

Debt service payments, consisting of amortization and interest payments in respect of long-term debt, suppliers' credits, IMF drawings and borrowings from banks and other institutions abroad increased by 25.4 per cent in rupee terms rising from Rs. 3,529 million (SDR 157 million) in 1981 to Rs. 4,424 million (SDR 193 million) in 1982. The corresponding increase in SDR terms was 22.9 per cent, as compared with 14.4 per cent increase in 1981. Amortization and interest payments to the IMF decreased by 4.1 per cent in 1982 as compared with 1981, while debt service payments in respect of other loans increased by 53.9 per cent over the same period. The net outcome of these developments was that the overall debt service ratio increased from 13.3 per cent in 1981 to 15.2 per cent in 1982. The debt service ratio exclusive of IMF transactions increased from 6.8 per cent to 9.5 per cent over the same period.

GOVERNMENT FISCAL OPERATIONS

The Government fiscal operations showed a slight deterioration from the level of improvement in budgetary operations achieved in 1981. Fiscal disequilibrium which was quite severe in 1980 was partly corrected in 1981, but the performance in 1982 did not match up to the favourable responses emanating from the budget of 1981.

Fiscal Outturn

Total government expenditure for the year 1982 was Rs. 38,097 million and was 23 per cent higher than in 1981. As a percentage of GDP at current prices it increased from 36.6 per cent to 38.0 per cent in 1982. Recurrent expenditure increased by 8.5 per cent over the previous year and amounted to Rs. 19,230 million during the year under review. Total revenue at Rs. 17,809 million showed an increase of 10 per cent. Consequently, the current account of the budget was in deficit by Rs. 1,421 million. This was despite a favourable development in the Advance Account operations where a net in-payment of Rs. 883 million was recorded after 13 successive years of out-payment. The deficit in current account was in contrast to the last few years experience when the current account exclusive of the adverse advance account operations was in surplus. Capital expenditure during the year amounted to Rs. 18,867 million and showed an increase of 41 per cent over 1981. The overall budget deficit registered in 1982 amounted to Rs. 20,289 million and was equivalent to about 20 per cent of the GDP in comparison to 17 per cent in 1981.

The deficit was financed from resources obtained from both domestic and foreign sources. Domestic sources were used to finance 54 per cent while the balance was financed from foreign resources. Total foreign finance amounted to Rs. 9,270 million as against a targetted sum of Rs. 14,198 million. While project, commodity and other loans including cash loans amounted to Rs. 3,256 million, Rs. 1,355 million and Rs. 1,090 million respectively, grants amounted to Rs. 3,569 million.

TABLE 1.44
Government Fiscal Operations 1979-1982

Rs. Million.

Item	1979	1980	1981	1982	
				Approved Estimates	Provisional
1. Revenue (a) ..	12,730	14,068	16,228	19,311	17,809
2. Recurrent Expenditure ..	11,502	13,249	16,005	20,664	20,113
3. Advance Accounts Operations (In-payment + /Out-payment -) ..	- 1,028	- 3,240	- 1,716	+ 100	+ 883
4. Current Account (Surplus + /Deficit -) ..	+ 200	- 2,421	- 1,493	- 1,253	- 1,421
5. Capital Expenditure of which: Sinking Fund and Amortization payments and contributions to International Financial Organisations ..	8,991 (1,182)(b)	13,854 (1,502)(b)	13,373 (1,608)(b)	19,915 (2,806)	18,867 (2,612)(b)
6. Budget Deficit ..	8,791	16,274	14,866	21,168	20,289
7. Financing the Deficit					
7.1 Domestic Sources ..	4,582	9,610	6,696	6,970	11,253
(a) Non-bank market borrowing ..	2,806	2,700	2,379	4,000	5,894
(b) Non-market borrowing ..	1,096	- 216	400	—	1,354
(c) Banking system(c) ..	680(d)	7,126(d)	3,917(d)	2,970	4,006(d)
7.2 Foreign Sources ..	4,237	6,735	8,208	14,198	9,270
(a) Commodity loans ..	1,415	1,431	1,722	14,198	1,355
(b) Project loans ..	830	1,171	2,064		3,256
(c) Other loans ..	602	1,513	1,701		1,090
(d) Grants ..	1,390	2,620	2,721		3,569
7.3 Use of cash balances ..	- 28	- 72	- 38	—	- 235
8. Expansionary Impact of Government Fiscal Operations ..	634	7,029	3,847	2,970	3,755

Sources: General Treasury,
Central Bank of Ceylon.

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

(b) Includes repayment of foreign administrative borrowings of Rs. 178 million in 1979, Rs. 271 million in 1980, Rs. 37 million in 1981 and Rs. 49 million in 1982.

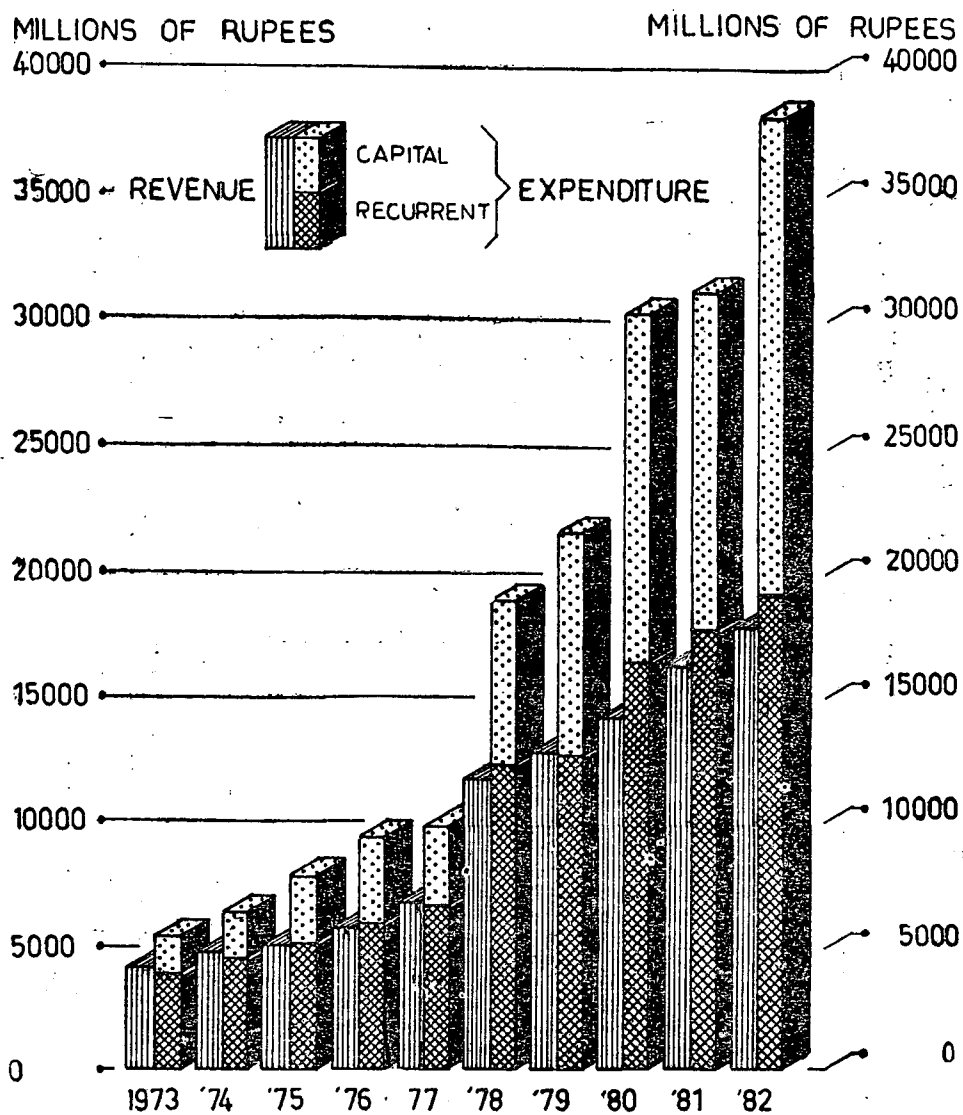
(c) Includes Special Advances from Central Bank to meet contributions to international financial organisations.

(d) Includes repayments of rupee loans of Rs. 18 million in 1979, Rs. 25 million in 1980, Rs. 32 million in 1981 and Rs. 16 million in 1982 to the banking system.

* Differs from Treasury books by 3 million.

GOVERNMENT REVENUE & EXPENDITURE

DATA BY FINANCIAL YEARS



Among domestic resources non-bank market borrowings amounted to Rs. 5,894 million as against an original estimate of Rs. 4,000 million. Non-market borrowing contributed Rs. 1,354 million. All these resources were still insufficient to bridge the overall deficit and a sum of Rs. 4,006 million had to be obtained from the banking sector. With a repayment of existing rupee loans amounting to Rs. 16 million and a build-up of cash balances by Rs. 235 million, the expansionary impact of fiscal operations of the year amounted to Rs. 3,755 million.

A summary of fiscal operations for 1982 is given in Table 1.44. The net cash deficit on account of the Government fiscal operations is shown in the Statistical Appendix along with comparable data for the past nine years.

Revenue

Total government revenue in 1982 amounted to Rs. 17,809 million, indicating an increase of 10 per cent over the previous year. Tax revenue which increased by 9 per cent accounted for 87 per cent of total revenue while non-tax revenue which increased by 17 per cent accounted for 13 per cent of total revenue. The increase in the tax revenue was brought about largely by sharp increases in turnover taxes and income taxes, the combined effect of which was partly offset by a substantial decrease in collections from export duties. Non-tax revenue increased due to substantial increases in miscellaneous receipts.

The level of growth of revenue, however, was below that of nominal GDP. Thus, revenue as a percentage of GDP declined from 19 per cent in 1981 to 18 per cent in 1982, the lowest ratio in the last decade, signalling an inherent deficiency in the existing tax system to keep pace with the growth of national income. According to tentative calculations of buoyancy ratios of revenue and taxes,¹ co-efficients of revenue and taxes declined from 0.553 and 0.486 respectively to 0.541 and 0.479 respectively, indicating a worsening of the mobilization of revenue during the year. In sharp contrast to the experience in the last decade when revenue collections always exceeded original targets, realized collections of revenue for the year in relation to the original estimates showed a shortfall of about 8 per cent. The apparently poor fiscal marksmanship in 1982 was partly a result of an over-estimation of international trade oriented taxes which was subject to vicissitudes of trade specially during a year when the world economy was in deep recession.

Even though relative shares of tax revenue and non-tax revenue remained unchanged, substantial changes were visible in the structure of tax revenue. The rate of growth of indirect taxes was only marginal, though it accounted for the major share of tax revenue. This resulted in a decline in its relative share from 75 per cent in 1981 to 70 per cent in 1982. The slow growth in indirect taxes was a result of a

¹ Buoyancy ratios of Government revenue (e_r) and tax revenue (e_t) with respect to GDP are defined as follows:

$$e_r = \frac{\text{Percentage change in revenue}}{\text{Percentage change in GDP at market prices}}$$

$$e_t = \frac{\text{Percentage change in tax revenue}}{\text{Percentage change in GDP at market prices}}$$

sharp decline in collections from export duties. Partly as a result of this and partly due to higher rates of growth, the share of direct taxes in revenue increased from 12 per cent in 1981 to 16 per cent in 1982.

Collection from turnover taxes which accounted for 23 per cent of total revenue amounted to Rs. 4,051 million, indicating a sharp increase of 43 per cent. This increase relates to the extension of the tax base to cover imports, an increase in the rates and removal of certain exemptions as announced in the 1982 Budget. Total turnover taxes on trade and professions amounted to Rs. 1,524 million, manufacturing to Rs. 1,805 million and imports to Rs. 722 million.

Export duties amounted to Rs. 2,484 million in 1982 indicating a sharp decline of 33 per cent as compared with 1981. Thus, the share of export duties in total revenue declined from 23 per cent in 1981 to 14 per cent in 1982. This was partly due to a 26 per cent decrease in collections of export duty on tea resulting from the lowering of the duty to provide for a reasonable producer margin, as announced in the 1982 Budget. In contrast to a marginal increase of 3 per cent in 1981, export duty on rubber decreased by 47 per cent due to lower f.o.b. prices fetched during the year. In coconut too lower f.o.b. prices led to a 21 per cent decrease in spite of an increase in the volume of exports. Export duty on minor agricultural crops indicated a sharp decline of 38 per cent mainly due to the suspension of export duties on mattress fibre in mid 1981, bristle fibre (twisted) in mid 1982 and the decrease in duty collections in respect of cinnamon products resulting from the Mexican crisis.

Although, collections of duties decreased marginally by Rs. 3 million, the share of import duties in total revenue decreased from 20 per cent to 18 per cent in 1982. As in the previous years, the average rate of incidence remained unchanged at 9 per cent. However, excluding rice, wheat grain, flour, petroleum and fertilizer, it declined from 14 per cent to 13 per cent in 1982.

Selective sales taxes amounted to Rs. 2,273 million, indicating an increase of 12 per cent as compared with 8 per cent last year. However, the relative share in total revenue remained unchanged at 13 per cent. Collection of tobacco tax, which as in the previous years formed the major component, increased by 17 per cent as compared with 12 per cent last year, due to a marginal increase in the volume and an increase in the rates of duties. Excise duty on liquor amounted to Rs. 808 million recording an increase of 8 per cent. Tea (ad-valorem) tax collections increased by 73 per cent in 1982 reflecting increases in auction prices during the latter part of the year.

In contrast to a decrease of 2 per cent in the previous year, revenue from direct taxes increased substantially by 43 per cent. Collections of corporate tax increased by 45 per cent largely due to higher accruals of revenue from manufacturing and transport sectors. The withdrawal of the lump sum depreciation in March, 1981 too would have contributed to this increase. Revenue from non-corporate income taxes rose by 41 per cent on account of higher collections of personal income taxes inclusive of arrears from previous years. As in 1981, income taxes accounted for 98 per cent of total direct taxes.

The major item in non-tax revenue was gross receipts from government trading enterprises, which amounted to Rs. 1,247 million showing an increase of 10 per cent. Receipts from other sources increased by 26 per cent mainly due to higher receipts from sales and charges, interest and profits and dividends. Sales and charges increased by 72 per cent reflecting increases in fees and charges announced in late 1981. Receipts of interest increased by 47 per cent and profits and dividends by 76 per cent due to increases in the budgetary contribution of corporations.

Recurrent Expenditure

Total recurrent expenditure net of advance account operations amounted to Rs. 20,113 million, showing an increase of 26 per cent. Thus recurrent expenditure in relation to GDP increased from 19 per cent in 1981 to 20 per cent in 1982. The share of recurrent expenditure in aggregate expenditure, too increased from 51 per cent to 53 per cent.

The bulk of the increase in expenditure was accounted for by interest payments on public debt, personal emoluments and pensions, the combined expenditure on which amounted to Rs. 11,555 million indicating an increase of 31 per cent as compared with 33 per cent in 1981. Thus, the share of these items in total recurrent expenditure increased from 55 per cent in 1981 to 57 per cent. Interest payments increased by 33 per cent to Rs. 5,116 million largely on account of substantial increases in interest on domestic debt. Total interest commitments on domestic debt at Rs. 4,201 million indicated an increase of 34 per cent. While interest on rupee loans increased by 28 per cent to Rs. 2,167 million that on Treasury bills increased by 53 per cent to Rs. 2,001 million reflecting the increased quantum of the outstanding debt. Personal emoluments during the year increased by 18 per cent to Rs. 4,802 million on account of the adjustments of salaries with effect from 1st January, 1982 and the payment of a variable cost of living allowance. Expenditure on pensions increased sharply by 81 per cent to Rs. 1,637 million due to the payment of cost of living allowance and the consolidation of pensions.

Transfer payments on account of the major subsidies during the year amounted to Rs. 3,410 million in comparison to Rs. 3,442 million in 1981. Expenditure on food and kerosene stamps amounted to Rs. 1,475 million and Rs. 171 million respectively. While the subsidy on infant milk food amounted to Rs. 93 million, producer subsidy to the Milk Board was Rs. 46 million. Expenditure on the Price Support Scheme for green tea leaf amounted to Rs. 24 million. The interest subsidy to the NSB was Rs. 401 million as compared to Rs. 388 million in 1981. Fertilizer subsidy to the agriculture sector amounted to Rs. 929 million inclusive of transfer of Rs. 281 million through the Fertilizer Corporation and Rs. 543 million through the State Fertilizer Manufacturing Corporation. Expenditure under the import duty rebate scheme increased from Rs. 500 million in 1981 to Rs. 713 million in 1982. A sum of Rs. 30 million was granted to the Coconut Development Authority to operate a price support scheme on coconut oil and desiccated coconut in the context of lower f.o.b. prices.

Among current transfers, reimbursement of losses of government corporations was substantially less during 1982 and amounted to Rs. 24 million as compared to Rs. 107 million in 1981. The major beneficiaries were the Co-operative Wholesale Establishment (Rs. 12 million) and National Agricultural Diversification & Settlement Authority (Rs. 5 million). Other current transfers to corporations included Rs. 184 million to the Water Supply and Drainage Board, Rs. 137 million to the Ceylon Electricity Board and Rs. 130 million to the Sri Lanka Central Transport Board largely on account of subsidized season tickets to students. Also the State Plantations Corporation and the Janatha Estates Development Board were granted Rs. 50 million each. Transfers to other government institutions included Rs. 271 million to local authorities and Rs. 146 million to the University Grants Commission.

The actual expenditure amounted to Rs. 20,113 million in comparison to the estimated expenditure of Rs. 21,377 million, resulting in an under-utilization of Rs. 1,264 million or 6 per cent. Major items which recorded substantial savings were interest payments (Rs. 496 million), fertilizer subsidy (Rs. 70 million), Interest Subsidy to the National Savings Bank (Rs. 49 million), Price Support Scheme for green tea leaf (Rs. 40 million) and reimbursement of losses to corporations (Rs. 75 million).

Advance Accounts

Advance account operations resulted in a net in-payment of Rs. 883 million in 1982 in sharp contrast to heavy out-payments in the recent past. These operations, which hitherto were a major element of budgetary instability emerged in 1982 as a contributor to budgetary resources rather than as a net user of funds. This change was brought about by a substantial decrease in the net advances to government departments on account of in-payments arising from the draw-down of Food Commissioner's stock by about Rs. 1,000 million. Accordingly, outstanding total advances to the Food Commissioner decreased substantially indicating an in-payment of Rs. 960 million in 1982. The overall out-payments on advances to all other government departments amounted to Rs. 139 million leaving Rs. 821 million as net in-payments arising from advance account operations of government departments. With regard to advances for stores and materials, the overall position indicated a neutral impact. However, there were compensatory out-payments and in-payments within these accounts. Loans from surplus balances and advance accounts indicated an out-payment of Rs. 81 million resulting from advances mainly to the National Water Supply and Drainage Board (Rs. 72 million), National Textile Corporation (Rs. 30 million) and National Housing Development Authority (Rs. 25 million) partly offset by in-payments arising from Paddy Marketing Board (Rs. 29 million), the Director of Textile Industries (Rs. 15 million) and National Textile Institute (Rs. 15 million). Sri Lanka/China Trade Account recorded an in-payment of Rs. 418 million, brought about by the partial settlement of advances subsequent to the cessation of transactions through the account since the end of 1981. The net advances connected with miscellaneous advance accounts amounted to Rs. 279 million.

Capital Expenditure

Capital expenditure inclusive of sinking fund contributions and amortization payments amounted to Rs. 18,867 million in 1982, indicating a substantial increase in nominal terms of 41 per cent over the previous year. In contrast, it decreased by 3 per cent in 1981. Total capital expenditure in relation to GDP thus increased from 16 per cent in 1981 to 19 per cent. Capital expenditure net of sinking fund contributions and amortization payments amounted to Rs. 16,255 million. When adjusted for inflation with the use of the GNP deflator, capital expenditure in 1982 at 1970 prices, amounted to Rs. 3,822 million as compared with Rs. 3,070 million in 1981, indicating an increase of 24 per cent, in spite of an administratively imposed 10 per cent cut in the money provision for capital expenditure financed out of the Consolidated Fund. When the increase in capital expenditure in both nominal and real terms is viewed in the context of resource constraints leading to deliberate attempts by the Government since 1981 to carry out only on-going capital expenditure programmes, it still reflects an expansion of capital expenditure beyond the levels reached in 1981.

Actual capital expenditure net of sinking fund contributions and amortization payments, when viewed in relation to total estimated expenditure showed an under-expenditure of Rs. 2,018 million or 11 per cent. However, total capital expenditure included a sum of Rs. 1,836 million being transfers to Treasury deposits, to be utilized in the forthcoming financial year. When capital expenditure is adjusted for such transfers, under-expenditure amounted to Rs. 3,854 million indicating that the level of under-expenditure was as high as 21 per cent. A ministry-wise classification of capital expenditure is given in the Statistical Appendix.

According to provisional data expenditure on the Accelerated Mahaveli Programme amounted to Rs. 7,140 million as against a budgetary provision of Rs. 7,217 million.¹ However, when the expenditure is adjusted for the transfers to Treasury deposits and for use of funds allocated in 1981 actual expenditure amounted to Rs. 5,526 million. In comparison, capital expenditure in the previous year amounted to Rs. 3,636 million.

The housing programme of the Ministry of Local Government, Housing and Construction amounted to Rs. 703 million or 31 per cent of the Ministry's total capital vote. With the resources generated from other sources, expenditure incurred by the National Housing Development Authority on the project amounted to Rs. 889 million. Expenditure on Urban Housing Programme amounted to Rs. 674 million. The aided self-help housing programme (including model villages and infrastructure facilities) and electoral housing programme had a financial outlay of Rs. 189 million. Expenditure on the construction of public servants' quarters and the programme for the improvement of slums and shanties amounted to Rs. 20 million and Rs. 6 million, respectively. A sum of Rs. 40 million was also spent on acquisition and development of lands.

1. This differs from the budgetted expenditure indicated in the Table 1-27 of the report which is adjusted for the expenditure cut of 10 per cent.

In 1982, a sum of Rs. 371 million was spent by the main line-ministries on the Sri Jayawardenapura Parliamentary and Administrative Complex. The Department of Buildings spent Rs. 240 million on construction activities. A sum of Rs. 45 million was incurred by the Colombo District (Low-Lying Areas) Reclamation and Development Board. The Ceylon Electricity Board and the Department of Telecommunications incurred Rs. 43 million each in connection with the complex.

Total expenditure on the activities of the Greater Colombo Economic Commission (GCEC) amounted to Rs. 93 million in 1982. Of this, Rs. 60 million was released to the GCEC to be spent on investment promotion zones. The Ceylon Electricity Board spent a sum of Rs. 27 million and the Department of Telecommunications Rs. 6 million.

The allocation under the Decentralized Budget for 1982 amounted to Rs. 420 million as in the previous year. Expenditure on the Integrated Rural Development Programme amounted to Rs. 246 million. The main areas of activities under the programme were agriculture and irrigation (Rs. 129 million), communications (Rs. 36 million), health (Rs. 24 million) and education (Rs. 12 million).

Loans for purposes of investment during the year amounted to Rs. 777 million. Of this, the Sri Lanka Central Transport Board received a sum of Rs. 377 million. Other recipients were the Ceylon Electricity Board (Rs. 225 million), the Galadari Hotels Lanka Limited (Rs. 125 million), the National Housing Development Authority (Rs. 41 million) and the Local Loans and Development Fund (Rs. 9 million).

Financing of the Budget Deficit

Fiscal operations in 1982 resulted in a budget deficit of Rs. 20,289 million indicating a sharp increase of 36 per cent over the previous year. In relation to the aggregate government expenditure the budget deficit increased from 48 per cent to 53 per cent. If it were not for the turn around in advance account operations, the budgetary situation would have deteriorated further resulting in resources available for investment being diverted to finance current consumption expenditure.

Foreign resources which amounted to Rs. 9,270 million contributed towards financing of 46 per cent of the deficit as against the original budget estimates in 1982 of about 67 per cent compared with an actual financing of 55 per cent in 1981. As a percentage of GDP, the total foreign finance available for budgetary purposes also indicated a decline from 9.7 per cent in 1981 to 9.2 per cent in 1982. Foreign finance by way of project, commodity and other loans amounted to Rs. 5,701 million while grants amounted to Rs. 3,569 million. The share of grants in total foreign finance increased from 33 per cent in 1981 to 38 per cent in 1982. Project loans amounted to Rs. 3,256 million and commodity and other loans amounted to Rs. 1,355 million and Rs. 1,090 million, respectively. The other loans comprised Rs. 836 million being a partial disbursement of a Euro currency commercial loan and Rs. 254 million utilized from the proceeds of the issue of Japanese Yen bonds.

The share of domestic resources in financing of the deficit increased from 45 per cent in 1981 to 54 per cent in 1982. In this respect, the performance of the non-bank domestic sector was well above expectations. In comparison to the budget estimate of Rs. 4,000 million for 1982 and subscription of Rs. 2,379 million in 1981, the non-bank domestic sector made available about Rs. 5,894 million for financing of the deficit. In relation to the GDP, the total resources made available by the sector stood at 5.9 per cent as compared with 4.1 per cent and 2.8 per cent in 1980 and 1981. The improved performance of the sector was due to the impressive increase in the savings of the National Savings Bank following the reduced rate of interest on fixed deposits with commercial banks and also the enhanced availability of resources from other captive sources. The non-bank sector in all contributed Rs. 5,893 million to rupee securities and accounted for almost the entirety of the financing of the budget deficit by this sector.

Total finance available from non-market sources amounted to Rs. 1,354 million as compared with Rs. 400 million in 1981. Its share in the overall financing of the budget deficit was 7 per cent while its share in the domestic financing of the deficit was as high as 12 per cent. Almost all borrowings consisted of various types of deposits including those arising from transactions relating to transfer of expenditure provisions to deposits partially offset by a decrease in the administrative borrowings. Deposits arising from transactions in transfer of expenditure amounted to Rs. 1,562 million while the decrease in administrative borrowings was Rs. 149 million. All other deposits recorded a net decrease of Rs. 60 million.

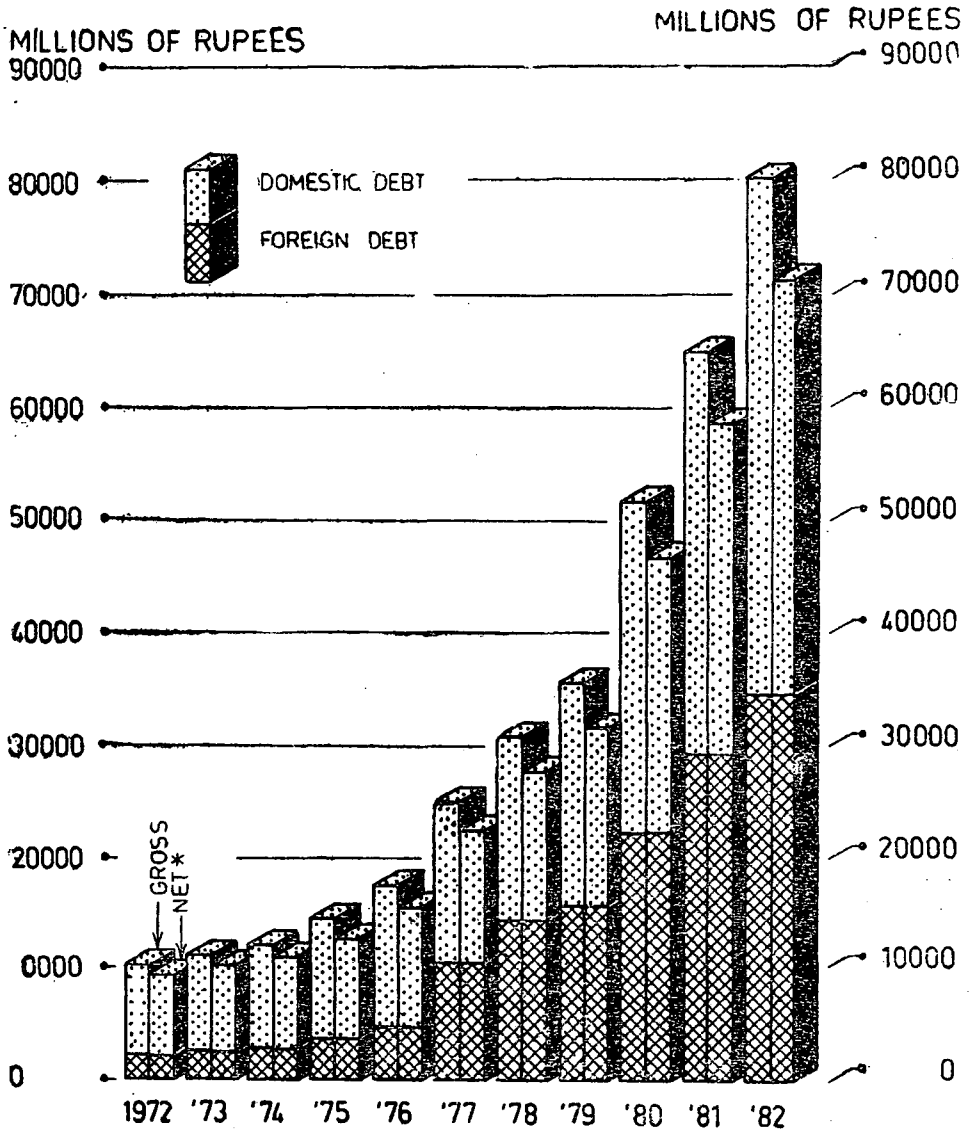
The banking sector contributed Rs. 4,006 million in financing the fiscal deficit in 1982 as compared with Rs. 3,917 million in 1981. However, there was a decrease in the share of bank financing of the budget deficit from 26 per cent in 1981 to 20 per cent in 1982. As a percentage of GDP it recorded a decrease from 4.6 per cent to 4.0 per cent. The banking sector's contribution comprised purchase of Treasury bills (Rs. 3,295 million), Central Bank provisional advances (Rs. 604 million) and subscription to Rupee Securities (Rs. 107 million). The Central Bank's financing of the deficit amounted to Rs. 3,349 million consisting of an increase in the holding of Treasury bills by Rs. 2,745 million and Central Bank Advances amounting to Rs. 604 million. Commercial banks contributed Rs. 657 million towards financing of the deficit which was made up of an increase in the holding of Treasury bills by Rs. 550 million and subscriptions to rupee loans amounting to Rs. 107 million.

Finance obtained from all sources exceeded the budget deficit by Rs. 235 million which reflected in an increase in the counterpart funds by Rs. 357 million while cash balances declined by Rs. 122 million.

Public Debt

Gross public debt outstanding as at the end of 1982 amounted to Rs. 80,173 million as compared to Rs. 64,999 million as at the end of the previous year. The rate of growth of public debt at 23 per cent, however, was lower than that of 1981 at 26 per cent. The gross domestic debt outstanding increased by 27 per cent to Rs. 45,575 million while foreign debt increased by 19 per cent to Rs. 34,597 million. Consequently, the proportion of domestic debt in total public debt increased from 55 per

COMPOSITION OF PUBLIC DEBT



* Gross public debt less sinking funds. 1982 figures are provisional.

cent in 1981 to 57 per cent in 1982. Public debt net of Sinking Funds (i.e. net public debt) amounted to Rs. 71,250 million in 1982, compared with Rs. 58,659 million in the previous year.

Total interest payments on public debt amounted to Rs. 5,086 million as against Rs. 3,716 million in 1981, recording an increase of 37 per cent. In comparison the rate of increase for 1981 was 69 per cent. Interest payments as a percentage of GDP increased from 4.4 per cent in 1981 to 5 per cent in 1982. The total debt service payments (interest commitments, amortization payments and sinking fund contributions) amounted to Rs. 7,698 million showing an increase of 45 per cent over the previous year.

The share of Long and Medium Term debt and Short Term debt in domestic debt remained virtually unchanged at 57 per cent and 43 per cent respectively, as the rates of increase of Long and Medium Term debt and Short Term debt were more or less the same as shown in Table 1.45.

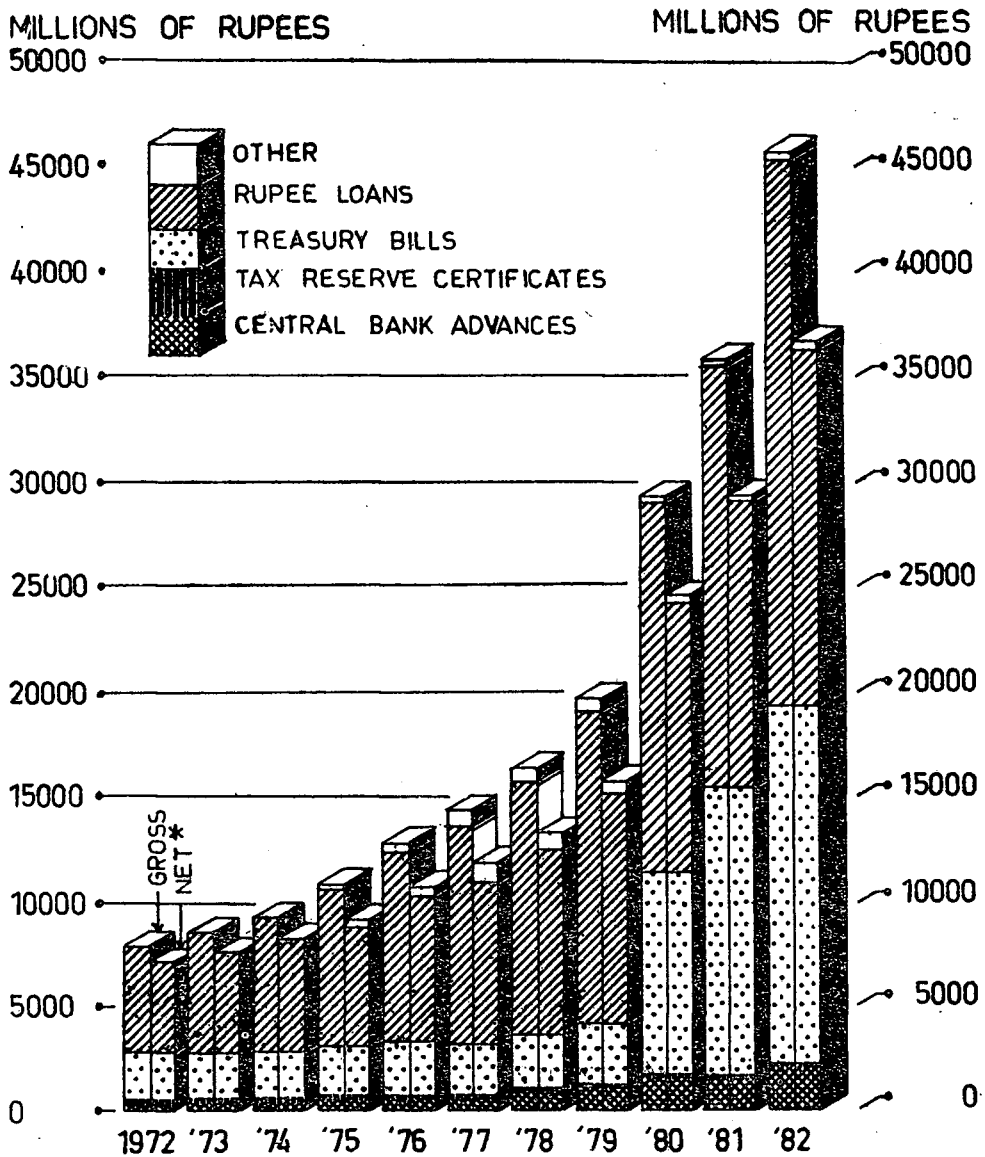
TABLE 1.45
Domestic Debt Outstanding

				Rs. Million		
Category				1981	1982	Percentage Change
A.	Medium and Long Term Debt	..	..	20,359.8	26,104.5	28
	of which :					
	Rupee Loans	..	..	20,025.4	25,800.4	29
	Administrative Borrowings	..	..	334.3	304.0	- 9
B.	Short Term Debt	..	..	15,467.3	19,470.9	26
	Treasury Bills	..	..	13,920.0	17,320.0	24
	Tax Reserve Certificates	..	..	10.9	10.6	- 3
	Central Bank Advances	..	..	1,536.4	2,140.3	39
Total		..	..	35,827.1	45,575.4	27

Source: Central Bank of Ceylon.

In 1982, total amount of resources raised from rupee securities amounted to Rs. 6,000 million as against the original budget estimate of Rs. 4,000 million. In contrast, the total issues of rupee securities in the three previous years amounted to Rs. 2,950 million, Rs. 2,802 million and Rs. 2,512 million, respectively. The more than two-fold increase in subscriptions to rupee loans in 1982 was due to varied reasons which contributed to the increase in the availability of investible resources with the major subscribers. As in the past, the major subscribers to rupee loans in 1982 were the National Savings Bank (NSB), the Sinking Funds and the Employees' Provident Fund (EPF) with contributions amounting to Rs. 2,357 million, Rs. 2,064 million and Rs. 1,416 million, respectively.

COMPOSITION OF DOMESTIC DEBT



* Gross public debt less sinking funds. 1982 figures are provisional.

The NSB's subscriptions to rupee loans at Rs. 2,357 million indicated a more than eight-fold increase over the subscriptions in 1981. The higher level of subscriptions by the NSB was mainly due to the increase in the mobilization of savings by the NSB following the downward revision of interest rates on fixed deposits by commercial banks in mid-1982. During the year deposits of NSB increased by about Rs. 2,215 million as compared with Rs. 487 million in the previous year. The NSB also diverted a part of its investment in the short-term instruments to rupee securities.

Despite the pre-emption of a part of its resources for extra budgetary activities, Sinking Funds' subscriptions to rupee loans increased to Rs. 2,064 million, recording a two-fold increase over 1981. The higher level of investment by the Sinking Funds reflected the increase in government contributions to Sinking Funds and the increased accrual of income from its investments. The Government contributed Rs. 1,890 million to the Sinking Funds while income from investment was Rs. 947 million. This compares with Rs. 964 million and Rs. 600 million respectively, in the previous year. The diversion of investible resources of Sinking Funds to extra-budgetary activities consisted of investments amounting to Rs. 367 million in the debentures issued by the Urban Development Authority and an investment of Rs. 50 million in the State Mortgage and Investment Bank debentures.

The EPF subscribed Rs. 1,416 million to rupee loans in 1982 as compared with Rs. 1,022 million in 1981, thus recording an increase of about 38 per cent due to higher receipts from members' contributions and income from investments. The total subscriptions by the other subscribers amounted to only Rs. 163 million. Of this, Rs. 107 million was contributed by commercial banks. With the increased level of subscriptions in 1982, the original loan programme of Rs. 4,000 million was fully subscribed by the 1st September and the balance was floated in the last four months of the year. All securities issued during the year were medium term securities with 3 year maturity period and an interest of 16 per cent per annum. Total repayments of rupee loans in 1982 amounted to Rs. 225 million.

Net borrowings on Treasury bills amounted to Rs. 3,400 million as compared with Rs. 4,120 million in the previous year. Accordingly, the total Treasury bills outstanding amounted to Rs. 17,320 million as at the end of 1982. During the year, the ceiling on Treasury bills was raised from Rs. 18,000 million to Rs. 23,000 million. Holdings of Treasury bills by the banking sector increased from Rs. 13,774 million in 1981 to Rs. 17,173 million in 1982. Of this, the Central Bank's holdings increased by Rs. 2,832 million to Rs. 16,593 million. Commercial Banks' holdings increased from Rs. 13 million to Rs. 580 million. The non-bank sector holdings at Rs. 147 million remained more or less the same as in the previous year. The interest rate on Treasury bills applicable to non-Central Bank subscribers increased to 13.5 per cent per annum by the end of the year while the rate for the Central Bank remained unchanged at 13 per cent.

Provisional advances to government by the Central Bank under the Section 89 of the Monetary Law Act showed an increase of Rs. 604 million in 1982 as against a decrease of Rs. 91 million in the previous year. The total amount outstanding

as at end of 1982, amounted to Rs. 2,140 million including a sum of Rs. 308 million being special loans granted to the Government in 1980, for payment of subscriptions to international organisations. The Tax Reserve Certificates outstanding as at end of the year decreased marginally from Rs. 10.9 million to Rs. 10.7 million during the year. The outstanding foreign administrative borrowings decreased from Rs. 334 million in 1981 to Rs. 304 million in 1982. Gross disbursement of administrative borrowings during the year amounted to Rs. 13 million while repayment amounted to Rs. 49 million.

The total foreign debt outstanding as at the end of 1982 amounted to Rs. 34,597 million, recording an increase of 19 per cent as compared with the preceding year's increase of 31 per cent. The depreciation of the Sri Lanka Rupee in terms of other currencies led to an increase in the amount outstanding by Rs. 440 million in 1982 as compared with an increase of Rs. 2,163 million in 1981. Debts written off by the donors during the year amounted to Rs. 43 million of which Rs. 34 million was on project loans while balance was on commodity loans. This compares with an amount of Rs. 147 million written off in 1981.

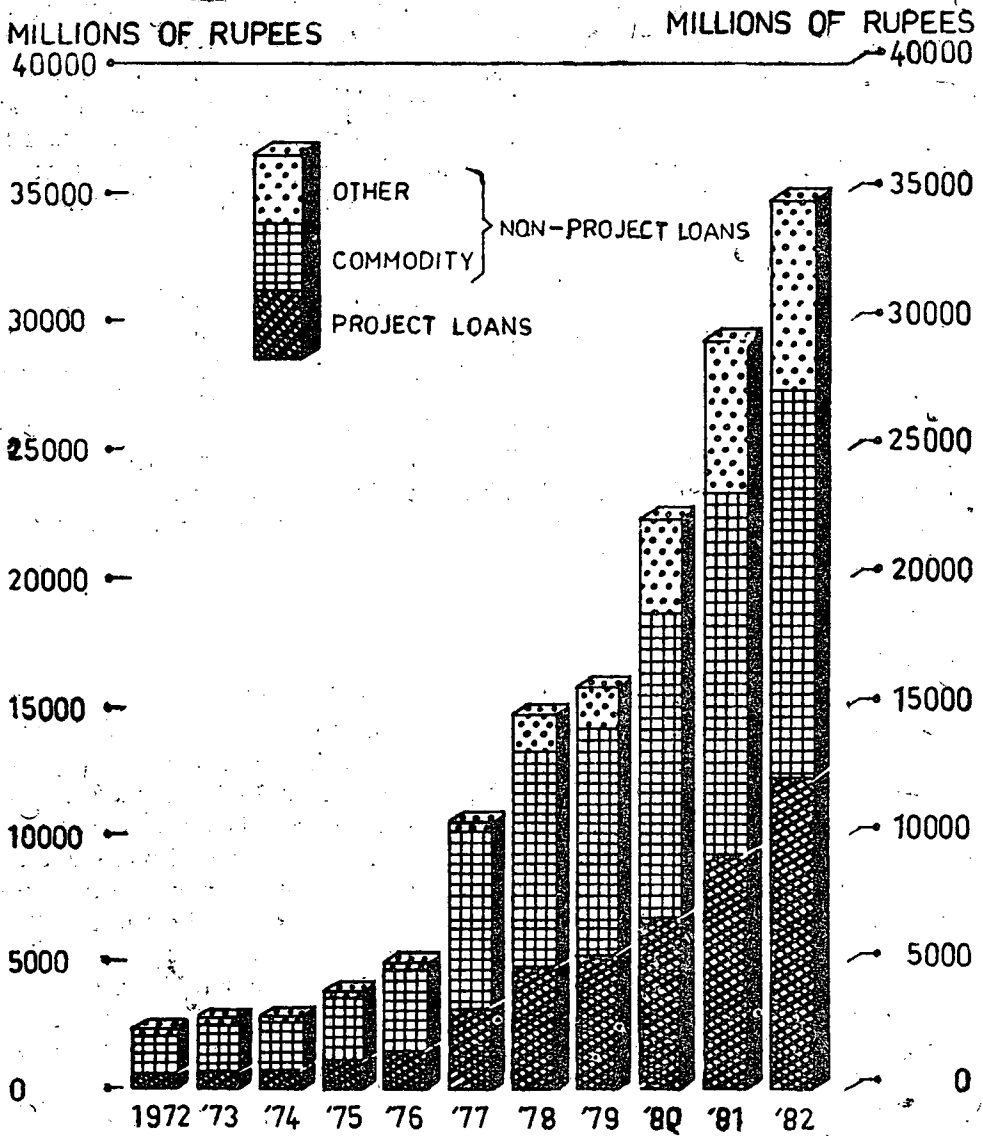
As indicated in the Table 1.46 below gross receipts of foreign loans in the form of project, commodity, cash and other loans in 1982 amounted to Rs. 5,701 million as compared with Rs. 5,487 million in the previous year. Project loans amounted to Rs. 3,256 million, while commodity loans and cash loans amounted to Rs. 1,355 million and Rs. 1,090 million respectively. Cash loans consisted of a Euro currency loan amounting to Rs. 836 million and Rs. 254 million obtained from the issue of Japanese Yen bonds. Project loans also included a sum of Rs. 301 million being a cash loan from the Salomon Brothers' Incorporated under a US Government guarantee. When adjusted for repayments, net disbursements under foreign borrowings amounted to Rs. 5,027 million in comparison to Rs. 4,880 million in the previous year.

TABLE 1.46
Major Donors of Foreign Loans — 1982

				Rs. Million
		Project Loans	Commodity Loans	Other Loans
Canada	.. .. .	264.7	—	—
France	.. .. .	—	227.5	—
U.S.A.	.. .. .	549.5	403.2	—
Japan	.. .. .	284.0	503.4	253.8
Euro Currency	.. .. .	—	—	836.4
Salomon Brothers' Incorporated — New York	.. .. .	301.2	—	—
A. D. B.	.. .. .	308.8	—	—
I.D.A.	.. .. .	1,131.8	—	—
Other	.. .. .	416.2	220.7	—
Total Gross Receipts	.. .. .	3,256.2	1,354.8	1,090.2
Repayments	.. .. .	203.9	401.6	68.1
Net Receipts	.. .. .	3,052.3	953.2	1,022.1

Source: Central Bank of Ceylon.

COMPOSITION OF FOREIGN DEBT



1978 onwards, other loans inclusive of I. M. F. Trust Fund Loans.
1982 figures are provisional.

Central Bank of Ceylon

During the year, the Government contracted 20 project loans, 6 commodity loans and 3 cash and other loans. The value of these loans as at 31st December, 1982 amounted to Rs. 12,144 million. In comparison the value of loans contracted in the previous year amounted to Rs. 14,464 million. There has been no improvement during the year in the utilization rate of loans contracted. As at end of 1982, the aggregate utilization rate of the loans contracted since 1970 remained at 50 per cent, as was in 1981. While the level of utilization of project loans was 29 per cent, commodity loans and cash and other loans recorded a very much higher rate of 81 per cent and 84 per cent respectively. It was significant that the more expensive cash loans which were fully utilized in the previous years were not fully utilized in the year under review. Of the Eurocurrency commercial loan of US \$ 100 million contracted in 1982, only \$ 40 million was utilized during the year. Among other loans, contracted in 1981 there were 5 loans amounting to Rs. 1,544 million on which withdrawals did not commence until the end of 1982.

Interest payments on public debt amounted to Rs. 5,086 million during the year. A sum of Rs. 4,171 million was paid on domestic debt, while the balance of Rs. 915 million was on foreign debt. During the year, interest payments on domestic debt increased by 39 per cent and those on foreign debt increased by 28 per cent. Interest on domestic debt was made up of Rs. 2,167 million on rupee loans, Rs. 2,001 million on Treasury bills and Rs. 3 million on administrative borrowings. Interest payments on Treasury bills recorded an increase of 53 per cent while those on rupee loans increased by 28 per cent over that of last year. Interest paid on administrative borrowings remained unchanged.

MONEY AND BANKING

Money Supply

The monetary scenario in 1982 depicted developments in major monetary variables similar to those in the previous year. The broad money supply (M_2) comprising currency in circulation and the total of demand, time and savings deposits held by the public with commercial banks, grew by Rs. 6,063 million or 25 per cent compared to an increase of Rs. 4,587 million or 23 per cent in 1981. However, a deceleration was evident in the rate of growth in time and savings deposits held by the public with commercial banks (quasi-money). The rate of growth of these deposits which dropped from 41 per cent in 1980 to 38 per cent in 1981 declined further to 30 per cent in 1982. This was particularly associated with the downward revision in deposit rates by commercial banks in mid 1982, with the interest rates being offered by the National Savings Bank remaining unchanged. Hence, the slight acceleration in M_2 was largely reflected in the accelerated growth in narrow money supply (M_1) defined as currency and demand deposits held by the public.

During the year under review, M_1 rose by Rs. 1,735 million or 17 per cent when compared to an increase of Rs. 596 million or 6 per cent in the previous year. Of this, the demand deposits held by the public fluctuated specially during the second and third quarters of the year and registered a growth of Rs. 571 million or 11 per cent by the end of the year. Hence, the higher growth rate in M_1 was mainly reflected in the increased preference for currency holdings which registered a growth