

### Debt Service Payments

Debt service payments which consist of amortization of long and medium-term loans and interest payments on all foreign loans increased from Rs. 7,136 million (SDR 287 million) in 1983 to Rs. 7,923 million (SDR 304 million) in 1984. These amounts do not include repayments of principal in respect of FCBU loans to GCEC enterprises and some unidentified FCBU loans. However, interest payments on these loans are included. During the year, repurchases and interest and service payments in respect of IMF transactions amounted to Rs. 593 million (SDR 23 million) and Rs. 819 million (SDR 31 million), respectively. The corresponding figures for 1983 were Rs. 1,097 million (SDR 46 million) and Rs. 749 million (SDR 31 million), respectively. The overall ratio in SDR terms, of total debt service payments to export earnings from goods and services decreased from 21.9 per cent in 1983 to 17.2 per cent in 1984. This reduction was mainly due to the increase in export earnings. Debt service ratio, excluding IMF transactions decreased from 16.0 per cent in 1983 to 14.1 per cent in 1984. The overall debt service payments as a ratio of the receipts from merchandise exports, services and private transfers decreased from 18.1 per cent to 14.7 per cent between 1983 and 1984.

### GOVERNMENT FISCAL OPERATIONS\*

Government fiscal operations resulted in a substantial reduction in the budget deficit in 1984 and entailed a sizeable repayment of debt to the banking system. The current account of the budget generated a surplus and provided a part of the resources for capital expenditure. Budgetary borrowing was therefore, exclusively confined to the shortfall of resources for the financing of capital expenditure.

#### Fiscal Outturn

Total government expenditure inclusive of net out-payments on advance accounts amounted to Rs. 53,593 million, showing an increase of 14 per cent over the previous year. With a deceleration in the expenditure growth by 10 percentage points, the ratio of expenditure to GDP declined from 38 per cent to 35 per cent. Total revenue amounting to Rs. 37,731 million indicated an increase of 50 per cent over 1983 and contributed to a current account surplus of Rs. 5,888 million. Recurrent expenditure amounted to Rs. 28,926 million, indicating an increase of 21 per cent, while net out-payments on advance accounts amounted to Rs. 2,917 million recording nearly a three-fold increase over 1983. Total capital expenditure increased marginally to Rs. 21,750 million in comparison with an increase of 16 per cent in the previous year. The budget deficit amounted to Rs. 15,862 million, indicating a decrease of 27 per cent. As a percentage of GDP, the budget deficit declined from 18 per cent to 11 per cent.

The deficit was financed with resources from both domestic and foreign sources. Foreign sources financed 71 per cent of the deficit when compared with 51 per cent in 1983. Total foreign finance amounted to Rs. 11,226 million. Receipts from foreign sources by way of loans amounted to Rs. 7,957 million and grants to Rs. 3,269 million. On the domestic front, total borrowing from the non-bank market sources and non-market non-bank sources was Rs. 6,601 million.

\* Based on tentative data pending finalization of government accounts.

TABLE 1.42

## Summary of Government Fiscal Operations 1981—1984 (a)

Rs. million (GDP ratios within brackets)

Item	1981	1982	1983 Provi- sional	1984	
				Approved Estimates	Provi- sional*
1. Revenue ..	16,228 (19.1)	17,809 (17.9)	25,210 (20.7)	30,770	37,731 (24.9)
2. Expenditure ..	31,094 (36.6)	37,900 (38.0)	46,816 (38.5)	47,313(b)	53,593 (35.4)
2.1 Recurrent expenditure ..	16,005 (18.8)	20,110 (20.2)	23,963 (19.7)	28,077	28,926 (19.1)
2.2 Add: Advance Accounts ..	1,716 (2.0)	-879 (-0.9)	1,120 (0.9)	300	2,917 (1.9)
Current Account Surplus (+)/Deficit (-)	17,721 (20.8) -1,493 (-1.8)	19,231 (19.3) -1,422 (-1.4)	25,083 (20.6) +127 (0.1)	28,377 +2,393	31,843 (21.0) +5,888 (3.9)
2.3 Capital expenditure ..	13,373 (15.7)	18,669 (18.7)	21,733 (17.9)	18,936	21,750 (14.4)
3. Budget Deficit ..	14,866 (17.5)	20,091 (20.1)	21,606 (17.8)	16,543	15,862 (10.5)
4. Debt Repayment (c) ..	1,608 (1.9)	2,612 (2.6)	5,302 (4.4)	2,368(d)	2,229 (1.5)
5. Net Cash Deficit ..	13,258 (15.6)	17,479 (17.5)	16,580 (13.6)	14,175	13,633 (9.0)
6. Financing of Budget Deficit ..					
6.1 Domestic non-market borrowing ..	400 (0.5)	1,713 (1.7)	2,385 (2.0)	—	916 (0.6)
6.2 Domestic market borrowing ..	6,296 (7.4)	9,899 (9.9)	8,965 (7.4)	4,231	3,041 (2.0)
6.2.1 Bank ..	3,917(e) (4.6)	4,006(e) (4.0)	1,202(e) (1.0)	681	-2,644 (-1.7)
6.2.2 Non-bank ..	2,379 (2.8)	5,894 (5.9)	7,762 (6.4)	3,550	5,685 (3.7)
6.3 Foreign finance ..	8,208 (9.7)	8,794 (8.8)	10,950 (9.0)	12,312	11,226 (7.4)
6.3.1 Loans ..	5,487 (6.5)	5,418 (5.4)	7,477 (6.1)		7,957 (5.2)
6.3.2 Grants ..	2,721 (3.2)	3,376 (3.4)	3,473 (2.9)		3,269 (2.2)
6.4 Use of cash balances ..	-38 (-...)	-315 (-0.3)	-694 (-0.6)	—	679 (0.4)
7. Financing of Net Cash Deficit ..					
7.1 Domestic non-market borrowing ..	363 (0.4)	1,664 (1.7)	2,239 (1.8)	—	820 (0.5)
7.2 Domestic market-borrowing ..	5,331 (6.3)	8,010 (8.0)	5,250 (4.3)	3,522	2,374 (1.6)
7.2.1 Bank ..	3,885 (4.6)	3,990 (4.0)	1,168 (1.0)	681	-2,760(e) (-1.8)
7.2.2 Non-bank ..	1,446 (1.7)	4,020 (4.0)	4,082 (3.3)	2,841	5,134 (3.4)
7.3 Foreign finance ..	7,602 (8.9)	8,120 (8.1)	9,785 (8.0)	10,653	9,761 (6.4)
7.3.1 Loans ..	4,880 (5.7)	4,744 (4.7)	6,313 (5.2)		6,492 (4.2)
7.3.2 Grants ..	2,721 (3.2)	3,376 (3.4)	3,472 (2.8)		3,269 (2.2)
7.4 Use of cash balances ..	-38 (-...)	-315 (-0.3)	-694 (-0.6)	—	679 (0.4)
8. Expansionary impact of fiscal operations	3,847 (4.5)	3,675 (3.7)	474 (0.4)	681	-2,082 (-1.4)
9. Public debt outstanding (net) ..	58,659 (69.0)	71,250 (71.4)	86,423 (71.0)	—	95,741 (63.2)

Sources: General Treasury, Central Bank of Ceylon.

(a) These figures will differ from those in government accounts for reasons given in footnotes to Table 31 of Appendix.

(b) With under expenditure adjustments.

(c) Includes sinking fund contributions, direct repayments of public debt and contributions to international financial organizations amounting to Rs. 277 million in 1983 (Provisional), repayments of foreign administrative borrowings amounting to Rs. 37 million in 1981, Rs. 49 million in 1982, Rs. 146 million in 1983 (Provisional) and Rs. 96 million in 1984 (Provisional).

(d) Contributions to sinking funds for repayment of rupee loans ceased with effect from January, 1984.

(e) Includes repayment of rupee loans of Rs. 32 million in 1981, Rs. 16 million in 1982, Rs. 36 million in 1983 and Rs. 117 million in 1984 to the banking sector.

\* Based on tentative data pending finalization of government accounts.

Total availability of resources from foreign and domestic non-bank sources exceeded the budget deficit by Rs. 1,965 million. After adjustment for the repayment of Rs. 2,760 million to the banking system and the use of cash balances to the extent of Rs. 679 million, the contractionary impact of fiscal operations for the year amounted to Rs. 2,082 million in contrast to the expansionary impact of Rs. 474 million in 1983.

A summary of fiscal operations for 1984 together with comparable data for the past three years is given in Table 1.42. The net cash deficit on account of the government fiscal operations along with comparable data for the past nine years is shown in the Statistical Appendix.

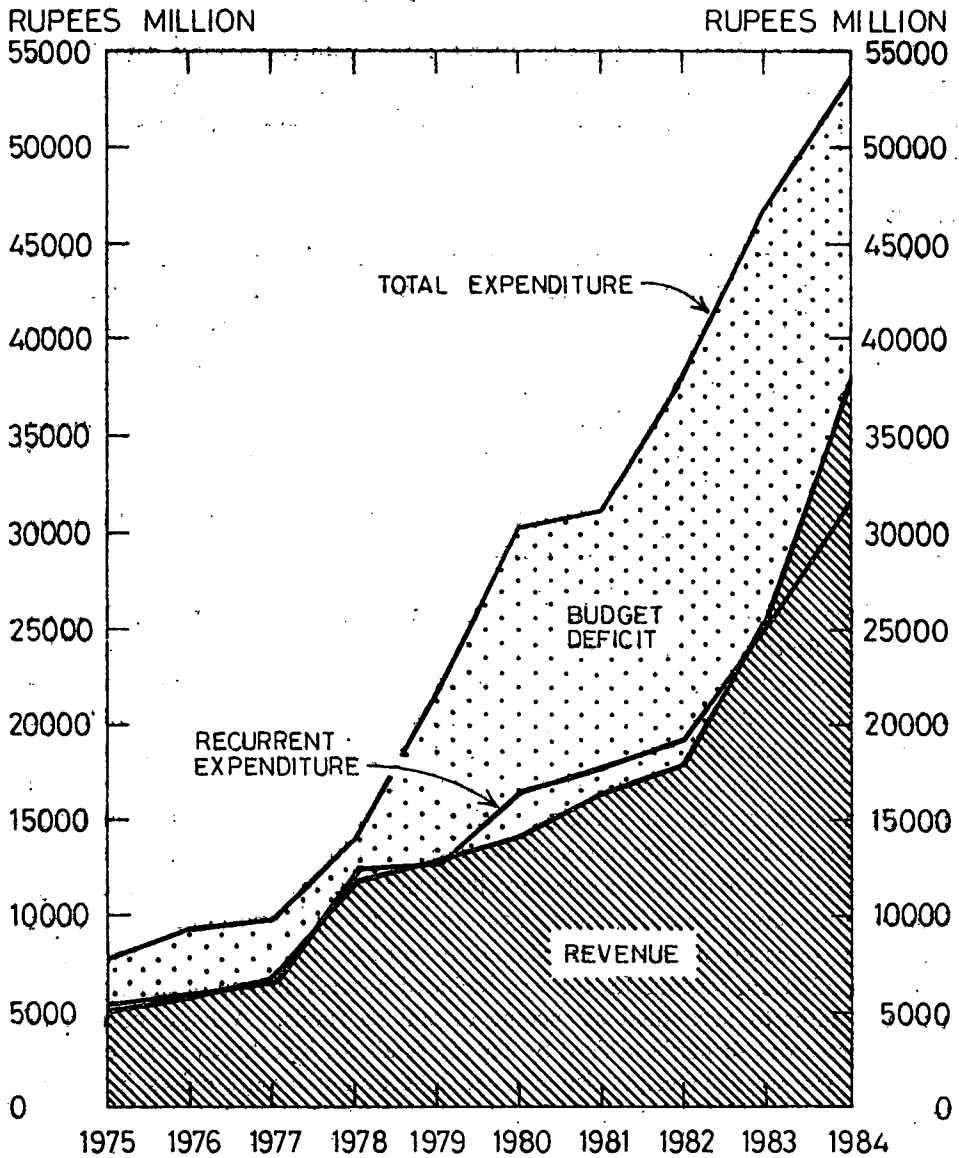
### Revenue

Government revenue continued to grow in both absolute and relative terms in 1984. The level of revenue in relation to GDP increased from 21 per cent to 25 per cent. In absolute terms, revenue increased by 50 per cent to Rs. 37,731 million. This was the highest year-on-year growth recorded in the last six years. Revenue from taxes increased by 51 per cent to Rs. 31,215 million and non-tax revenue increased by 45 per cent to Rs. 6,516 million. The increase in tax revenue was largely the result of higher receipts from tea ad-valorem tax, import duties, turnover taxes, income taxes and export duties. Higher receipts in respect of interest and dividends, repayment of loans and advances and gross receipts of trading enterprises substantially contributed to the increase in non-tax revenue.

The increase in revenue was in line with the trend observed from 1983, when revenue mobilization efforts gathered momentum. According to tentative calculations, the buoyancy co-efficient of revenue, measured as the ratio of changes in revenue to the changes in GDP, stood at 2.02 in 1984 as compared with 1.89 in 1983. The buoyancy co-efficient of tax revenue was 2.07 as compared with 1.56 in 1983. The impressive revenue performance during the year, to a larger extent, reflected windfall gains, changes in accounting practices related to sinking funds and certain intra-government transfers. Higher prices for tree crops and lower petroleum prices in the world market helped to generate a substantially higher taxable surplus in the economy. Widening of the coverage of income tax, turnover taxes and import duties to include government transactions also contributed to raising the level of government revenue. In addition, revenue for the year included interest income of sinking funds which was hitherto accounted as income of sinking funds. A larger portion of these resources was formerly utilized by sinking funds for investment in government securities. The revenue receipts also included collection of import duties in respect of previous years, which were credited in the current year.

Total government revenue, excluding tax receipts financed by budgetary allocations, interest income of sinking funds and import duties brought forward, recorded an increase of 30 per cent over 1983. The buoyancy co-efficient of revenue, excluding intra-government transfers stood at 1.23 yet indicating the buoyant nature of revenue in 1984. When the incremental revenue from the tree crop sector is also excluded, the increase in total revenue is 18 per cent, which is somewhat below the

## GOVERNMENT REVENUE AND EXPENDITURE



rate of nominal growth in GDP. This increase in revenue was largely due to discretionary measures which were announced in the 1984 Budget and during the course of the year. The high buoyancy in revenue experienced during the year thus constituted a transitory phenomenon rather than a sustainable improvement in the revenue system. Numerous revenue measures so far introduced and the improvements effected in the revenue system appeared to be inadequate to make revenue elastic and buoyant. This further emphasised the necessity for a continuous aggressive revenue mobilization effort involving measures for widening the tax coverage and the tax base. In this regard, it may be noted that there were instances when the Government had to forgo revenue on account of downward revision of certain tax rates to encourage production.

Increased revenue from the external sector, revisions in accounting practices and the new revenue measures implemented during the year entailed certain changes in the revenue structure in 1984. The share of tax collections in total revenue increased from 82 per cent in 1983 to 83 per cent in 1984, reversing the trend observed since 1980. Revenue from international trade-oriented taxes as a percentage of total tax revenue increased from 48 per cent in 1983 to 56 per cent in 1984, while the share of taxes on production and expenditure decreased from 83 per cent to 82 per cent. As observed in previous Annual Reports, heavy dependence on external trade for revenue mobilization purposes would make the domestic budget vulnerable to the vicissitudes of international trade. In the non-tax revenue category, the share of interest, profits and dividends increased from 15 per cent to 25 per cent of total non tax revenue, while the share of gross receipts from trading enterprises remained unchanged at 29 per cent; the share of repayment of loans and advances increased from 3 per cent to 8 per cent.

With a total revenue collection of Rs. 8,144 million, turnover taxes registered an increase of 31 per cent over the previous year and accounted for 26 per cent of total tax revenue in 1984. As a percentage of GDP, total turnover taxes increased from 5.1 per cent in 1983 to 5.4 per cent in 1984. This increase was largely due to enhanced tax rates, widening of the coverage to include government imports and better tax law enforcement and compliance. Revenue collections from selective sales taxes amounted to Rs. 5,787 million, indicating a sharp increase of 79 per cent over the previous year. As a result, the share of selective sales taxes in total tax revenue increased from 16 per cent to 19 per cent. In relation to GDP, selective sales taxes increased from 2.7 per cent to 3.8 per cent. This increase was largely due to higher receipts from the tea ad-valorem tax, which registered a more than three-fold increase over 1983.

Total revenue collections from export duties amounted to Rs. 3,175 million, recording an increase of 29 per cent over 1983 and reversing a declining trend observed in the recent past. As a percentage of total tax revenue, export duties, however, continued to decline from 12 per cent in 1983 to 10 per cent in 1984. Nevertheless, in relation to GDP, revenue collection by way of export duties marginally increased to 2.1 per cent in 1984. The increase in export duties was largely due to higher receipts from tea and rubber exports. With respect to import duties, collections amounted to Rs. 7,945 million, showing an increase of 64 per cent over the previous

year, and accounted for 25 per cent of total tax revenue in 1984. As a percentage of GDP, import duties rose from 4.0 per cent to 5.2 per cent. This increase was largely attributable to widening of the coverage to include government imports with effect from January, 1984.

Revenue from income taxes amounted to Rs. 5,480 million, recording an increase of 63 per cent over the previous year, and accounted for 18 per cent of total tax revenue in 1984. Income taxes in relation to GDP increased from 2.8 per cent in 1983 to 3.6 per cent in 1984. This was largely due to a sharp increase of 50 per cent in corporate income taxes. A major share of this increase was from higher tax collections from the public sector corporations. Non-corporate income tax collections nearly doubled.

Collections of non-tax revenue in 1984 at Rs. 6,516 million showed an increase of 45 per cent over 1983. The share of non-tax revenue in total revenue decreased marginally from 18 per cent to 17 per cent. The absolute increase in non-tax revenue was largely the result of discretionary measures implemented during the year and the treatment of interest income of sinking funds as government revenue. Interest income, excluding that of sinking funds however, indicated a decrease of 25 per cent over 1983. Profits and dividends in 1984 amounted to Rs. 559 million and indicated nearly a three-fold increase over 1983. This improvement came largely from the 50 per cent dividends declared by corporations on their after tax profits. A major item in the total non-tax revenue was the transfer of Central Bank profits to the Government amounting to Rs. 1,650 million. This transfer, made in terms of the Monetary Law Act, was utilized for settlement of government debt obligation to the Central Bank.

A detailed breakdown of government revenue is given in the Statistical Appendix.

### Expenditure

In 1984, government expenditure grew at a reduced rate of 14 per cent, compared with that of 1983. Total expenditure in relation to GDP declined from 38 per cent to 35 per cent. Expenditure on recurrent votes increased by 21 per cent, while advance account net out-payments indicated nearly a three-fold increase. Expenditure on capital votes increased marginally. However, total expenditure recorded in 1984 far exceeded the original budget estimates. In terms of the original estimates, total expenditure was expected to be just one per cent over the level in 1983, with an increase of 17 per cent under recurrent votes and a decrease of 13 per cent under capital votes. Net out-payments on advance account activities were estimated to be Rs. 300 million or nearly one fourth of the level recorded in 1983. The growth in expenditure was expected to be contained further by expenditure cuts initiated in the first half of 1984.

During the year, mounting pressure on expenditure, however, resulted in an approval of a large number of supplementary estimates and a release of funds on advance account activities, involving a substantial amount of budgetary resources.

Supplementary estimates amounting to Rs. 7,249 million, consisting of Rs. 5,335 million under capital votes and Rs. 1,913 million under recurrent votes were approved during the year. Of the total supplementary estimates, Rs. 2,455 million were intra-governmental transfers which included Rs. 2,294 million provided for payment of taxes by certain government agencies. The rest of the supplementary estimates related to new commitments financed either by foreign or domestic sources. Supplementary estimates arising from the accommodation of expenditure financed by foreign aid amounted to Rs. 2,396 million. A part of the balance was on account of contingencies arising from security considerations and adverse weather conditions. Nevertheless, it could be noted that the level of supplementary estimates allowed during the year was somewhat high, emphasizing the need for further improvement in expenditure management.

Reflecting the above pattern of expenditure growth, outlays on recurrent votes and advance account activities accounted for nearly 59 per cent of total expenditure in 1984 as compared with 54 per cent in 1983. In relation to GDP, recurrent expenditure and advance account net out-payments increased from 20.6 per cent in 1983 to 21.0 per cent in 1984, while the ratio in respect of outlay on recurrent votes decreased from 19.7 per cent to 19.1 per cent. Capital expenditure as a percentage of GDP decreased from 17.9 per cent to 14.4 per cent.

The pattern of recurrent expenditure growth observed during the year was characterized by a substantial increase in outlay on goods and services other than salaries and wages and a deceleration in the growth of transfers. Expenditure on goods and services, including salaries and wages increased by 32 per cent to Rs. 13,569 million, while transfers increased by 12 per cent to Rs. 15,358 million. Expenditure on goods and services included a large allocation for the payment of taxes by the government departments and agencies. In addition, the higher outlay on the Import Duty Rebate Scheme and defence, substantially contributed to the increase in expenditure on other goods and services. There was a decrease in the transfers to corporations, in absolute terms. The growth of interest payments also decelerated during the year. Transfers to households and other categories however, indicated a substantial increase over 1983.

Reflecting the above pattern of expenditure growth, the share of transfers in total recurrent expenditure declined from 57 per cent in 1983 to 53 per cent in 1984. The combined expenditure on salaries and wages, interest payments and pensions amounting to Rs. 15,684 million also accounted for a lower share of 54 per cent as compared with 59 per cent in the previous year. Expenditure on these three items registered only a 10 per cent increase. With a total outlay of Rs. 1,775 million, the share of trading enterprises in total recurrent expenditure remained almost unchanged at 6 per cent. Expenditure on trading enterprises increased by 24 per cent.

Total recurrent expenditure on goods and services comprised Rs. 6,185 million on salaries and wages and Rs. 7,384 million on other goods and services. During the year, salaries and wages recorded an increase of 7 per cent over 1983. This was largely the outcome of the two stage increase in the cost of living allowance in

March and September, 1984. Expenditure on other goods and services increased by 63 per cent, partly due to a higher allocation for the payment of taxes by the government and its agencies.

Of the total outlay on transfers, interest payments inclusive of those on short term Treasury borrowings amounted to Rs. 7,319 million, showing an increase of 11 per cent. This was the lowest year-on-year increase recorded in the recent past. As a result, the share of interest payments in total expenditure declined from 28 per cent to 25 per cent. Its share in total transfers, however, remained unchanged at 48 per cent. In relation to GDP, interest payments declined from 5.4 per cent to 4.8 per cent. This outcome in interest payments was due to the retirement of Treasury bills and the reduced level of borrowings under rupee loans as well as lower international interest rates. Total pensions amounted to Rs. 2,180 million, recording an increase of 20 per cent over the previous year. This increase was largely due to revisions in the cost of living allowance.

Transfers, excluding interest payments and pensions amounted to Rs. 5,858 million, recording an increase of 12 per cent and accounted for 20 per cent of total recurrent expenditure in comparison with 22 per cent in the previous year. These transfers included Rs. 1,749 million to corporations, Rs. 597 million to local government authorities and Rs. 3,512 million to households and other categories. Current transfers to corporations are given in the Statistical Appendix.

Transfers in respect of households and other categories increased by 21 per cent. This increase was largely due to the increased outlay on the Kerosene Stamps Scheme and welfare payments. Total expenditure on food stamps which showed a marginal decrease amounted to Rs. 1,405 million and kerosene stamps to Rs. 397 million. The subsidy on infant milk food amounted to Rs. 90 million. This category also included a subsidy of Rs. 161 million on interest payable by the Food Commissioner on outstanding advances to the General Treasury. The interest subsidy to the National Savings Bank amounted to Rs. 498 million.

Advance account operations resulted in a net out-payment of Rs. 2,917 million as compared with a net out-payment of Rs. 1,120 million in 1983. As a result, advance account operations accounted for nearly 5 per cent of total budgetary outlays in 1984 as compared with only 2 per cent in the previous year. The increase in the advance account net out-payments was largely the result of higher advances to corporations with liquidity problems. There were also out-payments to finance losses incurred by certain corporations. Total net out-payments to corporations recorded under "loans from advance accounts and surplus balances" amounted to Rs. 1,949 million in comparison to a net out-payment of Rs. 468 million in 1983. Net advances in respect of government departments amounted to Rs. 851 million and stores and materials to Rs. 154 million as compared with Rs. 416 million and Rs. 193 million respectively, in 1983. However, there was an in-payment of Rs. 37 million under other advances.

Capital expenditure inclusive of amortization payments amounted to Rs. 21,750 million in 1984, indicating a marginal increase as compared with an increase of 16 per cent in 1983. The marginal growth in expenditure, despite



a larger magnitude of supplementary estimates approved during the year, was largely attributable to the abolition of sinking fund contributions for the repayment of rupee loans, and the higher level of under-expenditure recorded under certain votes. Under expenditure in 1984 was partly on account of expenditure cuts initiated in the first half of the year.

Total capital expenditure exclusive of amortization payments amounted to Rs. 19,521 million, indicating an increase of 17 per cent over 1983. Capital expenditure for the year also included an allocation for the payment of taxes by the Ceylon Electricity Board amounting to Rs. 818 million. Net capital expenditure (total capital expenditure net of amortization payments and provision for taxes) indicated an increase of 12 per cent. Nonetheless, net capital expenditure in relation to GDP declined from 13.7 per cent to 12.3 per cent in 1984. The net capital expenditure, adjusted by the GNP deflator, revealed that capital expenditure at 1982 prices was Rs. 13,864 million in 1984 as compared with Rs. 14,592 million in the previous year, indicating a decrease of 5 per cent. However, capital expenditure for the year included Rs. 992 million of unutilized expenditure provisions which were transferred to Treasury deposits. This compares with Rs. 1,836 million transferred in 1983. When adjusted for such transfers, capital expenditure indicated an increase of 19 per cent, in nominal terms, and a marginal increase of one per cent in real terms.

Of the total expenditure recorded under capital votes, transfers to corporations amounted to Rs. 11,205 million and indicated an increase of 8 per cent over 1983. There were also allocations of investible resources to certain corporations by way of loans amounting to Rs. 646 million as compared with the previous year's allocation of Rs. 801 million. Capital transfers to local government authorities and other institutions amounted to Rs. 225 million as compared with Rs. 327 million in 1983. Capital expenditure directly undertaken by the government departments and ministries amounted to Rs. 7,445 million recording an increase of 44 per cent over the previous year. During the year, under expenditure in capital votes amounted to Rs. 5,306 million or 21 per cent of the total provisions inclusive of supplementary estimates. A ministry-wise classification of expenditure and transfers and loans to corporations are given in the Statistical Appendix.

### **Financing of the Budget Deficit**

The sharp increase in revenue receipts, which greatly exceeded the incremental government outlays, contributed to a substantial reduction in the size of the budget deficit. The deficit at Rs. 15,862 million indicated a decrease of 27 per cent as compared with 1983 and 21 per cent as compared with 1982. In the last decade, there were only two earlier occasions (1977 and 1981) when the size of the deficit was reduced, in absolute terms. The deficit as a ratio of total expenditure also declined from 46 per cent in 1983 to 30 per cent in 1984. This was the lowest ratio since 1974. In relation to GDP, the budget deficit declined from 18 per cent to 11 per cent. The net cash deficit, a refined measure of the budgetary imbalance amounted to Rs. 13,633 million, indicating a decrease of 18 per cent. As a ratio of GDP, net cash deficit declined from 14 per cent to 9 per cent.

Unlike in the recent past, when the current account had a deficit or a negligible surplus, a substantial portion of capital expenditure in 1984 was financed by public sector savings. Moreover, total availability of resources from both foreign and domestic sources, exceeded the resources gap for the first time since 1977, resulting in a surplus of Rs. 1,965 million. This was reflected in a repayment of debt to the banking system.

In financing the deficit, resources equivalent to Rs. 11,226 million were obtained from foreign sources. This accounted for 71 per cent of the deficit as compared with 51 per cent in 1983. However, in relation to GDP, resources from foreign sources declined from 9 per cent to 7 per cent. Total borrowing from domestic sources, net of repayments to the banking system, amounted to Rs. 3,957 million, indicating a decrease of 65 per cent. Therefore, budgetary recourse to domestic financial and capital markets in relation to GDP declined from 9 per cent to 3 per cent. This decrease partly reflected the virtual cessation of subscription to rupee loans from sinking funds.

Borrowing from domestic non-bank market sources comprised receipts of Rs. 4,344 million by way of rupee loans and Rs. 1,341 million through Treasury bills. Of the total funds borrowed from the non-bank market sources, the contributions made by the Employees' Provident Fund amounted to Rs. 3,152 million, while the National Savings Bank channelled Rs. 2,352 million. The balance (Rs. 181 million) was provided largely by miscellaneous provident and pension funds. A sum of Rs. 8 million was received from sinking funds. As a percentage of GDP resources from these sources excluding sinking funds declined from 3.9 per cent to 3.7 per cent.

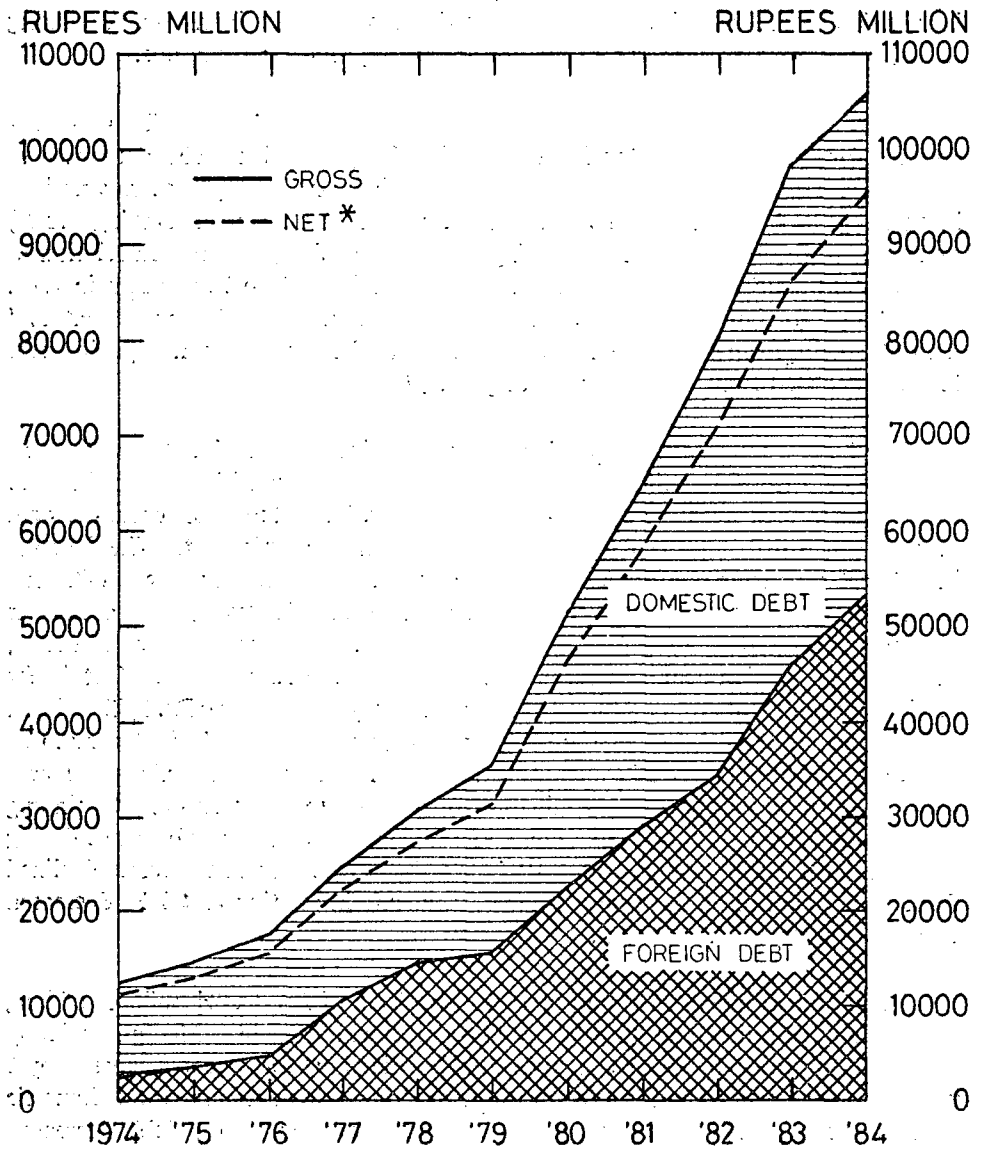
Total finances available from non-bank non-market sources amounted to Rs. 916 million as compared with Rs. 2,385 million in the previous year. The share of this source in the overall financing of the budget deficit, therefore, decreased from 11 per cent to 6 per cent. Borrowing from non-market sources included utilization of various type of deposits with the Treasury. Transactions under administrative borrowing resulted in a repayment of Rs. 176 million.

Total resources obtained from domestic non-bank sources and foreign sources exceeded the budget deficit by Rs. 1,965 million. However, the repayment of loans to the banking system exclusive of those arising from maturing rupee loans amounted to Rs. 2,644 million. A sum of Rs. 117 million was repaid on account of maturing rupee loans. This level of repayments to the banking system was also made possible by the use of cash balances amounting to Rs. 679 million. Thus, the budgetary operations in 1984 exerted a net contractionary impact on money supply amounting to Rs. 2,082 million or 1.4 per cent of GDP, in contrast to the expansionary impact of 0.4 per cent in 1983.

#### **Public Debt**

Outstanding gross public debt as at end of 1984 amounted to Rs. 105,918 million, indicating an increase of 8 per cent over 1983. This was the lowest year-on-year increase recorded in the last two decades. The deceleration in the growth of public

## COMPOSITION OF PUBLIC DEBT



\* Gross public debt less sinking funds.

Central Bank of Ceylon.

debt was caused by a marginal decrease in domestic debt (approximately 0.2 per cent), while foreign debt increased only by 17 per cent, a rate substantially lower than in 1983. Of the domestic debt, Treasury bills amounting to Rs. 2,540 million were retired during the year, reflecting the improvement in the fiscal outturn. Issues of new rupee loans in 1984 declined nearly by half from the level in 1983. This was largely due to the virtual cessation of subscriptions to rupee loans from sinking funds, consequent on the discontinuation of sinking fund contributions.

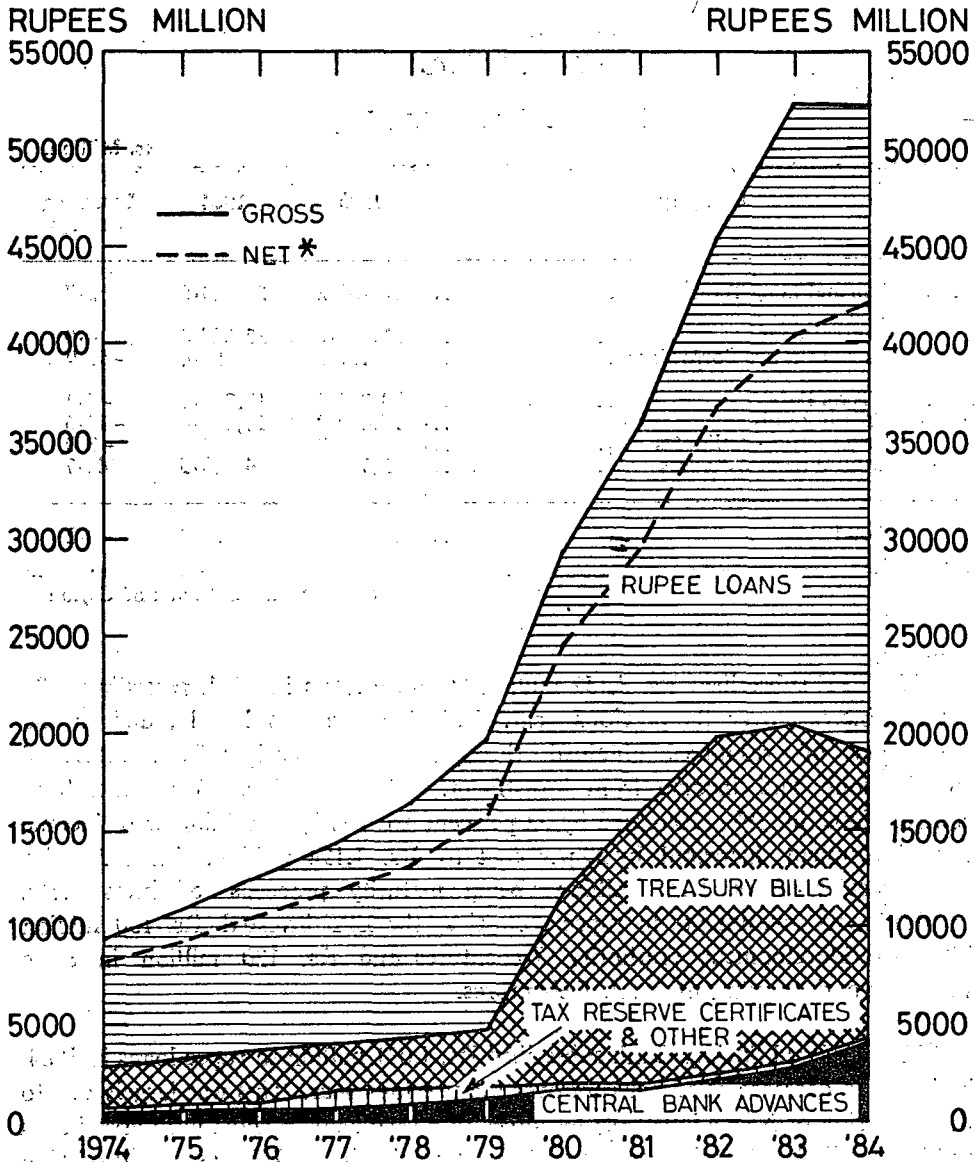
Total domestic debt as at end of 1984 amounted to Rs. 52,237 million and accounted for 49 per cent of total gross public debt. Foreign debt amounted to Rs. 53,681 million inclusive of the additional liability arising from fluctuations in exchange rates. Net public debt (total public debt net of sinking funds) amounted to Rs. 95,741 million, recording an increase of 11 per cent. In relation to GDP, total public debt decreased from 81 per cent in 1983 to 70 per cent in 1984. The ratio of foreign debt to GDP declined from 38 per cent to 35 per cent and domestic debt from 43 per cent to 34 per cent. The ratio of net public debt to GDP declined from 71 per cent to 63 per cent.

Total interest payments on public debt amounted to Rs. 7,296 million, indicating a modest increase of 11 per cent as compared with an increase of 30 per cent in 1983. Interest on foreign debt increased by 17 per cent, while interest on domestic debt increased by 9 per cent, despite a negative growth in domestic debt. The increase in interest payments on domestic debt was due to the new commitments falling in 1984 on account of rupee loans issued in 1983. The average rate of interest on domestic debt decreased from 11.6 per cent to 11.1 per cent per annum in 1984, while that on foreign debt decreased from 3.7 per cent to 3.2 per cent. Total debt service payments (interest and amortization payments) amounted to Rs. 9,525 million in 1984, recording a decrease of 18 per cent over the previous year. This decrease was due to the reduced level of expenditure on account of repayment of rupee loans, which in-turn was due to the termination of government contributions to sinking funds. As a result of this decrease and the impressive revenue performance during 1984, the total debt service payments in relation to government revenue declined from 46 per cent to 25 per cent. Interest payments in relation to GDP decreased from 5.4 per cent to 4.8 per cent.

Total domestic debt as at end of 1984, consisted of Rs. 33,324 million of long and medium term debt and Rs. 18,913 million of short term debt. Medium and long term debt increased by 4 per cent over 1983, while short term debt decreased by 6 per cent. As a result, the share of medium and long term debt in the total domestic debt increased from 61 per cent to 64 per cent and that of short term debt decreased from 39 per cent to 36 per cent. The composition of outstanding domestic debt as at end of 1984, along with the comparative figures for the previous year are given in Table 1.43.

Rupee loans which formed nearly 99 per cent of total medium and long term domestic debt, increased by 4 per cent in 1984 as compared with an increase of 24 per cent in the previous year. The total value of rupee securities issued during the

## COMPOSITION OF DOMESTIC DEBT



\* Gross public debt less sinking funds.

Central Bank of Ceylon.

year amounted to Rs. 4,344 million, exceeding the original budget estimate of Rs. 3,550 million. In 1983, total issues of rupee securities amounted to Rs. 8,188 million. The major subscribers to rupee loans in 1984 were the Employees' Provident Fund (EPF) and the National Savings Bank (NSB).

**TABLE 1.43**  
**Domestic Debt Outstanding**

		Rs. Million.		
Category		1983	1984	Percentage Change
A. Medium and Long Term Debt ..	..	32,150.2	33,323.8	3.7
of which:				
Rupee Loans ..	..	31,953.6	33,227.4	4.0
Administrative Borrowings ..	..	196.5	96.4	-50.9
B. Short Term Debt ..	..	20,204.4	18,913.1	-6.4
Treasury Bills ..	..	17,400.0	14,860.0	-14.6
Tax Reserve Certificates ..	..	9.9	9.6	-3.0
Central Bank Advances ..	..	2,794.5	4,043.5	44.7
Total ..	..	52,354.6	52,236.9	-0.2

Source: Central Bank of Ceylon.

The EPF subscribed Rs. 3,152 million to rupee loans in 1984, recording a 34 per cent increase over the previous year. This increase was largely, due to the availability of resources obtained through higher receipts from members' contributions and income from investment. Total receipts from members' contributions in 1984 increased by 32 per cent to Rs. 1,583 million and income from investment increased by 29 per cent to Rs. 1,194 million. The EPF also had a receipt of Rs. 1,245 million being maturity proceeds of investments. In addition to investments in rupee securities, the EPF invested Rs. 150 million in Urban Development Authority Debentures and Rs. 120 million in State Mortgage and Investment Bank Debentures.

The National Savings Bank subscribed Rs. 1,031 million to rupee loans in 1984, indicating a decrease of 55 per cent over the previous year. This was largely due to the diversion of NSB's investible resources to investments in short term assets such as Treasury bills. Total investment in Treasury bills by the NSB as at end of 1984 amounted to Rs. 1,321 million. Thus, total resources made available by the NSB to the Government amounted to Rs. 2,352 million in 1984, recording an increase of 2 per cent over 1983. Other sources subscribed Rs. 161 million to rupee loans in 1984. Of these, various pension and provident funds subscribed Rs. 153 million. A sum of Rs. 8 million was subscribed by sinking funds on account of the National Housing Sinking Fund.

During the year, the Government revised the terms of rupee securities issued with effect from August, 1984. The rate of interest on government securities was raised from 14 per cent per annum to 16 per cent per annum and the maturity period was increased from 5 years to 6 years. Accordingly, rupee securities to the value of Rs. 2,500 million was issued at 14 per cent per annum with a five year maturity in the first seven months of 1984 and securities amounting to Rs. 1,844 million was issued at 16 per cent per annum with a six year maturity in the next five months of the year. Total repayments of rupee loans in 1984 amounted to Rs. 3,071 million on account of twenty two rupee loans which matured during the year. Direct repayments by the Government amounted to Rs. 667 million and the balance was met with the resources held by sinking funds.

During the year Treasury bills amounting to Rs. 2,540 million were retired as compared with a net borrowing of Rs. 80 million in the previous year. Accordingly, the outstanding liability on Treasury bills as at end of 1984 amounted to Rs. 14,860 million. The ceiling on Treasury bills remained unchanged at Rs. 23,000 million. The rate of interest which was 12 per cent per annum as at end of 1983 increased to 15 per cent per annum by June and July and later went down to 14 per cent per annum.

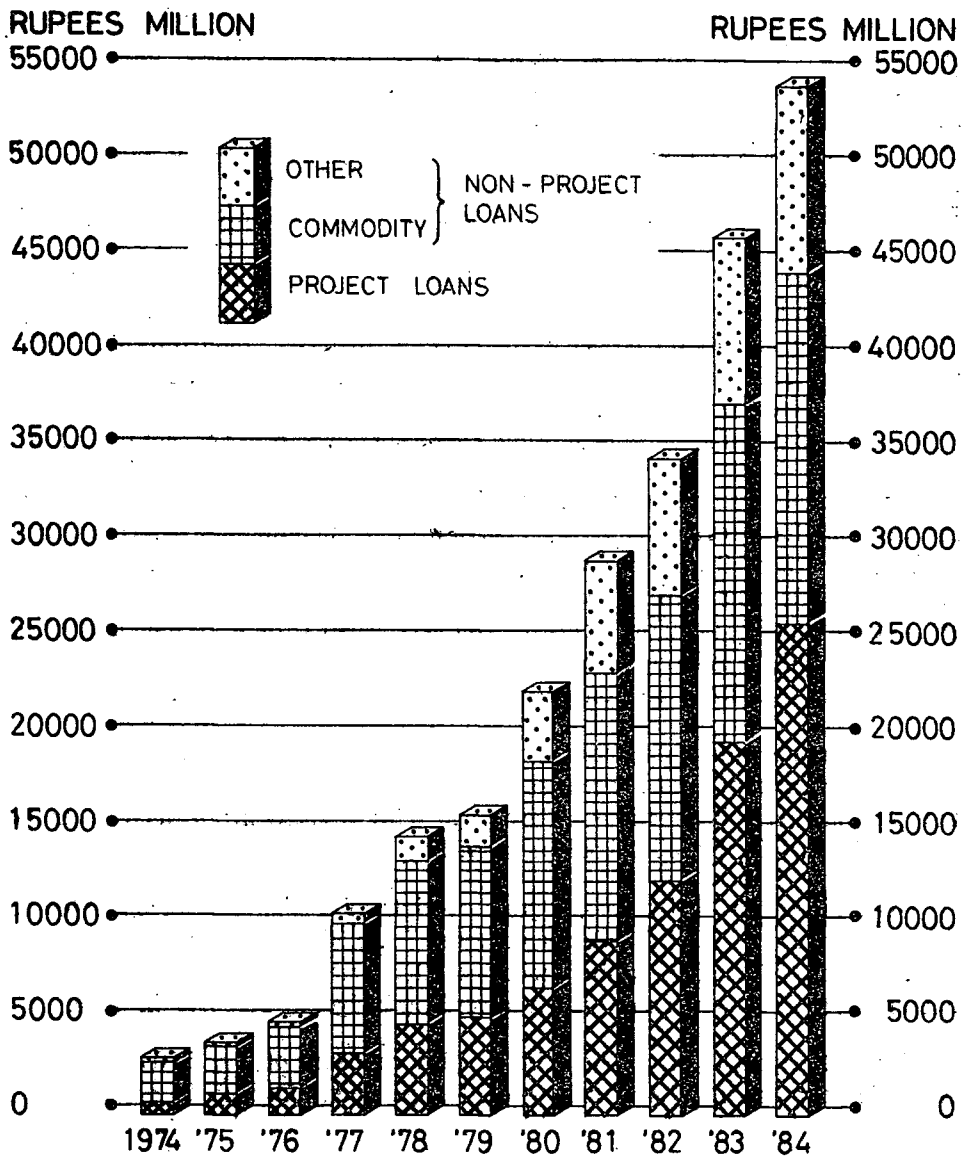
Provisional advances to government by the Central Bank under section 89 of the Monetary Law Act showed an increase of Rs. 1,249 million in 1984 in comparison with an increase of Rs. 377 million in the previous year. The total outstanding liability of the Government on account of Central Bank advances as at end of 1984 amounted to Rs. 4,043 million, inclusive of the special loans of Rs. 308 million received in 1980 and Rs. 277 million in 1983. Gross administrative borrowings during the year amounted to Rs. 4 million and repayments amounted to Rs. 96 million.

Foreign debt outstanding as at the end of 1984 amounted to Rs. 53,681 million, recording an increase of 17 per cent as compared with an increase of 33 per cent in the previous year. Fluctuations in exchange rates resulted in an increase in the outstanding liability by Rs. 324 million in 1984.

As indicated in Table 1.44, gross receipts of foreign loans amounted to Rs. 8,838 million in 1984 as compared with Rs. 7,364 million in the previous year. Proceeds of the final disbursement of the Euro-currency commercial loan amounting to Rs. 880 million were not utilized for budgetary purposes in 1984.

Interest payments on public debt in 1984 consisted of Rs. 5,803 million on domestic debt and Rs. 1,493 million on foreign debt. During the year, interest payments on domestic debt increased by 9 per cent as compared with an increase of 27 per cent in 1983. Interest on foreign debt increased by 17 per cent as compared with an increase of 40 per cent in the previous year. Interest on domestic debt was made up of Rs. 3,892 million on rupee loans, Rs. 1,908 million on Treasury bills and Rs. 3 million on administrative borrowings. Interest payments on foreign loans consisted of Rs. 433 million on project loans, Rs. 490 million on commodity loans and Rs. 570 million on other loans. Under other loans, total interest payments on Euro-currency commercial loans amounted to Rs. 514 million in 1984 as compared with Rs. 497 million in 1983.

## COMPOSITION OF FOREIGN DEBT





**TABLE 1.44**  
**Major Sources of Foreign Loans — 1984**

Rs. million

Sources	Project Loans	Commodity Loans	Other Loans	Total
Asian Development Bank ..	875.5	—	—	875.5
Canada ..	260.6	—	—	260.6
Euro currency ..	—	—	880.3	880.3
France ..	146.4	73.1	—	219.5
Federal Republic of Germany ..	783.0	89.3	—	872.3
International Development Association ..	2,034.1	—	—	2,034.1
Japan ..	608.5	255.6	—	864.1
Manufactures Hanover Trust Company ..	415.6	—	—	415.6
Saudi Arabian Fund ..	195.4	—	—	195.4
Skandinaviska Enskilda Bankens - Sweden ..	295.0	—	—	295.0
United States of America ..	870.7	667.3	—	1,538.0
Other ..	292.3	95.1	—	387.4
<b>Total Gross Receipts</b> ..	<b>6,777.1</b>	<b>1,180.4</b>	<b>880.3</b>	<b>8,837.8</b>
<b>Less: Repayments</b> ..	<b>276.5</b>	<b>551.0</b>	<b>637.8</b>	<b>1,465.3</b>
<b>Net Receipts</b> ..	<b>6,500.6</b>	<b>629.4</b>	<b>242.5</b>	<b>7,372.5</b>

Source : Central Bank of Ceylon.

## MONEY AND BANKING

### Money Supply

The most notable development observed in the monetary sector during 1984 was the sharp deceleration in money and credit aggregates when compared with the previous year. The narrow money supply ( $M_1$ ), consisting of currency and demand deposits held by the public increased by Rs. 2,076 million (14 per cent) during the year compared with a much higher increase of Rs. 2,988 million (25 per cent) in 1983. Quasi-money, consisting of time and savings deposits of the private sector held with commercial banks increased by Rs. 4,095 million (18 per cent) in 1984 compared with an increase of Rs. 3,759 million (20 per cent) in 1983. Consequently, broad money ( $M_2$ ) consisting of  $M_1$  plus quasi money rose by Rs. 6,171 million (17 per cent) during the year compared with an increase of Rs. 6,747 million (22 per cent) in the previous year and stood at Rs. 43,427 million.

The recorded expansion in money supply during 1984 was the outcome of a deceleration in domestic credit and a continuous increase in external banking assets (net). The sharp decline in net credit to government was the most significant factor in reducing the rate of expansion in domestic credit. Meanwhile, gross credit to private sector also decelerated in response to credit restrictions imposed by the Central Bank on non-essential advances.

Detailed analysis of the composition of the monetary aggregates reveals that the main reason for the moderate increase in  $M_1$  during the year was the significantly lower growth in demand deposits when compared with the previous year. The demand deposit component of the money supply increased by 10 per cent in 1984 compared with 31 per cent in 1983. Consequently, the share of demand deposits in  $M_1$  declined from 51 per cent in 1983 to 49 per cent in 1984. Meanwhile, currency