 million in respect of project loans (including receipt of Rs. 50 million from People's Republic of China). However, receipts of non-project (commodity) loans, net of repayments amounted to Rs. 284 million.

As in the previous financial years loan finance accounted for the major share of foreign finance. The total amount of grants received in 1971/72 amounted to Rs. 75 million and accounted for 13 per cent of the total foreign finance received during the year. Non project (commodity) loans, which *pro-rata* amounted to Rs. 227 million, showed an increase of Rs. 111 million in contrast to a decrease of Rs. 66 million in 1970/71 over that of the previous

financial year. The non-project (commodity) loans helped to finance 22 per cent of the net cash deficit in 1971/72, as against 11 per cent of such deficit in the previous financial year.

Table II (G) 4 below gives details of net receipts of foreign assistance by type and source in the last seven years.

TABLE II (G) 4
Net Receipts of Foreign Assistance

							Rupees Million.	
Type and Source	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72 Provisional	
							12 months*	15 months
1. Loans	76.5	189.3	161.2	334.1	202.8_a	220.6_a	293.6	367.0_a
1-01 A.D.B.	—	—	—	—	—	9.2	17.9	22.4
1-02 I.B.R.D.	-1.2	-0.3	-7.7	-8.4	-9.3	-7.7	-10.4	-13.0
1-03 I.D.A.	—	—	—	—	4.7	20.1	17.2	21.5
1-04 Canada	2.5	8.1	8.6	8.5	6.0	7.5	17.7	22.0
1-05 People's Republic of China	9.7	-4.9	-5.5	-5.5	4.8	137.7	66.1	82.6
1-06 U.K.	10.6	49.4	51.9	37.0	38.2	11.4	32.2	40.2
1-07 U.S.A.	23.8	31.0	45.6	177.9	49.8	34.4	102.0	127.5
1-08 U.S.S.R.	9.3	-10.0	-8.3	-9.6	-9.2	-7.1	-7.2	-9.0
1-09 Federal Republic of Germany	6.7	66.2	25.0	17.4	29.0	1.5	9.5	11.9
1-10 Yugoslavia	0.8	-1.4	-0.7	-0.8	-0.4	-1.3	-0.2	-0.3
1-11 Poland	0.1	0.1	1.4	-0.6	-0.9	-0.9	-1.3	-1.6
1-12 France	1.6	10.8	22.0	1.6	10.2	1.5	7.7	9.6
1-13 Japan	10.0	31.3	24.0	18.3	13.7	8.2	50.5	63.1
1-14 India	2.6	8.0	-3.4	16.9	23.6	4.7	9.1	11.4
1-15 German Democratic Republic	—	1.1	8.3	79.6	28.3	-9.2	-18.7	-23.4
1-16 Denmark	—	—	—	1.6	8.0	3.4	4.0	5.0
1-17 Italy	—	—	—	—	6.3	7.2	-2.3	-2.9
2. Grants	41.5	19.2	29.0	19.5	62.8	59.9	59.7	74.6
2-01 Colombo Plan	25.9	17.5	22.1	1.4	26.2	24.1	19.7	24.6
2-01.1 Australia	0.3	4.6	—	0.1	4.8	6.0	5.7	7.1
2-01.2 Canada	25.6	12.8	22.1	—	18.7	18.1	14.0	17.5
2-01.3 Japan	—	—	—	—	2.7	—	—	—
2-01.4 New Zealand	—	0.1	—	1.3	—	—	—	—
2-02 Other	15.6	1.7	6.8	18.2	36.6	35.7	40.0	50.0
2-02.1 United Nations	1.0	1.5	6.3	3.1	2.0	5.0	3.1	3.9
2-02.2 People's Republic of China	2.5	—	—	—	4.7	7.9	11.0	13.8
2-02.3 U.S.A.	12.1	0.2	0.5	0.8	6.6	4.8	14.5	18.1
2-02.4 Federal Republic of Germany	—	—	—	—	9.7	5.7	0.6	0.7
2-02.5 Czechoslovakia	—	—	—	—	—	—	—	—
2-02.6 United Kingdom	—	—	—	14.3	13.6	9.4	4.8	6.0
2-02.7 German Democratic Republic	—	—	—	—	—	—	0.6	0.8
2-02.8 France	—	—	—	—	—	—	5.4	6.7
3. Total of Loans and Grants	118.0	208.6	190.2	353.6	265.6	280.5	353.3	441.6

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, Rs. 46.1 million and Rs. 86.2 million being FEECs payable on re-payments of foreign loans for the years 1969/70, 1970/71 and 1971/72 respectively, have not been taken into account in this Table.

* On a pro-rata basis.

3. THE NET FOOD SUBSIDY

The estimates of revenue and expenditure of the Government for 1973, as in the previous financial year, show the actual cost of food subsidy, i. e., the gross food subsidy as an expenditure item and the profits from the sale of foodstuffs as a revenue item in keeping with the new economic and functional form of presenting estimates of revenue and expenditure. The Government's net 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 producers of rice, red onions¹ and chillies against which are set off the profits from the sale of foodstuffs, mainly from the import and sale of sugar. The distribution expenses and other charges in respect of rice, sugar and flour are also taken into account in computing the net food subsidy.² The profits or losses incurred in the import and sale of other foodstuffs such as flour, dhal, red onions and maldivian fish 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 (G) 5 presents the gross food subsidy and profits from sale of foodstuffs for the last three financial years along with the Approved Estimates for 1971/72 and 1973. The Table also provides the resulting net food subsidy for each year.

(a) The Gross Food Subsidy

In 1971/72 (provisional) the gross food subsidy amounted to Rs. 821 million, which on a *pro-rata* 12 months basis would amount to Rs. 657 million. The latter represents an increase of Rs. 44 million (or 7 per cent) over 1970/71.

The increase in 1970/71 over the previous year had been Rs. 39 million (or 7 per cent). This was mainly on account of an increase of Rs. 50 million in the subsidy on rice partly offset by decreased subsidies of Rs. 5 million on dhal, Rs. 1 million on locally produced red onions and Rs. 2 million on red onions. The value of rice ration coupons surrendered in lieu of repayment of loans by co-operative societies also reduced the subsidy by Rs. 3 million. During 1970/71 there was an increase of 345,000 long tons of rice issued under ration and increases in the purchase of imported and local rice of 130,000 tons and 239,000 tons respectively. The increased issue of rice under ration was consequent to the decision to issue an additional measure of rice on a payment of 75 cents per measure with effect from September 26, 1970. Despite this, the increase in the subsidy on rice was only Rs. 50 million. This was entirely due to a fall in the average landed cost of imported rice from Rs. 780/- to Rs. 655/- per long ton. Thus, the effect of this price decrease more than offset the effect of an increase in total issues of rice under ration. It should also be noted that per unit subsidy on imported rice is lower than that on local rice. The successful avoidance of demurrage expenses helped keep the distribution expenses and other charges at the level of the previous year, although the issue of rice under ration increased.

1. Consequent to the ban on import of red onions, the producers' subsidy on this item does not arise during 1971/72.
2. Prior to 1971/72 these charges in respect of all three commodities were reflected as being in respect of rice.

TABLE II (G) 5
Net Food Subsidy 1969/70 to 1973

(Rs. Million)

Items	1969/70	1970/71	1971/72			1973	
			Approved Estimates	Provisional			Approved Estimates
				15 months	15 months		
I. Gross Food Subsidy							
1. Subsidy to the consumer on imported rice ¹ ..	254.1	555.2	747.1	666.5	533.2	528.9	
2. Subsidy to the producer and consumer on locally produced rice ¹ ..	251.5						
Add; Distribution expenses and other charges ² ..	48.5	48.8	60.6	57.6	46.1	53.6	
3. Subsidy on:-							
(a) Locally produced red onions ..	4.6	3.5	9.0	—	—	—	
(b) Locally produced chillies ..	—	—	—	9.1	7.3	—	
(c) Infants' Milk food ..	—	—	—	3.0	2.4	—	
4. Losses on sale of:-							
(a) Dhal ..	12.0	6.9	6.5	15.9	12.7	13.4	
(b) Red Onions ..	2.0	0.2	0.1	—	—	—	
(c) Flour, including distribution expenses etc. ..	—	—	—	68.5	54.8	110.7	
5. Value of rice ration coupons surrendered in lieu of repayment of loans by co-operative societies ..	3.1	—	—	—	—	—	
6. Less: Miscellaneous receipts ..	2.0	2.1	0.5	—	—	0.5	
7. Gross Food Subsidy ..	573.8	612.3	822.8	820.6	656.5	706.1	
II. Profits From Sale of Foodstuffs							
1. Sugar (net of distribution expenses etc.) ³ ..	221.1	63.5	128.4	52.3	41.8	102.8	
2. Flour (net of distribution expenses etc.) ..	17.9	5.1	0.5	—	—	—	
3. Maldivé fish ..	4.1	8.0	5.1	1.6	1.3	—	
Add: Rice subsidy tax ..	3.5	2.7	—	—	—	—	
4. Profits ..	246.6	79.5*	134.0	53.9	43.1	102.8	
III. Net Food Subsidy ..	327.2	532.8	688.8	766.7	613.4	603.3	

Source: Food Commissioner.

† On a *pro rata* basis.

* Includes Rs. 0.2 million from the sale of red onions.

1 It is not possible to provide a reliable estimate of issues (imported and local rice) under the first and second measure after 1969/70. Hence items 1 and 2 have not been computed for these years.

2 Prior to 1971/72, the distribution expenses shown in the table represent the total of such expenses on account of rice, sugar and flour, as no breakdown of such expenses in terms of the 3 commodities was available. From 1971/72 these items 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. 135 million, 1971/72: Rs. 154 million, 1973: Rs. 149 million.

In 1971/72 (12 months) the gross food subsidy increased by Rs. 44 million or 7 per cent. This increase occurred despite a reduction in the subsidy on rice by Rs. 22 million. For the first time in several years the sale of flour has resulted in a loss and contributed substantially to the increase in the gross food subsidy. The declining trend in the profits from the sale of flour in recent years has been essentially due to the increase in the landed cost of wheat¹/flour set against a sale price which was hardly revised in keeping with the cost trends². Consequently, in 1971/72, the hitherto dwindling profits were converted into a loss of Rs. 60 million. While it is true that the adoption in 1971/72 of the practice of netting off the distribution expenses against the profits earned on the sale of this item contributed to the losses,³ the fact remains that it would still have registered a loss of Rs. 36 million even if such expenses have been excluded. In 1971/72, the average landed cost of wheat flour increased from Rs. 722/- to Rs. 735/- per long ton. This higher price contributed to the increase in the subsidy on flour inspite of a reduction in its consumption by 30,000 tons. In contrast, the subsidy on rice decreased in 1971/72 by Rs. 22 million. This was the combined effect of a decision to increase the price of the second measure by 25cents to one rupee, and the consequent reduction by 106,000 long tons in the draw-off of the second measure of rice under ration. A reduction in the purchase of local rice by 54,000 tons and a fall in the average landed cost of imported rice from Rs. 655/- to Rs. 581/- per long ton also contributed to the reduction in the subsidy on rice. Meanwhile, consequent to the ban on the import of red onions, the subsidy on locally produced onions was eliminated, while the purchase of locally grown chillies at guaranteed prices resulted in a subsidy of Rs. 7 million. The losses incurred on the sale of certain other food items like dhal and infants' milk food also registered increases of Rs. 6 million and Rs. 2 million, respectively. The sale of the latter item was handled by the Food Commissioner for the first time.

In 1973, the approved estimates of the gross food subsidy provide for an increase of Rs. 50 million or 8 per cent over the subsidy in the previous financial year (12 months). The subsidy on flour is estimated to increase by Rs. 56 million and distribution expenses by Rs. 8 million, while the subsidy on rice is expected to be Rs. 4 million less. The increase in the subsidy on flour is a result of the anticipated increase in the average landed cost of flour from Rs. 735/- to Rs. 962/- per long ton. At the retail prices prevailing at the time when the estimates were approved, this would involve a subsidy of Rs. 263/- per ton to consumers in Colombo and Rs. 231/- per ton to consumers in outstations⁴. The proposal to withdraw the issue of free rice under ration to income tax payers and their dependants is expected to reduce the rice subsidy by Rs. 25 million. However, the reduction in the subsidy on rice as compared with 1971/72 (12 months) is expected to be only Rs. 4 million largely on account of

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1. Imported wheat is milled locally by the State Flour Milling Corporation.
 2. The sale price of flour prior to the recent increase in January 1973 to 38 cents per pound was last revised to 33 cents per pound in 1967.
 3. The distribution expenses in respect of the sale of all commodities handled by the Food Commissioner were recorded as being in respect of rice till 1970/71.
 4. The retail price of flour has been increased to 38 cents per lb. with effect from January 1973.

the expected increase in the landed cost of rice from Rs. 581 to Rs. 722 per long ton. In addition, the purchase of local rice (on which the per unit subsidy is more) is expected to increase by 140,000 long tons. It is worth noting that while the consumption of ration rice is expected to decrease by 70,000 tons the consumption of flour is expected to increase almost commensurately by 68,000 tons.

(b) *Profits from sale of Foodstuffs*

In 1971/72 (12 months) the profits from the sale of foodstuffs recorded a fall of Rs. 36 million or 45 per cent. In 1970/71 too, there had been a sharp fall of Rs. 167 million or 68 per cent in such profits over the previous year.

The sharp fall of Rs. 167 million in the profits from the sale of foodstuffs in 1970/71 was due mainly on account of subjecting the import of sugar to FEECs. Consequently, the cost of sugar increased by Rs. 135 million. In addition, there was an increase in the landed cost of sugar from Rs. 727 to Rs. 1,003 per long ton. The profits from the sale of flour were lower by Rs. 13 million. This was largely the result of an increase in import price from Rs. 685 to Rs. 713 per long ton. The substantial reduction of 57,000 tons in the consumption of flour also accounted for the fall in profits. Meanwhile, the profits from the sale of maldivian fish showed an increase of Rs. 4 million.

The decrease in the profits from the sale of foodstuffs in 1971/72 was mainly due to an increase in the landed cost of sugar by Rs. 552 to Rs. 1,980 per long ton. This increased cost of purchase has exceeded the higher profits expected, consequent to the Government's decision to introduce a two-tier price structure for sugar. Under this scheme sugar was rationed at 3 pounds per person per month at 72 cents per pound, while off-ration sugar was sold at Rs. 1.50 per pound.¹ The ration was, however, reduced to 2 pounds per person per month with effect from March 1972. A fall of Rs. 7 million in the profits from the sale of maldivian fish also accounted for the decreased profits from sale of foodstuffs.

The 1973 approved estimates expect the profits from the sale of sugar to increase by Rs. 61 million. This is to be obtained by increasing the price of off-ration white sugar from Rs. 1.50 to Rs. 2.50 per pound¹. Part of the increased profits from the price increase is to be absorbed by increase in the cost of sugar, consequent to the increase in the FEEC rate by 10 per cent.

(c) *Net Food Subsidy*

In 1971/72 (12 months) the net food subsidy, i.e. gross food subsidy less profits from the sale of foodstuffs, showed an increase of Rs. 81 million (or 15 per cent) as against a sharp increase of Rs. 206 million (or 63 per cent) in the previous year. The increase in net subsidy of Rs. 206 million in 1970/71 was mainly the result of a sharp fall of Rs. 158 million in the profits from the sale of sugar. The increase of Rs. 81 million in the net food subsidy for 1971/72 was on account of the loss of Rs. 60 million on the sale of flour and to a reduction of Rs. 22 million in the profits from the sale of sugar.

¹ The price of off-ration white sugar was increased to Rs. 2.50 per pound with effect from 11. 11. 72 and subsequently reduced to Rs. 2.00 per pound with effect from 18. 12. 72

4. PUBLIC DEBT

The gross public debt¹ at the end of December 1972 stood at Rs. 10,319 million (Rs. 10,401 million if the liability of Government Departments on Suppliers' Credit is added), having recorded an increase of Rs. 1,536 million in the 15 months of the financial year 1971/72. Of the gross public debt outstanding, 77 per cent (or Rs. 7,926 million) was on account of domestic debt while the balance 23 per cent (or Rs. 2,393 million) comprised borrowings from foreign sources. Net of sinking funds in respect of both Rupee loans and Sterling loans, the total amount outstanding was Rs. 9,448 million, the increase during the fifteen months of 1971/72 being Rs. 1,340 million.

Details of composition and ownership of this debt as at the end of each financial year are shown in Tables 38 and 39 respectively at Appendix II, and a summary is presented in Table II (G) 6 below.

TABLE II (G) 6
Total Public Debt - 1967-68 to 1971-72 (a)

As at end of Financial Year	1967/68		1968/69		1969/70		1970/71		1971/72	
	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage
1. Gross Debt	6,270.8	100.0	6,888.5	100.0	7,873.2	100.0	8,782.8	100.0	10,318.5	100.0
1.1 Foreign	1,074.3	17.1	1,375.5	20.0	1,578.4	20.1	1,800.1	20.5	2,392.5	23.2
1.2 Domestic	5,196.5	82.9	5,513.0	80.0	6,294.8	79.9	6,982.6	79.5	7,926.0	76.8
2. Net Debt(b)	5,689.3	100.0	6,238.9	100.0	7,236.8	100.0	8,108.0	100.0	9,448.1	100.0
2.1 Foreign	1,038.3	18.3	1,337.3	21.4	1,550.9	21.4	1,767.6	21.8	2,352.5	24.9
2.2 Domestic	4,651.0	81.7	4,901.6	78.6	5,685.9	78.6	6,340.4	78.2	7,095.6	75.1

Source : Central Bank of Ceylon.

(a) Excluding (i) National Housing and State Mortgage Bank Debentures which amounted to Rs. 91.0 million and Rs. 32.3 million respectively, as at end of December, 1972; (ii) Debt of Rs. 82.2 million on account of imports of Government Departments under Suppliers' Credit; (iii) Promissory notes issued in favour of international financial organizations.

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

The increases of Rs. 1,536 million in gross public debt and of Rs. 1,340 million in net public debt, on a *pro-rata* 12 month basis, amount to Rs. 1,229 million and Rs. 1,072 million respectively. They are much higher than the increases of Rs. 910 million in gross debt and Rs. 871 million in net debt recorded in the previous financial year. The increase of Rs. 1,536 million in gross public debt for the 15 months of 1971/72 consisted of an increase of Rs. 592 million (or 38 per cent) in foreign debt and Rs. 943 million (or 62 per cent) in domestic debt. The *pro-rata* increases would amount to Rs. 474 million in foreign debt and Rs. 754 million in domestic debt. The corresponding increases during the previous year were Rs. 222 million (or 24 per cent) in foreign debt and Rs. 688 million (or 76 per cent) in domestic 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. 82 million as at December 31, 1972 on account of imports by Government Departments under Suppliers' Credit, is not included.

It will be observed that the absolute increase in foreign debt in 1971/72 (12 months) has been more than double that of such increase in 1970/71. This is largely the result of the upward revision of foreign debt liabilities shown in Ceylon Rupees, consequent to the re-alignment of the world currencies. Nevertheless, even if allowance were to be made for the increase of Rs. 225 million on account of this factor, the absolute increase would still be Rs. 294 million (12 months) and hence higher than the increase (of Rs. 222 million) in 1970/71.

The increased reliance on external assistance has been commented upon in last year's Annual Report¹. It was observed that there had been a steady increase in the foreign debt component of gross public debt from 13.6 per cent in 1966/67 to 20.5 per cent in 1970/71. During the financial year 1971/72, this greater reliance on foreign aid continued and increased the foreign debt component of gross debt to 23.2 per cent. Although the absolute increase in domestic debt was much higher than that of foreign debt, in proportionate terms the increase in domestic debt of 14 per cent during the financial year 1971/72 is much lower than the increase of 33 per cent in foreign debt. In consequence, the domestic debt component of gross debt was reduced to 76.8 per cent at the end of the financial year 1971/72.

In the financial year 1973 (i. e. January to December 1973), the Government intends raising Rs. 600 million from domestic non-bank sources and Rs. 541 million from foreign sources. The latter amount comprises Rs. 141 million of project loans and Rs. 400 million of non-project (commodity) loans.

Domestic Debt

The gross domestic debt outstanding at the end of the financial year 1971/72, which unlike in previous years ended on 31st of December, was Rs. 7,926 million. The composition of this debt and the comparative figures for the last five financial years together with the changes in their compositions are shown in Table II (G) 7.

During the fifteen month financial year 1971/72, the gross domestic debt has increased by Rs. 943 million. This increase consisted of increases of Rs. 592 million in Rupee Loans, Rs. 300 million in Treasury Bills, Rs. 11 million in Tax Reserve Certificates and Rs. 40 million in Central Bank Advances. On a *pro-rata* 12 month basis, the increase in gross domestic debt would amount to Rs. 754 million as against an increase of Rs. 688 million in the previous financial year. However, the relative shares of Rupee loans (65 per cent), Treasury Bills (29 per cent), Tax Reserve Certificates (1 per cent) and Central Bank Advances (5 per cent) in the domestic debt, as compared with 1970/71, remained unchanged at the end of the financial year under review.

1. Annual Report 1971, page 161.

TABLE II (G) 7

Composition of Domestic Public Debt and Changes - 1967 to 1972

Rupees Million

As at end of September	Rupee Loans			Treasury Bills	Tax Reserve Certi- ficates	Central Bank Ad- vances (b)	National Develop- ment Bonds (c)	Total	
	Gross	Sinking Fund(a)	Net					Gross	Net
Sept. 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
Dec. 1972 ..	5,103.4	830.4	4,273.0	2,325.0	77.8	419.6	0.2	7,926.0	7,095.6
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
Change 1972 Dec./71 Sept.	+591.5	+188.2	+403.4	+300.0	+11.8	+ 40.1	—	+943.4	+755.2

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. 93.2 million at the end of September, 1971 and December 1972 the Central Bank advances increased by Rs. 40.1 million in 1971/72. 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 1971 amounted to Rs. 216,894 and remained at the level upto that end of December 1972.

Whereas in 1970/71, borrowing through the issue of Rupee loans, excluding conversion loans, accounted for 85 per cent of the total domestic borrowings, its share in total borrowings fell to 63 per cent in 1971/72. The increased reliance of Government domestic borrowings on Rupee loans, which was very much evident in the previous two financial years appears to have been somewhat reduced in 1971/72. On the other hand, borrowings by way of Treasury Bills increased substantially in the year under review. They increased from Rs. 75 million in 1970/71 to Rs. 300 million in the year under review, which sum on a *pro-rata* basis would amount to Rs. 240 million for a 12 month period. However, the substantial increase in borrowing through Treasury Bills was largely due to fortuitous circumstances created by the Bank strike during the period September 1, 1972 to December 17, 1972. During this period, the flow of of revenue to Government was interrupted and the Government had to resort to temporary accommodation in this form.

The maturity pattern of gross domestic debt as at the end of the last five financial years is shown in Table II (G) 8,

TABLE II (G) 8

Domestic Debt - Analysis by Maturity
(as at end of government financial year) (a)

Years to Maturity	1967/68		1968/69		1969/70		1970/71		1971/72	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Unfunded debt (b)	2,078.6	40.0	2,103.8	38.2	2,369.9	37.6	2,470.6	35.4	2,822.6	35.6
2. Funded debt (c)	3,117.9	60.0	3,408.6	61.8	3,924.9	62.4	4,511.9	64.6	5,103.4	64.4
2.1 First 5 years	452.1	8.7	534.9	9.7	491.1	7.8	397.4	5.7	428.1	5.4
2.2 5 to 10 years	315.7	6.1	235.8	4.3	383.2	6.1	492.7	7.1	307.0	3.9
2.3 10 to 15 years	249.1	4.8	247.0	4.5	534.6	8.5	1,352.4	19.4	2,277.0	28.7
2.4 15 to 20 years	600.0	11.5	795.0	14.4	1,047.4	16.6	1,118.0	16.0	1,366.3	17.2
2.5 20 to 25 years	1,501.0	28.9	1,595.9	29.0	1,468.5	23.3	1,151.4	16.5	725.0	9.1
3. Total	5,196.5	100.0	5,512.4	100.0	6,294.8	100.0	6,982.5	100.0	7,926.0	100.0

Source: Central Bank of Ceylon.

(a) The financial year of the Government was from October 1st to September 31st except in 1971/72 when it was from October 1, 1971 to December 31, 1972.

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

(c) As at latest date of maturity.

In domestic debt, the shares of funded debt (consisting entirely of Rupee Securities) and unfunded debt (consisting mainly of Treasury Bills) at the end of the financial year 1971/72 remained almost the same as at the end of the previous financial year. Thus the gradual decline of the share of unfunded debt since 1967, to which attention was drawn in the last year's Annual Report¹, appears to have been arrested. Mention has already been made about the changes in the composition of domestic public debt. However, it may be observed that the ratio of unfunded debt to funded debt continues to be approximately 2:3 as in the recent past.

All Rupee loans issued in the financial year 1971/72 were of 10 to 12 year duration. Consequently, the share of the group of securities of 10 to 15 year maturity, which more than doubled during 1970/71, increased further, and now accounts for nearly 30 per cent of total domestic debt. The share of securities maturing in 20 to 25 years has decreased from 29 per cent at the end of 1968/69 to 9 per cent at the end of 1971/72. The maturity pattern of the funded debt reveals that there exists scope for spreading the debt repayment burden more evenly through the issue of long term Rupee Securities. Particular attention has now to be paid to avoiding large bunching of repayments in certain years which is bound to create budgeting problems to the Government with its ever increasing needs for finance. The fact that 'captive' sources of funds have, in the recent past, become the major contributors to the Government loan programme should facilitate this task of managing the Public debt. Attention has also been drawn to the increasing interest burden of the Public debt elsewhere in this Report.²

(a) Rupee Securities

During the financial year 1971/72, twenty Rupee Loans were floated, all of which were of 10 to 12 year duration and carried an interest of 9 per cent per annum. Seven of these were conversion loans. The total amount raised was Rs. 747 million. Of this amount, Rs. 97 million was on account of conversion loans. In the previous financial year, 1970/71, the total amount raised through the issue of Rupee Loans was Rs. 681 million of which Rs. 86 million was on account of conversion loans.

Details of subscriptions to each Rupee Loan floated in 1971/72 are given in Table 41 of Appendix II and a summary of subscriptions to Rupee Loans floated in the last four financial years is given in Table II (G) 9.

The resources mobilised by the Government through the issue of Rupee Securities, during the financial year 1971/72, *pro-rata* for 12 months, would amount to Rs. 597 million. Although this is substantially lower than the Rs. 681 million raised in the previous year, it slightly exceeded the originally estimated *pro-rata* borrowings from this source in the Budget for the year under review³. The decrease, when compared with the previous year, is essentially due

1. Annual Report 1971, page 162.

2. Pages 129 and 130.

3. Net of Conversion loans, the amounts raised through Rupee Securities in 1970/71 and 1971/72 were Rs. 595 million and Rs. 650 million (Rs. 520 million for 12 months) respectively. In the Budget 1971/72 it was expected to raise Rs. 640 million through Rupee Securities which would, *pro-rata*, amount to Rs. 512 million for 12 months.

to the reduced support the Government Loan Programme received from the non-bank sector, particularly from savings institutions. The Insurance Corporation of Ceylon, Insurance Companies, individuals, clubs and institutions also contributed to this decrease to a lesser extent.

TABLE II (G) 9
Classification of Subscriptions to Rupee Securities (a)

Subscribers	1968/69		1969/70		1970/71		1971/72		
	Amount Rs. Mn.	Percen- tage	Amount Rs. Mn.	Percen- tage	Amount Rs. Mn.	Percen- tage	12 Months Amount Rs. Mn.	15 Months Amount Rs. Mn.	Percen- tage
1. Bank Sector ..	0.6	0.2	117.5	20.3	12.7	1.9	37.4	46.7	6.3
1.1 Commercial banks ..	0.6	0.2	117.5	20.3	12.7	1.9	37.4	46.7	6.3
2. Non-Bank Sector ..	339.4	99.8	461.7	79.7	668.1	98.1	559.9	699.9	93.7
2.1 Savings institutions ..	36.0	10.6	156.1	26.9	216.0	31.7	97.4	121.7	16.3
2.2 Sinking funds ..	111.8	32.9	83.0	14.3	161.8	23.8	168.0	210.0	28.1
2.3 Departmental and other official funds ..	8.4	2.5	6.2	1.1	9.4	1.4	12.7	15.9	2.1
2.4 Employees' Provident Fund ..	101.3	29.8	97.9	16.9	143.0	21.0	158.2	197.7	26.5
2.5 Insurance Corporation ..	42.5	12.5	45.5	7.9	60.8	8.9	55.3	69.1	9.3
2.6 Private provident and pension funds ..	36.8	10.8	53.9	9.3	62.1	9.1	64.6	80.8	10.8
2.7 Insurance companies ..	0.6	0.2	16.1	2.8	6.3	0.9	0.4	0.5	0.1
2.8 Other companies ..	0.2	0.1	0.6	0.1	0.8	0.1	0.2	0.3	...
2.9 Individuals, clubs and institutions ..	1.5	0.4	2.5	0.4	7.9	1.2	3.1	3.9	0.5
3. Total ..	340.0	100.0	579.2	100.0	680.7	100.0	597.1	746.4	100.0

(a) Refers to Rupee loans only.

Source: Central Bank of Ceylon.

The intake of Government Securities by the non-bank sector decreased by Rs. 140 million while that of the bank sector increased by Rs. 47 million. The banking system has been precluded from contributing directly to Rupee Securities in the past few years. Consequently, the investments by the bank sector during the last two years, have been entirely in loans made by the conversion of maturing stock. In 1969/70, too, the contributions of the commercial banks were directly linked to the settlement by the Government, of the outstanding (import) bills amounting to Rs. 125 million. The contributions from commercial banks formed only 6 per cent of the total subscriptions to Rupee Securities.

The Government and Semi-Government sources in the non-bank sector comprising the savings institutions, Insurance Corporation of Ceylon sinking funds, departmental funds and Employees' Provident Fund continued to give substantial support to the Government Loan Programme in the year under review. The share of contributions from such sources in total contributions to

Rupee Loans during the period 1967/68 to 1970/71 has averaged 82 per cent; there was no change in this ratio in the year under review. These sources thus constitute the main avenues of contributions to Rupee Securities and the performance of the Government loan programme is heavily dependent on them. Meanwhile, the non-bank private sector too, has maintained its intake of Government Securities.

The major contributors to Rupee Securities in the financial year 1971/72 were sinking funds (Rs. 210 million or 28 per cent), Employees' Provident Fund (Rs. 198 million or 27 per cent), savings institutions (Rs. 122 million or 16 per cent), private provident and pension funds (Rs. 81 million or 11 per cent) and the Insurance Corporation of Ceylon (Rs. 69 million or 9 per cent).

The largest contributor to Rupee Securities was the Sinking funds. Sinking Funds' contributions to Rupee Securities have been quite substantial in recent years. This is because the investment capacity of the Sinking Funds has increased significantly in the recent past with the increase in the volume of borrowing and the shortening of the terms of the Rupee Loans to 10-12 years. The latter has led to an increase in the rate of Sinking Fund contributions to 5 per cent per annum for each such loan. Moreover, the higher interest rates earned on recent investments on sinking funds, too, have helped in the process. Mention must also be made of the establishment of the Joint Investment Fund in 1971 which has helped to ensure a better return on investments of sinking funds.¹

The next largest contributions to Rupee Securities in 1971/72 came from the Employees' Provident Fund. Contributions from this source which amounted to Rs. 198 million in 1971/72 (15 months) had increased substantially in 1970/71, primarily as a result of the increase in the rates of contribution and the extension of the scheme's coverage in that year. The same factors have helped to increase the share of the Employees' Provident Fund's contributions to 27 per cent of the total subscriptions to Rupee Securities in 1971/72.

The contributions from the savings institutions which until the establishment of the National Savings Bank in April, 1972 were made by the Post Office Savings Bank, Ceylon Savings Bank, and the Savings Certificates Fund are now centrally directed through the National Savings Bank. These contributions which reached a record level of Rs. 216 million in 1970/71, largely as a result of the substantial increase in deposits consequent to the demonetization exercise, however, amounted to only Rs. 122 million in the 15 months of the financial year 1971/72. The main reason for the decreased support from this source was that the abnormal rate of increase in deposits obtained during 1970/71, as a result of demonetization, could no longer be sustained in the year under review.

The contributions of the Insurance Corporation of Ceylon at Rs. 55 million (12 months) were also less than the corresponding contribution of Rs. 61 million in 1970/71. This reduction was the combined effect of the increased tax provision (consequent to the increase in the rate of income tax from 50 to 60 per cent), the direct contributions made by the Corporation to the Consolidated

1. For further details on the Joint Investment Fund please see pages 154 and 155.

Fund, a decline in the rate of increase in most kinds of insurance business, and an increase in the claims that had to be met by the Insurance Corporation. Moreover, it is now over 10 years since the Insurance Corporation was established. Its life insurance being its largest business, an increase in the magnitude of claims to be met by the Corporation could now be reasonably expected. Unless the Corporation's new business is sustained at an adequate pace, liquidity considerations could very well lead to a progressive reduction in the support from this source to the Government Loan Programmes in the future.

The subscriptions of the non-bank private sector which amount to Rs. 68 million, on a *pro-rata* basis for 12 months, in 1971/72 registered a decrease as compared with 1970/71 when they were Rs. 75 million. However, the contributions from private provident and pension funds increased from Rs. 62 million in 1970/71 to Rs. 75 million in 1971/72 (12 months). Apart from the enhanced rates of contributions to provident funds which came into effect during 1970/71, the attraction of a higher interest rate, together with the shortening of the period of maturity of Rupee Securities may have helped to sustain the support from this source. The decline in the contributions from private insurance companies over the years is a reflection of their need for greater liquidity and the consequent decline in their investible funds. Meanwhile, the contributions from individuals, clubs and institutions too, have recorded a decrease after registering a significant increase in 1970/71.

A classification of ownership of Rupee Securities as at the end of the last five financial years is given in Table II (G) 10 below.

TABLE II (G) 10
Ownership of Rupee Securities^(a) - As at the end of financial years
1967/68 to 1971/72

		Rupees Million				
Owners		1967/68	1968/69	1969/70	1970/71	1971/72
1. Bank Sector	..	328.8	367.0	586.0	588.2	536.1
1.1 Central Bank	..	70.0	111.8	249.0	247.5	197.3
1.2 Commercial banks	..	258.8	255.3	337.0	340.7	338.8
2. Non - Bank Sector	..	2,789.0	3,042.0	3,338.9	3,923.7	4,567.3
2.1 Savings institutions (b)	..	641.2	641.7	651.5	832.6	951.9
2.2 Sinking funds	..	532.3	614.1	696.2	846.9	1,042.6
2.3 Departmental and other official funds	..	147.1	150.8	156.2	163.2	165.2
2.4 Employees' Provident Fund	..	612.1	713.5	811.4	954.4	1,159.6
2.5 Other provident funds	..	394.5	423.2	469.3	513.1	572.5
2.6 Insurance Corporation	..	234.5	276.9	322.4	383.1	452.1
2.7 Insurance companies	..	140.7	139.0	149.8	145.5	136.2
2.8 Other state corporations	..	2.9	2.9	2.2	2.2	2.2
2.9 Others (c)	..	83.7	79.8	79.8	82.7	85.1
3. Total	..	3,117.9	3,409.1	3,924.9	4,511.9	5,103.4

Source: Central Bank of Ceylon.

(a) Refers to Rupee loans only.

(b) With effect from April 1, 1972, The National Savings Bank has taken over the assets and liabilities of the Post Office Savings Bank, the Ceylon Savings Bank, and Savings Certificates Fund.

(c) Comprising Co-operative Banks, other companies, clubs, institutions and individuals.

The total amount of Rupee Securities held by the public at the end of 1971/72 was Rs. 5103 million, recording an increase of Rs. 592 million or 13 per cent during the financial year (15 months). This increase was due to an increase of Rs. 644 million in the holdings of the non-bank sector offset partly by a decrease of Rs. 52 million in holdings of the bank sector.

The increase in holdings of non-bank sector was due mainly to increases of Rs. 119 million in holdings of savings institutions (currently by the National Savings bank), Rs. 196 million of sinking funds, Rs. 205 million of Employees' Provident Fund, Rs. 59 million of other provident funds and Rs. 69 million of the Insurance Corporation of Ceylon. The decrease in holdings by the bank sector was almost entirely due to a fall of Rs. 50 million in the holdings of the Central Bank. This fall was consequent to repayments of maturing stock held by the Central Bank. There was no increase in holdings of commercial banks despite their subscriptions of Rs. 47 million, since this sum consisted of converted maturing securities.

The Employees' Provident Fund has held the highest amount of securities at the end of each of the last four financial years. The amount it held at the end of 1971/72 was Rs. 1160 million which constituted nearly a quarter of the total Rupee Securities issued and outstanding. Sinking funds, with securities amounting to Rs. 1043 million held 20 per cent of the total, while savings institutions followed closely with Rs. 952 million worth of securities accounting for 19 per cent. The others who held major shares were Insurance Corporation and private provident funds with securities worth Rs. 452 million (9 per cent) and Rs. 573 million (11 per cent) respectively.

(b) *Treasury Bills*

The amount of Treasury Bills issued and outstanding at the end of December, 1972 was Rs. 2325 million, recording an increase of Rs. 300 million during the fifteen months of the financial year 1971/72. The authorised limit of Treasury Bills which remained at Rs. 2050 million since September 25, 1970 was increased to Rs. 2550 million on July 21, 1972 by a resolution of the National State Assembly.

Particulars of Treasury Bill issues during the last financial year are given at Table 42 of Appendix II and a classification of ownership of Treasury Bills at the end of each of the last five financial years is given in Table II (G) 11.

The Rs. 300 million increase in the Treasury Bill issue, the need for which was imposed largely as a result of the Bank strike during September to December 1972, was absorbed mostly by the bank sector, Central Bank accounting for Rs. 220 million and the commercial banks for Rs. 75 million. The Bank sector's purchase of Treasury Bills has always been large in the past and its holdings constituted 97 per cent of the total at the end of 1971/72. Of these, Central Bank's share was 81 per cent and the commercial bank's share 16 per cent. The heavy reliance of the Treasury Bill Market on the banking system, particularly on the Central Bank, is very much evident.

TABLE II (G) 11

Ownership of Treasury Bills - As at the end of financial years
1967/68 to 1971/72

Rupees Million.					
Owners	1967/68	1968/69	1969/70	1970/71	1971/72
1. Bank Sector	1,682.2	1,691.4	1,880.3	1,969.6	2,264.7
1.1 Central Bank	1,586.3	1,637.3	1,833.8	1,670.5	1,890.8
1.2 Commercial Banks	95.9	54.1	46.5	299.1	373.9
2. Non-Bank Sector	67.8	58.6	69.7	55.4	60.3
2.1 Sinking funds	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	—	—	0.8	1.0
2.4 Savings institutions	1.1	1.3	2.4	2.0	—
2.5 Insurance companies	6.0	11.2	8.9	11.4	8.6
2.6 Other	0.3	4.5	2.8	0.2	50.4
3. Total	1,750.0	1,750.0	1,950.0	2,025.0	2,325.0

Source: Central Bank of Ceylon

In the non-bank sector, there were no appreciable increases in the holdings of Treasury Bills except in the category 'other' which has, during the financial year 1971/72, changed from the smallest to the biggest group holding Treasury Bills within that sector. This is almost entirely due to an investment of Rs. 50 million of compulsory savings in Treasury Bills.

The investment of sinking funds in Treasury Bills is usually done either when there is a need for cash in the immediate future, as it happens when a repayment of a rupee loan is due soon, or when there is no rupee loan on float as funds held are normally invested in rupee loans because of the higher rate of interest. Sinking fund investments are usually accumulated in Treasury Bills during the three months prior to a repayment of a rupee loan and are used up at the time of repayment. Sinking funds held Treasury Bills to a value of Rs 41 million at the end of 1970/71 and had no such holdings at the end of 1971/72. This is due to the accumulation of deposits towards the end of 1970/71 and the subsequent utilisation of the funds for debt repayment in the year under review.

The Treasury Bill rate, which stood at 5 per cent per annum at the commencement of the financial year under review, remained unchanged throughout the financial year. The Central Bank's support for Treasury Bills has been at 3.24 per cent per annum since August 15, 1969 when it was increased from 2.0 per cent per annum.

(c) Tax Reserve Certificates

Of the authorised issue of Rs. 500 million, Tax Reserve Certificates amounting to Rs. 480 million have been issued upto the end of December 1972 and the amount of Certificates not surrendered as at that date was Rs. 78 million. The amount unsurrendered at the end of the previous financial year

was Rs. 66 million. Hence, there was an increase of Rs. 12 million in this type of debt obligation during the financial year 1971/72 when compared with Rs. 21 million during the previous financial year. The amount unsurrendered at the end of 1971/72 is the highest ever recorded since the commencement of the Tax Reserve Certificates in 1957.

The rate of interest of 3 per cent per annum on Tax Reserve Certificates came into effect on March 31, 1970 and has remained unchanged ever since.

(d) *Central Bank Advances*

Central Bank advances¹ to the Government increased by Rs. 40 million during the 15 months of the financial year 1971/72. The increase recorded during the previous financial year (which consisted of 12 months) was Rs. 5 million. The advances granted during 1971/72 included Rs. 1 million advanced for the payment of Ceylon's quota subscriptions to the International Monetary Fund.

At the end of December 1972, Central Bank advances to the Government amounted to Rs. 420 million as compared with Rs. 380 million at the end of the previous financial year on September 30, 1971. Special loans granted by the Central Bank for payment of Ceylon's membership subscriptions to international financial organisations which amounted to Rs. 93 million at the end of the financial year 1970/71 remained at the same level upto the end of the year under review.

Foreign Debt

The total foreign debt (gross)² outstanding at the end of December 1972 amounted to Rs. 2393 million. The increase in gross foreign debt during the financial year under review amounted to Rs. 592 million.³ On a *pro-rata* 12 month basis, the increase amounts to Rs. 474 million.⁴ In comparison, the increase in gross foreign debt in the previous year amounted to Rs. 222 million.

Foreign loans utilised during the financial year 1971/72 amounted to Rs. 523 million of which Rs. 117 million⁵ (or 22 per cent) was by way of project Loans and Rs. 407 million (or 78 per cent) was by way of non-project (commodity) loans. When allowance is made for the cash loan of Rs. 50 million from People's Republic of China, the amount of project loans would be reduced to Rs. 67 million. The resources obtained in the previous year by way of project loans and non-project (commodity) loans amounted to Rs. 141 million⁶ (or 46 per cent) and Rs. 169 million (or 54 per cent) respectively. The increased utilization of foreign resources in the year under review was due mainly to the increase in the amount of commodity aid utilized.

1. Under Section 89 of the Monetary Law Act.

2. i.e. Net of repayments but before deducting contributions to sterling loan sinking funds.

3. Includes an increase of Rs. 221 million in the debt as shown in Ceylon Rupees on account of the re-alignment of currencies.

4. The reasons for this large increase have been discussed in detail in page 142.

5. Includes a cash loan of Rs. 50 million from People's Republic of China, classified as a project loan by the Department of Public Debt, Central Bank.

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

Foreign finance in general, and non-project (commodity) loans in particular, have in recent years been an important source of budgetary finance. The Annual Report for 1971 commented on the need for more accurate forecasting of potential receipts of foreign finance and their utilisation for budgetary purposes.¹ In 1971/72, too, actual receipts of foreign finance have fallen short of the expectation of the Budget for the year. Actual use of Project Aid, in particular, has consistently fallen short of budgetary expectations over the last few years.²

Table II (G) 12 below shows the original estimates, i.e. as estimated in the Budget for the respective financial years, and the actual receipts of foreign finance since 1966/67.

TABLE II (G) 12
Original Estimates and Actual Receipts of Foreign Finance

Rupees Million												
Type of Aid	1966/67		1967/68		1968/69		1969/70		1970/71		1971/72 (15 months)	
	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual
Project Aid inclusive of Grants	125.0	61.7	125.0	67.0	213.0	113.4	176.8	116.1	111.3	201.0*	162.0†	116.6†
Non-Project (Commodity) Aid	150.0	193.9	150.0	178.9	263.0	312.2	325.0	229.1	525.0	169.0	500.0	406.6

Source: Central Bank of Ceylon.

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

† Includes Rs. 50 million cash loan by the People's Republic of China.

The repayments of foreign loans in 1971/72 amounted to Rs. 155 million, of which half was in respect of project loans and the other half in respect of non-project (commodity) loans. Net of these repayments, the gross external debt increased by Rs. 592 million. Taking into account an increase of Rs. 7 million in Sterling Loan Sinking Fund, the net liability increased by Rs. 585 million.

The details of withdrawals, repayments and liabilities on account of sterling, project and non-project (commodity) loans are given in Table II (G) 13.

1. Annual Report 1971, Page 170.

2. The inclusion of 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 the same year.

TABLE II (G) 13

Foreign Loans

Rupees Million

Types and Sources	With- drawals in 1971/72	Repay- ments in 1971/72	Increase in 1971/72	Liability as at December 1972
1. Sterling Loans ..	-	-	6.6	78.0 (a)
Increase in the loan liability due to re-alignment of international currencies ..			6.6	
2. Project Loans ..	116.6	77.4	95.6	705.5
2.01 I.B.R.D. ..	0.7	13.7	-12.9	131.0
2.02 German Democratic Republic ..	0.7	24.1	-23.4	94.6
2.03 U.S.S.R. ..	3.1	12.1	-9.0	68.8
2.04 Federal Republic of Germany (b) ..	1.0	9.5	-8.5	68.9
2.05 Canada (c) ..	0.1	5.7	-5.6	29.0
2.06 People's Republic of China ..	50.0	5.5	44.5	167.8
2.07 U.S.A. (d) ..	-	0.5	-0.5	23.4
2.08 Denmark ..	5.0	-	5.0	20.2
2.09 International Development Association ..	21.5	-	21.5	48.9
2.10 United Kingdom ..	11.9	4.2	7.7	11.5
2.11 National and Grindlays Bank ..	-	-	-	3.2
2.12 Polish People's Republic ..	-	1.6	-1.6	0.7
2.13 Federal People's Republic of Yugoslavia ..	-	0.3	-0.3	1.1
2.14 France ..	0.2	0.2	-	-
2.15 Asian Development Bank ..	22.4	-	22.4	33.3
Increase in the loan liability due to re-alignment of international currencies ..			56.3	
3. Non-Project (Commodity) Loans ..	406.6	77.8	490.0	1,609.0
3.01 U.S.A. (e) ..	136.5	8.5	128.0	564.3
3.02 United Kingdom ..	38.9	5.2	33.7	289.9
3.03 Federal Republic of Germany (b) ..	20.4	-	20.4	198.3
3.04 Japan ..	83.7	20.6	63.1	219.6
3.05 France ..	33.0	23.4	9.6	73.7
3.06 India ..	23.1	11.7	11.4	69.2
3.07 Canada ..	27.6	-	27.6	74.8
3.08 People's Republic of China ..	43.5	5.4	38.1	106.7
3.09 Italy ..	-	3.0	-3.0	12.5
Increase in the loan liability due to re-alignment of international currencies ..			161.1	
4. Grand Total ..	523.2	155.2	592.2	2,392.5 (a)

Source: Central Bank of Ceylon

(a) Rs. 40.0 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

There were no borrowings or repayments on account of Sterling Loans during the financial year under review. The gross debt of Rs. 71 million outstanding at the end of the previous financial year, however, increased by Rs. 7 million during 1971/72 due to the effect of re-alignment of international currencies, and at the end of December 1972 the liability in respect of Sterling Loans amounted to Rs. 78 million. The net debt outstanding, however, stood at Rs. 71 million due to an increase of Rs. 7 million in Sterling Loan Sinking Funds.

(b) *Project Loans*

Project loans utilized in 1971/72 amounted to Rs. 117 million¹. Net of repayments of Rs. 77 million², the increase in liability on account of borrowings under project loans would have been Rs. 40 million. However, due to an increase of Rs. 56 million in the loan liability as shown in terms of Ceylon Rupees, consequent to the re-alignment of international currencies, it increased instead by Rs. 96 million. During the previous financial year, a receipt of Rs. 141 million³ and a repayment of Rs. 53 million² increased such liabilities by Rs. 88 million.

The major donors of project aid received during the year under review were the Asian Development Bank and the International Development Association. Each of these institutions accounted for Rs. 22 million of such aid. Of the project aid received from the Asian Development Bank Rs. 12 million was for the Walawe project and Rs. 9 million for the Tanker Berth Project. The aid received from International Development Association consisted of Rs. 17 million for the Mahaweli Project and Rs. 2 million each for the Lift Irrigation Project and for the Drainage and Reclamation Project.

The outstanding liability on project loans utilized stood at Rs. 706 million at the end of the financial year 1971/72. This represented 30 per cent of the gross foreign debt outstanding. The amount outstanding on this account at the end of the previous financial year was Rs. 610 million or 34 per cent of gross foreign debt outstanding at the end of that financial year.

(c) *Non-Project (Commodity) Loans*

Utilization of commodity aid in 1971/72 amounted to Rs. 407 million. This amounts to, on a twelve month *pro-rata* basis, Rs. 325 million, while Rs. 169 million was utilised in the preceding year. The increase in liability on account of borrowing under the "Commodity Aid Programme" less repayments amounted to Rs. 490 million². The increase in liability, despite the repayments, was more than the utilization of such aid because of an increase of Rs. 161 million in liabilities (as shown in Ceylon Rupees) on account of the re-alignment of international currencies.

The major imports under the "Commodity Aid Programme" in the financial year 1971/72 were wheat flour, fertilizer, industrial raw material and machinery, motor spares, tractors, implements and spares. The major donors of such aid were the United States of America (Rs. 137 million) Japan (Rs. 84 million), People's Republic of China (Rs. 44 million), France (Rs. 33 million), Canada (Rs. 28 million) India (Rs. 23 million) and Federal Republic of Germany (Rs. 20 million).

1. Includes cash loan of Rs. 50 million received from the People's Republic of China.

2. This figure will not compare with the corresponding figures in Table II (G) 2 and in Table 31 of Appendix II since FEECs payable on repayments of foreign loans have not been taken into account here.

3. Includes cash loan of Rs. 100 million received from the People's Republic of China.

The outstanding external liability on account of non-project (commodity) loans at the end of the financial year 1971/72 was Rs. 1609 million while the amount outstanding at the end of the previous year was Rs. 1,119 million.

In the year under review, Rs. 394 million was credited to the Ceylon Government Foreign Aid Counterpart Fund¹ and an equal amount withdrawn for budgetary purposes, leaving a negligible balance in the Fund at the end of the financial year. On a *pro-rata* basis for twelve months, the amount credited and withdrawn would be Rs. 315 million as compared with an amount of Rs. 283 million credited and withdrawn during the previous financial year.

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

External Suppliers' Credit²

The external liability of the Government on account of imports by Government departments under Suppliers' Credit stood at Rs. 82 million at the end of the financial year 1971/72. Such liabilities at the end of the previous financial year amounted to Rs. 65 million. External liabilities on this account thus increased by Rs. 17 million during the 15 months of the financial year 1971/72. Of the total outstanding liability at the end of this period, Ceylon Government Railway and the Department of Posts and Telecommunications accounted for Rs. 45 million (or 54 per cent) and Rs. 34 million (or 42 per cent) respectively.

Sinking Funds

The approximate market value of Sterling Loan Sinking Funds and Rupee Loan Sinking Funds at the end of 1971/72 were Rs. 40 million and Rs. 830 million respectively, while at the end of the previous financial year they were Rs. 33 million and Rs. 642 million respectively.

The market value of the sterling loan sinking funds increased by Rs. 7 million in 1971/72. This increase was the result of investment of new contributions (of Rs. 1 million), interest earned on past investments (of Rs. 2 million) and an appreciation of market value of investments (of Rs. 4 million).

The market value of Rupee Loan Sinking Funds increased by Rs. 188 million. It was the combined result of investment of new contributions (of Rs. 169 million) and of interest earned on past investments (of Rs. 61 million) and an appreciation in the market value of past investments (of Rs. 16 million) partly offset by repayment of loans (of Rs. 58 million).

Joint Investment Fund

A fund known as the Joint Investment Fund was established and began its operations with effect from September 1, 1972 under the trusteeship of the Monetary Board. The purpose of its establishment was the rationalisation of the

1. See note to Table 43 Appendix II.

2. External Suppliers' Credit on account of imports by Government departments are not included as part of 'Public Debt'.

investment and accounting procedures of the sinking funds of Government and Government guaranteed loans. The Joint Investment Fund acquired all investments of the Sinking Funds which existed at the time of its establishment in September 1972. Its objects are - (a) the acceptance of deposits from the sinking funds of government and government guaranteed loans; (b) the investment of moneys of the Fund in government and government guaranteed loan stocks, securities and treasury deposits; (c) the realisation of the investments that may be made by the Fund or the variation of such investments by way of sale and purchase; and (d) the refund to the sinking funds of the moneys lying to the credit of their deposit accounts with the Fund as and when they are required for the redemption of loan stock or securities.

5. BORROWING BY SEMI-GOVERNMENT INSTITUTIONS

(a) National Housing Fund

There were no issues of National Housing Debentures during the financial year 1971/72. There were, however, two repayments of National Housing Debentures of Rs. 5 million and Rs. 10 million on December 1, 1971 and June 1, 1972 respectively. The total of National Housing Debentures of Rs. 106 million issued and outstanding at the end of the previous financial year was, therefore, reduced to Rs. 91 million at the end of December 1972. The authorised 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. 34 million at the end of December 1972.

(b) State Mortgage Bank

There were no issues or repayments of State Mortgage Bank Debentures during the financial year 1971/72. The debentures issued and outstanding which stood at Rs. 32 million at the end of the financial year 1970/71, therefore, remained at the same level at the end of financial year 1971/72.

6. THE BUDGET - 1973

The Budget for the financial year 1973 was presented in the National State Assembly on November 10, 1972 and was approved on December 28, 1972. Unlike in previous years, the Budget for the financial year covers a period of 12 months from January 1, 1973 to December 31, 1973 in view of the adoption of the calendar year as the financial year.

The Finance Minister in his Budget Speech stated that the Budget for 1973 makes a conscious attempt to meet the requirements as set out in the Five Year Plan. The Budget Speech spells out several measures aimed at raising additional resources to finance the investment programme and to raise productivity through direct and indirect measures so that resources could be ultimately mobilized to realize the objectives of the Plan. The measures introduced in the Budget are expected to impart considerable financial discipline by containing the overall expenditure of the Government within the constraints of available resources, and limit recourse to the banking system for financing the deficit.

The practice of Programme Budgeting which replaced the traditional standardized votes system on a limited scale in the 1971/72 Budget Estimates has been extended to cover the estimates of nineteen ministries in the Budget Estimates for 1973. The revenue estimates, too, have been presented, like in 1971/72, on an economic and functional basis using the standard system of classification recommended by the United Nations.

Overall Budgetary Position

Table II (G) 14 summarises the overall budgetary position for the financial year 1973, taking into account the new revenue and expenditure proposals approved during the Budget debate.

The "Pre-Budget Estimates" column shows the figures of revenue, expenditure and deficit as contained in the Draft Estimates, which were tabled in the National State Assembly before the Budget Speech. It depicts the total revenue that would accrue at pre-budget rates of taxation, and other receipts, while its expenditure figures reflect almost the entirety of the capital and current expenditure programmes of the Government for the new financial year.

The "Approved Estimates" column refers to revenue, expenditure and financing proposals as approved by the Assembly.

The total revenue at Rs. 3,880 million (inclusive of new proposals) during 1973 is expected to show a rise of 18 per cent over the actual *pro-rata* revenue of 1971/72. It also represents an increase of 15 per cent over the Pre-Budget estimates for 1973.

The total expenditure, adjusted for anticipated under-expenditure, amounts to Rs. 5,161 million. It indicates an increase of 11 per cent over the actual *pro-rata* expenditure for 1971/72. Recurrent expenditure as shown in the Approved Estimates has increased by Rs. 63 million over the Pre-Budget estimates. This increase is attributable to the effect of the wage and salary increase (Rs. 30 million), rebate for export crops (Rs. 26 million) and of FEECs outpayments (Rs. 32 million) which together were partly offset by a decrease in the expenditure on food subsidy (Rs. 25 million). The net recurrent expenditure for 1973 is expected to be higher than the actual expenditure *pro-rata* for 1971/72 by Rs. 341 million.

The capital expenditure for 1973, which is expected to be Rs. 928 million net of sinking fund contributions and direct repayments of public debt, is higher than the actual *pro-rata* capital expenditure for 1971/72 by Rs. 50 million. In addition, a sum of Rs. 100 million has been provided for in respect of anticipated net payments on account of "Advance Account" Operations, continuing the practice initiated with the Budget for 1971/72.

The excess of total expenditure over total revenue leaves a budget deficit of Rs. 1,281 million. This represents a decrease of Rs. 157 million over the originally estimated deficit of the previous financial year calculated on a *pro-rata* basis. When compared with the actual deficit of 1971/72 it shows a decrease of Rs. 85 million.

TABLE II (G) 14
Overall Budgetary Position - 1973

		Rs. million	
Items		Pre-Budget Estimates	Approved Estimates
1.	Recurrent Expenditure ..	3,776.6	3,840.0
	Less under-expenditure (a) ..	113.3	113.3
		3,663.3	3,726.7
2.	Capital Expenditure ..	1,658.3	1,691.1
	Less under-expenditure (a) ..	256.9	356.9
		1,401.4	1,334.2
3.	Advance Account ..	100.0	100.0
4.	Total Expenditure ..	5,164.7	5,160.9
5.	Total Revenue ..	3,367.4	3,880.4
6.	Budget Deficit ..	1,797.3	1,280.5
	Less Contributions to sinking funds etc. ..	373.6	406.4
7.	Net Cash Deficit ..	1,423.7	874.1
8.	Financing of Budget Deficit		
	8.1 Domestic market borrowing from non-bank sources ..		600.0
	8.2 Administrative Borrowings (Net) ..		50.0
	8.3 External finance		
	8.3.1 Project loans and grants ..		141.0
	8.3.2 Non-project (commodity) loans ..		400.0
	8.4 Unbridged gap (bank borrowing) ..		89.5 (b)
9.	Financing of the Net Cash Deficit		
	9.1 Domestic market borrowing from non-bank sources ..		425.1
	9.2 Administrative Borrowings (Net) ..		50.0
	9.3 External finance		
	9.3.1 Project loans and grants ..		38.0
	9.3.2 Non-project (commodity) loans ..		271.5
	9.4 Unbridged gap (bank borrowing) ..		89.5 (b)

Source: Central Bank of Ceylon.

- (a) Under-expenditure of 3% and 20% on the basis of Pre-budget Estimates are allowed for on recurrent and capital expenditures respectively. Under-expenditure is calculated on capital expenditure excluding Sinking Fund contributions and direct repayments of public debt. Under-expenditure in respect of capital expenditure as per Approved Estimates includes a sum of Rs. 100 million being economies anticipated as a result of decentralisation of Capital Programmes.
- (b) However, the Estimates as approved by the Assembly provide for Bank borrowings of Rs. 100 million. The decrease in bank borrowing shown here, is on account of the fact that the increase of Rs. 10 million in expenditure on increased minimum producer prices for rubber as announced in the Budget Speech, is not reflected in the Estimates as approved by the Assembly. This has been done presumably because the additional expenditure on such relief is now considered not to be necessary in view of the post-budget increase in the price of rubber. Yet, the Approved Estimates continue to show the expected bank borrowing as Rs. 100 million.

The Budget deficit of Rs. 1,281 million is to be financed by Rs. 600 million of domestic non-bank borrowing, Rs. 50 million of administrative borrowing and Rs. 541 million of foreign finance leaving an unbridged gap of Rs. 90 million which is to be financed by bank borrowing.

Proposals to raise Additional Resources

The Pre-Budget estimates for 1973 incorporated several increase in revenue at existing rates of taxes.¹ Apart from such increases, several new revenue and expenditure proposals were announced in the Budget Speech. These revenue and expenditure proposals are expected to result in a net increase of Rs. 513 million in revenue and net increase of Rs. 6 million in expenditure. The impact of these proposals on revenue and expenditure is summarised in Table II (G) 15 below.

TABLE II (G) 15
New Revenue and Expenditure Proposals

Reference to items in Table II (F) 4.*	Items	Rs. Million	
		Increase (+) or Decrease (-)	
		Revenue	Expenditure
1.1.1	Income Tax	+ 15	
1.2.1	General Sales & Turnover Tax	+ 44	
1.2.2 (a)	Tobacco Tax	+ 35	
(b)	Tea Tax	- 16	
(c)	Duty on country made liquor	+ 06	
1.2.4	Receipts from sales of FEECs	+ 382	
1.2.6	Special Levy on motor cars	+ 10	
1.2.8	Sale of arrack	+ 04	
1.2.9	Profit from sale of sugar (a)	+ 33	
—	Increase in wages		+ 30
—	Relief to Tea, Rubber and Coconut industry		+ 36
—	FEECs outpayments		+ 65
—	Withdrawal of Rice Ration Books from income tax payers		— 25
—	Economies in Capital Expenditure		— 100
	Total Change	+ 513	+ 6

* Please see Annual Report 1971, Page 134.

(a) The proposal relates to the increase in the price of refined sugar to Rs. 2.50 per lb. w.e.f. 11.11.72. This additional revenue may now not materialise in view of the subsequent reduction in the price to Rs. 2.00 per lb. w.e.f. 18.12.72 and thereafter to Rs. 1.50 per lb. w.e.f. 12.1.73.

New Proposals contained in the Budget Speech

1. Proposals relating to External Trade

(i) Foreign Exchange Entitlement Certificate Scheme (FEECs)

The FEECs rate was increased from 55 per cent to 65 per cent. It is expected that the new rate would be a more realistic exchange rate for imports and exports which are subject to FEECs. In addition, the following merchandise imports on which no FEECs were levied have now been transferred to the category of imports liable to FEECs:

- These do not include the effect of increases in the rates of excise duties on tobacco and on alcoholic spirits and beverages, and the increase in sale price of some varieties of arrack, which were brought into effect on November 1, 1972, before the Budget Speech. The revenue effects of these measures, have been included in the Approved Estimates and not in the Pre-Budget Estimates.

(a) *Food Imports*

Lentils, dhal, maldive fish, dried chillies, yeast and baking powder, pulses, garlic, fennel seed, mathe seed, turmeric, dates, full-cream milk.

(b) *Other Items*

Vegetable seeds, potato seeds, ampoules of frozen semen, drugs¹, agricultural implements, slate pencils and school chalk, scientific glassware, surgical belts and safety belts, hearing aids and parts thereof and artificial limbs, dentures and eyes.

(c) Raw material, packing material, machinery, equipment and spares required for the manufacture of processing of the following :-

(i) Powdered milk, condensed milk and fresh milk (excluding infants' milk food);

(ii) Drugs¹

(iii) Animal foodstuffs (excluding maize)

(d) Actual user imports by industrialists who had an annual turnover of less than Rs. 100,000 at the time the FEEC scheme was introduced on May 6, 1968.

(e) All imports by the following institutions:

(i) Tea Research Institute

(ii) Rubber Research Institute

(iii) Coconut Research Institute

(iv) Ceylon Coconut Board

(v) Tea Propaganda Board

(vi) Coconut Fibre Board.

(f) Capital repayments and interest payments on suppliers' credit.²

Essential imports such as rice, flour, wheat grain, fertilizer, infants' milk food, masoor dhal, dried fish, corriander, cummin seed, books, newspapers and periodicals, two-wheel tractors continue to be retained in the FEECs free category. The increase in the FEECs rate is expected to raise gross receipts from FEECs by Rs. 382 million while out-payments are also expected to increase by Rs. 65 million.

(ii) **Convertible Rupee Accounts³**

A certain percentage of the gross earnings of the exporters of certain minor and non-traditional exports will be allowed to be retained in the form of convertible rupee accounts for the importation of specified goods.

1. Imports of drugs raw and packing materials for the manufacture of drugs have subsequently been exempted from FEECs with retrospective effect from 11-11-72. Vide Import and Exchange Control Notice No. 15/72 of 3-1-73.

2. If the import licences were drawn prior to the transfer of the imports/institutions to B category the payments are exempt from FEECs.

3. This scheme came into force w. e. f. 1-1-73.

(iii) Major Exports**(a) Tea**

In view of the increase in cost of production, and the unfavourable prices for tea, some relief had been extended to the industry. It is proposed to exempt teas sold at Rs. 2 per lb. or less at the Colombo Auctions from the ad-valorem tax-levy. An ad-valorem tax on the same basis, after necessary adjustments have been made for cost of freight, insurance, etc., would also be levied on teas sold at the London Auctions. As a result of this relief the revenue from tea tax is expected to decrease by Rs. 16 million.

Further, it is proposed to increase the maximum rebate payable under the Tea Export Duty Rebate Scheme from 10 cents to 15 cents in respect of low and mid-grown teas selling below Rs. 2 per lb., and from 5 cents to 10 cents in the case of high grown teas in the same price range. The additional expenditure commitment as a result is expected to be Rs. 8 million.

(b) Rubber

It is proposed to increase the guaranteed price for rubber by 3 cent from the current level of 80 cents a pound for RSS 1 and 73 cents a pound for RSS 2, with a view to providing some relief to the producer. The increase in expenditure is expected to be around Rs. 10 million.¹

(c) Coconut

In order to provide a stable and a sufficiently attractive price to the producers of coconuts, it has been decided that the Coconut Marketing Board (CMB) should be the sole purchaser of all coconut oil for export at a price of Rs. 1,250 per ton. Shippers, who will have to make their purchases from the C. M. B. have also to obtain export licences from the C. M. B. The price of Rs. 1,250 per ton of coconut oil will give a parity price of Rs. 200 per candy of copra and Rs. 150 per thousand fresh coconuts. The additional expenditure in respect of this proposal, which takes the form of a grant to the C.M.B is expected to be Rs. 18 million.

(iv) Rebate Scheme for Exporters

Certain amendments are to be made in the law pertaining to the burden of the Business Turnover Tax with regard to exports of goods manufactured in the country. The prevailing law clearly exempts persons from the liability of turnover tax only where the manufacturer and the exporter are one and the same person. It is now proposed to amend the Finance Act No. 11 of 1963, so as to enable the exporter to be granted a rebate equivalent to the turnover tax directly paid by him on any purchases made by him from any manufacturer, provided that such purchases are actually exported. The expected loss in revenue is negligible.

1. Please see footnote (b) to Table II (G) 14, at page 158.

2. Income and Turnover Taxes

(i) Rationalisation of Tax Administration

The Inland Revenue Department expects a sum of Rs 35 million by concentrating its effort on an enforcement plan designed to bring tax evaders of all types into the tax net. Of this amount, Rs. 20 million is expected to accrue from Business Turnover Taxes and the balance sum from Income Tax. In this connection the Department hopes to continue its policy of opening up of branches and of strict supervision of the books of manufacturing and trading concerns.

(ii) Increase in the Rates of Business Turnover Tax

Business Turnover Tax rates in respect of a large number of articles of non-essential and luxury nature were increased substantially. Some of the significant increases in rates were in respect of air conditioners, motor car assembly or manufacture requirements (25 to 40 per cent), synthetic fibre, ready made garments and apparel (20 to 40 per cent), electric fans (15 to 30 per cent), sewing machines (10 to 25 per cent) and cosmetics (25 to 30 per cent). The additional collection on account of these increases is expected to be Rs. 20 million.

(iii) Broadening the Scope of Business Turnover Tax

The coverage of Business Turnover Tax is to be extended to certain commercial ventures such as Messrs. British Ceylon Corporation, Bogala Graphite Ltd., which have recently been taken over by the Government. An additional revenue of Rs. 4 million is expected from this measure.

(iv) Taxation of Income on a Current Year Basis

Under the Pay-As-You-Earn Scheme introduced in October 1971, taxation is on the basis of current income from employment. But the taxpayers in receipt of income from sources other than employment are taxed on a preceding year basis. In view of the inconsistencies in the current practice, and to assist effective tax enforcement, it is proposed to tax all incomes on a current year basis beginning with the year of assessment 1975/76.

(v) Income Tax on Net Annual Value of Residence Owned

With a view to easing the burden brought about by the recent increase in rating assessments on single house owner-occupiers and with the general objective of encouraging residential house construction, it was announced in the Budget that the net annual value of one owner-occupied residential houses would be exempted from income tax from the year of assessment 1973/74. The revenue loss as a result of this exemption is expected to be negligible.

(vi) Tax Holiday for Pioneering Industries

The Inland Revenue (Amendment) Act No. 17 of 1972 exempts from Income Tax the profits of an income derived from the export of certain goods or commodities gazetted by the Minister of Finance. Since such exemptions have made the clause relating to tax exemption of pioneering industries in Section (6) (1) (7) of Inland Revenue Act No. 4 of 1963 somewhat superfluous, it is proposed to make an appropriate amendment to the law.

3. Excise Duties

(i) Tobacco Tax

The excise duty on manufactured tobacco was raised from Rs. 47.50 to Rs. 52.50 per pound. Consequently, the prices of cigarettes were to increase by one cent each. A sum of Rs. 35 million is expected as additional receipts from tobacco tax.

(ii) Duty on Alcoholic Spirits and Beverages

The excise duty on malt liquor was raised by Rs. 3 to Rs. 12 per gallon and the excise duty on country made foreign spirits such as gin, rum, brandy and whisky was increased from Rs. 81.10 to Rs. 106.50 per gallon. The additional revenue expected from this source is Rs. 6 million.

Both these measures, however, were brought into effect from November 1, 1972, before the Budget was presented on November 10, 1972. The additional revenue expected from these measures were, however, not reflected in the Draft Estimates and their revenue effects taken note of only in the Approved Estimates.

4. Other Proposals

(i) Food Subsidy

(a) Rice

It was proposed to withdraw the free measure of rice from income tax payers and their dependants¹ and the consequent reduction in the food subsidy bill is expected to be Rs. 25 million.

(b) Family Allowance Scheme:

Every person who opts to surrender his ration book on a voluntary basis, is entitled to an allowance amounting to Rs. 40 per annum, which would be in four-quarterly instalments of Rs. 10 each. Income tax payers are not entitled to benefit under this scheme.

(c) Guaranteed Price Scheme-Paddy:

The price paid for a bushel of paddy under the Guaranteed Price Scheme was increased from Rs. 14 to Rs. 15. This increase of Re. 1 in the guaranteed price will, however, be utilized exclusively for a superannuation scheme for farmers.

(ii) Profits from the Sale of Foodstuffs-Sugar

The sale of refined sugar was to be removed from the ration scheme and made freely available at Rs. 2.50 per lb.*

1. With effect from the week beginning December 4, 1972

* The price was subsequently reduced to Rs. 2 per lb. and thereafter to Rs. 1.50 per lb.

(iii) Profits from the Sale of Arrack

The sale prices of very special arrack and of double distilled arrack were increased by 50 per cent with effect from November 1, 1972. Although this measure was brought into effect before the Budget was presented, the additional revenue expected of Rs. 4 million was taken into account along with the receipts from other revenue proposals in the Budget.

(iv) Private Motor Cars:

A once-and-for-all levy on private cars carrying a "Sri" registration is to be imposed on a progressive scale depending on the newness of registration. This measure is expected to raise Rs. 10 million as additional revenue.

(v) Economies in Capital Expenditure

It is estimated a sum of Rs. 100 million would be saved by decentralising the capital expenditure programme of the Central Government.

(vi) Wage Increases

As a measure of relief to certain classes of employees in the Public Service, State Corporations, Statutory Boards where emoluments have remained unchanged for the past three years, it is proposed to pay a special allowance to all such monthly-paid employees presently drawing less than Rs 180/- per month. This allowance would enhance their monthly salary to Rs. 180/- subject to a minimum allowance of Rs. 7.50 per month. All monthly paid employees in the wage salary group from Rs. 180/- to Rs. 250/- per month (all inclusive) will receive a special allowance of Rs. 7.50 per month with marginal adjustments in the case of those earning between Rs. 250/- per month and Rs. 257.50 per month (all inclusive). A sum of Rs. 30 million is provided to meet the costs of this proposal in respect of Public Service Employees.

(vii) Compulsory Labour for Staff Officers in the Public Service

All white-collar employees are to be called upon to perform manual labour for a week or two in a year.

(viii) Finance Companies

Since it was felt that the bulk of the credit provided by the Finance Companies is utilized for non-productive purposes, particularly for speculation and non-essential consumption, legislation is to be introduced shortly with a view to controlling the activities of these institutions.

(ix) Pawn-Brokers

Priority is to be given to effecting necessary amendments to Pawn-brokers' Ordinance with a view to controlling the activities of the pawn-brokers as envisaged in the Budget Speech for 1971/72.

7. OTHER FISCAL MEASURES

Other significant fiscal measures adopted in the financial year 1971/72 are as follows-

- (a) The 1971/72 Budget proposal to increase the price of flour by 15 cents to 48 cents per pound was withdrawn with effect from November 13, 1971.
- (b) The two-tier price structure for sugar introduced with the 1971/72 Budget (which entitled an individual to buy half pound of sugar per week on ration at the controlled price of 72 cents per pound and buy off-ration sugar freely at the price of Rs. 1.50 per pound) was amended with effect from November 13, 1971 by increasing the ration to 3 pounds of sugar per month. The ration has since been reduced to two pounds of sugar per month with effect from March 1972.¹
- (c) The price of refined sugar sold off-ration was increased to Rs. 2.50 per pound with the Budget for 1973. Subsequently, the price was reduced to Rs. 2.00 per pound with effect from December 18, 1972.

1. The ration has again been reduced to 1 lb. of sugar per person per month with effect from February 1973.