

BALANCE OF PAYMENTS

In terms of the outturn on trade, services and current accounts, the balance of payments showed a slight improvement in 1986, compared with the performance in the previous year. However, the overall balance still remained in deficit to the tune of SDR 74 million during the year. The deficit in the trade account declined from SDR 711 million in 1985 to SDR 644 million in 1986, while the deficit in the services account decreased from SDR 133 million in 1985 to SDR 115 million between the two years. Following the same trend, the current account deficit decreased from SDR 410 million in 1985 to SDR 357 million in 1986 and its ratio to GDP declined to 6.5 per cent from 6.9 per cent in 1985. The current account deficit, excluding official transfers, also recorded a slightly lower deficit of SDR 509 million in 1986, as compared with a deficit of SDR 582 million in 1985 and its ratio to GDP declined to 9.3 per cent from 9.9 per cent in 1985.

Following the drop of 9.2 per cent recorded in 1985, export earnings decreased by a much larger margin of 21.0 per cent in 1986, due mainly to a slump in commodity prices. The overall export price index declined by 25.7 per cent in SDR terms, owing to decreases in the prices of tea, rubber, coconut and petroleum products. Tea prices declined by 38.4 per cent, while rubber and coconut prices fell by 7.7 per cent and 55.6 per cent, respectively. The prices of petroleum products decreased by 46.9 per cent in 1986, following the sharp drop in crude oil prices in international markets. On the other hand, export volumes of all major commodities, except rubber, increased in 1986, as compared with the previous year. In value terms, agricultural exports declined by 30.4 per cent, while industrial exports, excluding petroleum products, increased by 10.6 per cent during the year. It is noteworthy that of the industrial exports, the garments and textiles category became the single largest foreign exchange earner (on a gross earnings basis) in 1986.

Closely following the trend in export earnings, import payments too registered a decline of 16.6 per cent in 1986. This decrease was attributed largely to a downward movement in import prices. The overall import price index, in SDR terms, declined by 20.9 per cent during the year. The prices of major categories of imports decreased in 1986. The import prices of major food commodities, rice, sugar and wheat grain, dropped by 25.3, 9.9 and 25.8 per cent, respectively. In the intermediate category, prices of crude oil and fertilizer registered significant decreases, falling by 52.7 per cent and 21.9 per cent, respectively in 1986. In value terms, consumer goods imports declined by 6.3 per cent and intermediate goods by 19.7 per cent. However, investment good imports, excluding aircraft and ships, recorded a marginal increase in 1986.

Notwithstanding the decline in the prices of a wide range of imports, the overall price movements in the international market were unfavourable to Sri Lanka in 1986. Consequently, the terms of trade deteriorated by 5.0 per cent during the year. This was on the top of the deterioration of 19.8 per cent suffered in 1985 and once again underscored the vulnerability of the economy to the vagaries of international trade.

BALANCE OF PAYMENTS ANNUALLY

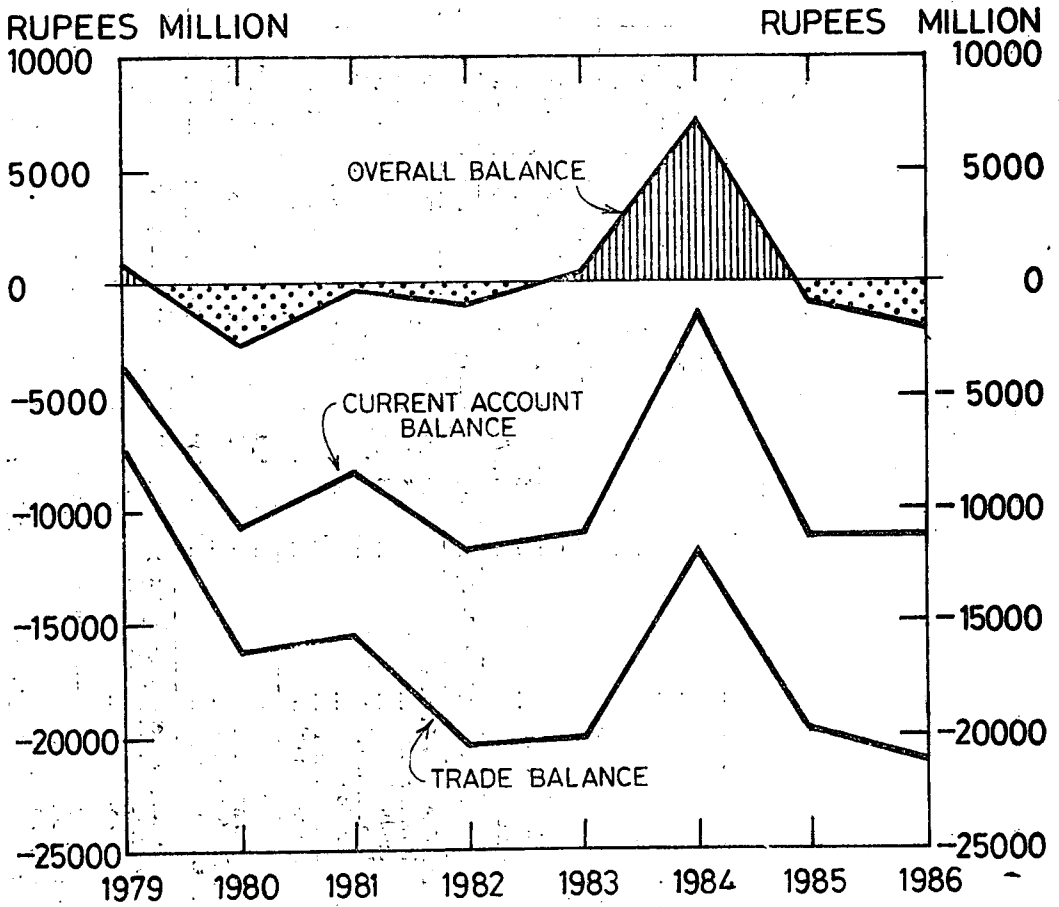
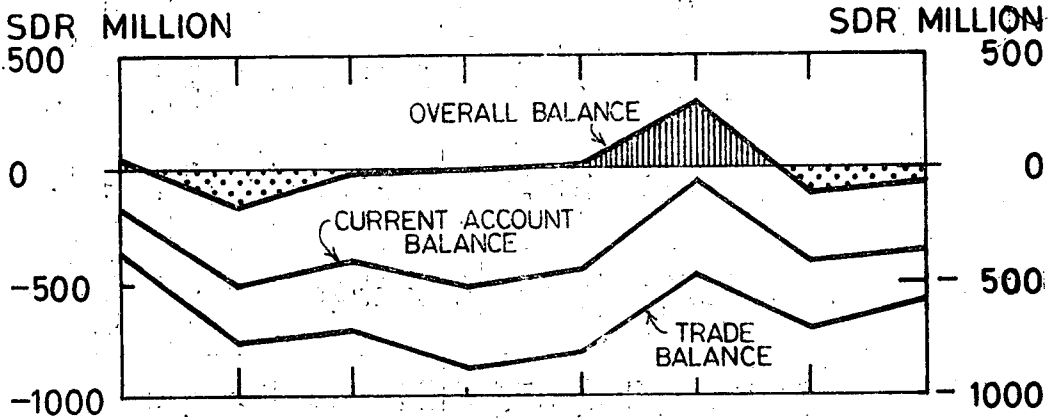


TABLE 1.34

Balance of Payments—Analytic Presentation 1982-1986

Item	Rs. Million					SDR Million				
	1982(a)	1983(a)	1984(a)	1985(a)	1986(b)	1982(a)	1983(a)	1984(a)	1985(a)	1986(b)
1. Merchandise ...	-20,403	-20,168	-11,850	-19,801	-21,017	-890	-801	-453	-711	-644
Exports ...	21,098	25,038	37,198	35,728	33,881	918	993	1,427	1,296	1,029
Imports ...	41,501	45,206	49,048	55,529	54,898	1,808	1,794	1,880	2,007	1,673
2. Services ...	314	-1,411	-1,735	-3,647	-3,683	13	56	66	133	115
Receipts ...	6,962	8,033	8,567	8,926	10,594	304	320	329	323	322
Payments ...	7,276	9,444	10,302	12,573	14,277	317	376	395	456	437
3. Goods and Services (1+2) ...	-20,717	-21,579	-13,585	-23,448	-24,700	-903	-857	-519	-844	-759
4. Transfers (Net) ...	+8,873	+10,457	+12,185	+12,040	+13,239	+387	+416	+468	+434	+402
Private (Net) ...	5,494	6,441	7,031	7,212	8,251	240	256	270	262	250
Official (Net) ...	3,379	4,016	5,154	4,828	4,988	147	160	198	172	152
5. Current Account Balance (3+4) ...	-11,844	-11,122	-1,400	-11,408	-11,461	-516	-441	-51	-410	-357
6. Non-Monetary Capital ...	+10,954	+10,616	+8,755	+9,062	+9,898	+477	+420	+335	+328	+302
Private Sector ...	5,517	4,005	62	1,646	1,837	240	160	2	58	55
Public Sector ...	5,437	6,611	8,693	7,416	8,061	237	260	333	270	247
Long-term (Net) ...	5,437	6,613	8,693	7,416	8,051	237	260	333	270	247
Receipts ...	(6,954)	(8,546)	(10,387)	(9,422)	(11,314)	(304)	(337)	(398)	(342)	(346)
Amortisation ...	(1,517)	(1,933)	(1,694)	(2,006)	(3,253)	(67)	(77)	(65)	(72)	(99)
Short-term (Net) ...	—	2	—	—	—	—	—	—	—	—
7. Valuation Adjustments ...	-124	+82	-39	+1,491	+1,371	—	—	—	—	—
8. Errors and Omissions ...	+5	+766	-254	-205	-1,931	+21	+21.6	+13	-29	-19
9. SDR Allocations ...	—	—	—	—	—	—	—	—	—	—
10. Overall Balance ...	-1,009	+342	+7,062	-1,060	-2,124	-18	0.6	+297	-111	-74
11. Monetary Movements (-Surplus)	+1,009	-342	-7,062	+1,060	+2,124	+18	-0.6	-297	+111	+74
Average Exchange Rate SLRs./SDR ...	—	—	—	—	—	22.98	25.16	26.08	27.63	32.90

(a) Revised.

(b) Provisional.

Note: All transactions in the Monetary Sector are converted at the end of period rates.

Source: Central Bank of Sri Lanka.

The services account showed a lower deficit in 1986 than in the previous year. The deficit in the services account amounted to Rs. 3,683 million (SDR 115 million) in 1986, compared to the deficit of Rs. 3,647 million (SDR 133 million) recorded in 1985. The reduction in the deficit in the services account was attributable to lower net outflows in respect of interest payments, government expenditure and miscellaneous services.

Interest payments on foreign loans, including those on outstanding drawings from the IMF, amounted to Rs. 5,336 million (SDR 162 million) in 1986, as compared with interest payments of Rs. 5,404 million (SDR 196 million) in 1985. The downward movement in international interest rates, together with the lowering of interest rates on the SDR by the IMF helped to bring down the interest liabilities on foreign loans. In addition, the reduction in the level of outstanding commercial borrowings from SDR 834 million in 1985 to SDR 766 million in 1986, also eased the interest burden to a certain extent. However, interest payments continued to be the single largest item in the services account. This was the inevitable outcome of increased utilization of commercial credit in recent years for balance of payments financing and the large commercial borrowings undertaken by some public institutions. Interest payments by Air Lanka alone accounted for approximately 11 per cent of the total interest payments in 1986.

Interest receipts, *i.e.* earnings on the portfolio investments mainly of the Central Bank and on the foreign deposits of the commercial banks, GCEC and other approved enterprises, amounted to Rs. 1,899 million (SDR 58 million) as compared with Rs. 2,256 million (SDR 82 million) in the previous year.

The net outflow of foreign exchange on government services and other miscellaneous services was estimated at Rs. 110 million (SDR 3.3 million) and Rs. 347 million (SDR 13 million), respectively in 1986 as against Rs. 152 million (SDR 6 million) and Rs. 871 million (SDR 32 million), respectively in 1985. The port, transportation and insurance category had a lower negative impact on the balance of payments in 1986, as compared with the previous year.

In the background of an unfavourable environment for increased tourist traffic, gross earnings from tourism fell below last year's level by 13.3 per cent in SDR terms. Gross earnings from tourism in 1986 were estimated at SDR 70 million, as against SDR 81 million in 1985. Net foreign exchange earnings from tourism in 1986 has been estimated at SDR 23 million, as against net earnings of SDR 35 million in the previous year. Inflow of tourist traffic declined by 10.6 per cent and the average spending by a tourist decreased marginally from SDR 315 in 1985 to SDR 306 in 1986.

The positive outturn in the services account had helped to ease the pressure on the balance of payments until 1981, but since then persistent deficits have contributed to further widen the current account deficit. The net outflow on the services account which accounted for 32 per cent of the current account deficit in 1985 remained at the same level in 1986.

TABLE 1.35

Services and Transfers 1985-1986

Rs. Million (SDR Million in brackets)

Item	Credit			Debit			Balance	
	1985(a)	1986(b)	Change 1985/1986	1985(a)	1986(b)	Change 1985/1986	1985(a)	1986(b)
Port, Transportation and Insurance ...	2,016 (73)	2,758 (84)	+ 742 (+11)	2,170 (78)	2,874 (88)	+ 704 (+10)	- 154 (-5)	- 116 (-4)
Travel ...	2,233 (81)	2,300 (70)	+ 67 (-11)	1,258 (46)	1,549 (47)	+ 291 (+1)	+ 976 (+35)	+ 751 (+23)
Investment Income ...	2,261 (82)	1,907 (58)	- 354 (-24)	5,706 (207)	5,768 (176)	+ 62 (-31)	- 3,445 (-125)	- 3,861 (-118)
(1) Profits and Dividends...	5 (-)	8 (-)	+ 3 (-)	302 (11)	432 (14)	+ 130 (+3)	- 297 (-11)	- 424 (-14)
(2) Interest ...	2,256 (82)	1,899 (58)	- 357 (-24)	5,404 (196)	5,336 (162)	- 68 (-34)	- 3,148 (-114)	- 3,437 (-104)
Government Expenditure ...	310 (11)	389 (12)	+ 79 (+1)	462 (17)	499 (15)	+ 37 (-2)	- 152 (-6)	- 110 (-3)
Miscellaneous ...	2,106 (76)	3,240 (99)	+ 1,134 (+23)	2,977 (108)	3,587 (112)	+ 610 (+4)	- 871 (-32)	- 347 (-13)
Total Services ...	8,926 (323)	10,594 (323)	+ 1,668 (-)	12,573 (456)	14,277 (438)	+ 1,704 (-18)	- 3,647 (-133)	- 3,683 (-115)
Private Transfers ...	7,920 (288)	9,142 (277)	+ 1,222 (-11)	708 (26)	891 (27)	+ 183 (+1)	+ 7,212 (+262)	+ 8,251 (+250)
Official Transfers ...	4,828 (172)	4,988 (152)	+ 160 (-20)	- (-)	- (-)	- (-)	+ 4,828 (+172)	+ 4,988 (+152)
Total Transfers ...	12,748 (460)	14,130 (429)	+ 1,382 (-31)	708 (26)	891 (27)	+ 183 (+1)	+ 12,040 (+434)	+ 13,239 (+402)
Total Services and Transfers ...	21,674 (783)	24,724 (752)	+ 3,050 (-31)	13,281 (482)	15,168 (465)	+ 1,887 (-17)	+ 8,393 (+301)	+ 9,556 (+287)

(a) Revised.
(b) Provisional.

Source: Central Bank of Sri Lanka.

The receipts on account of private remittances increased by 15.4 per cent in rupee terms during 1986 but recorded a decline of 3.8 per cent in SDR terms. Gross private remittances amounted to Rs. 9,142 million (SDR 277 million) in 1986, compared to Rs. 7,920 million (SDR 288 million) in 1985. Official transfers, consisting of project and commodity grants have been estimated to have decreased sharply in SDR terms, falling from Rs. 4,828 million (SDR 172 million) in 1985 to Rs. 4,988 million (SDR 152 million) in 1986. The total net receipts on account of transfers, both private and official, amounted to Rs. 13,239 (SDR 402 million) in 1986, compared with Rs. 12,040 million (SDR 434 million) in 1985, showing a decline of 7.4 per cent in SDR terms.

The net inflows on account of private and official transfers in 1986 were sufficient to cover 53 per cent of the deficit in the goods and services account. As a result, the current account was in deficit to the tune of Rs. 11,461 million (SDR 357 million) which had to be financed through non-monetary capital flows and running down of external assets. The total net inflows of non-monetary capital were sufficient to finance some 85 per cent of the current account deficit, leaving an overall deficit of Rs. 2,124 million (SDR 74 million), which had to be met by utilizing external assets.

The net non-monetary capital inflows, which have shown a downward trend since 1982, declined further by 7.9 per cent in 1986. The net inflows of capital to the private sector which includes direct investments, long-term foreign loans and short-term loans were Rs. 1,837 million (SDR 55 million) in 1986, as compared with Rs. 1,646 million (SDR 58 million) in 1985. Net capital inflows to the government sector, which come in the form of project loans and commodity loans, amounted to Rs. 8,061 million (SDR 247 million) in 1986, as against Rs. 7,416 million (SDR 270 million) in the previous year. This represents a 8.5 per cent drop in net capital flows to government.

Private capital inflows for direct investment in 1986 showed a marginal increase, being the combined effect of an increase in the investments in GCEC enterprises and a reduction of investments in other enterprises. Direct investments in the GCEC enterprises rose from SDR 6.4 million in 1985 to SDR 11.6 million in 1986, whereas the investments outside the GCEC declined from SDR 18.1 million to SDR 13.5 million. Net capital inflows to the private sector in the form of long-term loans, declined by 1.3 per cent, owing to lower level of new inflows. The gross disbursements of these loans decreased from SDR 88 million in 1985 to SDR 83 million in 1986. Net short-term capital inflows to the private sector declined owing to a substantial reduction in the utilization of acceptance credits by the Ceylon Petroleum Corporation.

Gross inflows of non-monetary capital to government (official capital) increased marginally from SDR 342 million in 1985 to SDR 346 million in 1986. Gross disbursements of project loans amounted to SDR 291 million compared to SDR 295 million in 1985. Disbursements under commodity loans, however, increased by 17 per cent, from SDR 47 million in 1985 to SDR 55 million in 1986. Total amortization payments on government loans of SDR 99 million in 1986 was 37.1 per cent higher than in the previous year, thereby reducing the net resources available in the form of public sector capital flows to finance the current account deficit.

TABLE 1.36

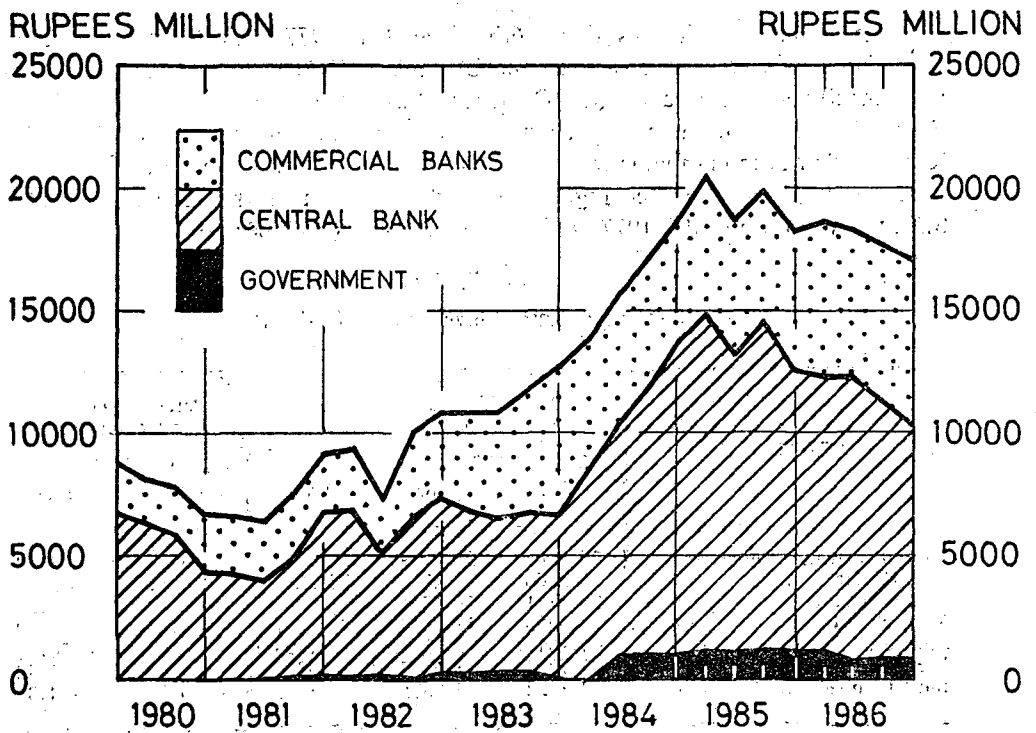
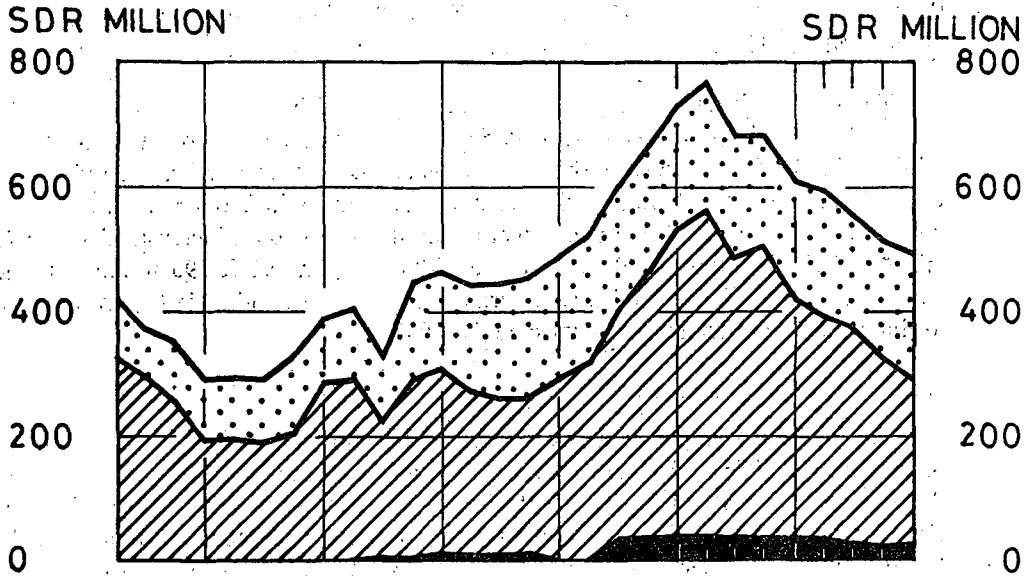
Financing of the External Resource Gap 1984-1986

Category	Rs. Million			SDR Million		
	1984(a)	1985(a)	1986(b)	1984(a)	1985(a)	1986(b)
1. Foreign Earnings	53,418	52,574	53,617	2,050	1,907	1,629
1.1 Exports	37,198	35,728	33,881	1,427	1,296	1,029
1.2 Services	8,567	8,926	10,594	329	323	323
1.3 Private Transfers	7,653	7,920	9,142	294	288	277
2. Foreign Payments	77,427	82,313	84,977	2,969	2,980	2,597
2.1 Imports	49,048	55,529	54,898	1,880	2,007	1,672
2.2 Services	10,302	12,573	14,277	395	456	438
2.3 Private Transfers	622	708	891	24	26	27
2.4 Capital Repayments	17,455	13,503	14,911	670	491	460
3. External Resource Gap	-24,009	-29,739	-31,360	- 919	-1,073	- 968
4. Financing of the Resource Gap	+24,009	+29,739	+31,360	+ 919	+1,073	+ 968
4.1 Financing through transactions that do not affect debt position	6,096	5,543	5,817	234	198	178
4.1.1 Official Grants	5,154	4,828	4,988	198	172	152
4.1.2 Direct Investments	942	715	829	36	26	26
4.1.3 SDR Allocation	—	—	—	—	—	—
4.2 Borrowings and use of Reserves	18,206	22,911	26,103	672	904	809
4.2.1 Long-term Loans	9,410	8,834	9,915	361	320	304
4.2.2 Short-term Credits	11,086	9,055	8,018	424	327	245
4.2.3 Suppliers' Credit and other Long-term Loans	977	588	1,399	37	22	42
4.2.4 Commercial Borrowings (Private-sector)	1,075	2,407	2,722	42	88	83
4.2.5 Bank Borrowings	—	3	—	—	—	—
4.2.6 Bilateral Balances	—	—	—	—	—	—
4.2.7 IMF Drawings	1,288	237	1,614	31	—	—
4.2.8 Other	285	1,213	1,220	13	23	16
4.2.9 Reserves	- 5,915	574	1,215	- 236	124	119
5. Valuation Adjustments	- 39	+ 1,491	+ 1,371	—	—	—
6. Errors and Omissions	- 254	- 206	- 1,931	- 13	- 29	- 19

(a) Revised.
(b) Provisional.

Source : Central Bank of Sri Lanka.

EXTERNAL ASSETS QUARTERLY



External Assets

Hard on the heels of a decrease of 17 per cent recorded in 1985, the gross external assets declined by a further 19 per cent in 1986. The level of gross external assets at the end of 1986 stood at Rs. 17,152 million (SDR 492 million), compared to Rs. 18,367 million (SDR 611 million) at the end of the previous year.

The gross official reserves, consisting of assets held by the Government and the Central Bank registered a decrease of 29.5 per cent during the year to reach Rs. 10,349 million (SDR 297 million) at the end of 1986. Decreases were registered in the Central Bank's liquid balances abroad and government investments. Meanwhile, gross external assets held by the commercial banks recorded an increase of Rs. 1,077 million (SDR 5 million) and stood at Rs. 6,803 million (SDR 195 million) at the end of the year. The level of gross external assets as at the end of 1986 was sufficient to finance 3.4 months imports projected for 1987.

Exchange Rate Movements

The Sri Lanka Rupee depreciated against all major currencies, except the Indian Rupee, during 1986. The Rupee depreciated against both the Deutsche Mark and the Japanese Yen by 24 per cent. It also depreciated by 18.4 per cent against the French Franc and by 5.3 per cent against the UK Pound. Depreciation against the US dollar was 3.9 per cent, and against the SDR 13.7 per cent. However, the Sri Lanka Rupee appreciated by 4.3 per cent against the Indian Rupee in 1986.

The cumulative changes since 16th November, 1977 indicate that the Rupee depreciated by 43.9 per cent against the US dollar; 30.5 per cent against the Pound Sterling; 51.6 per cent against the Deutsche Mark; 25.9 per cent against the French Franc; 63.6 per cent against the Japanese Yen and 14.5 per cent against the Indian Rupee. Thus, among major world currencies the extent of depreciation against the Japanese Yen had been the highest. The depreciation of the Rupee against the SDR from November 16, 1977 to the end of 1986 was 45.7 per cent.

TABLE 1.37
Exchange Rate Movements 1984-1986

Currency	End of Year Exchange Rates (Rs. per Unit of)			Percentage Change over previous year ^(a)	
	1984	1985	1986	1985	1986
Special Drawing Rights ...	25.8065	30.0339	34.7998	-14.07	-13.69
U.S. Dollar ...	26.2800	27.4075	28.5200	-4.11	-3.9
Pound Sterling ...	30.5111	39.5764	41.7961	-22.90	-5.3
Deutsche Mark ...	8.3495	11.1074	14.6727	-24.83	-24.29
Japanese Yen ...	0.10497	0.136017	0.179371	-22.82	-24.17
French Franc ...	2.7276	3.6167	4.4337	-24.58	-18.42
Indian Rupee ...	2.1192	2.2575	2.1645	-6.13	+4.3

Source: Central Bank of Sri Lanka.

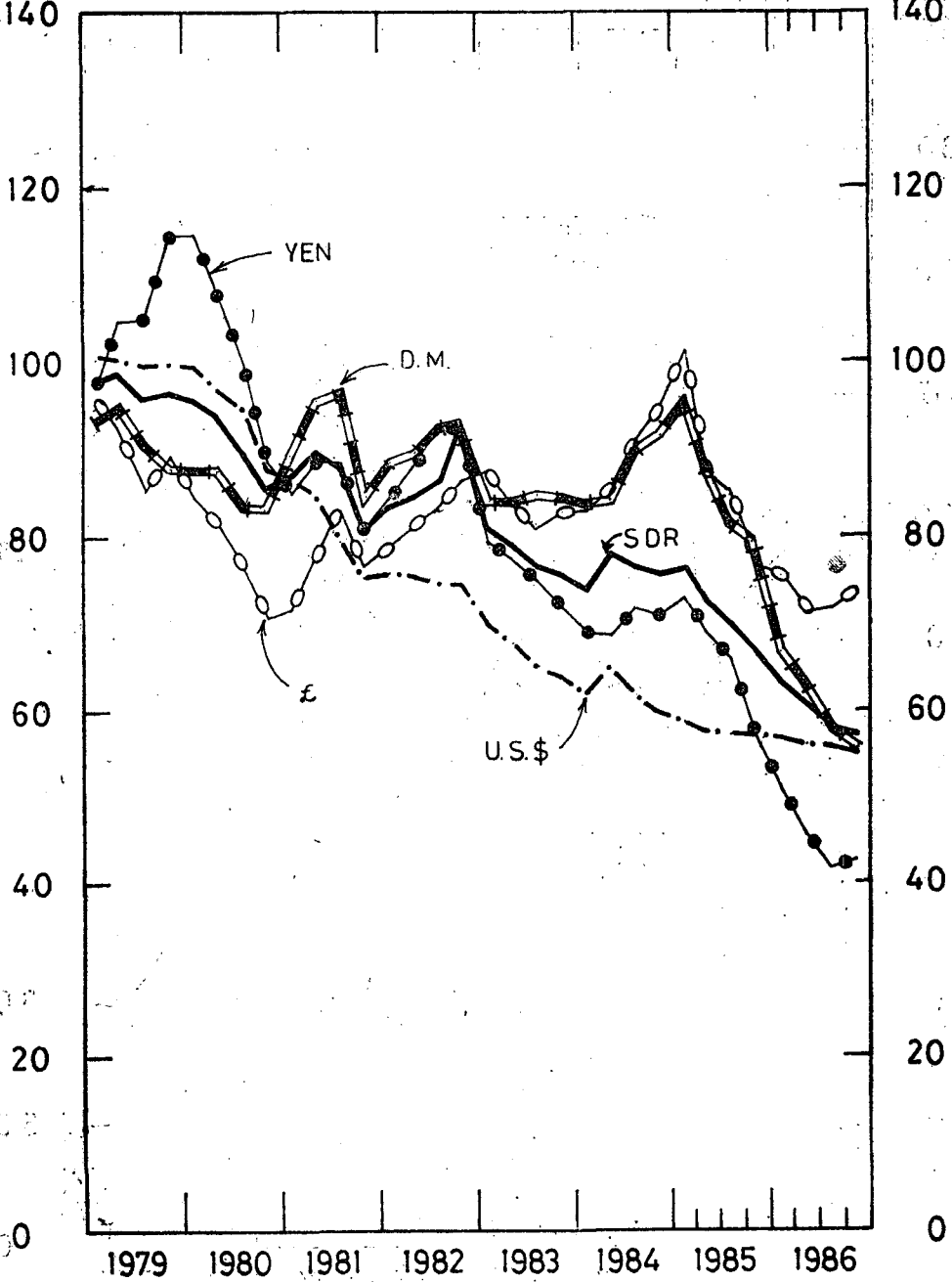
(a) Changes computed on the basis of the foreign currency equivalent of the Sri Lanka Rupee.

NOMINAL EXCHANGE RATES*

1978 = 100

POINTS IN INDEX

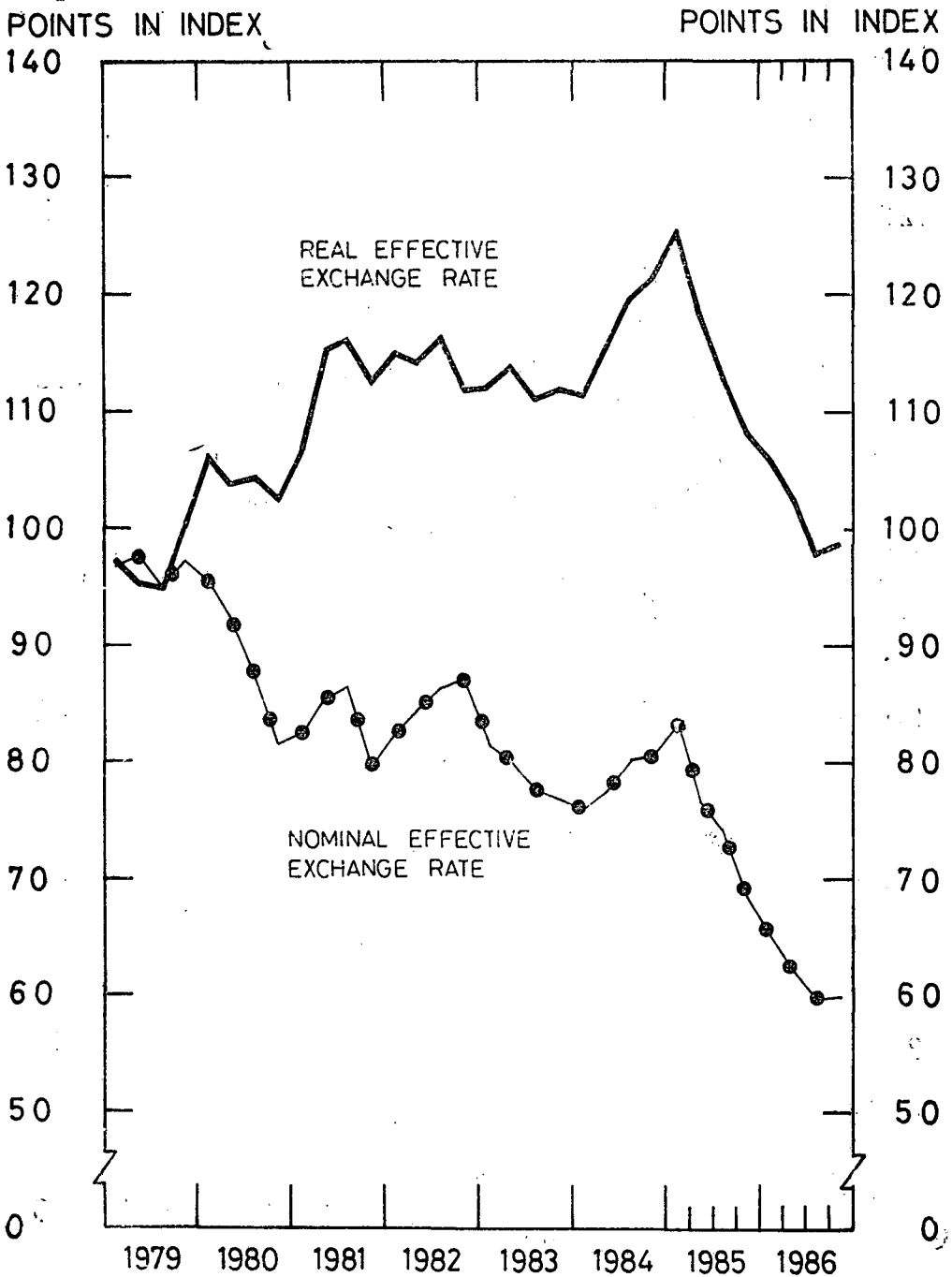
POINTS IN INDEX



* Decline indicates depreciation.

EFFECTIVE EXCHANGE RATES *

1978 = 100



* Decline indicates depreciation.

Reflecting the weakening balance of payments situation, Sri Lanka's nominal effective exchange rate (NEER), defined as the trade weighted nominal exchange rates with the major trading partners, depreciated by 12.6 per cent. The real effective exchange rate (REER), which is the NEER index adjusted for inflation differentials between Sri Lanka and her major trading partners, depreciated by 10.5 per cent in 1986. The quarterly average NEER depreciated by 12.6 per cent between the fourth quarter of 1985 and the fourth quarter of 1986. The REER depreciated by 9.0 per cent over the same period.

External Debt

The total external debt outstanding, which includes short-term loans and trade credits, increased from Rs. 94,303 million (SDR 3,162 million) at the end of 1985 to Rs. 113,308 million (SDR 3,262 million) as at the end of 1986. This represents a 3.2 per cent increase in the debt outstanding (in SDR terms) during 1986 as compared with an increase of 4.0 per cent in 1985. The ratio of outstanding debt to GDP rose from 53.8 per cent to 59.8 per cent.

Total long-term and medium-term debt of both public and private sectors increased from Rs. 80,745 million (SDR 2,682 million) in 1985 to Rs. 100,058 million (SDR 2,868 million) in 1986. Long-term and medium-term loans accounted for 87.9 per cent of the total outstanding external debt in 1986, as compared with a level of 84.8 per cent in the previous year.

TABLE 1.38

External Debt Outstanding 1985-1986 (b) (Disbursed)

Item	Rs. Million		SDR Million	
	1985(a)	1986(b)	1985(a)	1986(b)
A. Long & Medium-Term ...	80,744.7	100,058.2	2,682.1	2,868.2
1. Government ...	68,315.3	86,871.0	2,269.2	2,490.2
2. Public Corporations with Government Guarantee ...	9,211.4	8,194.2	305.9	234.9
3. Private Sector with Government Guarantee ...	419.3	2,240.2	14.0	64.2
4. Public Corporations without Government Guarantee ...	—	—	—	—
5. Private Sector without Government Guarantee ...	2,798.7	2,752.8	93.0	78.9
B. Short-Term and Other ...	13,558.6	13,249.7	480.0	393.8
1. IMF Drawings ...	7,913.5	7,671.5	292.5	234.0
2. Bank Borrowings ...	6.0	—	0.2	—
3. Other(c) ...	5,639.1	5,578.2	187.3	159.9
C. Total Outstanding (A + B) ...	94,303.3	113,307.9	3,162.1	3,262.1

(a) Revised

(b) Provisional

(c) Includes acceptance credits of the Ceylon Petroleum Corporation trade credits and borrowings of GCEC enterprises and other approved institutions from FCBUs.

Source: Central Bank of Sri Lanka.

TABLE 1.39
External Debt Outstanding 1982-1986

Category	Rs. Million					SDR Million				
	1982(a)	1983(a)	1984(a)	1985(a)	1986(b)	1982(a)	1983(a)	1984(a)	1985(a)	1986(b)
1. Long-term Debt(c) of which...	34,597.3	46,025.0	53,680.9	67,792.2	86,355.8	1,471.1	1,758.4	2,083.9	2,251.8	2,475.4
1.1 Project Loans ...	12,451.8	19,531.0	25,971.0	36,406.0	50,417.9	529.5	746.2	1,008.2	1,209.3	1,445.2
1.2 Non-Project Loans ...	19,545.5	23,490.3	24,805.2	28,802.3	33,876.9	831.1	897.5	962.9	956.7	971.1
1.3 IMF Trust Fund Loans	2,600.0	3,003.7	2,904.7	2,583.9	2,061.0	110.5	114.7	112.8	85.8	59.1
2. Supplier's Credits ...	996.6	889.4	588.6	561.8	529.0	42.4	34.0	22.8	18.7	15.2
3. Use of Fund Credit ...	7,977.0	8,225.4	8,643.6	7,913.5	7,671.5	341.5	331.1	328.3	292.5	234.0
4. Bank Borrowings ...	1,824.1	1,853.7	3.3	6.0	—	77.6	70.8	0.1	0.2	—
5. Other(d) ...	10,766.9	15,185.5	15,496.6	18,029.8	18,751.6	457.8	580.2	601.6	598.9	537.5
Total ...	56,161.9	72,179.0	78,413.0	94,303.3	113,307.9	2,390.4	2,774.5	3,036.7	3,162.1	3,262.1

(a) Revised

(b) Provisional.

(c) Government Loans excluding Suppliers' Credits.

(d) Comprises commercial borrowings of Public Corporations, Air Lanka, borrowings of GCEC and other approved enterprises from FCBUs, private foreign borrowings and trade credits.

Source: Central Bank of Sri Lanka.

Increased utilisation of long-term and medium-term loans particularly by the government was the main source of growth in the external debt. Long-term and medium-term loans of the government, which represent the bulk of the total external debt outstanding, rose from Rs. 68,315 million (SDR 2,269 million) in 1985 to Rs. 86,871 million (SDR 2,490 million) in 1986. Of these, bilateral loans to government, which account for more than half the long and medium-term loans of the government, increased from Rs. 40,075 million (SDR 1,331 million) to Rs. 53,323 million (SDR 1,529 million). Multilateral loans to government rose by Rs. 4,470 million (SDR 39 million) reaching a level of Rs. 23,983 million (SDR 688 million) by the end of 1986.

It is noteworthy that the outstanding debt on account of commercial borrowings decreased by SDR 13 million during the year. There was a net decline in the debt on account of suppliers' credit used by the government. Of the total outstanding government sector debt, project loans and non-project (commodity) loans accounted for 58.4 per cent and 39.2 per cent, respectively.

Long and medium-term debt outstanding of public corporations decreased from Rs. 9,211 million (SDR 306 million) in 1985 to Rs. 8,194 million (SDR 235 million) in 1986. The decline in SDR terms was 23.2 per cent. While private sector loans without government guarantee declined marginally, those with government guarantee rose by Rs. 1,821 million (SDR 50 million).

Sri Lanka's debt obligations to the IMF decreased in 1986 for the second successive year, as no new drawings were made. The debt on account of the Use of Fund Credit declined from Rs. 7,914 million (SDR 293 million) in 1985 to Rs. 7,672 million (SDR 234 million) in 1986. Short-term and other loans excluding IMF drawings, decreased in both Rupee and SDR terms, by Rs. 67 million and SDR 28 million.

Debt Service Payments

The debt service payments, which consist of amortization of long and medium-term loans and interest payments on all foreign loans increased from Rs. 9,362 million (SDR 340 million) in 1985 to Rs. 11,644 million (SDR 356 million) in 1986.

Amortization payments including repurchases on account of the drawings from the IMF, rose from Rs. 4,533 million (SDR 166 million) to Rs. 6,837 million (SDR 210 million) during this period. However, interest and service payments, including those on IMF transactions, declined from Rs. 4,829 million (SDR 175 million) to Rs. 4,806 million (SDR 146 million). This was due to the lower level of interest rates which prevailed in international markets and the downward revision of interest rates on the SDR by the IMF during the year. Repurchases in respect of IMF loans during 1986 amounted to Rs. 1,861 million (SDR 59 million) as compared to

TABLE 1.40

Debt Service Payments 1982-1986

Item	Rs. Million					SDR Million				
	1982	1983	1984	1985	1986(a)	1982	1983	1984	1985	1986(a)
1. Debt Service Payments ...	5,216.6	7,135.8	8,026.1	9,361.8	11,643.5	227.5	287.1	308.0	340.6	356.4
1.1 Amortisation ...	2,563.3	3,120.7	3,437.7	4,533.2	6,837.1	112.0	126.5	132.3	165.5	210.3
(i) To IMF ...	1,146.3	1,097.3	593.3	967.4	1,861.0	49.9	46.2	22.7	35.8	58.6
(ii) To Others(b) ...	1,417.0	2,023.4	2,844.4	3,565.8	4,976.1	62.1	80.3	109.6	129.7	151.7
1.2 Interest Payments ...	2,653.3	4,015.1	4,588.4	4,828.6	4,806.4	115.5	160.6	175.7	175.1	146.1
(i) To IMF ...	519.5	749.3	819.2	745.6	693.0	22.4	30.8	31.4	27.1	21.2
(ii) To Others ...	2,133.8	3,265.8	3,769.2	4,083.0	4,113.4	93.1	129.8	144.3	148.0	124.9
2. Earnings from Merchandise Exports and Services ...	28,059.8	33,071.6	45,764.9	44,654.9	44,474.3	1,221.7	1,312.9	1,756.1	1,619.0	1,351.2
3. Receipts from Merchandise Exports Services and Private Transfers ...	34,083.5	39,987.2	53,418.0	52,574.9	53,616.6	1,484.1	1,588.0	2,049.6	1,906.6	1,628.4
4. Debt Service Ratios(c) (as a percentage of 2)										
(i) Overall Ratio ...	18.6	21.6	17.5	21.0	26.2	18.6	21.9	17.5	21.0	26.3
(ii) Excluding IMF Transactions ...	12.7	16.0	14.4	17.1	20.4	12.7	16.0	14.5	17.2	20.5
5. Debt Service Ratios(c) (as a percentage of 3)										
(i) Overall Ratio ...	15.3	17.8	15.0	17.8	21.7	15.3	18.1	15.0	17.9	21.9
(ii) Excluding IMF Transactions ...	10.4	13.2	12.4	14.5	17.0	10.4	13.2	12.4	14.6	17.0

(a) Provisional.

(b) Does not include amortisation payments in respect of FCBU loans to some of the GCEC and other approved enterprises as information is not available.

(c) Debt Service Ratios calculated on Rupee values and SDR values differ due to variations in exchange rates during the year.

Source: Central Bank of Sri Lanka.

repurchases of Rs. 967 million (SDR 36 million) in the previous year. Interest and other service payments to the IMF decreased from Rs. 746 million (SDR 27 million) in 1985 to Rs. 693 million (SDR 21 million) in 1986.

The total debt service payments as a ratio of export earnings from goods and services increased from 21.0 per cent in 1985 to 26.3 per cent in 1986. This was the combined effect of a fall in export earnings and increased debt service payments. The debt service ratio excluding IMF transactions, also recorded an increase, from 17.2 per cent in 1985 to 20.5 per cent in 1986. The overall debt service ratio, *i.e.* debt service payments as a ratio of receipts from exports, services and private transfers, rose from 17.9 per cent in 1985 to 21.9 per cent in 1986.