

(G) GOVERNMENT FINANCE

The ensuing analysis of government fiscal operations for the financial year 1973 is entirely based on data as presented in the government accounts. As in the previous year, due to the non-availability of data in time, the usual analysis of government revenue and expenditure in terms of the revised economic and functional classification has not been attempted. It is proposed, however, to publish in the near future, the usual analysis as a special note in one of the Central Bank's monthly bulletins.

The government financial year 1973 was the first financial year to coincide with the calendar year. The previous financial year 1971/72 being the transitional year in the switch-over to the calendar year basis, covered a period of 15 months from 1st October, 1971 to 31st December, 1972. In the text and the tables that follow the figures for the 15 month period of 1971/72 have been presented on a pro-rata 12 month basis, wherever appropriate, to enable a meaningful comparison of the data provided.

Overall Fiscal Operations

The salient features of the fiscal operations in the fiscal year 1973 with the corresponding data for the previous financial years and the Approved Estimates for 1974 are presented in table II (G) 1.

Fiscal operations in 1973 resulted in a net contractionary effect of Rs. 53 million. This was the first time since 1954/55 that the fiscal operations of the government have resulted in a contractionary effect. In the Approved Estimates for the financial year 1973 it was expected that government's fiscal operations would necessitate recourse to bank borrowings to the extent of Rs. 100 million. In the event, a substantial increase in revenue together with a record non-bank borrowing has enabled the government to reduce its indebtedness to the banking system by Rs. 116 million. During the year, while borrowings from the Central bank increased by Rs. 114 million, the government reduced its indebtedness to the commercial banks by Rs. 230 million. On the other hand, cash balances (including foreign aid counterpart funds) were drawn down by Rs. 63 million. Consequently, the net contractionary impact of the budgetary operations in 1973 amounted to Rs. 53 million in contrast to the net expansionary impact of Rs. 139 million in 1971/72 (15 months).

The record increase in revenue achieved during 1973 has also helped to generate a surplus of Rs. 129 million in the current account of the government. This is the first time since 1968/69 that the current account showed a surplus. In 1971/72 (pro-rata), the current account showed a deficit of Rs. 159 million.

In the financial year 1973 total revenue amounted to Rs. 4,034 million and total expenditure to Rs. 5,448 million. The latter was made up of Rs. 3,857 million of recurrent expenditure, Rs. 1,543 million of capital expenditure¹ and Rs. 48 million of net payments in respect of "Advance Accounts".

1. Inclusive of Rs. 433 million of amortization payments.

Summary of Government Fiscal

Items	1963/64	1964/65	1965/66	1966/67
1. Revenue	1,759	1,816	1,833	1,955
2. Expenditure	2,278	2,337	2,515	2,677
2.1 Recurrent expenditure(b) ..	1,834	1,803	1,860	1,895
2.2 Capital expenditure(b) (c) ..	460	561	644	742
2.3 Advance accounts and other ..	- 16	- 28	10	42
3. Budget deficit	519	520	682	723
4. Debt repayment(d)	57	90	116	117
5. Net cash deficit	462	430	566	607
6. Financing of budget deficit				
6.1 Domestic non-market borrowing ..	- 2	50	112	72
6.2 Domestic market borrowing ..	368	334	498	418
6.3 Foreign finance	108	117	154	256
6.4 Decline in cash balances ..	45	20	- 82	- 22
7. Financing of net cash deficit				
7.1 Domestic non-market borrowing ..	- 2	50	112	72
7.2 Domestic market borrowing ..	323	261	418	348
7.3 Foreign finance	95	100	118	209
7.4 Decline in cash balances ..	45	20	- 82	- 22
8. Expansionary Impact of fiscal operations ..	163	35	122	56
9. Public debt outstanding (net) ..	3,436	3,772	4,268	4,782

(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 repayments of public debt from revenue and contributions to international financial organizations which were classified upto the financial year 1967/68 as recurrent expenditure, have been transferred to capital expenditure.

TABLE II (G) 1

Operations 1963/64 to 1974(a)

Rs. Million

1967/68	1968/69	1969/70	1970/71	1971/72		1973 Approved Estimates	1973 Provi- sional	1974 Approved Estimates
				15 months	12 months*			
2,156	2,497	2,736	2,815	4,102	3,282	3,880	4,034	4,115
3,006	3,445	3,886	4,143	5,809	4,647	5,171	5,448	5,578
2,186	2,384	2,659	2,981	4,233	3,386	3,727	3,857	3,840
849	1,012	1,076	1,054	1,508	1,207	1,334	1,543	1,638
- 29	49	201	108	68	54	110	48	100
850	947	1,150	1,327	1,707	1,366	1,291	1,414	1,463
135	160	214	244	412	330	406	433	559
716	788	936	1,083	1,295	1,036	884	981	904
10	52	16	140	249	199	50	251	50
630	358	815	693	1,004	803	700	706	873
247	426	345	370	598	478	541	394	540
- 36	111	- 26	123(e)	- 144	- 115	—	63	—
10	52	16	140	249	199	50	251	50
552	271	720	585	835	668	525	507	585
190	354	226	235	355	284	309	160	269
- 36	111	- 26	123(e)	- 144	- 115	—	63	—
267	181	425	218(e)	139	112	100	- 53	153
5,689	6,239	7,237	8,108	9,448	7,558	n. a.	10,281	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

● On a pro-rata basis.

The increase in total expenditure over 1971/72 (pro-rata) was Rs. 801 million (17 per cent) while the increase in revenue has been Rs. 752 million (23 per cent). Unlike in 1971/72, both recurrent expenditure as well as capital expenditure have registered significant increases in 1973. While the increase in recurrent expenditure was Rs. 471 million (14 per cent) the increase in capital expenditure of Rs. 233 million¹ (27 per cent) was quite substantial. Payments in respect of "Advance Accounts" however showed a small decrease of Rs. 6 million from the corresponding pro-rata figure of Rs. 54 million in 1971/72.

Revenue

The impressive performance in revenue collections was one of the outstanding features of the government's fiscal operations in 1973. The increase of Rs. 752 million over the 1971/72 (pro-rata) receipts is the highest increase recorded in any one year. This increase is somewhat inflated by a carry-over of income tax collections under the self-assessment scheme for 1972 on to the year under review. Even if an allowance is made for this fact the total increase in revenue would yet be substantial. As compared with the Approved Estimates for 1973, the increase in revenue amounted to Rs. 154 million.

The increases in revenue receipts came mainly from income tax (Rs. 246 million) export levies (Rs. 153 million), business turnover tax (Rs. 142 million), FEECs (Rs. 138 million), tobacco tax (Rs. 30 million), profits and dividends from state corporations and public companies (Rs. 30 million) and wealth and gifts taxes (Rs. 19 million). These together with increases of smaller magnitude from other sources more than offset the decreases registered in revenue collections from import levies (Rs. 36 million) and profits from the sale of arrack (Rs. 23 million),

Income tax collections in 1973 increased sharply because the tax dues for the first two quarters (estimated at about Rs. 150 million) for the year of assessment 1972/73 were actually collected in 1973. Further, determined attempts were made by the Inland Revenue Department to collect arrears of taxes. The general improvement in the prices of our major exports, particularly rubber, contributed to the substantial increase in export duty receipts. The increase in collections of business turnover tax was brought about to a large extent by the general increase in prices of commodities which enhanced their value of their turnover in money terms, as well as by the increases in the tax rates on a number of non-essential and luxury goods effected during the year. The increase in the receipts from the sale of FEECs was the direct result of the increase in the FEECs rate from 55 per cent to 65 per cent and the extension of the coverage of the FEECs scheme to certain imports hitherto exempt from FEECs in November, 1972. The increase in the rate of tobacco tax by Rs. 5 per pound largely accounts for the increased receipts from this source.

Expenditure

The total expenditure in 1973 increased by Rs. 801 million (17 per cent) over that of 1971/72 (pro-rata). The increase when compared with the Approved Estimates for 1973 was Rs. 277 million. While recurrent expenditure exceeded the 1971/72 pro-rata expenditure by Rs. 471 million, capital expenditure, too,

1. Net of amortization payments.

increased by Rs. 233 million. Both recurrent expenditure and capital expenditure also exceeded the original provisions by Rs. 130 million and Rs. 182 million, respectively. The latter increase in capital expenditure is in contrast to the tendency in recent years for the actual capital expenditure to fall short of the original provisions. However, in real terms the increase in capital expenditure may only be marginal. It also shows that the supplementary estimates in respect of capital expenditure have been substantial during the course of the year. In 1973 supplementary provisions chargeable to capital votes amounting to Rs. 113 million¹ were passed by the National State Assembly. The major supplementary estimates were on account of grants to various corporations (Rs. 68 million), district food production drive (Rs. 15 million) and amortization payments (Rs. 15 million). When the total provisions in respect of expenditure chargeable to capital votes (i.e. Approved Estimates plus the supplementary estimates) are compared with the actual expenditure incurred, the extent of under-expenditure would amount to Rs. 261 million or 19 per cent, which more or less corresponds to the originally anticipated under-expenditure of 20 per cent. In contrast, the under-expenditure in respect of capital votes was very much higher (Rs. 350 million or 29 per cent) in 1971/72 (pro-rata).

Recurrent expenditure in 1973 registered an increase of Rs. 471 million (14 per cent) over that of 1971/72. As compared with the Approved Estimates the increase was Rs. 130 million. During the course of the year under review, in addition to the net provision of Rs. 3727 million in respect of recurrent votes, supplementary estimates amounting to Rs 196 million² were passed by the National State Assembly. The major supplementary estimates were on account of a provision to cover the losses of the Milk Board (Rs. 50 million) additional cost of salaries, pensions etc. (Rs. 44 million), grant to the National Savings Bank (Rs. 26 million), additional cost of the railway services (Rs. 18 million) and additional cost of maintenance of highways (Rs. 14 million).

Budget Deficit

The notable increase in revenue despite the substantial increase in both recurrent and capital expenditures has helped to limit the resulting budget deficit to Rs. 1414 million, which is only Rs. 48 million more than the budget deficit for 1971/72 (pro-rata). The budget deficit of Rs. 1414 million was financed by raising Rs. 706 million through domestic market borrowing, Rs. 394 million through foreign finance and Rs. 251 million through domestic non-market sources. Cash balances (including foreign aid counterpart funds) were drawn to meet the balance amount of Rs 63 million. Debt repayments (including contributions to sinking funds and to international financial organisations) in 1973 amounted to Rs. 433 million. Hence, the resultant net cash deficit amounted to Rs. 981 million which is Rs. 55 million lower than the net cash deficit for 1971/72 (pro-rata).

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1. Of this amount Rs. 18 million was authorised by Special Law Warrants issued by the Minister of Finance.
 2. Of this amount Rs. 17 million was authorised by the issue of Special Law Warrants by the Minister of Finance.

Budgetary Operations - 1974

In the current financial year 1974, revenue and expenditure are estimated to be Rs. 4115 million and Rs. 5578 million respectively. The latter consists of Rs. 3840 million of recurrent expenditure Rs. 1638 million of capital expenditure¹ and a provision for a net payment of Rs. 100 million in respect of "Advance Accounts". The budget deficit for 1974, which is expected to be Rs. 1463 million, is to be financed by domestic non-bank market borrowings of Rs. 720 million, foreign finance of Rs. 540 million and administrative borrowings of Rs. 50 million. The balance sum of Rs. 153 million is to be borrowed from the banking system.

Financing of the Deficit

The budget for 1973 anticipated a net cash deficit of Rs. 884 million. The fiscal operations of the government in the year, however, resulted in a higher deficit of Rs. 981 million. Yet, when compared with the pro-rata deficit for 1971/72 it is lower by Rs. 55 million (or 5.3 per cent). The trend upto the financial year 1970/71, has been one of progressively increasing net cash deficits. This trend has been arrested in the financial years 1971/72 and 1973. It must be noted that the impressive performance of the government in the field of revenue collections has helped to arrest this trend in no small measure.

The budget for 1974 expects the net cash deficit for the current financial year to be at Rs. 904 million showing a decrease of Rs. 77 million (or 7.8 per cent) over that of the previous financial year. While the overall expenditure (net of amortization payments) of the government for 1974 is expected to be almost at the same level of that of 1973, the anticipated increase of Rs. 81 million in revenue is expected to contribute to a lower net cash deficit in 1974.

Table II (G) 2 presents data in respect of sources of finance of the net cash deficit for the years 1969/70 to 1973. Comparable data as per the Approved Estimates for 1974 are also given in this table.

The net cash deficit of Rs. 981 million in 1973 was financed by borrowing of Rs. 623 million from domestic non-bank market sources, Rs. 251 million from domestic non-market sources, Rs. 160 million of foreign finance and Rs. 63 million by way of drawing down cash balances (including foreign aid counterpart funds) of the government. These were partly offset by a repayment of Rs. 116 million on account of loan operations of the government with the banking system.

The estimated net cash deficit of Rs. 904 million in 1974 is to be financed by mobilizing Rs. 432 million from domestic non-bank market sources and by Rs. 269 million of foreign finance. A sum of Rs. 50 million is also expected to be raised through administrative (domestic non-market) borrowings. The unbridged gap of Rs. 153 million is to be met by borrowings from the banking system.

1. Inclusive of Rs. 559 million of mortization payments.

Financing of the Net Cash

Sources	1969/70	1970/71
1. Foreign Finance		
(a) Project loans (gross) ..	53.3	141.1(c)
Less contributions to sinking funds and repayments ..	<u>72.5</u> - 19.2	<u>82.8</u> 58.3
(b) Non-Project (Commodity) loans (gross) ..	229.1	169.0
Less repayments ..	<u>46.5</u> 182.6	<u>52.8</u> 116.2
(c) Grants ..	<u>62.8</u> 226.2	59.9 234.4
2. Domestic non-market borrowing ..	15.5	140.5
3. Domestic market borrowing from the banking system (b)		
(a) Central Bank ..	376.4	- 160.9
(b) Commercial banks ..	<u>74.1</u> 450.5	<u>254.5</u> 93.6
4. Domestic market borrowing from non-bank sources		
Gross amount borrowed ..	362.2	599.1
Less contributions to sinking funds ..	<u>93.2</u> 269.0	<u>107.4</u> 491.7
5. Decline in cash balances and foreign aid counterpart funds		
(a) Cash balances ..	- 30.6	- 3.3
(b) Foreign aid counterpart funds (gross credits) ..	- 268.4	- 245.6
Less amount used for budgetary purposes ..	<u>273.4</u> <u>5.0</u> - 25.6	<u>372.1</u> <u>126.4</u> 123.1(d)
6. Net cash deficit ..	935.6	1083.3
7. Decline in U.S. aid counterpart funds	1.4
8. Net expansionary impact of Government fiscal operations (3+5+7) ..	424.9	218.1(d)

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

(b) These figures do not take into account the value of government import (fcoj) bills held by the banking system.

TABLE II (G) 2

Deficit - 1969/70 to 1974(a)

1971/72		1973 Provisional		1974 (Approved Estimates)
12 months*	15 months			
93.9	116.6(c)	153.1		
<u>95.8</u> -2.5	<u>119.8</u> -3.2	<u>98.4</u> 54.7		
325.2	406.6	193.7		
<u>98.2</u> 227.2	<u>122.7</u> 283.9	<u>134.9</u> 58.8		
<u>59.7</u> 284.3	<u>74.6</u> 355.3	<u>46.6</u> 160.1		269.0
198.8	248.6	251.0		50.0
168.2	210.2	113.9		
<u>58.2</u> 226.4	<u>72.7</u> 282.9	<u>-229.5</u> -115.6		153.4
577.0	721.2	819.4		
<u>135.4</u> 441.6	<u>169.3</u> 551.9	<u>196.9</u> 622.5		431.8
-87.8	-109.8	45.1		
-342.6	-428.2	-238.8		
<u>315.2</u> -27.4 -115.2	<u>394.0</u> -34.2 -144.0	<u>256.6</u> 17.8 62.9		-
1035.8	1294.7	980.9		904.2
-	-	- 0.2		-
111.1	138.9	-52.9		153.4

Source: Central Bank of Ceylon.

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

(d) Please see foot-note at page 155 of Annual Report 1971.

• On a pro-rata basis.

As seen from table II (G) 2, the fiscal operations of the government, for the first time in the recent past, have exerted a contractionary impact to the extent of Rs. 53 million. In comparison, the budgetary operations in 1970/71 and 1971/72 resulted in a net expansionary impact of Rs. 218 million and Rs. 111 million (pro-rata) respectively. In 1973, the net receipts of foreign finance declined by Rs. 124 million over the assistance received in (pro-rata) 1971/72. Resources mobilized from the domestic non-bank market sources increased substantially by Rs. 181 million. Administrative borrowings, too, increased considerably by Rs. 52 million to Rs. 251 million. On the other hand, there was a net repayment of Rs. 116 million made to the banking system in 1973 whereas, in 1971/72, borrowings from the banking system amounted to Rs. 226 million. Meanwhile, cash balance (including foreign and counterpart funds) were drawn down to the extent of Rs. 63 million whereas, in 1971/72, government's cash balances increased by Rs. 115 million (pro-rata).

In 1973, the government increased its indebtedness to the Central Bank by Rs. 114 million. This comprised Rs. 94 million of Treasury bills and Rs. 34 million of Advances, partly offset by a repayment of Rs. 14 million of rupee securities. Meanwhile, by retiring Treasury bills amounting to Rs. 206 million and by repaying Rs. 24 million of rupee securities, the government reduced its indebtedness to the commercial banks by Rs. 230 million. The net effect of these operations was a decline of Rs. 116 million in the liability of the government to the banking system, whereas, in the previous financial year (pro-rata) government's indebtedness to the banking sector increased by Rs. 226 million.

The resources mobilized by the government from domestic non-bank sector amounted to Rs. 623 million; as compared with a sum of Rs. 442 million realized in (pro-rata) 1971/72. The section on "Public Debt" in this Report gives a detailed analysis of the government loan programme.

Table II (G) 3 presents the net contributions (i.e. changes in holdings of government securities) of the non-bank investor group for the last four financial years. In the year under review, substantial increases in net contributions from the non-bank investor groups came from savings institutions (i.e. the National Savings Bank), the Insurance Corporation and the Employees' Provident Fund. The net contributions from the savings institutions which fell sharply in 1971/72, increased remarkably in 1973. A detailed analysis of the circumstances under which the above investors came to increase their holdings of government securities in 1973 is also given in the section on "Public Debt" in this Report.

Domestic non-market borrowings in 1973 amounted to Rs. 251 million and, helped to finance the deficit to a much greater extent (25.6 per cent) than in the previous year. This was facilitated mainly by an increase in "deposits" of Rs. 210 million. There was also an increase of Rs. 29 million in "administrative borrowings" and Rs. 9 million on account of borrowing "miscellaneous funds".

1. Please see detailed note on domestic non-market borrowings at page 187.

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

Contributors	Rs. Million						
	1969/70	1970/71	1971/72		1973 Provi- sional	Increase in	
			12 * months	15 months		1971/72 (12* months) over 1970/71	1973 (Provi- sional) over 1971/72 12months
1. Savings institutions	11.0	180.7	93.8	117.3	213.0	-86.9	119.2
2. Employees' Provident Fund	98.0	143.0	164.2	205.3	197.0	21.2	32.8
3. Other provident and pension funds	46.1	44.5	47.7	59.6	29.5	3.2	-18.2
4. Departmental and other official funds	5.4	6.9	41.7	52.1	42.8	34.8	1.1
5. Insurance Corporation	45.5	60.7	55.2	69.0	99.8	- 5.5	44.6
6. Other insurance funds	8.8	- 1.8	- 9.7	-12.1	-15.8	- 7.9	- 6.1
7. Other state corporations	- 0.7	—	—	—	—	—	—
8. Companies, clubs and institutions	5.6	5.6	13.6	17.0	2.9	8.0	-10.7
9. Individuals	10.5	2.5	- 1.9	- 2.4	- 7.1	- 4.4	- 5.2

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.

Gross foreign finance utilized to meet the budget deficit in 1973 amounted to Rs. 393 million. Of this amount, project loans amounted to Rs. 153 million (or 38.8 per cent) and non-project (commodity) aid Rs. 194 million (or 49.3 per cent) while grants constituted Rs. 47 million (or 11.9 per cent). When allowance is made for amortization payments, the net foreign finance available was Rs. 160 million, which comprised Rs. 55 million of project loans, Rs. 59 million of non-project (commodity) loans and Rs. 47 million in grants. In comparison, the net foreign finance utilized in the previous financial year (pro-rata) amounted to Rs. 284 million consisting Rs. 227 million by non-project (commodity) loans and Rs. 60 million of grants, while there has been a net repayment of Rs. 3 million on account of project loans. Though there has been an increase of Rs. 58 million in the net receipts of project loans over that of the previous financial year, net commodity aid receipts fell sharply by Rs. 168 million. In the year under review, project loans, non-project (commodity) aid and grants helped to finance 5.6 per cent, 6.0 per cent and 4.8 per cent, respectively of the net cash deficit.

Table II (G) 4 gives details of net receipts of foreign assistance by type and source in the last 6 years.

TABLE II (G) 4
Net Receipts of Foreign Assistance

Rupees Million.

Type and Source	1967/68	1968/69	1969/70	1970/71	1971/72		1973 Provi- sional
					12 months*	15 months	
I. Loans	161.2	334.1	202.8_a	220.6_a	293.6	367.0_a	202.0_a
1.01 A.D.B.	—	—	—	9.2	17.9	22.4	19.5
1.02 I.B.R.D.	-7.7	-8.4	-9.3	-7.7	-10.4	-13.0	-12.4
1.03 I.D.A.	—	—	4.7	20.1	17.2	21.5	32.2
1.04 Canada	8.6	8.5	6.0	7.5	17.7	22.0	12.5
1.05 People's Republic of China	-5.5	-5.5	4.8	137.7	66.1	82.6	27.4
1.06 U.K.	51.9	37.0	38.2	11.4	32.2	40.2	1.3
1.07 U.S.A.	45.6	177.9	49.8	34.4	102.0	127.5	66.0
1.08 U.S.S.R.	-8.3	-9.6	-9.2	-7.1	-7.2	-9.0	-8.5
1.09 Federal Republic of Germany	25.0	17.4	29.0	1.5	9.5	11.9	19.5
1.10 Yugoslavia	-0.7	-0.8	-0.4	-1.3	-0.2	-0.3	-0.3
1.11 Poland	1.4	-0.6	-0.9	-0.9	-1.3	-1.6	-0.4
1.12 France	22.0	1.6	10.2	1.5	7.7	9.6	22.1
1.13 Japan	24.0	18.3	13.7	8.2	50.5	63.1	18.5
1.14 India	-3.4	16.9	23.6	4.7	9.1	11.4	6.9
1.15 German Democratic Republic	8.3	79.6	28.3	-9.2	-18.7	-23.4	-7.0
1.16 Denmark	—	1.6	8.0	3.4	4.0	5.0	6.7
1.17 Italy	—	—	6.3	7.2	-2.3	-2.9	-2.0
2. Grants	29.0	19.5	62.8	59.9	59.7	74.6	46.6
2.01 Colombo Plan	22.1	1.4	26.2	24.1	19.7	24.6	34.6
2.01.1 Australia	—	0.1	4.8	6.0	5.7	7.1	13.1
2.01.2 Canada	22.1	—	18.7	18.1	14.0	17.5	20.4
2.01.3 Japan	—	—	2.7	—	—	—	1.1
2.01.4 New Zealand	...	1.3	—	—	—	—	—
2.02 Other	6.8	18.2	36.6	35.7	40.0	50.0	12.0
2.02.1 United Nations	6.3	3.1	2.0	5.0	3.1	3.9	1.0
2.02.2 People's Republic of China	4.7	7.9	11.0	13.8	1.4
2.02.3 U.S.A.	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	5.1
2.02.5 Czechoslovakia	—	—	—	—	—	—	...
2.02.6 United Kingdom	...	14.3	13.6	9.4	4.8	6.0	0.1
2.02.7 German Democratic Republic	—	—	—	—	0.6	0.8	—
2.02.8 France	—	—	—	—	5.4	6.7	4.4
3. Total of Loans and Grants	190.2	353.6	265.6	280.5	353.3	441.6	248.6

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, Rs. 86.2 million and 88.5 million being FEECs payable on re-payments of foreign loans for the years 1969/70, 1970/71, 1971/72 and 1973 respectively, have not been taken into account in this table.

* On a pro-rata basis.

Fiscal Trends

As mentioned earlier, the budgetary operations in 1973 resulted in a net contractionary effect of Rs. 53 million. It is evident from table II (G) 1 that government budgets in recent years have consistently had an expansionary impact on the economy. The expansionary impact of annual budgets reached a peak in 1969/70 of Rs. 425 million; since then, however, they have declined continuously largely helped by substantial borrowings from non-bank sources. In 1973, the government has in fact managed to reduce its indebtedness to the banking system as a whole by Rs. 116 million. While borrowings from the Central Bank increased by Rs. 114 million, the government reduced its indebtedness to the commercial banks by Rs. 230 million. The reduction in government's indebtedness to the banking system was aided to a large extent by the record gross domestic non-bank market borrowing of Rs. 819 million effected during the year. The circumstances underlying this successful resource mobilization effort have been analysed in the later section on "Public Debt". It must, however, be noted that at a time when receipts of foreign finance as a source of budgetary support have continued to decline, domestic non-bank borrowings have more than made up this shortfall and helped to sustain the investment programmes of the government.

In recent years, particularly in the last two financial years, domestic non-market borrowings (i. e. administrative borrowings) have also substantially financed budget deficits. These borrowings amounted to Rs. 199 million in 1971/72 (pro-rata) and to Rs. 251 million in the year under review. Domestic non-market borrowings and repayments relate to certain transactions of the government which take place administratively, i. e. such borrowings and repayments are outside the market for both bank and non-bank borrowings. Domestic non-market borrowings are mostly credited to separate accounts in the Treasury books unlike domestic market borrowings, which are credited to the Consolidated Fund.¹ The domestic non-market borrowings and repayments which are commonly referred to as "administrative borrowings" (although administrative borrowings are strictly just one form of domestic non-market borrowings) comprise net transactions on "Deposits" such as suitors' and contractors' deposits, miscellaneous funds, the widows' and orphans' fund, public service provident fund etc., and sundry loans to institutions such as the Agricultural and Industrial Credit Corporation and Local Loans and Development Fund. The surplus balances of certain government funds and agencies are also temporarily borrowed by the Treasury and go to form part of domestic non-market borrowings. Examples of such deposits are those of public corporations, Tea Subsidy Fund and the Rubber Replanting Subsidy Fund.

The substantial increase in domestic non-market borrowings in 1971/72 and in 1973 has arisen largely as a result of an increase in the deposits to the credit of the Food Commissioner in the Treasury books. These deposits represent the credit balances in the Food Purchase Advance Accounts of the Food Commissioner and amounted to Rs. 188 million and Rs. 439 million in 1971/72 and 1973,

1. Of the domestic non-market borrowings only "Administrative borrowings" are credited to the Consolidated Fund.

respectively. The credit balances arose as a result of the Food Commissioner's imports which were obtained on deferred payment terms. Since no repayments in respect of these imports were due in each of these years, they resulted in a temporary credit in the Food Commissioner's Advance Accounts.

The Annual Reports of 1971 and 1972 had occasion to comment on the paucity of government savings on its current account. It is a hopeful sign that, in an year when recurrent expenditure continued its normal rate of increase, the government has managed to generate a surplus of Rs. 129 million in its current account. It must, however, be noted that if not for the inflation of the revenue receipts during the year by the amount of income tax receipts which would normally have accrued in 1971/72, the current account would, at best, have only been in balance.

Table II (G) 5 gives the revenue mobilization effort of the government since 1966/67 in terms of the actual results achieved. It is evident that there has been a determined attempt made to mobilize additional resources since 1970/71 and some noteworthy increases in revenue have been obtained, particularly in the year under review. Yet, the persistent increases in recurrent expenditure have frustrated the attempts of the government to effect any sizeable savings in its current account.

TABLE II (G) 5
Revenue - Additional Mobilisation of Resources

	Total Revenue		New Resources Mobilised†		
	Increase Rs. Mn.	Percentage increase	Amount Rs. Mn.	As % of total revenue	As % of G. N. P.
1966/67 ..	175	8.6	80	3.6	1.0
1967/68 ..	219	9.9	125	5.1	1.3
1968/69 ..	354	14.5	32	1.1	0.3
1969/70 ..	189	6.8	79	2.6	0.7
1970/71 ..	- 89	- 3.0	239	8.3	2.0
1971/72 (12 months) ..	395	13.7	56	1.7	0.4
1973 (Provisional) ..	748	22.8	280	6.9	1.8

Source: Central Bank of Ceylon.

† New resources mobilized represent the difference between the pre-budget estimates and actual receipts of revenue in respect of items to which the new revenue measures in the budget relate.

It is also evident from table II (G) 5 that the notable increases in total revenue have been achieved in recent years mostly by autonomous revenue measures introduced with the budgets rather than their being the result of the inbuilt elasticity of the tax system. This only serves to highlight the need to curtail recurrent expenditure at levels consistent with the increases that the revenue system can produce. Frequent resort to ad-hoc revenue measures, would not only tend to complicate the tax system and its administration, but would also tend to give undue emphasis to short-term rather than long-term perspectives.

Government revenue and recurrent expenditure rose at an annual compound rate of 8.4 per cent and 7.9 per cent respectively during the last 10 years. During the last five years, however, there has been a distinct improvement, since the average rate of increase in revenue at 10.6 per cent (compound) has been higher than that of recurrent expenditure at 9.3 per cent (compound). On the other hand, the average annual rate of increase in capital expenditure during the last ten years has been 10.7 per cent (compound) while the rate of increase during the last five years at 9.2 per cent (compound) has been perceptibly slower.

For the first time in recent years, the government made a determined attempt to tackle one of the basic sources of the budgetary imbalance, namely the food subsidy. The measures announced by the government in October, 1973 in respect of the rationing of rice, flour and sugar were expected to result in substantial savings on account of the net food subsidy in 1974. The escalation of food prices in world markets, however, is expected to wipe off the gains anticipated during 1974. These developments have clearly exposed the vulnerability of the budget to circumstances beyond the country's control. Although the government has sought to contain the food subsidy at manageable proportions, its success would clearly depend on its ability to adopt a flexible pricing policy in relation to subsidized food items.

The progressive increase in budget deficits and the inability to produce any significant current account surplus in recent years has meant that the government had to resort to increased borrowings both from domestic and foreign sources, bringing in its wake problems of debt servicing and management. In recent years, additional resources mobilized from domestic non-bank sources have become substantial while foreign resources which contributed nearly 45 per cent of the budget deficit in 1968/69 have since then come to contribute a gradually declining proportion of the deficit. Considerations of internal financial stability would necessarily have to limit the government's recourse to borrowings from the banking system. The required increases in government capital expenditure, in keeping with the targets of the Five Year Plan, will mean that the government might have to contend with progressively increasing budget deficits in the future.

While the decline in foreign finance has necessitated a shift towards increased mobilization of non-bank domestic resources and the record in this respect has been quite impressive in the last two years the consequent growth of interest payments on the debt incurred has been substantial. Most of the local borrowings of a long-term nature is obtained at 9 per cent while the bulk of the external borrowings are at rates over 5 per cent. The interest payments on both domestic debt and foreign debt in 1973 amounted to Rs. 519 million while in 1974 it is expected to amount to Rs. 602 million or 15 per cent of the total recurrent expenditure. In absolute terms the interest cost on public debt in 1974 will be of a slightly higher magnitude than that of the gross food subsidy estimated for 1974. Most of the interest paid on local debts accrues to 'captive' sources¹ which have become the main source of government borrowing in recent years. The

1. These refer to the National Savings Bank, Employees' Provident Fund, and the Insurance Corporation of Ceylon.

interest that accrues to these sources are in turn available to the government as further borrowing to finance its capital expenditure. Interest payments, however, are deemed to be current payments, and its magnitude will limit the government's ability to generate savings on the current account. It is imperative that if debt servicing is not to present a major problem to the government in the future, the investment of the borrowed funds should be remunerative enough to cover at least the cost of such borrowings.

2. THE NET FOOD SUBSIDY

As in the last two financial years, the estimates for 1974 show the gross food subsidy as an item of expenditure and the profits from the sale of foodstuffs as an item of revenue, in keeping with the new economic and functional basis of presenting estimates of revenue and expenditure. The net food subsidy is arrived at by setting off the profits from the import and sale of certain food items (mainly sugar) from "the gross food subsidy". The latter consists of net payments on account of the issue of rice on ration, the producer subsidy under the guaranteed price scheme for paddy, red onions and chillies¹ and the subsidy on the import and sale of flour, dhal and infants milk food. The distribution expenses and other charges in respect of rice, sugar and flour are also taken into account in computing the net food subsidy.

Table II (G) 6 shows the details of the gross food subsidy and profits from the sale of foodstuffs for the last three financial years along with the Approved Estimates for 1973 and 1974. The resulting net food subsidy for each year is also provided in the table.

The Gross Food Subsidy

The gross food subsidy for 1973 (provisional) amounted to Rs. 692 million. This represented a substantial increase of Rs. 117 million or 20 per cent over the pro-rata 12 months figure for 1971/72. As against this, the pro-rata subsidy in 1971/72 had shown a decrease of Rs. 39 million or 6 per cent over the previous financial year, despite the fact that for the first time in several years, there was a loss recorded on the sale of flour during 1971/72.

Financial Year 1971/72

The decrease of Rs. 74 million or 12 per cent on the subsidy on rice mainly accounts for the fall in the gross food subsidy in 1971/72 (12 months). This was mainly the result of the government's decision to increase the sale price of the second measure by 25 cents to 1 rupee and the resultant decline in the draw-off of rice under ration by 106,000 tons (12 months). A fall in the average landed cost of imported rice from Rs. 655/- to Rs. 581/- per long ton also contributed to this situation.

1. Consequent to the ban on the import of red onions and chillies, the producers' subsidy does not arise on these items.

TABLE II (G) 6
Net Food Subsidy 1970/71 to 1974

(Rs. Millino)

Items	1970/71	1971/72		1973		1974
		15 months	12 months ¹	Approved Estimates	Provisional	Approved Estimates
I. Gross Food Subsidy						
1. Subsidy to the consumer on imported rice and to the producer and consumer on locally produced rice	602.3	660.1	528.1	582.5	603.2	578.6
Of which: (a) Distribution expenses etc ²	47.1	45.9	36.7	53.6	55.8	45.9
b) Payments under Voluntary Family Allowance Scheme ³	—	—	—	—	1.1	—
2. Subsidy on —						
(a) Locally produced red onions	3.5	—	—	—	—	—
(b) Locally produced chillies	—	9.1	7.3	—	—	—
(c) Infants' milk food	—	3.2	2.6	—	—	5.0
3. Losses on sale of —					3.0 ⁴	
(a) Dhall	8.7	16.3	13.0	13.4	25.1	0.8
(b) Flour, including distribution expenses etc.	—	28.3	22.6	110.7	61.5	—
4. Depreciation	1.7	2.0	1.6	—	—	—
5. Less: Miscellaneous receipts	2.1	0.2	0.2	0.5	0.5	0.5
6. Gross Food Subsidy	614.1	718.8	575.0	706.1	692.3	583.9
II. Profits From Sale of Foodstuffs						
1. Sugar (net of distribution expenses etc.) ⁵	64.0	58.9	47.1	102.8	32.8	123.9
2. Flour (net of distribution expenses etc.)	3.0	—	—	—	—	0.2
3. Maldivé fish	8.0	1.6	1.3	—	—	—
Add: Rice subsidy tax	2.7	0.9	0.7	—	—	—
4. Profits	77.9 ⁶	61.4	49.1	102.8	32.8	124.1
III. Net Food Subsidy	536.2	657.4	525.9	603.3	659.5	459.8

Source: Food Commissioner.

1. On a *pro rata* basis.
2. In 1970/71 the distribution expenses and other charges represent the total of such expenses on account of rice, sugar and flour, as no breakdown of such expenses in terms of the three commodities was available. From 1971/72, these expenses have been apportioned to each of the three commodities.
3. Under this scheme an allowance of Rs. 40 per annum is paid to every ration book holder who voluntarily surrenders his ration book to the government. Income tax payers are not entitled to this benefit.
4. Includes a subsidy Rs. 18.0 million of C.W.E.
5. Includes the effect of FEECs payment on the import of sugar as follows:
1970/71: Rs. 135.0 million; 1971/72: Rs. 130.4 million (12 months); 1973: Rs. 149.0 million (approved estimates), Rs. 219.9 million (Provisional) and 1974: Rs. 151 million.
6. Includes Rs. 0.2 million from the sale of red onions.

The declining trend in the profits from the sale of flour upto 1970/71 turned into a loss in 1971/72. This was due to the increasing cost of imported wheat¹ and wheat flour, while the sale price remained unchanged.² Further, the distribution expenses and other charges in respect of all foodstuffs handled by the Food Commissioner upto 1970/71 were reflected as being in respect of rice only, as a breakdown of such expenses in respect of rice, flour and sugar was not available. In 1971/72, the apportionment of such expenses to the three commodities led to a loss on the sale of flour for the first time since 1953/54. If, however, these expenses on account of flour were excluded as in the past, flour sales would have shown a small profit of Rs. 4 million. In 1971/72, although the average landed cost of flour increased from Rs. 722/- to Rs. 732/- per long ton, and flour consumption rose by 55,000 tons (12 months), the subsidy on flour was contained at Rs. 23 million as the State Flour Milling Corporation was able to supply 76,000 tons (12 months) at a low price of Rs. 598/- per ton. In 1970/71, the State Flour Milling Corporation supplied 54,000 tons at Rs. 638/- per ton.

Consequent to the ban on the import of red onions, the subsidy on locally produced onions was eliminated in 1971/1972. The purchase of locally grown chillies at guaranteed prices resulted in a subsidy of Rs. 7 million. Meanwhile, the losses incurred in the sale of dhall and infants milk food showed increases of Rs. 4 million and Rs. 3 million, respectively. The latter item was for the first time subsidised by the Food Commissioner.

Financial Year 1973 (Provisional Actual)

As mentioned earlier, the increase in the gross food subsidy in 1973 over the previous year (12 months) was Rs. 117 million or 20 per cent. In October, 1973 the government was compelled to introduce a number of measures³ in the light of sharply increasing food prices and transport costs the world over. With these measures, the government was able, to some extent, to contain the gross food subsidy within the originally estimated cost for 1973. As these measures were taken towards the end of the year, the full impact of these measures would be felt only during 1974. The increase in the gross food subsidy during 1973 was the result of increased subsidies of Rs. 75 million or 14 per cent on rice, Rs. 39 million on flour and Rs. 12 million on dhall, partly offset by the complete elimination of the subsidy on locally produced chillies.

The subsidy on rice increased despite a reduction in the issues by 151,000 tons and an increase in the sale price.⁴ This was because the effect of the latter was more than offset by the combined effect of the sharp increase in the average

1. Imported wheat is milled locally by the State Flour Milling Corporation.
2. The sale price of flour prior to the increase in January, 1973 to 38 cents per pound was last revised to 33 cents per pound in 1967.
3. Details of these measures are given later in the report. Please see section on "Other Fiscal Measures".
4. The price of the "paid measure" was increased from Rs. 1.00 to Rs. 1.60 with effect from 19th February, 1973, but was subsequently reduced to Rs. 1.40 with effect from 12th March, 1973. The price was again increased to Rs. 2.00 for the "paid measure" with effect from 1st October, 1973, when the weekly ration was reduced from 2 measures to half measure per person, free to all non-income tax payers.

landed cost of rice from Rs. 577/- to Rs. 1,005/- per long ton and of the higher price paid for the purchase of paddy under the guaranteed price scheme. The price paid for a bushel of paddy was increased from Rs. 14/- to Rs. 18/- with effect from 15th February, 1973 and subsequently to Rs. 25/- per bushel with effect from 1st October, 1973. The increase of Rs. 49 million in the distribution expenses also contributed to the increase in the subsidy on rice.

The increase in the subsidy on flour in 1973 was directly related to the increase in the cost of both imported flour from Rs. 732/- to Rs. 1,323/- per long ton and locally milled flour from Rs. 598/- to Rs. 998/- per ton. Moreover, consumption, too, increased by 28,000 tons inspite of the increase in the sale price of flour¹ and the government's decision to bring the distribution of flour under the rationing scheme with effect from 1st October, 1973. The increased consumption of flour was induced by the reduction in the rice issued under the weekly ration from 2 measures to half measure per person.

Financial year 1974 (Estimates)

The Approved Estimates for 1974, provide for a reduction of Rs. 108 million or 16 per cent in the gross food subsidy as compared with the previous year. It is expected that during 1974, the subsidy on the sale of flour will be eliminated completely, while the rice subsidy is expected to be lower by Rs. 25 million. The subsidy on dhale is expected to be negligible in 1974, where as it amounted to Rs. 25 million in 1973. The subsidy on infants milk food, however, is expected to increase only marginally in 1974.

The measures introduced in respect of flour in October, 1973 i. e., (a) fixing the sale price at the then prevalent cost, and (b) rationing at a weekly rate of one pound per person were expected to contribute towards the complete elimination of the flour subsidy. The measures adopted in respect of rice at the same time, were to lead to a reduction in the purchase by the Food Commissioner of both imported and local rice. These purchases were expected to decrease from 346,000 tons to 105,000 tons in respect of imported rice and from 337,000 tons to 211,000 tons in respect of local rice. The cost of imported rice was expected to rise from Rs. 1,005/- to Rs. 1,823/- per long ton. The raising of the guaranteed price for paddy to Rs. 25/- per bushel involves an increase in the purchase price of local rice from Rs. 1,524/- to Rs. 1,970/- per long ton. Consequently, the subsidy on rice is expected to be reduced by only Rs. 25 million.

Profits from Sale of Foodstuffs

The profits from the sale of foodstuffs registered a fall of Rs. 16 million or 33 per cent in 1973. In 1971/72 (12 months) too, they had decreased by Rs. 29 million or 37 per cent.

Financial year 1971/72

In 1971/72, profits from the sale of foodstuffs, particularly from sugar, were expected to be higher, consequent to the government's decision to introduce the two-tier price structure for sugar with effect from November, 1971. Under this scheme sugar was to be rationed at a monthly rate of three pounds per person

3. The price of flour was increased from 33 cts. to 38 cts. per lb., with effect from 19th January, 1973 and subsequently to 48 cts. per lb. with effect from 1st June, 1973 and to 70 cts. per lb. under the rationing scheme with effect from 1st October, 1973.

(subsequently reduced to two pounds from March, 1972) at 72 cents per pound while off-ration sugar was to be sold at Rs. 1.50 per pound. The substantial increase in the landed cost of sugar by 41 per cent, however, greatly reduced the actual profits realised. The landed price of sugar, which was Rs. 1,423/- per ton in 1970/71 increased sharply to Rs. 2,006/- per ton in 1971/72. Besides, the fall in the total sales of sugar by 41,000 tons (pro-rata 12 months) too, contributed towards the fall in profits. Receipts from the sale of maldivian fish also showed a fall of Rs. 7 million.

Financial year 1973 (Provisional Actual)

The profits from the sale of foodstuffs in 1973 accrued solely from the sale of sugar. Profits from the sale of sugar were once again lower than in the previous year, mainly owing to the increase in the average landed cost of sugar by Rs 984/- to Rs 2,990/- per long ton. This increase in the cost of sugar more than offset the combined effect of the increase in the sale price of off-ration sugar¹ and the two reductions in the quantum of sugar issued under the ration. The quantity of sugar issued under ration at 72 cts. per pound was fixed at one pound per person per month from February, 1973 and subsequently reduced to three-quarter pound per person from October, 1973. The increase in the FEEC rate to 65 per cent and a reduction of 42,000 tons in the total sale of sugar also contributed to the lower profits.

Financial year 1974 (Estimates)

The declining trends in the profits from the sale of foodstuffs recorded during the last three financial years is expected to be reversed in 1974 according to the Approved Estimates for the year. Profits from the sale of sugar are expected to almost treble, or increase by Rs. 91 million. The Approved Estimates, however, anticipate a reduction in the average landed cost of sugar from Rs. 2,990/- to Rs. 2,768/- per long ton. The October 1973 measures adopted in respect of sugar were (a) a reduction in the quantum of sugar issued under ration to three-quarter pound per person per month, and (b) an increase in off-ration price to Rs. 2 per lb., of brown sugar and Rs. 2.10 per lb., of white sugar. Although sugar sales are expected to fall as a result by 23,000 tons, profits are expected to be higher than in 1973.

The Net Food Subsidy

The net food subsidy, i. e. gross food subsidy less profits from the sale of foodstuffs showed a substantial increase of Rs. 134 million or 25 per cent in 1973 over 1971/72 (12 months). This is in contrast to a decrease of Rs. 7 million in 1971/72 over the previous year. The reasons for the changes in the net food subsidy during the last two years have already been mentioned in detail in the preceding sections. However, in 1974, the net food subsidy, despite increasing cost trends, is expected to decrease sharply by Rs. 200 million or 30 per cent. This would arise from a decrease in the gross food subsidy of Rs. 108 million and an increase in the profits from the sale of foodstuffs of Rs. 92 million.

1. The price of off-ration white sugar was increased to Rs. 2.50 per lb. with effect from 11th November, 1972 but reduced to Rs. 2.00 per lb. with effect from 18th December, 1972 and to Rs. 1.50 per lb. with effect from 1st January, 1973. It was subsequently increased to Rs. 1.75 per lb. with effect from 31st May, 1973 and to Rs. 2.10 per lb. with effect from 1st October, 1973. The price of off-ration brown sugar, too, was increased to Rs. 1.65 per pound with effect from 31st May, 1973 and subsequently to Rs. 2.00 per pound with effect from 1st October, 1973.

3. PUBLIC DEBT¹

At the end of December, 1973 the gross public debt stood at Rs. 11,380 million (Rs. 11,574 million if the liability of government departments on suppliers' credit is added), having recorded an increase of Rs. 1,061 million in the financial year, 1973. Of the gross public debt outstanding 75 per cent or Rs. 8,585 million was on account of domestic debt, while the balance 25 per cent or Rs. 2,795 million represented foreign borrowings. Net of sinking funds (in respect of both rupee loans and sterling loans), the public debt increased by Rs. 833 million to Rs. 10,281 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 given in table II (G) 7.

The increases, of Rs. 1,061 million and Rs. 833 million in the gross debt and net debt, respectively were lower when compared with the increases of Rs. 1,229 million and Rs. 1,072 million (on a pro-rata 12 months basis), respectively recorded in the previous financial year. The increase in the gross public debt consisted of Rs. 403 million (or 38 per cent) in foreign debt and Rs. 658 million (or 62 per cent) in domestic debt. This was approximately the same distribution that obtained in the previous financial year.

The increase in foreign debt in 1973 was Rs. 403 million while the increase in the 15 months of the financial year 1971/72 was Rs. 592 million. On a pro-rata basis for 12 months the increase would be Rs. 474 million. About Rs. 200 million or half of the increase in foreign debt during 1973 arose from an increase in liability on account of the re-alignment of world currencies. When allowance is made for this factor, the real increase in foreign debt of Rs. 203 million in 1973 was appreciably lower than comparable increase of Rs. 294 million in 1971/72 (pro-rata).

During the last five financial years there had been a steady increase in the foreign debt component of public debt from 17 per cent in 1967/68 to 23 per cent in 1971/72. This trend reflects the major role played by external assistance in financing the budgets of recent years. Though there was a decrease in foreign debt incurred in the year 1973, the foreign debt component of the gross public debt rose marginally to 25 per cent. While the absolute increase in the domestic debt has been substantial in recent years, proportionately the increase in foreign debt has outstripped the increase in domestic debt. The domestic debt component of gross debt was 75 per cent at the end of 1973.

During the financial year 1974, the government intends to raise a sum of Rs. 720 million from domestic non-bank sources and Rs. 540 million from foreign sources. Project loans amounting to Rs. 140 million and non-project (commodity) loans amounting to Rs. 400 million are to make up the total foreign borrowings.

1. The term "public debt" here refers to the domestic and foreign borrowings of the government of Sri Lanka only, excluding therefrom the debt from the semi-government institutions such as public corporations and local authorities. Also a debt amounting to Rs. 194 million as at 31st December, 1973 on account of imports by government departments under external suppliers' credit, is not included.

TABLE II (G) 7
Total Public Debt - 1967-68 to 1973 (a)
(Financial Years)

As at end of Financial Year	1967/68		1968/69		1969/70		1970/71		1971/72		1973	
	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%
1. Gross Debt	6,270.8	100.0	6,888.5	100.0	7,873.2	100.0	8,782.8	100.0	10,318.7	100.0	11,379.9	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	2,795.3	24.6
1.2 Domestic ..	5,196.5	82.9	5,513.0	80.0	6,294.8	79.9	6,982.6	79.5	7,926.2	76.8	8,584.6	75.4
2. Net Debt(b)	5,689.3	100.0	6,238.9	100.0	7,236.8	100.0	8,108.0	100.0	9,448.3	100.0	10,280.8	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	2,750.5	26.8
2.2 Domestic ..	4,651.0	81.7	4,901.6	78.6	5,685.9	78.6	6,340.4	78.2	7,095.8	75.1	7,530.3	73.2

Source : Central Bank of Ceylon.

(a) Excluding (i) National Housing and State Mortgage Bank debentures which amounted to Rs. 71.0 million and Rs. 32.3 million respectively, as at end of December, 1973; (ii) Debt of Rs. 194.2 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.

Domestic Debt.

At the end of the financial year 1973, the gross domestic debt was Rs. 8,585 million, having increased by Rs. 658 million (or 8 per cent) over the previous financial year. The composition and changes in the domestic debt as at the end of the last five financial years are shown in table II (G) 8.

TABLE II (G) 8**Composition of Domestic Public Debt and Changes - 1968 to 1973**

Rupees Million

As at end of	Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Advances (b)	National Development Bonds (c)	Total	
	Gross	Sinking Fund(a)	Net					Gross	Net
Sept. 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	78.0	419.6	0.2	7,926.2	7,095.8
.. 1973 ..	5,812.2	1,054.3	4,757.9	2,250.0	66.1	456.1	0.2	8,584.6	7,530.3
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
Change 1973 ..	+708.8	+223.9	+484.9	- 75.0	-11.9	+ 36.5	—	+658.4	+434.5

Source: Central Bank of Ceylon.

- (a) Representing the market value of investments held on behalf of sinking funds (including supplementary sinking funds).
- (b) Including special loans toward payment of membership subscriptions to the I.M.F., the I.B.R.D., the I.D.A. and the A.D.B. Net of these loans, which amounted to Rs. 93.2 million at the end of December, 1972 and Rs. 95.8 million at the end of December, 1973 the Central Bank advances increased by Rs. 36.5 million in 1973. 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 same level upto the end of December, 1973.

The increase in the gross domestic debt of Rs. 658 million consisted of increases of Rs. 709 million in rupee loans, and Rs. 37 million in Central Bank advances, which were offset by decreases in the total amount of Treasury bills held by Rs. 75 million and in the unsurrendered amount of tax reserve certificates by Rs. 12 million. As a result, the relative shares of rupee loans (68 per cent) and Central Bank advances (5 per cent) increased, while that of Treasury bills decreased to 26 per cent.

In 1971/72, the borrowing through the issue of rupee loans (excluding conversion loans) accounted for 63 per cent of the total domestic borrowings. During 1973, largely as a result of a record domestic non-bank borrowing of Rs. 760 million net of conversion loans, rupee loans accounted for the bulk of the increase in domestic borrowing while Central Bank advances showed a marginal increase of 6 per cent.

1 Borrowings by way of Treasury bills had increased substantially in 1971/72 largely owing to the bank strike in the last quarter of the year when the flow of revenue to the government was interrupted. With conditions back to normal following the resumption of work in the first quarter of 1973, the government retired a substantial amount of Treasury bills, and by the end of the year, Treasury bills outstanding were reduced by Rs. 75 million. Meanwhile, the outstanding amount of tax reserve certificates, too, declined by Rs. 12 million. These certificates are held mainly by the domestic non-bank sector.

Table II (G) 9 shows the maturity pattern of gross domestic debt at the end of the last five financial years.

At the end of the financial year 1973, the relative shares of the funded debt (consisting entirely of rupee securities) and unfunded debt (consisting mainly of Treasury bills) in domestic debt, remained at the same level as at the end of the previous financial year. However, the total amount of unfunded debt outstanding at the end of the financial year was Rs. 2,772 million which is Rs. 50 million less than in the previous financial year. This decrease is mainly due to the reduction in the amount of Treasury bills and tax reserve certificates outstanding. The declining share of the unfunded debt reflects the reduced reliance of government budgets on bank financing through the issue of Treasury bills in recent years.

All rupee loans floated in the financial year 1973 were of 10 to 12 year duration. However, the share of the group of securities with a maturity period of 5 to 10 years has trebled and now accounts for 14 per cent of the total domestic debt. Since 1970/71, all rupee securities issued have been of a 10 to 12 year duration. Consequently, an increasing proportion of these loans which originally belonged to the 10 to 15 year maturity group now come under the 5-10 year group. On the other hand, the share of securities maturing in 20 to 25 years, which at the end of the financial year 1968/69 were Rs. 1,596 million (or 29 per cent of the total debt), has declined sharply to Rs. 375 million (or 4 per cent of the total) at the end of 1973, owing to the non-issue of long-term rupee loans for the past few years. The issue of longer term securities in the future could very well ease the problem of debt repayment which the government may have to encounter.

Rupee Securities

In 1973, twelve rupee loans of 10 to 12 years duration amounting to Rs. 800 million were floated, carrying an interest rate of 9 per cent per annum. One of these for Rs. 40 million, was on account of conversion. In the previous 15 month financial year 1971/72, the total amount raised through the issue of rupee loans was Rs. 747 million of which Rs. 97 million was on account of conversion loans.

Details of subscriptions to each rupee loan floated in 1973 are given in table 41 of appendix II and a summary of subscriptions to rupee loans floated in the last five financial years is given in table II (G) 10.

TABLE II (G) 9

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

Years to Maturity	1968/69		1969/70		1970/71		1971/72		1973 (Provisional)	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Unfunded debt (b) ..	2,103.8	38.2	2,369.9	37.6	2,470.6	35.4	2,822.6	35.6	2772.4	32.3
2. Funded debt (c) ..	3,408.6	61.8	3,924.9	62.4	4,511.9	64.6	5,103.4	64.4	5812.2	67.7
2.1 First 5 years ..	534.9	9.7	491.1	7.8	397.4	5.7	428.1	5.4	429.4	5.0
2.2 5 to 10 years ..	235.8	4.3	383.2	6.1	492.7	7.1	307.0	3.9	1191.1	13.9
2.3 10 to 15 years ..	247.0	4.5	534.6	8.5	1,352.4	19.4	2,277.0	28.7	2280.7	26.6
2.4 15 to 20 years ..	795.0	14.4	1,047.4	16.6	1,118.0	16.0	1,366.3	17.2	1536.0	17.9
2.5 20 to 25 years ..	1,595.9	29.0	1,468.5	23.3	1,151.4	16.5	725.0	9.1	375.0	4.3
3. Total ..	5,512.4	100.0	6,294.8	100.0	6,982.5	100.0	7,926.0	100.0	8584.6	100.0

Source: Central Bank of Ceylon.

(a) The financial year of the government was from 1st October to 31st September except in 1971/72 when it was from 1st October, 1971 to 31st December, 1972. From 1973 it coincides with the calendar year, i.e. January to December

(b) Comprising Treasury bills, tax reserve certificates, Central Bank advances and National Development Bonds.

(c) As at latest date of maturity.

TABLE II (G) 10
Classification of Subscriptions to Rupee Securities (a)

Subscribers	1968/69		1969/70		1970/71		1971/72			1973 (Provisional)	
	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	12 Months Amount Rs. Mn.	15 Months Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Percentage
1. Bank Sector ..	0.6	0.2	117.5	20.3	12.7	1.9	37.4	46.7	6.3	13.3	1.7
1.1 Commercial banks ..	0.6	0.2	117.5	20.3	12.7	1.9	37.4	46.7	6.3	13.3	1.7
2. Non-Bank Sector ..	339.4	99.8	461.7	79.7	668.1	98.1	559.9	699.9	93.7	786.7	98.3
2.1 Savings institutions ..	36.0	10.6	156.1	26.9	216.0	31.7	97.4	121.7	16.3	213.9	26.7
2.2 Sinking funds ..	111.8	32.9	83.0	14.3	161.8	23.8	168.0	210.0	28.1	225.8	28.2
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	9.5	1.2
2.4 Employees' Provident Fund ..	101.3	29.8	97.9	16.9	143.0	21.0	158.2	197.7	26.5	196.9	24.6
2.5 Insurance Corporation ..	42.5	12.5	45.5	7.9	60.8	8.9	55.3	69.1	9.3	100.0	12.5
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	34.0	4.2
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	...	0.6	0.1
2.9 Individuals, clubs and institutions ..	1.5	0.4	2.5	0.4	7.9	1.2	3.1	3.9	0.5	6.1	0.8
3. Total ..	340.0	100.0	579.2	100.0	680.7	100.0	597.1	746.6	100.0	800.0	100.0

(a) Refers to rupee loans only.

Source: Central Bank of Ceylon.

In the budget for 1973 it was anticipated that a sum of Rs. 600 million would be mobilized from the domestic non-bank sector by way of rupee loans. The loan operations of the government in 1973, however, resulted in realising Rs. 800¹ through rupee securities, recording a very sharp increase of Rs. 200 million over the originally expected figure. This also exceeds the amount raised through rupee loans in 1971/72 (pro-rata) by Rs. 203 million or by 34 per cent.

The increased mobilization of resources in 1973 was brought about by the non-bank investor group subscribing Rs. 227 million more in 1973, while the contributions by the bank sector declined by Rs. 24 million. Since the bank sector is precluded from subscribing directly to rupee securities, the investment by this sector in these securities in the recent past have been in loans made by the conversion of maturing stocks. Rupee securities amounting to Rs. 13 million held by the banking sector in 1973 were entirely in respect of conversion stock.

In the recent past the flow of funds for investment in rupee securities, with the exception of 1969/70, has been mainly from the non-bank investor groups, particularly from the sinking funds, the National Savings Bank, the Employees' Provident Fund and the Insurance Corporation of Ceylon. Their share in the total contributions stood at 92 per cent in 1973, showing an increase of about 12 per cent over the previous year. Thus, the government's loan programmes have become heavily dependent on these "captive" sources. The contributions by sinking funds, National Savings Bank, Employees' Provident Fund, and Insurance Corporation of Ceylon during 1973 were Rs. 226 million or 28 per cent, Rs. 214 million or 27 per cent, Rs. 197 million or 25 per cent and Rs. 100 million or 13 per cent, respectively. On the other hand, the contributions from private provident and pension funds declined by Rs. 31 million from their level in the previous year.

Sinking funds have come to contribute substantially to rupee securities, particularly during the last three years. They were the largest contributors to rupee securities both in 1971/72 and 1973. The increased contributions from this source has been largely the result of the increased volume of borrowing done by the government in the recent past, which has increased in turn the volume of sinking funds available for investment. Further, shortened maturity period of the loans floated since 1970/71 and the higher interest yield of 9 per cent on these loans have also enhanced the investment capacity of the sinking funds. Further, the establishment of the Joint Investment Fund, too, has enabled the sinking funds to be invested more rationally and profitably.

The next largest contributions to rupee securities in 1973 came from the National Savings Bank, which now centralises the investments of the Post Office Savings Bank, Ceylon Savings Bank and the Savings Certificates Fund. A number of factors have helped the National Savings Bank to invest a substantial sum in rupee securities during 1973. The savings promotion campaign and the widening of the network of branches of the Bank with easy deposit and

1. Includes Rs. 40 million of conversion loans.

withdrawal procedures have enabled it to mobilize additional deposits. The special income tax concession and other tax reliefs for the purchase of savings certificates upto 31st March, 1973 also helped to increase the volume of deposits at the Bank. All interest earned on savings certificates purchased before this date were exempt from income tax without any limitation on the amount of holdings. Further, the higher interest of 9 per cent to be earned on its recent investments in rupee securities has also enhanced the interest income received by the National Savings Bank and in turn has enhanced its supply of investible funds. Finally, a Treasury grant of Rs. 26 million on account of the Bank's low income yielding securities relating to the past investments of savings institutions which the National Savings Bank inherited, has also enabled the re-investment of these funds in rupee securities in 1973.

The, third largest contributor to rupee securities in 1973, was the Employees Provident Fund and its share of the total contributions was Rs. 197 million. As observed in the last Annual Report, the increased investments in rupee securities by the Fund since 1970/71 have been primarily due to the increase, with effect from January, 1971 in the rates of contributions by employers and employees and the extension of the Fund's coverage. In 1973, the contributions to the fund increased by about Rs. 40 million over the 1971/72 pro-rata figure of Rs. 158 million, while the increase observed in 1971/72 (pro-rata) over that of 1970/71 was in the region of Rs. 15 million. There was, however, an additional factor which helped to enhance the contributions from the Fund in 1973. In 1971/72, the Fund's investments had averaged about Rs. 14 million per month up to August 1972, while during the last four months of 1972 such investments totalled Rs. 43 million averaging only Rs. 10 million per month. This fall in the average rate of investment was largely the result of the delayed clearing of cheques on account of the commercial bank strike in late 1972. The resumption of work in commercial banks enabled the Fund to contribute Rs. 36 million to rupee securities in January, 1973 alone. The investments during rest of 1973 have averaged about Rs. 15 million per month, which is slightly above the monthly average attained in 1971/72.

The contributions of the Insurance Corporation during 1973, too, showed a substantial increase of Rs. 45 million over that of the previous year (pro-rata). As in the case of the contributions from the Employees' Provident Fund, the strike of the commercial bank employees resulted in the delayed clearing of cheques. Consequently, part of the funds which would normally have been invested in 1971/72 were invested during the early part of 1973. Apart from this rather temporary phenomenon, the higher interest which the corporation now earns on its holdings of rupee securities together with the appreciable increase in the premium income, particularly on its life and fire insurance business, has enabled it to increase its contributions to rupee securities during 1973.

The subscriptions from the non-bank private sector to rupee securities during 1973 amounted to Rs. 41 million which is Rs. 27 million lower than in 1971/72. Private provident and pension funds contributed substantially less in 1973. There were no investments in rupee securities by the private insurance

companies in 1973, reflecting their need for greater liquidity. Contributions from individuals, clubs and institutions, however, increased to Rs. 6 million in 1973.

A classification of ownership of rupee securities as at the end of the last six financial years is given in table II (G) 11

TABLE II (G) 11
Ownership of Rupee Securities^(a) - As at the end of financial years
1967/68 to 1973

Owners	Rupees Million					
	1967/68	1968/69	1969/70	1970/71	1971/72	1973 (Prov.)
1. Bank Sector	328.8	367.0	586.0	588.2	536.1	498.8
1.1 Central Bank	70.0	111.8	249.0	247.5	197.3	183.5
1.2 Commercial banks	258.8	255.3	337.0	340.7	338.8	315.3
2. Non - Bank Sector	2,789.0	3,042.0	3,338.9	3,923.7	4,567.3	5,313.4
2.1 Savings institutions (b)	641.2	641.7	651.5	832.6	951.9	1,164.9
2.2 Sinking funds	532.3	614.1	696.2	846.9	1,042.6	1,257.8
2.3 Departmental and other official funds	147.1	150.8	156.2	163.2	165.2	166.8
2.4 Employees' Provident Fund	612.1	713.5	811.4	954.4	1,159.6	1,356.4
2.5 Other provident funds	394.5	423.2	469.3	513.1	572.5	601.9
2.6 Insurance Corporation	234.5	276.9	322.4	383.1	452.1	551.9
2.7 Insurance companies	140.7	139.0	149.8	145.5	136.2	124.8
2.8 Other state corporations	2.9	2.9	2.2	2.2	2.2	2.2
2.9 Others (c)	83.7	79.8	79.8	82.7	85.1	86.6
3. Total	3,117.9	3,409.1	3,924.9	4,511.9	5,103.4	5,812.2

Source: Central Bank of Ceylon.

(a) Refers to rupee loans only.

(b) With effect from 1st April 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 1973 amounted to Rs. 5,812 million, recording an increase of Rs. 709 million (or 14 per cent) in the financial year under review. This increase was due to a rise of Rs. 746 million in the holdings of the non-bank sector partly offset by a decrease of Rs. 37 million in holdings of the bank-sector.

The increase in holdings of the non-bank sector was due mainly to increases of Rs. 213 million in holdings of the National Savings Bank, Rs. 215 million of the sinking funds, Rs. 197 million of the Employees' Provident Fund, Rs. 29 million of the other provident funds and Rs. 100 million of the Insurance Corporation. The holdings of private insurance companies declined by Rs. 11 million. The decline in the holdings of the bank sector was due to a decrease of Rs. 14 million and Rs 23 million in the holdings of the Central Bank and commercial banks, respectively consequent to the repayment of maturing stock held by these banks.

The major shares of rupee securities were held by the Employees' Provident Fund, sinking funds and the National Savings Bank. The Employees' Provident Fund has held the highest amount of securities at the end of each of the last five financial years. Its share of holdings was Rs. 1,356 million (or 23 per cent) as at the end of December, 1973. Sinking funds and the National Savings Bank held Rs. 1,258 million (or 22 per cent) and Rs. 1,165 million (or 20 per cent) respectively, showing slight increases in their holdings of rupee securities.

Treasury Bills

The amount of Treasury bills issued and outstanding at the end of December, 1973 was Rs. 2,250 million. The net decrease during the course of the year was Rs. 75 million. The authorised limit of Treasury bills which was raised to Rs. 2,550 million on 21st July, 1972 by a resolution of the National State Assembly remained unchanged in the year under review.

Table 42 of appendix II gives the particulars of Treasury bills issued during the financial year 1973. A classification of the ownership of Treasury bills at the end of 1973 together with comparable data for the previous five financial years is given in table II (G) 12.

TABLE II (G) 12
Ownership of Treasury Bills - As at the end of financial years
1967/68 to 1973

Owners	Rupees Million.					
	1967/68	1968/69	1969/70	1970/71	1971/72	1973 (Prov.)
1 Bank Sector	1,682.2	1,691.4	1,880.3	1,969.6	2,264.7	2,152.5
1.1 Central Bank	1,586.3	1,637.3	1,833.8	1,670.5	1,890.8	1,984.6
1.2 Commercial banks	95.9	54.1	46.5	299.1	373.9	167.9
2. Non-Bank Sector	67.8	58.6	69.7	55.4	60.3	97.5
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	0.5
2.3 Other provident funds	0.1	—	—	0.8	1.0	1.1
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	4.4
2.6 Other	0.3	4.5	2.8	0.2	50.4	91.5
3. Total	1,750.0	1,750.0	1,950.0	2,025.0	2,325.0	2,250.0

Source: Central Bank of Ceylon.

Treasury bill holdings which increased by Rs. 300 million in the previous financial year¹ recorded a decrease of Rs. 75 million in 1973. This decrease was mainly due to the reduction in the holdings by the bank sector by Rs. 112 million, partly offset by an increase of Rs. 37 million in the holdings of the non-bank sector. The decrease of Rs. 112 million in the bank sector was made up of a Rs. 206 million decline in the holdings of the commercial banks offset partly by an increase of Rs. 94 million in the holdings of the Central Bank.

1. The reasons for this increase have been discussed in detail in page 149 of the Central Bank Annual Report 1972.

The abnormal increase of Rs. 300 million of Treasury bills during 1971/72 was largely accounted for by the bank strike in late 1972 and the consequent need for cash on the part of the government. Government was able to retire a fair proportion of these Treasury bills on the resumption of work in banks in the early part of 1973. However, the fact that the government was able to retire Rs. 112 million worth of Treasury bills held by the banking system in 1973, is indicative of the increasing financial restraint which the budgets in recent years have sought to achieve.

In 1973, the bank sector held 95 per cent of the total holdings of Treasury bills. Of these the Central Bank's share was 88 per cent and that of commercial banks was 7 per cent. When compared with the previous financial year, the holdings of the Central Bank increased by 7 per cent while that of the commercial banks declined by 8 per cent. As in the past, the Treasury bill market continues to rely mainly on the banking sector, particularly on the Central Bank.

The non-bank sector increased its holdings of Treasury bills by Rs. 37 million. This was mainly on account of compulsory savings, amounting to Rs. 40 million, which were invested in Treasury bills in 1973. There were no holdings of Treasury bills by the sinking funds at the end of the year under review.

There was no change in the Treasury bill rate, which remained at 5 per cent per annum throughout the year. The Central Bank's support for the Treasury bills too, remained unchanged at 3.24 per cent per annum.

Tax Reserve Certificates

Of the authorised issue of Rs. 550 million, tax reserve certificates amounting to Rs. 541 million have been issued up to the end of December, 1973 and the certificates not surrendered as at that date amounted to Rs. 66 million. The amount of unsurrendered certificates at the end of the previous financial year was Rs. 78 million. Hence, there was a decrease of Rs. 12 million in this type of debt obligation as compared with an increase of Rs. 12 million in the previous financial year 1971/72.

The rate of interest of 3 per cent per annum on tax reserve certificates remained unchanged during the year.

Central Bank Advances

In the financial year under review, advances by the Central Bank to the government under the provisions of Section 89 of the Monetary Law Act, increased by Rs. 37 million as against an increase of Rs. 40 million during the financial year 1971/72 (15 months). The Central Bank advances included a special loan of Rs. 2.6 million towards the payment of Sri Lanka's quota subscriptions to the International Monetary Fund.

Central Bank advances to the government at end of December, 1973 stood at Rs. 456 million as compared with Rs. 420 million at the end of the financial year 1971/72. Special loans by the Central Bank toward payment of Sri Lanka's membership subscriptions to international financial organisations amounted to Rs. 96 million at the end of 1973.

Foreign Debt

The total gross foreign debt¹ outstanding at the end of the financial year 1973 amounted to Rs. 2,795 million. The gross foreign debt during the year increased by Rs. 403 million;² this is lower than the previous year's increase of Rs. 474 million (on a pro-rata basis).

The amount of foreign loans utilized during the financial year was Rs. 347 million of which Rs. 153 million (or 44 per cent) was on account of project loans and Rs. 194 million (or 56 per cent), on account of non-project (commodity) loans. The resources obtained in the previous year 1971/72 (15 months) by way of project loans and non-project (commodity) loans amounted to Rs. 117 million (or 22 per cent)³ and Rs. 407 million (or 78 per cent) respectively. The decline in the utilisation of foreign resources in the year 1973 was mainly due to a substantial decrease in the amount of commodity aid utilized. The utilisation of project aid, however, increased significantly during 1973.

As observed in last year's Annual Report,⁴ foreign finance in recent years has been an important source of budgetary finance. In the year under review, the actual receipts of foreign finance fell far short of the budgetary expectations (by Rs. 148 million) and this was entirely due to a decrease in the utilization of non-project (commodity) aid. Any shortfall in project aid, as has been the case in the past, while directly reducing the capital investment during the year would also indirectly cause a further reduction in the local expenditure of a capital nature associated with the project. Shortfalls in commodity aid, too, have an adverse impact on the supply of goods required for investment and though these are often only delayed, the timely receipt of such aid may be a critical factor in the investment programme of the government. A more accurate forecasting of potential receipts of foreign finance is, thus, not merely important from the point of view of financing the budgetary needs of the government but also from the point of view of its significance for the amount of public sector investment.

The original estimates i. e. as estimated in the budget for the respective financial years and actual receipts of foreign finance since 1967/68 are given in table II (G) 13.

1. i.e. net of repayments but before deducting contributions to sterling loan sinking funds.

2. Includes an increase of Rs. 200 million in the debt as shown in Ceylon rupees on account of the re-alignment of international currencies.

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

4. Annual report 1972 page 152.

TABLE II (G) 13

Original Estimates and Actual Receipts of Foreign Finance

Rupees Million

Type of Aid	1967/68		1968/69		1969/70		1970/71		1971/72 (15 months)		1973	
	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual (Provisional)
Project Aid inclusive of grants	125.0	67.0	213.0	113.4	176.8	116.1	111.3	201.0*	162.0†	191.2†	141.0	199.7
Non-Project (commodity) Aid	150.0	178.9	263.0	312.2	325.0	229.1	525.0	169.0	500.0	406.6	400.0	193.7

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 the year 1973 amounted to Rs. 144 million, of which Rs. 62 million was in respect of project loans and Rs. 81 million in respect of non-project (commodity) loans. Net of these repayments, the gross external debt increased by Rs. 403 million.¹ If the increase of Rs. 5 million in sterling loan sinking fund is taken into account, the increase in the net liability would be Rs. 398 million.

Table II (G) 14 shows the details of withdrawals, repayments and liabilities on account of sterling, project and non-project (commodity) loans.

1. Of this amount, Rs. 200 million is the increase in liabilities arising from the re-alignment of international currencies.

TABLE II (G) 14

Foreign Loans

Rupees Million

Types and Sources	Withdrawals in 1973	Repay- ments in 1973	Increase in 1973	Liability as at end of December 1973
1. Sterling Loans	-	-	-	78.0 (a)
2. Project Loans	153.1	62.3	150.5	856.0
2.01 I.B.R.D.	0.8	13.2	-12.4	125.7
2.02 German Democratic Republic	6.8	13.8	-7.0	87.6
2.03 U.S.S.R.	0.5	11.2	-10.7	69.6
2.04 Federal Republic of Germany (b)	21.7	6.4	15.3	101.6
2.05 Canada (c)	12.2	5.9	6.4	37.6
2.06 People's Republic of China	40.2	5.5	34.7	204.1
2.07 U.S.A. (d)	-	2.0	-2.0	23.2
2.08 Denmark	6.7	-	6.7	31.1
2.09 International Development Association	32.2	-	32.2	95.1
2.10 United Kingdom	7.5	2.7	4.8	19.6
2.11 India	5.0	0.9	4.0	4.0
2.12 Polish People's Republic	-	0.4	-0.4	0.3
2.13 Federal People's Republic of Yugoslavia	-	0.3	-0.3	0.8
2.14 Asian Development Bank	19.5	-	19.5	55.6
Increase in the loan liability due to re-alignment of international currencies			59.6	
3. Non-Project (commodity) Loans	193.7	81.3	252.4	1,861.3
3.01 U.S.A. (e)	83.9	16.0	68.0	661.4
3.02 United Kingdom	4.7	7.0	-2.3	287.6
3.03 Federal Republic of Germany (b)	10.1	5.9	4.2	253.8
3.04 Japan	36.7	18.2	18.5	265.7
3.05 France	38.3	16.2	22.1	108.7
3.06 India	11.4	8.5	2.9	72.1
3.07 Canada	6.1	-	6.1	84.5
3.08 People's Republic of China	-	7.3	-7.3	114.9
3.09 Italy	-	2.0	-2.0	10.5
3.10 U.S.S.R.	2.5	0.3	2.2	2.2
Increase in the loan liability due to re-alignment of international currencies			140.0	
4. Grand Total	346.8	143.6	402.9	2,795.3 (a)

Source: Central Bank of Ceylon

(a) Rs. 44.8 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.

Sterling Loans

At the end of 1973, the gross debt stood at Rs. 78 million, the same level as at the end of 1972, as there were no borrowings or repayments during the year under review. However, the net debt outstanding at the end of 1973 amounted to Rs. 33 million, as there was an increase of Rs. 5 million in sinking funds.

Project Loans

Project loans utilised during the year under review amounted to Rs. 153 million, while repayments of such loans amounted to Rs. 62 million. Consequently, the net increase in liability on account of borrowings under project loans amounted to Rs. 91 million. But, when an increase of Rs. 60 million in loan liability arising from the re-alignment of international currencies is taken into account, the net liability increased by Rs. 151 million. In the previous financial year (15 months) a receipt of Rs. 117 million, a repayment of Rs. 77 million and an increase of Rs. 56 million on account of the re-alignment of international currencies had increased the net liability on account of project loans by Rs. 96 million.

The major donors of project aid during the year were the People's Republic of China, International Development Association, Federal Republic of Germany and the Asian Development Bank, contributing Rs. 40 million, Rs. 32 million, Rs. 22 million and Rs. 20 million, respectively. The Chinese aid received was largely for the purchase of rolling stock by the Railway and two ships by the Shipping Corporation. The aid received from the International Development Association was essentially for the Mahaweli Project while that from the Asian Development Bank was in respect of the Uda Walawe Project. The West German assistance was solely for the setting up of the Paper Mills at Embilipitiya.

The outstanding liability on project loans utilised stood at Rs. 856 million and its share in the total gross foreign debt stood at 31 per cent. The amount outstanding at the end of the previous year was Rs. 706 million.

Non-Project (Commodity) Loans

The commodity aid utilized in the year 1973 was Rs. 194 million, as compared with Rs. 407 million utilised in the previous year 1971/72 (15 months). Repayments during 1973 amounted to Rs. 81 million. However, the net increase in liability on account of borrowing under the commodity aid was Rs. 252 million. This is because Rs. 140 million or about 55 per cent of the increase in net liability during the financial year 1973 was on account of the re-alignment of international currencies.

The major donors of commodity aid were the United States of America (Rs. 84 million), France (Rs. 38 million), Japan (Rs. 37 million), India (Rs. 11 million) and Federal Republic of Germany (Rs. 10 million). The major imports under this type of aid were wheat flour, fertilizer, industrial raw material and machinery, motor vehicles and spares and telephone equipment. The aid received from the U. S. was entirely on account of wheat flour.

The external liability on account of non-project (commodity) loans as at the end of the financial year stood at Rs. 1,861 million, while the amount outstanding at the end of 1971/72 was Rs. 1,609 million.

During 1973, Rs. 246 million was credited to the Government Foreign Aid Counterpart Fund and an equal amount was withdrawn for budgetary purposes, as compared with Rs. 315 million (on pro-rata 12 months basis) credited and withdrawn during the previous financial year 1971/72.

Table 43 of appendix II gives the details relating to the rupee funds generated on account of imports under non-project (commodity) loans and their utilisation for budgetary purposes.

Sinking Funds

The market value of the sterling loan sinking funds and rupee loan sinking funds at the end of the financial year 1973 were Rs. 45 million and Rs. 1,054 million respectively as compared with Rs. 40 million and Rs. 830 million respectively at the end of the previous financial year.

The value of the sterling loan sinking fund increased by Rs. 5 million in 1973. This increase was the result of investment of new contributions (Rs. 1.2 million), interest earned on past investments (Rs. 2 million) and an appreciation of market value of investments (Rs. 1.6 million).

The market value of rupee loan sinking funds increased by Rs. 224 million. This was the net result of investment of new contributions (Rs. 172 million), interest earned on past investments (Rs. 77 million) and an appreciation of the market value of the past investments (Rs. 0.8 million) partly offset by repayment of loans (Rs. 26 million).

The operations of the sinking funds are now routed through the Joint Investment Fund which began operations from 1st September, 1971. The details about the operations of this fund were given in the Annual Report for 1972.¹

External Suppliers' Credit²

According to provisional data, the liability of the government departments under external suppliers' credit stood at Rs. 194 million at the end of the financial year 1973. Of the total outstanding liabilities, more than half was on account of the Food Department, while the Ceylon Government Railway and Posts and Telecommunications Department accounted for Rs. 48 million and Rs. 34 million respectively. The liabilities during the year under review showed an increase of Rs. 112 million over the liabilities as at the end of the previous financial year.

4. BORROWINGS BY SEMI-GOVERNMENT INSTITUTIONS

National Housing Fund

There were no issues of National Housing Debentures in the financial year under review. However, two National Housing Debenture issues made in 1957 for Rs. 10 million each were repaid on 1st June and 1st November, 1973. The total of National Housing Debentures issued and outstanding at the end of the financial year amounted to Rs. 71 million. 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. 23 million at the end of December, 1973.

1. Central Bank Annual Report, 1972 p. 155

2. External suppliers' credit on account of imports by government departments are not included as part of 'Public debt'.

State Mortgage Bank

A State Mortgage Bank Debenture issue for Rs. 7.5 million (3 per cent debenture 1970/73) was repaid in April, 1973 and a fresh debenture 1983/85 was issued to coincide with this repayment, but at a higher rate of interest of 9 per cent. The debentures issued and outstanding which stood at Rs. 32 million at the end of the financial year 1971/72, remained at the same level at the end of 1973.

5 THE BUDGET — 1974

The Budget for the financial year 1974 (January to December) was presented in the National State Assembly on 1st November, 1973 and was approved on 19th December, 1973.

In his budget speech, the Finance Minister focussed attention on the difficulties facing countries like Sri Lanka, arising from unprecedented international economic instability. The international monetary system was in great turmoil. The general inflationary conditions abroad and the resulting price increases of essential commodities have not only placed a severe burden on the country's resources, but also have made the task of budgeting a particularly difficult one. The sharply escalating prices of food imports have meant that the budgetary outlays on the food subsidy have not only increased but proved difficult to forecast with any degree of certainty. While referring to the somewhat inadequate performance in the first year of the Five-Year Plan, the Finance Minister noted that the second year of the Plan reflected a definite improvement of performance. He anticipated a growth-rate of 5 per cent in 1973 and an enhanced rate of 7 to 8 per cent in 1974. Emphasis has been placed on the importance of achieving a current account surplus of a reasonable magnitude and on meeting the public sector's investment targets as set out in the Five-Year Plan.

The new revenue and expenditure proposals in the budget speech did not significantly alter the pre-budget estimates tabled earlier in the National State Assembly. This was mainly because the implementation of certain measures relating to the food subsidy in October, 1973 and their consequent impact on the budget were already reflected in the pre-budget estimates. The budget proposals were, therefore, primarily concerned with the rationalization of the tax system, the introduction of certain institutional changes and the provision of reliefs to alleviate hardships that have arisen in the recent past.

The budgetary classification of expenditure through a programme budget framework which commenced in 1971/72 was completed in the budget for 1974. The revenue estimates have been presented in accordance with the standard U.N. format which was first adopted in 1971/72.

Overall Budgetary Position

The overall budgetary position for the financial year 1974 is given in table II (G) 15.

TABLE II (G) 15
Overall Budgetary Position - 1974

		Rs. million	
Items		Pre-Budget Estimates	Approved Estimates
1. Recurrent Expenditure ..		3,913.6	3,918.6
Less under-expenditure (2%) ..		78.3	78.4
		<u>3,835.3</u>	<u>3,840.2</u>
2. Capital Expenditure ..		1,974.7	1,997.2
Less under-expenditure (25%) ¹ ..		353.9	359.5
		<u>1,620.8</u>	<u>1,637.7</u>
3. Advance Account ..		100.0	100.0
4. Total Expenditure ..		5,556.1	5,577.9
5. Total Revenue ..		4,114.5	4,114.5
6. Budget Deficit ..		1,441.6	1,463.4
Less Contributions to sinking funds etc. ..		559.2	559.2
7. Net Cash Deficit ..		882.4	904.2
8. Financing of the Budget Deficit			
8.1 Domestic market borrowings from non-bank sources ..			720.0
8.2 Administrative borrowings ..			50.0
8.3 External finance			
8.3.1 Project loans and grants ..			140.0
8.3.2 Non-project (commodity) loans ..			400.0
8.4 Unbridged gap (bank borrowings) ..			153.4
9. Financing of the Net Cash Deficit			
9.1 Domestic market borrowings from non-bank sources ..			431.8
9.2 Administrative borrowings ..			50.0
9.3 External finance			
9.3.1 Project loans and grants ..			22.4
9.3.2 Non-project (commodity) loans ..			246.6
9.4 Unbridged gap (bank borrowings) ..			153.4

Source: Central Bank of Ceylon.

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

The 'pre-budget estimates' column gives the figures of revenue, expenditure and deficit as they appear in the draft estimates which were laid before the National State Assembly before the budget speech. It presents the total revenue to be obtained at pre-budget rates of taxation, and other receipts. The expenditure estimates in the pre-budget figures reflect the total outlay required to finance the capital and current expenditure of the government for the financial year 1974.

The 'approved estimates' column of the table gives the revenue, expenditure and financing proposals as approved by the Assembly. It will be seen that revenue expected as per pre-budget estimates and the approved estimates are the same, reflecting the fact that the budget proposals relating to revenue in 1974 have had no net impact on total revenue.

The total revenue for 1974 is estimated at Rs. 4,115 million, and is expected to show an increase of Rs. 81 million or 2 per cent over the actual revenue for the financial year 1973.

Total expenditure, adjusted for under-expenditure, is expected to be Rs. 5,578 million in 1974. It represents an increase of Rs. 130 million or 2.4 per cent over the actual expenditure for 1973. Recurrent expenditure as per approved estimates is only marginally above the pre-budget estimates, owing primarily to a committee-stage amendment involving Rs. 5 million. When compared with the actual recurrent expenditure for 1973, however, there is a decrease of Rs. 17 million or 0.4 per cent. Capital expenditure for 1974, net of sinking fund contributions and direct repayment of public debt, is estimated at Rs. 1,079 million; this is lower than the actual figure for 1973 by Rs. 31 million or 2.8 per cent. As in 1973, a provision of Rs. 100 million has been made for the anticipated net payment on account of 'Advance Accounts' operations. The difference of Rs. 23 million between the pre-budget and approved estimates of capital expenditure is largely the result of certain committee-stage amendments, the major portion of which related to the expenditure of the Ministry of Industries and Scientific Affairs.

The resultant budget deficit as per approved estimates is Rs. 1,463 million which is higher than the originally estimated deficit for 1973 by Rs. 173 million. The budget deficit is expected to be financed by Rs. 720 million of domestic non-bank borrowing, Rs. 50 million of administrative borrowing and Rs. 540 million of external finance, leaving an unbridged gap of Rs. 153 million, which is to be financed by borrowings from the banking system.

New Proposals in the Budget Speech

(i) Business turnover tax

The Finance Minister's proposals relating to changes in the business turnover tax were based on the proposals of an official committee which reviewed the tax structure. The committee had proposed that the number of rate bands be reduced, the commodity grouping in each rate band be rationalised and that the tax be made more broad-based to reduce evasion.

According to the budget proposals, the main commodity groupings¹ were to fall into five main rate bands, viz., a concessionary rate of 1 per cent, a standard rate of 5 per cent and three enhanced rates of 15, 25 and 35 per cent. In addition, two special rate bands for the taxation of textiles and readymade garments were proposed by the Finance Minister. All textiles, whether they were pure cotton, synthetics or mixture of the two, were to be taxed at 10 per cent and readymade garments at 20 per cent. Earlier, synthetic textiles and readymade garments made the reform had been subject to a rate of 40 per cent. The government was to ensure that the benefit of these tax reductions were to be passed on to the consumer through lower prices for these commodities. The tax rate on cotton yarn was also to be reduced from 5 per cent to 1 per cent.

1. Vide Government Gazette Extraordinary No. 83/8 of 1st November, 1973.

The two special rates of 42 per cent and 23 per cent applicable to petroleum products were to remain unchanged. With a view to combating evasion, the manufacture as well as the retail trade of timber, furniture, footwear and jewellery were subjected to the same rate of tax. Moreover, the coverage of the business turnover tax was extended to cover all articles except the following—

- (a) Articles manufactured in Sri Lanka and exported by the manufacturer.
- (b) Books, magazines and periodicals, excluding newspapers.
- (c) Bread, including buns and rusks.
- (d) Eggs.
- (e) Milk (condensed, dried, fresh, pasteurised and sterilised).
- (f) Safety matches.
- (g) Dried fish, rice, sugar and wheat flour sold through co-operative or authorised dealers.
- (h) Paddy sold to the Paddy Marketing Board.

The proposed rationalisation of the business turnover tax has also been linked with certain reforms of local government finances with a view to encouraging a greater degree of awareness among local government bodies of their financial autonomy. In pursuance of this objective, it was decided to withdraw the general services grant and the grant for payment of allowances to employees and pensioners in local bodies.¹ To compensate for this loss in resources, it was proposed that initially, the Inland Revenue Department refund $\frac{1}{4}$ per cent of the turnover tax collected on non-manufacturing business to local authorities through the Commissioner of Local Government. Such refunds would be on the basis of the returns furnished to the Department of Inland Revenue by the tax payers. This measure is to be an interim one until the local authorities themselves are in a position to compile their own registers and levy the equivalent of this $\frac{1}{4}$ per cent direct through licence fees or in other forms.

The changes in business turnover tax rates were not expected to produce any net impact on the revenue initially expected from this source during 1974. The reduction in revenue as a result of the transfer of turnover tax collections from the Inland Revenue Department to the Commissioner of Local government was not expected to disturb the overall budgetary balance, as it will be compensated on the expenditure side by the elimination of grants of an equivalent amount to local bodies.

(ii) Taxation of income on a current-year basis

At present, income tax is charged on a current basis, only in respect of income from employment. The Finance Minister had announced in the budget speech for 1973 that as from 1975-76, income tax would be charged on a current-year basis on income from all sources. However, it has now been decided to change the year of assessment to the calendar year with effect from

1. The village councils, however, will continue to receive the salaries for their staff, as these authorities are not yet in a position to receive adequate direct revenue.

1976. The implementation of this proposal would mean that profits and income for the period 1st April, 1975 to 31st December, 1975 will not be taxed for any year of assessment. A decision in this regard is to be made later.

(iii) Broad-based ownership of companies and reduction of company tax

It was proposed to introduce a concessionary reduction in company tax not exceeding 10 per cent, on companies which satisfied the Commissioner of Inland Revenue that they are broad-based in the ownership of their capital. This is to be introduced from 1976. It was felt that such a measure would have the effect of reducing the inequalities of wealth and encouraging the savings habit. Details regarding the proposal are to be worked out by a committee of officials drawn from several ministries and suitable draft legislation is to be tabled in the National State Assembly before the end of 1974.

(iv) Changes in the rates of gifts tax and stamp duty

It was felt that there has been evasion of payment of gifts tax, particularly when the value of property gifted was not very high and the parties to the gift were not income tax-payers. In order to combat this evasion, it was proposed that from the year of assessment 1974/75, the rate of tax on gifts in excess of Rs. 1,000 and less than Rs. 50,000 will be fixed at 3 per cent. For similar reasons, the rate of stamp duty on transfers of property less than Rs. 50,000 in value was also to be fixed at 3 per cent. Consequently, there will be no liability for gifts tax on gifts of property of this magnitude as the stamp duty paid would be allowed to be set off against the gifts tax payable, as is done currently. The revenue from such gifts that accrued under gifts tax will thereafter accrue as stamp duty. At present, the rate of stamp duty on a gift of property where the value exceeds Rs. 1,000 and is less than 50,000, is Rs. 15 plus 1.6 per cent of the value of the property, while the gifts tax is 5 per cent of the value of the gift.

(v) Estate duty and income tax relief on notional capital gains

It was felt that the burden of estate duty and income tax on notional capital gains on heirs who inherit a residential property was very heavy. This was stated to be particularly so in the case of middle-class employees who build houses with the aid of housing loans and whose heirs, because of the burden of estate duty and income tax, are often forced to sell their houses to meet such taxes. It was therefore proposed to grant relief to the families of middle-class single house owners in the following manner—

- (a) Where the estate of a deceased person inclusive of the aggregate gifts made during his life-time does not exceed Rs. 150,000 and where the property passing on death, that is the administrable estate, includes one (and only one) residence, the proportionate amount of estate duty payable in respect of the value of that residence will not be charged; and
- (b) Any income tax normally due on a notional capital gain in respect of such residence which arises on the date of death by virtue of the change of ownership will not be charged.

(vi) Incentives to aliens seeking domicile in Sri Lanka

As an incentive to the nationals of other countries who wish to reside in Sri Lanka and maintain themselves on remittances from abroad, it was proposed to exempt them from income tax in respect of their incomes arising in or derived from abroad and from wealth tax in respect of their wealth situated abroad. In addition, they will also be exempted from the operation of the ceiling on income and compulsory savings laws. They will, however, be liable to income tax on incomes arising in Sri Lanka, which have not been specially exempted. Further, such persons will be entitled to receive FEECs on inward remittances received by them, while they will be liable to pay FEECs on their outward remittances, as allowed by the Exchange Control Department. To facilitate the implementation of these proposals, such aliens will be allowed to maintain external accounts under the supervision of the Exchange Control Department. Similar benefits under a special accounts scheme have already been granted to Sri Lanka expatriates who remit their savings to their homeland.

(vii) Amendments to the Notaries Ordinance

It was felt that there has been evasion of tax payments on account of stamp duty and gifts tax arising from the change of ownership of property, due to under - statement of values in deeds of transfer and gifts. The resultant loss of revenue by way of income tax, stamp duty, gifts tax and estate duty is estimated to be quite considerable. Hence, it was proposed to amend the Notaries Ordinance to stipulate more clearly the responsibilities devolving on notaries. It was expected that such legal stipulation will enable the notaries to perform their duties more effectively.

(viii) Compulsory savings

The compulsory savings collected under the provisions of the Act No. 6 of 1971 and Law No. 15 of 1972 were to be utilized as contributions towards the capital of the proposed National Development Bank. Shares to the extent of the contributions will be issued to individuals who have contributed to compulsory savings. The National Development Bank to be established will mainly provide medium and long-term credit to industrial, agricultural and commercial undertakings in the public sector.

The minimum level of income at which compulsory savings is leviable is to be raised from its current level of Rs. 12,000 to Rs. 18,000 per year. At present the minimum level at which compulsory savings becomes payable is at Rs. 12,000 per annum for individuals but this limit increases progressively with the number of dependents up to a maximum of Rs. 15,480 in the case of a husband and wife who are both employed.

(ix) Excise on tobacco

The tax on a pound of cigarette and pipe tobacco was reduced by Rs. 5 per lb. to Rs. 47.50 per lb. This will have the effect of reducing the retail price of all brands of cigarettes by 1 cent per cigarette. This measure was adopted in order to counteract suspected hoardings of cigarettes by dealers who speculated

on a possible rise in the rate of tobacco tax with the budget. No revenue loss is anticipated as a result, since increased sales are expected to make up the loss in revenue.

(x) Convertible rupee accounts

The convertible rupee accounts scheme which was introduced on 1st January, 1973,¹ was felt to have provided a considerable incentive to "non-traditional" exports. With a view to providing further inducement to exporters of these commodities, the rate credited to these accounts was to be increased from 2 per cent to 3 per cent from 2nd November, 1973. Since it was felt that administrative problems might arise in determining the domestic value-added component in the f. o. b. value of exports, it was decided to permit this rate to operate across the board.

(xi) Financial control of public corporations

Consequent to a proposal of the Finance Minister in his budget speech for 1971/72, Part II of the Finance Act No. 38 of 1971 sought to achieve greater financial control of public corporations by imposing certain financial obligations on such bodies. These obligations were to come into effect from the financial year 1973 (from which year the financial year of public corporations was made to coincide with the calendar year). The Finance Minister in his budget proposals for 1974 stated his intention to make it obligatory for each corporation or statutory board to lay its annual budget before the National State Assembly before the commencement of the financial year to which the budget relates. The corporation budget will be placed before the Assembly by the Minister in charge. The proposal is to be implemented from the commencement of 1975. A committee of officials is to be appointed to work out the details of this proposal.

(xii) Relief to state employees

In the budget speech for 1971/72, a system of contributory credit councils was proposed to be set up in order to eliminate in easy stages the indebtedness of government employees. Until this scheme comes into operation, it has now been decided to suspend the monthly deductions of existing distress loans (from the government and from the Lady Lochore Fund) from the salaries of government employees.

6. OTHER FISCAL MEASURES

The following important fiscal measures were adopted during the course of 1973 -

- (i) *Changes in the price of rice, paddy, flour and sugar prior to 1st October, 1973.*

- (a) *Rice:* The price of the additional measure issued on the ration was increased from Re. 1.00 to Rs. 1.60 with effect from 19th February, 1973 but was subsequently reduced to Rs. 1.40 with effect from 12th March, 1973.

1. This scheme was already in operation in respect of gems only from 11th July, 1972.

- (b) *Paddy*: The price paid for a bushel of paddy under the guaranteed price scheme was increased from Rs. 14/- to Rs. 18/- with effect from 15th February, 1973.
- (c) *Flour*: The price of flour was increased from 33 cts. to 38 cts. with effect from 19th January, 1973 and further increased to 48 cts. per lb. with effect from 1st June, 1973.
- (d) *Sugar*: The price of off-ration white sugar was reduced from Rs. 2.00 to Rs. 1.50 per lb. with effect from 1st January, 1973. It was subsequently increased to Rs. 1.75 with effect from 31st May, 1973. The price of off-ration brown sugar, too, was increased from Rs. 1.50 to Rs. 1.65 per lb. with effect from 31st May, 1973.

(ii) *Business turnover tax*

With effect from 1st September, 1973¹ business turnover tax on super and regular petrol was reduced from 48 per cent to 42 per cent, while the same tax on lubricants and other petroleum products was reduced from 32 per cent to 23 per cent.

(iii) *Measures relating to the food subsidy and wage increases adopted on 1st October, 1973.*¹

- (a) *Rice*: The quantum of free rice issued weekly to non-income tax payers was reduced from one measure to half measure per individual. Income tax payers will be entitled to purchase half-measure of rice at a price of Re. 1/-.
- (b) *Paddy*: The guaranteed price of paddy was increased from Rs. 18 to Rs. 25 per bushel.
- (c) *Flour*: The sale of flour was brought under ration and each ration-book holder was to be entitled to one pound of flour per week at 70 cents per pound. Prior to this, flour was sold freely at a price of 48 cents per pound.
- (d) *Sugar*: The monthly ration quota of sugar issued to individuals was reduced from one pound to three quarter pound per person. The price of sugar on ration at 72 cents per pound remained unchanged while the prices of off-ration brown sugar and white sugar were increased to Rs. 2.00 and Rs. 2.10 per pound respectively.
- (e) *Wage increase*: A wage increase of 10 per cent was granted to employees in the public sector, corporations, statutory boards, local government and co-operative sector who drew Rs.400 and below per month. However, this increase was subject to a ceiling of Rs. 20 per month. Daily paid workers and pensioners were also to be given corresponding increases.

1. Vide Government Gazette, Extraordinary No. 74/7 of 31. 8. 1973

2. Vide Government Gazette, Extraordinary No. 79/2 of 29. 9. 73.

A NOTE ON DOMESTIC NON-MARKET BORROWINGS

For purposes of classification "Domestic Non-Market Borrowings" are categorized into four items as follows.¹

- (a) Deposits.
- (b) Administrative borrowings.
- (c) Miscellaneous funds.
- (d) Loans to public institutions.

Each of these items consists of various other sub-items. Deposits include items such as Arrack Stock Account, Kachcheri Deposits, Colombo Plan Financial Aid and Aid grants and Sundry Deposits. Of these major sub-items, easily the largest item is that of sundry deposits which has on an average accounted for nearly two-thirds of the total of "Deposits and Other Liabilities" during the last five years. The bulk of the sundry deposits are made up of Treasury and Departmental deposits which includes those of public corporations too. "Deposits and Other Liabilities" appearing in the government balance sheet contains the unexpended balances of foreign grants received by the government during the course of a particular financial year. They are, however, not taken into account as financing items under "Deposits" of domestic non-market borrowings, if they happen to be unexpended balances of such grants received during the course of the same financial year. This is because, the total value of grants received during a particular year whether expended or not during that year, is shown as a financing item of the net cash deficit under foreign finance. After making this adjustment any increase in such "Deposits and Other Liabilities" over that of the previous year is taken account of as a financing item for the net cash deficit.

Administrative borrowings comprise mainly funds which are temporarily borrowed by the Treasury from the surplus balances of certain sources like the Tea Subsidy Fund and from public corporations. The distinguishing characteristic of these borrowings is that quite apart from their being a pure and simple borrowing, an interest rate is also paid by the Treasury on such borrowings (currently at the rate of 5 per cent per annum, i. e. the Treasury bill rate). During any given period there are borrowings as well as repayments from the above-mentioned sources. Any increase in outstanding net borrowings becomes a financing source for the net cash deficit.

The miscellaneous funds are funds of a semi-government nature and are in the form of deposits held with the Treasury by various agencies such as widows' and orphans' fund, the public service provident fund and relief funds, like the Terrorists Victim Fund, and Drought Relief Fund and the Bandaranaike Memorial Fund. Any increase in such funds over that of the previous year is construed as a source of financing for purposes of bridging the net cash deficit.

Loans to public institutions consist essentially of the lending done by the Treasury to the Agricultural and Industrial Credit Corporation and the Local Loans and Development Fund. Any decrease in the amount of loan outstanding over that of the previous year will constitute repayments and become a source of financing for the net cash deficit.

1. See table 31 of appendix II.