

GOVERNMENT FISCAL OPERATIONS*

The Government fiscal operations in 1983 showed a remarkable improvement over performance in 1982. More important, while a situation of equilibrium was achieved in the current account, capital expenditure was financed up to 95 per cent through non-inflationary means.

Fiscal Outturn

The total government expenditure for the year inclusive of the advance accounts operations amounted to Rs. 46,772 million showing an increase of Rs. 8,872 million or 23 per cent over the previous year. While there was one per cent acceleration in the rate of growth of the total government expenditure, its share in the GDP remained constant at 38 per cent. As against the previous year's in-payment of Rs. 879 million, advance accounts operations during the year resulted in a net out-payment of Rs. 1,120 million. With total revenue receipts of Rs. 25,210 million, there was a remarkable increase in revenue by Rs. 7,401 million or 42 per cent, which contributed to a current account surplus of Rs. 132 million and formed a segment of the total investible resources. Capital expenditure was contained in a sum of Rs. 21,694 million with an increase of 16 per cent in comparison to the previous year's increase of 40 per cent. The budget deficit amounting to Rs. 21,562 million formed 18 per cent of the GDP when compared with the previous year's share of 20 per cent.

The deficit was financed from both domestic and foreign sources. Foreign sources financed 51 per cent of the deficit when compared with 44 per cent in 1982. As against the targetted sum of Rs. 14,024 million, total receipts of foreign finance were Rs. 10,902 million. Project, commodity and other loans amounted to Rs. 5,150 million, Rs. 1,467 million and Rs. 860 million respectively. Total foreign grants amounted to Rs. 3,425 million.

From domestic sources, non-bank market borrowing amounted to Rs. 7,762 million. Non-market non-bank borrowing was in the region of Rs. 2,389 million. As the total availability of resources from these sources was not sufficient to bridge the overall deficit a sum of Rs. 1,203 million was obtained from the banking sector. With a repayment of existing rupee loans amounting to Rs. 36 million and a build up of cash balances by Rs. 694 million, the expansionary impact of fiscal operations for the year amounted to Rs. 473 million.

A summary of fiscal operations for 1983 is given in Table 1.47. 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.

* Based on tentative Treasury data pending final reconciliation.

TABLE 1.47
Government Fiscal Operations 1980—1983

Rs. Million

Item	1980	1981	1982	1983	
				Approved Estimates	Provisional*
1. Revenue (a)	14,068	16,228	17,809	25,734	25,210
2. Recurrent Expenditure	13,249	16,005	20,110	25,463	23,958
3. Advance Account Operations (In-payment + / Out-payment—)	— 3,240	— 1,716	+ 879	— 525	— 1,120
4. Current Account (Surplus + / Deficit—)	— 2,421	— 1,493	— 1,422	— 254	+ 132
5. Capital Expenditure	13,854	13,373	18,669	23,131	21,694
of which : Sinking Funds & Amortization Payments and contributions to International Financial Organisations (c)	(1,810)(b)	(1,608) (b)	(2,612) (b)	(5,183)	(5,302) (b)
6. Budget Deficit	16,274	14,866	20,091	23,385	21,562
7. Financing the Deficit					
7.1 Domestic Sources	9,610	6,696	11,613	9,361	11,354
(a) Non-bank market borrowing	2,700	2,379	5,894	8,000	7,762
(b) Non-market borrowing	— 216	400	1,713	—	2,389
(c) Banking system(d)	7,126(e)	3,917 (e)	4,006 (e)	1,361	1,203 (e)
7.2 Foreign Sources	6,735	8,208	8,794	14,024	10,902
(a) Commodity loans	1,431	1,722	1,355	} 14,024	1,467
(b) Project loans	1,171	2,064	3,227		5,150
(c) Other loans	1,513	1,701	836		860
(d) Grants	2,620	2,721	3,376		3,425
7.3 Use of cash balances	— 72	— 38	— 315	—	— 694
8. Expansionary Impact of Government Fiscal Operations	7,029	3,847	3,675	1,361	473

Sources : General Treasury,
Central Bank of Ceylon.

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

(b) Includes repayments of foreign administrative borrowings of Rs. 271 million in 1980, Rs. 37 million in 1981, Rs. 49 million in 1982 and Rs. 146 million in 1983.

(c) Includes Rs. 308 million in 1980 and Rs. 277 million in 1983 (provisional) being contributions to international financial organisations.

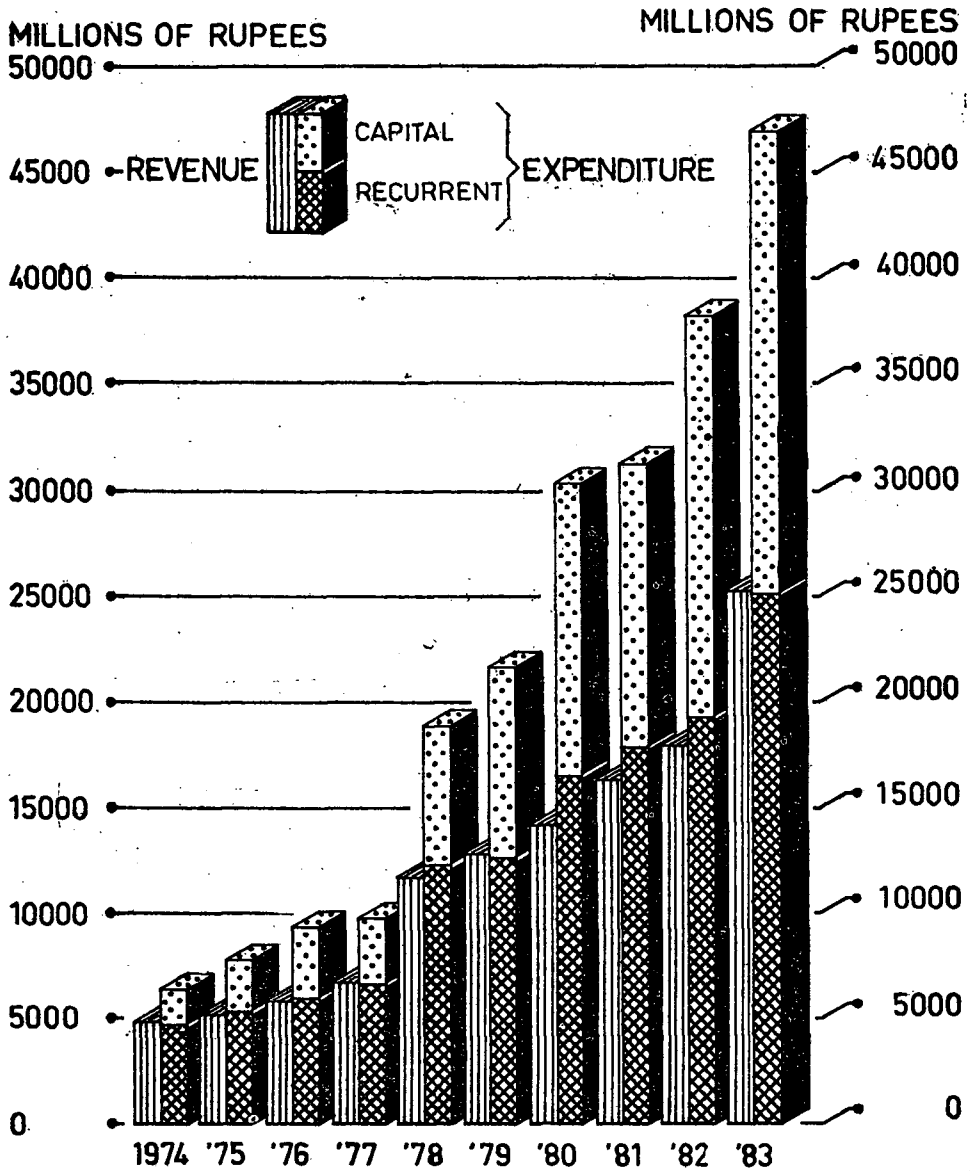
(d) Includes Rs. 308 million in 1980 and Rs. 277 million in 1983 (provisional) being special advances from the Central Bank to meet contributions to international financial organisations.

(e) Includes repayments of rupee loans of Rs. 25 million in 1980, Rs. 32 million in 1981, Rs. 16 million in 1982 and Rs. 36 million in 1983 to the banking system.

* Based on tentative Treasury data pending final reconciliation.

GOVERNMENT REVENUE & EXPENDITURE

DATA BY FINANCIAL YEARS



Revenue

Government revenue in 1983 amounted to Rs. 25,210 million, indicating a sharp increase of 42 per cent over the previous year. This was the highest year-on-year growth recorded during the last five years. Revenue from taxes, increased by 34 per cent to Rs. 20,700 million, while non-tax revenue increased by 89 per cent to Rs. 4,510 million. The sharp increase in the non-tax revenue was primarily caused by the transfer of Central Bank profits to the Treasury under Section 39 of the Monetary Law Act. Higher collections from turnover taxes, import duties and tea tax contributed to the sharp increase in tax revenue. Total revenue and non-tax revenue exclusive of the transfer of Central Bank profit indicated increases of 33 per cent and 26 per cent respectively, over the previous year.

The growth in the Government tax revenue at a rate in excess of the nominal growth in GDP, resulted in an increase of the tax/GDP ratio from 15 per cent in 1982 to 17 per cent in 1983. This reverses a declining trend observed during the last few years. The reversal of the trend was caused largely by the increased revenue receipts arising from the wider coverage of imports, the increases in import duties and turnover tax as well as due to higher tax collections from tea and rubber on account of higher prices. The improvement in the Government tax revenue performance was also reflected in the increase in the buoyancy co-efficient of tax revenue, which according to tentative calculations shot up from 0.479 in 1982 to 1.545 in 1983. The high buoyancy in revenue experienced during the year could be a transitory phenomenon caused by increased tax rates, wider coverage and favourable price developments in the primary commodity markets which may not be of a sustained nature. Total revenue exclusive of the transfer of Central Bank profits in relation to GDP increased from 18 per cent to 19 per cent. Total revenue/GDP ratio for 1983 stood at 21 per cent.

The share of tax revenue in the total revenue decreased from 87 per cent in 1982 to 82 per cent in 1983. However, when the Central Bank transfer of profits is excluded from government revenue, the relative share of both categories remained almost unchanged in 1983. As in the past, indirect taxes formed a major source of tax revenue accounting for nearly 81 per cent in comparison to 78 per cent in 1982, reflecting a greater reliance on indirect taxes for the purpose of raising and maintaining government revenue. Indirect taxes during the year increased by 39 per cent and this was largely due to higher collections from increased turnover taxes, import duties and tea taxes.

Turnover taxes accounted for 30 per cent of the total tax revenue in 1983 with a total collection of Rs. 6,224 million, indicating an increase of 54 per cent over the previous year. This increase was largely due to enhanced tax rates, withdrawal of tax credits granted to importers on the turnover tax paid at the point of imports and better law enforcement. Turnover taxes on the manufacturing sector amounted to Rs. 2,718 million and non-manufacturing sector Rs. 1,891 million. Turnover taxes on imports were Rs. 1,615 million.

Taxes on international trade recorded an increase of 50 per cent over the previous year and accounted for 59 per cent of the total indirect taxes when compared with 55 per cent in 1982. The share of taxes on international trade in total tax revenue was 48 per cent as compared with 43 per cent in 1982. The increased dependence on taxes from international trade would make the domestic budget vulnerable to the vicissitudes of external trade. On the other hand, higher revenue collections arising from windfall gains during a cyclical boom do not warrant a commensurate increase in expenditure as the increase in revenue could be a temporary phenomenon.

Total revenue collections from export duties amounted to Rs. 2,459 million, recording a decrease of 1 per cent as compared with 1982. Consequently, the share of export duties in taxes on international trade and as a proportion of total tax revenue declined from 38 per cent to 25 per cent and 16 per cent to 12 per cent, respectively between 1982 and 1983. Confirming the trend observed in the recent past, the relative decline was mainly caused by a decrease in the export duty collections from tea, where duty is levied on the volume of exports. As compared with the previous year, specific export duty receipts from tea at Rs. 1,290 million indicated a decrease of 11 per cent in spite of an increase in the duty rates in July, 1983. This decrease was caused by a 13 per cent drop in the volume of tea exports. In case of rubber, despite a downward revision in the ad-valorem based sliding scale duty and a fall in export volume by 5 per cent, the total revenue collection increased by 13 per cent over 1982 owing to favourable export prices. The total export duty on rubber amounted to Rs. 852 million in 1983. Export duty on coconut kernel products amounted to Rs. 241 million, recording an increase of 26 per cent over the last year. Revenue from other exports at Rs. 76 million indicated a decrease of 20 per cent over the last year.

Import duties, the second largest revenue item, amounted to Rs. 4,836 million showing a 50 per cent increase over the previous year. This source accounted for 23 per cent of total tax revenue in 1983 as compared with 21 per cent in 1982. In relation to taxes on international trade the share of import duties remained unchanged at 49 per cent. The absolute increase in import duty collection was mainly due to the increase in the tax rates and expansion of the coverage of taxable imports to include rice, flour, petroleum and fertilizer etc., which were hitherto not subject to import duty.

Total selective sales taxes increased by 42 per cent to Rs. 3,230 million in 1983 owing to higher collections from tobacco, tea and liquor. Tobacco taxes amounting to Rs. 1,431 million, indicated an increase of 9 per cent due to upward revisions of tobacco taxes effected on three occasions in 1983. Notwithstanding an upward revision of the floor price from Rs. 22.00 to Rs. 26.00 per kilo in March 1983, selective sales tax receipts on tea amounted to Rs. 932 million, registering a six - fold increase over last year due to the sharp increase in the tea auction prices that prevailed during the year. Revenue from liquor at Rs. 867 million indicated an increase of 7 per cent.

Income taxes amounted to Rs. 3,367 million, indicating an increase of 15 per cent. Corporate taxes, which amounted to Rs. 2,475 million, indicated an increase of 17 per cent, while non-corporate taxes at Rs. 892 million increased by 10 per cent. In

the case of taxes on corporate income, the increase was due to higher collection from the manufacturing, banking and transport sectors. Taxes from the public sector corporate entities amounted to Rs. 1,189 million comprising nearly 48 per cent of corporate income taxes as compared with 40 per cent in the previous year.

Of the non-tax revenue, the major item in 1983 was the transfer of Central Bank profits amounting to Rs. 1,500 million. This transfer was made in terms of the Monetary Law Act* to be utilized for settlement of government debt obligation to the Central Bank. The second major item of non-tax revenue was the gross receipts of trading enterprises which amounted to Rs. 1,457 million indicating an increase of 17 per cent, largely on account of increased receipts from postal and telecommunication services. Other major non-tax revenue items were rent, interest and dividends amounting to Rs. 821 million, and sales and charges which amounted to Rs. 350 million. Rent, interest and dividends recorded an increase of 96 per cent over 1982 largely due to increased receipts of interest from the Food Commissioner on Treasury advances and higher contributions from the Ceylon Petroleum Corporation. Sales and charges decreased by 24 per cent due to lower receipts from miscellaneous sales.

Recurrent Expenditure

The total recurrent expenditure exclusive of advance account operations amounted to Rs. 23,958 million in 1983 showing an increase of 19 per cent over 1982 as compared with an increase of 26 per cent in the previous year. Of the total government expenditure, the share of recurrent expenditure stood at 51 per cent as compared with 53 per cent in 1982. In relation to GDP, recurrent expenditure remained unchanged at 20 per cent in 1983.

The bulk of the increase in recurrent expenditure was on account of interest payments on public debt, personal emoluments and pensions, total of which amounted to Rs. 14,088 million, indicating an increase of 23 per cent over 1982 as compared with the previous year's 33 per cent. The share of these items of expenditure in the aggregate recurrent expenditure stood at 59 per cent in 1983 in comparison to 57 per cent in 1982. Interest payments on public debt increased by 30 per cent to Rs. 6,624 million and accounted for 28 per cent of recurrent expenditure as compared with 25 per cent in 1982. Total interest payments on domestic

* Under Section (39) of the Monetary Law Act, which reads as follows:

"39. Before the expiration of sixty days after the end of each financial year, the Monetary Board shall carry out the distribution of the net profits in accordance with the following provisions:-

- (a) Firstly - all the net profits of the Central Bank shall be used to reduce the Monetary Adjustment Account, defined in the following Section, whenever such account exists, until the account has been completely liquidated.
- (b) Secondly - any net profit remaining after liquidation of the Monetary Adjustment Account, if any, shall be carried to surplus until such time as the total capital accounts of the bank reach a sum equal to at least fifteen per centum of the difference between the total assets of the bank and its assets in gold and in foreign currencies.
- (c) Thirdly - any net profit remaining after compliance with the preceding provisions shall, after consultation with the Minister in charge of the subject of Finance and Planning, either be applied in liquidation of any outstanding Government obligations to the Central Bank or be paid and credited to the Consolidated Fund."

debt inclusive of those on short term treasury borrowings amounted to Rs. 5,345 million, indicating an increase of 27 per cent. Interest payments on Treasury bills amounted to Rs. 2,082 million while those on rupee loans amounted to Rs. 3,228 million in comparison to Rs. 2,001 million and Rs. 2,167 million respectively, in the previous year. The increased interest commitment on rupee securities by as much as 49 per cent was on account of a substantial increase in the issue of securities in 1982 and in the first half of 1983 and also due to higher rate of interest paid on issues made prior to July, 1983. Interest payments on foreign debt increased by 40 per cent to Rs. 1,279 million. Personal emoluments and pensions taken together increased by 18 per cent to Rs. 7,464 million largely on account of a salary increase of Rs. 100 per month to public sector employees and pensioners drawing a consolidated sum of less than Rs. 1,000 per month and also due to higher rate of retirements and gratuity payments based on consolidated wages.

Recurrent expenditure on transfers and subsidies amounted to Rs. 6,410 million in comparison to Rs. 5,662 million in the previous year. The share of transfers in total recurrent expenditure, however declined from 28 per cent in 1982 to 27 per cent in 1983. Expenditure on Food and Kerosene Stamp Schemes amounted to Rs. 1,427 million and Rs. 287 million, respectively, and cumulatively accounted for 29 per cent of the total transfers. While the consumer subsidy on infant milk food amounted to Rs. 65 million, producer subsidy to the National Milk Board was Rs. 21 million. Due to favourable producer prices expenditure on price support scheme for green tea leaf was limited to Rs. 1 million as compared to Rs. 24 million in the previous year. The interest subsidy to the National Savings Bank (NSB) was Rs. 500 million as compared to Rs. 401 million in 1982. Of the former a sum of Rs. 330 million was in respect of the current year and the balance in respect of the fiscal year 1982. The fertilizer subsidy amounted to Rs. 694 million, showing a decrease of 25 per cent over the previous year due to reduction in subsidy rates. Expenditure under import duty rebate scheme increased from Rs. 713 million in 1982 to Rs. 780 million in 1983.

Transfers on account of reimbursement of losses of government corporations amounted to Rs. 100 million as compared to Rs. 24 million in 1982. Major recipients were the National Textile Corporation (Rs. 34 million), the State Engineering Corporation (Rs. 24 million), the River Valleys Development Board (Rs. 20 million) and the National Packaging Materials Corporation (Rs. 8 million). There were also current transfers to the Ceylon Electricity Board (Rs. 441 million), the Sri Lanka Central Transport Board (Rs. 183 million), the Water Supply and Drainage Board (Rs. 140 million), the Tourist Board (Rs. 75 million), Government Owned Business Undertakings (Rs. 59 million) and the Paddy Marketing Board (Rs. 48 million). The National Apprenticeship Board and the National Youth Services Council were granted Rs. 50 million and Rs. 32 million, respectively. Transfers to universities and local governments amounted to Rs. 193 million and Rs. 349 million, respectively.

The actual recurrent expenditure in comparison with total estimated expenditure inclusive of supplementary provisions indicated an under-utilization of Rs. 2,312 million or 9 per cent. Major items of expenditure which recorded significant under-

utilization were interest payments (Rs. 745 million), fertilizer subsidy (Rs. 306 million), subsidy to the National Savings Bank (Rs. 170 million), Food Stamps Scheme (Rs. 83 million) and Price Support Scheme for green tea leaf (Rs. 23 million).

Although the outlay on repairs and maintenance during the year at Rs. 195 million comprised only a meagre 1 per cent of the total recurrent expenditure, this is expected to increase considerably in the succeeding years with the commissioning of large number of projects on account of the substantial increase in capital expenditure recorded in the years immediately preceding. Therefore it is imperative that there is a commensurable growth in government revenue, both tax and non-tax, not only to keep abreast with the normal increase but also to provide for the additional recurrent expenditure commitments in order to avert a current account deficit in the budget. While rationalisation and improvement in the tax administration can augment a greater transfer of resources, public corporate entities should be required to service the enormous government investment, by way of dividend/profit transfers and charges.

Advance Accounts

Advance account operations in 1983 resulted in a net out-payment of Rs. 1,120 million in contrast to a net in-payment of Rs. 879 million in 1982. This turn around in the overall operation was not wholly unexpected because even the original budget estimates for 1983 anticipated a net out-payment of Rs. 525 million. Nevertheless, it is to be noted that advance account activities once again reverted to be an important user of budgetary resources, accounting for nearly 4 per cent of revenue receipts for 1983. Advance account activities of government departments, resulted in a net out-payment of Rs. 416 million. Major out-payments were in respect of the Food Commissioner (Rs. 105 million), Railway (Rs. 69 million), Principal Collector of Customs (Rs. 52 million), Marketing Department (Rs. 14 million) and Difference in Exchange Account (Rs. 43 million). The latter was only an accounting adjustment connected with the finalization of the Ceylon/China Trade Account where the net out-payment was related to losses on exchange rate differentials retained in suspense pending charges to appropriate agencies or departments. A sum of Rs. 420 million advanced to the National Textile Corporation classified under Loans from Advance Accounts and Surplus Balances greatly affected the final outturn in the advance accounts operation during the year. Of this, Rs. 415 million was on account of the settlement of the Corporation's debt to the People's Bank. However, it is understood that the Bank has re-channelled these loan repayments back to the Government through the purchase of rupee securities. Within this broad category of advances other major net out -payments were in respect of the Sri Lanka Insurance Corporation (Rs. 50 million), the State Fertilizer Manufacturing Corporation (Rs. 35 million), the Sri Lanka Central Transport Board (Rs. 25 million) and Public Officers' 'B' Account (Rs. 62 million). In this category there were major net in-payments from the National Water Supply & Drainage Board (Rs. 72 million), the Paddy Marketing Board (Rs. 61 million) and the National Housing Development Authority (Rs. 25 million). Thus, total net out-payment on loans from advance accounts and surplus balances amounted to Rs. 468 million in 1983. Net out-payment on Stores Advance Accounts amounted to Rs. 193 million mainly arising from a net out-payment of

Rs. 212 million in respect of Telegraph Stores and in-payment of Rs. 11 million from the General Stores and Rs. 10 million from the Civil Medical Stores. Other miscellaneous advance accounts recorded an out-payment of Rs. 42 million in 1983.

Capital Expenditure

Total capital expenditure inclusive of sinking fund contributions and amortization payments amounted to Rs. 21,694 million in 1983, indicating an increase of 16 per cent over the previous year. In contrast, it increased by 40 per cent in 1982. The share of capital expenditure in aggregate government expenditure decreased from 49 per cent in 1982 to 46 per cent in 1983. Total capital expenditure as a percentage of GDP also decreased from 19 per cent in the previous year to 18 per cent in 1983. Capital expenditure net of sinking fund contributions and amortization payments amounted to Rs. 16,669 million as compared with Rs. 16,057 million in 1982. Capital expenditure net of sinking fund contributions and amortization payments when adjusted by the GNP deflator revealed that the capital expenditure at 1970 prices amounted to Rs. 3,402 million as compared with Rs. 3,804 million in 1982, indicating a decrease of 11 per cent. However, capital expenditure included transfer of expenditure provisions to Treasury deposits amounting to Rs. 1,836 million in 1982 and Rs. 1,454 million in 1983. When expenditures are adjusted for such transfers capital expenditure net of sinking fund contributions and amortization payments indicated an increase of 7 per cent in nominal terms while in real terms, it indicated a decrease of 8 per cent. A ministry-wise classification of capital expenditure is given in the Statistical Appendix Table 32.

Actual capital expenditure net of sinking fund contributions and amortization payments, when viewed in terms of total estimated expenditure inclusive of supplementary estimates indicated an under expenditure of Rs. 3,981 million, or 19 per cent. However, when capital expenditure is adjusted for transfers to Treasury deposits, under-expenditure amounted to Rs. 5,435 million indicating an under-expenditure of 26 per cent.

Based on provisional data of the Mahaweli Development Authority, the actual capital expenditure on the Mahaweli project in 1983 was in the region of Rs. 7,131 million, which also included the previous year's committed expenditure met by deposit transfers. During the year from the total capital outlay a sum of Rs. 5,129 million was expended on the four major projects of the Accelerated Mahaweli Programme, Kotmale (Rs. 2,054 million), Victoria (Rs. 1,839 million), Randenigala (Rs. 891 million) and Maduru Oya (Rs. 345 million). Expenditure on down stream development work amounted to Rs. 1,276 million, with the systems 'B' and 'C' utilizing Rs. 753 million and Rs. 523 million, respectively. A further sum of Rs. 298 million was spent on Minipe transbasin canal while expenditure on Stage I and Stage II amounted to Rs. 293 million. In addition, Rs. 134 million was spent on other connected activities of the Mahaweli Development Programme.

According to the Ministry of Local Government, Housing and Construction a sum of Rs. 547 million was spent on the Housing Programme which absorbed nearly 23 per cent of the Ministry's total capital vote. Expenditure on the Urban Housing Programme amounted to Rs. 392 million. The Aided Self-Help Housing

Programme (including model villages and infrastructure facilities), Electoral Housing Programme and land compensation had a financial outlay of Rs. 132 million. Expenditure on the construction of public servants' quarters amounted to Rs. 8 million. In addition a sum of Rs. 15 million was spent by the Urban Development Authority and the Common Amenities Board for the improvement of slums and shanties.

Total expenditure on the activities of the Greater Colombo Economic Commission (GCEC) amounted to Rs. 347 million in 1983, in comparison to Rs. 93 million in 1982. Of this Rs. 281 million was spent by the National Water Supply and Drainage Board on Stage II of the Water Supply Scheme and Sewerage Schemes in the Greater Colombo area. The Greater Colombo Economic Commission was given a sum of Rs. 60 million as a capital contribution on Investment Promotion Zones. The Ceylon Electricity Board spent a sum of Rs. 6 million for supply of electricity to the Free Trade Zone, at Katunayake.

During the year, a total sum of Rs. 705 million was spent by the main line-ministries on the Sri Jayawardenapura development projects. Of this, expenditure on Sri Jayawardenapura hospital amounted to Rs. 650 million. The Department of Buildings spent Rs. 38 million while the Sri Lanka Land Reclamation and Development Corporation spent Rs. 16 million on construction activities connected with the parliamentary and the administrative complexes. A further sum of Rs. 1 million was spent by the National Water Supply and Drainage Board on water supply scheme in the Sri Jayawardenapura area.

The allocation under the decentralised budget for 1983 amounted to Rs. 420 million as in the previous year. Total expenditure during the year amounted to Rs. 417 million. Expenditure on the Integrated Rural Development Programmes amounted to Rs. 266 million in comparison to the budgetary allocation of Rs. 459 million.

The total capital expenditure also included a sum of Rs. 801 million granted as loans for investments. As compared with the previous year it showed an increase of 11 per cent. Of the total loan outlay, the Ceylon Electricity Board received Rs. 434 million. Other major recipients were the Sri Lanka Central Transport Board (Rs. 262 million), the National Housing Development Authority (Rs. 45 million), Galadari Hotels Lanka Limited (Rs. 50 million) and Local Loans and Development Fund (Rs. 10 million).

Financing of the Budget Deficit

Fiscal operations in 1983 resulted in a budget deficit of Rs. 21,562 million. This is a modest increase of 7 per cent over the deficit of the previous year. However, in relation to total government expenditure, the budget deficit declined from 53 per cent to 46 per cent indicating a noticeable improvement over 1982. The deficit as a share of GDP at market prices declined from 20 per cent in 1982 to 18 per cent in 1983. In contrast to previous three years, the deficit in 1983 was confined to capital expenditure as the current account generated a surplus of Rs. 132 million.

In financing the deficit, 51 per cent of the deficit was financed with foreign sources as compared with 44 per cent in 1982. Total foreign finance available during the year amounted to Rs. 10,902 million, indicating an increase of 24 per cent. As in the previous year, the share of total foreign finance in GDP available for budgetary purposes was around 9 per cent. While the total foreign finance received in the form of project loans, commodity loans and other loans amounted to Rs. 7,477 million, those from grants amounted to Rs. 3,425 million. Thus, the share of grants in total foreign finance declined from 38 per cent to 31 per cent in 1983. Foreign finance by way of project loans and commodity loans amounted to Rs. 5,150 million and Rs. 1,467 million respectively. The balance was accounted for by the other loans. The latter included a sum of Rs. 607 million received from a partial disbursement of a Euro currency commercial loan and utilization of Rs. 253 million from the Japanese Yen loan obtained in 1982.

When compared with the preceding year, total resources available through domestic sources at Rs. 11,354 million recorded a decrease of Rs. 259 million or 2 per cent. Domestic market borrowing from the non-bank sources amounted to Rs. 7,762 million and recorded a 32 per cent increase over the previous year. Its share in the overall budget deficit was 36 per cent while its share in domestic financing of the deficit was as high as 68 per cent. In relation to the GDP, the total resources made available through these sources stood at 6.3 per cent as compared with 5.9 per cent in 1982. This improvement in the non-bank sources was largely an outcome of the increased contribution to rupee loans by the Sinking Funds (Rs. 3,037 million), the Employees' Provident Fund (Rs. 2,355 million) and the National Savings Bank (Rs. 2,300 million).

Total finance available from non-market sources amounted to Rs. 2,389 million as compared with Rs. 1,713 million in 1982. Thus, its share in the overall financing of the budget deficit stood at 11 per cent as compared with 9 per cent in 1982. Borrowing from this source consisted of various type of deposits, including those arising from transactions relating to transfer of expenditure provisions to deposits. Of total non-market borrowing, administrative borrowings amounted to Rs. 219 million.

Domestic market borrowing from banking sources amounted to Rs. 1,203 million as compared with Rs. 4,006 million in 1982, thereby minimizing recourse to inflationary sources of finance. Accordingly, the share of bank financing of the budget deficit declined from 20 per cent in 1982 to 6 per cent in 1983. As a percentage of GDP, it recorded a decrease from 4 per cent in 1982 to 1 per cent in 1983. Borrowings from the banking sector consisted of Rs. 654 million obtained by way of Central Bank advances, Rs. 415 million under rupee loans and Rs. 134 million through Treasury bills. The Central Bank financing of the budget deficit amounted to Rs. 1,340 million, which consisted of Central Bank advances of Rs. 654 million, inclusive of the special advance of Rs. 277 million on account of payment of subscriptions to the IMF and Treasury bills finance of Rs. 686 million, arising from a shift in the holdings of Treasury bills from commercial banks to the Central Bank. While commercial bank's financing of the budget deficit by purchase of rupee secu-

rities amounted to Rs. 415 million, the Treasury bills component of its finance decreased by Rs. 552 million, resulting in an overall negative financing of Rs. 137 million. Finances obtained from all sources exceeded the budget deficit by Rs. 694 million, resulting in an increase in the Counterpart Fund by Rs. 268 million and cash balance by Rs. 426 million.

Public Debt

Outstanding gross public debt as at end of 1983 amounted to Rs. 98,380 million showing a 23 per cent increase over the previous year. The gross public debt consisted of Rs. 52,355 million of domestic debt and Rs. 46,025 million of foreign debt. As compared with last year, domestic debt increased by 15 per cent. Foreign debt, inclusive of the additional liability of Rs. 5,254 million on account of depreciation of the Sri Lanka Rupee vis-a-vis other currencies, increased by 33 per cent. The outstanding foreign debt, exclusive of the additional liability arising from exchange rate variations, recorded an increase of 19 per cent. Reflecting the higher rate of growth in debt, foreign debt as a percentage of GDP increased from 35 per cent in 1982 to 38 per cent in 1983. Net public debt (public debt net of sinking funds) as at end of 1983 amounted to Rs. 86,423 million recording an increase of 21 per cent.

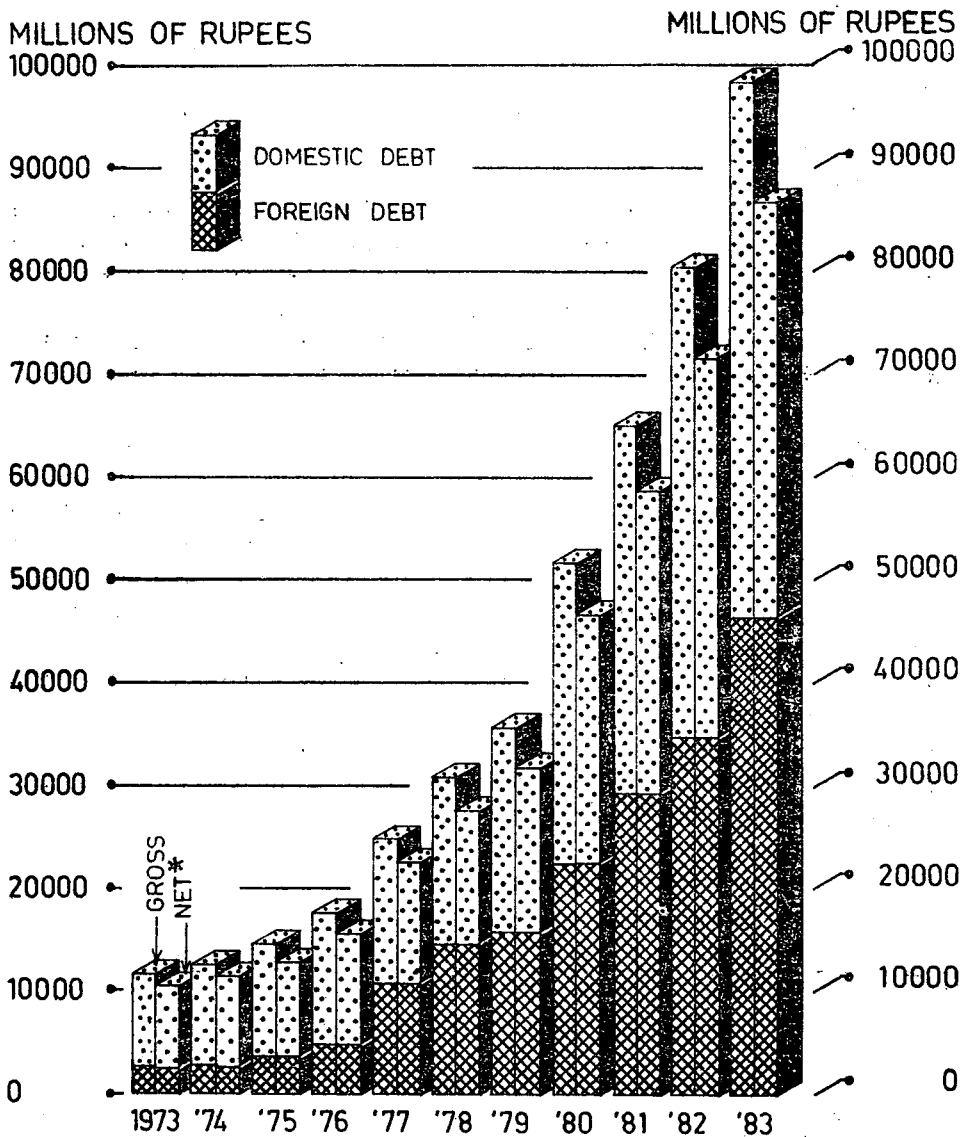
Total interest payments on public debt amounted to Rs. 6,593 million in 1983, indicating an increase of 30 per cent over the previous year as compared with 37 per cent in 1982. Despite the total public debt increasing by 23 per cent over the previous year, the deceleration in the incremental growth of the interest commitment during the year was due to the substantial increase in foreign debt contracted at concessionary rates of interest. While the average rate of interest on domestic debt remained at 11.6 per cent per annum in 1983 that on foreign debt was 3.6 per cent. However, total interest payments as a percentage of GDP increased from 5.1 per cent to 5.4 per cent in 1983 in keeping with the increasing trend observed in the recent past. The total debt service payments (interest commitments, amortization payments and sinking fund contributions) amounted to Rs. 11,618 million in 1983, recording an increase of 51 per cent over the previous year.

TABLE 1.48
Domestic Debt Outstanding

				Rs. Million
Category		1982	1983	Percentage change
A.	Medium and Long Term Debt	26,104.4	32,150.2	23.2
	of which :			
	Rupee Loans	25,800.4	31,953.6	23.8
	Administrative Borrowings	303.9	196.5	-35.3
B.	Short Term Debt	19,471.0	20,204.4	3.8
	Treasury Bills	17,320.0	17,400.0	0.5
	Tax Reserve Certificates	10.7	9.9	-7.5
	Central Bank Advances	2,140.3	2,794.5	30.6
	Total	45,575.4	52,354.6	14.9

Source : Central Bank of Ceylon.

COMPOSITION OF PUBLIC DEBT



* Gross public debt less sinking funds, 1983 figures are provisional.

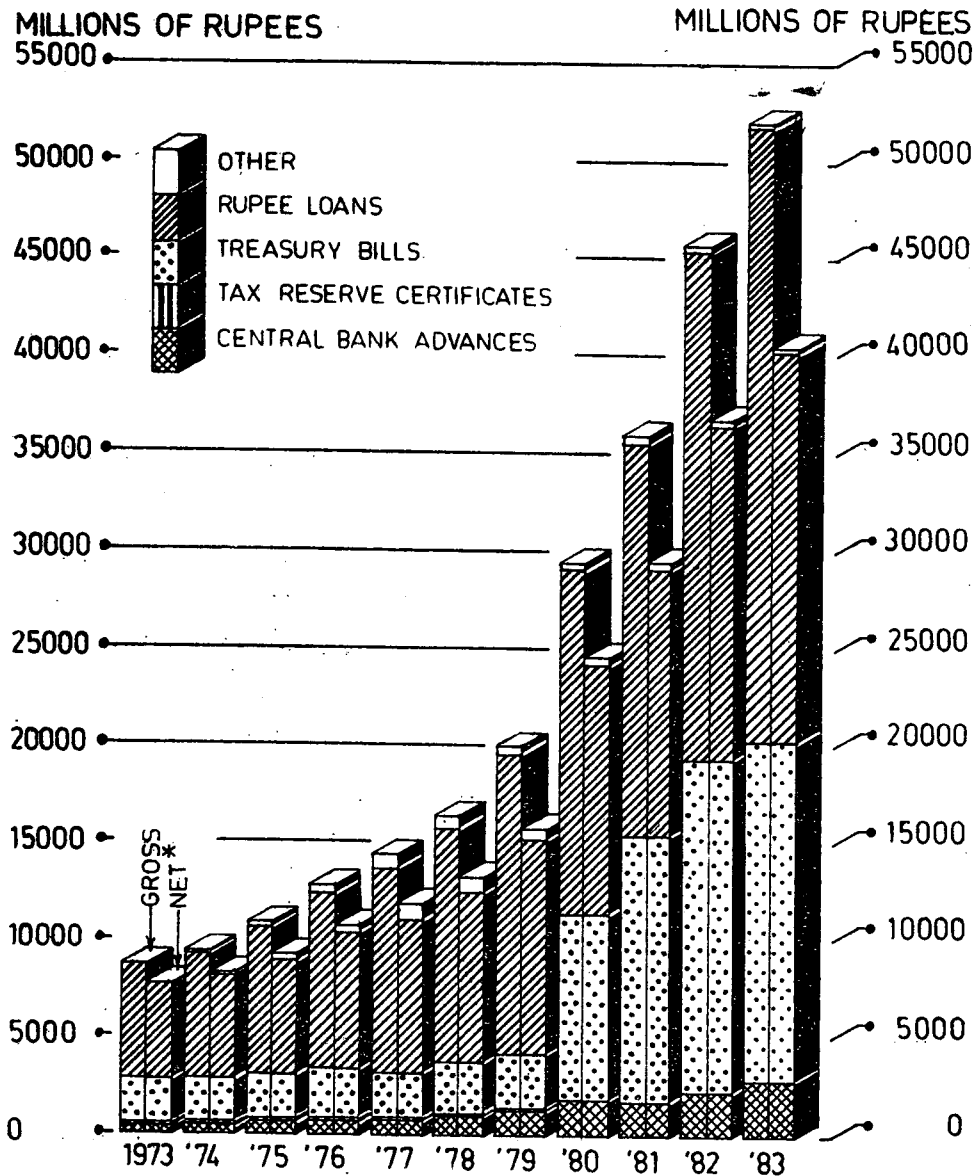
Total domestic debt as at end of 1983 consisted of Rs. 32,150 million of long and medium term debt and Rs. 20,204 million of short term debt. During the year, medium and long term debt increased by 23 per cent and short term debt by 4 per cent over the last year. Reflecting these divergent growth rates, the share of medium and long term debt in the total domestic debt increased from 57 per cent to 61 per cent in 1983. The detailed composition of outstanding domestic debt as at end of 1983, along with the comparative figures of the previous year are given in Table 1.48.

Rupee loans which formed nearly 99 per cent of total medium and long term domestic debt, increased by 24 per cent in 1983. The total amount of resources raised from rupee securities during the year amounted to Rs. 8,188 million exceeding the original budget estimate of Rs. 8,000 million. In 1982 total issues of rupee securities amounted to Rs. 6,000 million. The higher level of contributions to rupee loans in 1983 was mainly due to increased subscriptions by the Employees' Provident Fund (EPF) and the Sinking Funds. As in the past, the major subscribers to rupee loans in 1983 were the Sinking Funds, EPF and the National Savings Bank (NSB).

Sinking Funds subscribed Rs. 3,036 million to rupee securities in 1983 indicating an increase of 47 per cent over the previous year. Resources of the Sinking Funds were invested in Urban Development Authority debentures amounting to Rs. 300 million and in State Mortgage and Investment Bank's debentures amounting to Rs. 50 million. The higher level of investments by the Sinking Funds in 1983 was due to increased level of investible resources arising from an increase in government contributions to sinking funds and the higher level of income from its investments. The Government contributions to sinking funds at Rs. 3,561 million indicated almost a two-fold increase over the previous year. Income from investments during the year amounted to Rs. 1,368 million as compared to Rs. 947 million in 1982. On account of the policy decision taken to discontinue with the maintenance of sinking funds for rupee loans, the Government will not be required to contribute to sinking funds for repayment purposes with effect from January, 1984 either on loans issued prior to January, 1984 or on new loan issues. The accounting arrangements should not conceal the underlying fact that Sinking Funds merely re-channelled government resources to the budget by subscriptions to rupee loans, and to the Urban Development Authority and the State Mortgage & Investment Bank through subscriptions to their debentures. These operations also inflated the Government expenditure and the amount of outstanding gross domestic debt.

The EPF subscribed Rs. 2,355 million to rupee loans in 1983, recording a sharp increase of 66 per cent over 1982. This increase was largely due to the availability of additional resources obtained through higher receipts from members' contributions and income from investments. Total receipts from members' contributions in 1983 amounted to Rs. 1,226 million and income from investment was Rs. 926 million.

COMPOSITION OF DOMESTIC DEBT



* Gross public debt less sinking funds.
1983 figures are provisional.

Central Bank of Ceylon.

The National Savings Bank's subscriptions to rupee loans which amounted to Rs. 2,300 million in 1983, indicated a decrease of 2 per cent over the previous year due to a 18 per cent decrease in the NSB's mobilization of savings. The NSB mobilized only Rs. 1,836 million of savings in 1983 as compared with Rs. 2,234 million in 1982. Thus, the NSB's subscription to rupee securities during the year also included a sum of Rs. 550 million realised from maturity proceeds from its past investments.

Other sources subscribed Rs. 496 million inclusive of Rs. 415 million from commercial banks. The latter amount came exclusively from the People's Bank and was related to a settlement of the National Textile Corporation's debt to the bank by the Government and the transfer of a like amount back to the Government.

During the year, the Government revised the terms of the rupee securities issued with effect from July, 1983. The rate of interest was reduced from 16 per cent per annum to 14 per cent per annum while the maturity period was increased from 3 years to 5 years. Accordingly, rupee securities to the value of Rs. 4,250 million was issued at 16 per cent per annum with a 3 year maturity in the first half of 1983 and Rs. 3,523 million at 14 per cent per annum with a five year maturity in the second half of the year. The rupee securities issued to the People's Bank took the form of a special issue with an interest of 12 per cent per annum and a maturity period of 10 years. Total repayments of rupee loans in 1983 amounted to Rs. 2,035 million on account of 20 rupee loans matured during the year.

Additional borrowings on Treasury bills during the year, amounted to Rs. 80 million, as compared with Rs. 3,400 million in the previous year. Accordingly, the outstanding amount of Treasury bills was Rs. 17,400 million as at the end of 1983. During the year, the ceiling on Treasury bills remained unchanged at Rs. 23,000 million. The rate of interest was reduced from 13 to 12 per cent per annum, following the downward revision of interest rates. Holdings of Treasury bills by the banking sector increased from Rs. 17,173 million in 1982 to Rs. 17,265 million in 1983. Of this, the Central Bank's holdings increased by Rs. 664 million to Rs. 17,257 million, while commercial banks' holdings decreased by Rs. 572 million with a meagre outstanding amount of Rs. 8 million as at end of the year. The non-bank sector holdings as at end of 1983 amounted to Rs. 135 million, a decrease of Rs. 12 million from the previous year's level.

Provisional advances to government by the Central Bank under section 89 of the Monetary Law Act showed an increase of Rs. 377 million in 1983, in comparison to Rs. 604 million in 1982. A Central Bank special loan amounting to Rs. 277 million was made available to the Government during the year for payment of subscription to International Monetary Fund. The total outstanding liability of the Government on account of Central Bank advances as at end of 1983, amounted to Rs. 2,794 million, inclusive of the special loan of Rs. 277 million received during the year and Rs. 308 million in 1980. Outstanding amount of Tax Reserve Certificates as at end of the year decreased from Rs. 10.7 million to Rs. 9.9 million. During the year, new issues amounted to Rs. 159,900, while certificates amounting to

Rs. 869,589 were surrendered for payments. The outstanding foreign administrative borrowings decreased from Rs. 304 million in 1982 to Rs. 196 million in 1983. Gross disbursement of administrative borrowings during the year amounted to Rs. 11 million, while repayments amounted to Rs. 146 million.

The total foreign debt outstanding as at the end of 1983, amounted to Rs. 46,025 million, recording an increase of 33 per cent as compared with the 19 per cent increase in the previous year. The depreciation of the Sri Lanka rupee vis-a-vis other currencies led to an increase in the outstanding liability by Rs. 5,254 million in 1983, as compared to an increase of Rs. 440 million in 1982. Debts written off by the donors during the year amounted to Rs. 26 million, of which Rs. 18 million was on project loans and the balance was on commodity loans. This compares with an amount of Rs. 43 million written off in 1982.

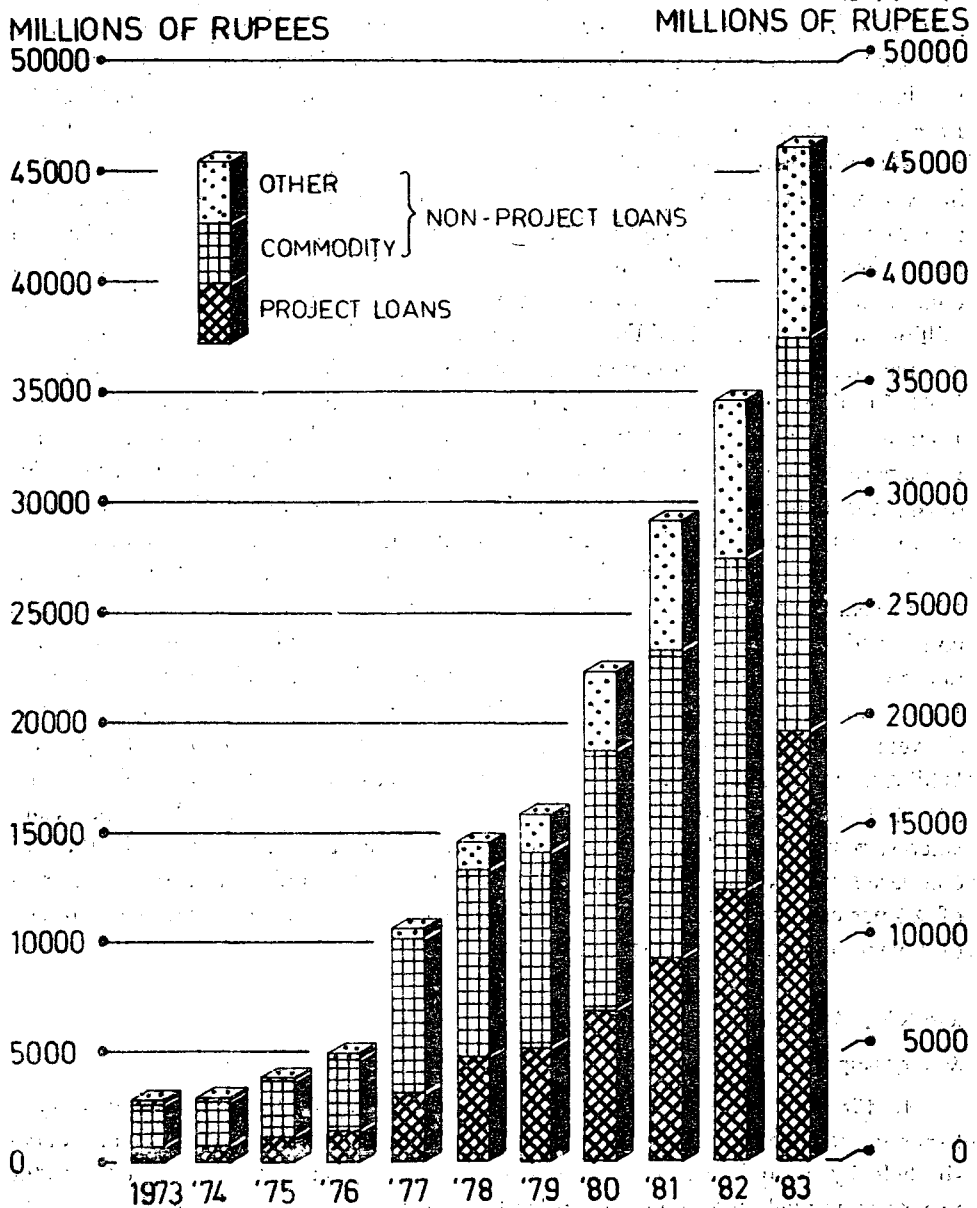
As indicated in the Table 1.49 below, gross receipts of foreign loans which consisted of project, commodity and cash and other loans amounted to Rs. 7,364 million in 1983 as compared with Rs. 5,701 million in the previous year. Project loans amounted to Rs. 5,290 million, while commodity and cash loans amounted to Rs. 1,467 million and Rs. 607 million respectively. Cash loans consisted of Euro currency loan to the value of US \$ 25 million. When adjusted for repayments, net disbursements under foreign borrowings amounted to Rs. 6,199 million, in comparison to Rs. 5,027 million in the previous year. During the year, the Government contracted 20 project loans and 3 commodity loans. The value of the loans contracted during the year at exchange rates as at 31st December 1983 amounted to Rs. 5,497 million, in comparison to Rs. 11,448 million in the previous year.

TABLE 1.49
Major Donors of Foreign Loans — 1983

				Rs. Million
		Project Loans	Commodity Loans	Other Loans
Canada	..	417.5	—	—
F.R.G.	..	1,043.1	—	—
I.D.A.	..	1,474.0	—	—
A.D.B.	..	432.7	—	—
U.S.A.	..	648.6	408.8	—
Japan	..	397.3	339.5	—
Skandinaviska Enskilda Bankens-Sweden	..	272.3	—	—
Manufactures Hanover Trust Company	..	233.2	—	—
France	..	—	271.2	—
Euro currency	..	—	—	606.6
Other	..	371.8	447.5	—
Total Gross	..	5,290.5	1,467.0	606.6
Repayments		261.8	522.2	380.7
Net Receipts		5,028.7	944.8	225.9

Source : Central Bank of Ceylon.

COMPOSITION OF FOREIGN DEBT



Central Bank of Ceylon

1978 onwards, other loans inclusive of I. M. F. Trust Fund Loans.
1983 figures are provisional.

Interest payments on public debt in 1983 consisted of Rs. 5,314 million on domestic debt and Rs. 1,279 million on foreign debt. During the year, interest payments on domestic debt increased by 27 per cent over the last year while those on foreign debt increased by 40 per cent. Interest on domestic debt was made up of Rs. 3,228 million on rupee loans, Rs. 2,082 million on Treasury bills and Rs. 3 million on administrative borrowings. Interest payments on rupee loans recorded an increase of 49 per cent, while those on Treasury bills increased by 4 per cent over the last year. Interest paid on administrative borrowings remained unchanged. Interest payments on foreign loans consisted of Rs. 299 million on project loans, Rs. 441 million on commodity loans and Rs. 539 million on other loans. While interest payments on project loans and commodity loans increased by 39 per cent and 27 per cent respectively, interest payments on other loans increased by 53 per cent over last year. Under other loans the total interest payment on Euro Dollar commercial loan amounted to Rs. 497 million in 1983 as compared with Rs. 344 million in 1982, Rs. 252 million in 1981 and Rs. 4 million in 1980. Euro currency commercial loans were obtained on three contracts. The first loan amounting to US \$ 50 million was obtained in 1980 at a rate of interest of 0.875 per cent over London Inter Bank Offered Rate (LIBOR) in respect of the first four years of the grace period allowed on capital repayment and at an interest of 1 per cent over LIBOR during the balance four year period. The second loan amounting to US \$ 75 million was obtained in 1981 at a rate of 0.625 per cent over LIBOR for first six years and 0.75 per cent over LIBOR for the balance two years. A grace period of five years has been provided for capital repayment on this loan. The third loan contracted in 1982 amounting to US \$ 100 million was partially disbursed in 1982 and 1983. This loan was obtained at a rate of interest of 0.5 per cent over LIBOR for the first two years and 0.625 per cent over LIBOR for the balance six years. This loan has a grace period of five years on principal repayments. While the commitment charges on account of non-disbursements on both the 1st and 2nd loans were 0.5 per cent, those on the third loan were 0.375 per cent. Interest payment on the Japanese yen loan amounted to Rs. 29 million in 1983, as compared with Rs. 0.3 million in 1982. This loan was obtained at a rate of interest of 9.4 per cent per annum and is repayable over 15 years including a grace period of 5 years on principal repayments.

MONEY AND BANKING

Money Supply

In 1983 there was an increase in broad money supply (M_2) accompanied by a lower rate of growth in quasi-money. M_1 consists of currency and demand deposits held by the public while quasi-money includes time and savings deposits of the private sector held with commercial banks. During the year, M_1 rose by Rs. 2,988 million or 25 per cent when compared with an increase of Rs. 1,735 million or 17 per cent in 1982 while quasi-money rose by Rs. 3,759 million or 20 per cent as against an increase of Rs. 4,328 million or 30 per cent in 1982. The decline in the rate of growth of quasi-money was partly due to the out-flow of deposits from