

GOVERNMENT FINANCE*

Price stability has been a major objective of budgetary policy in recent years. Concerted efforts have been made to contain total expenditure in line with available resources to ensure that budget deficits are at sustainable levels. Consequently, the overall budget deficit/GDP ratio was progressively reduced from 25 per cent in 1980 to 10 per cent in 1984. The gradual reduction in budget deficits over these years and overall improvement in the fiscal management were of assistance in reducing the rate of inflation in recent years. However, the reduction in government revenue caused by the sharp decline in export prices, high expenditures on defence related activities and growing interest payments on public debt resulted in a higher resource gap in the budgetary operations in 1985. As a result, the net impact of budgetary operations were relatively more expansionary.

The performance of government finance in 1985 demonstrated the structural weakness in the country's fiscal system. The shortfall in government revenue underscored the weakness arising from a heavy reliance on commodity export taxes and few alternative steady revenue sources to finance the programmed expenditure. The expenditure performance, on the other hand, indicated the short-run difficulties in adjusting government expenditure to shortfalls in government revenue. The efforts to contain budgeted expenditure, were discounted by the substantial increase in supplementary expenditure provisions and over extended net lending through advance account operations.

Though achieving a budget deficit within a sustainable level was a difficult task owing to the economic circumstances during the year, the primary objective of maintaining a reasonable level of price stability became essential in order to avoid the repetition of macro-economic instability as in 1980. Therefore heavy reliance had to be placed on monetary measures.

Budgetary Outturn

Revised estimates for 1985 revealed a marginal decrease of 1 per cent in total revenue at Rs. 37,344 million. The revenue /GDP ratio at 23 per cent in 1985 was lower than that in 1984, when the country experienced exceptionally high prices for its export commodities and consequently, higher tax revenue. However, the revenue/GDP ratio in 1985 remained relatively higher than the average ratios in the 1980-1983 period.

The growth in total current expenditure inclusive of advance account outpayment, at 12 per cent in 1985 was much lower than the growth of 21 per cent in 1984. However, the ratio of current expenditure to GDP increased to 22 per cent in 1985 compared to 21 per cent in 1984. The overall performance in current account operations resulted in a surplus of Rs. 1,573 million as compared with a surplus of Rs. 5,889 million in 1984. Although the current account surplus declined in 1985, it continued the trend of generating a surplus observed since 1981.

* Analysis in this section is based on the revised budgetary outturn for 1985. Figures used in this section are very tentative.

Despite the reduction in current account surplus the capital expenditure increased during 1985 largely on account of higher amortization payments. Total capital expenditure inclusive of amortization payments at Rs. 31,332 million indicated an increase of 44 per cent over the previous year.

The relative importance of using foreign resources in financing the deficit declined in 1985. Total foreign finance at Rs. 12,894 million was 43 per cent of the overall budget deficit compared with 71 per cent in the previous year. However, the use of foreign resources increased from 7 per cent of GDP to 8 per cent in 1985. The use of resources from domestic non-bank sources amounting to Rs. 10,597 million accounted for 30 per cent compared with 42 per cent in 1984.

In financing the deficit, Rs. 7,127 million was raised from the banking system. However, as a result of an increase of Rs. 1,098 million in government cash balances and deposits held with banking system, net expansionary impact of the deficit was limited to Rs. 6,029 million. Data in respect of the fiscal operations with comparable figures for the previous years is presented in Table 1.39.

TABLE 1.39
Summary of the Government Fiscal Operation

	Rs. Million			GDP Ratios (%)		
	1983	1984	1985	1983	1984	1985
1. Revenue	25,210	37,731	37,344	20.7	24.5	23.4
Tax Revenue	20,701	31,215	30,815	17.0	20.3	19.3
Non-Tax Revenue	4,509	6,516	6,529	3.7	4.2	4.1
2. Expenditure	46,816	53,592	67,103	38.5	34.9	42.0
Current expenditure	25,083	31,842	35,771	20.6	20.7	22.4
Capital expenditure	21,733	21,750	31,332	17.9	14.1	19.6
3. Current Account Surplus(+)/ Deficit (-)	127	5,889	1,573	0.1	3.8	1.0
4. Overall Balance	21,606	15,861	29,759	17.8	10.3	18.6
5. Debt Repayment	5,302	2,229	6,709	4.4	1.4	4.2
6. Net-Cash Deficit	16,580	13,632	23,050	13.6	8.9	14.4
7. Financing of the Budget Deficit						
Foreign	10,950	11,251	12,894	9.0	7.3	8.1
Domestic	11,350	3,944	17,963	9.3	2.6	11.2
Bank	1,204	2,644	7,366	1.0	1.7	4.6
Non-bank	10,146	6,588	10,597	8.3	4.3	6.6
Use of cash balances	- 694	666	- 1,098	- 0.6	0.4	- 0.7
8. Financing of the Net Cash Deficit						
Foreign	9,786	9,785	11,105	8.0	6.4	6.9
Domestic	7,489	3,181	13,043	6.2	2.1	8.2
Bank	1,168	2,760	7,127	1.0	1.8	4.5
Non-bank	6,321	5,942	5,916	5.2	3.9	3.7
Use of cash balances	- 694	666	- 1,098	- 0.6	0.4	- 0.7
9. Expansionary Impact of Fiscal Operation	474	- 2,095	6,029	0.4	- 1.4	3.8

Sources: General Treasury,
Central Bank of Sri Lanka.

Revenue

Total government revenue was Rs. 37,344 million in 1985. This was a decline of 1 per cent compared with an increase of 50 per cent in the previous year. Government revenue declined from 70 per cent of total government expenditure in 1984 to nearly 56 per cent in 1985 and as a share of GDP it decreased from 25 per cent in 1984 to 23 per cent in 1985.

Total tax revenue from income, production and expenditure taxes amounted to Rs. 30,815 million as compared with Rs. 31,215 million in 1984. This decline in tax revenue was largely on account of lower receipts from export based taxes. Non tax revenue amounting to Rs. 6,529 million registered a marginal increase in 1985.

Income taxes consisting of personal and corporate taxes amounted to Rs. 5,852 million and formed 19 per cent of government tax revenue. Income taxes remained at 3.6 per cent of GDP in 1985 as in the previous year. The buoyancy of income taxes, which indicates the response of income taxes to changes of National Income declined from 2.4 in 1984 to 1.7 in 1985. Personal income taxes which accounted for 21 per cent of the total income taxes declined by 30 per cent to Rs. 1,225 million in 1985, in contrast to nearly a 100 per cent increase in the previous year. The sharp decline in receipts from personal income taxes was largely due to downward adjustments in tax rates, widening of tax slabs, increase in exemption limits and the cessation of rehabilitation levy in 1985. In contrast, corporate income taxes amounting to Rs. 4,627 million registered a 24 per cent increase in 1985 as against an increase of 50 per cent in 1984.

Total revenue from taxes on production and expenditure (export duties, import duties, turn-over taxes, excise taxes and licence fees) at Rs. 24,908 million was slightly lower than in 1984. Production and expenditure taxes, which formed 81 per cent of tax revenue in 1985 declined by 3 per cent compared with an increase of 49 per cent in 1984.

Overall reduction in commodity prices and the policy response by way of adjustments in the duty structure in order to safeguard profit margins of producers reduced the relative importance of export duties in government revenue. Revenue from export duties declined sharply by 41 per cent to Rs. 1,870 million in contrast to an increase of 29 per cent in 1984. The relative share of export duties in government revenue declined substantially in 1985. Export duties, which form nearly 24 per cent of government tax revenue between 1978 and 1984, declined to 6 per cent in 1985 while the export tax/GDP ratio declined to 1 per cent.

Consequent to the reduction in export duties and a marginal decline in the volume of exports, the revenue collection from export duties on tea declined by 33 per cent while that of rubber declined by 75 per cent. In spite of the downward revision of the export duty on coconut, revenue collection from coconut kernal products increased by 4 per cent due to a substantial increase in the volume of exports.

Revenue from import duties increased by 6 per cent over the previous year to Rs. 8,397 million. Import duty accounted for 27 per cent of government tax revenue in 1985 compared to 25 per cent in the previous year. Despite the increase in the domestic value of imports, the marginal increase in import duties resulted from the implementation of proposals of the Presidential Tariff Commission which aimed at rationalising the import duty structure based on effective rate of protection to local industries.

Selective sales taxes consisting of tea ad-valorem tax and excise duties on liquor and tobacco yielded Rs. 3,928 million and formed 13 per cent of government tax revenue. Collection from tea ad-valorem tax declined substantially by 68 per cent owing to the sharp drop in tea prices while receipts from excise duties on liquor increased marginally. The receipts from excise duty on tobacco amounted to Rs. 1,878 million, as compared with Rs. 1,537 million in 1984. The sharp increase was due to the upward revision in tax rates and a higher volume of sales. The reduction of revenue collection under selective sales taxes was due to lower collections from tea which more than offset the increases in collections from liquor and tobacco.

For the fourth consecutive year, turnover taxes turned out to be the largest source of government revenue at Rs. 10,195 million and registered a 25 per cent increase over the previous year. Its contribution to total tax revenue increased from 26 per cent in 1984 to 33 per cent in 1985, while as a proportion of GDP it increased from 5.3 per cent in 1984 to 6.4 per cent in 1985. The buoyancy of turnover taxes, which measures the response of turnover tax to the changes in gross domestic expenditure, is estimated at 2.51 in 1985 compared to 1.89 in 1984. The higher revenue buoyancy of turnover taxes was largely a result of the discretionary measures introduced in the budget for 1985, which aimed at expanding the tax base. These measures included increase in tax rates, widening of the tax base and better law enforcement. Tax collection from the manufacturing sector at Rs. 3,619 million was an increase of 19 per cent, while the collection through turnover taxes from non-manufacturing sector at Rs. 2,746 million was a 42 per cent increase. Turnover taxes on imports increased by 21 per cent to Rs. 3,830 million.

In spite of the increase in licence fees, receipts from this source of revenue declined marginally to Rs. 190 million. Collection from property transfer taxes amounted to Rs. 328 million and indicated a decline of 19 per cent.

Total non tax revenue amounting to Rs. 6,529 million formed 18 per cent of government revenue in 1985. Interest income registered a 72 per cent increase largely due to higher receipts from sinking fund investment. Total profits and dividends which amounted to Rs. 425 million indicated a decline of 24 per cent. A sum of Rs. 1,500 million of non-tax revenue was a profit transfer from the Central Bank to the Government on account of settlement of government debt obligations to the Central Bank.

Indicators of Government Revenue Performance are presented in Table 1.40

TABLE 1.40
Government Revenue Performance*

	Growth Rates (%)			As a % of GDP			As a % of Total Revenue		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
1. Tax Revenue ..	34.2	50.8	- 1.3	17.0	20.3	19.3	82.1	82.7	82.5
1.1 Taxes on Production and Expenditure ..	32.5	48.5	- 2.9	14.2	16.7	15.6	68.5	68.0	66.7
1.1.1 General Sales and Turnover Taxes ..	53.6	30.8	25.2	5.1	5.3	6.4	24.7	21.6	27.3
1.1.2 Selective Sales Taxes ..	42.1	79.2	-32.1	2.7	3.8	2.4	12.8	15.3	10.5
1.1.3 Import Duties ..	50.1	64.3	5.6	4.0	5.2	5.2	19.2	21.1	22.5
1.1.4 Export Duties ..	- 1.0	29.1	-41.1	2.0	2.1	1.2	9.8	8.4	5.0
1.1.5 Licence Taxes ..	29.6	3.3	- 2.1	0.1	0.1	0.1	0.7	0.5	0.5
1.1.6 Property Transfer Tax ..	30.7	21.2	- 0.4	0.3	0.3	0.2	1.3	1.1	0.9
1.2 Taxes on Corporate and Non-Corporate Income ..	15.2	62.7	6.8	2.7	3.6	3.6	13.4	14.5	15.7
1.2.1 Corporate ..	17.1	50.3	24.4	2.0	2.4	2.9	9.8	9.8	12.4
1.2.2 Non-corporate ..	10.4	97.4	-30.4	0.7	1.1	0.7	3.6	4.7	3.3
1.3 Capital Transfer Taxes ..	- 7.2	36.1	-32.9	0.1	0.1	...	0.2	0.2	0.1
2. Non-Tax Revenue ..	80.8	44.5	0.2	3.7	4.2	4.1	17.9	17.3	17.5
2.1 Gross Receipts from Government Trading Enterprises ..	14.5	42.0	- 4.7	1.1	1.2	1.1	5.2	5.0	4.7
2.2 Interest Profits and Dividends ..	71.4	143.1	39.2	0.6	1.1	1.4	2.7	4.3	6.2
2.3 Sales and Charges ..	- 23.7	24.0	5.5	0.2	0.3	0.3	1.4	1.2	1.5
2.4 Social Security Contribution ..	- 0.6	19.0	7.1	0.1	0.1	0.1	0.3	0.2	0.2
2.5 Other Current Transfers ..	122.0	-30.0	39.1	0.1	0.1	0.1	1.8	0.8	0.1
2.6 Sale of Capital Goods ..	- 52.3	32.6	53.8	0.1
2.7 Repayment of Loans and Advances ..	54.6	252.1	-58.1	0.1	0.3	0.1	0.6	1.4	0.6
2.8 Central Bank Transfer ..	-	10.0	- 9.1	1.2	0.9	0.9	6.0	4.4	4.0
Total ..	41.6	49.7	- 1.0	20.7	24.7	23.4	100.0	100.0	100.0

*A detailed breakdown of Government Revenue is given in the Statistical Appendix.

Sources : General Treasury,
Central Bank of Sri Lanka.

Expenditure

Government expenditures made up of current and capital accounts at Rs. 67,103 million was an increase of 25 per cent in 1985 compared with an increase of 15 per cent in 1984. Reflecting a higher growth in total expenditure the expenditure/GDP ratio increased from 35 per cent in 1984 to 42 per cent in 1985. Bulk of the increase in total expenditure in 1985 was attributable to capital expenditure which increased by Rs. 9,582 million or 44 per cent to Rs. 31,332 million compared with an increase of less than 1 per cent in 1984.

Total current expenditure inclusive of advance account outpayment of Rs. 2,150 million amounted to Rs. 35,771 million in 1985 registering a 12 per cent increase over the previous year. However, current expenditure/GDP ratio increased marginally from 21 per cent in 1984 to 22 per cent in 1985 indicating a slow growth in recurrent outlays. The increase in current expenditure was mainly due to the enhanced expenditure on defence related activities.

Expenditure on goods and services which accounted for 44 per cent of total current expenditure in 1985 amounted to Rs. 15,904 million as compared with Rs. 13,646 million in 1984. In relation to GDP, expenditure on goods and services increased from 9 per cent in 1984 to 10 per cent in 1985. Of the total expenditure on goods and services Rs. 7,730 million was on account of salaries and wages which registered a 22 per cent increase over the previous year. The increase in expenditure on salaries and wages was attributed to salary increase on teachers and higher wage bill on defence personnel. Expenditure on other goods and services which amounted to Rs. 8,174 million included a sum of Rs. 1,848 million for the payment of taxes on behalf of the Mahaweli Development Projects, Rs. 500 million on account of import duty rebate, Rs. 981 million on trading enterprises and Rs. 1,498 million on defence activities.

During the year, current transfers to corporations amounted to Rs. 1,675 million indicating a decrease of 10 per cent over the previous year. Of these, a sum of Rs. 1,025 million was transferred on account of Fertilizer subsidy (Rs. 1,000 million) and subsidy to the National Milk Board (Rs. 25 million). A sum of Rs. 100 million was transferred to cover operational losses of certain corporations during the year. The major recipients of these transfers were the National Development Bank (Rs. 27 million) and the State Hardware Corporation (Rs. 42 million). Transfers to Local Authorities and other institutions amounted to Rs. 1,364 million in 1985 as compared to Rs. 648 million in 1984.

Transfers to households increased by 16 per cent to Rs. 6,151 million in 1985. The household transfers consisted of pensions (Rs. 2,364 million), food stamps (Rs. 1,437 million), interest subsidy to the National Savings Bank (Rs. 495 million), Kerosene Stamps (Rs. 422 million), free text books for school children (Rs. 60 million), mid-day meals for school children (Rs. 57 million), welfare payments under Department of Social Services (Rs. 278 million) and subsidy to Sri Lanka Transport Board (Rs. 135 million), to cover uneconomic routes.

TABLE 1.41
Government Expenditure

	Rs. Million			Growth Rate (%)			GDP Ratios (%)		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
1. Current Expenditure	25,083	31,842	35,771	30.4	26.9	12.3	20.6	20.7	22.4
1.1. Expenditure on goods and services	10,316	13,646	15,904	18.9	32.3	16.5	8.5	8.9	9.9
1.1.1 Salaries and Wages	5,577	6,313	7,730	11.1	13.2	22.4	4.6	4.1	4.8
1.1.2 Other goods and services	4,739	7,333	8,174	29.8	54.7	11.5	3.9	4.8	5.1
1.2 Transfer Payments	13,647	15,280	17,717	19.3	12.0	15.9	11.2	9.9	11.1
1.2.1 Transfers to Government Corporations	1,958	1,865	1,675	15.4	- 4.7	-10.2	1.6	1.2	1.0
1.2.2 Household Transfers	4,474	5,321	6,151	8.0	18.9	15.6	3.7	3.5	3.8
1.2.3 Transfers to Local Authorities and other Institutions	609	648	1,364	23.0	6.4	110.5	0.5	0.4	0.9
1.2.4 Interest on Public Debt	6,606	7,446	8,527	29.4	12.7	14.5	5.4	4.8	5.3
1.3 Advance Account Outpayments	1,120	2,916	2,150	227.4	160.4	-26.3	0.9	1.9	1.3
2. Capital Expenditure	21,733	21,750	31,332	16.4	0.1	44.1	17.9	14.1	19.6
2.1 Amortization Payments	5,302	2,229	6,709	102.9	-57.9	200.9	4.4	1.4	4.2
2.2 Capital Transfers to Government Corporations	10,123	11,845	11,691	- 3.2	17.0	- 1.3	8.3	7.7	7.3
2.3 Capital Transfers to Local Authorities, Institutions and Abroad	328	242	408	80.2	26.2	68.6	0.3	0.2	0.3
2.4 Acquisition of Financial Assets	801	901	1,770	11.6	12.5	96.4	0.7	0.6	1.1
2.5 Allocation to Government Departments	5,179	6,533	10,754	10.3	26.1	64.6	4.3	4.2	6.7
3. Total Expenditure	46,816	53,592	67,103	23.5	14.5	25.2	38.5	34.9	42.0

Sources : General Treasury,
Central Bank of Sri Lanka.

Total payments on account of interest on government debt amounted to Rs. 8,527 million reflecting an increase of 15 per cent over the previous year. The interest payments as a percentage of total current expenditure at 24 per cent compared with 23 per cent in the previous year.

Advance accounts operations in 1985 resulted in a net outpayment of Rs. 2,150 million as compared with Rs. 2,916 million in the previous year. The increase in net outpayments on advance account was reflected in the accounts relating to government departments, loans from advance accounts and surplus balances and advances for stores and materials. Major outpayments in 1985 were in respect of food purchase and distribution account (Rs. 1,130 million), Public Corporations (Rs. 705 million), Civil Medical Stores (Rs. 187 million), Telecommunication Stores Account (Rs. 63 million) and the Railway Department (Rs. 33 million).

During the year, the total gross capital expenditure amounted to Rs. 31,332 million. The increase in capital expenditure by 44 per cent over the previous year was mainly due to higher repayment of rupee loans and largely attributable to the abolition of sinking fund operations.

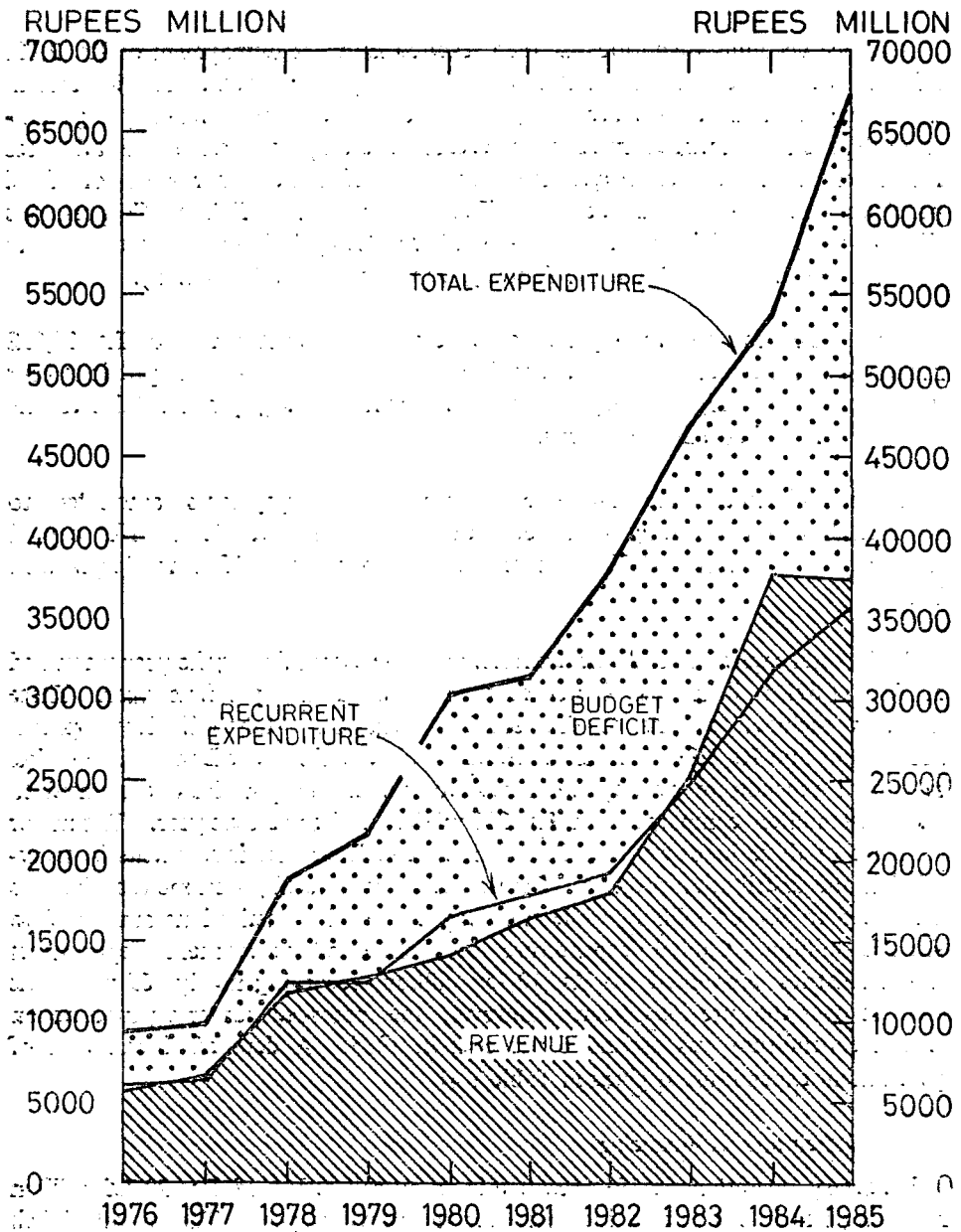
The capital expenditure exclusive of amortization payments amounted to Rs. 24,623 million indicating an increase of 26 per cent over 1984. Net capital expenditure in relation to GDP increased from 13 per cent in 1984 to 15 per cent in 1985.

Of the total capital expenditure, transfers to corporations during the year amounted at Rs. 11,691 million was 1 per cent less than in the previous year. These transfers included a sum of Rs. 5,492 million on Mahaweli Development Programme and Rs. 1,095 million on Water Supply and Drainage Board. Allocation of capital expenditure by way of loans to certain corporations amounted to Rs. 1,770 million compared with Rs. 901 million in the previous year. The major recipient of these loans was the Ceylon Electricity Board for investments in transmission and distribution projects. Capital transfers to local government authorities amounted to Rs. 64 million, while transfers to the other institutions amounted to Rs. 269 million. Capital expenditure on behalf of government departments and ministries amounted to Rs. 10,754 million recording nearly 65 per cent increase over the previous year. However, the recorded under-expenditure on capital expenditure was around 6 per cent in 1985. A detailed breakdown of government expenditure is given in Table 1.41.

Budget Deficit and its Financing

Budgetary operations in 1985 resulted in an overall deficit of Rs. 29,759 million recording nearly a two-fold increase over the previous year. The overall deficit accounted for 44 per cent of total government expenditure in 1985 as compared with 30 per cent in 1984. As a ratio of GDP, the overall deficit increased from 10 per cent in 1984 to 19 per cent in 1985. Net cash deficit amounting to Rs. 23,050 million in 1985 registered a sharp increase of 69 per cent over the previous year while the net cash deficit/GDP ratio increased from 9 per cent to 14 per cent in 1985.

GOVERNMENT REVENUE AND EXPENDITURE



In financing the net cash deficit a sum of Rs. 11,105 million was obtained from external resources. External loans and grants accounted for 48 per cent of the net cash deficit as compared with 72 per cent in 1984. However, as a percentage of GDP, the use of external resources in financing the net cash deficit increased marginally from 6 per cent in 1984 to 7 per cent in 1985. Total foreign loans by way of projects, commodity and other loans amounted to Rs. 7,109 million compared with Rs. 6,492 million in 1984. Total foreign grants amounting to Rs. 3,996 million accounted for 36 per cent of the total foreign finance in 1985 as against 34 per cent in 1984.

Net resources mobilised from non-bank sources amounted to Rs. 5,916 million in 1985 registering a marginal decrease over the previous year. Borrowings from non-bank sources which accounted for 26 per cent of the net cash deficit consisted of Rs. 2,748 million from the Employees Provident Fund (EPF), Rs. 1,777 million from the National Savings Bank (NSB) and Rs. 755 million from other captive and non captive sources.

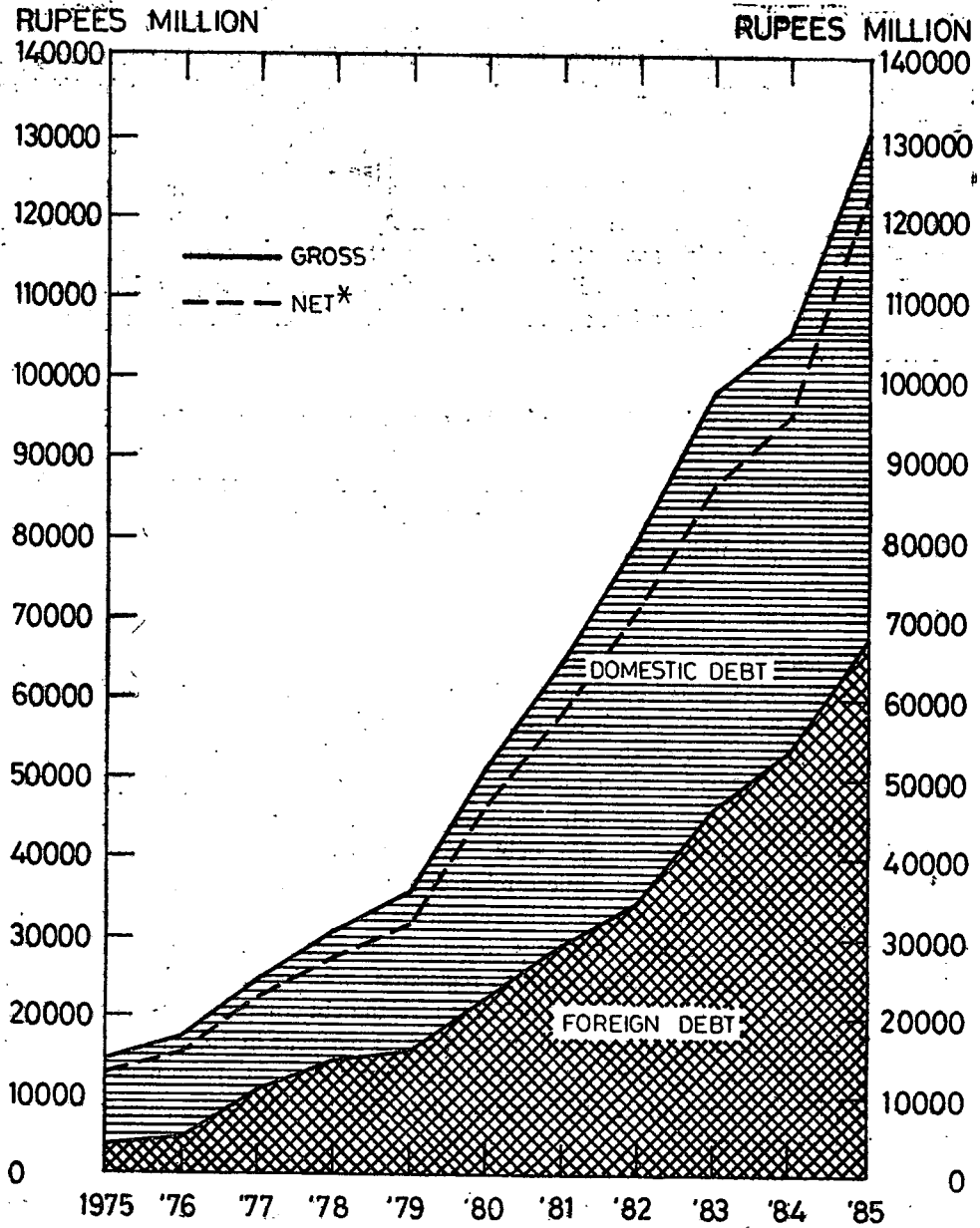
Government borrowings from the banking system amounting to Rs. 7,127 million reflected an increased recourse for bank finance during the year. This accounted for 5 per cent of GDP. The use of resources from the banking system resulted in a net expansionary impact of Rs. 6,029 million in contrast to the contractionary impact of Rs. 2,095 million in the previous year.

Government Debt

The Budget deficit continued to be financed by a combination of domestic and foreign borrowings, and consequently the outstanding government debt increased from 105,918 million in 1984 to Rs. 130,870 million in 1985. The growth of government debt exceeded the growth of nominal GDP and resulted in a higher debt/GDP ratio of 82 per cent in 1985 compared with 69 per cent in 1984. The outstanding gross government debt consisted of Rs. 63,197 million of domestic debt and Rs. 67,673 million of foreign debt. As compared with last year, domestic debt increased by 21 per cent while foreign debt inclusive of the additional liability of Rs. 6,883 million on account of the exchange rate fluctuations increased by 26 per cent. However, the outstanding foreign debt exclusive of the liability on account of exchange rate fluctuations registered an increase of 13 per cent. Reflecting the growth of government debt the foreign debt component as a percentage of GDP, increased from 35 per cent in 1984 to 42 per cent in 1985 while domestic debt/GDP ratio increased from 34 per cent to 39 per cent. Government debt net of sinking funds as at end of 1985 amounted to Rs. 123,720 million recording an increase of 29 per cent.

The domestic debt component which accounted for 48 per cent of the total debt consisted of Rs. 36,689 million of medium and long term debt and Rs. 26,508 million of short term debt. Medium and long term debt increased by 10 per cent over the previous year, while short term debt increased by 40 per cent. Accordingly, the share of medium and long term debt in the total domestic debt decreased from 64

COMPOSITION OF GOVERNMENT DEBT



* -Gross Government debt less sinking funds.

Source: Annual Report of the Central Bank of Sri Lanka, 1985.

per cent to 58 per cent in 1985, while the share of short term debt increased from 36 per cent to 42 per cent. The composition of outstanding debt as at end of 1985, along with the comparative figures for the previous year are given in table 1.42.

TABLE 1. 42
Government Debt

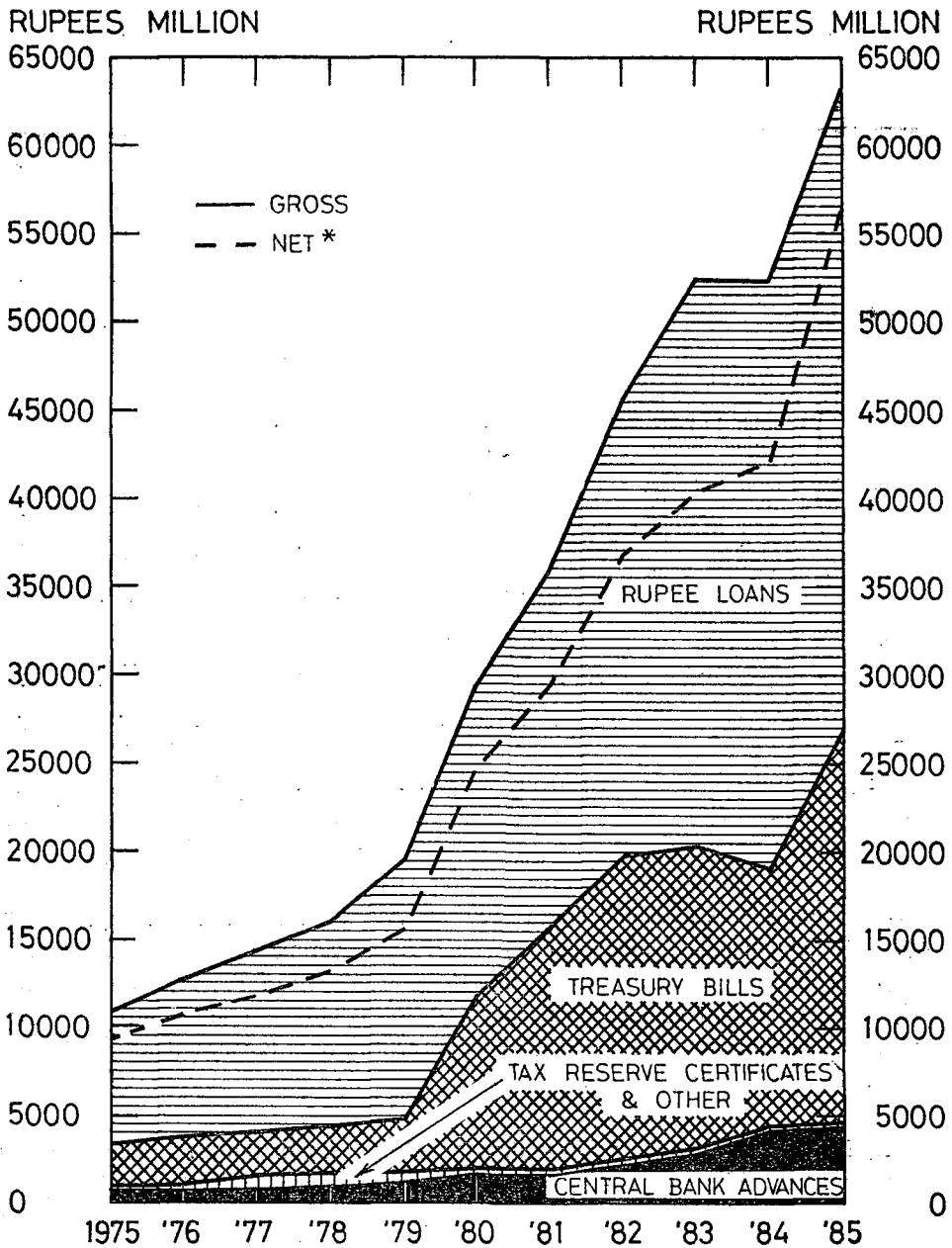
Source	Rs. Million				Change as a Percentage	
	Outstanding amount		Change		1984	1985
	1984	1985	1984	1985		
1. Domestic Debt	52,236.9	63,196.7	- 117.7	10,959.8	-0.2	21.0
2.1 Medium and Long-Term Debt	33,323.8	36,689.1	1,173.7	3,365.3	3.7	10.1
2.1.1 Rupee Loans	33,227.4	36,570.1	1,273.8	3,342.8	4.0	10.1
2.1.2 Administrative borrowings	96.3	119.0	- 100.2	22.5	-51.0	23.6
2.2 Short-term debt	18,913.1	26,507.6	-1,291.0	7,594.0	-6.4	40.2
2.2.1 Treasury Bills	14,860.0	22,280.0	-2,540.0	7,420.0	-14.6	49.9
2.2.2 Tax Reserve Certificates	9.6	9.4	- 0.3	- 0.2	-3.0	-2.1
2.2.3 Central Bank Advances	4,043.5	4,218.2	1,249.0	174.7	44.7	4.3
2. External Debt	53,680.8	67,673.2	7,655.7	13,992.4	16.6	26.1
1.1 Project Loans	25,971.0	36,405.9	6,440.0	10,434.9	33.0	40.2
1.2 Non-Project Loans	27,709.8	31,267.3	1,215.7	3,557.5	4.6	12.8
1.2.1 Commodity	18,426.3	22,372.9	538.3	3,946.6	3.0	21.4
1.2.2 Other	9,283.5	8,894.4	678.0	- 389.1	7.9	4.2
Total	105,917.7	130,869.9	7,538.0	24,952.2	7.7	23.6

Source : Central Bank of Sri Lanka.

Rupee loans which formed almost 100 per cent of total medium and long term domestic debt increased by 10 per cent in 1985 as compared with an increase of 4 per cent in the previous year. During the year, a sum of Rs. 10,550 million was raised by way of rupee securities as against Rs. 4,344 million in 1984. Major subscribers to the rupee loans in 1985 were the National Savings Bank (NSB) and Employees' Provident Fund (EPF).

The NSB subscribed Rs. 5,630 million or 53 per cent of the total value of rupee loans in 1985. This was a more than four fold increase over the previous year. The higher level of subscriptions by the NSB was made possible due to the increase in receipts from past investments. Total savings in the NSB amounted to Rs. 1,685 million in 1985 compared to Rs. 2110 million in the previous year. Receipts from past investment amounted to Rs. 6,326 million in 1985 compared with Rs. 2,638 million in 1984. The EPF subscribed 42 per cent of rupee loans or Rs. 4,418 million in 1985 indicating an increase of 40 per cent over the

COMPOSITION OF DOMESTIC DEBT



* Gross domestic debt less sinking funds.

previous year. This increase was due to the availability of resources mobilized through higher receipts from members' contributions and income from investments. Total receipts from members contributions in 1985 increased by 21 per cent to Rs. 1,921 million and income from investment increased by 30 per cent to Rs. 1,552 million. The EPF also had receipts of Rs. 2,485 million from maturity proceeds of investments.

The other subscribers to the rupee loan programme during the year were various Pensions and Provident Funds (Rs. 175 million), the Bank of Ceylon (Rs. 150 million), Departmental and other official funds (Rs. 125 million), the National Insurance Corporation (Rs. 29 million), the National Housing Sinking Fund (Rs. 19 million) and Post Office Security fund (Rs. 4 million). Total investments on rupee loans by these subscribers amounting to Rs. 502 million registered a three-fold increase over the previous year.

While resource mobilization through rupee securities increased during the year, the interest rate on rupee securities was reduced from 16 per cent to 14 per cent per annum, effective 1st September, 1985. Hence, rupee securities to the value of Rs. 7,000 million or 66 per cent of the total value of securities were issued at 16 per cent with a six year maturing period and the balance amount of Rs. 3,550 million or 34 per cent of the value of rupee securities was issued at 14 per cent per annum with the same maturing period.

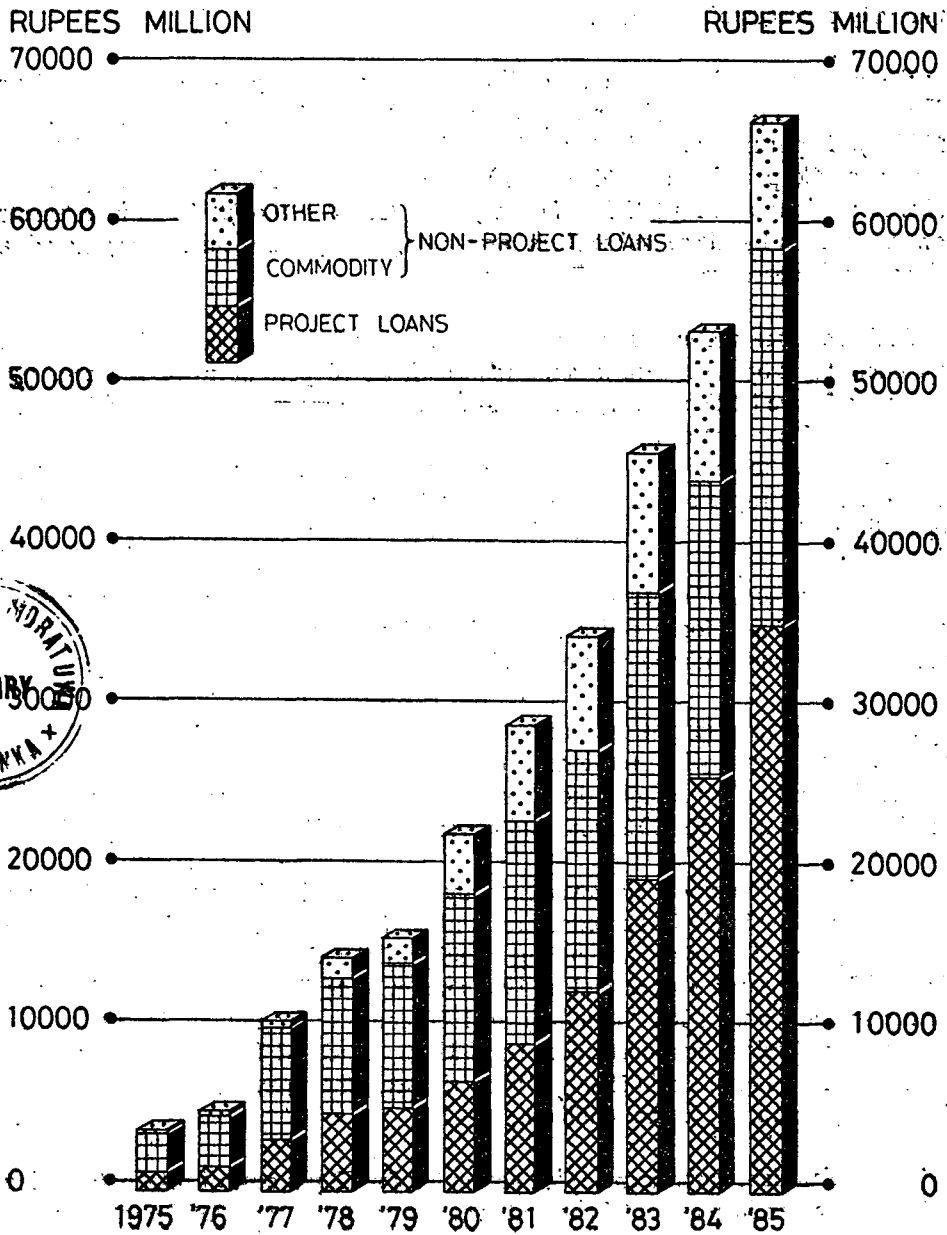
Total repayments of rupee loans in 1985 amounted to Rs. 7,208 million on account of thirty one rupee loans which matured during the year. However, Rs. 2,295 million was repaid from the resources held by sinking funds.

Total borrowings against Treasury bills during the year amounted to Rs. 7,420 million as compared with retirement of Treasury bills amounting to Rs. 2,540 million in 1984. Accordingly, the outstanding liability on Treasury bills as at end of 1985 amounted to Rs. 22,280 million as compared to Rs. 14,860 million in 1984.

Provisional advances to the government by the Central Bank registered an increase of Rs. 175 million in 1985 when compared with an increase of Rs. 1,249 million in the previous year. The total outstanding liability of the Government on account of Central Bank advances as at end of 1985 amounted to Rs. 4,218 million, inclusive of the special loans of Rs. 308 million in 1980 and Rs. 277 million in 1983. The outstanding foreign administrative borrowings increased from Rs. 96 million in 1984 to Rs. 119 million in 1985. During the year, the repayment of administrative borrowings amounted to Rs. 8 million.

The foreign debt component which accounted for 52 per cent of total outstanding debt recorded an increase of 26 per cent over the previous year. Of the total foreign debt, the outstanding liability in respect of loans obtained on commercial terms amounted to Rs. 8,205 million registering an increase of 11 per cent over the previous year. However, the share of commercial loans in foreign debt declined from 14 per cent to 12 per cent in 1985.

COMPOSITION OF FOREIGN DEBT



The gross borrowings through foreign sources during the year amounted to Rs. 8,898 million and registered an increase of 1 per cent over the previous year. Gross foreign borrowings accounted for 30 per cent of the overall budget deficit compared with 56 per cent in 1984. Borrowings in the form of commercial loans amounted to Rs. 476 million compared with Rs. 1,624 million in the previous year. Repayment of foreign loans during the year amounted to Rs. 1,789 million and resulted in a net borrowing of Rs. 7,109 million in 1985, as compared with Rs. 7,373 million in 1984.

Total interest commitments on government debt amounting to Rs. 8,318 million showed an increase of 14 per cent as compared with an increase of 10 per cent in the previous year. While interest on domestic debt amounted to Rs. 6,477 million, those on foreign debt was Rs. 1,841 million. During the year, interest payments on domestic debt increased by 12 per cent as compared with an increase of 9 per cent in the previous year, whereas, interest payments on foreign debt increased by 25 per cent as compared with 16 per cent increase in the previous year.

Interest payments on Treasury bills increased by 17 per cent primarily due to the servicing of a large quantum of outstanding bills at a higher rate of interest in the middle of the year. Accordingly, the share of interest commitments on Treasury bills in the total interest on domestic debt also increased from 33 per cent to 35 per cent. On the other hand, interest payment on rupee loans increased by 9 per cent when compared with a 21 per cent increase in the previous year. The increase in interest payments was modest in 1985 despite the increase of the quantum of rupee loans during the year owing to the lowering of interest rates. However, the interest payment on foreign administrative borrowings remained unchanged at Rs. 3 million.

Interest payments on foreign debt consisted of Rs. 604 million on project loans, Rs. 534 million on commodity loans and Rs. 703 million on other loans. Reflecting the substantial increase in external borrowings as well as a greater proportion of borrowings on commercial terms, the interest commitment on foreign loans, increased by 25 per cent over the previous year. Thus, interest on foreign debt included Rs. 893 million on account of commercial borrowings. In 1984, it was Rs. 679 million. Continuing the trend observed in the recent past, interest payment as a proportion of current expenditure also increased from 21 per cent to 23 per cent during 1985. However, interest / GDP ratio remained unchanged at the previous year's level of 5 per cent.

Total debt service payments (interest and amortization payments) amounted to Rs. 15,044 million in 1985 indicating an increase of 58 per cent over the previous year. This was the result of the increased expenditure on direct repayment of rupee loans due to the cessation of the sinking fund operations. As a result, of the increased expenditure and low revenue collection in 1985, the total debt service payments in relation to government revenue increased from 25 per cent to 40 per cent.