

GOVERNMENT FISCAL OPERATIONS

The fiscal operations of the Government during the year, 1981 were centred on improving budgetary management. Fiscal adjustments, in order to contain the level of absorption of resources by the Government, were pursued in recognition of the fact that an unduly expansionary fiscal policy would increase the inflationary pressures in the economy and thus negate the beneficial effects of the new economic policies. After the imbalances created by fiscal operations in 1980, prudent demand management policies demanded a scaling down of government expenditure. Even at the time of formulation of the Budget for 1981, a 25 per cent expenditure cut was enforced. In addition, a further reduction of both recurrent and capital expenditure was enforced during the course of the fiscal year. This included a 3 per cent reduction in recurrent expenditure and a 10 per cent reduction in capital expenditure. All on-going and proposed projects were re-phased. On the other hand, the revenue raising efforts of the Government were not relaxed. Improved budgetary management resulted in government's recourse to the banking system being considerably reduced, by as much as forty per cent, as compared with 1980.

Though fiscal aggregates for the year were quite high in nominal terms, the year's performance showed some positive trends in comparison with the previous year. The budget deficit as a percentage of the Gross Domestic Product (GDP) showed a decline from 24 per cent to 17 per cent. In absolute terms, the deficit decreased from Rs. 16,274 million to Rs. 14,873 million. The current account of the budget still showed a deficit of Rs. 1,382 million, which however, was considerably smaller than in the previous year. The growth of overall government expenditure was contained at 3 per cent, as against 41 per cent in 1980. The total government expenditure as a percentage of the GDP also declined from 46 per cent to 36 per cent. The favourable fiscal developments were mainly in respect of the capital account and to some extent the advance accounts operations.

Total revenue receipts of the Government at Rs. 16,228 million in 1981 recorded a 15 per cent growth, as compared with 11 per cent in the previous year. As in the past, the total revenue receipts were in excess of the total recurrent expenditure exclusive of advance accounts operations. However, as a percentage of the GDP the total revenue declined by two percentage points in 1981 from 21 to 19 per cent.

During the year, recurrent expenditure excluding advance accounts operations amounted to Rs. 15,887 million, recording an increase of 20 per cent over the previous year. However, recurrent expenditure as a share of GDP declined from 20 per cent in 1980 to 19 per cent. Total capital expenditure including sinking fund contributions and debt repayments stood at Rs. 13,491 million registering a marginal decrease of 3 per cent over last year, as compared with the previous year's increase of 54 per cent. The share of capital expenditure in GDP declined from 21 per cent to 16 per cent.

The advance accounts operations ended up with an out-payment of Rs. 1,723 million, as against the budgetary anticipation of an in-payment of Rs. 675 million. With the current account deficit of Rs. 1,382 million and capital expenditure of Rs. 13,491 million, the overall budget deficit amounted to Rs. 14,873 million.

TABLE 1 · 34

Government Fiscal Operations 1978 — 1982

Rs. Million

Item	1978	1979	1980	1981 Approved Estimates	1981 Provisional	1982 Approved Estimates
1. Revenue (a)	11,688	12,730	14,068	15,550	16,228	19,319
2. Recurrent Expenditure	10,408	11,502	13,249	15,332	15,887	20,664
3. Advance Accounts Operations (deficit - /Surplus +)	- 1,831	- 1,028	- 3,240	+ 675	- 1,723	+ 100
4. Current Account (Surplus + /Deficit -)	- 551	+ 200	- 2,421	+ 893	- 1,382	- 1,245
5. Capital Expenditure	6,614	8,991	13,854	12,739	13,491	19,915
Of which : Sinking Fund and Amortization payments and contributions to International Financial Organisations	(1,165)(b)	(1,182)(b)	(1,502)(b)	(1,620)	(1,608)(b)	(2,806)
6. Budget Deficit	7,165	8,791	16,274	11,846	14,873	21,160
7. Financing the Deficit						
7-1 Domestic Sources	2,653	4,582	9,610	3,750	6,622	6,970
(a) Non-bank market borrowing	2,033	2,806	2,700	3,750	2,379	4,000
(b) Non-market borrowing	453	1,096	- 216	—	326	—
(c) Banking system (c)	167 (d)	680 (d)	7,126 (d)	—	3,917 (d)	2,970
7-2 Foreign Finance	4,454	4,237	6,735	8,100	8,290	14,190
(a) Commodity loans	1,359	1,415	1,431	8,100	1,722	14,190
(b) Project loans	1,645	830	1,171		2,064	
(c) Grants	661	1,390	2,620		2,803	
(d) Other loans	789	602	1,513		1,701	
7-3 Use of cash balances	58	- 28	- 72	- 4	- 38	—
8. Expansionary Impact of Government Fiscal Operations	173	634	7,029	- 4	3,847	2,970

Sources : Central Bank of Ceylon,
General Treasury.

(a) Excludes capital grants in revenue, shown under foreign grants.

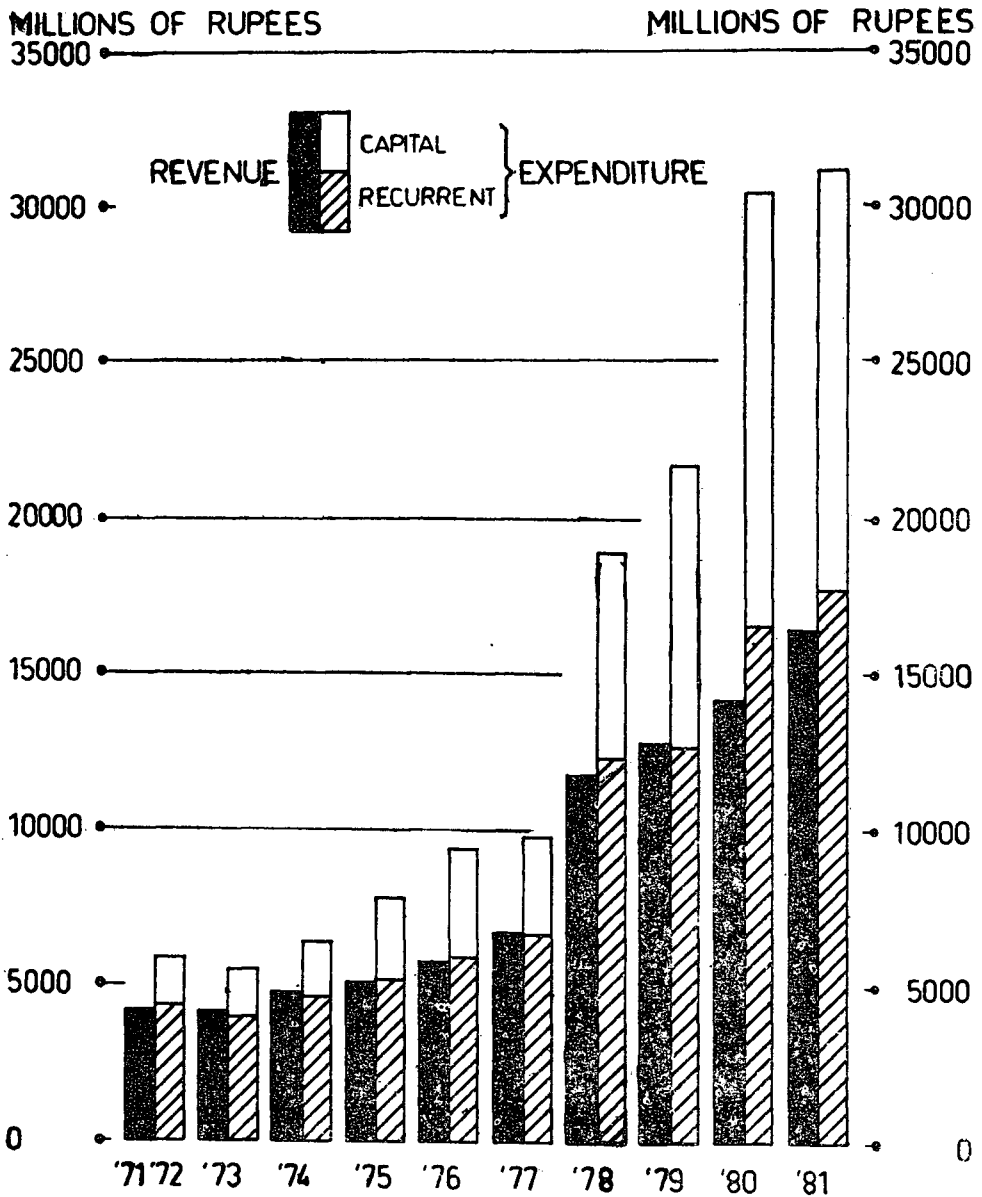
(b) Includes repayment of foreign administrative borrowings of Rs. 174 million in 1978, Rs. 178 million in 1979, Rs. 271 million in 1980 and Rs. 37 million in 1981.

(c) Includes Special Advances from Central Bank to meet contributions to international financial organisations.

(d) Not adjusted for re-payments of rupee loans of Rs. 52 million in 1978, Rs. 18 million in 1979, Rs. 25 million in 1980 and Rs. 32 million in 1981, to the banking system.

GOVERNMENT REVENUE & EXPENDITURE

DATA BY FINANCIAL YEARS*



Central Bank of Ceylon.

* Financial year 1971/72 relates to 15 months from 1st October, 1971 to 31st December, 1972. Financial years from 1973 relate to the year ending 31st December. 1981 figures are provisional.

The deficit of Rs. 14,873 million was financed from resources obtained from both domestic and foreign sectors. While the domestic sector financed 44 per cent, the balance 56 per cent was financed from foreign resources. As against the targeted foreign finance of Rs. 8,100 million, a sum of Rs. 8,290 million was obtained from foreign sources, which also included commercial borrowings amounting to Rs. 1,518 million. While project and commodity loans amounted to Rs. 2,064 million and Rs. 1,722 million, respectively, grants amounted to Rs. 2,803 million.

With regard to domestic borrowings, the non-bank market borrowings was the only important non-inflationary source of finance. Total resources made available from the captive non-bank market sources in the form of rupee loans amounted to Rs. 2,379 million in 1981, as against the envisaged target of Rs. 3,750 million. Diversion of savings of the captive sector for investments other than in rupee securities and deceleration in the incremental rate of growth in savings with the National Savings Bank (NSB) were primarily responsible for the sharp decrease in finances realised from these sources. Paucity of finance from these sources made the Government resort to financial recourse from the banking sector and to facilitate this process, the Treasury bills limit was raised from Rs. 10 billion to Rs. 18 billion. In 1981, a sum of Rs. 3,917 million was obtained from the banking system. With the redemption of existing rupee loans of the banking system amounting to Rs. 32 million, the expansionary impact of the Government fiscal operations during the year thus amounted to Rs. 3,847 million, as compared with Rs. 7,029 million in 1980. This amounted to 26 per cent of the total budget deficit and was equivalent to 5 per cent of the GDP, as against 43 per cent and 11 per cent, respectively, in the previous year.

A summary of fiscal operations for the year, 1981 is given in Table 1.34. The net cash deficit on account of the Government fiscal operations for 1981 is shown in the Statistical Appendix along with comparable data for the past 10 years.

Revenue

Total revenue receipts during the year, 1981 amounted to Rs. 16,228 million, showing an increase of Rs. 2,160 million or 15 per cent over the previous year. One half of the increase was on account of higher receipts accruing from business turnover taxes. Turnover tax collections at Rs. 2,829 million recorded a substantial increase of 73 per cent. Increased receipts arising from a high level of economic activity and the increases in the price level together with the enhanced rates announced in the 1981 budget, account for this substantial increase. To a lesser extent, wider coverage to include imports during the tail-end of 1981 also contributed to the increase. The other major increase in revenue in 1981 was in non-tax revenues. These increased by Rs. 472 million and registered a 30 per cent growth. There were also increased collections from import duties, selective sales taxes and income taxes.

Total tax revenue of Rs. 14,195 million which recorded a 14 per cent increase, accounted for 87 per cent of the total revenue receipts as against the previous year's share of 89 per cent. The marginal decline in the relative share was due to the lower rate of growth of tax revenue in comparison to non-tax revenue, which increased at a higher rate as a result of upward revisions in rates and charges. In the tax revenue category, indirect taxes still formed the principal source of receipt which at Rs. 12,106

million comprised 85 per cent of the total tax revenue and 75 per cent of total revenue receipts. The overall increase in indirect tax receipts on production and expenditure was Rs. 1,734 million or 17 per cent, in comparison to 6 per cent for the previous year. On the other hand, direct tax receipts at Rs. 2,090 million accounted for 15 per cent of the total tax revenue and 13 per cent of the total revenue. Corresponding shares during last year were 17 per cent and 15 per cent, respectively.

As in the past, the major item of indirect tax revenue was export duties, which netted a total collection of Rs. 3,685 million. However, its relative share declined from 26 per cent in the previous year to 23 per cent, on account of a decrease in the incremental growth arising from downward revisions in export duties, aimed at providing favourable producer margins and also due to a higher incremental growth in certain other categories of revenue. On a disaggregated basis, while export duties from rubber and coconut registered 3 per cent and 10 per cent increases, respectively, those from tea recorded a 2 per cent decline. In the case of rubber, despite a downward revision in the sliding scale of duties, the additional duty receipts were mainly due to an increase in the export volume and a marginal increase in the rupee prices (f.o.b.). The increase on duty receipts from coconut was primarily on account of a higher export volume and to some extent due to the operational change effected in the levy of duty with effect from 12th November, 1981. With regard to tea, which is subject to a specific export duty on volume, the decrease was a result of downward revision of the rates of duty. The duty receipts from minor export commodities, amounting to Rs. 133 million, registered an increase of 18 per cent, due to both favourable export prices and higher volumes of export. However, in the case of graphite, increased duty collections were mainly due to higher f.o.b. prices which, despite a 35 per cent drop in export volume, registered a 10 per cent increase in the export value.

Import duties, being the second major item of tax revenue, had a total collection of Rs. 3,225 million and recorded a 10 per cent increase. The preceding year's growth was 29 per cent. The deceleration was caused by a decline in the incremental rate of growth in the expenditure on imports which declined markedly from 50 per cent in 1980 to 4 per cent. The share of import duty in the total revenue declined from 21 per cent during the previous year to 20 per cent. The average import duty rate remained constant at 9 per cent. Excluding imports such as rice, wheat grain and flour, petroleum and fertilizer, the average duty rate also remained constant at 14 per cent.

Selective sales taxes also formed a major item of revenue with a total receipt of Rs. 2,028 million registering an increase of Rs. 150 million or 8 per cent, as against last year's negative growth of 2 per cent. However, its share in the total revenue declined marginally from 13 to 12 per cent. Tobacco taxes with a collection of Rs. 1,123 million, registered a marginal increase of Rs. 123 million or 12 per cent, which was more on account of an increase in the volume of sales. Excise from liquor at Rs. 749 million showed an increase of Rs. 66 million or 10 per cent. This was mainly from upward revisions in the rates of duties. Tea ad-valorem tax with a total receipt of Rs. 86 million registered a 16 per cent decline over the previous year, mainly due to the upward revision in the operative price above which the tax applies, which was increased from Rs. 16 to Rs. 18 per kilogram with effect from 1st April,

1981. Collections from the administrative levy on coconut kernel products decreased from Rs. 93 million to Rs. 69 million. This levy was withdrawn towards the end of the year. An ad-valorem duty on a sliding scale replaced this levy as well as the specific duty on coconut kernel products.

Receipts from direct taxes which amounted to Rs. 2,090 million showed a marginal decrease of 2 per cent. The major component of direct taxes comprised income taxes both personal and corporate and accounted for as much as 97 per cent of the total direct tax revenue. However, the share of direct taxes in the total revenue declined from 15 to 13 per cent.

The improved performance of non-tax revenue which recorded a 30 per cent increase with a total receipt of Rs. 2,033 million was on account of an overall increase in all categories of non-tax revenue. Receipts from trading enterprises recorded a 35 per cent increase mainly on account of upward revisions of rates and charges relating to postal and telecommunication services. With the public corporate sector making increased contributions to the Consolidated Fund, the total receipts accruing on the payment of dividends, interest and repayment of loans amounted to Rs. 412 million, registering an increase of Rs. 60 million or 17 per cent. The share of non-tax revenue in the total revenue increased from 11 per cent in 1980 to 13 per cent in 1981.

Even though revenue from external trade oriented taxes increased sharply in 1978 as an indirect result of the changes in the par value of the Sri Lanka rupee, with the frequent reductions in export duties, it has tended to decline. This seems to partly explain the Government's inability to balance its expenditure with available revenue. The relative share of indirect taxes in the total revenue increased from 74 to 75 per cent. The revenue performance viewed with reference to macro aggregates showed a considerable improvement in its degree of relative responsiveness. The overall revenue and tax ratios registered marginal decreases. During the year the total revenue and tax revenue as a percentage of GDP amounted to 19 and 17 per cent, as against 21 and 19 per cent, respectively, for the previous year. However, the degree of responsiveness of revenue to changes in nominal money income in the economy showed an improvement. As against last year's revenue and tax coefficients of 0.389 and 0.449, the current year's revenue and tax coefficients were 0.541 and 0.476, respectively. A recognizable share of the incremental GDP in the economy still accrues from the non-tree crop sector, which is virtually exempted from taxes, and many other sectors which indicate high levels of productivity continued to enjoy tax holidays granted in order to attract investment.

Recurrent Expenditure

The total recurrent expenditure, net of advance accounts operations, amounted to Rs. 15,887 million showing an increase of Rs. 2,638 million or 20 per cent, as compared with last year's increase of 15 per cent. As a result, the share of recurrent expenditure in aggregate government expenditure increased from 44 per cent in the previous year to 51 per cent.

The three main items of recurrent expenditure namely, personal emoluments, pensions and interest on public debt increased by 30 per cent in comparison to 19 per cent for the previous year. As a result, the share of the three items in aggregate

recurrent expenditure increased from 50 per cent in the previous year to 54 per cent. While personal emoluments increased from Rs. 3,653 million to Rs. 3,992 million or by 9 per cent and pensions from Rs. 718 million to Rs. 904 million or by 26 per cent, interest on public debt increased substantially from Rs. 2,241 million to Rs. 3,738 million or by 67 per cent. Interest payments on foreign debt was Rs. 713 million, while those on domestic debt amounted to Rs. 3,025 million, in comparison to Rs. 413 million and Rs. 1,828 million, respectively for the previous year. This substantial increase of 65 per cent relating to interest payments on domestic debt was due to the upward revision of interest rates on rupee securities from 10 to 16 per cent and on Treasury bills from 9 to 13 per cent with effect from mid 1980, and also on account of the increase in the quantum of outstanding Treasury bills. Between 1980 and 1981 interest payments on Treasury bills recorded a near three fold increase from Rs. 441 million to Rs. 1,306 million, while those on rupee securities registered a 27 per cent increase from Rs. 1,330 million to Rs. 1,694 million. Total interest payments on public debt accounted for 23 per cent of the total recurrent expenditure, as against the last year's share of 17 per cent. Personal emoluments and pensions taken together showed an increase of 12 per cent and their share in the total recurrent expenditure declined from 33 per cent in the previous year to 31 per cent.

Transfers on major subsidies during the year amounted to Rs. 3,403 million, in comparison to Rs. 3,861 million in the previous year. Expenditures on food and kerosene stamps amounted to Rs. 1,521 million and Rs. 164 million, respectively. While the consumer subsidy on infant milk food amounted to Rs. 82 million, the amount transferred to the National Milk Board on account of producer oriented subsidy was Rs. 44 million. A sum of Rs. 27 million was also paid out under the price support scheme for tea as an incentive to producers of green leaf. The total interest subsidy to National Savings Bank (NSB) was Rs. 388 million, of which a sum of Rs. 262 million was in respect of the current year, and the balance in respect of the fiscal year 1979. Despite increases in international prices, the total payment in respect of fertilizer subsidy amounting to Rs. 1,080 million remained around the budgetary estimate. Under the import duty rebate scheme, mainly covering the garment exports, a sum of Rs. 391 million was expended, as against Rs. 348 million for the previous year. On the current transfers, a positive development was seen with regard to payments relating to reimbursement of losses of semi-government entities, which during the year was confined to Rs. 107 million as against Rs. 657 million for the previous year which included Rs. 457 million to the Sri Lanka Central Transport Board (SLCTB). The major beneficiaries during the year were the C. W. E. (Rs. 76 million), the Paper Corporation (Rs. 11 million) and the Fertilizer Corporation (Rs. 10 million).

Advance Accounts

The total outstanding debit balance in the advance account was Rs. 9,619 million in comparison to last year's balance of Rs. 7,896 million. Accordingly, the net out-payment in the advance account operation amounted to Rs. 1,723 million, as against the in-payment of Rs. 675 million anticipated in the original budget estimates. However, the current year's performance showed a significant improvement, when compared with the previous year's net out-payment of Rs. 3,240 million. This positive development was brought about by a substantial decrease in the advances to

government departments, which was limited to Rs. 509 million in comparison to last year's net advances of Rs. 3,091 million. The Food Purchase and Distribution Account, the major component of government department advances, had a considerably reduced net-outpayment of Rs. 588 million when compared with the previous year's payment of Rs. 2,093 million. During the year the net outpayment on account of unissued stores and materials amounted to Rs. 166 million. With the out-payment of Rs. 200 million to the SLCTB reflected against the in-payment of Rs. 74 million from various sources, the net position in the loans from Advance Accounts and Surplus Balances amounted to Rs. 126 million, in comparison to last year's in-payment of Rs. 195 million. The outstanding debit balance in the Sri Lanka-China Trade Account increased from Rs. 96 million, to Rs. 444 million and accordingly the net-outpayment during the year amounted to Rs. 349 million. The net advances connected with reimbursible capital expenditure amounted to Rs. 574 million. The current account itself would have generated a surplus of Rs. 341 million if not for the net-outpayment of Rs. 1,723 million in the advance accounts. Its share in the current expenditure and total government expenditure however, declined from 24 per cent and 11 per cent in 1980 to 11 per cent and 6 per cent, respectively.

Capital Expenditure

In 1981, total capital expenditure inclusive of sinking fund contributions and amortization payments amounted to Rs. 13,491 million, in comparison to Rs. 13,854 million in the previous year. There was a decrease of 3 per cent during the year when viewed against the increase of 54 per cent in the previous year. This was the outcome of a deliberate policy decision to contain capital expenditure to the extent of available resources. Accordingly, overall investment programmes were re-phased with greater emphasis being given to on-going and priority projects. Total capital expenditure as a percentage of GDP decreased from 21 in the previous year to 16 in 1981. Total sinking fund contributions and amortizations amounted to Rs. 1,608 million.

Actual capital expenditure net of sinking fund contributions and amortization payments when viewed in relation to the budgetary estimates including supplementaries, showed an under-expenditure of Rs. 1,533 million or 11 per cent. The actual capital expenditure deflated by the GNP deflator revealed that capital expenditure in real terms amounted to only Rs. 3,559 million in 1981, as compared with Rs. 4,361 million in 1980, thus recording a decline of 18 per cent. This was an inevitable development in a situation where deliberate attempts were made to confine expenditure only to on-going and priority projects. A ministry-wise classification of capital expenditure is given in the Statistical Appendix.

In addition to the capital expenditure in the Government sector and those arising from out-right capital grants to semi-government entities, budget oriented capital expenditure also included those investment activities in the semi-government sector financed out of loans, which during the year amounted to Rs. 569 million. Of these, the Ceylon Electricity Board was granted Rs. 195 million. Other recipients of investment loans were : Galadari Hotel (Rs. 75 million), Rubber Authority (Rs. 74 million), the SLCTB (Rs. 171 million) and National Housing Development Fund (Rs. 45 million).

When compared with the allocation of Rs. 3,750 million, the actual expenditure on the Mahaveli project in 1981 was Rs. 3,636 million, recording under-expenditure of 3 per cent. The total amount expended on development work connected with Stage I, II and III was Rs. 366 million, of which a sum of Rs. 354 million was on Stage II and III. The total expenditure on the accelerated programme was Rs. 3,270 million. The respective financial outlays in the accelerated programme were : Victoria (Rs. 969 million), Kotmale (Rs. 974 million), Maduru Oya (Rs. 643 million), Minipe Anicut and Trans Basin Canal (Rs. 335 million), Irrigation System 'C' (Rs. 180 million), Irrigation System 'B' (Rs. 90 million), Randenigala (Rs. 17 million) and System 'A' feasibility study and Trans Basin diversion study (Rs. 62 million).

The housing programme of the Ministry of Local Government, Housing and Construction absorbed nearly 40 per cent of the total ministry vote. While a sum of Rs. 605 million was expended on the urban housing programme, a sum of Rs. 183 million was spent on the electoral housing programme. The aided self-help housing programme including the model village scheme had a financial outlay of Rs. 173 million. The commitments on the construction of public servants' quarters and the programme for improvement of slums and shanties were Rs. 21 million and Rs. 16 million, respectively.

During the year, a total sum of Rs. 587 million was spent by the main line ministries on the Sri Jayawardenapura complex. The Department of Buildings and the UDA spent a sum of Rs. 495 million on the main construction activities connected with both the parliamentary complex and administrative complex. While a sum of Rs. 52 million was paid to the Electricity Board for the supply of electricity, the expenditure relating to telecommunication services amounted to Rs. 38 million.

Budgetary allocation for the GCEC amounted to Rs. 56 million and the entire sum was utilised during the year. Expenditure was mainly in connection with the provision of infrastructure facilities. Of the allocation, a sum of Rs. 35 million was spent on the Katunayake Investment Promotion Zone, while the expenditure on the Biyagama Investment Promotion Zone was Rs. 6 million.

Financing of the Budget Deficit

Fiscal operations in 1981 resulted in a budget deficit of Rs. 14,873 million, indicating a decrease of 9 per cent over the deficit for the previous year. The deficit as a percentage of GDP declined from 24 per cent in the previous year to 17 per cent. The relative share of the budget deficit in the aggregate government expenditure also declined from 54 per cent to 48 per cent. The entirety of the budget deficit was not on account of capital expenditure. It included commitments on current expenditure amounting to Rs. 1,382 million. Accordingly, 9 per cent of the deficit financed current consumption, in comparison to 15 per cent in the previous year.

Nearly 56 per cent of the deficit was financed with foreign resources while the balance comprised domestic resources. This compares with 41 per cent and 59 per cent, respectively in the previous year. While total foreign finance received

as project loans amounted to Rs. 2,064 million, those received in the form of commodity loans amounted to Rs. 1,722 million. The entire sum of Rs. 1,701 million classified under 'other loans' consisted cash loans, of which a drawing on the EURO-currency commercial loans amounted to Rs. 1,518 million, as against last year's drawing of Rs. 898 million. A sum of Rs. 175 million was received from the OPEC and the balance sum of Rs. 8 million was from the IMF in the form of a Trust Fund Loan. Grants received in the form of commodity and project aid amounting to Rs. 2,803 million financed 19 per cent of the total resource gap and comprised one-third of the total foreign finances. Though grants amounting to Rs. 2,803 million were used for budgetary expenditure, the total amount received during the year was in the region of Rs. 3,118 million.

In the case of domestic resources that contributed to the financing of the deficit, the performance of the non-bank market borrowings was below expectations. In comparison to the budget estimate of Rs. 3,750 million, only a sum of Rs. 2,379 million was received, due to a drastic fall in the contributions from the NSB to government securities, arising both from a decrease in the rate of mobilisation of savings and to some extent on account of diversification of investments of the NSB. Until 1980, there was a steady increase in the quantum of funds generated from this source towards financing the budget deficit, but in 1981 there were signs that this cannot be sustained in the future with the same momentum. In overall terms, a sum of Rs. 2,424 million was realised. However, with a repayment of Rs. 43 million of Treasury bills and a sum of Rs. 2 million for Tax Reserve Certificates, held by the non-bank sector, the total resources that were available for financing of the deficit amounted to Rs. 2,379 million.

The non-market borrowing absorbed a 2 per cent of the share of the total budget deficit. Its relative share in the total domestic financing was 5 per cent. Excluding administrative borrowings and a relatively small quantum of finance obtained from miscellaneous sources, the other major segment of the non-market borrowing was made up of various types of deposits. As against last year's negative contribution of Rs. 216 million, this sector contributed a total of Rs. 326 million during the year under review.

In gross terms a sum of Rs. 3,876 million was obtained by the issue of Treasury bills with Central Bank contributing almost the entirety of it. During the year, the two state owned commercial banks also contributed to rupee securities to the value of Rs. 89 million as part of the operation of the Government to increase its equity contribution to the two state banks. Banks, however, were not normally allowed to take up new issues of Rupee securities. In net terms, with the outstanding Central Bank Advances showing a decrease of Rs. 91 million, the Central Bank's net contribution towards financing of the budget deficit was in the region of Rs. 3,828 million. Gross contributions of the commercial banks amounted to Rs. 89 million. Accordingly, the total net bank finances made available towards the bridging of the budget deficit amounted to Rs. 3,917 million. Cash balances run down by Rs. 38 million also helped to finance the balance deficit.

Public Debt

The outstanding gross public debt as at end of 1981 was Rs. 64,999 million, recording an increase of 26 per cent as compared with a 46 per cent rise in the previous year. During the year, the gross domestic debt rose by 22 per cent while foreign debt increased by 31 per cent. Accordingly, the proportion of domestic debt in total public debt declined from 57 per cent in 1980 to 55 per cent in 1981. As at end of the year, the outstanding gross domestic debt amounted to Rs. 35,827 million and the foreign debt Rs. 29,172 million. Total interest payments on public debt amounted to Rs. 3,716 million, recording a sharp increase of 69 per cent over the previous year. Reflecting this increase, the ratio of public debt interest payments to GDP increased from 3.3 per cent in 1980 to 4.4 per cent in 1981. The total debt service payments, including interest commitments, amortization and sinking fund contributions amounted to Rs. 5,324 million, compared with Rs. 3,702 million for the previous year. Accordingly, the debt service ratio (debt service payments as a ratio of total government revenue) increased from 26 per cent in 1980 to 33 per cent in 1981. While the external debt service ratio¹ increased from 12.4 per cent to 13.4 per cent, the external public debt service ratio showed a marginal increase rising from 4.5 per cent to 5 per cent.

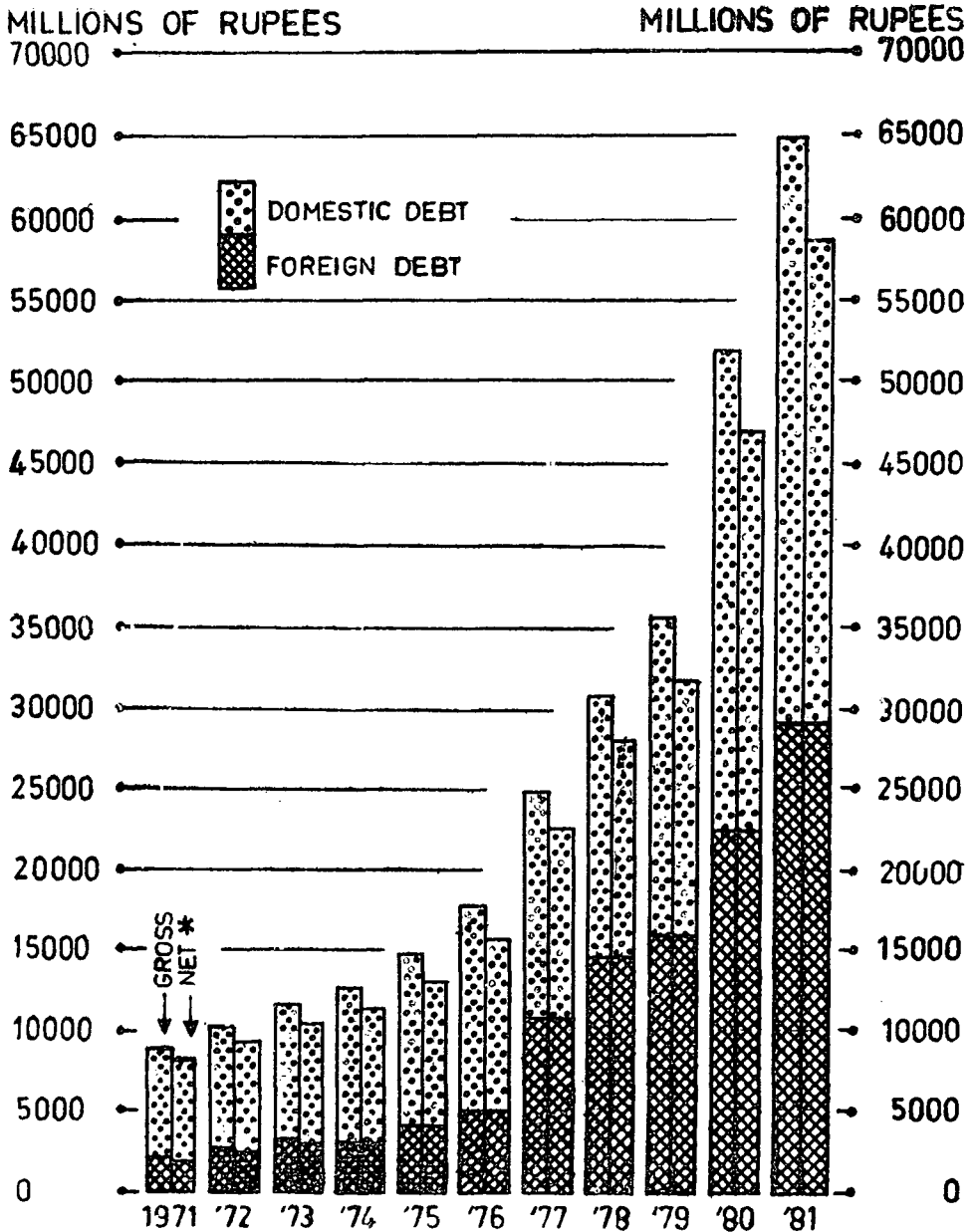
The gross domestic debt increased from Rs. 29,379 million in 1980 to Rs. 35,827 million in 1981. While funded debt (long and medium term debt consisting mainly of rupee securities) increased from Rs. 17,939 million to Rs. 20,360 million, floating debt (Treasury bills, Central Bank Advances and Tax Reserve Certificates etc.) rose from Rs. 11,440 million to Rs. 15,467 million. Thus, the share of floating debt in the total domestic debt stood at 43 per cent, as compared with last year's share of 39 per cent.

During the year, the total amount of resources raised from rupee securities amounted to Rs. 2,512 million, as against the budgeted estimate of Rs. 3,750 million. In comparison, the total issues in 1979 and 1980 amounted to Rs. 2,950 million and Rs. 2,802 million, respectively. This decrease in the issue of rupee securities was due to varied reasons. Resources were pre-empted by semi-government agencies to meet extra budgetary expenditure commitments amounting to Rs. 493 million. The Urban Development Authority (UDA) issued debentures valued at Rs. 433 million, while the State Mortgage and Investment Bank's (SMIB) issues amounted to Rs. 60 million. In addition, savings institutions also changed the investment portfolio by seeking more lucrative sources of investment.

The National Savings Bank, one of the principal subscribers to rupee securities in the past, contributed only a sum of Rs. 286 million during 1981. There were two reasons, namely : a diversification of its investment portfolio and the marked decline in the level of savings mobilized. The NSB invested Rs. 57 million in UDA debentures, while a sum of Rs. 119 million was retained on short-term investments with commercial banks. A further Rs. 74 million was offered in the secondary Treasury bills market. The savings mobilized by the NSB which amounted to Rs. 667 million in 1980 decreased to Rs. 518 million, a decline of 22 per cent. Following these

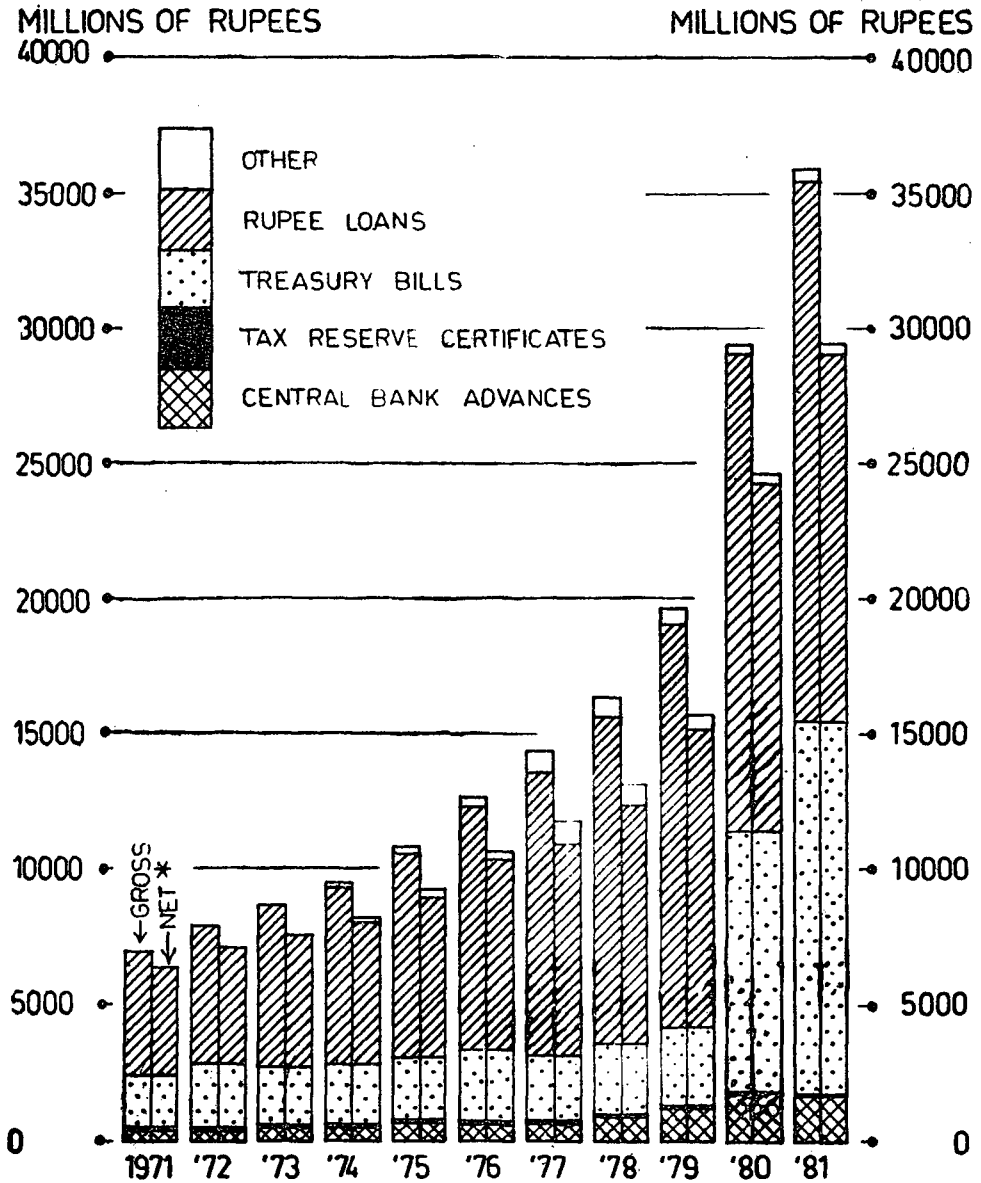
1. This ratio refers to central government debt as well as loans from the IMF and public sector suppliers' credits.

COMPOSITION OF PUBLIC DEBT



* Gross public debt less sinking funds. 1981 figures are provisional.

COMPOSITION OF DOMESTIC DEBT



* Gross public debt less sinking funds. 1981 figures are provisional.

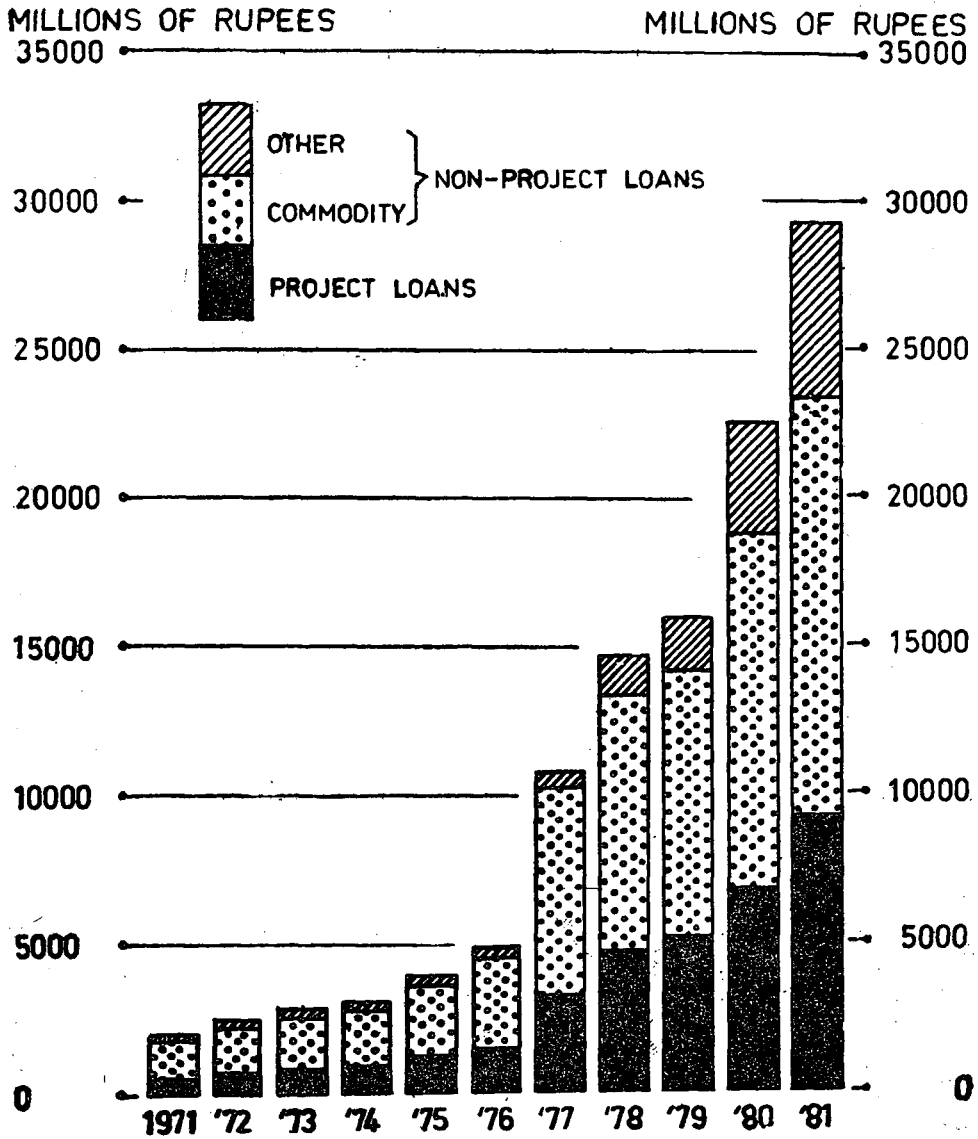
developments, the NSB's contribution to rupee securities declined from Rs. 918 million in 1980 to Rs. 286 million in 1981. The Insurance Corporation of Sri Lanka was another source which drastically reduced its contribution to rupee securities by subscribing only Rs. 40 million, as against last year's subscription of Rs. 136 million. Sinking Funds and Employees' Provident Fund were the principal contributors to rupee securities with a holding of Rs. 1,021 million and Rs. 1,022 million respectively, each contributing 41 per cent towards the total issues in 1981 as compared with last year's shares of 29 and 32 per cent, respectively. While the high level of government contributions to the sinking fund enabled the Joint Investment Fund (JIF) to increase its contributions to rupee securities as compared with 1980, the increase in EPF's contributions was mainly the outcome of greater mobilisation of resources resulting from the upward revision of the minimum contribution rates with effect from 1st January, 1981. Despite diversion of resources towards extra budgetary programmes of expenditure, with Sinking Funds and EPF holding debentures amounting to Rs. 370 million and Rs. 66 million respectively, these captive sources increased their contributions to rupee securities by 24 and 13 per cent, respectively in 1981. After a lapse of about 5 years, the Bank of Ceylon and the People's Bank entered the rupee security market in 1981 with a total contribution of Rs. 89 million. This was however, connected with the enhanced equity contributions the Government was making towards the capital of the two banks. All rupee securities issued during the year were medium term securities with 3 year maturities at 16 per cent interest per annum. During the year, total repayment of rupee loans was confined to Rs. 98 million.

Net borrowings on Treasury bills for the year amounted to Rs. 4,120 million, in comparison with last year's borrowings of Rs. 6,800 million. The ceiling on Treasury bills was increased from Rs. 10,000 million to Rs. 18,000 million during the year. The total amount of Treasury bills outstanding as at the end December, 1981 amounted to Rs. 13,920 million. The banking sector's holding of Treasury bills increased from Rs. 9,613 million in 1980 to Rs. 13,774 million in 1981, of which the Central Bank's holdings amounted to Rs. 13,761 million, recording an increase of Rs. 4,156 million. Thus almost the entirety of the banking sector's holdings of Treasury bills were in the hands of the Central Bank. The interest rates on Treasury bills remained unchanged at 13 per cent per annum. There were new developments in the Treasury bill market with the issue of 6 months Treasury bills, in addition to the 3 months issues. Further, the Central Bank launched a scheme to develop a Secondary Bill Market in 1981.

In 1981, provisional advances to government under Section 89 of the Monetary Law Act showed a decrease of Rs. 91 million, as against an increase of Rs. 183 million in 1980. The total outstanding liability on Central Bank Advances as at end of the year amounted to Rs. 1,536 million, which also included a sum of Rs. 308 million under the Central Bank Special Loans granted to the Government in 1980 for payment of subscriptions to international organisations. The outstanding Tax Reserve Certificates as at end of the year amounted to Rs. 11 million, recording a decrease of Rs. 2 million.

The total foreign debt outstanding as at end December, 1981 amounted to Rs. 29,172 million, recording an increase of Rs. 6,895 million or 31 per cent, as compared with an increase of 41 per cent in the previous year. The depreciation of

COMPOSITION OF FOREIGN DEBT



Central Bank of Ceylon

1978 onwards, other loans inclusive of I.M.F. Trust Fund Loan, 1981 figures are provisional.

the Sri Lanka rupee vis-a-vis some of the major currencies increased the outstanding liability by Rs. 2,162 million during the year. Donors wrote-off debts amounting Rs. 147 million, of which Rs. 143 million was on project loans and the balance on commodity loans.

Gross receipts of foreign loans in the form of project, commodity and cash and other loans amounted to Rs. 5,487 million during the year, in comparison to Rs. 4,116 million in the previous year. Project loans amounted to Rs. 2,064 million, while commodity loans totalled Rs. 1,722 million and the balance Rs. 1,701 million comprised other loans inclusive of the EURO-Currency loan of Rs. 1,518 million and OPEC loan of Rs. 175 million. Repayments of foreign loans during the year amounted to Rs. 607 million, of which Rs. 384 million (63 per cent) was on commodity loans, Rs. 169 million (28 per cent) on project loans and the balance Rs. 54 million (9 per cent) on cash and other loans.

Major sources of project loans during the year were Canada (Rs. 528 million), the International Development Association (Rs. 520 million), China (Rs. 331 million), the Asian Development Bank (Rs. 191 million), the U.S.A. (Rs. 163 million), Japan (Rs. 109 million), the International Fund for Agricultural Development (Rs. 68 million), Kuwait (Rs. 49 million), Denmark (Rs. 37 million) and the Federal Republic of Germany (Rs. 30 million). Major donors of commodity loans were the Netherlands (Rs. 552 million), the U.S.A. (Rs. 406 million), France (Rs. 353 million), Japan (Rs. 289 million) and Canada (Rs. 83 million).

During the year, the Government contracted 16 project loans, 7 commodity loans and 2 cash and other loans. The value of these loans amounted to Rs. 14,495 million as compared with Rs. 8,714 million in the previous year. As at end of 1981 the aggregate utilisation rate of the loans contracted since 1970 was 53 per cent. In 1980 this ratio stood at 56 per cent. The level of utilisation in project loans was 22 per cent. However, commodity loans registered a much higher utilisation rate of 72 per cent while cash loans were fully utilised.

Interest payments on public debt amounted to Rs. 3,716 million in 1981 recording an increase of Rs. 1,516 million or 69 per cent over the previous year. A sum of Rs. 3,003 million was paid on domestic debt, while the balance sum of Rs. 713 million was on the foreign debt. Interest payments on domestic debt increased by Rs. 1,216 million or 68 per cent, and interest payments on foreign debt increased by Rs. 300 million or 73 per cent. Interest payments on domestic debt were made up of Rs. 1,694 million on rupee loans and Rs. 1,306 million on Treasury bills. Interest payments on Treasury bills rose by Rs. 865 million, recording a three fold increase during the year. Accordingly, the share of interest commitments on Treasury bills in the total domestic debt also increased from 25 per cent in 1980 to 43 per cent in 1981. While the proportion of rupee loans in the total domestic debt decreased from 60 to 56 per cent, the interest payments on rupee loans increased by Rs. 364 million or 27 per cent. Interest payment on Foreign Administrative borrowings decreased from Rs. 15 million in 1980 to Rs. 3 million during the year under review.