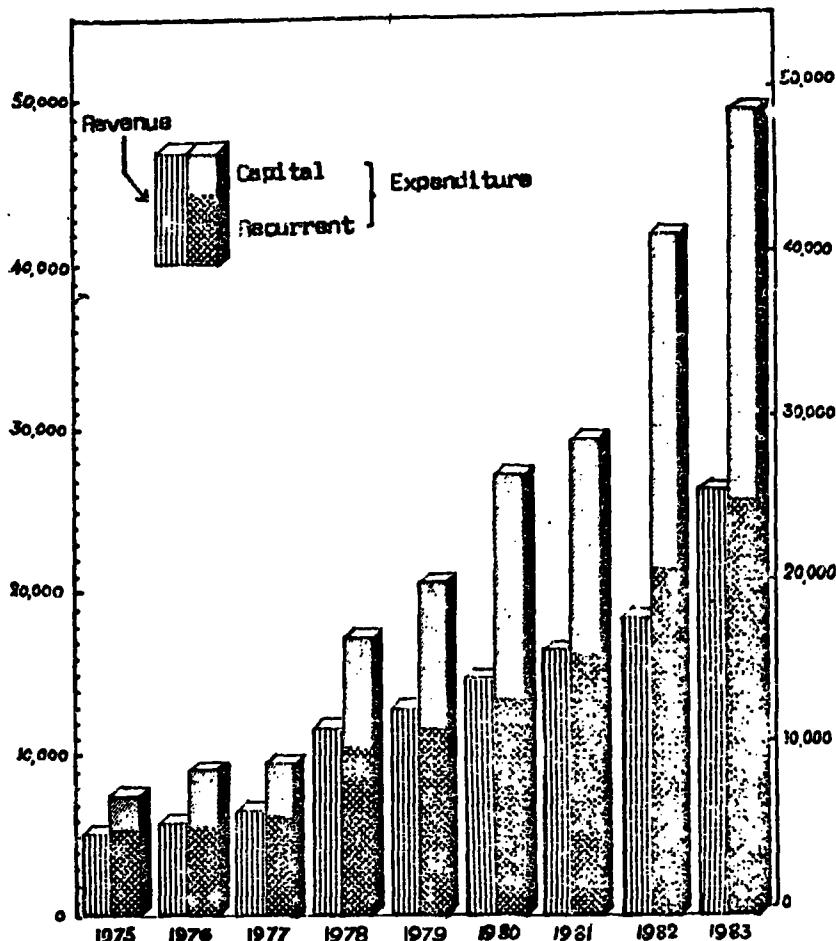


# THE BUDGET 1983

The importance of the Budget of 1983 is that it sets out the broad guidelines for the country's economic policy during the Government's second term of office, just as the Budget of November 1977 set out the guidelines for the five years that followed.

The impact of the Budget on the new economic policies introduced in 1977 has been felt in varying degrees over the past six years and growth has been recorded in nearly all sectors of the economy. The average rate of the GDP during this period has been more than double that of the previous five years, while a noticeable upward trend in employment creation has been observed. But with these successes in economic development have also emerged problems of a structural nature, which demand adjustments if there is going to be continued economic progress in the years ahead.

One significant feature of the Budget for 1983 is that it attempts to face up to the country's current resources position. It indicates the need for a re-



orientation in development policy in facing up to the deteriorating balance of payments and budgetary position. The Budget also emphasises the need for "austerity" in the country to overcome some of the major problems in the economy. In order to achieve this objective it emphasises the need to:

- allocates scarce resources as rationally as possible, with a carefully worked out system of priorities
- reduce Government expenditures especially those relating to capital projects; with no new capital projects to be undertaken in the next two years
- step up the domestic savings effort; with the anticipated slowing down in the flow of foreign resources
- make a substantial effort in revenue collection for the year 1983
- deal with the balance of payments problems facing the country through adjustments in the exchange rate and tariff structure
- provide additional incentives for the traditional exports sector; to ensure sufficient producer margins and thereby increase production and exports; look for new export products and markets to reduce the country's dependence on a narrow activity base
- bring about reasonable price stability in the year 1983 by bringing the Budget into balance with the reduction in the expansionary financing component of the Budget
- enhance the flow of resources to the private sector through appropriate interest and exchange rates which will enable the required shift of resources to high priority areas such as export oriented labour intensive production.

As seen in the table, while total current expenditure declines in the next few years total current receipts are expected to progressively increase. Receipts from income tax, BTT and selective sales taxes are expected to almost double between now and 1987. The objective in this policy is to enable the government to achieve a surplus in its current account by 1984 and also to bring the overall investment in GDP ratio to a level that is consistent with the country's absorptive capacity. A focal point of budgetary operations in the years ahead, according to declared policy, will be the generation of sufficient Government savings which could, on the one hand, reduce the level of expansionary domestic financing and on the other, compensate for any shortfall in foreign resource inflows.

The immediate problem, however, was to find the necessary resources to meet urgent Government expenditure, a situation which is best summed up in the following words of the Minister himself:

"We have to raise resources to match Government expenditure, and, in so doing have been compelled to call upon the people to make many sacrifices . . . . If we do not take immediate steps to correct the adverse trends in our economy, we will be forced to take much more painful measures in the future . . . ."

"We must continue our forward march . . . we can do so only by sustained hard work, austerity and sacrifice. Above all, rigorous financial discipline must be maintained. This will be the theme of my speech".

An analysis of some aspects of the Budget is contained in the following paper, on page.5.

### Budgetary Current Receipts and Expenditures 1983 - 87

(Rs. Million)

#### Turnover Tax Rates

These revisions entail a general increase of turnover tax rates on trade, manufacturing and imports, with the exception of few items. Turnover tax on tourist hotels was reduced from 20 per cent to 15 per cent while turnover tax on the support of gems and jewellery has been removed altogether. Moreover, Government departments, local authorities and District Development Councils have been exempted from Turnover taxes, except when they indulge in business. Bread, books (excluding magazines, periodicals and newspapers) crude oil, infant milk food, paddy and rice (uncooked), wheat and wheat flour except at the point of importing or milling will continue to remain free of turnover tax. In addition to the above articles, cement, cigarettes, fertilizer, petrol, diesel oil, kerosene, fuel oil, naphtha and bitumen and sugar have been declared as exempted articles except at the point of import or at the point of manufacture. Further, all varieties of liquor have been declared as exempted articles (except at the point of import or manufacture) when sold in sealed bottles in licensed premises. On the other hand, tax credit granted to importers who sell imported articles whether to a customer or to registered manufacturer on account of turnover tax paid at the time of import, has been withdrawn.

#### Import Duties

These revisions, applicable to all imports for certain items, are as follows:

	Old Rate	New Rate
Rates below 12½%	Free	5%
	5%	7½%
	7½%	10%
	10%	12½%
	12½%	15%

Rates over 12½% ) General increase of 10  
but less than ) percentage points upto  
100% ) a maximum of 99 per cent

These revisions were published in the Gazette Extraordinary No.232/6 of 26th February, 1983 and No.232/10 of 18th February, 1983.

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	Budget 1983	1984	1985	1986	1937
1. Central Government Consumption	8162	9396	10805	12425	14283
2. Interest on Public Debt	7151	7743	8821	10437	11679
3. Subsidies	2410	2650	2916	3208	3528
4. Current Transfers to Private Sector	2431	2628	2789	2973	3155
5. Other Current Transfers	3361	3743	4219	4737	5325
6. Total Current Expenditure	23515	26160	29550	33780	37970
7. Total Current Receipts	24118	28110	33375	38980	44470
7.1 Income Tax	3624	4190	4765	5475	6124
7.2 BTT	7090	8796	10195	11960	13698
7.3 Selective Sales Taxes	2780	3232	3734	4356	4945
7.4 Export Duty	2604	2781	3074	3385	3709
7.5 Import Duty	4896	5403	5992	6762	7544
7.6 Others	3124	2708	2786	3309	3540
7.7 Additional Mobilization	0	1000	2829	3732	4910
8. Budgetary Savings	603	1950	3825	5200	6500
9. GDP at Current Market Prices	124300	147610	172370	198000	225640

#### As Percentage of GDP

1. Central Government Consumption	6.6	6.4	6.3	6.3	6.3
2. Interest on Public Debt	5.8	5.2	5.1	5.3	5.2
3. Subsidies	1.9	1.8	1.7	1.6	1.6
4. Current Transfers to Private Sector	2.0	1.8	1.6	1.5	1.4
5. Other Current Transfers	2.7	2.5	2.4	2.4	2.4
6. Total Current Expenditure	18.9	17.7	17.1	17.1	16.8
7. Total Current Receipts	19.4	19.0	19.4	19.7	19.7
7.1 Income Tax	2.9	2.8	2.8	2.8	2.7
7.2 BTT	5.7	6.0	5.9	6.0	6.1
7.3 Selective Sales Taxes	2.2	2.2	2.2	2.2	2.2
7.4 Export Duty	2.1	1.9	1.8	1.7	1.6
7.5 Import Duty	3.9	3.7	3.5	3.4	3.3
7.6 Others	2.5	1.8	1.6	1.7	1.6
7.7 Additional Mobilization	0	0.7	1.6	1.9	2.2
8. Budgetary Savings	0.5	1.3	2.2	2.6	2.9

- 1 Includes expenditure on food and kerosene stamps
- 2 Includes pensions and interest subsidy to National Savings Bank

SOURCE: PUBLIC INVESTMENT 1983 - 1987 National Planning Division, Ministry of Finance and Planning.

#### Sales Tax

The Government increased the sales tax on leaf tobacco used in the manufacture of cigarettes or pipe tobacco by Rs.13.00, to Rs.295.00 per kg., with effect from 18th February, 1983.

#### Other Price Revisions

1. Rice - The price of imported rice from Rs.5.75 to 6.15 per kg.
2. Flour - The price of flour from Rs.5.95 to Rs.6.82 per kg.
3. Bread - The price of bread from Rs.2.50 to Rs.2.80 per loaf of 450 grams.
4. Masoor Dhal - The price of masoor dhal from Rs.20.25 to Rs.17.50 per kg.
5. Cigarettes - The price of cigarettes were raised by five cents per cigarette in respect of all brands of cigarettes.
6. Liquor - The price of Coconut Arrack was raised from Rs.39.00 to Rs.40.00 and that of Special Arrack from Rs.32.00 to Rs.33.00