

GOVERNMENT FINANCE*

A primary concern of budgetary policy should be the maintenance of fiscal discipline for achieving satisfactory growth consistent with price stability. With this end in view, the Budget for 1986 originally estimated a deficit of Rs. 26,986 million or 15 per cent of GDP. However, several unfavourable developments such as depressed commodity prices and a higher level of expenditure on national security threatened to thwart the achievement of fiscal targets in 1986. In this background, the originally estimated budget deficit was revised upward to Rs. 28,671 million in November, 1986. However, despite the pessimism that emerged in the budgetary scene earlier on, provisional data for 1986 as available now revealed an overall budget deficit of Rs. 25,596 million which was lower than the original estimate. In relation to GDP, the deficit was 14.3 per cent, as against 15.8 per cent in 1985. Thus, fiscal performance in 1986 appeared to show some improvement over 1985.

Improved fiscal performance was due to several factors. Despite the reduction in government revenue from income taxes, export duties and turnover taxes from manufacturing and non-manufacturing activities, overall revenue increased, owing to enhanced collections from import duties, excise duties and non-tax revenue. Meanwhile, the recurrent expenditure growth declined from 17 per cent in 1985 to 3 per cent in 1986 owing to a slowing down in expenditure growth on account of transfer payments and other goods and services. Advance account operations which had to be financed outside normal budgetary provisions in recent years also showed a marked improvement.

In presenting the Budget for 1987, the Government re-affirmed its commitment to reduce the budget deficit through a medium term policy framework which recognised the need for consistency in strategy for correcting structural weaknesses in the economy. In terms of this programme, the budget deficit is expected to decline from 11 per cent of GDP in 1987 to 9 per cent in 1989. In the medium term policy framework for 1987-1989, government revenue is expected to remain at 20 per cent of GDP, while expenditure is expected to be reduced progressively from 31 per cent of GDP in 1987 to 29 per cent in 1989. Within these limits, recurrent expenditure/GDP ratio is expected to be maintained at 18.5 per cent throughout the period 1987-1989. Hence, the gradual reduction in the budget deficit is expected to be achieved through a progressive reduction in capital expenditure from 12.5 per cent of GDP in 1987 to 10.5 per cent in 1989. These targets are to be achieved through a series of measures which would improve financial control, as well as reduce commitments.

Fiscal Outturn

According to Treasury data, government revenue in 1986 at Rs. 41,955 million registered an increase of 8 per cent, while recurrent expenditure, inclusive of advance account operations totalling Rs. 34,602 million, recorded an increase of 1 per cent over the preceding year. Accordingly, the current account of the budget was in

* The analysis is based on provisional data provided by the Treasury. At the time this Report was going to press, certain revisions relating to the use of foreign grants were being made. The revised figures will be published in the Review of the Economy, 1986.

surplus to the tune of Rs. 7,353 million in 1986, which is a significant improvement over the performance of the current account in recent years.

As a percentage of GDP, government revenue declined from 24 per cent in 1985 to 23 per cent in 1986, while capital expenditure decreased marginally from 18.8 per cent to 18.4 per cent. Recurrent expenditure, inclusive of advance account operations, as a proportion of GDP declined to 19 per cent in 1986 from 21 per cent in 1985. While debt repayments as a proportion of GDP remained at the previous year's level of 4.2 per cent, the net cash deficit declined from 11.6 per cent in 1985 to 10.1 per cent in 1986.

The net cash deficit was financed largely from foreign loans which amounted to Rs. 9,046 million. Foreign loans as a proportion of GDP rose from 4.4 per cent in 1985 to 5 per cent in 1986. However, the use of grants for financing purposes appears to have declined from Rs. 3,307 million in 1985 to Rs. 1,505 million in 1986, although the figure appears to be understated.*

Domestic resources available for financing the budget deficit amounted to Rs. 7,517 million, a decrease of 10 percent over the preceding year. Meanwhile financing of the budget deficit from banking sources was reduced from Rs. 4,712 million in 1985 to Rs. 3,047 million in 1986 due to increased subscriptions to Treasury bills by the non-bank sector.

Summary of fiscal operations according to provisional Treasury data is given in Table 1.41 with comparable figures for the previous two years.

Revenue

Government revenue in 1986 amounted to Rs. 41,955 million. This was an increase of 8 per cent over the preceding year's revenue of Rs. 39,010 million. Approximately three fourths of revenue in 1986 came from taxes, as against 79 per cent in 1985. Revenue collection from import duties and turnover taxes, the two major sources of the revenue, amounted to Rs. 20,067 million and contributed two thirds of total tax revenue in 1986. Despite a marginal reduction in the total value of imports (CIF), collections from import duty at Rs. 10,014 million registered a growth of 19 per cent over the previous year. This was mainly due to higher duty collections from crude oil imports and to an increase in the consumer goods imports which attracted a higher duty rate.

Turnover taxes at Rs. 10,052 million contributed a third of total tax revenue. However, collection from these taxes showed a marginal decline of 1 per cent over the previous year, owing to lower receipts from manufacturing and non-manufacturing activities. The tax collection from manufacturing activities reflected a decrease of 14 per cent, while those from non-manufacturing activities recorded a decrease of 7 per cent. Receipts from turnover taxes on imports registered an increase of 15 per cent largely owing to a higher level of consumer goods imports.

* The use of grants for budgetary purposes are possibly understated as the Treasury has not received complete information from certain government agencies. The revised figures will be available for publication in the Review of the Economy, 1986.

TABLE 1.41

Summary of the Government Fiscal Operations

	Rs. Million			GDP Ratios (%)		
	1984	1985*	1986*	1984	1985*	1986*
1. Revenue	37,731	39,010	41,955	24.5	24.0	23.4
Tax Revenue	(31,215)	(30,745)	(31,693)	(20.3)	(18.9)	(17.7)
Non-Tax Revenue	(6,516)	(8,265)	(10,262)	(4.2)	(5.1)	(5.7)
2. Expenditure	-53,592	-64,685	-67,551	-34.8	-39.8	-37.6
Recurrent Expenditure	(-28,926)	(-33,842)	(-34,772)	(-18.8)	(-20.8)	(-19.4)
Advance Account Operations	(-2,916)	(-314)	(-170)	(-1.9)	(-0.2)	(0.1)
Capital Expenditure	(-21,750)	(-30,529)	(-32,949)	(-14.1)	(-18.8)	(-18.4)
3. Current Account Surplus/deficit(-)	5,889	4,854	7,353	3.8	3.0	4.1
4. Overall Budget Deficit(-)	-15,861	-25,676	-25,596	-10.3	-15.8	-14.3
5. Debt Repayment	2,229	6,897	7,529	1.4	4.2	4.2
6. Net Cash Deficit(-)	-13,632	-18,779	-18,067	-8.9	-11.6	-10.1
7. Financing of the overall budget Deficit						
Foreign	11,251	12,205	13,575	7.3	7.5	7.1
Loans	(7,958)	(8,898)	(12,070)	(5.2)	(5.5)	(6.7)
Grants	(3,293)	(3,307)	(1,505)	(2.1)	(2.0)	(0.8)
Domestic	4,610	13,470	12,022	3.0	8.3	6.7
Bank	(-2,644)	(7,451)	(2,299)	(-1.7)	(4.6)	(1.3)
Non-Bank	(6,588)	(8,520)	(8,963)	(4.3)	(5.2)	(5.0)
Use of cash balances	(666)	(-2,501)	(-760)	(0.4)	(-1.5)	(0.4)
8. Financing of the net cash deficit						
Foreign	9,785	10,416	10,550	6.4	6.4	5.9
Loans	(6,492)	(7,109)	(9,046)	(4.2)	(4.4)	(5.0)
Grants	(3,293)	(3,307)	(1,505)	(2.1)	(2.0)	(0.8)
Domestic	3,848	8,363	7,517	2.5	5.1	4.2
Bank	(-2,760)	(7,212)	(2,287)	(-1.8)	(4.4)	(1.3)
Non-Bank	(5,942)	(3,652)	(4,470)	(3.9)	(2.2)	(2.5)
Use of cash balances	(666)	(-2,501)	(-760)	(0.4)	(-1.5)	(0.4)
9. Net borrowings from the Banking system	-2,095	4,712	3,047	-1.4	2.9	1.7

* Provisional.

Sources: General Treasury,
Central Bank of Sri Lanka.

Despite a substantial drop of 94 per cent in the collections from tea ad-valorem tax, total revenue from selective sales taxes registered an increase of 12 per cent in 1986. Receipts from tobacco tax amounting to Rs. 2,927 million recorded a marked increase of 56 per cent, while those from liquor at Rs. 1,485 million reflected a rise of 35 per cent. The substantial growth in receipts from these items was due to the upward revision of excise duties in November, 1985. Depressed prices for tea, and the consequent revision of the tax threshold price to Rs. 40/Kg. from Rs. 32/Kg accordingly reduced the collection from Tea ad-valorem taxes to Rs. 62 million, the lowest since 1978.

The overall revenue collection from exports at Rs. 1,573 million registered a decrease of 16 per cent over the previous year. Although the volume of tea exports increased by 5 per cent in 1986, receipts from export duty declined by 21 per cent, primarily due to a reduction in export duty by Rs. 2/Kg. in November, 1985 on all teas. On the other hand, despite a reduction in the rubber exports, receipts from

rubber export duty increased by 21 per cent in 1986, owing to higher prices in Rupee terms. Although the volume of coconut exports grew by 18 per cent export duty collections declined by a third owing to a precipitous drop in coconut prices accompanied by a downward revision in export duties.

Tax receipts from corporate and non-corporate income at Rs. 4,787 million showed a 14 per cent decline in 1986 over the previous year's collection of Rs. 5,586 million. The corporate income taxes amounting to Rs. 3,274 million registered a decline of 21 per cent owing to an erosion in the tax base, particularly in plantation agriculture caused mainly by the drop in tea and coconut prices. Despite the increase in the tax exemption limit from Rs. 24,000 to Rs. 27,000 per year and the widening of tax slabs, personal income tax collections increased by 6 per cent in 1986. Indicators of Government Revenue performance are presented in Table 1.42.

Expenditure

Government expenditure in 1986 amounted to Rs. 67,551 million, showing an increase of 4 per cent. This was a sharp slowing down in expenditure growth from 1985 when it rose by 21 per cent. As a result the expenditure/GDP ratio declined from 40 per cent in 1985 to 38 per cent in 1986.

Recurrent expenditure (excluding advance account operations) totalled Rs. 34,772 million showing an increase of 3 per cent in comparison to a 17 per cent rise in the preceding year. According to provisional data, personal emoluments in 1986 amounted to Rs. 8,979 million, registering an increase of 19 per cent over the preceding year. Personal emoluments accounted for as much as 26 per cent of total recurrent expenditure in 1986, as against 22 per cent in 1985. Total interest payments on government debt at Rs. 9,294 million accounted for 27 per cent of the total recurrent expenditure. This was an increase of 12 per cent over the preceding year. While pension payments increased by 9 per cent, recurrent expenditure on purchase of goods and services and other current transfers at Rs. 13,515 million recorded a decline of 11 per cent in 1986.

Gross capital expenditure of Rs. 32,949 million showed an 8 per cent increase over the preceding year. When debt repayments totalling Rs. 7,529 million are excluded, the net capital expenditure amounted to Rs. 25,420 million. This compares with net capital expenditure of Rs. 23,632 million in the previous year. During the year, supplementary capital expenditure provisions amounting to Rs. 5,422 million raised the original budgetary provision of Rs. 22,990 million to Rs. 28,412 million. However, provisional data revealed that there had been an under-utilization of 7 per cent of the total provision, compared with 8 per cent in the previous year.

According to Ministry-wise classification, three ministries, namely Ministry of Defence (Rs. 5,494 million), Finance and Planning (Rs. 4,649 million) and Mahaweli Development (Rs. 3,988 million), accounted for 53 per cent of total capital expenditure in 1986. Capital expenditure of Ministry of Lands and Land Development amounted to Rs. 1,346 million and was largely in respect of Nilwala Ganga Flood Protection Scheme. The Ministry of Local Government Housing and Construction

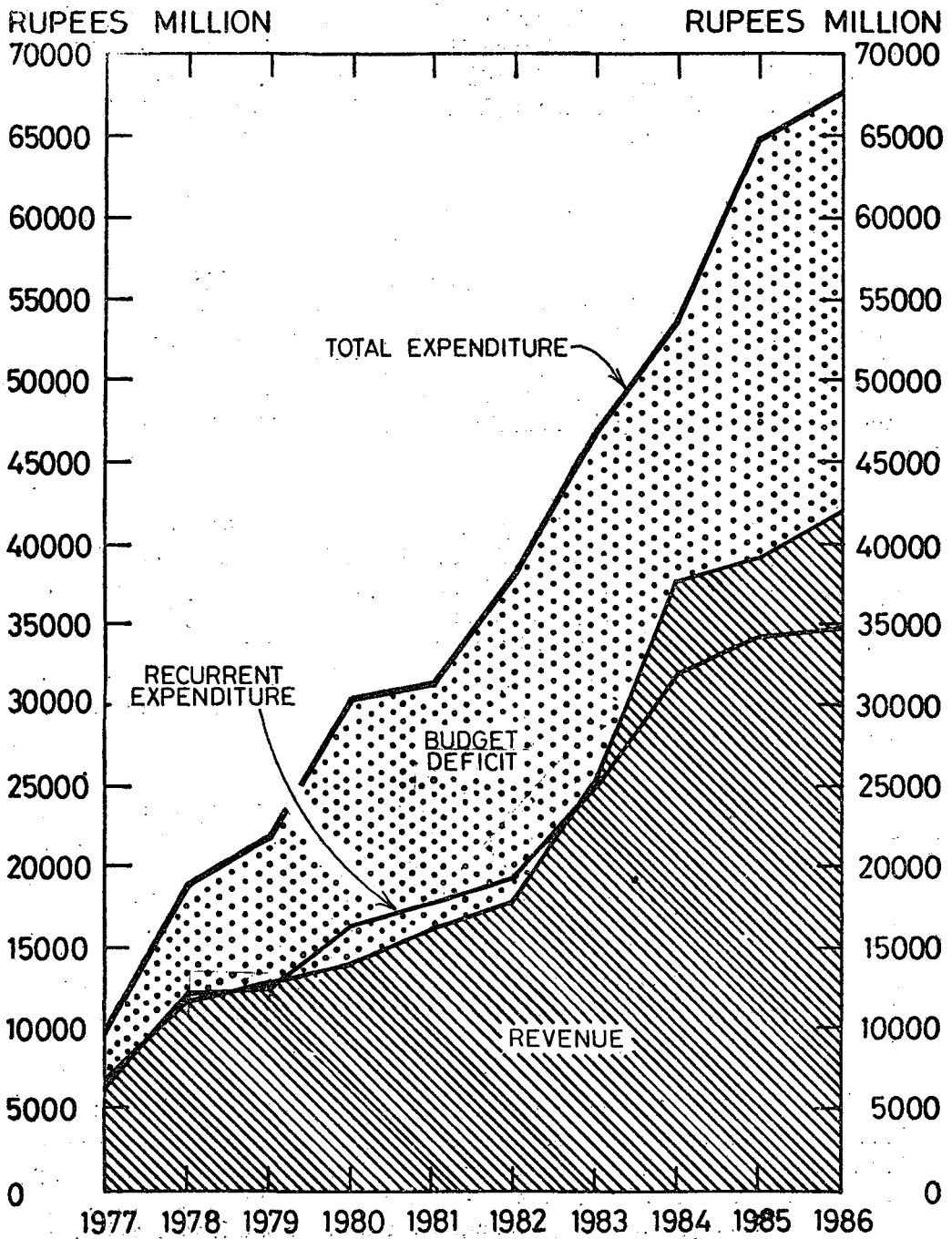
TABLE 1.42
Government Revenue Performance *

	Growth Rate (%)			As a % of GDP			As a % of Total Revenue		
	1984	1985	1986	1984	1985	1986	1984	1985	1986
1. Tax Revenue ...	50.8	- 1.5	3.5	20.3	18.9	17.7	82.7	78.8	75.9
1.1 Taxes on Production and Expenditure ...	48.5	- 2.4	7.4	16.7	15.4	15.0	68.0	64.2	64.1
1.1.1 General Sales and Turnover Tax ...	30.8	- 25.1	- 1.3	5.3	6.3	5.6	21.6	26.1	24.0
1.1.2 Selective Sales Taxes ...	79.2	- 30.6	11.5	3.8	2.5	2.5	15.3	10.3	10.7
1.1.3 Import Duties ...	64.3	5.7	19.3	5.2	5.2	5.6	21.0	21.5	23.9
1.1.4 Export Duties ...	29.1	- 41.0	- 16.0	2.1	1.2	0.9	8.4	4.8	3.8
1.1.5 Licence Taxes ...	3.2	- 3.1	51.6	0.1	0.1	0.2	0.5	0.5	0.7
1.1.6 Property Transfer Taxes ...	21.1	- 4.7	30.2	0.3	0.2	0.3	1.1	1.0	1.2
1.2 Taxes on Corporate and Non-Corporate Income ...	62.7	1.9	14.3	3.6	3.4	2.6	14.5	14.3	11.4
1.2.1 Corporate ...	50.3	11.9	- 21.3	2.4	2.6	1.8	9.8	10.7	7.8
1.2.2 Non-Corporate ...	97.5	- 19.1	6.2	1.1	0.9	0.8	4.7	3.6	3.6
1.3 Capital Transfer Taxes ...	34.4	35.4	27.9	...	0.1	0.1	0.2	0.3	0.3
2. Non-Tax Revenue ...	44.2	26.8	21.0	4.2	5.1	5.7	17.3	21.2	24.1
2.1 Gross Receipts from Government Trading Enterprises ...	42.0	15.5	- 3.0	1.2	1.3	1.2	4.9	5.5	5.0
2.2 Interest Profits and Dividend ...	143.1	77.2	50.0	1.1	1.8	2.4	4.3	7.4	10.3
2.3 Sales and Charges ...	24.0	88.7	- 34.0	0.3	0.5	0.3	1.2	2.1	1.3
2.4 Social Security Contribution ...	19.0	6.0	19.1	0.1	0.1	0.1	0.2	0.2	0.3
2.5 Other Current Transfers ...	- 30.0	73.0	36.9	0.2	0.3	0.4	0.8	1.3	1.7
2.6 Sale of Capital Goods ...	32.6	15.3	53.3	0.1
2.7 Repayment of Loans and Advances ...	253.0	- 52.1	101.6	0.3	0.2	0.3	1.4	0.6	1.2
2.8 Central Bank Profit Transfer ...	10.0	- 9.1	18.6	1.1	0.9	1.0	4.4	3.8	4.2
Total ...	49.7	3.4	7.7	24.5	24.0	23.4	100.0	100.0	100.0

* A detailed breakdown of Government Revenue is given in the Statistical Appendix.

Sources: General Treasury,
Central Bank of Sri Lanka.

GOVERNMENT REVENUE AND EXPENDITURE



utilised Rs. 1,677 million, of which Rs. 655 million was for the construction of water supply facilities in local authority areas. A further Rs. 465 million had been used by the National Housing Development Authority for the construction of low cost houses for shanty dwellers. The capital expenditure of the Ministry of Transport amounted to Rs. 1,051 million, of which 65 per cent was utilised for the acquisition of rolling stock for the Railways. The other major spending ministries were National Security (Rs. 942 million), Highways (Rs. 880 million) and Posts and Telecommunication (Rs. 600 million).

Financing of the Budget Deficit

According to provisional data, budgetary operations in 1986 resulted in an overall deficit of Rs. 25,596 million recording a marginal decrease over the previous year. The overall deficit in relation to total government expenditure was 38 per cent as compared with 40 per cent in 1985. With the total debt repayments of Rs. 7,529 million, fiscal operations in 1986 registered a net cash deficit of Rs. 18,067 million, which was slightly less than the deficit of Rs. 18,779 million recorded in the previous year.

In financing the net cash deficit, government mobilised Rs. 10,550 million from foreign sources as loans and grants, while Rs. 7,517 million was raised from domestic sources. The net foreign borrowings of Rs. 9,046 million, reflecting an increase of 27 per cent over the preceding year, accounted for nearly one half of the net cash deficit in 1986, as compared with 38 per cent in 1985. However, the utilisation of foreign grants in financing the deficit declined from Rs. 3,307 million in 1985 to Rs. 1,505 million in 1986 and accounted for 8 per cent of the net cash deficit, as against 18 per cent in the previous year.

In obtaining resources for financing the deficit from domestic sources, the Government resorted mostly to non-bank borrowings of Rs. 4,470 million. Bank borrowings comprised Rs. 3,047 million. Accordingly, domestic non-bank borrowings contributed as much as one fourth of the financing of the net cash deficit, an increase of 22 per cent over such borrowings in the preceding year. Contributions by the Employees' Provident Fund (EPF) and the National Savings Bank (NSB) to the Rupee Loan Programme and the subscriptions by the Ceylon Electricity Board (CEB), to Treasury bill issues were the main non-bank sources of financing.

Government's net borrowings from the banking system in 1986 were limited to Rs. 3,047 million, a reduction of 35 per cent from the preceding year's borrowings of Rs. 4,712 million. Of the total bank borrowings, Treasury bills provided Rs. 1,892 million, while the Central Bank's advances to Government provided another Rs. 407 million. In financing the deficit, cash and bank balances which were built up in 1985 were utilised to the extent of Rs. 760 million.

Government Debt

The outstanding government debt as at end of 1986 was Rs. 156,293 million an increase of 19 per cent, which compared with last year's increase of 24 per cent. While domestic debt amounted to Rs. 70,085 million, foreign debt, including an additional liability of Rs. 9,543 million arising from exchange rate changes, stood at Rs. 86,208 million. The composition of outstanding government debt along with comparative figures for the previous year is given in Table 1.43

The total domestic debt rose by 11 per cent in 1986, compared with an increase of 21 per cent in 1985. The reduction in the growth of domestic debt was primarily due to lower borrowings through Treasury bills and Rupee securities in 1986. However, short term borrowings exceeded the long term borrowings in 1986 and accordingly the share of short term debt in total domestic debt rose from 42 per cent in 1985 to 44 per cent in 1986.

TABLE 1.43
Government Debt

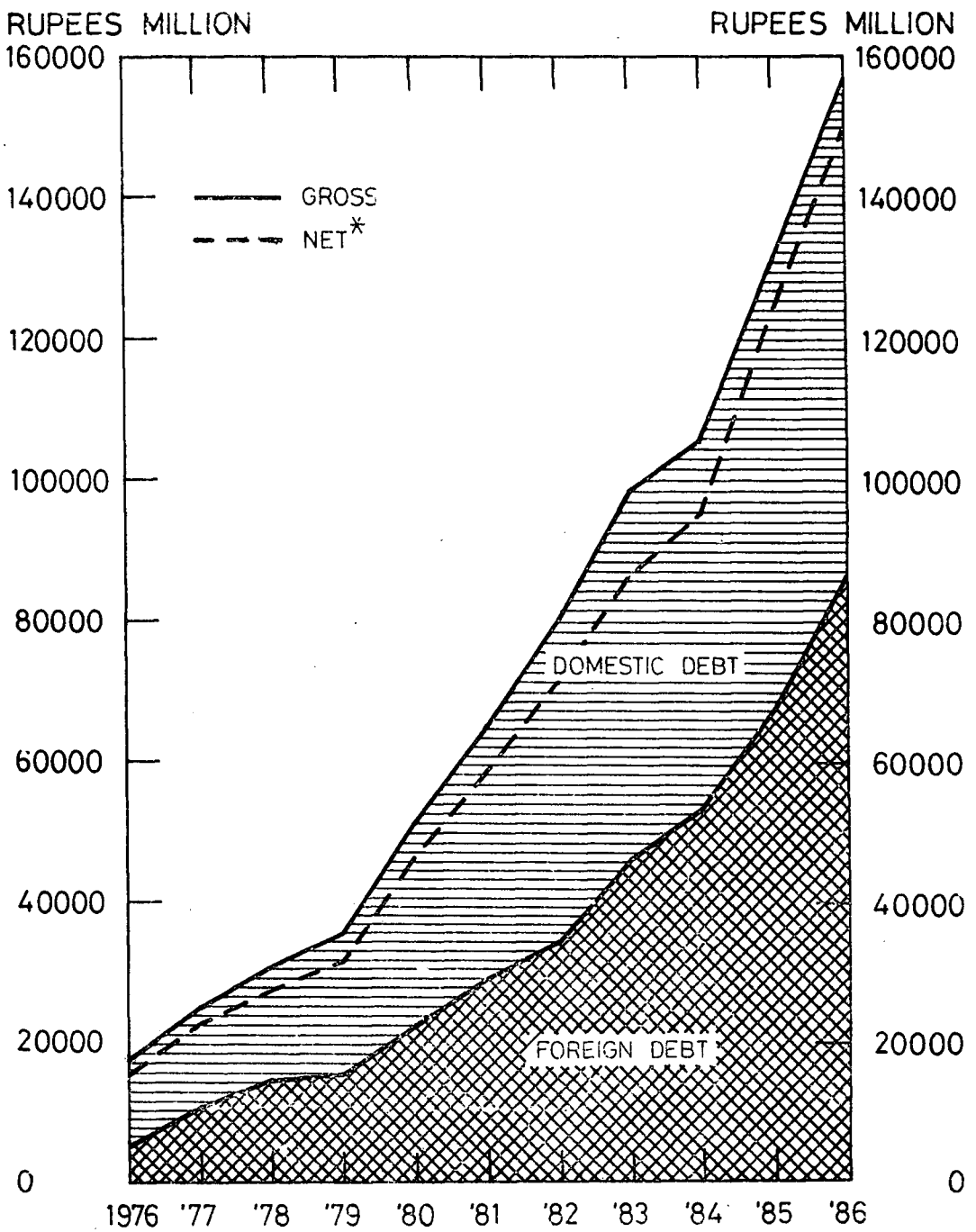
	Rs. Million				Percentage Change in the outstanding debt	
	Outstanding Amount		Change		1985	1986
	1985	1986	1985	1986		
1. Domestic Debt ...	63,196.7	70,084.3	10,959.8	6,887.6	21.0	10.9
1.1 Medium and Long-Term Debt ...	36,689.1	39,277.2	3,365.3	2,588.1	10.1	7.1
1.1.1 Rupee Loans ...	36,570.1	39,129.8	3,342.8	2,559.7	10.1	7.0
1.1.2 Administrative Borrowings ...	119.0	147.4	22.5	28.4	23.6	23.9
1.2 Short-term Debt ...	26,507.6	30,207.1	7,594.0	4,299.5	40.2	16.2
1.2.1 Treasury Bills ...	22,280.0	26,172.6	7,420.0	3,892.6	49.9	17.5
1.2.2 Tax Reserve Certificates ...	9.4	9.0	- 0.2	- 0.4	- 2.1	- 4.2
1.2.3 Central Bank Advances ...	4,218.2	4,625.5	174.7	407.3	4.3	9.7
2. Foreign Debt ...	67,673.2	86,208.3	13,992.4	18,535.1	26.1	27.4
2.1 Project Loans ...	36,405.9	50,417.9	10,434.9	14,012.0	40.2	38.5
2.2 Commodity ...	22,372.9	27,765.8	3,946.6	5,392.9	21.4	24.1
2.3 Other ...	8,894.4	8,024.6	- 389.1	- 869.8	4.2	- 9.8
Total ...	130,869.9	156,952.6	24,952.2	25,422.7	23.6	19.4

Source: Central Bank of Sri Lanka.

Treasury bills continued to be the principal instrument of short-term borrowings by the government. Total borrowings against Treasury bills in 1986 were Rs. 3,893 million, compared with Rs. 7,420 million in the previous year. Hence, outstanding liability on Treasury bills rose to Rs. 26,173 million at the end of 1986 from Rs. 22,280 million at the end of 1985. In order to accommodate the increasing liability on account of Treasury bills, the authorised limit of Treasury bills outstanding was raised from Rs. 25,000 million to Rs. 35,000 million from 21st November, 1986.

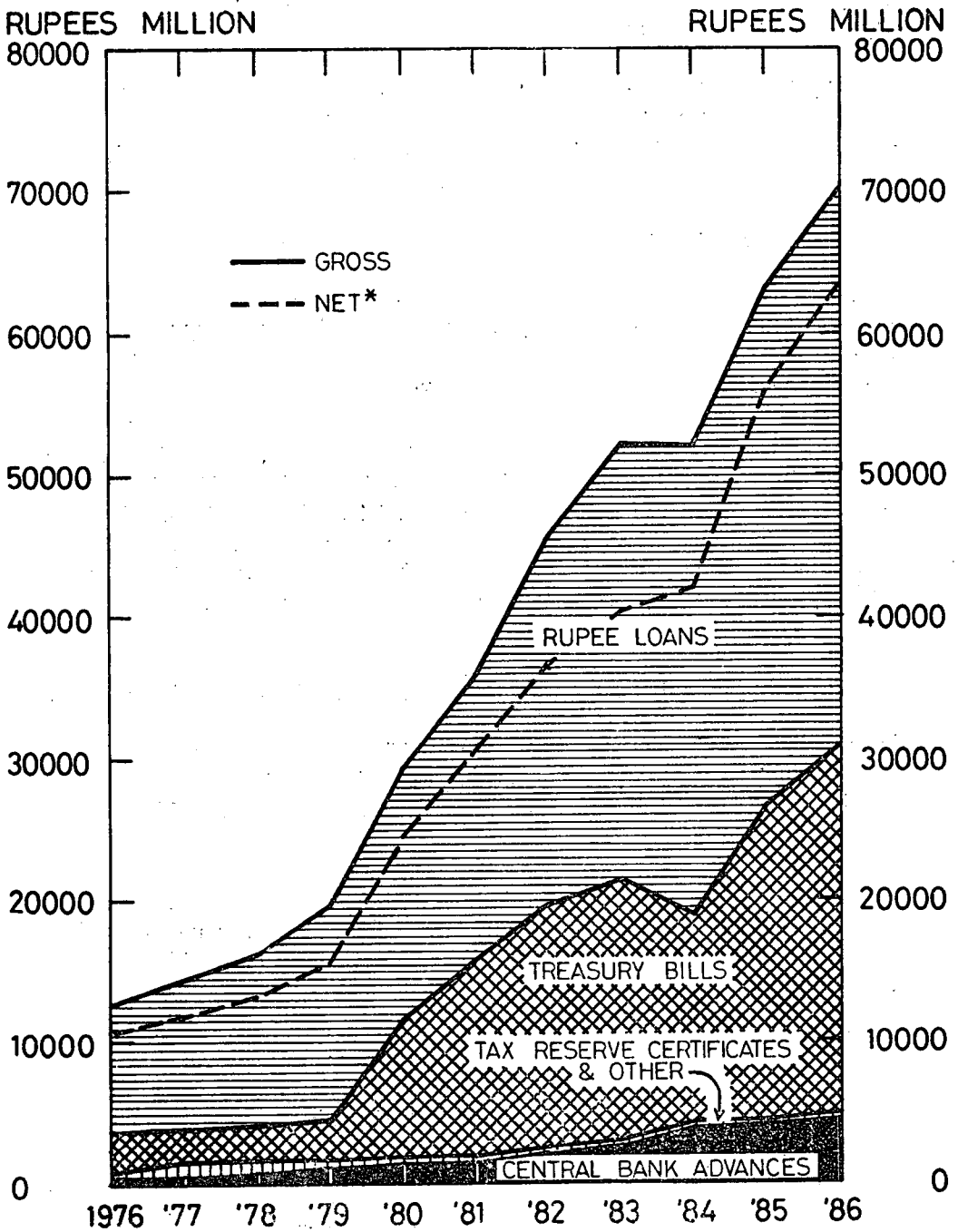
Investments of the non-bank sector in Treasury bills amounted to Rs. 2,249 million, of which the Ceylon Electricity Board accounted for Rs. 1,838 million. Subscriptions by other investors including the National Savings Bank and various

COMPOSITION OF GOVERNMENT DEBT



* Gross Government debt less sinking funds.

COMPOSITION OF DOMESTIC DEBT



* Gross Government debt less sinking funds.

Provident and Trust Funds, amounted to Rs. 411 million. Accordingly, the non-bank sector's holdings of Treasury bills rose sharply from Rs. 1,659 million in 1985 to Rs. 3,908 million in 1986, raising the share of outstanding Treasury bills held by the non-bank sector to 15 per cent.

The increase in Provisional Advances to Government by the Central Bank in 1986 amounted to Rs. 407 million, while the outstanding liability as at end of 1986 stood at Rs. 4,626 million. This included Rs. 585 million of Central Bank Special loans to the government made available in 1980 and 1983.

The outstanding debt on account of Rupee loans which formed almost the entirety of medium and long term domestic debt increased by 7 per cent in 1986 as compared with 10 per cent growth in the previous year. Although Rs. 7,777 million was raised through the sale of Rupee securities, the outstanding liability on account of Rupee securities rose only by Rs. 2,560 million in 1986 owing to commitments on matured securities amounting to Rs. 5,216 million.

As in the past, the Employees Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the major investors in securities. The EPF invested Rs. 5,118 million in 1986 as compared with Rs. 4,418 million in 1985. The EPF's investments in Rupee securities accounted for 66 per cent of the total Rupee loans floated in 1986 compared with 42 per cent in the previous year. Enhanced contributions from members and income from past investments enabled the EPF to increase its investment.

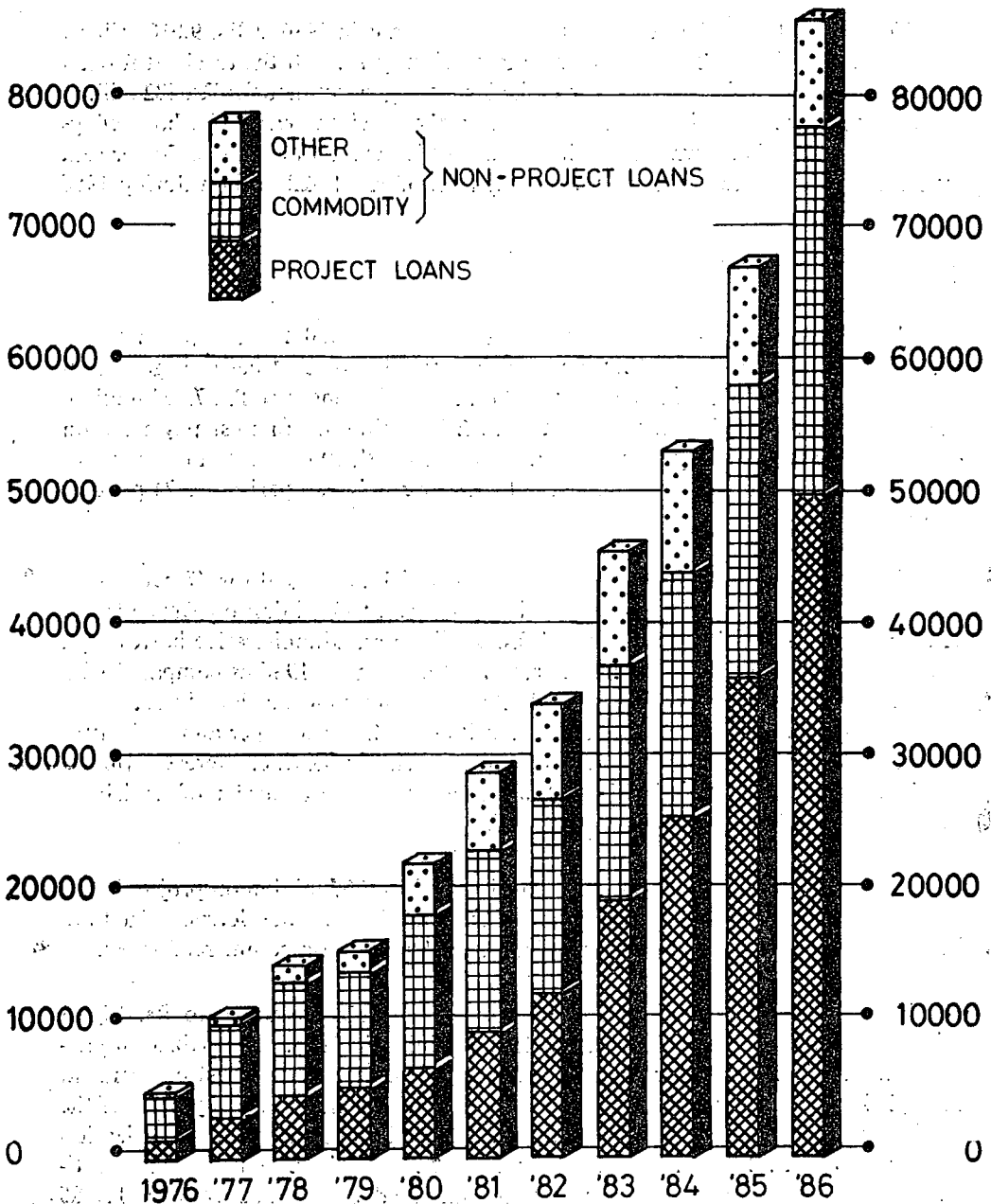
The NSB invested Rs. 2,383 million in Rupee securities in 1986 as compared with Rs. 5,630 million in 1985. The reduction in investments was due to a decline in investible resources of the NSB in 1986. The total savings mobilised by the NSB in 1986 were Rs. 925 million compared with Rs. 1,645 million in 1985. Receipts from past investments amounted to Rs. 1,733 million while maturing proceeds brought in Rs. 1,504 million.

Total investments in Rupee securities by the other sources amounted to Rs. 276 million. These consisted of pensions and provident funds (Rs. 219 million), National Insurance Corporation (Rs. 40 million) and National Housing Sinking Fund (Rs. 17 million).

Foreign Debt

In 1986, gross foreign borrowings amounted to Rs. 12,060 million. Although these foreign borrowings in terms of SDRs rose by only 1 per cent in 1986 over the previous year, the borrowings rose by 36 per cent in Rupee terms due to exchange rate changes. With the repayment of foreign loans totalling Rs. 3,024 million, net foreign borrowings amounted to Rs. 9,036 million. There were a cancellation of previous debts of Rs. 43 million, and an additional liability of Rs. 9,543 million on account of exchange rate changes. Altogether the outstanding foreign debt rose by Rs. 18,535 million in 1986.

COMPOSITION OF FOREIGN DEBT

RUPEES MILLION
90000RUPEES MILLION
90000

The outstanding project loans as at the end of 1986 Rs. 50,418 million accounted for 59 per cent of the total foreign debt, as compared with 54 per cent in 1985. The share of outstanding commodity loans decreased from 33 to 32 per cent in 1986, while the share of other foreign loans declined from 13 per cent to 9 per cent.

Net foreign borrowings on account of project loans in 1986 at Rs. 9,010 million reflected an increase of 28 per cent over the previous year. Of the total net foreign borrowings under project loans, commercial borrowings accounted for Rs. 432 million in 1986 which was of a similar magnitude as in the previous year. Net borrowings under commodity loans was Rs. 1,348 million, which was an increase of 50 per cent over the previous year. There was a repayment of Rs. 1,322 million during 1986 under other loans.

Interest Payments

Total interest payments on government debt amounted to Rs. 9,294 million. This reflected an increase of 12 per cent as compared with a 14 per cent growth in the previous year. While interest payment on domestic debt were Rs. 7,159 million, those on the foreign debt amounted to Rs. 2,135 million. Interest payments on domestic debt increased by 11 per cent as compared with 10 per cent in the previous year, while those on the foreign debt rose by 15 per cent in comparison to 24 per cent in 1985.

The interest commitment on domestic debt which accounted for 77 per cent of the total interest payments in 1986 consisted of Rs. 4,554 million on Rupee loans, Rs. 2,601 million on Treasury bills and Rs. 4 million on administrative borrowings. Interest payments on Rupee securities rose by 8 per cent in 1986 as compared with 9 per cent growth in 1985. The reduced interest commitment was largely due to the decline in the rate of interest on Rupee securities to 12 per cent per annum in 1986 from 14 per cent per annum in 1985. Despite a decrease in the rate, interest payments on Treasury bills increased by 16 per cent primarily due to the burden of servicing a larger amount of Treasury bills during 1986.

Interest payments on foreign debt consisted of Rs. 907 million on project loans, Rs. 693 million on commodity loans and Rs. 535 million on other loans. The total interest payment on foreign debt included Rs. 801 million on commercial loans.

The total debt service payments on government debt amounted to Rs. 16,823 million in 1986, as compared with Rs. 15,231 million in 1985. Amortization payments at Rs. 7,529 million were an increase of 9 per cent, while interest payments at Rs. 9,294 million showed an increase of 12 per cent over the previous year. Of the total service payments on foreign debt, Rs. 3,025 million represented amortization payments and Rs. 2,135 million interest payments. Despite a reduction in amortization payments, debt service payments on domestic debt increased from Rs. 11,585 million in 1985 to Rs. 11,663 million in 1986 owing to increased interest payments.