

(G) GOVERNMENT FINANCE

The main features of the Government's fiscal operations in the financial year 1974. (i.e. 1st January to 31st December 1974) with the corresponding data for the nine previous financial years and the approved estimates for 1974 and 1975 are presented in table II (G) 1. In the text and the tables that follow a detailed classification and analysis of data for the financial years 1973 and 1974 are made.

The total revenue in the financial year under review, 1974, was Rs. 4795 million¹, while total expenditure was Rs. 6394 million. The latter consisted of the voted expenditure of Rs. 6347 million and payments in respect of 'Advance Accounts'² of Rs. 47 million. Total revenue and expenditure increased by Rs. 761 million (or 18.9 per cent) and Rs. 946 million (or 17.4 per cent) respectively over the previous year. The increase in revenue is the highest increase recorded in any one year. Both recurrent expenditure and capital expenditure increased substantially, in money terms the increases being Rs. 649 million (or 16.8 per cent) and Rs. 298 million (or 19.3 per cent) respectively. The extent of these increases is hardly surprising in an year when price increases were pronounced and necessitated a number of supplementary estimates being presented to the National State Assembly. In real terms, however, the increases in recurrent and capital expenditures over the previous year would not be that substantial due to the pronounced price increases during the year.

The budget deficit for the year under review was Rs. 1599 million. It was financed by domestic market borrowing of Rs. 964 million, foreign finance of Rs. 629 million, while cash balances (including counterpart funds) were drawn down by Rs. 39 million. There was also a repayment of domestic non-market borrowing amounting to Rs. 33 million during the year. When allowance is made for debt repayment provision, the net cash deficit for the year under review amounted to Rs. 1035 million.

Compared with the original Budget estimates total expenditure in 1974 was higher by Rs. 816 million. This was mostly on account of supplementary estimates amounting to Rs. 1045 million (consisting of Rs. 793 million in respect of recurrent votes and Rs. 252 million in respect of capital votes) which were passed by the National State Assembly during the course of the year. A high proportion of the supplementary estimates passed during the year was related to the price escalations which tended to throw out of gear the estimates originally approved for the year by the National State Assembly. Even so, the actual expenditure in relation to voted expenditure (including supplementary votes), particularly in respect of capital votes, shows an under-expenditure of 25 per cent. Total revenue, too, well exceeded the original expectations by Rs. 680 million, largely brought about by increases in our domestic and export prices. Consequently, the budget deficit showed an increase of only Rs. 136 million over the originally estimated figure. Although

1. Excludes Rs. 65 million being deposits of public corporations written off by crediting revenue account. See Page 157.

2. Please see footnote at page 188.

Summary of Government Fiscal

Items	1964/65	1965/66	1966/67	1967/68
1. Revenue	1,816	1,833	1,955	2,156
2. Expenditure	2,337	2,515	2,677	3,006
2.1 Recurrent expenditure (b) ..	1,803	1,860	1,895	2,186
2.2 Capital expenditure (b) (c) ..	561	644	742	849
2.3 Advance accounts and other ..	— 28	10	42	— 29
3. Budget deficit	520	682	723	850
4. Debt repayment (d)	90	116	117	135
5. Net cash deficit	430	566	607	716
6. Financing of budget deficit				
6.1 Domestic non-market borrowing ..	50	112	72	10
6.2 Domestic market borrowing ..	334	498	418	630
6.3 Foreign finance ..	117	154	256	247
6.4 Decline in cash balances ..	20	— 82	— 22	— 36
7. Financing of net cash deficit				
7.1 Domestic non-market borrowing ..	50	112	72	10
7.2 Domestic market borrowing ..	261	418	348	552
7.3 Foreign finance ..	100	118	209	190
7.4 Decline in cash balances ..	20	— 82	— 22	— 36
8. Expansionary impact of fiscal operations	35	122	56	267
9. Public debt outstanding (net)	3,772	4,268	4,782	5,689

- (a) These figures will differ from those in government accounts for reasons given in footnotes to table 31 and 33 of appendix III.
- (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.
- (c) Includes expenditure chargeable to National Development Reserve.

TABLE II (G) I

Operations 1964-65 to 1975 (a)

Rs. Million

1968/69	1969/70	1970/71	1971/72		1973	1974 Approved Estimates	1974 Provi- sional	1974 Approved Estimates
			15 months	12 months*				
2,497	2,736	2,815	4,102	3,282	4,034	4,115	4,795	4,881
3,445	3,886	4,143	5,809	4,647	5,448	5,578	6,394	6,941
2,384	2,659	2,981	4,233	3,386	3,857	3,840	4,506	4,767
1,012	1,026	1,054	1,508	1,207	1,543	1,638	1,841	2,074
49	201	108	68	54	48	100	47	100
947	1,150	1,327	1,707	1,366	1,414	1,463	1,599	2,060
160	214	244	412	330	433	559	564	584
788	936	1,083	1,295	1,036	981	904	1,035	1,476
52	16	140	249	199	251	50	— 33	65(f)
358	815	693	1,004	803	706	873	964	900
426	345	370	598	478	394	540	629	1,095
111	— 26	123(e)	— 144	— 115	63	—	39	—
52	16	140	249	199	251	50	— 33	65(f)
271	720	585	835	668	507	585	671	657
354	226	235	355	284	160	269	358	754
111	— 26	123(e)	— 144	— 115	63	—	39	—
181	425	218(e)	139	112	— 53	153	24	—
6,239	7,237	8,108	9,448	7,558	10,281	n. a.	11,027	n.a.

Source: Central Bank of Ceylon

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

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

(f) According to the approved estimates the estimated amount is Rs 73 million but the estimated requirement would now be Rs 65 million.

* On a pro-rata basis.

it was estimated originally that in addition to the expected finance from domestic-market and foreign sources, Rs. 50 million would be borrowed through administrative sources, increased financing from the two former sources of Rs. 91 million and Rs. 89 million respectively, in fact resulted in a net repayment of latter borrowings of Rs. 33 million.

The fiscal operations of the year under review resulted in a net expansionary impact of Rs. 24 million which is very much lower than the unbridged gap (which was to have been filled by resort to bank financing) of Rs. 153 million when the estimates for 1974 were originally presented to the National State Assembly. As mentioned before, higher revenue accruals together with increased borrowing from non-bank sources (i.e. rupee loans) and foreign sources helped to contain the net expansionary impact to Rs. 24 million. In fact domestic market borrowing from the banking system declined by Rs. 15 million during the year under review. In the preceding year, fiscal operations of the government resulted in a net contractionary impact of Rs. 53 million.

It is noteworthy that in an year when no significant additional revenue mobilization measures were implemented, revenue increased by Rs. 761 million or 18.9 per cent. In fact, revenue as per original estimates was estimated to increase by only Rs. 81 million or 2 per cent over the actual revenue for the financial year 1973. A large part of the increase in revenue was accounted for by the revenues emanating from the foreign sector, particularly the export duties and revenue from the sale of FEECs. An otherwise impressive performance has thus to be tempered by the thought that the favourable prices of exports and the increased prices of imports have contributed in a large way to this increase. While it is true that taxes with a domestic base have come to contribute an increasing proportion of the total tax revenue, the foreign trade sector based taxes have still a large role to play in determining the amount of resources available to the government. Indeed, as stated by the Finance Minister in his Budget Speech for 1975, a given volume of foreign aid could under present conditions generate an equivalent amount as local revenue to the government by way of FEECs, import duties and business turnover taxes¹. It is also to be seen that foreign aid thus enhances the productivity of taxes which are essentially local based.

The record increase in revenue achieved during the year has also helped to achieve a current account surplus of Rs. 242 million which is also very much higher than the originally expected surplus of Rs. 175 million. Considering that in the preceding year, too, the government succeeded in generating a surplus of Rs. 129 million in its current account (for the first time since 1968/69) the trend is quite encouraging. The success of the government in containing the food subsidy bill to 20 per cent of the current expenditure together with the substantial increase in revenue explains this to a large extent.

The net public debt at the end of the financial year stood at Rs. 11,027 million having increased by Rs. 746 million since the end of the financial year 1973.

1. Budget Speech 1975, page 25.

Revenue and expenditure in the current financial year 1975 are estimated at Rs. 4881 million and Rs. 6941 million respectively. The latter consists of Rs. 4767 million of recurrent expenditure, Rs. 2074 million of capital expenditure and Rs. 100 million of net payments in respect of 'Advance Accounts.' The resultant budget deficit is expected to be Rs. 2060 million. This deficit is to be financed by domestic market borrowing of Rs. 900 million, foreign finance of Rs. 1095 million leaving the balance amount to be financed by domestic non-market borrowings of Rs. 65 million¹. The budget for 1975 does not expect the fiscal operations to have any net expansionary impact in 1975.

Fiscal Trends

As mentioned earlier, the budgetary operations in 1974 have produced only a marginal net expansionary impact of Rs. 24 million. In 1973, the fiscal operations of the government had resulted in a net contractionary effect of Rs. 53 million. As seen from table II (G) I, fiscal operations of the government prior to 1973 have consistently created substantial expansionary impacts with the peak year being in 1969/70 when it amounted to Rs. 425 million. The fact that during the last two years the impact has been contained at manageable levels is in no small measure due to the substantial volume of resources the government has managed to raise from the domestic non-bank sector, principally through the medium of rupee loans. While, these long-term borrowings have been largely made available through 'captive sources' like the Employees' Provident Fund, National Savings Bank and the Insurance Corporation of Sri Lanka, the interest costs of such borrowings, too, have continued to exhibit a pronounced increase in recent years. A detailed analysis of the reasons behind the higher availability of funds from the non-bank sources and the consequent increase in the interest bill to the government has been made elsewhere². However, it is heartening to note that despite the increase in the interest bill and consequently the current expenditure, the government has generated current account surpluses of reasonable magnitudes in the last two financial years. Perhaps, emphasis on the productivity of these borrowed funds which are obtained at a certain cost to the government would go a considerable way in improving the operations of the government both in respect to the volume of funds available for its capital expenditure as well as the contribution of the government towards the growth of the economy.

It is noteworthy that in the year under review as well as in the preceding year, the government has managed to reduce its indebtedness to the banking system as a whole. In 1974 while borrowings from the Central Bank increased by Rs. 112 million, the government reduced its indebtedness to the commercial banks by Rs. 127 million. The net cash deficits which the government has been called upon to meet have also been decreasing since 1970/71. Quite apart from this the higher availability of foreign finance has also helped to contain the net expansionary impact of the fiscal operations in 1974. The net receipts of foreign finance in the year

1. Although the printed Approved Estimates of the Government for 1975 show a figure of Rs.73 million, only Rs. 65 million would now be required from this source, as a result of certain committee stage amendments relating to expenditure on tea export duty rebate scheme.

2. See page 191.

under review amounted to Rs. 358 million as compared with Rs. 160 million in 1973. Foreign grants in 1974 have been significantly high at Rs. 231 million. The higher availability of foreign finance, together with a record domestic non-bank market borrowing of Rs. 686 million have thus enabled the government to reduce its debt to the banking system and contain the net expansionary impact of the fiscal operations.

Another noteworthy feature of the fiscal operations in the year under review is that in an year when recurrent expenditure in money terms increased substantially, the increase in the revenue has more than matched the increase in recurrent expenditure and resulted in creating a current account surplus of Rs 242 million¹. The increase in revenue was achieved despite the fact that no new revenue measures of any significant financial impact were announced in the Budget for 1974 nor any measures adopted during the course of the year. From an overall point of view two factors have played their part in generating this impressive record in respect of government/savings. Firstly, the revenue base became highly productive on account of the more favourable prices of our exports during the year while on the other hand, the higher availability of foreign finance together with the general increase in import prices has also helped to produce a higher revenue. Thus despite there being no radical changes in the tax rates, a higher level of revenue receipts was recorded helped also by the rise in local prices. Secondly, equally significant is the contribution on the expenditure side of the measures adopted by the government in trying to contain the food subsidy, in an year when the escalation of import prices and local prices could have, in the absence of these measures, produced an alarming subsidy bill.

For the first time in recent years there were no profits to be had from the sale of foodstuffs, the distribution and sale of which were traditionally handled by the Food Commissioner. Indeed, the government was forced to adopt a number of measures in respect of sugar and flour (the traditionally profit bearing items) with a view to containing the losses rather than as usual to increase the profits from this source.² One is constrained to note that the real impact of the measures adopted by the government in October 1973 and during the year under review were largely responsible for containing the food subsidy bill to around 20 per cent of recurrent expenditure. Nevertheless, the food subsidy bill in 1974 amounted to Rs. 925 million which was higher than the preceding year's bill by Rs. 224 million (or 32 per cent). While food subsidy as a proportion of total recurrent expenditure has marginally increased from 18 per cent to 20 per cent in 1974, it is also noteworthy that this proportion had more or less remained around this figure during the last four years despite the increase in the cost of food stuffs. Perhaps a more flexible policy regarding the sale prices of items which are intended to yield a profit could help in arresting the increase in the food subsidy bill.

The Annual Report for 1973 had occasion to comment on the revenue measures introduced with the budgets in recent years and their contributions

1. In terms of the revised economic and functional classification, however, the current account surplus would be Rs. 200 million which is still quite substantial in relation to the performance in the recent past.

2. For details see section on "Other Fiscal Measures"

to the efforts towards mobilising additional resources. It was pointed out that frequent resort to such measures reflected basically the relative inelasticity of the tax system. The revenue performance of the year under review served to highlight the high dependency of the elasticity of the tax system particularly on the taxes based on foreign trade transactions. In other words, one important reason for the relatively unproductive nature of our main tax sources in the past has been the poor performance of our exports particularly price wise. The very same reason explains the frequent resort to measures which either involved widening the tax base or changes in the rates of taxes. This only serves to highlight the need to curtail recurrent expenditure, particularly those items like the food subsidy that have an inbuilt elasticity, to levels consistent with the increases that the revenue system can produce, when the performance of the foreign trade sector is not too encouraging.

Government revenue and recurrent expenditure rose at an annual compound rate of 11.1 per cent and 11.2 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 15.0 per cent (compound) has been higher than that of recurrent expenditure at 12.4 per cent (compound). It is this distinct improvement that has manifested itself in the form of current account surpluses during the last two financial years. On the other hand while the average annual rate of increase in capital expenditure during the last ten years has been 11.8 per cent (compound) the rate of increase during the last five years has been only 12.2 per cent (compound).

Table II (G) 2 presents data in respect of current account surpluses or deficits and of capital expenditure during the last ten years. It also shows how revenue and recurrent expenditure have fared in relation to the growth in GNP over the same period. Overall the picture that emerges from the table, judging by the performance during the last two years, appears to be encouraging. Firstly, it has been possible to generate current account surpluses of reasonable magnitudes in the last two financial years. In fact, the record in this respect in 1974 is quite impressive when almost one fifth of the financing required for capital expenditure has been met by government's own savings. Another noteworthy feature has been that the growth of recurrent expenditure has been less than the growth in GNP. Recurrent expenditure which since 1967/68 had tended to outstrip the growth of GNP has during the last two financial years been declining as a proportion of the GNP. On the other hand, the revenue GNP-ratio has after progressively increasing since 1967/68 has decreased from 26.6 per cent in 1973 to 24.4 per cent in 1974. In absolute terms, however, as stated before the increase in revenue of Rs. 761 million has been quite impressive in an year when no significant new revenue measures have been undertaken.

The problem confronting the government in recent years has been, given the comparatively high tax-GNP ratio, how to contain the growing recurrent expenditure commitments entailed by a commitment to social welfare policies, particularly concerning food subsidies and education. In the context of a low growth rate of the economy, as the recent experience reveals, it has proved extremely difficult to meet expenditure commitments and in addition generate savings of a sizeable magnitude to enable the government to increase its investment. It is only during

TABLE II (G) 2

Revenue, Expenditure and Current Account Savings

Rs. Million

Item	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72*	1973	1974 (Provisional)
1. Revenue ..	1,816	1,833	1,955	2,156	2,497	2,736	2,815	3,282	4,034	4,795
2. Recurrent Expenditure ..	1,803	1,860	1,895	2,186	2,384	2,659	2,981	3,386	3,857	4,506
Add: Advance Accounts ..	—28	10	42	—29	49	201	108	64	48	47
	1,775	1,870	1,937	2,157	2,433	2,860	3,089	3,440	3,905	4,553
3. Current Account Surplus (1—2) ..	41	—37	18	— 1	64	—124	—274	—158	129	242
4. Capital Expenditure ..	561	644	742	849	1012	1026	1054	1207	1543	1841
Less: Debt repayments ..	90	116	117	135	160	214	244	330	433	564
	471	528	625	714	852	812	810	877	1,110	1,277
5. Revenue as % of G. N. P. ..	24.3	23.8	23.7	21.8	23.3	23.7	23.9	25.9	26.6	24.4
6. Recurrent Expenditure as % of G. N. P. ..	23.7	24.3	23.4	21.8	22.7	24.7	26.2	27.1	25.8	23.1

Source: Central Bank of Ceylon.

* Pro-rata basis for 12 months.

(156)

the last two years that the growth in recurrent expenditure has somewhat been kept in check, and the process has also been helped by large increases in revenue brought about by an increase in the revenue originating from the foreign trade sector. All this has meant the adoption of measures which were aimed at reducing consumption expenditure (mainly centered on the food subsidy bill) and the general improvement noted in the fiscal picture has very much to do with these measures adopted by the government.

While the trend looks very encouraging on this account, one should not also overlook a disturbing trend regards the under-expenditure that takes place in relation to voted funds, particularly in respect of capital expenditure. As noted later in detail, the extent of under-expenditure in respect of capital votes has been progressively increasing from about 15 per cent and currently stands at 25 per cent or a quarter of the voted expenditure. Indeed, when the budget proposals are presented to the National State Assembly an across the board cut of 25 per cent is allowed in respect of the anticipated under-expenditure on account of capital votes. The actual outturn during the financial year largely bears out this expectation. It may be that a large proportion of these unspent monies are related to projects on which some foreign exchange expenditure is involved. Hence any delay in the latter might delay the process of expending these monies. Yet it is imperative that an attempt be made to avoid under-expending voted monies by as much as a quarter.

Moreover, even the actual capital expenditure as reflected in the Government Accounts for a particular year does not appear to bear any relation to the actual monies spent during the course of that year. This is because monies voted, particularly for public corporations, though they are transferred to the respective corporations before the end of the financial year very often merely represent book entries and do not actually get spent during the same year. These amounts so transferred are not actually spent but are credited to Treasury deposit accounts at the end of each fiscal year. While the Government Accounts reflect these transfers as expenditure, the corresponding "Deposits" with the Treasury get reflected on the financing side as "administrative borrowings" or domestic non-market borrowings which were to finance this expenditure. On the other hand, the deposits with the treasury are run down when they get expended by the corporations during the course of a particular year although the monies so spent may not have been voted during that year. The Treasury, however, has since been discouraging this practice after attention was drawn to this phenomenon which has often tended in recent years to over state the true magnitude of capital expenditure as per government accounts.* Indeed during the year under review an amount of Rs. 65 million representing such deposits built up in the past by several public corporations has been removed from the Government Accounts by the device of crediting such deposits to the Revenue Account. In our re-classified figures of Government revenue, however, an adjustment for the consequent inflation of the revenue has been made to show the real extent of the revenue increase during 1974.

* Please see Budget Speech 1974. pp. 22

In recent years capital transfers to public corporations have come to account for on an average about one third of the total capital expenditure of the government. With the increase in the number of such corporations, it is to be expected that the magnitude of these transfers both for establishing new as well as augmenting the existing ones will continue to increase. To the extent that these monies are voted through the budget, while the operations of these corporations are decentralised, it is vitally important that they should not merely be made viable concerns but also made to repay the cost of this capital to the government. Failure of the corporations to run profitably and efficiently not merely has an effect on the budget in the form of an interest subsidy on such transfers but also increases the current expenditure of the government when the latter is compelled to re-imburse the losses incurred. With the increasing role envisaged for these corporations it is important to ensure that the investment of public funds in these corporations are sufficiently productive. The government has, indeed, adopted a number of measures, including the passage of the 'Finance Act No. 38 of 1971' with this object in view. However, it is evident that the actual performances of many state corporations have failed to measure upto the targets expected of them.

The ensuing analysis of government receipts and payments in the last few years is based on the revised economic and functional classification of government transactions. To arrive at the reclassified current and capital components of government revenue and expenditure, certain adjustments have been made in the revenue and expenditure figures as presented in Government Accounts. A reconciliation of the revenue and expenditure figures for the years since 1970/71 with those published in the Government Accounts is made in table II (G) 3 below.

2. Revenue

Government revenue in the financial year 1974 showed an increase of Rs. 749 million or 18 per cent over that of 1973 compared with an increase of Rs. 759 million or 23 per cent recorded in 1973. When the increase in revenue collections in the four years prior to 1973 which had averaged at 8 per cent per annum is taken into consideration, the performance in the year under review and in 1973 could be considered very impressive.

Table 36 in the appendix III gives the details of government revenue receipts for the last 9 years together with the approved estimates for 1975. Table II (G) 4 presents a summary of government revenue for the last two financial years along with the approved estimates for 1974 and 1975.

Current receipts, which made up nearly 98 per cent of the total receipts formed the bulk of the revenue of Rs. 4795 million in 1974. There was a marginal decline in the capital receipts in the year under review.

Taxes on production and expenditure contributed most to the increase in the total revenue during the year under review. Consequently, the share of these taxes in the total revenue has increased from 64 per cent in 1973 to 70 per cent in the year under review.

TABLE II (G) 3

Revenue and Expenditure of the Government—1970/71 to 1975 Reconciliation

Rupees Million

Items	1970/71	1971/72(g)	1973	1974		1975 (Approved Estimates)
				(Approved Estimates)	(Provi- sional)	
1. Revenue (Heads 1 to 16) ¹	2,815.3	4,108.5	4,045.8	4,114.6	4,794.6	4,881.1
Add: Profits from food sales (a)	77.9	—	—	—	—	—
Less: Rice subsidy tax	2.6	—	—	—	—	—
2. Total Revenue	2,890.5	4,108.5	4,045.8	4,114.6	4,794.6	4,881.1
3. Recurrent Expenditure (Votes 1,2,4&6) (b)	2,980.5	4,128.6*	3,850.0*	3,918.6	4,505.7	4,862.1
Less: Net food subsidy (c)	508.0	—	—	—	—	—
Add: Losses on food sales (d)	614.1	—	—	—	—	—
Less: Capital items in recurrent votes (e)	108.6	142.0	121.0	96.4	100.3	122.2
Add: Current items in capital votes(f)	118.7	98.2	70.1	68.1	77.4	24.1
4. Current Payments	3,096.7	4,084.8	3,799.1	3,890.3	4,482.8	4,764.0
5. Capital Expenditure (votes 3, 5&7) (b)	809.7	1,096.4	1,109.9	1,438.1	1,277.0	1,987.4
Add: Capital items in recurrent votes (e)	108.6	142.0	121.0	96.4	100.3	122.2
Less: Current items in capital votes(f)	118.7	98.2	70.1	68.1	77.4	24.1
6. Capital Payments	799.6	1,140.2	1,160.8	1,466.4	1,299.9	2,085.5

Source: Central Bank of Ceylon.

- (a) Profits from the sale of flour, sugar and certain other foodstuffs. As from 1971/72 profits from food sales are shown as receipts under revenue and the subsidies are shown on a gross basis under expenditure. Therefore, these items do not feature in the reconciliation of the figures from 1971/72 onwards.
- (b) Sinking fund contributions, direct repayments of public debt and special payments to international financial organisations are excluded from capital expenditure. The figure of recurrent expenditure for 1969/70 and 1970/71 also exclude the sums of Rs. 39.2 million and Rs. 30.9 million respectively, being cost of FEECs in respect of direct repayments of foreign debt and refund of FEECs payment to certain State Corporations. The latter amount is included under capital expenditure.
- (c) Consists of producer and consumer subsidy on rice (and onions upto 1970/71) less profits from sale of sugar, flour and certain other items as shown in the Government Accounts upto 1970/71.
- (d) Losses on purchase and issue of rice, onions and other foodstuffs.
- (e) Consists mainly of expenditure on maintenance of capital works and salaries of personnel engaged in capital works.
- (f) Consists mainly of defence expenditure and current transfers included under capital votes.
- (g) For a period of 15 months (from 1.10.71 to 31.12.72).
- * Exclude Rs. 101.8 million, and Rs. 16.7 million respectively in the figures for 1971/72, 1973 actual provisional being the difference in the food subsidy figures presented in the Government Accounts and those furnished by the Food Commissioner.
1. Please refer footnotes at (b) to Table 33 at Appendix, III

TABLE II (G) 4

Revenue of the Government 1973 to 1975 (a)

Rupees Million

Sources	1973	1974 Approved Estimates	1974 Provi- sional	1975 Approved Estimates
1. Current Receipts ..	3,928.6	4,031.0	4,682.7	4,788.8
1.1 Taxes from personal and corporate income ..	699.9	470.0	606.4(b)	595.0
1.1.1 Income tax ..	699.9	470.0	606.4(b)	595.0
1.1.2 Other ..	—	—	—	—
1.2 Taxes on production and expenditure ..	2,576.2	2,928.4	3,366.0	3,448.5
1.2.1 General sales and turnover taxes (c) ..	564.8	525.0	635.2(b)	634.0
1.2.2 Selective sales taxes ..	407.7	410.8	749.6	776.0
(a) Tobacco tax ..	341.5	350.0	372.9	380.0
(d) Tea tax ..	39.0	40.0	160.7	188.0
(e) Liquor ..	27.0	20.7	215.9	207.9
(d) Other ..	0.1	0.1	0.1	0.1
1.2.3 Import duties ..	222.0	293.6	277.3	252.3
(a) Vegetable products ..	22.9	30.0	25.8	30.0
(b) Prepared foodstuffs, beverages, tobacco etc. ..	34.4	32.0	19.6	30.0
(c) Mineral Products ..	3.1	10.0	6.2	6.0
(d) Products of the chemical and allied industries ..	33.7	36.0	60.8	35.0
(e) Artificial resins, plastic materials rubber etc. ..	12.0	20.0	16.4	15.0
(f) Paper Making materials etc. ..	11.0	15.7	18.2	13.0
(g) Textiles and Textile articles ..	32.1	41.5	38.5	34.0
(h) Base metal and articles of metal ..	15.6	25.0	23.4	20.0
(i) machinery and mechanical appliances, electrical equipment etc. ..	21.3	29.6	23.0	27.0
(j) Vehicles, aircraft, vessels etc. ..	25.4	28.0	30.2	26.0
(k) Others ..	9.8	25.2	14.2	16.0
(l) Import licence fees ..	0.7	0.6	1.0	0.3
1.2.4 Receipts from sale of FEECs ..	673.7	890.0	964.1	948.0
1.2.5 Export duties ..	386.4	400.0	660.1	742.3
(a) Tea ..	171.3	160.5	155.5	165.1
(b) Rubber ..	141.5	180.0	284.3	218.0
(c) Coconut ..	32.6	20.9	161.8	308.7
(d) Others ..	41.0	38.6	58.5	50.5
1.2.6 Licence taxes ..	57.5	61.3	58.7	50.6
1.2.7 Property transfer taxes ..	22.3	27.6	21.4	27.5
1.2.8 Surplus of Government mono- polies ..	220.0	196.2	...	—
1.2.9 Profits from food sales ..	21.8	123.9	—	17.7
1.3 Interest and dividends received ..	119.5	96.2	117.7	165.2
1.3.1 Profits and dividends from State Corporations ..	87.7	61.2	92.6	129.2
1.3.2 Other ..	31.8	35.0	25.1	36.0

TABLE II G (4) (Contd.)

Sources	1973	1974 Approved Estimates	1974 Provisional	1975 Approved Estimates
1.4 Gross receipts of trading enterprises ..	351.2	399.0	434.0	428.6
1.4.1 Railway ..	178.4	200.8	217.7	229.2
1.4.2 Electricity ..	1.1	1.1	0.7	0.9
1.4.3 Postal and telecommunications ..	112.9	124.2	151.1	132.1
1.4.4 Ports and harbours ..	47.4	47.9	53.0	43.4
1.4.5 Other ..	11.4	25.0	11.5	23.0
1.5 Other current receipts ..	181.8	137.4	158.3	151.5
1.5.1 National lottery ..	9.2	11.0	7.9	10.0
1.5.2 Other ..	172.6	126.4	150.4	141.5
2. Capital Receipts ..	117.1	83.6	111.9	92.3
2.1 Transfers from capital accounts of domestic sector ..	54.9	39.0	47.8	47.0
2.1.1 Estate duty ..	13.6	12.0	10.7	12.0
2.1.2 Wealth tax ..	31.1	12.0	25.5	18.0
2.1.3 Other ..	10.2	15.0	11.6	17.0
2.2 Other capital receipts ..	62.2	44.6	64.1	45.3
3. Total Revenue ..	4,045.8	4,114.6	4,794.6	4,881.1

Source: Central Bank of Ceylon.

- (a) For details of items given below please see footnotes to Table 36 of Appendix III
- (b) Due to an error in classification in the accounts of the Treasury income tax and general sales and turnover tax collections are recorded as Rs. 506.7 million and Rs. 703.7 million respectively.
- (c) Includes banks debits tax.

The main contributories to the increase in revenue in 1974 were selective sales taxes (Rs. 342 million), sale of FEECs (Rs. 290 million), export duties (Rs. 273 million), general sales and turnover taxes (Rs. 70 million), gross receipts from trading enterprises (Rs. 83 million) and import duties (Rs. 55 million). The effect of these increases were off-set by decreased receipts from income tax collections (Rs. 94 million) and profits from food sales (Rs. 22 million).

Selective sales tax receipts increased remarkably to Rs. 750 million in 1974. However, the main reason for this increase was that the excise revenue from sales of arrack amounting to Rs. 195 million which in previous years would have been accounted for as "profits from government monopolies" has now been classified as a selective sales taxes¹. Allowing for this reclassification, both revenue from the tobacco tax and more particularly the tea tax contributed to this substantially high revenue from selectives sales taxes.

Receipts from sale of FEECs, too, showed a significant increase of 43 per cent when compared to an increase of 26 per cent in 1973. Revenue from sale of FEECs now accounts for 20 per cent of the total revenue, while it contributed only 10 per cent in 1968/69. Receipts from export duties helped largely by the higher prices, fetched by Sri Lanka's rubber and coconut exports, too showed a

1. The revenue item "Surplus of Government monopolies" which represented the profits from the sale of arrack by the government in the past, will not appear in the estimates with the taking over of the function of the manufacture and sale of arrack by the State Distilleries Corporation. The bulk of this revenue will now accrue to government under selective sales taxes (excise on liquor), general sales and turnover taxes, taxes on corporate income, and profits and dividends from public corporations with effect from 1974.

significant increase during 1974. It is to be observed that revenue collections from foreign transactions (export duties, import duties and revenue from sale of FEECs) have accounted for 40 per cent of the total revenue in 1974.

The actual (provisional) revenue for 1974 also showed an increase of Rs. 680 million (17 per cent) when compared with the approved estimates for the year. Selective sales taxes (Rs. 339 million), export duties (Rs. 260 million), general sales and turnover taxes (Rs. 110 million), sale of FEECs (Rs. 74 million) and income tax (Rs. 136 million) contributed largely to this increase. The offsetting decreases were mainly on account of profits from sale of foodstuffs (which turned out to be a loss in 1974 although a sum of Rs. 124 million was anticipated as profits) and import duties (Rs. 16 million).

The remarkable increase in the revenue collections during 1974 over that of 1973 and the approved estimates may be attributable mainly to the relatively more favourable prices enjoyed by our exports. Higher prices of locally produced goods and the resultant increased turnover also helped to increase turnover tax collections, while the larger import bill, in money terms, helped to increase the revenue from the sale of FEECs substantially.

In the financial year, 1975, total revenue is expected to increase by Rs. 86 million over that of 1974. Receipts from selective sales taxes, export duties and interests and dividends are expected to increase by Rs. 26 million, Rs. 82 million and Rs. 48 million respectively, with offsetting decreases mainly on account of income tax (Rs. 11 million), import duties (Rs. 25 million), sale of FEECs (Rs. 16 million) and other current receipts (Rs. 7 million).

Taxes on personal and corporate income

The revenue collections from this source during 1974, which is constituted entirely of income tax on individuals and firms¹ were lower than that of the previous year by Rs. 94 million, but were higher than the approved estimates for 1974 by Rs. 136 million. The lower figure in 1974 may be attributed to the fact that the income tax collections during 1973 were abnormally high as payments for the first two quarters of the year of assessment 1972/73 amounting to Rs. 170 million, which were due during the financial year 1971/72, were actually received in 1973. This was due to the delay in passing legislation to give effect to the self assessment scheme. Of the collections in 1974, non-corporate income produced Rs. 190 million while the income tax on corporate income was Rs. 416 million. The lower original estimate for 1974 was based on the degree of voluntary compliance from corporate sources which was somewhat low in the first phase of the self assessment scheme. Hence the original estimate for 1974 proved to be on the conservative side. It is also significant that the actual performance in 1974 (when allowance is made for the inflation of the 1973 figure) was better than in the preceding year. The general price increases and the improved performances of most state corporations have

1. Although no break-down between individuals and firms is available, it is generally estimated that the former account for one third and the latter for about two thirds of the revenue collected.

helped to bring about the increase in income tax receipts. The State Distilleries Corporation, too, paid in a sum of Rs. 12 million as income tax on its profits. The revenue from income tax in 1975 is expected to be Rs. 595 million.

Taxes on production and expenditure

This item comprises general sales and turnover taxes (consisting entirely of the business turnover tax and the bank debit tax), selective sales taxes (i.e. excise duty on tobacco, liquor, and ad-valorem tea tax), import duties, export duties receipts from sales of FEECs, licence taxes, property transfer taxes, surplus of government monopolies (i.e. profits from sale of arrack upto 1973) and profits from sale of food stuffs.

(a) Turnover taxes

As in recent years, these taxes have continued to be an elastic and productive source of government revenue in 1974. The collections from this source have recorded an increase of Rs. 70 million over that of 1973. They are also Rs. 110 million more than the collections anticipated in the approved estimates for 1974, where in it was expected that the collections would fall by Rs. 40 million on account of the lowered rates and rationalisation of the tax structure. The increase in prices of commodities, which enhanced the value of the turnover in money terms, is the primary cause for the increase in the collections from this source. Roughly five sixths of the total collections are in respect of manufacturing and the balance from the non-manufacturing turnover. Collections from both these categories showed increases in 1974 with the former bringing in Rs. 495 million while the latter produced Rs. 109 million. In the manufacturing sector while most categories of manufactures turned in increased turnover tax collections, it is significant that about half the turnover tax collected on manufacturing was from the manufacture of petrol. Petrol prices were doubled at the beginning of 1974 and have in a large way enhanced the turnover. With the creation of the State Distilleries Corporation the turnover of the manufacture of arrack has also become liable to a 5 per cent tax and contributed to the enhanced collections in 1974. Turnover tax collections in 1975 are expected to be around the same level as in 1973.

(b) Selective sales taxes

The revenue from selective sales taxes has shown a substantial increase of Rs. 153 million in 1974 (excluding the excise on liquor) over 1973. This arose mainly on account of the increases of Rs. 31 million in the receipts from tobacco tax, and Rs. 122 million from the tea tax. Although the excise duty on tobacco was reduced from Rs. 52.50 to Rs. 47.50 per pound, in November 1973, receipts from this source were higher due to an increase in consumption. The contribution to revenue from tobacco tax amounted to 7.8 per cent of the total revenue in 1974 compared with 8.4 per cent in 1973. The remarkable increase in the collections from tea tax during 1974 may be attributed to the higher prices fetched by our tea exports as well as due to a change in the basis on which tax was levied¹. The receipts from excise duty

1. For changes in the sales tax on tea please see section on "Other Fiscal Measures".

on liquor has recorded a very high figure of Rs. 216 million in 1974 when compared with Rs. 27 million in 1973. This consisted a sum of Rs. 195 million being the excise duty on the sales of arrack which had accrued to revenue in previous years as surplus of government monopolies.

In 1975 the revenue from selective sales taxes is expected to be Rs. 26 million more than in the year under review. Tobacco tax is expected to increase by Rs. 7 million without any increases in the duty on tobacco, and the tea tax by Rs. 27 million offset by a decrease in receipts from excise duty on liquor amounting to Rs. 8 million.

(c) Import duties

Import duty collections have been a dwindling source of revenue in recent years, being largely replaced by the revenue to be earned from the sale of FEECs. In 1974, for the first time since the introduction of the FEEC scheme in May 1968, they recorded an increase over the previous year by Rs. 55 million, largely helped by the sharp increase in the prices of imports. Import duty collections in respect of almost all the items except prepared food stuffs, beverages, tobacco, etc. have recorded increases over 1973. Then collections of duty in respect of products of chemical and allied industries including fertilizer have almost doubled due to the very steep rise in prices of these items. Marked increases were also recorded under paper making materials, textiles and textile articles, base metal and articles of metal. The increase in the import duty receipts has been solely due to very high increases in prices, since the volume of imports was lower. The actual receipts from import duties in 1974 have been lower than the approved estimates by Rs. 16 million mainly due to the lower volume of imports.

In 1975 the revenue from this source is expected to decrease further by Rs. 25 million.

(d) Receipts from the sale of FEECs

The increase in revenue from the sale of FEECs in 1974 over that of 1973 was Rs. 290 million. The revenue from this source also shows an increase of Rs. 74 million over the approved estimates for 1974. The share of these receipts in the total government revenue in 1974 was 20 per cent, while in 1973 it was 17 per cent. Increased revenue from this source is due to the steep rise in prices of imports since the volume of imports was less in 1974. In 1975, the revenue from the sale of FEECs is expected to be lower by Rs. 16 million.

(e) Export duties

The export duty collections in 1974 recorded a sharp increase of Rs. 274 million over the previous year due to the general improvement in the prices of exports during the year under review. The prices of desiccated coconut, coconut oil, coir fibre and rubber increased appreciably. The export duty receipts from coconuts have increased by Rs. 129 million—a four-fold increase, and those from rubber have increased by Rs. 143 million—a hundred per cent increase. However, duty receipts on tea have declined by Rs. 16 million largely due to a lower volume of tea

exports effected in 1974. In 1974 the share of the export duty collections in government revenue was 14 per cent compared with 9 per cent in 1973. These receipts have increased by Rs. 260 million over the approved estimates for 1974, and are expected to bring in Rs. 742 million in 1975.

(f) Licence and property transfer taxes

Revenue from licence taxes (arrack tavern rents, toddy tavern rents, tapping licence fees, motor vehicle licence fees) have recorded an increase of Rs. 1 million while that of the property transfer taxes (stamp duties other than for postal and court purposes) decreased by a similar amount. When compared with the approved estimates, the licence taxes and property transfer taxes have decreased by Rs. 3 million and Rs. 6 million respectively. In 1975, licence taxes are expected to further decrease by Rs. 8 million while property transfer taxes are expected to increase by Rs. 6 million.

(g) Surplus of government monopolies

In previous years the revenue from this source consisted entirely of the profits made by the government from the sale of arrack which was a monopoly of the government. From 1974 this monopoly has been transferred to the Sri Lanka State Distilleries Corporation, and the bulk of the profits from the sale of arrack would now accrue to the government as selective sales taxes, i.e. excise on liquor taxes on corporate income, turnover taxes and as profits and dividends from state corporations.

(h) Profits from food sales

In previous years this source of government revenue consisted mainly of profits from the sale of sugar, and a sum of Rs. 124 million was anticipated in 1974 on this account. However, due to the sharp escalation in prices of sugar in the world market and the government policy of distributing of sugar and flour under ration schemes at subsidised prices, the revenue from this source disappeared in 1974. The approved estimates for 1975, however, anticipates a profit of Rs. 18 million on the sale of flour¹.

Interest and dividends

The revenue from this source declined by Rs. 2 million in 1974 in contrast to an increase of Rs. 32 million in 1973. This was mainly due to the decrease of Rs. 11 million in interest earned during 1974 from public institutions and public corporations, offset by an increase in profits and dividends received from public corporations amounting to Rs. 9 million. The receipts from dividends were higher than the approved estimates by Rs. 22 million. In 1975, the interest and dividends are expected to increase by Rs. 48 million over 1974, largely due to higher contributions now expected from public corporations.

1. For a detailed account of profits from sale of food stuffs please see section on "Net food subsidy."

Gross receipts from trading enterprises

The gross receipts from trading enterprises (viz. Railway, Post and Telecommunications and Ports) increased by a sum of Rs. 83 million in 1974 as compared with the previous year.

Receipts from Railway¹ increased by Rs. 39 million over that of 1973. This increase has occurred mainly due to the revision of rail fares and freight rates which were effected in the wake of the fuel crisis.

The receipts from Posts and Telecommunications were higher by Rs. 38 million in 1974 when compared with the previous year. This increase was a result of the growth of the income from postal charges and telegraphic services.

The receipts from the ports, too, increased by a sum of Rs. 6 million over the previous year.

The increase in revenue from government trading enterprises was also higher than the approved estimates by Rs. 35 million. However, this revenue is expected to decrease by a sum of Rs. 5 million in 1975.

Other current receipts

Current receipts from other miscellaneous sources in 1974 decreased by Rs. 23 million over the previous year. They were, however, Rs. 21 million higher than the approved estimates. While receipts from National Lottery decreased by Rs. 1 million, receipts from miscellaneous sources decreased by Rs. 22 million over the previous year.

Capital Receipts

(a) Transfer from capital accounts of domestic sector

Estate duty, wealth, gifts tax and capital levy mainly constitutes this source of revenue which decreased by Rs. 7 million in 1974 over the previous year. Both wealth-tax and gift tax collections decreased consequent to the implementation of the ceiling on land holdings and on houses which has in turn led to a drop in the value of gifts made during the year. However, the revenue from this source increased by Rs. 9 million over the approved estimates. There has been an increase on account of gifts tax and wealth tax amounting to Rs. 16 million while collections of estate duty and capital levy decreased by Rs. 1 million and Rs. 6 million respectively.

(b) Other capital receipts

This item comprises the repayment of advances made from the consolidated fund of the government, and sales of existing capital goods. Receipts on account of repayments of loans and advances decreased by Rs. 0.2 million over the previous year, and a sum Rs. 2.1 million was received by sales of existing capital goods resulting in a total increase of Rs. 1.9 million over the previous year. When compared with the approved estimates, the revenue from this source increased by Rs. 19.5 million in 1974.

1. Receipts are higher than those shown in government accounts as they include reimbursements, interest and annuities.

3. Expenditure

The total expenditure of the government as per Government Accounts during the financial year 1974 amounted to Rs. 5830 million (excluding sinking fund contributions and direct repayments of public debt) comprising Rs. 5783 million voted expenditure and Rs. 47 million of "Advance Accounts" payments. The recurrent expenditure component of the voted expenditure was Rs. 4506 million while capital expenditure (net of repayments and sinking fund contributions) amounted to Rs. 1,277 million. On the basis of economic and functional classification, current and capital expenditure of the government for 1974 amounted to Rs. 4483 million and Rs. 1,300 million respectively.

Current Expenditure

Current expenditure of the government which showed an increase of Rs. 531 million or 16 per cent in 1973, increased by Rs. 684 million or 18 per cent in 1974. In 1975, the current expenditure of the government (gross provision) is expected to increase by Rs. 281 million or by 6 per cent over 1974. The details of current expenditure for the last three years together with the Approved Estimates for 1975, are presented in table II (G) 5.

(a) Administration

In the year under review the current expenditure on Administration amounted to Rs. 830 million, recording an increase of Rs. 251 million or 43 per cent over the previous financial year. Consequently, the relative share of expenditure on administration in total current expenditure increased from 15 per cent in 1973 to 19 per cent in 1974. The increase in the expenditure on civil administration is much higher compared with that of defence¹. The increase in the former during the year under review has mainly been on account of the special allowance of 20 per cent subject to a maximum of Rs. 50 paid to government employees drawing less than Rs. 800 per month with effect from 1st April 1974. In terms of the different ministries the increase in civil administration expenditure was mainly on account of increases in the expenditure of the Ministry of Defence, Ministry of Finance and the Ministry of Agriculture and Lands. Defence expenditure which had gradually declined, since the unusual increase registered in 1970/71 on account of insurgency, has registered a Rs. 25 million increase in 1974 over the previous financial year. In 1975 current expenditure on administration is estimated to be Rs. 718 million or 15 per cent of total current expenditure.

(b) Social Services

The current expenditure on social services which stood at Rs. 912 million in 1974 accounted for 20 per cent of the total current payments and showed an increase of Rs. 55 million over that of the financial year 1973. The increase is accounted for mainly by increases of Rs. 31 million on health and Rs. 20 million on education. The increase in expenditure on health services was mainly in respect of

¹. The current expenditure on civil administration in 1974 is however over stated since it includes a sum of Rs. 150 million being the cost of special allowances to state employees. This amount has been included provisionally under civil administration since it has not been apportioned in the government accounts under the respective heads of expenditure.

TABLE II (G) 5

Current Expenditure of the Government — 1971/72 to 1975 (a).

Items	1971/72			1973		1974 (Approved Estimates)		1974 (Provisional)		1975 (Approved Estimates)	
	15 Months	12 Months*	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage	Amount Rs. Mn.	Per- centage
1. Administration	724.5	579.6	17.7	579.2	15.3	694.0	17.8	830.1	18.5	717.9	15.1
1.1 Civil	521.4	417.7	12.8	434.3	11.5	565.3	14.5	660.2(d)	14.7	571.3	12.0
1.2 Defence	203.1	162.5	4.9	144.9	3.8	128.7	3.3	169.9	3.8	146.6	3.1
2. Social Services	1,000.1	800.0	24.5	856.4	22.6	903.0	23.2	911.6	20.3	1,018.9	21.4
2.1 Education	649.1	519.3	15.9	563.4	14.9	579.3	14.9	583.1	13.0	659.2	13.8
2.2 Health	317.4	253.9	7.8	261.8	6.9	287.9	7.4	292.4	6.5	319.2	6.7
2.3 Other.	33.6	26.9	0.8	31.2	0.8	35.8	0.9	36.1	0.8	40.5	0.9
3. Economic Services	181.3	145.0	4.4	165.8	4.4	181.0	4.7	164.5	3.7	161.1	3.4
3.1 Agriculture and Irrigation	88.2	70.6	2.2	84.5	2.2	100.7	2.6	82.6	1.8	69.1	1.5
3.2 Communication.	38.8	31.0	30.9	35.6	0.9	30.1	0.8	32.6	0.7	36.8	0.8
3.3 Other.	54.3	43.4	1.3	45.7	1.2	50.2	1.3	49.3	1.1	55.2	1.1
4. Gross Payments of Trading Enterprises.	327.0	261.6	8.0	291.7	7.7	303.2	7.8	356.4	7.9	387.5	8.1
5. Intra-Governmental Payments.	7.1	5.7	0.2	6.8	0.2	7.8	0.2	10.7	0.2	10.7	0.2
6. Transfer Payments.	1,829.8	1,463.8	44.8	1,896.4	49.9	1,794.3	46.1	2,208.8	49.3	2,467.5	51.8
6.1 Subsidies.	783.5	626.8	19.2	756.7	19.7	630.2	16.2	964.1	21.5	1,162.0	24.4
Of Which: Food Subsidies	(718.8)	(575.0)	(17.6)	(700.8)	(18.3)	(584.0)	(15.0)	(925.0)	(20.6)	(1,092.0)	(22.9)
6.2 Interest on Public Debt.	515.9	412.7	12.6	514.4	13.6	601.9	15.5	580.2	12.9	669.7	14.1
6.3 Pensions.	316.9	253.5	7.8	270.1	7.1	279.4	7.2	292.1	6.5	295.5	6.2
6.4 Households...	64.7	51.8	1.6	65.9	1.7	70.7	1.8	70.8	1.6	63.8	1.3
6.5 To Local Authorities.	76.2	61.0	1.9	65.3	1.7	66.8	1.7	70.4	1.6	79.5	1.7
6.6 Others.	72.6	58.1	1.7	224.0	5.9	145.3	3.7	231.2	5.2	197.1	4.1
7. Total	4,084.8(c)	3,267.8	100.0	3,799.1(c)	100.0	3,890.3(b) (c)	100.0	4,482.8(c)	100.0	4,764.0(b) (c)	100.0

* On a pro-rata basis.

(a) See footnotes to Table 36 of Appendix III. (b) These figures do not take into account under-expenditure provisions. (c) Includes unallocable FEECs amounting to Rs. 15.0 million for 1971/72, Rs. 2.8 million for 1973, Rs. 7.0 million for 1974 (Approved Estimates), Rs. 0.6 million for 1974 (Provisional) and Rs. 0.4 million for 1957 (Approved Estimates.) (d) Includes a sum of Rs. 150 million on account of the cost of special allowances to state employees, which cannot be classified since this amount has not been apportioned in the government accounts under respective heads.

Source: Central Bank of Ceylon

patient care services and community health services while the increase in implementation and supervision expenditure on salaries for the staff supervisory services and expenditure on implementation of the educational programmes in general education accounted for the rise in expenditure on education. It is estimated that expenditure on social services in 1975 would increase by Rs. 107 million to Rs. 1019 million or 21 per cent of the total current expenditure.

(c) Economic Services

In 1974 current expenditure on economic services which amounted to Rs. 164 million or 4 per cent of the total current payments showed a marginal decrease of Rs. 1 million over that of 1973. This was mainly due to the decrease in current expenditure on agriculture and irrigation and communication services. There were, however, some marginal increases in expenditure on trade, manufacture and fisheries. The expenditure on economic services for 1975 is anticipated to be Rs. 161 million or 3 per cent of the total current expenditure.

(d) Gross payments of Trading Enterprises

The current expenditure of trading enterprises consisting of the Sri Lanka Government Railway, Posts and Telecommunications and Port Commission stood at Rs. 356 million or 8 per cent of total current expenditure in 1974, and was Rs. 65 million higher than that of the financial year 1973. This increase was in respect of Sri Lanka Government Railway (Rs. 59 million), Sri Lanka Port Commission (Rs. 5.5 million) and Posts and Telecommunications (Rs. 0.3 million). The higher expenditure under Sri Lanka Government Railway was mainly on account of transportation services, salary increases and the working of the Kelani Valley line. The anticipated expenditure on account of these enterprises for 1975 is Rs. 388 million (gross provisions).

Current Transfers

In recent years current transfers have contributed on average 46 per cent of the total current expenditure of the government. In the year under review current transfers amounted to Rs. 2209 million or 49 per cent of the total current expenditure. This was an increase of Rs. 312 million or 16 per cent over that of the previous financial year. The main contributors to this increase were subsidies (Rs. 207 million), interest on public debt (Rs. 66 million) and pensions (Rs. 22 million). The increase in subsidies is mainly attributable to subsidies on food (Rs. 925 million)¹ and fertilizers (Rs. 39 million), while the increase of Rs. 66 million in interest payments on public debt is explained by the higher volume of borrowings and increased interest rates payable on rupee loans floated since October 1970. When compared with the previous financial year, current transfers to public corporations have remained at almost the same level of Rs. 164 million. Reimbursement of losses to public corporations which amounted to Rs. 122 million in 1973 were Rs. 145 million in 1974. These losses relate mainly to the Milk Board (Rs. 66 million) and the Fertilizer Corporation (Rs. 57 million).

1. A detailed analysis of food subsidy appears in the section on "Net Food Subsidy"

In 1975 current transfers are estimated to be at Rs. 2467 million (gross provisions) or 52 per cent of the total current payments. Thus for the first time in recent years, such payments are expected to absorb a little more than half of the total current payments of the government. The increase of Rs. 259 million over 1974 is largely accounted for by higher provisions in respect of the food subsidy (by Rs. 167 million) while the interest on public debt is also expected to increase by Rs. 89 million. Current transfers to public corporations is also expected to be Rs. 143 million in 1975 a decrease of Rs. 21 million over 1974.

Capital Expenditure

The details of capital expenditure for the last three years together with the approved estimates for 1975 are presented in table 11(G) 6. The capital expenditure of the government which stood at Rs. 1300 million showed an increase of Rs. 139 million or 12 per cent over the corresponding figure for 1973. However, in real terms, the increase in capital expenditure would not have been that substantial due to price increases which have resulted in the approved estimates being largely out of tune with actual costs. Further, despite the increase in capital expenditure in money terms during the financial year 1974, its relative share in total expenditure has decreased to 21 per cent from its level of 23 per cent recorded during the previous financial year.

The capital expenditure of Rs. 1300 million in 1974 consisted of Rs. 781 million (or 60 per cent) of capital expenditure of government departments, Rs. 407 million (or 31 per cent) of capital transfers and Rs. 113 million (or 9 per cent) of acquisition of financial assets. The comparable data for the previous financial year were Rs. 611 million (or 53 per cent), Rs. 445 million (or 38 per cent) and Rs. 105 million (or 9 per cent) respectively. Thus, capital expenditure of government departments and acquisition of financial assets have increased by Rs. 169 million and Rs. 8 million respectively, while there has been a decline of Rs. 38 million on account of capital transfers.

The estimated gross capital expenditure in 1975 is expected to be Rs. 2086 million consisting of Rs. 1167 million (or 56 per cent) of expenditure of government departments, Rs. 802 million (or 38 per cent) of capital transfers and Rs. 117 million (or 0.1 per cent) of acquisition of financial assets. The estimated capital expenditure in 1975 represents an increase of Rs. 786 million or 60 per cent over that of 1974. Of this increase capital expenditure of government departments accounts for Rs. 386 million, capital transfers for Rs. 395 million and acquisition of financial assets for Rs. 5 million. If, however, the estimated under-expenditure in respect of capital votes amounting to Rs. 493 million is allowed for, the expected expenditure would amount to Rs. 1592 million which is Rs. 292 million or 24 per cent higher than that of 1974.

(a) Capital expenditure of government departments

Capital expenditure of government departments showed an increase of Rs. 169 million in 1974 over that of 1973. Contributing to this increase were economic services (Rs. 171 million) and civil administration (Rs. 10 million) offset by a decline in capital expenditure on social services (Rs. 5 million). The increase recorded

TABLE II (G) 6
Capital Expenditure of the Government—1971/72 to 1975 (a)

Items	1971/72			1973		1974 Approved Estimates		1974 Provisional		1975 Approved Estimates	
	15 Months	12 months*	Perce- ntage	Amount Rs. Mn.	Perce- ntage	Amount Rs. Mn.	Perce- ntage	Amount Rs. Mn.	Perce- ntage	Amount Rs. Mn.	Perce- ntage
	Amount Rs. Mn.	Amount Rs. Mn.									
1. Acquisition, Construction and maintenance of Real Assets. ..	678.9c	543.1	59.5	611.2c	52.7	932.2c	63.5	780.6c	59.9	1,166.7c	55.9
1.1 Civil Administration ..	52.7	42.2	4.6	50.7	4.4	54.1	3.6	60.6	4.7	54.6	2.6
1.2 Social Services ..	165.5	132.5	14.5	132.8	11.4	158.9	10.8	127.8	9.8	209.4	10.0
1.2.1 Education ..	61.7	49.4	5.4	38.6	3.3	53.6	3.7	39.7	3.1	59.1	2.8
1.2.2 Health ..	32.2	25.8	2.8	36.5	3.1	52.8	3.6	39.1	3.0	87.6	4.2
1.2.3 Housing ..	31.9	25.5	2.8	41.7	3.6	39.0	2.7	36.6	2.8	37.2	1.8
1.2.4 Other ..	39.7	31.8	3.5	16.0	1.4	13.5	0.9	12.4	1.0	25.5	1.2
1.3 Economic Services ..	453.2	362.5	39.7	418.9	36.1	709.6	48.4	589.7	45.4	897.7	43.0
1.3.1 Agriculture and Irrigation ..	166.0	132.8	14.6	160.0	13.8	330.7	22.6	315.8	24.3	415.1	19.9
1.3.2 Fisheries ..	5.4	4.3	0.5	2.8	0.2	28.9	2.0	12.7	1.0	39.8	1.9
1.3.3 Manufacture and Mining ..	11.6	9.3	1.0	12.2	1.0	21.5	1.5	16.0	1.3	17.1	0.8
1.3.4 Trade ..	18.9	15.1	1.7	6.5	0.6	8.8	0.6	5.2	0.4	17.5	0.8
1.3.5 Communication ..	251.3	201.0	22.0	237.4	20.5	319.7	21.8	240.0	19.1	408.2	19.6
2. Capital Transfers ..	382.7	306.2	33.6	445.0	38.3	448.5	30.6	406.8	31.3	801.7	38.4
2.1 Local Authorities ..	18.8	15.0	1.6	15.3	1.3	15.2	1.0	14.8	1.1	12.0	0.6
2.2 Public Corporations ..	322.6	258.1	28.3	384.4	33.1	395.8	27.0	378.3	29.1	747.6	35.8
2.2.1 Agriculture and Irrigation ..	157.7	126.2	13.8	144.3	12.4	174.9	11.9	195.8	15.6	233.4	11.2
2.2.2 Fisheries ..	22.0	17.6	1.9	7.8	0.7	14.2	1.0	9.0	0.7	28.5	1.4
2.2.3 Manufacture and Mining ..	86.6	69.3	7.6	120.1	10.3	118.2	8.1	69.2	5.5	357.4	17.1
2.2.4 Other ..	56.3	45.0	4.9	112.2	9.7	88.5	6.0	104.3	8.3	128.3	6.1
2.3 Other ..	41.3	33.0	3.6	45.3	3.9	37.5	2.6	13.7	1.1	42.1	2.0
3. Acquisition of Financial Assets ..	78.6	62.9	6.9	104.6	9.0	85.8	5.9	112.5	8.7	117.1	5.6
4. Total ..	1,140.2	912.2	100.0	1,160.8	100.0	1,466.4b	100.0	1,299.9	100.0	2,085.5b	100.0

Source: Central Bank of Ceylon.

(a) See footnotes to Table 36 of Appendix II

(b) These figures do not take into account under expenditure provisions.

(c) Includes unallocable FEECs amounting to Rs. 7.5 million for 1971/72, Rs. 8.8 million for 1973, Rs. 9.5 million for 1974 (Approved Estimates) Rs. 2.5 million for 1974 (Provisional) and Rs. 5.0 million for 1975 (Approved Estimates).

*On a pro-rata basis.

under economic services was in respect of agriculture and irrigation (Rs. 156 million), fisheries (Rs. 10 million), manufacture and mining (Rs. 4 million) and communication (Rs. 3 million) offset by a decrease in expenditure in respect of trade (Rs. 1 million). It is to be observed that more than one half of capital expenditure on economic services has been made on agriculture and irrigation works. The major components of this expenditure were tea subsidy (Rs. 117 million), emergency food production drive (Rs. 80 million), survey department (Rs. 27 million) construction and development of major irrigation works (Rs. 13 million), execution of drainage and reclamation works (Rs. 13 million), grants and subsidies to agricultural schemes, food aid to colonists (Rs. 12 million) and lift irrigation works (Rs. 11 million).

In 1975, capital expenditure of government departments is expected to be Rs. 1167 million (gross provisions) consisting of Rs. 54 million for civil administration, Rs. 209 million for social services and Rs. 898 million for economic services. The increase in the capital expenditure of government departments over 1974 amounts to Rs. 386 million or 50 per cent. The major increases are in respect of social services where expenditure on health and education are expected to be higher by Rs. 49 million and Rs. 19 million respectively. Expenditure on economic services is also expected to increase substantially by Rs. 308 million largely on account of the increased capital expenditure on communications (Rs. 168 million) relating mainly to the communications satellite project and Rs. 99 million in respect of agriculture and irrigation.

(b) Capital transfers

Capital transfers had increased notably from Rs. 306 million or 34 per cent of the total capital expenditure in 1971/72 (pro rata) to Rs. 445 million or 38 per cent in 1973. In the year under review although such expenditure at Rs. 407 million remained more or less the same in absolute terms, as a proportion of total capital expenditure it declined to 31 per cent. Of this amount transfers to public corporations amounted to Rs. 378 million while those to local authorities were Rs. 15 million.

In 1974 capital transfers to public corporations decreased by Rs. 6 million whereas in 1973 such transfers were Rs. 126 million higher than the pro-rata figure in the previous financial year. Capital transfers to corporations in the agricultural sector which amounted to Rs. 196 million or 52 per cent of the total capital transfers to public corporations increased by Rs. 52 million in 1974 mainly due to increased grants to Mahaweli Development Board (Rs. 54 million). However, capital transfers in the manufacturing sector which amounted to Rs. 69 million or 18 per cent of the total capital transfers to public corporations declined by Rs. 51 million mainly on account of the decreases in grants to Ceylon Ceramic Corporation (Rs. 20 million), Milk Board (Rs. 13 million), Ceylon Leather Products Corporation (Rs. 12 million) and National Textile Corporation (Rs. 5 million).

In 1975 it is estimated that capital transfers would be Rs. 802 million (gross provisions) or 38 per cent of the total government capital expenditure. It is expected that local authorities would receive Rs. 12 million while public corporations and "others" would absorb Rs. 748 million and Rs. 42 million respectively. The

bulk of the transfers to public corporations will be in respect of the industrial sector (Rs. 357 million) and the agricultural sector (Rs. 233 million).

(a) Acquisition of Financial assets

Although there was a marginal decline in the relative share of the capital expenditure on the acquisition of financial assets from 9 per cent of the total capital expenditure in 1973 to 8 per cent in 1974, in absolute terms, there has been a secular growth in these expenditures during the last few years. The major financial assets acquired by the government in 1974 were loans of Rs. 60 million to the Ceylon Transport Board and Rs. 38 million to the National Housing Fund.

4. The Deficit and its Financing

The approved estimates of the government for 1974 anticipated a net cash deficit of Rs. 904 million. The final budgetary outturn, however, resulted in a higher deficit of Rs. 1,035 million. The deficit in 1973 was Rs. 981 million.

The net cash deficit in 1974 has increased by Rs. 54 million over the previous financial year. This was the combined effect of an increase of Rs. 649 million and Rs. 167 million in recurrent and capital expenditure respectively, partly offset by an increase of Rs. 761 million in revenue receipts and a decrease of Rs. 1 million in expenditure on advance accounts operations.

The net cash deficit in 1974 has also exceeded the approved estimates for the year by Rs. 131 million. This was due to the combined effect of the increases of Rs. 666 million in recurrent expenditure, Rs. 198 million in capital expenditure partly offset by increase in revenue receipts by Rs. 680 million and a decrease of Rs. 53 million in the net outpayments on account of advance accounts operations.

The net cash deficit for the current financial year 1975 is estimated at Rs. 1,476 million and shows an increase of Rs. 441 million over the financial year 1974. The combined effect of the anticipated increase of Rs. 261 million in recurrent expenditure, Rs. 213 million in capital expenditure, and Rs. 53 million in net outpayments on account of advanced accounts operations partly offset by increases in revenue receipts by Rs. 86 million is expected to enhance the net cash deficit in 1975.

Financing of the deficit

Data in respect of sources of finance and the expansionary, contractionary impact of the net cash deficit for the years 1970/71 to 1974 together with the relevant approved estimates for 1975 are presented in table II (G) 7.

Financing of the Net Cash Deficit—1970/71 to 1975 (a)

Sources	1970/71	1971/	
		12 Months*	
1. Foreign Finance			
(a) Project loans (gross) ..	141.1(c)	93.3	
Less contributions to sinking funds and repayments ..	<u>82.8</u> 58.3	<u>95.8</u> —2.5	
(b) Non-Project (commodity) loans (gross) ..	169.0	325.2	
Less repayments ..	<u>52.8</u> 116.2	<u>98.2</u> 227.2	
(c) Grants ..	<u>59.9</u> 234.4	<u>59.7</u> 284.3	
2. Domestic non-market borrowing ..	140.5	198.8	
3. Domestic market borrowing from the banking system (b)			
(a) Central Bank ..	—160.9	168.2	
(b) Commercial banks ..	<u>254.5</u> 93.6	<u>58.2</u> 226.4	
4. Domestic market borrowing from non-bank sources			
Gross amount borrowed ..	599.1	577.0	
Less contributions to sinking funds ..	107.4 491.7	135.4 441.6	
5. Decline in cash balances and foreign aid counterpart funds ..			
(a) Cash balances ..	—3.3	—87.8	
(b) Foreign aid counterpart funds (gross credits) ..	—245.6	—342.6	
Less amount used for budgetary purposes ..	372.1 126.4 129.1(d)	<u>315.2</u> —27.4 —115.2	
6. Net cash deficit ..	1,083.3	1,035.8	
7. Decline in U.S. aid counterpart funds ..	1.4	—	
8. Net expansionary impact of Government fiscal operations (3+5+7) ..	218.1(d)	111.1	

(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 (food) bills held by the banking system.

(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 footnote at pag 155 of Annual Report 1971.

(e) According to approved estimates the estimated amount is Rs. 73 million but the estimated requirement would now be Rs. 65 million.
On a pro-rata basis.

TABLE II (G) 7

Rupees Million

72			
15 Months	1973	1974 (Provisional)	1975 (Approved Estimates)
116.6(c)	153.1	83.4	
<u>119.8</u> — 3.2	<u>98.4</u> 54.7	<u>119.1</u> — 35.7	
406.6	193.7	314.2	
<u>122.7</u> 283.9	<u>134.9</u> 58.8	<u>152.3</u> 161.9	
<u>74.6</u> 355.3	<u>46.6</u> 160.1	<u>231.4</u> 357.6	754.0
248.6	251.0	— 32.5	65.0 (e)
<u>210.2</u>	<u>113.9</u>	<u>112.3</u>	
<u>72.7</u> 282.9	<u>229.5</u> — 115.6	<u>— 127.3</u> — 15.0	—
721.2	819.4	976.2	
<u>169.3</u> 551.9	<u>196.9</u> 622.5	<u>290.0</u> 686.2	657.0
— 109.8	45.1	10.0	
— 428.2	— 238.8	484.1	
<u>394.0</u> — <u>34.2</u> — 144.0	<u>256.6</u> <u>17.8</u> 62.9	<u>512.7</u> <u>28.6</u> 38.6	—
1,294.7	980.9	1,034.9	1,476.0
—	— 0.2	—	—
138.9	— 52.9	23.6	—

Source: Central Bank of Ceylon

It is to be observed that the net cash deficit of Rs. 1035 million in 1974 has been financed by borrowing Rs. 686 million from domestic non-bank market sources and by obtaining Rs. 358 million of foreign assistance. Meanwhile, net repayments of Rs. 33 million of domestic non-market borrowings and Rs. 15 million of domestic market borrowings from the banking system have been effected. To supplement the resources available the cash balances of the government (including foreign aid counterpart funds) were reduced by Rs. 39 million.

The estimated net cash deficit of Rs. 1476 million in the current financial year 1975 is to be fully financed by obtaining Rs. 754 million of foreign finance, by mobilising Rs. 657 million from domestic non-bank market sources, and by obtaining Rs. 65 million from administrative sources.

In 1974 the net expansionary impact of the government's fiscal operations was Rs. 24 million in contrast to a contractionary impact of Rs. 53 million in the previous financial year. This expansionary impact was the net result of drawing down government cash balances by Rs. 39 million and a reduction in the government's indebtedness to the banking system by Rs. 15 million. The net receipts of foreign assistance in 1974 increased by Rs. 198 million (124 per cent increase over 1973 receipts), while net resources mobilised from domestic non-bank market sources increased only by Rs. 64 million. The increased receipts from foreign assistance was mainly due to the four-fold increase in foreign grants to Rs. 231 million in 1974.

In 1974 the government's indebtedness to the Central Bank increased by Rs. 112 million, compared with an increase of Rs. 114 million in 1973. The increase in 1974 consisted of an increase of Rs. 83 million on account of Treasury bills, and Rs. 39 million on account of advances offset by a decrease of Rs. 10 million on account of rupee loans. On the other hand, the government's indebtedness to the commercial banks decreased by a sum of Rs. 127 million, compared with a decrease of Rs. 229 million in 1973. The decrease of Rs. 127 million consisted of Rs. 19 million in respect of rupee loans and Rs. 108 million in respect of Treasury bills. The net result of these operations was a reduction in the liability of the government to the banking system by Rs. 15 million compared with a reduction of Rs. 116 million in 1973.

The resources mobilised by the government from domestic non-bank sector amounted to Rs. 686 million, as compared with a sum of Rs. 623 million realised during 1973. The section on "Public Debt" in this report gives a detailed analysis of the government loan programme.

Table II (G) 8 presents the net contributions (i.e. changes in holdings of government securities) of the non-bank investor groups for the last four financial years. In 1974 the increases in net contributions from the non-bank investor group came mainly from the National Savings Bank and the Insurance Corporation. The net contribution by the Employees' Provident Fund did not register a significant increase during 1974, as in the previous financial year. A detailed analysis of the circumstances under which the above investors came to increase their holdings in government securities is also given in the section on "Public Debt" in this report.

TABLE II (G) 8

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

Rs. Million

Contributors	1970/71	1971/72		1973	1974 Provisional	Change in	
		12 * Months	15 Months			1973 Over 1971/72 (12 * months)	1974 Over 1973
1. Savings institutions ..	180.7	93.8	117.3	213.0	276.1	119.2	63.1
2. Employees' Provident Fund ..	143.0	164.2	205.3	197.0	198.6	32.8	1.6
3. Other provident and pension funds ..	44.5	47.7	59.6	29.5	25.9	-18.2	- 3.8
4. Departmental and other official funds ..	6.9	41.7	52.1	42.8	9.1	1.1	-33.7
5. Insurance Corporation ..	60.7	55.2	69.0	99.8	106.9	44.6	7.1
6. Other Insurance funds ..	- 1.8	- 9.7	-12.1	-15.8	- 7.6	- 6.1	8.2
7. Other state corporations ..	—	—	—	—	—	—	—
8. Companies, clubs and institutions ..	5.6	13.6	17.0	2.9	- 4.3	-10.7	- 7.2
9. Individuals ..	2.5	-1.9	- 2.4	-7.1	- 1.9	- 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.

In 1974, there had been a net repayment of domestic non-market borrowings of Rs. 33 million in contrast to borrowings of Rs. 251 million in 1973. This situation arose as a result of the decrease in "deposits" of Rs. 49 million and "miscellaneous funds" of Rs. 1 million offset by increases in "administrative borrowings" and loans to "public institutions" amounting to Rs. 15 million and Rs. 3 million respectively.

The total foreign finance available to the government to meet the fiscal operations in 1974 was Rs 629 million and comprised Rs 83 million¹ (13 per cent) of project loans, Rs 314 million¹ (50 per cent) of commodity loans, and Rs 231 million (37 per cent) of foreign grants. When allowance is made for amortization payments and sinking fund contributions, the net foreign finance available to meet the net cash deficit was Rs. 358 million. Of this amount, commodity loans amounted to Rs. 162 million, and foreign aid grants to Rs. 231 million while there was a net repayment of Rs. 36 million in respect of project loans. In comparison, the net foreign finance utilised during the previous year amounted to Rs 160 million comprising Rs 55 million of project loans, Rs 59 million of commodity loans and Rs 47 million of foreign grants. Though there has been a sharp decline in net receipts of project loans during 1974, there has been a marked increase in the net receipts from commodity loans. The foreign grants received during the year has shown a four-fold increase

1. These figures are higher than the relevant figures shown in the section on "Public debt" by Rs. 9 million due to the different sources of information. i.e. Treasury and the Department of Public Debt of the Central Bank of Ceylon.

TABLE II (G) 9
Net Receipts of Foreign Assistance

Rs. Million

Type and Source	1968/69	1969/70	1970/71	1971/72		1973	1974 Provisional
				12 months*	15 months		
1. Loans	334.1	202.8a	220.6a	293.6	367.0a	202.0a	226.2a
1.01 A.D.B.	—	—	9.2	17.9	22.4	19.5	17.4
1.02 I.B.R.D.	-8.4	-9.3	-7.7	-10.4	-13.0	-12.4	-4.3
1.03 I.D.A.	—	4.7	20.1	17.2	21.5	32.2	41.3
1.04 Canada	8.5	6.0	7.5	17.7	22.0	12.5	-1.6
1.05 People's Republic of China	-5.5	4.8	137.7	66.1	82.6	27.4	61.8
1.06 U.K.	37.0	38.2	11.4	32.2	40.2	1.3	-9.0
1.07 U.S.A.	177.9	49.8	34.4	102.0	127.5	66.0	-13.8
1.08 U.S.S.R.	-9.6	-9.2	-7.1	-7.2	-9.0	-8.5	-8.3
1.09 Federal Republic of Germany	17.4	29.0	1.5	9.5	11.9	19.5	54.2
1.10 Yugoslavia	-0.8	-0.4	-1.3	-0.2	-0.3	-0.3	-0.3
1.11 Poland	-0.6	-0.9	-0.9	-1.3	-1.6	-0.4	-0.3
1.12 France	1.6	10.2	1.5	7.7	9.6	22.1	18.6
1.13 Japan	18.3	13.7	8.2	50.5	63.1	18.5	40.5
1.14 India	16.9	23.6	4.7	9.1	11.4	6.9	7.4
1.15 German Democratic Republic	79.6	28.3	-9.2	-18.7	-23.4	-7.0	-11.8
1.16 Denmark	1.6	8.0	3.4	4.0	5.0	6.7	-1.9
1.17 Italy	—	6.3	7.2	-2.3	-2.9	-2.0	8.1
1.18 Hungary	—	—	—	—	—	—	0.7
2. Grants	19.5	62.8	59.9	59.7	74.6	46.6	231.4
2.01 Colombo Plan	1.4	26.2	24.1	19.7	24.6	34.6	54.7
2.01.1 Australia	0.1	4.8	6.0	5.7	7.1	13.1	28.0
2.01.2 Canada	—	18.7	18.1	14.0	17.5	20.4	16.7
2.01.3 Japan	—	2.7	—	—	—	1.1	10.0
2.01.4 New Zealand	1.3	—	—	—	—	—	—
2.02 Other	18.2	36.6	35.7	40.0	50.0	12.0	176.7
2.02.1 United Nations	3.1	2.0	5.0	3.1	3.9	1.0	17.1
2.02.2 People's Republic of China	—	4.7	7.9	11.0	13.8	1.4	126.3
2.02.3 U.S.A.	0.8	6.6	4.8	14.5	18.1	—	0.1
2.02.4 Federal Republic of Germany	—	9.7	5.7	0.6	0.7	5.1	4.8
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	—	1.4
2.02.8 France	—	—	—	5.4	6.7	4.4	9.2
2.02.9 U.S.S.R.	—	—	—	—	—	—	—
2.02.10 Sweden	—	—	—	—	—	—	14.8
2.02.11 Switzerland	—	—	—	—	—	—	0.2
2.02.12 Unclassified	—	—	—	—	—	—	2.8
3. Total of Loans & Grants	353.6	265.6	280.5	353.3	441.6	248.6	457.6

Source: Central Bank of Ceylon.

(a) These figures of total loans will not compare with the corresponding figures in Table 31 of appendix III because the sums of Rs. 39.2 million, Rs. 46.1 million, Rs. 86.2 million, Rs. 88.5 million and Rs. 98.0 million being FEECs payable on repayments of foreign loans for the years 1969/70, 1970/71, 1971/72, 1973 and 1974 respectively, have not been taken into account in this table. They also further differ from the relevant figures shown in the section on "Public Debt" to the extent of Rs. 9.2 million due to the different sources of information, i.e. Treasury and the Department of Public Debt of the Central Bank of Ceylon.

* On a pro-rata basis.

over the previous year. Of these grants around Rs. 140 million was received as food aid in the form of rice and wheat flour. A little over one-third of the net cash deficit has thus been financed by foreign assistance.

Table II (G) 9 presents the details of net receipts of foreign assistance by type and source in the last seven years.

5. The Net Food Subsidy

In the accounts of the government the gross food subsidy is presented as an item of expenditure and the profits from the sale of foodstuffs as an item of revenue. The net food subsidy is arrived at by setting off the profits from the import and sale of certain food items (mainly sugar and flour in the past) from the gross food subsidy. The gross food subsidy consists of net payments on account of the issue of rice on ration, the producer subsidy under the guaranteed price scheme for paddy and the subsidy on the import and sale of foodstuffs, such as dhall, sugar and infants milk food. Whereas in the period prior to 1970/71 the import and sale of sugar and flour used to consistently result in a profit, the trend in recent times has been less consistent with the sale of these items involving losses (and therefore increasing the gross food subsidy) in some years. The distribution expenses and other charges in respect of these items are also taken into account in computing the net food subsidy.

Table II (G) 10 shows the details of gross food subsidy and profits from sale of foodstuffs and the distribution expenses and other charges incurred during the last three financial years along with the approved estimates for 1974 and 1975. The net food subsidy for each year is also given in the table.

(e) The Gross Food Subsidy

The gross food subsidy for 1974 (provisional) was Rs. 925 million showing a sharp increase of Rs. 224 million or 33 per cent over the figure for 1973. As against this, the subsidy in the year 1973 showed an increase of Rs. 127 million or 22 per cent over the pro-rata 12 months figure for 1971/72.

Financial Year 1973

The subsidy on rice had increased by Rs. 30 million or 6 per cent in 1973 over that of the year 1971/72 (pro-rata 12 months). This was mainly due to the sharp increase in the average landed cost of rice from Rs. 577/- to Rs. 1015/- per long ton (76 per cent) and the higher price paid for the purchase of paddy under the guaranteed price scheme which was increased from Rs. 14/- to Rs. 25/- per bushel.¹ The average price of a long ton of rice (both imported and local) in 1973 was Rs. 1227/- whereas in 1971-72 it was Rs. 903/- The increase in the gross food subsidy in 1973 over the previous financial year would have been substantial if not for the reduction in the quantum of rice issued under the ration (which took effect in October 1973) and an increase in the sale price of the paid measure of rice.² A measure of the

1. The price paid for a bushel of paddy under the guaranteed price scheme was first increased from Rs. 14/- to Rs. 18/- w.e.f. 15th February 1973 and again to Rs. 25/- w.e.f. 1st October, 1973.
2. The price of the "paid measure" was increased from Rs. 1.00 to Rs. 1.60 with effect from 19. 2. 1973 and subsequently reduced to Rs. 1.40 from 12. 3. 1973. However, the price was once again increased to Rs. 2.00 with effect from 1. 10. 1973. As from the same date quantum of rice issued under the ration was reduced from 2 measures to $\frac{1}{2}$ measure per person to be given free to non-income tax payers and at a price as indicated above to taxpayers

TABLE II (G) 10

Net Food Subsidy—1971/72 to 1975

Rupees Million

Items	1971/72		1973	1974		1975 Approved Estimates
	15 months	12 months ¹		Approved Estimates	Provisional	
I. Gross food subsidy						
1. Subsidy to the consumer on imported rice ..	614.1	491.3	139.9	532.7	392.0	904.0
2. Subsidy to the producer and consumer on locally produced rice ..			381.1		373.0	
Add: (a) Distribution expenses and other charges ..	44.9	35.9	41.8	45.9	46.3	97.5
(b) Payments under Voluntary Family Allowances Scheme ..	—	—	1.1	—	—	—
3. Subsidy on locally produced red onions ..	—	—	—	—	—	—
4. Losses on sale of:						
Dhall. ⁴ ..	16.3	13.0	21.9	0.8	27.4	—
Red Onions. ..	—	—	—	—	—	—
Chillies. ..	9.1	7.3	—	—	—	—
Infants Milk Food. ..	3.2	2.6	4.0	5.0	5.6	6.0
Flour, including distribution expenses etc. ..	28.2	22.6	111.1	—	38.4	—
Sugar ² ..	—	—	—	—	42.9	85.2
5. Depreciation ..	2.0	1.6	2.4 ³	—	—	—
6. Less: Miscellaneous receipts. ..	—	—	2.6	0.5	0.6	0.5
7. Gross food subsidy. ..	717.8	574.3	700.8	583.9	925.0	1092.2
II. Profits from sale of foodstuffs.						
1. Sugar (net of distribution expenses etc.) ² ..	58.9	47.1	21.8	123.9	—	—
2. Flour (net of distribution expenses etc.) ..	—	—	—	0.2	—	17.7
3. Maldivé fish ..	1.6	1.3	—	—	—	—
Add: Rice subsidy tax. ..	0.9	0.7	—	—	—	—
4. Profits. ..	61.4	49.1	—	124.1	—	—
Net food subsidy (I. 7— II. 4) ..	656.4	525.2	679.0	459.8	925.0	1074.5

Source: Food Commissioner.

1. On a pro-rata basis.

2. Includes the effect of FEECs payment on the import of sugar as follows:

1971/72 (15 months): Rs. 163.0 million.

1973—Rs. 220.7 million.

1974 (provisional) Rs. 75.8 million.

1975—Rs. 185.2 million (approved estimates).

3. Includes—Shortages amounting to Rs. 0.7 million.

4. Includes subsidy of Rs. 18.0 million and Rs. 26 million to C.W.E. for the years, 1973 and 1974 respectively.

Impact of the higher prices on the food subsidy can be seen from the fact that while the total issue of rice under ration in 1973 was 141,000 tons or 17.3 per cent less than the pro-rata figure for 1971/72, the total cost of the rice distributed under the ration scheme still went up by Rs. 90 million or by 12.3 per cent.

In 1971/72 the sale of flour showed a loss and the loss in 1973 was Rs. 111 million or five times that of the year 1971/72. Though the sale price was increased thrice from 33 cents to 70 cents per pound, the increased landed cost of flour from Rs. 732/- to Rs. 1368/- per ton had increased the subsidy by Rs. 89 million over the 1971/72 figure.

In 1973, consequent to the complete ban on the import of chillies, the subsidy on locally produced chillies was eliminated. Meanwhile, the losses incurred on the sale of dhall and infants milk food increased to Rs. 22 million and Rs. 4 million respectively.

Financial year 1974 (Provisional)

Though the government was compelled to introduce a number of measures, in October 1973 and during 1974¹ to overcome the soaring food prices and transport cost world over, the gross food subsidy in 1974 increased by Rs. 224 million (or 33 per cent) to Rs. 925 million. This increase was the result of increased subsidies of Rs. 244 million or 47 per cent on rice, Rs. 5 million on the distribution expenses, Rs. 5 million on dhall and for the first time a loss of Rs. 43 million on sugar partly offset by a decrease of Rs. 73 million in the subsidy on flour.

The substantial increase in the subsidy on rice came about despite a reduction in the issues by 120,700 tons and an increase in the sale price.² The subsidy on rice in 1974 amounted to Rs. 765 million. A more than two-fold increase in the average landed cost of imported rice from Rs. 1015/- to Rs. 2639/- per long ton and the increase in the guaranteed price of paddy to Rs. 33/ per bushel (by 32 per cent) explains this increase in subsidy³. The average price paid for both local and imported rice increased by Rs. 1227/- to Rs. 2334/- per long ton.

The sale of sugar which had produced dwindling profits during the past few years, for the first time resulted in a loss of Rs. 43 million. The main reason for the subsidy has been a very sharp increase in the landed price of sugar from Rs. 3093/- to Rs. 5486/- per long ton. On the other hand, sugar continued to be rationed at a heavily subsidised price of 72 cents per pound. The quantum of sugar issued under ration was reduced from 1 lb. to $\frac{3}{4}$ lb. per person and off-ration sales (except to specified categories of institutions) were completely stopped. Consequently, there was a considerable reduction of 94,700 tons in the issues of sugar when compared with the previous year. The loss on the sale of sugar would have been very much higher if not for the reduction in the quantum of sugar given on ration⁴.

1. The details of measures taken in 1974 are given under the section "Other Fiscal Measures.

2. The price of the 'paid' measure of rice was raised from Rs. 2/- to Rs. 2.30 with effect from 15th April 1974 and to Rs. 2.50 with effect from 15th July 1974 and subsequently reduced to Rs. 2.20 with effect from 5th August 1974. For details of changes in the quantum of rice issued under ration during 1974 please see section on, "Other Fiscal Measures".

3. The guaranteed price of a bushel of paddy was increased from Rs. 25/- to Rs. 30/- with effect from 31st March, 1974, and subsequently to Rs. 33/- with effect from 15th July 1974.

4. For details of changes in the quantum and price of sugar during 1974 please see section on "Other Fiscal Measures"

Though the landed cost of flour increased from Rs. 1368/- to Rs. 2124/- per ton a substantial reduction in the issues by 42,500 tons, by rationing and by increasing the sale price¹ (by 57 per cent), was effected. Consequently, the subsidy on flour amounted to only Rs. 38 million as compared with Rs. 111 million in 1973.

Financial year 1975 (Estimates)

The approved estimates for 1975 provide for an increase of Rs. 167 million or 18 per cent in the gross food subsidy when compared with the previous year. It is expected that the loss on sale of flour will be eliminated and instead a profit of Rs. 18 million will be made. The subsidy on rice is expected to increase by Rs. 139 million, while the loss on the sale of sugar is expected to increase by Rs. 42 million. The distribution expenses are expected to increase by Rs. 51 million.

Profits from Sale of Foodstuffs

The year under review is unique in that for the first time in many years there were no profits from the sale of foodstuffs in 1974. The only item on the sale of which profits were received continuously was sugar and on this, too, a loss of Rs. 43 million was incurred in 1974. It has been the implied policy objective to offset part of the cost of the gross food subsidy by the profits the government used to obtain by the sale of sugar and flour by selling these items freely. With the emphasis shifting to a curtailed distribution of both sugar and flour on account of the fact that both these commodities are essentially imported and their prices had increased substantially, sales were restricted. Rationing was thus employed more with the aim of curtailing losses once it became clear that whatever profits there were to be had by selling these items freely and at flexibly determined prices would not justify the foreign exchange cost of importing these items, nor the consequent increase in the cost of living such a measure would have induced.

Financial Year 1973

In 1973 only sugar sales showed a profit of Rs. 22 million which was Rs. 25 million lower than the previous year (pro-rata) profit. There had been a declining trend in the profits to be had from the sale of sugar in the past few years and this was mainly due to the increased landed cost of sugar. In 1973, the landed cost of sugar increased by Rs. 1087/- to Rs. 3093/- per long ton-an almost three-fold increase. This increase in the cost of sugar more than offset the combined effect of the increase in the sale price of off-ration sugar² and the reduction in the quantum of sugar issued under the ration. In February 1973 the quantum of sugar under the ration was fixed at one pound per person and from October, 1973 at three quarter pound per person while the price of ration sugar continued unchanged at 72 cents per pound. The reduction in the sale of off-ration sugar and the increase in the cost of FEECs to 65 per cent also contributed to the lower profits.

-
1. The price was increased from 70 cents to Rs. 1.10 per pound. Further particulars may be obtained from the section "Other Fiscal Measures".
 2. The price of off-ration white sugar was reduced from Rs. 2.00 to Rs. 1.50 per pound from 1st January, 1973 and subsequently increased to Rs. 1.75 per pound with effect from 31st May, 1973 and to Rs. 2.10 per pound 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.

Financial Year 1974 (Provisional)

In 1974 the sales of all foodstuffs resulted in loss. The profits from sale of sugar which were dwindling for the past few years showed a loss of Rs. 43 million as a result of the increase in the average landed cost of sugar from Rs. 3039/- to Rs. 5486/-. The withdrawal of the sale of off-ration sugar which had brought considerable profits in the previous years, too, had an effect on the sale profits of sugar.

Financial Year 1975 (Estimates)

According to the approved estimates for 1975, profits from sale of foodstuffs are expected to be Rs. 18 million. These profits are solely expected from the sale of flour which had in 1974 resulted in a loss of Rs. 38 million. It is expected that the increased issue of flour under the ration and the increase in price to Rs. 1.10 per pound effected in August, 1974 by having the full impact in 1975 would produce this small profit as compared with the loss incurred in 1974.

The Net Food Subsidy

The net food subsidy of Rs. 925 million in 1974 showed a sharp increase of Rs. 246 million or 36 per cent over the previous financial year. This was Rs. 92 million more than the previous year's increase of Rs. 154 million. The approved estimates for 1975 provides for a net food subsidy of Rs. 1075 million which is Rs. 150 million or 16 per cent more than in 1974. This increase is to be the result of increases in the subsidy on rice, sugar and distribution expenses by Rs. 139 million, Rs. 42 million and Rs. 51 million respectively, partly offset by the elimination of losses in respect of dhall and flour with a profit of Rs. 18 million expected from the sale of the latter items.

The picture that emerges from the government's experience at trying to contain the food subsidy within manageable proportions clearly illustrates the efforts of the government to have an effective control over the total cost of subsidy in the face of soaring import prices which in turn prompted increased prices for local procurement, particularly for rice. What has been achieved since 1970/71 (as the table below shows) by cutting down on real consumption based on rationing has been quite impressive. As compared with the per capita distribution in 1970/71 rice and sugar distribution have been cut down by 43 per cent and 65 per cent respectively, though flour distribution per capita has increased by 8 per cent. As a result although the money cost of subsidy has gone up by 14 per cent the food subsidy as a proportion of total current expenditure has been contained at about 20 per cent over the same period.

TABLE II (G) II
Distribution of Rice, Flour and Sugar

	1970/71 (Tons)	Per Capita (lbs.)	1974 (Tons)	Per Capita (lbs.)	
Rice ..	920,193	161.4	552,539	92.4	-43%
Flour ..	370,436	65.0	419,392	70.1	+ 8%
Sugar ..	278,845	48.9	102,702	17.2	-65%

6. Under-expenditure of Ministries

In table II (G) 12 a ministry-wise breakdown of the total provisions including supplementary estimates, and the corresponding actual expenditure in respect of expenditure under capital votes, as per government accounts for the three financial years 1971/72 to 1974 are given. The data in respect of 1971/72, are also presented on a twelve month pro-rata basis for purpose of comparison.

In the financial year 1974, the total provision (including supplementary provisions) in respect of capital expenditure amounted to Rs. 1690 million, whereas the actual expenditure was Rs. 1277 million. Consequently, the extent of under-expenditure in 1974 was Rs. 413 million or 24.5 per cent, in comparison with an under-expenditure figure of Rs. 273 million or 19.8 per cent in 1973. Although the extent of under expenditure has risen by almost five percentage points in 1974, it corresponds to the level of under-expenditure as anticipated in the budget for the year. It will be seen from the table II (G) 13 below that over the years the across the board under expenditure provision in respect of capital votes has progressively been increased and currently stands at 25 per cent or a quarter of the capital expenditure. What is more, the actual under-expenditure over the years have more or less tended to bear out the original expectations. A more accurate estimate of planned expenditure would perhaps eliminate this recurring problem which has tended lately to make the budgeted figures look unrealistic. It is evident from the detailed analysis of under-expenditure of the various ministries that a high degree of co-relation exists between under-expenditure by ministries and the availability of supporting foreign exchange expenditure during the year.

The ministries, the extent of whose under-expenditure on capital programmes were more than that anticipated in the budget for 1974 were, the Ministries of Irrigation Power and Highways (Rs. 110 million or 26 per cent) Foreign and Internal Trade (Rs. 6 million or 47 per cent), Education (Rs. 13 million or 38 per cent), Shipping and Tourism (Rs. 17 million or 34 per cent), Public Administration, Local Government and Home Affairs (Rs. 18 million or 57 per cent), Industries and Scientific Affairs (Rs. 66 million or 48 per cent), Transport (Rs. 38 million or 42 per cent), Fisheries (Rs. 22 million or 52 per cent), Posts and Telecommunications (Rs. 32 million or 52 per cent), Health (Rs. 11 million or 68 per cent) and Information and Broadcasting (Rs. 16 million or 89 per cent). The Ministries of Labour and of Social Services have recorded high levels of under-expenditure which are high percentage wise although the amounts involved are small in magnitude.

Although the total provision of the Ministry of Irrigation, Power and Highways was Rs. 420 million only Rs. 310 million was spent. The under-expenditure of Rs. 110 million occurred mainly in expenditure programmes of the Ministry on account of capital contribution to the Sri Lanka Electricity Board and the River Valley Development Board, totalling Rs. 74 million. Further, under-expenditure on construction of and improvements to roads and bridges etc. (Rs. 5 million), construction and development of major irrigation works (Rs. 3 million) construction of highways, bridges and airfields by the Highway Department (Rs. 14 million) and construction of water supply facilities, drainage schemes etc. by the Department of Water supply and Drainage (Rs. 5 million) also contributed to the

TABLE II (G) 12

Capital Expenditure by Ministries—1971/72 to 1974(a)

Rupees Million

Ministry	1971/72						1973			1974		
	15 months			12 months*			Total Provision	Actual Expenditure	Under Expenditure	Total Provision	Actual Expenditure	Under Expenditure
	Total Provision	Actual Expenditure	Under Expenditure	Total Provision	Actual Expenditure	Under Expenditure						
1. His Excellency The President, Prime Minister, Supreme Court Judges, etc. not falling under ministries.	0.1	0.1	—	0.1	0.1	—	...	...	—	0.1	...	0.1
2. Defence & Foreign Affairs	58.6	51.6	7.0	46.9	41.3	5.6	23.3	16.5	6.8	42.6	34.4	8.2
3. Planning & Economic Affairs	94.8	32.5	62.3	75.8	26.0	49.8	44.4	39.2	5.2	187.7	177.6	10.1
4. Plan Implementation	—	—	—	—	—	—	0.1	...	...	...	...	...
5. Irrigation, Power & Highways	422.6	310.9	111.7	338.1	248.7	89.4	420.5	325.4	95.1	420.3	310.4	109.9
6. Foreign & Internal Trade	13.4	4.0	9.4	10.7	3.2	7.5	14.7	6.8	7.9	11.7	6.2	5.5
7. Education	57.6	43.4	14.2	46.1	34.7	11.4	40.6	28.7	11.9	33.5	20.8	12.6
8. Shipping & Tourism	53.5	40.3	13.2	42.8	32.2	10.6	42.1	40.4	1.7	51.1	33.8	17.4
9. Labour	3.2	2.6	0.6	2.6	2.1	0.5	0.7	0.3	0.4	1.1	0.5	0.5
10. Public Administration, Local Government & Home Affairs	30.3	28.7	1.6	24.2	23.0	1.2	29.4	25.3	4.1	31.1	13.4	17.7
11. Industries & Scientific Affairs	130.9	98.0	32.9	104.7	78.4	26.3	142.6	129.7	12.9	139.5	73.0	66.5
12. Finance	80.3	66.4	13.9	64.2	53.1	11.1	127.4	117.2	10.2	132.7	131.4	1.3
13. Transport	77.3	36.3	41.0	61.8	29.0	32.8	71.8	53.9	17.9	90.9	52.8	38.1
14. Plantation Industry	76.9	54.9	22.0	61.5	43.9	17.6	85.7	58.2	27.5	189.9	174.4	15.6
15. Justice	0.8	0.8	—	0.7	0.7	—	0.6	0.5	0.1	0.9	0.7	0.2
16. Agriculture & Lands	221.3	162.5	58.8	177.0	130.0	47.0	179.8	155.6	24.2	119.2	97.3	21.9
17. Fisheries	34.1	28.3	5.8	27.3	22.6	4.7	19.1	11.1	8.0	42.8	20.6	22.2
18. Housing & Construction	93.4	81.3	12.1	74.7	65.0	9.7	76.4	59.6	16.8	96.8	90.4	6.3
19. Posts & Telecommunications	43.3	25.8	17.5	34.6	20.6	14.0	37.5	28.8	8.7	61.8	29.8	32.0
20. Health	10.9	6.4	4.5	8.7	5.1	3.6	12.8	5.1	7.7	16.9	5.5	11.4
21. Information & Broadcasting	12.7	11.1	1.6	10.2	8.9	1.3	8.5	3.9	4.6	17.4	2.0	15.5
22. Social Services	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.4	—0.3	0.2	0.1	0.1
23. Cultural Affairs	4.2	2.3	1.9	3.4	1.8	1.6	2.5	2.5	—	1.2	1.2	—
24. Parliamentary Affairs & Sports	12.9	8.2	4.7	10.3	6.6	3.7	2.6	0.8	1.8	0.8	0.7	0.1
25. Constitutional Affairs	—	—	—	—	—	—	—	—	—	—	—	—
Total	1,533.2	1,096.4	436.8	1,226.6	877.1	349.5	1,383.3	1,109.9	273.4	1,690.1	1,277.0	413.3

Source: Central Bank of Ceylon

(a) The figures of "Total Provision" include supplementary estimates, while the figures of "Actual Expenditure" include foreign loan expenditure awaiting charge to votes. These figures are also net of sinking fund contributions, direct repayments of public debt and special payments to international financial organisations.

A minus sign in the "Under Expenditure" column indicates an excess of actual expenditure over the total provision.

* On a pro-rata basis.

under-expenditure. The under-expenditure (Rs. 110 million or 26 per cent) when taken as a percentage of total expenditure under this ministry shows a substantial increase over that of 1973 when such under-expenditure was Rs. 95 million or 23 per cent. The under-expenditure of Rs. 6 million or 47 per cent of the Ministry of Foreign and Internal Trade was mainly due to the low level of expenditure on account of the co-operative management service centres, marketing administration and construction of food stores. The under-expenditure by this ministry was, however, lower than that of the previous year when it was Rs. 8 million or 54 per cent.

TABLE II (G) 13**Capital Expenditure — Extent of Under - expenditure**

		Amount Rs. Million						
		Approved Esti- mates*	Expected under- Expendi- ture	Rate	Total Provision* including Supp- lementary estimates	Actual Expendi- ture*	Actual Under- Expendi- ture	Rate
1969/70	..	930.0	140.0	15%	964.2	812.0	152.2	15.8%
1970/71	..	1,140.0	169.0	15%	1,264.8	809.8	455.0	36.0%
1971/72	..	1,482.0	296.0	20%	1,533.2	1,096.4	436.8	28.5%
1973	..	1,285.0	257.0	20%	1,383.3	1,109.9	273.4	19.8%
1974	..	1,438.0	359.5	25%	1,690.1	1,277.0	413.3	24.5%
1975	..	1,987.0	497.0	25%	—	—	—	—

Source: Central Bank of Ceylon

*Capital expenditure net of sinking fund contributions, repayments etc.

The under-expenditure of Rs. 13 million or 38 per cent recorded by the Ministry of Education was mainly due to the low level of expenditure on account of equipment outlay and construction and improvement of buildings in respect of general education, teacher education and technical education. In 1971/72 and 1973 the corresponding under-expenditures of this ministry were Rs. 11 million (pro-rata) or 25 per cent and Rs. 12 million or 29 per cent respectively.

The under expenditure of the Ministry of Shipping and Tourism in 1974 was Rs. 17 million or 34 percent. The actual expenditure as shown in table II G (12) excludes a sum of Rs. 12 million which was a foreign loan expenditure awaiting charge to votes in 1973, which has now been accounted for in 1974. When this fact is taken into account the under-expenditure by this ministry amounts to Rs. 5 million or 10 per cent, which is very much below the across the board allowance for under-expenditure made in the budget 1974. This under-expenditure was on account of low level of expenditure in the acquisition of plant and equipment, and construction of store facilities etc.

The under-expenditure of Rs. 18 million or 57 per cent by the Ministry of Public Administration, Local Government and Home Affairs is mainly due to the fact that no loans have been given by the government to the Local Loans and Development Fund although a provision of Rs. 16 million had been made in the approved estimates for 1974. The under-expenditures by this Ministry in 1971/72 and 1973 were Rs. 1 million or 5 per cent and Rs. 4 million or 14 per cent respectively.

The under-expenditure under the Ministry of Industries and Scientific Affairs as shown in table II (G) 12 is Rs. 66 million or 48 per cent. The actual expenditure shown in the table excludes a sum of Rs. 13 million on account of foreign loan expenditure awaiting charge to votes in 1973 but accounted for in 1974. Making allowance for this, the under-expenditure of this ministry amounts to Rs. 54 million or 31 per cent in 1974. This was mainly due to the low level of expenditure of Rs. 80 million compared with a provision of Rs. 124 million on account of contributions and grants to public sector enterprises. There has also been an under-expenditure of Rs. 5 million on account of promotion of scientific and industrial research and Rs. 3 million on account of promotion and development of small industries. The under-expenditure by this Ministry in 1971/72 (pro-rata) and 1973 was Rs. 26 million or 33 per cent, and Rs. 13 million or 10 per cent respectively.

The under-expenditure of Rs. 38 million or 42 per cent of the Ministry of Transport was mainly due to the unexpended monies by the Railway on account of purchasing, overhauling, and maintenance of rolling stock, building of locomotives and carriages, construction of permanent way and by the department of Civil Aviation on account of the provision of facilities for international regional and domestic navigation. The under-expenditure by this Ministry in 1971/72 (pro rata) and in 1973 were Rs. 33 million or 53 per cent and Rs. 18 million or 26 per cent respectively.

The Ministry of Posts and Telecommunications has recorded an under-expenditure of Rs. 32 million or 52 per cent in 1974. The main reason for this was the low level of expenditure (by Rs. 22 million) on account of the construction of Satellite-Earth Station Project. The unexpended monies on account of general development of telecommunication services, Outer-Colombo area development scheme, and the Colombo area development scheme also contributed to this low level of expenditure. The under-expenditure of this Ministry in 1971/72 (pro-rata) and 1973 were Rs. 1.4 million or 40 per cent and Rs. 9 million or 23 per cent respectively.

The under-expenditure of the Ministry of Health was Rs. 11 million or 68 per cent in 1974, and is largely accounted for by the low level of expenditure in respect of patient care services and community welfare services; purchase of ambulances for patient care services and purchase of vehicles and equipment for the anti-malaria campaign. The under-expenditure by this Ministry was Rs. 4 million or 41 per cent in 1971/72 (pro-rata) while it was 8 million or 60 per cent in 1973.

The under-expenditure of Rs. 16 million or 89 per cent by the Ministry of Broadcasting and Information was largely due to the low level of capital contributions and grants to the state sponsored corporations (mainly to the Sri Lanka Broadcasting Corporation for medium wave expansion project) and unexpended monies on account of the purchase of equipment for preparation of films by the Information Department, and purchase of equipment for print production by the Government

Printing Department. In 1971/72 (pro-rata) and 1973 the under-expenditure stood at Rs. 1 million or 15 per cent, and Rs. 5 million or 118 per cent respectively.

The Ministry of Fisheries has recorded an under-expenditure of Rs. 22 million or 52 per cent in 1974. This was accounted for by the under-expenditure of Rs. 14 million on account of purchase of equipment for coastal fisheries, Rs. 5 million on account of capital contribution to Fisheries Harbour Corporation and Rs. 2 million on account of survey and research. The under-expenditure by this ministry in 1971/72 (pro-rata) and 1973 were Rs. 5 million or 17 per cent and Rs. 8 million or 42 per cent respectively.

7. Advance Accounts¹

The "Advance Accounts" activities of the government in 1974 resulted in a net payment of Rs. 47 million compared with a net payment of Rs. 48 million in 1973. The net payment of Rs. 47 million consisted of Rs. 158 million in respect of advances to government departments, corporations and public officers, Rs. 11 million in respect of advances to stores and materials and Rs. 2 million on account of advances to the Contingencies Fund, offset to a very large extent by net receipts of Rs. 125 million under Ceylon/China Trade Account. The anticipated net outpayments on this account in the approved estimates, however, was Rs. 100 million.

8. Public Debt²

At the end of December 1974, the gross public debt stood at Rs. 12,380 million (Rs. 12,746 million if the liability of government departments on suppliers' credits is added) having recorded an increase of Rs. 1,000 million (or 9-per cent) in the financial year 1974. Of the gross public debt outstanding 76 per cent or Rs. 9,406 million was on account of domestic debt, while the balance 24 per cent or Rs. 2,974 million represented foreign borrowings. Net of sinking funds (in respect of both rupee and sterling loans) the public debt increased by Rs. 746 million to Rs. 11,027 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 III and a summary is given in table II (G) 14.

The increases of Rs. 1,000 million and Rs. 746 million in the gross debt and net debt respectively were lower when compared with the increases of Rs. 1,061 million and Rs. 833 million respectively recorded in the previous financial year. The increase in the gross public debt consisted of Rs. 179 million (or 18 per cent) in foreign debt.

1. Advance Accounts relate to certain wholly or partially self financing activities of the government, which are mostly of a commercial nature. There are three main categories of such accounts, viz. Stores Accounts, Trading Accounts and Special Accounts. As the receipts and payments of most of these activities cannot easily be ascertained in advance, it is useful for a token provision to be made in the government estimates, and they are permitted to utilise their receipts to meet their expenditure, subject to limits specified in Part II of the government estimates. Where the net result of an activity can be reasonably forecast, however, the surplus or deficit of such activity is noted in the estimates, e.g. the Net Food Subsidy.
2. The term "public debt" here refers to the domestic and foreign borrowings of the government of Sri Lanka only, excluding therefrom the debt of the semi-government institutions such as public corporations and local authorities. Also a debt amounting to Rs. 366 million as at 31st December 1974 on account of imports by government departments under external suppliers, credits is not included.

TABLE II (G) 14
Total Public Debt — 1968/69 to 1974 (a)
(Financial Years)

As at end of Financial Year	1968/69		1969/70		1970/71		1971/72		1973		1974	
	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%	Amount Rs. Mn.	%
1. Gross Debt	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	12,380.1	100.0
1.1 Foreign ..	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	2,973.7	24.0
1.2 Domestic ..	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	9,406.4	76.0
2. Net Debt (b)	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	11,026.9	100.0
2.1 Foreign ..	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	2,921.5	26.5
2.2 Domestic ..	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	8,105.4	73.5

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, 1974), (ii) Debt on account of imports of government departments under suppliers' credit (which amounted to Rs. 366.0 million as at end of 1974) and (iii) Promissory notes issued in favour of international financial organizations.

(b) Gross debt less sinking funds in respect of sterling and rupee loans.

TABLE II (G) 15

Foreign Assistance—1964/65 to 1974

Rs. Million

Financial Year	Withdrawals	Repayments	Increase	Liability as at end of period ¹
1964/65	92.8	17.2	75.6	489.3
1965/66 ..	112.4	35.9	76.5	548.8
1966/67 ..	236.3	45.7	190.5	739.3
1967/68 ..	214.3	52.6	161.7	1,045.4
1968/69 ..	377.0	70.8	306.2	1,375.7
1969/70 ..	282.5	94.4	188.1	1,578.4
1970/71 ..	310.1	88.3	221.7	1,800.1
1971/72 ..	523.2	155.2	368.2	2,392.5
1973 ..	346.8	143.6	203.3	2,795.3
1974 ..	388.4	171.3	217.0	2,973.7

Source: Central Bank of Ceylon

1 Including the effect of re-alignment of world currencies.

and Rs. 821 million (or 82 per cent) in domestic debt. After a continuous increase in the foreign debt component of total public debt, the rate of increase of domestic debt has been higher than the rate of increase in foreign debt during 1974. Consequently, there has been a slight decline in the foreign debt component of public debt in the year under review.

The increase in foreign debt in 1974 was Rs. 178 million while the increase in the financial year 1973 was Rs. 403 million. This increase is a net figure after making allowance for the decrease in liability on account of the changes in the parity rates of world currencies amounting to Rs. 39 million.¹ Thus, when allowance is made for this factor, the total increase in foreign debt amounted to Rs. 217 million which is Rs. 14 million higher than the comparable increase of Rs. 203 million in 1973.

During the last five financial years preceding the year under review there has been a steady increase in the foreign debt component of public debt from 17 per cent in 1967/68 to 24 per cent in 1973. While the absolute increase in domestic debt has been substantial in recent years, proportionately, the increase in foreign debt has outstripped the increase in domestic debt. However, this trend appears to have been temporarily halted in 1974 when the foreign debt component has marginally declined. The trend so far has been a manifestation of the major role played by external assistance in financing government budgets and more fundamentally of the balance of payments problems facing the country. As the table II

1. Consequent to the linking of the Sri Lanka rupee with the pound sterling with effect from 1st October 1972 the parity rates between the Sri Lanka rupee and foreign currencies are amended by the Central Bank of Ceylon from time to time. This is because the value of the pound sterling in terms of other currencies fluctuates over time as the pound sterling is allowed to float against other currencies. The major portion of Sri Lanka's foreign debt is denominated in foreign currencies. Hence, with every change in parity rates of the rupee as notified by the Central Bank, the outstanding public debt (which is denominated in foreign currencies but shown in terms of Sri Lanka rupees) has also been revalued in keeping with changes in the parity rates. Such revaluations of debt resulted in an increase of Rs. 200 million and a decrease of Rs. 39 million in Sri Lanka's foreign debt liabilities in 1973 and 1974, respectively.

(G) 15 shows, while the gross utilisation of foreign aid have exhibited a somewhat erratic trend, particularly since 1969/70, repayments of foreign loans have more consistently been rising. Thus, the net increase in foreign debt has somewhat been slowed down by the rate of increase in repayments. This trend may be expected to continue unless receipts of foreign assistance increase substantially and/or repayments re-scheduled in future years.

The increase in the domestic debt, in absolute terms, has been quite substantial during recent years and this trend has continued in the year 1974. The domestic debt component of the gross debt was 76 per cent at the end of 1974 compared to 75 per cent at the end of 1973.

A significant trend in the growth of domestic debt in recent years has been the growth in the funded component of public debt, which essentially indicates the ability of the government to raise progressively increasing amounts through the issue of rupee securities. There has simultaneously been a decreased reliance on Treasury bills. The enlargement of the "captive sector" for government securities, which came about in recent years with the centralisation of government savings institutions in the form of the National Savings Bank, and the extension of the coverage of the E. P. F. scheme, have largely accounted for the increased flow of funds to the government loan programmes. The volume of resources available in these forms for investment in government securities may be expected to steadily increase for sometime in the future. Hitherto, the bulk of these funds have been invested in rupee securities since they guaranteed a rate of return which enabled the government and semi-government investors, in particular the National Savings Bank, to attract deposits by offering attractive rates of interest (along with tax reliefs). Yet it is equally true that unless the investment outlets of such institutions are widened their heavy dependence on this type of investment might prove embarrassing to the government.

While it's a welcome sign that the government has succeeded in mobilising badly required budgetary resources from the domestic non-bank sources on an increasing scale (Treasury bills are taken up essentially by the banking sector) it is also important to bear in mind the additional interest burden the government has to assume as a result of such borrowing. As the following table II (G) 16 shows, expenditure on interest on domestic debt by the government which are in the nature of transfer payments (particularly since 1970 when the rate of interest payable on 10—12 years securities was fixed at 9 per cent) has shown a rapid increase. Between 1969/70 and the year under review the interest bill on domestic debt has more than doubled and now accounts for 12 per cent of the total current expenditure of the government. The table also shows that it is the interest payment on rupee loans that has largely contributed to this increase in the interest bill on domestic debt.

Interest rates on rupee securities have been fixed at the current level of 9 per cent on the basis of various considerations, one of which was the interest rate offered by some of the institutional investors like the National Savings Bank on deposits held by the public with them. It is true that a part of the interest payable on domestic debt, specially that on investments held by sinking funds, is more in the nature of intra-governmental payments. Nevertheless, it is important that if the government's ability to service its debt is not to be impaired, the resources so mobilised should be made to yield a commensurate rate of return.

TABLE II (G) 16

Interest on Domestic Debt—1964/65 to 1974

Amount in Rupees Million

Financial Year	Total Current Expenditure (1)	Interest on Domestic Debt ¹ (2)	of which Interest on Rupee Loans (3)	(2) as a percentage of (1) (4)
1964/65 ..	1,895.8	87.4	73.6	4.6
1965/66 ..	1,996.8	103.2	85.4	5.2
1966/67 ..	2,096.7	118.4	100.1	5.6
1967/68 ..	2,392.4	133.0	113.4	5.6
1968/69 ..	2,617.1	165.0	132.2	6.3
1969/70 ..	2,824.5	206.1	148.3	7.3
1970/71 ..	3,096.7	263.4	195.7	8.5
1971/72 ..	4,084.8	401.0	309.5	9.8
1973 ..	3,790.6	392.8	319.1	10.4
1974 ² ..	3,890.3	475.5	380.2	12.2

Source: Central Bank of Ceylon

- 1 Includes interest on rupee loans, Treasury bills, tax reserve certificates and national development bonds.
 2 Approved Estimates.

During the financial year 1975, the government intends to raise a sum of Rs. 900 million from domestic non-bank sources and Rs. 1,095 million from foreign sources. The expected foreign borrowing is to be made up of project loans amounting to Rs. 230 million and non-project (commodity) loans amounting to Rs. 865 million.

Domestic Debt

The gross domestic public debt outstanding at the end of the financial year 1974 was Rs. 9,406 million, having increased by Rs. 822 million (10 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) 17.

The increase in the gross domestic debt of Rs. 822 million consisted of increases of Rs. 778 million in rupee loans, Rs. 42 million in Central Bank advances and Rs. 2 million in the unsurrendered amount of tax reserve certificates (offset by a repayment of Rs. 0.1 million of national development bonds). There was no change in the outstanding amount of Treasury bills as between the end of years 1973 and 1974. As a result, while the relative share of rupee loans increased to 70 per cent (from 68 per cent) and those of Central Bank advances (5 per cent) and tax reserve certificates (1 per cent) remained unchanged, the share of Treasury bills in outstanding domestic debt decreased to 24 per cent (from 26 per cent) as compared with 1973.

In 1973, as well as in the year under review, borrowing through the issue of rupee loans (excluding conversion loans) accounted for 95 per cent of the increase in total domestic debt, while Central Bank advances only showed a marginal increase over that of the previous year. In 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. Treasury bills outstanding at the end of 1974 remained at the

same level as at the end of 1973. The government has thus managed to raise the required finance without having to resort to any Treasury bill floatation above the level of the previous year. It is also indicative of the increasing financial restraint which the budgets in recent years have sought to achieve. In comparison with the decline in the outstanding amount of tax reserve certificates by Rs. 12 million in 1973, an increase of Rs. 2 million was recorded during 1974.

TABLE II (G) 17
Composition of Domestic Public Debt and Changes—1968/69 to 1974

		Rupees Million								
As at end of		Rupee Loans			Treasury Bills	Tax Reserve Certificates	Central Bank Advances (b)	National Development Bonds	Total	
		Gross	Sinking Funds (a)	Net					Gross	Net
Sept.	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	7,095.3
"	1973 ..	5,812.2	1,054.3	4,757.9	2,250.0	66.1	456.1	0.2	8,584.6	7,530.4
"	1974 ..	6,590.5	1,301.0	5,289.5	2,250.0	67.9	497.9	0.1	9,406.4	8,105.8
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	+ 12.0	+ 40.1	—	+943.6	+755.4
Change 1973	..	+708.8	+223.9	+484.9	— 75.0	— 11.9	+ 36.5	—	+658.4	+434.5
Change 1974	..	+778.3	+246.7	+531.6	—	+ 1.8	+ 41.8	—0.1	+821.8	+575.1

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. 98.5 million at the end of December, 1974 the Central Bank advances increased by Rs. 39.1 million in 1974. These special loans exclude promissory notes issued in favour of international financial organizations.

Table II (G) 18 shows the maturity pattern of the gross domestic debt at the end of the last five financial years.

At the end of the financial year 1974, the relative share of the funded debt, (consisting entirely of rupee securities) in domestic public debt has increased to 70 per cent while that of the unfunded debt (consisting mainly of Treasury bills) has decreased to 30 per cent, the lowest proportion ever recorded during a single financial year since 1959/60. However, the total amount of unfunded debt outstanding at the end of the financial year was Rs. 2,816 million which is Rs. 44 million more than over the previous financial year. This increase is mainly due to the increase in the amount of tax reserve certificates and Central Bank advances outstanding. The increasing share of the funded debt reflects the heavy reliance of government budgets on the borrowing from non-bank sources through the issue of rupee securities in recent years.

TABLE II (G) 18.

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		1974 (Prov.)	
	Amount Rs. Mn.	Per- centage.	Amount Rs. Mn.	Per- centage.	Amount Rs. Mn.	Per- centage.	Amount Rs. Mn.	Per- centage.	Amount Rs. Mn.	Per- centage.	Amount Rs. Mn.	Per- centage.
1. Unfunded debt (b) ..	2,103.8	38.2	2,369.9	37.6	2,470.6	35.4	2,822.6	35.6	2,772.4	32.3	2,815.8	29.9
2. Funded debt (c) ..	3,408.6	61.8	3,924.9	62.4	4,511.9	64.6	5,103.4	64.4	5,812.2	67.7	6,590.5	70.1
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	357.8	3.8
2.2 5 to 10 years ..	235.8	4.3	383.2	6.1	492.7	7.1	307.0	3.9	1,191.1	13.9	1,589.2	16.9
2.3 10 to 15 years ..	247.0	4.5	534.6	8.5	1,352.4	19.4	2,277.0	28.7	2,280.7	26.6	2,985.0	31.7
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	1,536.0	17.9	1,623.5	17.3
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	35.0	0.4
3. TOTAL	5,512.4	100.0	6,294.8	100.0	6,982.5	100.0	7,926.0	100.0	8,584.6	100.0	9,406.4	100.0

Source: Central Bank of Ceylon.

(a) The financial year of the government was from 1st October to 30th 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.

All rupee securities floated since 1970/71 have a maturity period of 10 to 12 years. Consequently, their maturity pattern has skewed towards the group of 5 to 10 year and 10 to 15 year duration, their relative shares increasing from 6 and 9 per cent in 1969/70 to 17 and 32 per cent respectively in 1974. On the other hand, the share of securities in the 20 to 25 years group which at the end of the financial year 1969/70 was 23 per cent of the total domestic public debt has declined very sharply to a negligible percentage (0.4 per cent) at the end of 1974, owing to the non-issue of long-term rupee securities for the past few years. If this policy is continued in the future, securities with a maturity period of 15 years and over will progressively be eliminated from the maturity spectrum of domestic debt. As stressed in the annual report of the previous year, the issue of longer term securities in the future could well ease the problem of the public debt management which the government may have to encounter.

Rupee Securities

In 1974, ten rupee loans of 10 to 12 years duration amounting to Rs. 920 million were floated, carrying an interest rate of 9 per cent per annum. A total amount of Rs. 800 million (of which Rs. 40 million was on account of conversion loans) was raised in the previous financial year through the issue of rupee securities.

Details of subscriptions to each rupee loan floated in 1974 are given in table 41 of appendix III and a summary of subscriptions to rupee loans floated in the last five financial years are given in table II (G) 19.

The budget for 1974 expected to raise a sum of Rs. 720 million from the domestic non-bank sector by way of rupee loans. The loan operations of the government in 1974, however, resulted in mobilising Rs. 920 million through rupee securities, recording a sharp increase of Rs. 200 million over the originally expected figure. This also exceeds the amount raised through rupee loans in 1973 by Rs. 120 million or by 15 per cent.

The impressive mobilization of resources in 1974 was entirely the result of subscriptions made by the non-bank investor group. There were no subscriptions to rupee securities from the bank sector during 1974.¹

In recent years, with the exception of 1969/70, the non-bank investor group, in particular the National Savings Bank, the sinking funds, the Employees' Provident Fund and the Insurance Corporation of Sri Lanka have played a key role as a source of funds for investment in rupee securities. The share of these four sources in the total contribution stood at 95 per cent in 1974 showing a further increase of 3 per cent over the previous year. Consequently, the government's loan programme have become heavily dependent on these "captive" sources. Contributions by the National Savings Bank, sinking funds, Employees' Provident Fund, and the

1. Since the bank sector is precluded from subscribing directly to rupee securities, investments by this sector in these securities in the recent past have been in loans made by the conversion of maturing stocks.

TABLE II (G) 19

Classification of Subscriptions to Rupee Securities (a)

Subscribers	1968/69		1969/70		1970/71		1971/72			1973		1974 (Provisional)	
	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	12 Mths. Amount Rs. Mn.	15 Mths. Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage	Amount Rs. Mn.	Percentage
1. Bank Sector													
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	—	—
	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													
2.1 Savings institutions (b)	339.4	99.8	461.7	79.7	668.1	98.1	559.9	699.9	93.7	786.7	98.3	920.0	100.0
2.2 Sinking funds,	36.0	10.6	156.1	26.9	216.0	31.7	97.4	121.7	16.3	213.9	26.7	333.5	36.3
2.3 Departmental and other	111.8	32.9	83.0	14.3	161.8	23.8	168.0	210.0	28.1	225.8	28.2	234.6	25.5
official funds													
2.4 Employees' Provident	8.4	2.5	6.2	1.1	9.4	1.4	12.7	15.9	2.1	9.5	1.2	2.0	0.2
Fund													
2.5 Insurance Corporation	101.3	29.8	97.9	16.9	143.0	21.0	158.2	197.7	26.5	196.9	24.6	198.3	21.6
2.6 Private provident, and	42.5	12.5	45.5	7.9	60.8	8.9	55.3	69.1	9.3	100.0	12.5	110.0	11.9
pension funds													
2.7 Insurance companies	36.8	10.8	53.9	9.3	62.1	9.1	64.6	80.8	10.8	34.0	4.2	35.8	3.9
2.8 Other companies	0.6	0.2	16.1	2.8	6.3	0.9	0.4	0.5	0.1	—	—	0.6	0.1
2.9 Individuals, clubs and	0.2	0.1	0.6	0.1	0.8	0.1	0.2	0.3	...	0.6	0.1	0.4	...
institutions													
	1.5	0.4	2.5	0.4	7.9	1.2	3.1	3.9	0.5	6.1	0.8	4.8	0.5
3. Total	340.0	100.0	579.2	100.0	680.7	100.0	597.1	746.6	100.0	800.0	100.0	920.0	100.0

(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, Ceylon Savings Bank and the Savings Certificates Fund.

Source: Central Bank of Ceylon.

Insurance Corporation of Sri Lanka during 1974 were Rs. 333 million or 36 per cent Rs. 235 million or 26 per cent, Rs. 198 million or 22 per cent and Rs. 110 million or 12 per cent respectively. Contributions from private provident funds among the "non-captive" sources, too, increased slightly while contributions from individuals, clubs and institutions decreased as compared with the previous year.

The National Savings Bank (which since April 1972 took over the investments of the Post Office Savings Bank, Ceylon Savings Bank and the Savings Certificates fund) was the largest contributor to rupee securities in 1974. Its contributions during the year at Rs. 333 million reached the highest recorded investment in rupee securities since 1962/63 by a single investor, both in absolute and relative terms. The deposits with the National Savings Bank (including Savings Certificates) increased by Rs. 204 million during the year under review. Higher interest rates on deposits compared with rates offered by competing institutions, along with special income tax concessions¹ have helped the Bank in mobilising deposits. The savings promotion campaign conducted by the Bank and the expansion programme involving the opening of new branches (the Bank had opened 19 branches by the end of 1974) have also helped in no small measure its efforts to mobilise deposits. Apart from the increase in its deposits the increased income now available to the Bank as a result of the higher rate of interest to be earned on its recent investments, has also enhanced its supply of investable funds. Finally, as in the previous year, a Treasury grant of Rs. 20 million given to compensate the Bank on account of the Bank's low income yielding securities relating to the past investments of savings institutions which the Bank inherited, has also been re-invested in new rupee securities.

The next largest contributions to rupee securities in 1974 came from sinking funds. The increased contributions from this source has been largely the result of the increased volume of borrowings by the government in the recent past, which has increased in turn the volume of sinking funds available for investment. Further, the higher interest yield of 9 per cent on investment in rupee securities together with the fact that redemptions of loans were comparatively few in recent years have also enhanced the investment capacity of the sinking funds in 1974.

The Employees' Provident Fund was the third largest contributor to rupee securities in 1974. Although there was a marginal increase in the contributions to rupee securities over that of the previous financial year, its relative share has declined from 25 per cent in 1973 to 22 per cent in 1974. The average rate of monthly investment by the Fund in rupee securities during 1974 was in the range of Rs. 16 million per month, which is slightly above the monthly average attained in 1973. The availability of funds with the Employees' Provident Fund for investment in rupee securities is basically determined by two factors, namely its excess of income over expenditure and the contributions received during the year. The former is determined in turn by the level of employment and wages and by the efficiency of the enforcement machinery of the Department of Labour. In regard to the latter, the primary factor has been the refunds made from the fund. In the last few years, refunds made from the Fund in respect of the contributions of Indian repatriates under the Sirima-Shastri pact have resulted in a more than average outflow from the

1. Currently available income tax concessions on deposits with the National Savings Bank are in the form of exemptions from income tax on interest earned upto Rs. 1000 per individual per annum upto a maximum of Rs. 6000 per family per annum.

fund. Whereas refunds averaged only Rs. 10 million per year between 1965 and 1969, the average rate has increased five-fold to Rs. 57 million for the period 1970 to 1974. Also the Employees' Provident Fund has managed during the course of 1973 and 1974 to repay a loan of Rs. 20 million granted by the government for the initial running expenses of the Fund. Despite these factors, the Employees' Provident Fund has managed to increase its monthly rate of contributions to rupee securities to a slightly higher level than that in 1973.

The contributions of the Insurance Corporation of Sri Lanka showed an increase of Rs. 10 million over that of the previous financial year. However, its relative share has declined marginally from 13 per cent in 1973 to 12 per cent in 1974. A substantial increase in its premium income, particularly on general insurance together with the higher interest earned on its holdings of rupee securities and the reduction in losses have enabled the Corporation to make higher contributions to rupee securities in 1974.

The subscriptions of the non-bank private sector to rupee securities in 1974 at Rs. 42 million showed a marginal increase by Rs. 1 million over the last year. As in the previous few years private provident and pension funds were the major contributors in this sector. While insurance companies did not subscribe to rupee securities in 1973 they contributed Rs. 1 million in 1974. Meanwhile, contributions from other companies and individuals, clubs and institutions declined by Rs. 2 million.

A classification of ownership of rupee securities as at the end of the last six financial years is given in table II (G) 20.

TABLE II (G) 20
Ownership of Rupee Securities (a)—As at the end of financial years
1968/69 to 1974

		Rupees Million					
Owners		1968/69	1969/70	1970/71	1971/72	1973	1974 (Provi- sional)
1. Bank Sector	..	367.0	586.0	588.2	536.1	498.8	469.3
1.1 Central bank	..	111.8	249.0	247.5	197.3	183.5	173.5
1.2 Commercial banks	..	255.3	337.0	340.7	338.8	315.3	295.5
2. Non-Bank Sector	..	3,042.0	3,338.9	3,923.7	4,567.3	5,313.4	6,121.3
2.1 Savings institutions (b)	..	641.7	651.5	832.6	951.9	1,164.9	1,441.0
2.2 Sinking funds	..	614.1	696.2	846.9	1,042.6	1,257.8	1,483.5
2.3 Departmental and other official funds	..	150.8	156.2	163.2	165.2	166.8	149.9
2.4 Employee's Provident Fund	..	713.5	811.4	954.4	1,159.6	1,356.4	1,555.0
2.5 Other provident funds	..	423.2	469.3	513.1	572.5	601.9	627.7
2.6 Insurance Corporation	..	276.9	322.4	383.1	452.1	551.9	658.8
2.7 Insurance companies	..	139.0	149.8	145.5	136.2	124.8	118.5
2.8 Other state corporations	..	2.9	2.2	2.2	2.2	2.2	2.2
2.9 Others (c)	..	79.8	79.8	82.7	85.1	86.6	84.7
3. Total	..	3,409.1	3,924.9	4,511.9	5,103.4	5,812.2	6,590.5

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 1974 amounted to Rs. 6,590 million, recording an increase of Rs. 777 million (or 13 per cent) in the financial year under review. This increase was due to a rise of Rs. 808 million in the holdings of the non-bank sector partly offset by a decrease of Rs. 29 million in holdings of the bank sector.

The increase in holdings of the non-bank sector was due to increases of Rs. 276 million in holdings of the National Savings Bank, Rs. 226 million of the sinking funds, Rs. 199 million of the Employees' Provident Fund, Rs. 26 million of other provident funds, and Rs. 107 million of the Insurance Corporation. On the other hand, the holdings of the departmental and other official funds, and insurance companies declined by Rs. 17 million and Rs. 6 million respectively. The decline in the holdings of the bank sector was due to a decrease of Rs. 10 million and Rs. 19 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 outstanding 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 six financial years. Its share of holdings was Rs. 1,555 million (or 24 per cent of the total outstanding rupee securities) as at the end of December 1974. Sinking funds and the National Savings Bank held Rs. 1,484 million (or 23 per cent) and Rs. 1,441 million (or 22 per cent) respectively, as at the end of December, 1974.

Treasury Bills

The amount of Treasury bills issued and outstanding as at the end of December 1974 remained at the same level of Rs. 2,250 million of the previous year. 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 II (G) 21
Ownership of Treasury Bills—As at the end of financial years
1968/69 to 1974

Owners	Rupees Million					
	1968/69	1969/70	1970/71	1971/72	1973	1974 (provisional)
1. Bank Sector	1,691.4	1,880.3	1,969.6	2,264.7	2,152.5	2,127.6
1.1 Central bank	1,637.3	1,833.8	1,670.5	1,890.8	1,984.6	2,067.5
1.2 Commercial banks	54.1	46.5	299.1	373.9	167.9	60.1
2. Non-Bank Sector	58.6	69.7	55.4	60.3	97.5	122.4
2.1 Sinking funds	41.4	55.3	40.8	—	—	—
2.2 Employees' Provident Fund	0.3	0.3	0.3	0.3	0.5	0.5
2.3 Other provident funds	—	—	0.8	1.0	1.1	1.3
2.4 Savings institutions	1.3	2.4	2.0	—	—	—
2.5 Insurance companies	11.2	8.9	11.4	8.6	4.4	3.1
2.6 Compulsory savings	—	—	—	50.0	91.2	117.2
2.7 Other	4.5	2.8	0.2	0.4	0.3	0.3
3. Total	1,750.0	1,950.0	2,025.0	2,325.0	2,250.0	2,250.0

Source: Central Bank of Ceylon.

Table 42 of appendix III gives the particulars of Treasury bills issued during the financial year 1974. A classification of the ownership of Treasury bills at the end of 1974 together with comparable data for the previous five financial years are given in table II (G) 21.

In 1974, the bank sector held 95 per cent of the total holdings of Treasury bills. Of these, the Central Bank's share was 92 per cent and that of commercial banks was 3 per cent. Although the total amount of outstanding Treasury bills did not change when compared with the previous financial year, holdings of the Central Bank increased by Rs. 83 million (4 per cent) while that of the commercial banks declined by Rs. 108 million (64 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. 25 million. This was entirely on account of the investments of compulsory savings in Treasury bills in 1974. There were no holdings of Treasury bills by the savings institutions and sinking funds at the end of the year under review.

There was no change in the Treasury bills rate, which remained at 5 per cent per annum throughout the year. The rate payable for Treasury bills held by the Central Bank remained unchanged at 3.24 per cent per annum.

Tax Reserve Certificates

Of the authorised limit of Rs. 600 million, tax reserve certificates amounting to Rs. 587 million have been issued upto end of December 1974 and the certificates not surrendered as at that date amounted to Rs. 68 million. The amount of unsurrendered certificates at the end of the previous financial year was Rs. 66 million. Hence, there was an increase of Rs. 2 million in this type of debt obligation as compared with a decrease of Rs. 12 million in the financial year 1973.

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 provision of section 89 of the Monetary Law Act increased by Rs. 42 million as against an increase of Rs 37 million during the financial year 1973. The Central Bank advances included a special loan of Rs. 2.7 million towards the payment of Sri Lanka's quota subscriptions to the International Monetary Fund.

Central Bank advances to the government at the end of December 1974 stood at Rs. 498 million as compared with Rs. 456 million at the end of the financial year 1973. Special loans by the Central Bank towards payment of Sri Lanka's membership subscriptions to the international financial organisations amounted to Rs. 98 million as at the end of 1974.

Foreign Debt

The total gross foreign debt¹ outstanding at the end of the financial year 1974 amounted to Rs. 2,974 million. The gross foreign debt during the year 1974 increased by Rs. 178 million² when compared to an increase of Rs. 403 million in 1973.

The actual amount of foreign loans utilised during the year was Rs. 388 million of which Rs. 80 million (or 21 per cent) was on account of project loans, and Rs. 308 million (or 79 per cent) was on account of non-project (commodity) loans. During the previous financial year utilisation of project loans and non-project (commodity) loans amounted to Rs. 153 million (or 44 per cent) and Rs. 194 million (or 56 per cent) respectively. It is to be observed that utilisation of project loans has been very low whereas there has been a substantial increase in the utilisation of non-project (commodity) loans during the financial year under review in contrast to the situation that prevailed in the financial year 1973.

Foreign finance has continued to be an important source of budgetary finance. However, as in the previous year, the actual receipts of foreign finance have fallen far short of the budgetary expectations (by Rs. 152 million) in 1974. This has been due to a less than expected utilisation of both project and non-project (commodity) loans.

During the last nine years with the only exception of the year 1973, the actual receipts of foreign aid, project aid in particular, have consistently fallen short of the expected amounts. Any shortfall in project aid while directly reducing the capital expenditure of the government during the year also results in a reduction in the local expenditure of a capital nature associated with the project. Shortfalls in commodity aid, too, could be affecting the supply of available investment goods adversely affect the level of investment of both the public and private sectors. Such a situation undoubtedly has a direct impact on the extent of under expenditure in relation to originally budgeted estimates for investment by the government. As has been repeatedly stressed in the annual reports of the past, a more accurate forecasting of potential receipts of foreign finance is 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 repayment of foreign loans in the year 1974 amounted to Rs. 171 million, of which Rs. 79 million was in respect of project loans and Rs. 92 million in respect of non-project (commodity) loans. Net of these repayments the gross external debt increased by Rs. 178 million.³ If the increase of Rs. 7 million in sterling loan sinking funds is taken into account, the increase in the net liability would be Rs. 171 million.

The table II (G) 22 shows the details of withdrawals, repayments, and liabilities on account of sterling, project and non-project (commodity) loans.

-
1. i.e. net of repayments but before deducting contributions to sterling loan sinking funds.
 2. See foot note 1 on Page 1
 3. Net of the decrease in loan liabilities of Rs. 39 million in terms of Sri Lanka rupees arising from the changes in the parity rates of exchange

TABLE II (G) 22

Foreign Loans—1974

Rupees Million

Types and Sources	With- drawals in 1974	Repay- ments in 1974	Increase in 1974	Liability as at end of December 1974
1. Sterling Loans	—	—	—	78.0 (a)
2. Project Loans	80.2	78.8	— 7.4	848.6
2.01 I.B.R.D.	8.5	12.8	— 4.3	119.5
2.02 German Democratic Republic	2.1	13.9	— 11.8	75.8
2.03 U.S.S.R.	0.6	11.1	— 10.5	53.9
2.04 Federal Republic of Germany (b)	—	10.0	— 10.0	90.7
2.05 Canada (c)	—	6.2	— 6.2	31.7
2.06 People's Republic of China	—	19.4	— 19.4	184.8
2.07 U.S.A. (d)	2.2	1.7	0.5	23.5
2.08 Denmark	8.1	—	8.1	39.5
2.09 International Development Association	41.3	—	41.3	135.8
2.10 United Kingdom	0.2	2.6	— 2.8	16.8
2.11 India	—	0.3	— 0.3	3.7
2.12 Polish People's Republic	—	0.3	— 0.3	...
2.13 Federal People's Republic of Yugoslavia	—	0.3	— 0.3	0.5
2.14 Asian Development Bank	17.6	0.2	17.4	72.6
Increase in the loan liability due to re-alignment of international currencies			— 8.7	
3. Non-project (commodity) Loans	308.2	92.5	185.8	2,047.1
3.01 U.S.A. (e)	35.6	22.3	13.3	670.3
3.02 United Kingdom	3.9	10.0	— 6.2	281.4
3.03 Federal Republic of Germany (b)	75.6	11.4	64.2	315.4
3.04 Japan	50.7	10.2	40.5	288.4
3.05 France	29.2	16.6	12.6	116.2
3.06 India	19.9	12.2	7.7	79.9
3.07 Canada	4.6	—	4.6	89.6
3.08 People's Republic of China	85.4	7.5	78.0	193.1
3.09 Italy	—	1.9	— 1.9	7.8
3.10 U.S.S.R.	2.6	0.4	2.2	4.4
3.11 Hungary	0.7	—	0.7	0.7
Increase in the loan liability due to re-alignment of international currencies			— 29.9	
4. Grand Total	388.4	171.3	178.4	2,973.7 (a)

Source: Central Bank of Ceylon.

(a) Rs. 52.2 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 1974, the gross debt on account of sterling loans stood at Rs.78 million, the same level as at the end of 1973 as there were no borrowings or repayments during the year under review. However, the net debt outstanding at the end of 1974 amounted to Rs. 26 million as there was an increase of Rs. 7 million in sinking funds.

Project Loans

Project loans utilised during the year under review amounted to Rs. 80 million while repayment of these loans amounted to Rs. 79 million. Consequently, the net increase in liability on account of borrowings under project loans amounted to Rs. 1 million. However, when a decrease of Rs. 8 million in the loan liability in terms of Sri Lanka rupees due to the changes in the parity rates of international currencies is taken into account, the net liability decreased by Rs. 7 million. In the previous, financial year, there was a receipt of Rs. 153 million and a repayment of Rs. 62 million on account of project loans. When allowance is made for the increase of Rs. 60 million due to the re-alignment of international currencies, the net liability on account of project loans increased by Rs. 151 million.

The major donors of project aid during the year were the International Development Association, Asian Development Bank, International Bank for Reconstruction and Development and Denmark contributing Rs. 41 million, Rs. 18 million, Rs. 9 million and Rs. 8 million respectively. The aid received from the I. D. A. and the I. B. R. D. were mainly for the Mahaweli Development Project while that from the A. D. B. was in respect of the Uda-Walawe Project and the Communications Satellite Earth Station Project. The aid received from Denmark was mainly for dairy development.

The outstanding liability on project loans utilised stood at Rs. 849 million accounting for 28 per cent of the total gross foreign debt. The amount outstanding at the end of the previous year was Rs. 856 million.

Non-Project (commodity) Loans

The commodity aid utilised during the year 1974 was Rs. 308 million as compared with Rs. 194 million utilised during the previous year. The repayments during the year amounted to Rs. 92 million resulting in a net increase in the loan liability by Rs. 216 million. However, when a decrease of Rs. 30 million in the loan liability in terms of Sri Lanka rupees due to the changes in parity rates of international currencies is taken into account the increase in net liability is only Rs. 186 million.

The major donors of commodity aid were the People's Republic of China (Rs. 85 million), Federal Republic of Germany (Rs. 76 million), Japan (Rs. 51 million), United States of America (Rs. 36 million), France (Rs. 29 million,) and India (Rs. 20 million.) The major imports under this form of aid were rice, wheat and wheat flour, fertilizer, industrial raw materials, agricultural machinery, motor vehicles and spare parts. and chemical products.

The liability on account of non-project (commodity) loans stood at Rs. 2,047 million at the end of the financial year 1974 compared with Rs. 1,861 million at the end of the previous financial year.

In the year 1974, Rs. 505 million was credited to the Foreign Aid Counterpart Fund and Rs. 504 million was withdrawn for budgetary purposes as compared with Rs. 246 million credited and withdrawn during the previous financial year. Table 43 of the appendix III gives the details relating to the rupee funds generated on account of imports under non-project (commodity) aid and their utilisation for budgetary purposes.

Sinking Funds¹

The market values of the sterling loans sinking funds and the rupee loans sinking funds at the end of financial year 1974 were Rs. 52 million and Rs. 1,301 million respectively as compared with Rs. 45 million and Rs. 1,054 million respectively at the end of the previous financial year.

The value of the sterling loan sinking fund increased by Rs. 7 million in the year under review. This increase was the result of investment of new contributions (Rs. 1 million) interest earned on past investments (Rs. 2 million) and an appreciation of market value of investments (Rs. 4 million).

The market value of rupee loans sinking funds increased by Rs. 247 million. This increase was the net result of investment of new contributions (Rs. 202 million) interest earned on past investments (Rs. 97 million), and an appreciation of market value of investments (Rs. 2 million) partly offset by amounts utilised for repayment of loans (Rs. 54 million).

External Suppliers Credit²

According to the provisional data, the liability of the government departments under external suppliers' credits stood at Rs. 366 million. Of the total outstanding liabilities, the Sri Lanka Government Railway, Food Department, Posts and Telecommunications Department, the Port Commission and the Marketing Department accounted for Rs. 135 million, Rs. 109 million, Rs. 28 million, Rs. 91 million and Rs. 2 million respectively. The liabilities during the year showed an increase of Rs. 172 million over the liabilities as at the end of the previous financial year. It is to be observed that increasing resort is being made to suppliers' credits by government departments for purposes of imports.

9. BORROWINGS BY SEMI-GOVERNMENT INSTITUTIONS

National Housing Fund

There were no issues or repayments of National Housing Debentures during the financial year under review, and the total of these debentures issued and outstanding at the end of the financial year 1974 remained at Rs. 71 million. The

-
1. Since 1st September 1972 the operations of sinking funds for rupee loans are routed through the joint investment fund. The details of the operations of this fund were given in the Annual Report for 1972 page 155.
 2. External Suppliers' credit on account of imports by government departments are not included as part of public debt.

authorised limit of Rs.220 million for the issue of debentures, too, remained unchanged during the financial year. The approximate market value of sinking funds established for redemption of National Housing Debentures stood at Rs. 27 million as at the end of December 1974.

State Mortgage Bank

State Mortgage Bank Debenture issues for Rs. 5 million (3 per cent debenture 1969/74) and Rs. 7 million (3 per cent debenture 1971/74) were repaid during the year under review, and two fresh debentures 1984/86 were issued for the same amounts to coincide with these repayments, but at a higher rate of interest of 9 per cent per annum. The debentures issued and outstanding which stood at Rs. 32 million at the end of the financial year 1973, thus remained at the same level at the end of 1974.

10. The Budget 1975

The budget for the financial year 1975 was presented on 6th November, 1974 and was approved by the National State Assembly on 26th December, 1974.

The Finance Minister in his budget speech observed that the difficulties, experienced by Sri Lanka in 1973 had been aggravated in 1974. Worldwide inflation and international economic instability have contributed in an even greater measure, to the escalation of prices of essential goods. While mentioning that Sri Lanka is not alone in this plight, he stressed that domestic efforts to counteract the effects of the above factors, had met with outstanding success, especially on the agricultural front. If Sri Lanka's determination to harness her ample natural resources towards gaining self-sufficiency in food does not falter, he anticipated a growth rate of 8 per cent in 1975.

In introducing the budget for 1975 the Minister observed that "I am therefore making certain proposals not so much with a view to revenue raising but as a further effort to rationalise the system of direct taxes. It has been my view for some time that the scheme of incentives which has been built into our tax structure cannot entirely be justified in the light of our situation. I am also correcting a major erosion of the tax base arising from social developments over the last two decades". Thus, the new revenue and expenditure proposals in the budget speech did not alter significantly the Pre-budget estimates.

Overall Budgetary Position

The overall budgetary position for the financial year 1975 is given in table II (G) 23

The "pre-budget estimates" column gives the figures of revenue, expenditure and deficit as they appear in the draft estimates which were submitted to the National State Assembly prior to 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 capital and current expenditure of the government for the financial year 1975.

The "Approved estimates" column of the table gives the revenue, expenditure and financing proposals as approved by the National State Assembly.

The pre-budget estimates made provision for a total expenditure (net of under-expenditure) of Rs. 6,849 million comprising Rs. 4,675 million on recurrent expenditure, Rs. 2,074 million on capital expenditure and a net outpayment of Rs. 100

Table II (G) 23

Overall Budgetary Position—1975

Rs. Million.

Item			Pre-Budget Estimates	Approved Estimates
1.	Recurrent Expenditure	.. ..	4,770	4,862
	Less: Under expenditure (2%)	.. ..	95	95 ¹
			4,675	4,767
2.	Capital Expenditure	.. ..	2,571	2,571
	Less: Under expenditure (25%) ²	.. ..	497	497
			2,074	2,074
3.	Advance Accounts	.. ..	100	100
4.	Total Expenditure	.. ..	6,849	6,941
5.	Total Revenue	.. ..	4,525	4,881
6.	Budget Deficit	.. ..	2,324	2,060
	Less: Contributions to Sinking Funds etc.	.. ..	584	584
7.	Net Cash Deficit	.. ..	1,740	1,476
8.	Financing of Budget Deficit			
8.1	Domestic market borrowing from non-bank sources	.. ..		900
8.2	Administrative borrowings	.. ..		73 ³
8.3	External finance			
	8.3.1 Project loans and grants	.. ..		230
	8.3.2 Non-project (Commodity loans)	.. ..		865
				2068
9.	Financing of the Net Cash Deficit			
9.1	Domestic market borrowings from non-bank sources	.. ..		657
9.2	Administrative borrowings	.. ..		73 ³
9.3	External finance			
	9.3.1. Project loans and grants	.. ..		754
	9.3.2. Non-project (commodity) loans	}		1484

1. Under-expenditure calculated on pre-budget estimates.
2. Under-expenditure is calculated on capital expenditure less sinking fund contributions and direct repayment of public debt.
3. In view of the reduction in Budget deficit consequent to the committee stage amendment relating to the tea export duty rebate scheme, administrative borrowings now required amount to 65 million.

million in respect of Advance Accounts. Revenue anticipated was Rs. 4,525 million. The estimated current account deficit was Rs. 250 million and the overall budget deficit was Rs. 2,324 million. When allowance was made for amortization payments and sinking fund contributions amounting to Rs. 584 million, the net cash deficit stood at Rs. 1,740 million.

According to the approved estimates, total expenditure (net of under-expenditure) is expected to be Rs. 6,941 million. The increase of Rs. 92 million in recurrent expenditure is on account of subsidies on fertilizer (Rs. 70 million) and "Lakspray" milk food (Rs. 30 million) offset by a reduction in expenditure (Rs. 8 million) in respect of the tea export duty rebate scheme. The anticipated revenue is Rs. 4,881 million. Consequently, the estimated current account surplus is Rs. 14 million and the budget deficit and net cash deficit are expected to be Rs. 2,060 million and Rs. 1,476 million respectively.

The decrease of Rs. 256 million in the approved estimates of the deficit in comparison with the pre-budget estimate is on account of an increase of Rs. 92 million in recurrent votes and an increase of Rs. 356 million in revenue receipts.

The anticipated increase of Rs. 356 million in revenue is on account of additional revenue collections expected to be realised as a result of an increase in the inflow of aid by Rs. 267 million on which is supposed to generate an almost equal amount of revenue from FEECs (Rs. 173 million), impor duties (Rs. 52 million) and B.T.T. (Rs. 40 million). Increased rates of wealth and income taxes (Rs. 23 million) and an additional Rs. 68 million over the pre-budget estimates in the form levies on public corporations account for the balance.

External finance (project and non-project) is now expected to contribute Rs. 754 million towards financing the net cash deficit. Domestic non-bank market borrowings through rupee loans and administrative borrowings are expected to bring in Rs. 657 million and Rs. 73 million respectively. Together these three sources of finance are expected to cover the entire deficit, thus eliminating the need for bank borrowing. It is to be observed that the Budget for 1975 relies heavily on external borrowings both for direct finance as well as for additional local revenue. Foreign aid has thus become a crucial element not merely on the balance of payments front but also in the budgetary field.

Budget Proposals.

A. Proposals effective from the year of assessment 1975/76.

(i) Ceiling on Income, Compulsory, Savings and Rates of Income Tax.

In order to grant relief to middle-income groups whose purchasing power has been considerably eroded by the present inflationary trend, the Finance Minister proposed the abolition of the normal contribution to Compulsory Savings on personal incomes paid by persons whose incomes are below the ceiling on income.

Along with the abolition of the normal compulsory levy, an increase in the rates of income tax in the highest slabs is proposed. The last three slabs of the present rate schedule are:

Rs. 10,800	@	50 per cent.
Rs. 10,800	@	60 per cent.
Balance	@	65 per cent.

The new slabs will be:—

Rs. 7,200	@	50 per cent.
Rs. 7,200	@	60 per cent.
Rs. 7,200	@	70 per cent.
Balance	@	75 per cent.

The ceiling on income, although continuing to operate through the levy of the special contribution to compulsory savings, will be raised from its prevailing level of Rs. 24,000 to 30,000 in view of the sharp increase in the cost of living.

(ii) Earned Income Relief.

The present tax-free allowance granted to individuals who derive income from a profession, vocation or employment is Rs. 1,200. Employees are also not taxed on allowances for business travel up to Rs. 1,200 and for business entertainment up to 10 per cent. of their basic-salaries. In his budget speech, the Finance Minister announced that earned income allowances would be confined to employees, and exemptions in respect of travelling and entertainment allowances to them will be withdrawn. Each individual employee, however, will be granted a consolidated earned income allowance of 20 per cent of the income from employment, subject to a lower limit of Rs. 1,200 and an upper limit of Rs. 3,000. This measure is designed to give fixed income earners relief during the present inflationary phase.

(iii) Provision of retiring benefits to self-employed persons.

Since the earnings of self-employed persons are not fixed, they are not subject to the same degree of erosion in times of inflation as that of the income of employees. The Finance Minister, therefore, contended that the relief from tax which they need is not in relation to earnings during their working life but in relation to provision for their retirement. Thus, the proposal to provide relief to them by permitting the deduction of premia paid on deferred annuity policies issued by the Insurance Corporation of Sri Lanka from their income. The reduction will be limited to the actual premia paid or 15 per cent of income from profession or vocation, or Rs. 6,000, whichever is the least.

(iv) Aggregation of family incomes.

At present the incomes of children under the age of 25 years are aggregated with the income of the head of the family for purposes of income tax and wealth for the purpose of wealth tax. It was announced that since having two different concepts of adulthood was unsatisfactory, the income and wealth of children under the age of 21 only would be aggregated. The term "child" in the Inland Revenue Act will be suitably amended.

(v) Withholding tax on interest payments.

It was proposed to bring into force a withholding tax of $33\frac{1}{3}$ per cent on interest payments by all financial institutions and pawn brokers, on the same lines as the tax deducted at source on dividends. The National Savings Bank will be excluded

from this scheme as the bulk of its interest payments are not liable to tax in the hands of the recipients.¹ This proposal was put forward since it was felt that there is tax evasion in respect of interest receipts, even where the interest is paid by institutional sources.

(vi) Taxation of Dividends in Tax Holiday Companies.

Quoting some particulars from a random sample consisting of 12 companies which recently enjoyed the 5 year tax holiday granted to industrial enterprises, the Finance Minister stated "the massive declaration of dividends especially to high income earners, have encouraged consumption expenditure and ostentatious life-styles which are an affront to the idea of austerity in a period of national hardship" In view of this he proposed to withdraw the exemption granted to dividends as from the year of assessment 1975/76. It is intended that this would act as a specific incentive for the re-investment of profits for expansion.

In relation to foreign investment, the policy to be adopted on exemptions and concessions granted would be incorporated in Double Taxation Relief Conventions through tax sparing or tax deferral provisions. Where exemptions have not been granted, consideration would be given to imposing a reduced rate of tax on income from new investment and this would be suitably incorporated in the treaty provisions after negotiations.

(vii) Taxation of Co-operative Societies

The expansion of the multi-purpose co-operatives and their advance into the production field especially with the Land Reform Law, has made it necessary, from the view point of government revenue that certain of their activities be brought within the scope of taxation. Taxation of such activities, it is believed, would also mean improved financial discipline in this sector. Hence, it was proposed to bring the production activities and certain other activities of co-operatives into the tax net. The list of activities that would become taxable would be worked out in consultation with the Minister of Foreign and Interanal Trade.

(viii) Taxation of Shipping and Aircraft profits

The Finance Minister stated that he proposed to introduce a simple basis of taxation of profits accruing to non-residents from the operation of ships and aircraft in respect of the carriage of passengers, mails and goods from Sri Lanka. The present system is cumbersome and results in considerable delay before the profits for any one year can be finally computed and agreed. The new method will treat a fixed percentage of out-going freight earnings as the profit arising in Sri Lanka. A rate of 6 per cent will be adopted, as this rate will yield approximately the same revenue as at present. The normal rate of tax applicable to companies will apply to the profits so computed.

1. Subsequently it was decided to exclude the commercial banks from coverage of this proposal.

(ix) Abolition of the Development Rebate

The primary objective of the development rebate, introduced in 1958/59 with the Kaldor system of taxation, is to provide stimulus to the growth of industrial capital. This concession, however, seems illogical when viewed in the present context of a labour surplus economy where positive encouragement should be given to labour intensive, agrobased industries rather than the capital intensive industries which are dependent to a large extent on imported inputs. It was, therefore, proposed to abolish the development rebate granted in respect of plant, machinery and fixtures. The rebate granted in respect of industrial buildings and quarters for labour and subordinate staff will, however, remain for the present.

(x) Wealth Tax

The Finance Minister, in his budget speech for 1975, spotlighted the fact that although measures such as the Capital Levy, the Land Reform and the Ceiling on House Property have seriously affected many personal fortunes in traditional areas of investment, very large personal fortunes accumulated during the last few years have substantially escaped the net of the government's redistributive policies. In fact, the last few years have witnessed a tremendous concentration of industrial, commercial and finance capital in a very few hands. In the light of this development, the present rates of wealth tax are very low. He, therefore, announced an adjustment in the rates of the wealth tax rate schedule so that maximum rate would be 8 per cent. The proposed rate schedule would be as follows:

Rs. 100,000 exemption limit as at present			
On the first Rs. 100,000 of taxable wealth	—	$\frac{1}{2}\%$	
On the next Rs. 100,000 „ „ „	—	1%	
On the next Rs. 200,000 „ „ „	—	2%	
On the next Rs. 250,000 „ „ „	—	4%	
On the next Rs. 250,000 „ „ „	—	6%	
On the balance „ „ „	—	8%	

In terms of the new rate schedule there would be substantial increases in the incidence of wealth tax when the net wealth exceeds Rs. 600,000.

In order to give wealth tax payers who are presently making payment in respect of their capital levy, some measure of relief for the year of assessment 1975/76, 50 per cent of the cash payments made by them for the purpose of the capital levy during the period upto 31st December, 1975 would be allowed as a credit against the wealth tax due for the year 1975/76 upto a ceiling limit of 50 per cent of the wealth tax payable.

The wealth tax base was also broadened by bringing approved investments in tax holiday undertakings, as well as motor vehicles kept for private use, within the scope of the tax.

(xi) Estate Duty and Gifts Tax

In his budget speech, the Finance Minister proposed to re-design the estate duty rate schedule and simplify and rationalize its relationship to the gifts tax. He introduced a common rate schedule for estate duty and gifts tax as follows:

First Rs. 50,000	at	3%
Next Rs. 50,000	„	9%
„ Rs. 40,000	„	15%
„ Rs. 40,000	„	18%
„ Rs. 80,000	„	22%
„ Rs. 80,000	„	24%
„ Rs. 80,000	„	30%
„ Rs. 80,000	„	40%
„ Rs. 80,000	„	50%
„ Rs. 80,000	„	60%
Balance	....	„ 75%

Since estate duty and gifts tax are in the policy sense two consecutive parts of what is essentially one single tax, the new common rate schedule will facilitate administration. It will operate over the life time of the tax-payer. The tax will be payable on the aggregate gifts made, computed on a cumulative basis, the tax payable on the previous gifts being set off as a credit. Estate duty will then be the last item of tax due on this common rate schedule. The single rate schedule will also be neutral in its operation in relation to when the change of ownership occurs, whether it be during the life time of the assessee or at his death. At present, the higher gifts tax rates act as a positive disincentive to the divesting of property during the life time of a tax payer.

(xii) Capital Gains on Gift and on Death

It was felt that income tax on capital gains at gift or on death, in addition to gifts tax or estate duty, as the case may be, is a type of multiple taxation and can be very harsh, especially because the gain is notional and not realised in cash. Since the increased rates of gifts tax and estate duty would catch up on any enhanced value, it was proposed that the operation of the income tax on notional capital gains on gifts or on death be abolished. In future, only realised capital gains will be subject to income tax.

(xiii) Transitional provisions for the year of assessment 1975/76

All incomes will be taxed on a current year basis from 1st January, 1976. Thus, income tax will be payable in respect of all sources of income for the year of assessment 1976 on the basis of the income of that year. For the year of assessment 1975/76, however, income will be calculated in a manner which will enable a smooth transition to the current year basis of assessment in 1976, without double taxation of nine months' income and minimising any shifting of incomes to a period which will escape tax. Thus, the Finance Minister stated that the profits from trade, business, profession or vocation, rent and interest assessable for the year of assessment 1975/76 will be either the profits of the calendar year 1975 or the profits for the year ending on 31st March 1975, whichever is the higher. Dividends, capital gains and gifts, however, he said, will be taxed whenever they arise or are made during the period, from 1st April, 1974 to 31st December, 1975.

(xiv) Business Turnover Tax

The Finance Minister stated that he intended amending the Finance Act No. 11 of 1973, to empower the Commissioner General of Inland Revenue to publish the names of business turnover tax payers and their turnover on which tax is paid. This he felt would help in combating evasion of business turnover tax. He also said that although he did not at present intend changing the rate structure of the tax, he would, in due course, make certain rate modifications for the purpose of smoothening the problems of interpretation faced by the members of the tax paying public.

B. Proposals Effective from the Year of Assessment 1976.**(i) Tax Holidays and Investment Relief**

Emphasis was placed in the budget speech on the fact that the process of economic development in Sri Lanka has tended to give a stimulus to capital accumulation in the hands of a few wealthy families who have, in the main, been the beneficiaries of tax holidays and reliefs granted in terms of the present law. It was also pointed out that the great majority of the companies formed between April, 1971 and December, 1973 were private companies, reflecting significantly the increased concentration of capital.

In order to foster a balanced and enduring form of development in which the widest possible segments of society in the rural as well as the urban sectors participate, he proposed that with effect from 1st January, 1976, approval will be granted for the purposes of the tax holidays in respect of non-traditional exports, only to broad-based companies. Companies which are approved and gazetted prior to 1st January 1976, will enjoy the tax holidays on export profits for the full period of five years or eight years specified in the law. Moreover, the allowance for approved investments under Section 16cc of the Inland Revenue Act will be granted only where the investment is made and ordinary shares in the approved companies are allotted on or before 31st December, 1975. Further relief will be provided only for investments in approved broad-based companies. He added that the format for broad-based companies is presently being worked out and that he intended setting up initially a few model broad-based companies, some of which would be in the gem industry.

(ii) Abolition of lump-sum depreciation allowances and granting of labour incentives

In order to shift fiscal policy away from measures directly promoting capital intensity to measures promoting employment, the Finance Minister announced that from the year 1976, he intended withdrawing the lump-sum depreciation allowance granted to new plant, machinery or fixtures. Depreciation would be granted instead at varying rates on the diminishing balance.

He proposed also to adopt from the year 1976 a tax credit or an additional deduction for labour in new industries. Broadly, the proposal is that additional relief be given on the basis of 20 per cent of the wages bill to newly established undertakings with a labour force of over 25 persons (excluding executive officers). In relation

to new business lines of existing businesses, this relief would be restricted to productive labour, on increases of their labour force above that prevailing in 1975. The relief will be granted by reference to employees making contributions to the E.P.F. and other approved provident and pension funds. It would be a further condition that the wages paid and the other conditions of employment would be not less favourable than those prevailing in a similar or allied trade.

(iii) Anti-evasion measures

Since large scale under-valuation of property in deeds is common, it was proposed to bring legislation to confer the right to government to purchase immovable property at declared values in deeds and tax declarations. It was also proposed to bring legislation so that no concession or relief would be available to persons whose taxes are in default.

Other Proposals

(i) Convertible Rupee Accounts

Under the Convertible Rupee Accounts scheme, gem exports and certain limited categories in the professional field are entitled to a rate of 25 per cent and general non-traditional exports to 3 per cent. In order to bring these two rates closer together, it was proposed to reduce the rate of 25 per cent to 20 per cent and to increase the rate of 3 per cent to 5 per cent with immediate effect¹. The categories of persons entitled to CRA at these two rates will remain unchanged.

(ii) Revenue from Public Sector Corporations

In the course of his speech the Finance Minister drew attention to the fact that in his budget speech for the previous year he had emphasised the need for financial and supervisory control over activities conducted by public sector corporations and indicated that their budgets would be tabled in the Assembly. As an alternative to presentation of individual budgets for each public sector corporation, which would tend to be voluminous, he said he intended consolidating into one document the budgets of corporations approved by their respective Ministers and this would be tabled in the Assembly by the end of 1974.

It was also announced in the budget speech that public sector corporations will pay in a sum of Rs. 128 Million to the Consolidated Fund out of their 1974 profits. This contribution will be payable in four quarterly instalments on or before 31st March, 30th June, 15th September and 30th November in 1975. The amount payable has been computed on a case by case basis depending on the circumstances of each corporation and on their capacity to pay.

(iii) Ad-Valorem Duty on Tea and Export Duty Rebate Scheme

On account of rising production costs which may prevent tea producers achieving the objective of making the tea industry viable in the long run, the Finance Minister proposed to vary the present structure of ad-valorem duty and the export duty rebate scheme. The following adjustments will be made:—

1. Gazette Notification (Extraordinary) 136/7 of 6-11-1974.

(a) Export Duty Rebate Scheme

The minimum price at which the rebate scheme comes into operation is being increased from Rs. 1.60 to Rs. 2.00 per lb. and the maximum price at which the rebate ceases is being increased from Rs. 2.00 to Rs. 2.30 per lb.

(b) Ad-Valorem Duty

The ad-valorem duty presently operates at a floor price of Rs. 2.20 per lb. It is proposed to increase this floor price to Rs. 2.50 per lb. The rate at which ad-valorem duty is payable will remain at 50 per cent but the maximum duty payable will be increased from 70 cents to Rs. 1.00 per lb¹.

The Finance Minister mentioned that since marginal adjustments in revenue and recurrent expenditure will be required in the estimates consequent to this change in the duty structure, these adjustments will be effected at the Committee Stage of the budget and incorporated in the final print of the estimates.

(iv) Minimum Price Scheme for Sheet Rubber

Under the scheme of minimum prices for sheet rubber introduced in September 1972, rubber producers were assured of a minimum price of 80 cents per lb. for RSS No. 1 and 73 cents per lb. for RSS No. 2 at the outstation depots of the Commissioner of Commodity Purchase. The Finance Minister proposed revising these prices to 95 cents and 88 cents respectively. However, since the prices now prevailing are above these levels it is anticipated that there will be no immediate impact on recurrent expenditure as a result of this proposal.

II. Other Fiscal Measures

The following fiscal measures were adopted during the course of 1974.

(I) *Changes in the price and quantum issued under the ration in respect of rice, wheat flour and sugar.*

1.1 Rice

- 1.1.1. With effect from 1st January 1974, the issue of an additional $\frac{1}{2}$ measure of rice to every ration book holder, which hitherto was confined to only the "deficit" areas and estate sector was extended to cover the whole island initially for a period of one month. With effect from 18th February, the residents of Colombo and certain suburbs where rice is not grown were issued with this $\frac{1}{2}$ measure at a price of Rs. 2/- per measure.
- 1.1.2. In lieu of the pound of wheat flour hitherto issued per ration book, an extra $\frac{1}{2}$ measure of rice was issued with effect from March 18th, 1974. Accordingly, the total issue of rice per ration book, per week, in Colombo and certain suburbs was $1\frac{1}{2}$ measures and in the rest of the island 1 measure.

1. Gazette Notification (Extra-ordinary) 136/10 of 7-11-1974.

1.1.3. Three changes in the rice ration were made in April, 1974.

- (a) The provision of the additional $\frac{1}{2}$ measure of rice confined to Colombo and suburbs was extended to cover the whole island. Accordingly, every ration book holder received $1\frac{1}{2}$ measures of rice per week, from the beginning of the month.
- (b) With effect from 29th April, the issue of the additional $\frac{1}{2}$ measure was withdrawn. While income tax payers continued to pay for the whole measure, the rest got $\frac{1}{2}$ measure free.
- (c) The price of the 'paid' measure was raised from Rs. 2.00 to Rs. 2.30 with effect from 15th April, 1974.

1.1.4. The quantum of rice issued on ration was increased on a selective basis with effect from 6th May. All ration book holders in 21 selected areas¹ were given $1\frac{1}{2}$ measures per week while in the rest of the island the issue was only 1 measure.

1.1.5. With effect from 15th July, the price of rice on ration other than the free half-measure was increased from Rs. 2.30 to Rs. 2.50 per measure. (Rs. 1.25 per lb.)

1.1.6. Further changes were effected on 5th August, 1974. Accordingly, the price of ration rice was reduced to Rs. 2.20 per measure (Rs. 1.10 per lb.). While ration book holders in Colombo and specified areas as well as urban areas in deficit districts² received $1\frac{1}{2}$ measures of rice per week, only 1 measure of rice was issued in the rest of the country. This continued to be the arrangement till the end of the year.

1.2 Wheat Flour

1.2.1. With effect from March 18th, 1974 the issue of a pound of flour, per person per week at 70 cts. per lb. was suspended. Flour supplied to bakers, however, continued unchanged.

1.2.2. In April, the flour ration was revived once again. Initially, $\frac{1}{2}$ lb. of flour at 70 cts. per lb. was issued for a week commencing 8th April, and subsequently, in view of the rice cut, one pound of flour every fortnight per person was issued (at the same price) with effect from 29th April, 1974.

1.2.3. With effect from 5th August, the price of both rationed and unrationed (to bakers) flour was increased to Rs. 1.10 per lb.

Further, estates³ were issued with a weekly ration of $1\frac{1}{2}$ lbs. of flour, Colombo and specified areas with 1 lb, and the rest of the island with $\frac{1}{2}$ lb. of flour.

1. These areas were: Colombo Municipal Council, Dehiwela-Mt. Lavinia M.C., Moratuwa, Kolonnawa, Kotte, Peliyagoda, Ja-ela, Wattala-Mabola and Panadura Urban Councils, Battaramulla, Dalugama, Hendala, Kelaniya, Piliyandala, Mulleriyawa, Kotikawatte, Welisara, Maharagama, Kandana, Pamunugama and Koswatte Town Councils.

2. The deficit districts are : Colombo, Kalutara, Kandy, Galle, Matara, Ratnapura, Kegalle, Badulla, Puttalam, Jaffna, Kurunegala, Matale and Nuwara-Eliya.

3. Estates registered for purposes of food control.

- 1.2.4. With effect from 23rd December, the rest of the island other than estates, (which continued to receive $1\frac{1}{2}$ lbs. per person) received 1 lb. of flour.

1.3 Sugar

- 1.3.1. The price of off-ration sugar was increased from Rs. 2.00 to Rs. 5.00 per lb. with effect from March 1st, 1974 while the quantum of sugar issued on ration was increased by $\frac{1}{4}$ lb. to 1 lb. per person per month, at 72 cts. per lb.
- 1.3.2. With effect from September 5th, off-ration sugar was issued only to specified categories of institutions at an enhanced price of Rs. 7.50 per lb.
- 1.3.3. The quantum of sugar issued on ration was reduced by $\frac{1}{4}$ lb. to $\frac{3}{4}$ lb. per person with effect from 1st October, 1974 while the price remained unchanged.

2. Changes in the guaranteed price of Paddy.

- 2.1. The guaranteed price of a bushel of paddy was increased by Rs. 5.00 to Rs. 30.00 with effect from 31st March, 1974.
- 2.2. Consequent to the decision to abolish the subsidy on fertilizer to the farmer, the guaranteed price of paddy was further increased to Rs. 33.00 per bushel with effect from 15th July, 1974.

3. Wage Increase

With effect from 1st April, 1974 the special allowance granted on 1st October 1973 was replaced by a higher allowance of 20 per cent, subject to a maximum of Rs. 50.00 per mensem to all employees drawing Rs. 800 per mensem or less. A similar increase was granted to resident pensioners drawing pensions of Rs. 800 per mensem or less. Meanwhile, the special allowance of Rs. 7.50 per mensem granted in 1972 continued to be paid.

4. Tax Changes

4.1 Sales tax on Tea

With effect from 25th February, 1974 the lower and upper limits of the range of prices on which the ad-valorem sales tax on tea is levied was raised by 20 cts.—i.e. the lower limit from Rs. 2.00 to Rs. 2.20 and the upper limit from Rs. 3.40 to Rs. 3.60. The rate of tax remained unchanged at 50% of the difference between the auction price and the lower limit subject to a maximum sales tax of 70 cts. per lb.

4.2 Tea Export Duty Rebate

The price range within which a rebate is paid on the export duty on tea was raised by 20 cts. with effect from 25th February. The lower limit was raised from Rs. 1.40 to Rs. 1.60 per lb. and the upper limit from Rs. 1.95 to Rs. 2.15 per lb. However, the maximum relief available remained at the former level of 20 cts. per lb. for low and medium grown teas and 15 cts. per lb. for high grown teas.

4.3 Business Turnover Tax

4.3.1. With effect from 1st April, 1974 reductions in the rates of business turnover tax were made on the following items¹:

- (a) Cotton banians — from 20% to 10%
- (b) Jewellery, gold & gems — from 15% to 5%
- (c) Porcelain tableware — from 35% to 5%
- (d) Paper cartons — from 25% to 15%

4.3.2. The turnover from any business carried on by the Paddy Marketing Board was exempted from business turnover tax with effect from 26th April, 1974².

4.3.3. With effect from 1st July, 1974 the rate of business turnover tax on the manufacture of musical instruments was reduced to 15 per cent.³

4.3.4. The rate of turnover tax on the manufacture of Super & Regular petrol was reduced from 42 % to 33% and that on lubricants and petroleum products from 23% to 16% with effect from 1st October, 1974.⁴ Meanwhile, the scope of turnover tax was also widened to include the manufacture of tooth brushes within the 35% luxury rate band⁴.

4.4 Tax Relief

The government granted a tax relief of Rs. 25 per mensum (Rs. 300 per annum) to all tax payers under the Pay As You Earn (PAYE) scheme with effect from April, 1974.

4.5 Inland Revenue (Amendment) Law No. 1 of 1974

Certain important amendments to the Inland Revenue Act No. 4 of 1963 were enacted on 10th January, 1974 by the Inland Revenue (Amendment) Law No. 1 of 1974. The following are the new provisions:

- 4.5.1 Net capital gains arising from donations of property to the government will be exempted from income tax.
- 4.5.2 The profits and income of any business undertaking acquired or vested in the government under the Business Undertakings (Acquisition) Act No. 35 of 1971 will be liable to income tax from the date of such acquisition or vesting, and the rate of income tax applicable to its profits and income will be the rate of tax chargeable in respect of resident companies.
- 4.5.3 The profits and income of the Insurance Corporation of Sri Lanka attributable to the life insurance business of the corporation will be exempt from income tax for any year of assessment commencing on or after 1st April, 1972.
- 4.5.4 Hotel undertakings approved for the 5-year tax holiday before 1st April, 1976 will be also entitled, if they are companies, to the 15-year partial tax holiday at the end of the 5-year tax holiday period.

1. Vide Gazette Notification (Extra-ordinary) 105/51 of 2-4-1974

2. Vide Gazette Notification (ordinary) 109 of 26-4-1974

3. Vide Gazette Notification (Extra-ordinary) 118/57 of 1-7-1974

4. Vide Gazette Notification (Extra-ordinary) 131/2 of 30-9-1974

- 4.5.5 The net annual value of one owner-occupied residence will be exempt from income tax with effect from the Year of Assessment commencing on 1st April, 1973 i.e., 1973/74.
- 4.5.6 The income from the sale of paddy to the Paddy Marketing Board will be exempt from income tax from the Year of Assessment 1973/74, provided that such sale was effected either by the owner or cultivator of the land on which paddy was grown.
- 4.5.7 Interest accruing on Ceylon Savings Certificates will continue to be exempt from income tax only on such certificates purchased on or before 31st March, 1973.
- 4.5.8 The current exemption of interest from income tax on deposits not exceeding Rs. 15,000 per individual in the Ceylon Savings Bank or the Ceylon Post Office Savings Bank, will be restricted to interest credited in respect of any period ending not later than 31st March, 1972.
- 4.5.9 Interest not exceeding Rs. 1,000 per individual (subject to a limit of Rs. 6,000 per family) payable on Savings Certificates purchased after 31st March, 1973 and on monies lying to the credit of one individual (or members of a family) in the National Savings Bank, will be exempt from income tax from the Year of Assessment 1973/74.
- 4.5.10 Income accruing to any person from any monies lying in his credit in a commercial bank, which in the opinion of the Commissioner of Inland Revenue represents monies remitted by such person under the Passport (Regulation) and Exit Permit Act No. 53 of 1971, will be exempt from income tax and wealth tax.

4.6 *Inland Revenue (Amendment) Law No. 15 of 1974.*

A Bill to amend the Inland Revenue Act No. 4 of 1963 was passed by the National State Assembly on 2nd April, 1974 preparing way for business firms to switchover to the calendar year basis of assessment, which is to be introduced in 1976.

4.7 *Refund of Compulsory Savings*

The Minister of Finance decided to refund, compulsory savings paid under the Compulsory Savings Act No. 6 of 1971 in the first year of the scheme to certain categories of tax payers. In terms of this proposal the following persons will be entitled to refunds:

- (a) All persons whose total contribution under the 1971 Scheme was Rs. 240 or less, i.e. those in the income range of Rs. 6,000 to Rs. 12,000 per annum.
- (b) Where the contribution exceeds Rs. 240:

Employees who have since retired from service and who have now ceased to be tax payers, i.e. those who are exempt from income tax for the year of assessment 1973/74.

4.8 Ceiling on Income and Compulsory Savings Law-Order¹

A further amendment to this order was approved by the National State Assembly on 2nd July, 1974. By this amendment half the total amount of insurance premia paid or provident fund contributions made, either in the current year of assessment or in the preceding year of assessment, will be allowed to be deducted from the Compulsory Savings for any year of assessment commencing on or after 1st April, 1973. No further deduction however, will be allowed in respect of that premium for any subsequent year of assessment.

5. FEECs

Pallets used in the export of desiccated coconut were made entitled to FEECs on June 3rd, 1974. This entitlement was to have retrospective effect as from December 1st, 1973. Such pallets would qualify to receive FEECs at Rs. 15.51 per pallet.

6. Convertible Rupee Accounts

The Convertible Rupee Account Scheme was extended to cover earnings from the export of processed coconut fibre, coir yarn, coir twine and rope on 10th January, 1974.² Accordingly 3 per cent of foreign exchange earnings from these exports realised in Sri Lanka on or after 14th November, 1973 would qualify for credit to Convertible Rupee Accounts.

With effect from 26th August 1974, the transfer of funds from one Convertible Account to another, in certain circumstances were permitted subject to the prior approval of the Controller of Exchange. This was aimed at resolving an operational inequity in the scheme. Under the amendment, the exporter could now pass on the benefit to the producer.

The budget proposals to revise the rates at which credits are allowed to Convertible Rupee Accounts in respect of certain items was implemented with effect from 6th November, 1974.³

7. Rise in Bus and Rail fares

Consequent to the increase in fuel prices and the rising cost of imported spares and accessories, bus fares were raised with effect from 4th February, 1974. The minimum fare for the first stage of travel was raised from 10 cents to 20 cents. The fares for the next two stages were raised by 5 cents each, and the fares for the subsequent stages were increased by 10 cents per stage.

Simultaneously, the C.G.R. raised its passenger fares (inclusive of season ticket prices) by way of a surcharge of about 50 per cent. The freight on parcels and goods was also raised by 25 per cent.

1. Vide Gazette (ordinary) 95 of 18-1-74

2. Vide Gazette (Extra-Ordinary) 94/3 of 15-1-74

3. Gazette Notification (Extra-Ordinary) 136/7 of 6-11-74