

GOVERNMENT FINANCE*

The provisional data for 1987 reveal a budget deficit (before grants) of Rs. 20,904 million, as against a deficit of Rs. 21,956 million in 1986. Consequently, the budget deficit in relation to GDP declined from 12.2 per cent in 1986 to 10.6 per cent in 1987, reflecting a moderate improvement in the fiscal position.

The narrowing of the budget deficit in 1987 was the outcome of several factors. First, despite the slow growth in government revenue from income taxes and general sales and turnover taxes, the overall growth in government revenue was maintained at a high level, on account of higher receipts from international trade oriented taxes and from non-tax revenue sources. Second, advance account operations which had been a major element of budgetary imbalance in recent years, showed a substantial improvement, generating a surplus. Third, the supplementary expenditure required for defence was diverted from other ministries, by imposing a 11 per cent cut in their rupee provisions for capital expenditure. These developments were conducive to producing a fiscal out-turn with a lower budget deficit in 1987.

While the overall budgetary position showed a lower deficit, the behaviour of fiscal magnitudes in 1987 continued to reflect the stresses and limitations under which fiscal system is operating at the moment. For instance, although the current account surplus rose marginally in nominal terms, as a proportion of GDP the surplus declined from 1.8 per cent in 1986 to 1.7 per cent in 1987. Meanwhile, the budget deficit, net of resources from foreign and domestic non bank sources, resulted in a gap of Rs. 3,541 million, which was financed from banking sources. In relation to GDP, the resources utilized from the banking system in 1987 was 1.8 per cent. The continued reliance on bank borrowings and the narrowing of the current account surplus would suggest the need for further efforts at economising on government expenditure in line with the availability of resources.

* The data presented in this section are provisional. Revised data will be published in the Review of the Economy 1987.

For the purpose of facilitating economic analysis, data are presented in accordance with the guidelines provided in the Government Finance Statistics (GFS) Manual of the International Monetary Fund. Hence, the format and the data presented in this section differ from those presented in the previous Annual Reports, but comparable with those given in the Medium-term Policy Framework of the government. According to the Manual, government revenue includes all non-repayable receipts and shown net of refunds made during the year while expenditure includes all non repayable payments by the government. Hence, import duty rebate, trading enterprise gross receipts and payments, interest paid to the Joint Investment Fund are excluded from both revenue and expenditure. Profits of trading enterprises are included in revenue while losses are included in current expenditure. Defence is treated as a current expenditure item. Capital expenditure is shown net of amortization payments. Current account surplus/deficit (-) is shown as the difference between government revenue and current expenditure. In arriving at the budget deficit, the GFS Manual groups grants with revenue to mean that these transactions reduce the deficit rather than finance it. This treatment is consistent with the approach adopted in national accounts and balance of payments with regard to the treatment of budgetary data. However, due to different analytical approaches, the budget deficit before grants and after grants are shown separately in this Report. Lending for public purposes less subsequent repayments to government is defined as lending minus repayments which is a part of the total government expenditure.

Government revenue in 1987 at Rs. 42,155 million registered an increase of 13 per cent, while current expenditure totalling Rs. 38,713 million, recorded a growth of 14 per cent over the preceding year. Accordingly, the current account of the budget was in surplus of Rs. 3,442 million. In comparison, the current surplus in 1986 was Rs. 3,272 million. As a percentage of GDP, government revenue improved from 20.8 per cent in 1986 to 21.4 per cent in 1987, while current expenditure rose from 18.9 per cent to 19.7 per cent. However, the current account surplus/GDP ratio dropped from 1.8 per cent in 1986 to 1.7 per cent in 1987. Despite improved performance in revenue, government savings deteriorated in 1987, owing to an increase in interest payments on government debt and an increase of defence expenditure during the year. Interest payments as a proportion of GDP rose from 4.9 per cent in 1986 to 5.2 per cent in 1987, while defence related expenditure/GDP ratio increased from 3.5 per cent to 4.8 per cent.

Total revenue and grants in 1987 at Rs. 46,679 million registered a growth of 14 per cent. Despite the reduction in capital expenditure and lending minus repayments by 4 per cent, total expenditure amounting to Rs. 63,059 million showed an increase of 7 per cent over the previous year. Consequently, the year ended with a budget deficit (after grants) of Rs. 16,380 million, which was lower than the deficit in the last year. As a proportion of GDP, the budget deficit fell from 10.1 per cent in 1986 to 8.3 per cent in 1987. The use of foreign grants for budgetary purposes totalling Rs. 4,524 million in 1987 reflected an increase of 21 per cent over the previous year. Accordingly, foreign grants as a proportion of GDP rose from 2.1 per cent in 1986 to 2.3 per cent in 1987. Although the use of foreign grants for budgetary purposes increased during the year, the budget deficit (before grants) at Rs. 20,904 million also showed a decline of 5 per cent in 1987. Accordingly, the deficit (before grants) as a ratio of GDP fell from 12.2 per cent in 1986 to 10.6 per cent in 1987.

For financing the deficit (after grants), a sum of Rs. 5,716 million was obtained through foreign loans. This reflected a decline of 37 per cent from the quantum of foreign loans obtained in the previous year, reducing the relative importance of foreign loans as a source of deficit financing in 1987. In fact, foreign loans, which financed nearly one half of the budget deficit in recent years, accounted only for a third of the deficit in 1987. As a proportion of GDP, foreign loans amounted to 3 per cent in 1987 as compared with 4-5 per cent in recent years. The reduced utilization of foreign resources largely reflected the government's endeavour to contain the fiscal deficit at a manageable level.

Resources utilised from domestic sources for deficit financing in 1987, totalling Rs. 10,664 million showed an increase of 17 per cent over those of the previous year. However, resources obtained from non-bank market sources at Rs. 6,399 million registered a decline of 5 per cent. While non-market sources provided Rs. 724 million, banking sources contributed Rs. 3,541 million. As mentioned earlier, the resources utilised from the banking system was 1.8 per cent of GDP in 1987 as compared to 1.7 per cent of GDP in 1986.

A summary of fiscal outturn for 1987 together with comparable data for last seven years is given in Table 1.41.

TABLE 1.41
Summary of Government Fiscal Operations

Rs. Million

Item	1981	1982	1983	1984	1985	1986	1987 Approved Estimates	1987 Provisional	1988 Approved Estimates
Total Revenue and Grants	17,496	19,586	26,790	37,354	39,556	40,991	45,626	46,679	51,225
Total Revenue	14,775	16,210	23,317	34,061	36,249	37,238	41,531	42,155	46,225
Tax Revenue	13,696	14,737	19,912	29,939	30,442	31,272	35,704	35,127	39,785
Non Tax Revenue	1,079	1,473	3,405	4,122	5,807	5,966	5,827	7,028	6,440
Grants	2,721	3,376	3,473	3,293	3,307	3,753	4,095	4,524	5,000
Expenditure and Lending minus Repayments	28,014	33,512	39,637	47,837	55,234	59,193	62,323	63,059	72,534
Current	14,649	18,341	22,002	24,630	32,645	33,966	36,953	38,713	40,548
Capital	11,252	15,427	15,863	19,915	21,530	23,236	23,351	22,969	27,017
Lending minus repayments	2,113	256	1,772	3,292	1,059	1,991	2,019	1,377	4,969
Current Account Surplus/Deficit (-)	126	- 2,131	1,315	9,431	3,604	3,272	4,578	3,442	5,677
Budget Deficit (before grants)	- 13,239	- 17,302	- 16,320	- 13,776	- 18,985	- 21,956	- 20,792	- 20,904	- 26,309
Budget Deficit (after grants)	- 10,518	- 13,926	- 12,847	- 10,483	- 15,678	- 18,203	- 16,697	- 16,380	- 21,309
Financing	10,517	13,927	12,845	10,483	15,678	18,204	16,697	16,380	21,309
Foreign Borrowings	4,880	4,744	6,312	6,492	7,109	9,061	6,649	5,716	12,520
Domestic Borrowings	5,637	9,183	6,533	3,991	8,569	9,143	10,048	10,664	8,789
Non Market Borrowings	344	1,487	1,977	951	- 1,801	- 669	-	724	-
Market Borrowings	5,293	7,696	4,556	3,040	10,370	9,812	10,048	9,940	8,789
Non bank	1,446	4,020	4,032	5,135	5,659	6,765	6,578	6,399	6,213
Bank	3,847	3,676	474	- 2,095	4,711	3,047	3,470	3,541	2,576

(Contd.)

TABLE 1.41
Summary of Government Fiscal Operations (as a percentage of GDP)

(Contd.)

Item	1981	1982	1983	1984	1985	1986	1987 Approved Estimates	1987 Provisional	1988 Approved Estimates
Total Revenue and Grants ..	20.6	19.8	22.0	24.3	24.4	22.8	22.3	23.7	22.6
Total Revenue ..	17.4	16.3	19.2	22.2	22.3	20.8	20.3	21.4	20.4
Tax Revenue ..	16.1	14.9	16.4	19.5	18.7	17.4	17.4	17.9	17.6
Non Tax Revenue ..	1.3	1.5	2.8	2.7	3.6	3.3	2.8	3.6	2.8
Grants ..	3.2	3.4	2.9	2.1	2.0	2.1	2.0	2.3	2.2
Expenditure and Lending minus Repayments ..	33.0	33.8	32.6	31.1	34.0	33.0	30.4	32.1	32.0
Current ..	17.2	18.5	18.1	16.0	20.1	18.9	18.0	19.7	17.9
Capital ..	13.2	15.6	13.0	13.0	13.3	13.0	11.4	11.7	11.9
Lending minus repayments ..	2.5	- 0.3	1.5	2.1	0.7	1.1	1.0	0.7	2.2
Current Account Surplus/Deficit (·) ..	0.1	- 2.1	1.1	6.1	2.2	1.8	2.2	1.7	2.5
Budget Deficit (before grants) ..	-15.6	-17.4	-13.4	- 9.0	-11.7	-12.2	-10.1	-10.6	-11.6
Budget Deficit (after grants) ..	-12.4	-14.0	-10.6	- 6.8	- 9.7	-10.1	- 8.1	- 8.3	- 9.4
Financing ..	12.4	14.0	10.6	6.8	9.7	10.1	8.1	8.3	9.4
Foreign Borrowings ..	5.7	4.8	5.2	4.2	4.4	5.1	3.2	2.9	5.5
Domestic Borrowings ..	6.6	9.3	5.4	2.6	5.3	5.1	4.9	5.4	3.9
Non Market Borrowings ..	0.4	1.5	1.6	0.6	- 1.1	- 0.4	—	0.4	—
Market Borrowings ..	6.2	7.8	3.7	2.0	6.4	5.5	4.9	5.1	3.9
Non-Bank ..	1.7	4.1	3.4	3.3	3.5	3.8	3.2	3.3	2.7
Bank ..	4.5	3.7	0.4	- 1.4	2.9	1.7	1.7	1.8	1.1

Source : Central Bank of Sri Lanka.

Revenue

Government revenue in 1987 amounted to Rs. 42,155 million. This reflected an increase of 13 per cent over the previous year's revenue of Rs. 37,238 million and was an encouraging development considering the set-back to economic performance experienced during the year. Both revenue/GDP ratio and tax/GDP ratios recorded improvements, reflecting a situation where the rate of growth in government revenue has more than kept pace with the rate of growth of the overall economy. Tax revenue contributed 83 per cent of total revenue in 1987, almost as in the previous year. Total revenue collection from taxes on domestic goods and services contributed 44 per cent of tax revenue in 1987, as compared with 47 per cent in 1986. Meanwhile, contribution from international trade oriented taxes increased from 35 per cent in 1986 to 37 per cent in 1987. The share of export taxes in total tax revenue showed a slight improvement, while the contribution from income taxes declined from 15 per cent of the tax revenue in 1986 to 14 per cent in 1987. Central Bank's profits, operating surplus of the Department of Telecommunications, interest income and the special levy on the Ceylon Petroleum Corporation were the largest sources of non-tax revenue of the Government in 1987. Receipts from these sources accounted for nearly 90 per cent of non-tax revenue in 1987.

Total revenue from domestic taxes on goods and services at Rs.15,667 million in 1987 was 6 per cent higher than that in the previous year. Despite the weaker economic outlook in 1987, revenue from domestic taxes on goods and services showed an improvement owing mainly to an upward revision in excise taxes and a high level of production in the manufacturing industries. The yield from turnover taxes, which formed two thirds of the tax revenue from domestic goods and services, increased by 5 per cent, against a marginal decline of 1 per cent in the previous year. Turnover taxes on manufacturing activities grew by 12 per cent, while those on imports rose by 2 per cent. However, turnover taxes on non-manufacturing activities remained almost at the last year's level.

Receipts from excise taxes amounting to Rs. 4,716 million accounted for 30 per cent of taxes on domestic goods and services in 1987. Excise tax on liquor, yielding Rs. 1,644 million, showed an increase of 11 per cent, while that on tobacco at Rs. 3,071 million reflected a rise of 5 per cent. This increase was attributed to the upward revision of duty rates in November 1986. Revenue from licence fees showed a rise of 19 per cent owing to enhanced collection of licence fees from motor vehicles.

International trade oriented taxes raised revenue amounting to Rs. 12,983 million in 1987. Revenue from import duties of Rs. 11,059 million registered a growth of 17 per cent largely owing to enhanced imports of sugar and petroleum, on the one hand, and the increased unit values, on the other. Hence, the average rate of import duty increased from 17 per cent in 1986 to 18 per cent in 1987. Export-based taxes which contributed around 15 per cent of the international trade taxes also increased by 18 per cent during 1987. Revenue from the specific duty on tea export declined by 5 per cent, while receipts from the export tax on coconut declined by 36 per cent, mainly owing to the lower volume of exports. However, owing to favourable prices, collection from ad-valorem taxes on tea and rubber showed a substantial improvement.

Despite an increase in 1987 in the rate of depreciation allowances for plant, machinery, equipment and commercial buildings and a decline in agricultural production,

TABLE 1.42
Summary of Revenue by Component

Item	Rs. Million								
	1981	1982	1983	1984	1985	1986	1987 Approved Estimates	1987 Provisional	1988 Approved Estimates
Tax Revenue	13,696	14,737	19,912	29,939	30,442	31,272	35,704	35,127	39,785
Income Taxes	2,029	2,923	3,366	5,480	5,586	4,787	5,105	4,909	4,865
Personal	570	808	891	1,760	1,424	1,513	1,635	1,580	1,440
Corporate	1,459	2,115	2,475	3,720	4,162	3,274	3,470	3,329	3,425
Taxes on Property	282	322	397	489	499	648	1,563	1,568	1,553
Taxes on Goods and Services	4,866	6,320	8,710	10,888	13,359	14,787	16,156	15,667	18,707
General Sales and Turnover Tax	2,829	4,052	6,224	8,143	10,189	10,088	10,920	10,611	12,450
Manufacturing	1,728	1,806	2,718	3,045	3,768	3,270	4,010	3,675	3,740
Non Manufacturing	1,101	1,524	1,891	1,928	2,590	2,415	2,760	2,426	2,910
Imports	—	722	1,615	3,170	3,831	4,403	4,150	4,510	5,800
Excise Tax	1,942	2,123	2,298	2,551	2,982	4,414	4,996	4,716	5,922
Liquor	749	808	867	1,013	1,104	1,485	1,695	1,644	2,040
Tobacco	1,123	1,315	1,431	1,537	1,877	2,927	3,300	3,071	3,880
Licence Fees	95	145	188	194	188	285	240	340	335
Taxes on International Trade	6,519	5,172	7,439	13,082	10,998	11,050	12,880	12,983	14,660
Imports ^{1/}	2,725	2,538	4,047	6,670	8,093	9,414	11,140	11,059	12,445
Exports	3,771	2,634	3,392	6,412	2,905	1,636	1,740	1,924	2,215
Tea	1,965	1,594	2,222	5,004	2,214	996	955	1,152	1,305
of which: ad valorem	86	150	932	3,236	1,032	62	60	262	550
Rubber	1,433	753	852	1,009	254	307	520	530	725
Coconut	241	191	241	297	342	232	140	148	110
Other exports	132	96	77	102	95	101	125	94	75
Non tax Revenue	1,079	1,473	3,405	4,122	5,807	5,966	5,827	7,028	6,440
Property Income	584	777	2,605	3,085	3,926	4,731	4,025	4,541	4,556
of which: Central Bank profits	—	—	1,500	1,650	1,500	1,779	1,750	1,723	1,650
Interest Income	168	243	492	1,783	3,274	2,850	2,018	2,364	2,070
Surplus of Trading Enterprises	262	327	356	692	666	803	1,098	1,229	1,638
Fees and charges	147	186	202	265	364	347	353	334	460
Other non tax revenue ^{2/}	348	510	597	772	1,517	888	1,419	2,153	1,424
Total Revenue	14,775	16,210	23,317	34,061	36,249	37,238	41,531	42,155	46,225

1/ Net of import duty rebates.

2/ Includes sales of capital goods.

(Contd.)

TABLE 1.42
Summary of Revenue by component (as a percentage of GDP)

(Contd.)

Item	1981	1982	1983	1984	1985	1986	1987 Approved Estimates	1987 Provisional	1988 Approved Estimates
Tax Revenue	16.1	14.9	16.4	19.5	18.7	17.4	17.4	17.9	17.6
Income Taxes	2.4	2.9	2.8	3.6	3.4	2.7	2.5	2.5	2.1
Personal	0.7	0.8	0.7	1.1	0.9	0.8	0.8	0.8	0.6
Corporate	1.7	2.1	2.0	2.4	2.6	1.8	1.7	1.7	1.5
Taxes on Property	0.3	0.3	0.3	0.3	0.3	0.4	0.8	0.8	0.7
Taxes on Goods and Services	5.7	6.4	7.2	7.1	8.2	8.2	7.9	8.0	8.3
General Sales and Turnover Tax	3.3	4.1	5.1	5.3	6.3	5.6	5.3	5.4	5.5
Manufacturing	2.0	1.8	2.2	2.0	2.3	1.8	2.0	1.9	1.7
Non Manufacturing	1.3	1.5	1.6	1.3	1.6	1.3	1.3	1.2	1.3
Imports	—	0.7	1.3	2.1	2.4	2.5	2.0	2.3	2.6
Excise Tax	2.3	2.1	1.9	1.7	1.8	2.5	2.4	2.4	2.6
Liquor	0.9	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.9
Tobacco	1.3	1.3	1.2	1.0	1.2	1.6	1.6	1.6	1.7
Licence Fees	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.2	0.1
Taxes on International Trade	7.7	5.2	6.1	8.5	6.8	6.2	6.3	6.6	6.5
Imports	3.2	2.6	3.3	4.3	5.0	5.2	5.4	5.6	5.5
Exports	4.4	2.7	2.8	4.2	1.8	0.9	0.8	1.0	1.0
Tea	2.3	1.6	1.8	3.3	1.4	0.6	0.5	0.6	0.6
of which: ad valorem	0.1	0.2	0.8	2.1	0.6	0.1	0.2
Rubber	1.7	0.8	0.7	0.7	0.2	0.2	0.3	0.3	0.3
Coconut	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	...
Other exports	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Non tax Revenue	1.3	1.5	2.8	2.7	3.6	3.3	2.8	3.6	2.8
Property Income	0.7	0.8	2.1	2.0	2.4	2.6	2.0	2.3	2.0
of which: Central Bank profits	—	—	1.2	1.1	0.9	1.0	0.9	0.9	0.7
Interest Income	0.2	0.2	0.4	1.2	2.0	1.6	1.0	1.2	0.9
Surplus of Trading Enterprises	0.3	0.3	0.3	0.5	0.4	0.4	0.5	0.6	0.7
Fees and charges	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other non tax revenue	0.4	0.5	0.5	0.5	0.9	0.5	0.7	1.1	0.6
Total Revenue	17.4	16.3	19.2	22.2	22.3	20.8	20.3	21.4	20.4

Source: Central Bank of Sri Lanka.

receipts from corporate and personal income taxes at Rs. 4,909 million, showed a 3 per cent increase, as against a decline of 14 per cent in the previous year. This was because of the better performance by the manufacturing sector.

In 1987, non-tax revenue totalled Rs. 7,028 million in comparison to Rs. 5,966 million in the previous year. Property income of the government at Rs. 4,541 million accounting for about two thirds of the non-tax revenue showed a decrease of 4 per cent. This happened despite a substantial improvement in the operational surplus of the Department of Telecommunications. The increase in the operating surplus of the Department of Telecommunications by about 50 per cent was largely due to the greater use of overseas telecommunication facilities during the year.

A statistical summary of government revenue in 1987 together with comparable data for last seven years is given in Table 1.42.

Current Expenditure

Total current expenditure in 1987 was Rs. 38,713 million, recording an increase of 14 per cent over that of the previous year. Accordingly, the current expenditure/GDP ratio rose from 18.9 per cent in 1986 to 19.7 per cent in 1987. Expenditure on goods and services of Rs. 17,640 million accounted for nearly a half the current expenditure in 1987. Interest payments on government debt formed 26 per cent of the current expenditure in 1987, the same share as in the previous year. Total current transfers to corporations, institutions and households accounted for 28 per cent of the total current expenditure in 1987.

Expenditure on goods and services included a sum of Rs. 7,986 million on account of salaries and wages of government employees, and accounted for about 21 per cent of the total current expenditure in 1987. The comparable percentage share in 1986 was 24 per cent. Approximately, three fourths of total salaries and wages was on civil administration. Although there was no increase in expenditure on account of salaries and wages in 1987, expenditure on other goods and services which included travelling expenses, rent, electricity and communication charges, purchase of materials, office supplies, defence goods and maintenance expenses, etc. totalling Rs. 9,654 million showed an increase of 35 per cent largely due to an increase in security related expenditure.

Current transfers of Rs. 10,914 million in 1987 registered a growth of 9 per cent, as compared with a 13 per cent increase in the last year. Pension payments at Rs. 3,185 million accounting for nearly 30 per cent of total current transfers, grew by 7 per cent in 1987. Expenditure on Food and Kerosene stamps schemes, which provides direct income transfers to low income households, was Rs. 1,885 million reflecting an increase of 5 per cent. Meanwhile, other support programmes, such as free text books, mid day meal and season tickets, which are designed to assist school going children, cost Rs. 315 million in 1987.

Total current transfers made to public corporations in 1987 was Rs. 2,286 million. This was a decrease of 3 per cent from the last year's level. Transfers to public corporations accounted for a fifth of total current transfers in 1987, but some of them were to non-profit oriented government entities to meet their operational expenses. Meanwhile, commercial enterprises like the Postal services and the Railways continued to

TABLE 1.43

Economic Classification of Expenditure and Lending Minus Repayments

Rs. Million

Item	1981	1982	1983	1984	1985	1986	1987 Approved Estimates	1987 Provisional	1988 Approved Estimates
Current Expenditure ..	14,649	18,341	22,002	24,630	32,645	33,967	36,954	38,713	40,548
Expenditure on Goods and Services ..	5,224	6,500	7,848	9,195	16,287	15,155	18,366	17,640	19,129
Salaries and wages ..	3,579	4,561	4,811	5,554	6,878	8,028	8,278	7,986	10,001
Other goods and services ..	1,645	1,940	3,037	3,642	9,409	7,127	10,088	9,654	9,128
Interest Payments ..	3,738	5,104	6,606	6,738	7,428	8,762	10,220	10,159	11,962
Foreign ..	713	915	1,270	1,623	1,970	2,209	2,420	2,564	3,199
Domestic ..	3,025	4,189	5,336	5,115	5,458	6,553	7,800	7,595	8,763
Transfer Payments ..	5,687	6,736	7,548	8,697	8,929	10,050	10,286	10,914	10,497
Public Enterprises ..	557	1,232	1,768	1,762	882	2,350	2,229	2,286	1,736
Other Levels of Government ..	182	317	388	444	501	600	641	641	833
Households ..	4,948	5,187	5,392	6,491	7,546	7,100	7,416	7,987	7,928
Capital Expenditure ..	11,252	15,427	15,863	19,915	21,530	23,236	23,351	22,969	27,017
Acquisition, constructions and maintenance of fixed assets ..	4,026	4,829	5,375	5,849	7,375	7,788	12,051	10,828	15,532
Capital Transfers ..	7,226	10,598	10,488	14,066	14,155	15,448	11,331	12,141	11,489
Public Enterprises ..	7,073	10,591	10,422	13,681	13,441	14,874	10,521	11,301	10,729
Other levels of governments ..	149	167	317	198	481	472	702	732	672
Other ..	23	15	11	44	26	101	108	108	88
Other ..	-19	-176	-262	143	207	-	-	-	-
Lending Minus Repayments ..	2,113	-256	1,772	3,292	1,059	1,991	2,019	1,377	4,969
Advance Account ..	1,716	-879	1,120	2,917	314	-170	250	-1,180	100
Lending to Corporations ..	569	720	801	901	997	2,669	2,204	3,018	5,324
Repayments of Loans ..	-172	-97	-149	-526	-252	-508	-435	-461	-455
Total Expenditure and Lending minus repayments ..	28,014	33,512	39,637	47,837	55,234	59,194	62,324	63,059	72,534

Source: Central Bank of Sri Lanka.

incur operational losses, thus necessitating budgetary support. The operational losses of these two departmental enterprises amounted to Rs. 458 million in 1987, as compared with a loss of Rs. 414 million in 1986.

In 1987, interest payments on government debt were Rs. 10,159 million. This was an increase of 16 per cent over the previous year's payments of Rs. 8,762 million. Interest payments on domestic debt rose by 16 per cent to Rs. 7,595 million, while those on foreign debt also grew by 16 per cent, to Rs. 2,564 million. Interest payments on domestic debt which accounted for three fourths of the total interest payments on government debt in 1987 consisted of Rs. 4,499 million on Rupee loans, Rs. 3,092 million on Treasury bills and Rs. 4 million on administrative borrowings. Interest payments on Rupee securities rose by 8 per cent in 1987 while those on Treasury bills increased by 19 per cent, primarily owing to a rise in outstanding liabilities on this account. The total interest payments on foreign debt included Rs. 757 million payable on commercial loans. In 1986, such payments amounted to Rs. 801 million.

A summary of government expenditure for 1987 together with comparable data for last seven years is given in Table 1.43.

Capital Expenditure

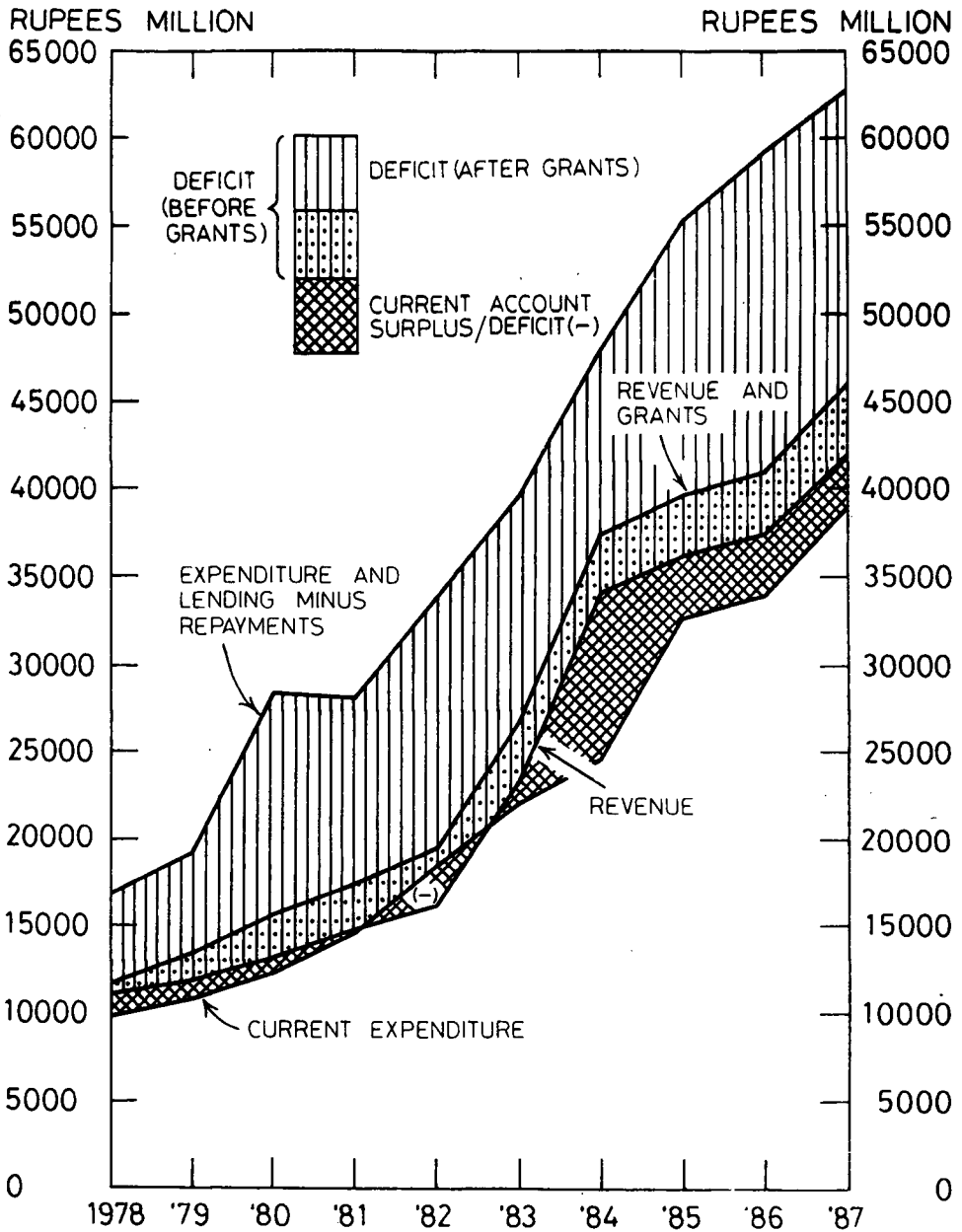
Capital expenditure in 1987 amounted to Rs. 22,969 million. This was a decline of 1 per cent from the expenditure in the previous year. Hence, as a proportion of GDP, capital expenditure dropped from 13 per cent in 1986 to 11.7 per cent in 1987. The reduction was largely due to the cuts imposed on capital expenditure during the year in order to accommodate essential increases in expenditure on security.

Expenditure directly incurred by the government on the acquisition, construction and maintenance of fixed assets accounted for 47 per cent of total capital expenditure, while capital transfers to corporations accounted for 49 per cent. In the previous year, capital transfers to corporations formed 64 per cent of total capital expenditure.

In 1987, capital expenditure on acquisition, construction and maintenance of fixed assets, totalling Rs. 10,828 million showed an increase of 39 per cent over the expenditure in the previous year. Capital expenditure under the Ministry of Lands and Land Development of Rs. 2,098 million showed a large increase of 55 per cent in 1987. Of this, the expenditure incurred on major irrigation rehabilitation projects, construction of an improvements to gravity irrigation works, land preparation, construction of buildings and roads showed the largest increase from Rs. 1,003 million in 1986 to Rs. 1,599 million in 1987. Meanwhile, capital expenditure under the Ministry of Agricultural Development and Research rose from Rs. 278 million to Rs. 718 million. This included a sum of Rs. 444 million incurred on planning, programming and progress control of agricultural development.

Investment under the Ministry of Education at Rs. 565 million was slightly lower than that in 1986. Of this, a sum of Rs. 515 million was spent on the construction of buildings for general and teacher education. Meanwhile, total capital expenditure under the Ministry of Higher Education was Rs. 425 million, in comparison with Rs. 620 million utilised in 1986. On the other hand, Capital outlays under the Ministry of Health increased

TRENDS IN FISCAL MAGNITUDES



from Rs. 539 million in 1986 to Rs. 1,093 million in 1987. Capital expenditure under the Ministry of Women's Affairs and Teaching Hospitals totalled Rs. 201 million, in comparison with Rs. 105 million in 1986.

Capital expenditure under the Ministry of Justice for construction of buildings increased from Rs. 228 million in 1986 to Rs. 377 million in 1987. Meanwhile, Posts and Telecommunications ministry incurred a sum of Rs. 949 million on capital projects in 1987 as compared with Rs. 630 million in 1986. The capital investment of this Ministry's major projects, comprising the Outer Colombo Area Development Scheme, provision of radio links to rural exchanges and the Colombo Area Development scheme amounted to Rs. 686 million, sharply higher than Rs. 294 million spent in 1986.

Capital expenditure incurred at the district level through Integrated Rural Development Programme, Decentralized Budgets and District Development Councils totalled Rs. 1,211 million as compared with Rs. 1,268 million in 1986.

Capital transfers to government corporations amounted to Rs. 11,301 million in 1987 reflecting a decrease of 24 per cent. Of this, a sum of Rs. 8,909 million or four-fifths was absorbed by five enterprises; the Mahaweli Development Authority, National Water Supply and Drainage Board, Airports and Aviation Services Ltd., Road Development Authority and Air Lanka Ltd.

The Mahaweli Development Authority continued to be the major spender using a sum of Rs. 5,087 million or 45 per cent of total capital transfers in 1987. However, this was 15 per cent lower than the amount invested in 1986. The second largest recipient of capital transfers in 1987 was the National Water Supply and Drainage Board. Total capital transfer to this corporation was Rs. 1,234 million as compared with Rs. 994 million in the year before. Capital transfers to Airports and Aviation Services Ltd. dropped from Rs. 1,423 million in 1986 to Rs. 911 million in 1987, while those to the Road Development Authority declined from Rs. 876 million to Rs. 784 million. Meanwhile, a capital contribution to the National Airline -Air Lanka in 1987 amounted to Rs. 893 million reflecting a sharp decline from Rs. 2,403 million recorded in the previous year. Capital transfers to National Housing Development Authority amounted to Rs. 374 million while that to National Youth Services Council was Rs. 394 million in 1987.

Lending Minus Repayments

Government's lending minus repayments in 1987 amounted to Rs. 1,377 million, in comparison with Rs. 1,991 million in 1986. While advance account operations resulted in a net inpayment of Rs. 1,180 million, financial resources provided in the form of loans to public corporations amounted to Rs. 3,018 million. Meanwhile, repayments of loans to the government were Rs. 461 million, as compared with Rs. 508 million in 1986.

Advance account operations in respect of government departments resulted in a net inpayment of Rs. 903 million in comparison with a net outpayment of Rs 221 million in 1986. This was largely due to an improvement in the Food Purchase and Distribution Account which generated a surplus of Rs. 1,162 million during the year in comparison with a surplus of Rs. 366 million in 1986. Meanwhile, the Stores and Materials Account too managed to generate a surplus of Rs. 230 million in 1987 in comparison with a net outpayment of Rs. 219 million in 1986.

Financial resources provided in the form of loans to public corporations totalled Rs. 3,018 million. Of them, a sum of Rs. 1,919 million was lent to the Ceylon Electricity Board for the development of the Samanalawewa and the Rantambe power projects and several transmission and distribution projects. The entire allocation came from foreign sources.

Financing of the Budget Deficit

Budgetary operations in 1987 resulted in a deficit (after grants) of Rs. 16,380 million, as against the original estimate of Rs. 16,697 million. In comparison, the deficit in the previous year was Rs. 18,203 million. However, the deficit exceeded the resources available from foreign and non-bank sources. Hence, as originally anticipated the shortfall had to be met from banking sources which provided Rs. 3,541 million in 1987 towards financing the deficit, as against a sum of Rs. 3,047 million utilised from these sources in 1986.

The net foreign borrowings of Rs. 5,716 million, reflecting a decrease of 37 per cent over the preceding year financed 35 per cent of the budget deficit in 1987 as compared with nearly 50 per cent in 1986. The original budget estimates anticipated utilization of Rs. 6,649 million. Though a lower use of foreign loans for budgetary purposes was anticipated in 1987, the actual reduction was much more than the anticipated. This could be due partly to possible under utilization of foreign loans resulting from the expenditure cuts effected during the year.

While domestic non market borrowings amounted to Rs. 724 million, market borrowings totalled Rs. 9,940 million in 1987. Market borrowings which was at about the same level last year, consisted of Rs. 6,399 million from non-bank sources and Rs. 3,541 million from bank sources. Domestic market borrowings from non-bank sources consisted of Rs. 6,117 million through rupee securities and Rs. 282 million from Treasury bills. Although the resources from non captive sources increased from Rs. 276 million in 1986 to Rs. 676 million in 1987, nearly 90 per cent of the contribution to rupee securities came from traditional "captive" sources; the Employees' Provident Fund (EPF) and the National Savings Bank (NSB). However, borrowing from non-bank market sources in 1987 was 5 per cent lower than that in 1986.

Total resources available from foreign, domestic non-market and market non-bank sources financed a total of Rs. 12,839 million out of an overall budget deficit of Rs. 16,380 million. The resulting resource gap of Rs. 3,541 million was financed from the banking sources. Of this, Rs. 3,346 million was obtained by way of Treasury bills. Meanwhile, transactions under the Central Bank provisional advances resulted in a net repayment of Rs. 40 million, as against a net borrowing of Rs. 407 million in the previous year. Meanwhile, there was also a net repayment of rupee loans to the banking system amounting to Rs. 7 million in 1987. The use of cash balances during the year was Rs. 242 million.

Government Debt

The outstanding government debt at the end of 1987 amounted to Rs. 189,043 million, compared with Rs. 155,707 million a year ago, an increase of 21 per cent. Domestic debt rose by 14 per cent to Rs. 78,997 million, while the foreign debt rose by 28 per cent to Rs. 110,046 million. The composition of outstanding government

TABLE 1.44

Outstanding Government Debt by Holder

Item	Amount (Rupees Million)				Percentage Change in the Outstanding			
	1984	1985	1986	1987	1984	1985	1986	1987
1 Domestic	51,651	62,611	69,499	78,997	- 0.2	21.2	11.0	13.7
1.1 Market	51,555	62,492	69,352	78,816	- . . .	21.2	11.0	13.6
1.1.1 Non-Bank	33,783	37,338	42,159	48,312	9.0	10.5	12.9	14.6
1.1.2 Bank	17,772	25,154	27,193	30,504	- 13.6	41.5	8.1	12.2
1.2 Non-Market	96	119	147	181	- 51.0	23.3	24.0	22.8
2 Foreign	53,681	67,673	86,208	110,046	16.6	26.1	27.4	27.7
2.1 Multi-lateral	16,131	19,512	23,983	30,208	25.7	21.0	22.9	26.0
2.2 Bilateral	30,181	39,956	53,176	71,587	9.5	32.4	33.1	34.6
2.3 Financial Markets	7,369	8,205	9,049	8,251	31.1	11.3	10.3	- 8.9
Total	105,332	130,284	155,707	189,043	7.7	23.7	19.5	21.4

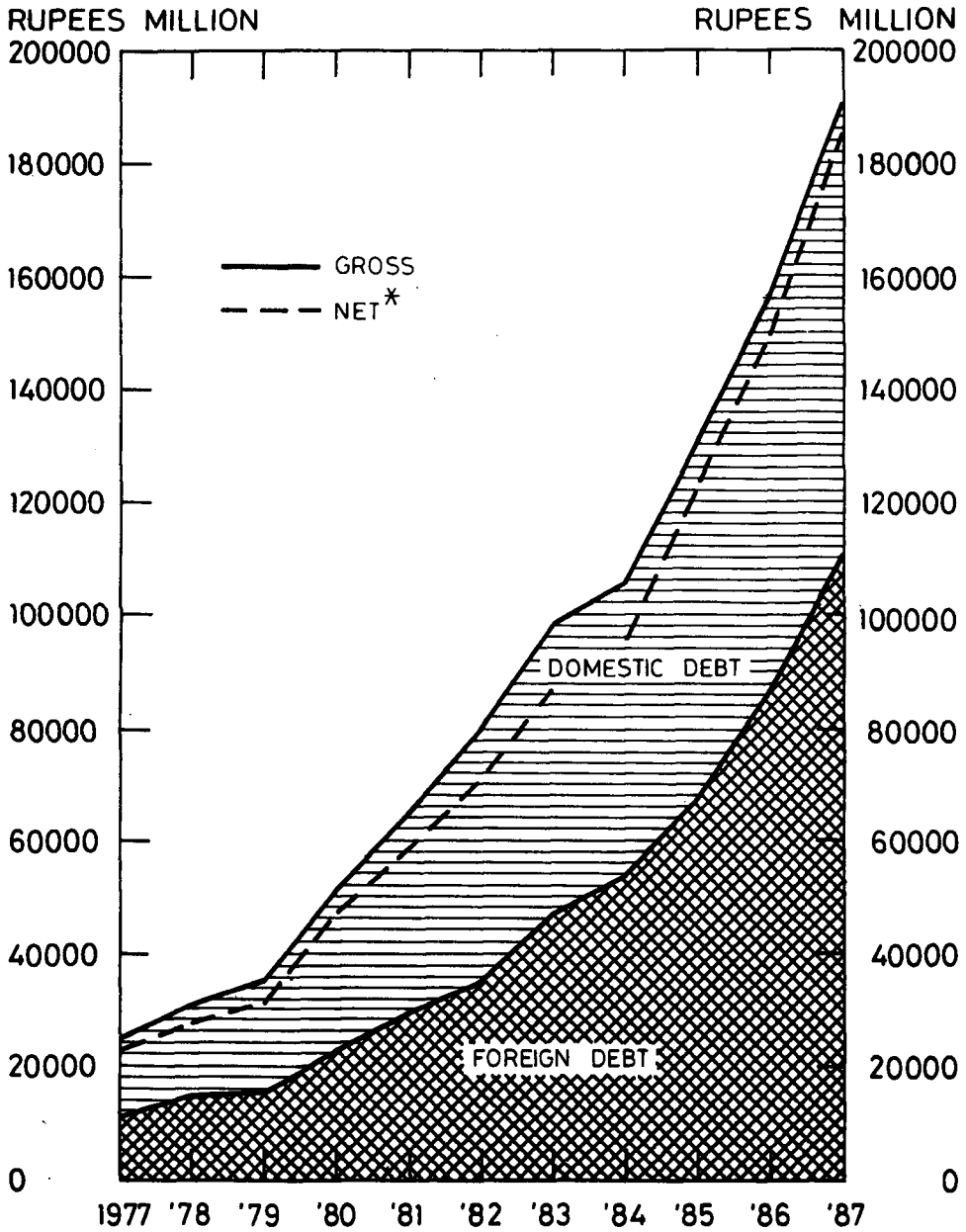
Source: Central Bank of Sri Lanka.

TABLE 1.45
Government Debt by Debt Instruments

Item	Outstanding Amounts (Rs. Million)				Percentage Change in the outstanding amount			
	1984	1985	1986	1987	1984	1985	1986	1987
1. Domestic Debt	51,651	62,611	69,499	78,997	- 0.2	21.2	11.0	13.7
1.1 Medium and Long Term Debt	33,324	36,689	39,277	45,138	3.7	10.1	7.1	14.9
1.1.1 Rupee Loans	33,228	36,570	39,130	44,957	4.0	10.1	7.0	14.9
1.1.2 Administrative Borrowings	96	119	147	181	- 51.0	23.4	23.9	22.8
1.2 Short-Term Debt	18,328	25,922	30,222	33,859	- 6.6	41.4	16.6	12.0
1.2.1 Treasury Bills	14,860	22,280	26,173	29,850	- 14.6	49.9	17.5	14.1
1.2.2 Tax Reserve Certificates	10	9	9	9	- 3.0	- 2.1	- 3.2	- 2.1
1.2.3 Central Bank Advances	3,458	3,633	4,040	4,000	56.5	5.1	11.2	- 1.0
2. Foreign Debt	53,681	67,673	86,208	110,046	16.6	26.1	27.4	27.7
2.1 Project Loans	25,971	36,406	50,418	68,843	33.0	40.2	38.5	36.5
2.2 Commodity	18,426	22,373	27,766	34,995	3.0	21.4	24.1	26.0
2.3 Other	9,284	8,894	8,024	6,208	7.9	- 4.2	- 9.8	- 22.6
Total	105,332	130,284	155,707	189,043	7.7	23.7	19.5	21.4

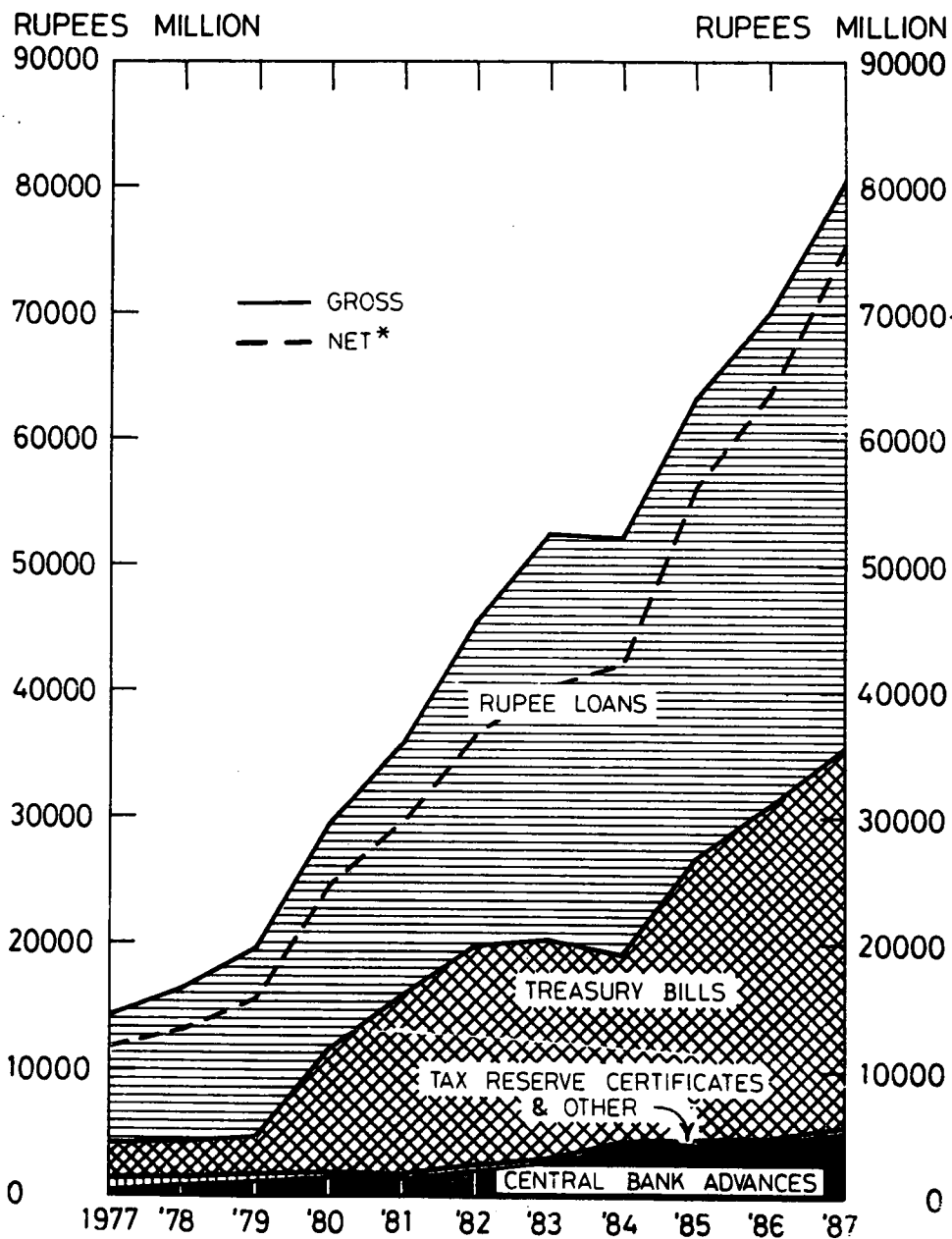
Source : Central Bank of Sri Lanka.

COMPOSITION OF GOVERNMENT DEBT



* Gross Government debt less sinking funds.

COMPOSITION OF DOMESTIC DEBT



* Gross Domestic debt less sinking funds.

debt by type of debt holder and by type of debt instrument are given in Table 1.44 and 1.45.

The domestic debt accounted for 42 per cent of the total debt at the end of 1987. Of the total domestic debt, the market holding of outstanding debt amounted to Rs. 78,816 million (while the rest consisted of non-market or administrative borrowings). This was an increase of 14 per cent compared with an expansion of 11 per cent in the last year. As in the previous year, the non-bank sector owned 61 per cent of the market holding, while the rest was held by the banking system.

Medium and long term domestic debt (of more than one year) at the end of 1987 amounted to Rs. 45,138 million, while short term debt (of less than a year) stood at Rs. 33,859 million. The medium and long term debt grew by 15 per cent while short term debt increased by 12 per cent. Hence, the share of medium and long term debt in the total domestic debt remained unchanged at 57 per cent, as in the previous year.

Rupee securities continued to form the entirety of medium and long term domestic debt. Outstanding Rupee loans at the end of the year of Rs. 44,957 million showed an increase of 15 per cent, as compared with 7 per cent growth in the previous year. Although a sum of Rs. 7,000 million was raised through Rupee securities in 1987 as against Rs. 7,777 million in the previous year, the outstanding liability on account of rupee loans increased by only Rs. 5,828 million, as repayments during the year totalled Rs. 1,172 million.

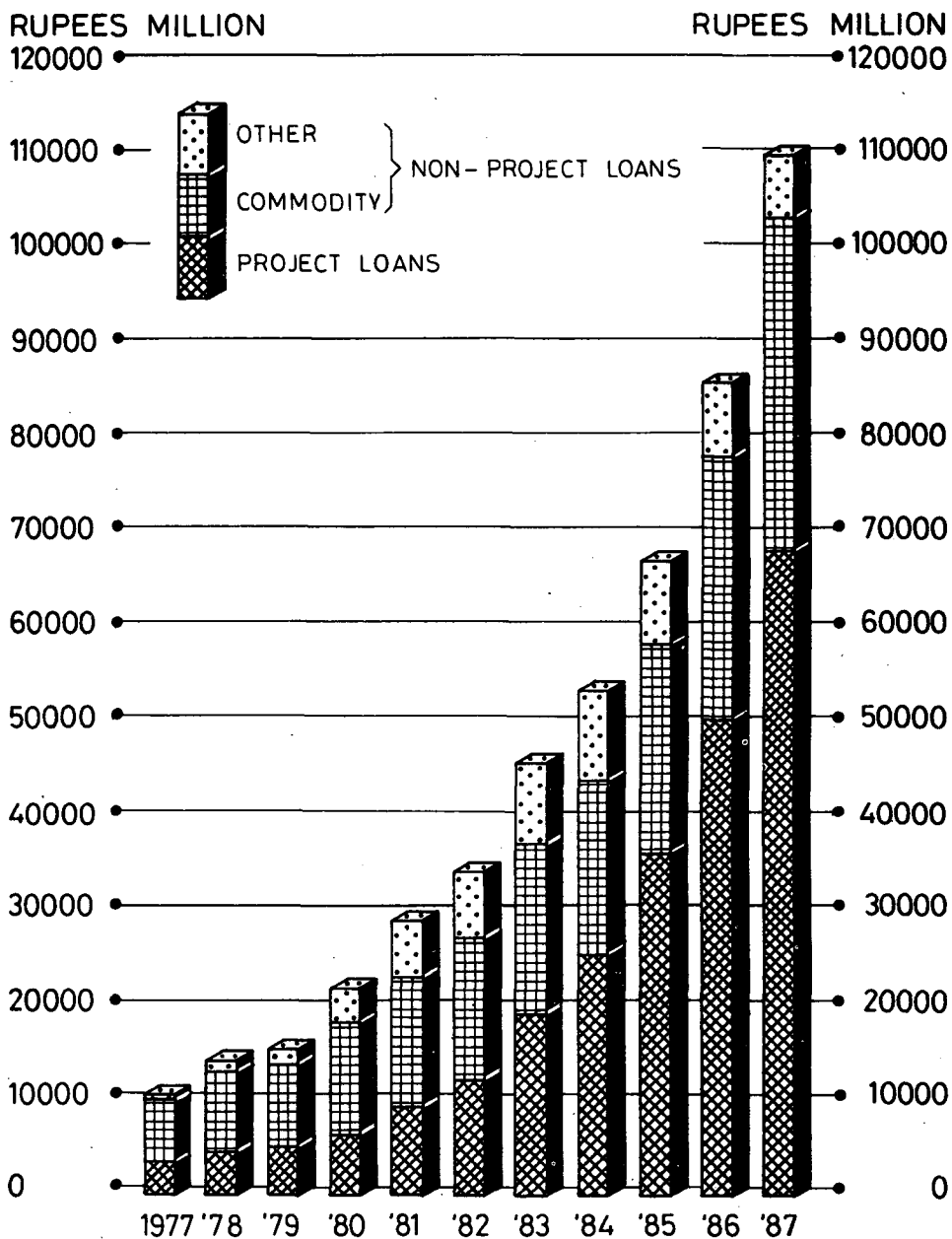
The Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the principal subscribers to the Rupee Loan Programme. The investments made by the EPF in rupee loans of Rs. 4,228 million was 17 per cent lower than in 1986, whereas the NSB subscribed a sum of Rs. 2,096 million, also lower by 12 per cent. Total investments in rupee securities by the other subscribers rose to Rs. 676 million, as compared with Rs. 276 million in the previous year. These came largely from other provident and pension funds.

Meanwhile, Rs. 3,677 million was raised by the issue of Treasury bills, the principal instrument of short term borrowing. This compared with Rs. 3,893 million raised in 1986. Accordingly, the outstanding liability on account of Treasury bills rose to Rs. 29,850 million at the end of the year.

Transactions under Central Bank Provisional Advances to government during 1987 resulted in a net repayment of Rs. 40 million in contrast to a borrowing of Rs. 407 million in the previous year. Accordingly, the outstanding liability on this account at the end of 1987 was Rs. 4,000 million, as against Rs. 4,040 million at the end of the previous year.

The outstanding foreign debt of Rs. 110,046 million accounted for 58 per cent of the total debt at the end of the year. This was an increase of 28 per cent, compared with a rise of 27 per cent in 1986. Although the net borrowings for budgetary purposes during the year were Rs. 5,632 million, there was also an additional liability of Rs. 18,205 million by the end of the year arising from exchange rate changes. In the previous year, the increase on this account amounted to Rs. 9,543 million. Accordingly,

COMPOSITION OF FOREIGN DEBT



outstanding foreign debt at the end of the year showed an increase of Rs. 23,837 million. Of the total outstanding foreign obligations Rs. 30,208 million or 27 per cent was to multilateral institutions, as compared with Rs. 23,983 million or 28 per cent at the end of the last year. Outstanding bilateral loans rose from Rs. 53,176 million in 1986 to Rs. 71,587 million in 1987, while commercial market borrowings declined from Rs. 9,049 million in 1986 to Rs. 8,251 million in 1987. This reflected the Government's policy of relying on highly concessional foreign borrowings from multilateral and bilateral sources.

Total outstanding foreign debt consisted of Rs. 68,843 million of project loans and Rs. 41,203 million on non project loans. Although the net utilization of project loans amounted to Rs. 7,595 million during 1987 the outstanding liability on this account increased by Rs. 18,425 million, owing to an additional liability arising from exchange rate changes. Meanwhile, transactions under non project loans resulted in a net repayment of Rs. 1,963 million, but the outstanding liability rose by Rs. 5,413 million owing to an additional liability of Rs. 7,376 million arising from exchange rate variations.

Government Debt Service

Service payments on government debt consisting of amortization and interest payments declined from Rs. 16,292 million in 1986 to Rs. 15,752 million in 1987. Accordingly as a percentage of GDP, government debt service payments declined from 9 per cent in 1986 to 8 per cent in 1987.

Debt repayments on foreign loans amounted to Rs. 4,690 million, and registered a growth of 55 per cent, while interest payments amounting to Rs. 2,564 million showed an increase of 16 per cent. Accordingly, total government debt service payments on foreign debt at Rs. 7,254 million were an increase of 39 per cent over the previous year.

Meanwhile, government domestic debt repayments dropped from Rs. 4,505 million in 1986 to Rs. 902 million in 1987, while interest payments increased from Rs. 6,553 million to Rs. 7,595 million. Accordingly, total debt service payments on domestic debt showed a decline of 23 per cent over the previous year. The substantial reduction in the domestic debt repayments was a result of an uneven maturity pattern reflected in the rupee loans programme being reflected in 1987.