

GOVERNMENT FINANCE*

According to provisional data, the Budget for 1988 revealed a current account deficit of Rs. 6,031 million (2.7 per cent of GDP), in sharp contrast to the originally anticipated surplus of Rs. 5,677 million (or 2.5 per cent of GDP). Meanwhile, the overall budgetary operations during the year resulted in a deficit (before grants) of Rs. 33,854 million (or 15 per cent of GDP), as against Rs. 26,309 million (11.6 per cent of GDP) targetted in the approved budget estimates. Consequently, the resource utilization from expansionary sources for financing the deficit increased to Rs. 9,078 million (4.1 per cent of GDP) from an originally budgeted amount of Rs. 2,576 million (1.1 per cent of GDP). Hence, fiscal performance during 1988 showed a considerable deviation from the original estimates for the year.

Fiscal performance in 1988 also showed a considerable deterioration compared to the performance in the previous year. The current account, which generated a surplus of Rs. 2,585 million (1.3 per cent of GDP) in 1987, produced a deficit of Rs. 6,031 million (2.7 per cent of GDP) in 1988. A budget deficit (before grants) of Rs. 21,749 million (11 per cent of GDP) in 1987, rose to Rs. 33,854 million (15 per cent of GDP) in 1988. Fiscal operations in 1988 also showed a heavy reliance on bank borrowings to finance the deficit. The financing from banking sources amounted to Rs. 9,078 million (4.1 per cent of GDP) in 1988, as compared with Rs. 3,541 million (1.8 per cent of GDP) in 1987.

The deterioration in fiscal out-turn in 1988 was the outcome of several factors. First, the slow economic growth and unsettled conditions in the country resulted in a lower collection from a number of revenue sources, such as turnover taxes on manufacturing activities and excise duties on tobacco and income taxes. Second, the increased commitments on account of personal emoluments, interest payments, food stamps, drought relief and security related outlays led to a substantial expansion in current expenditure of the government. Third, the advance account operations under food purchase and distribution account resulted in a substantial increase in government outlays. Fourth, despite a high proportion of under expenditure on account of rehabilitation and reconstruction works, a large number of supplementary capital expenditure provisions for on-going projects was permitted without due regard to the resource constraint.

The combined effect of these developments was the expansion in the budget deficit from 11 per cent of GDP in 1987 to 15 per cent of GDP in 1988, necessitating the use of a large volume of resources from the banking system to bridge the resource gap.

Fiscal Outturn

According to provisional data, government revenue in 1988 amounted to Rs. 42,149 million, while current expenditure totalled Rs. 48,180 million. Accordingly, the current account of the Budget recorded a larger deficit of Rs. 6,031 million in 1988, in contrast to a surplus of Rs. 2,585 million in the previous year. In relation to GDP, government revenue dropped substantially from 21.4 per cent in 1987 to 18.9 per cent in 1988, while current expenditure rose from 20.1 per cent to 21.6 per cent. Thus, the deterioration in the current account balance in 1988 was the combined

* The government accounts have not yet been finalised. Thus the analysis in this section is based on the provisional data available at the time of preparing this report. An analysis based on more complete data will be published in the Review of the Economy, 1988.

outcome of both a revenue shortfall and an expenditure escalation. Reflecting the poor revenue performance, the tax/GDP ratio declined from 17.9 per cent in 1987 to 16 per cent in 1988, while the non-tax revenue/GDP ratio fell from 3.6 per cent to 2.9 per cent. Meanwhile, the current expenditure on salaries and wages, as a proportion of GDP, increased from 4.1 per cent in 1987 to 4.5 per cent in 1988, while interest payments rose from 5.2 to 5.7 per cent. The transfer payments in relation to GDP also grew from 5.6 per cent in 1987 to 6.1 per cent in 1988.

Total revenue and grants at Rs. 47,877 million registered a marginal growth of 2 per cent, owing to enhanced foreign aid disbursements during 1988. The total sum of Rs. 5,728 million utilized for budgetary purposes from external grants in 1988 was 22 per cent higher than that in 1987. However, as a proportion of GDP, foreign grants used for budgetary purposes was 2.1 per cent as compared to 2.4 in 1987.

On the other hand, the capital expenditure at Rs. 21,212 million registered a decline of 7 per cent in 1988. Hence, the capital expenditure/GDP ratio, which fell from 13 per cent in 1986 to 11.6 per cent in 1987, declined further to 9.5 per cent in 1988. The decline was largely due to the inability in implementing rehabilitation programmes earmarked for the North and East resulting from unsettled conditions in these regions.

The total expenditure, inclusive of lending minus repayments, at Rs. 76,003 million showed an increase of 19 per cent. Accordingly, the ratio of expenditure to GDP rose from 32.5 per cent in 1987 to 34.1 per cent in 1988. The drop in the capital expenditure against a substantial rise in the total expenditure reflects a considerable expansion in consumption related expenditure by the Government.

The revenue and expenditure flows revealed a deficit (before grants) of Rs. 33,854 million, which exceeded the previous year's deficit by Rs. 12,105 million. Although the use of foreign grants for budgetary purposes was stable in relation to GDP, the budget deficit (after grants) at Rs. 28,126 million showed a considerable increase of 65 per cent in 1988. Accordingly, the deficit (after grants) as a ratio of GDP rose from 8.7 per cent in 1987 to 12.6 per cent in 1988.

A sum of Rs. 7,029 million was utilized from foreign sources, largely through concessional project loans. The utilization of foreign loans for budgetary purpose during 1988 showed an increase of 23 per cent over the amount utilized in the previous year. This, in relation to GDP, grew from 2.9 per cent in 1987 to 3.2 per cent in 1988.

Although resource utilization from foreign sources increased during the year a heavy reliance was placed on domestic resources for financing the deficit. The domestic non-bank sector contributed Rs. 9,316 million for deficit financing as against Rs. 6,400 million in 1987, and as a ratio of GDP the contribution of this sector rose from 3.3 per cent in 1987 to 4.2 per cent in 1988. Meanwhile, non market sources, including Treasury deposit account operations, provided Rs. 2,703 million. The largest contribution, however, came from the banking system, which contributed Rs. 9,078 million towards bridging the resource gap in the budget in 1988. This magnitude of bank borrowings was the largest amount utilized for deficit financing purposes in recent years.

A summary of fiscal outturn is given in table 1.41.

TABLE 1.41

Summary of Government Fiscal Operations

Rs. Million

Item	1982	1983	1984	1985	1986	1987	1988 Approved Estimates	1988 Provisional	1989 Approved Estimates
Total Revenue and Grants ..	19,586	26,790	37,354	39,556	40,991	46,822	51,225	47,877	63,719
Total Revenue ..	16,210	23,317	34,061	36,249	37,238	42,145	46,225	42,149	58,119
Tax Revenue ..	14,737	19,912	29,939	30,442	31,272	35,119	39,785	35,691	47,634
Non Tax Revenue ..	1,473	3,405	4,122	5,807	5,966	7,026	6,440	6,458	10,485
Grants ..	3,376	3,473	3,293	3,307	3,753	4,677	5,000	5,728	5,600
Expenditure and Lending minus Repayments ..	33,512	39,637	47,837	55,234	59,193	63,894	72,534	76,003	92,322
Current ..	18,341	22,002	24,630	32,645	33,966	39,560	40,548	48,180	56,600
Capital ..	15,427	15,863	19,915	21,530	23,236	22,816	27,017	21,212	29,038
Lending minus repayments ..	256	1,772	3,292	1,059	1,991	1,518	4,969	6,611	6,684
Current Account Surplus/Deficit (—) ..	- 2,131	1,315	9,431	3,604	3,272	2,585	5,677	- 6,031	1,519
Budget Deficit (before grants) ..	- 17,302	- 16,320	- 13,776	- 18,985	- 21,956	- 21,749	- 26,309	- 33,854	- 34,203
Budget Deficit (after grants) ..	- 13,926	- 12,847	- 10,483	- 15,678	- 18,203	- 17,072	- 21,309	- 28,126	- 28,603
Financing ..	13,927	12,845	10,483	15,678	18,204	17,072	21,309	28,126	28,602
Foreign Borrowings ..	4,744	6,312	6,492	7,109	9,061	5,716	12,520	7,029	12,004
Domestic Borrowings ..	9,183	6,533	3,991	8,569	9,143	11,356	8,789	21,097	16,598
Non Market Borrowings ..	1,487	1,977	951	1,801	669	1,415	0	2,703	0
Market Borrowings ..	7,696	4,556	3,040	10,370	9,812	9,941	8,789	18,394	16,598
Non Bank ..	4,020	4,082	5,135	5,659	6,765	6,400	6,213	9,316	13,203
Bank ..	3,676	474	2,095	4,711	3,047	3,541	2,576	9,078	3,395

(Contd.)

TABLE 1.41

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

(Contd.)

Item	1982	1983	1984	1985	1986	1987	1988 Approved Estimates	1988 Provisional	1989 Approved Estimates
Total Revenue and Grants ..	19.8	22.0	24.3	24.4	22.8	23.8	22.6	21.5	24.0
Total Revenue ..	16.3	19.2	22.2	22.3	20.8	21.4	20.4	18.9	21.9
Tax Revenue ..	14.9	16.4	19.5	18.7	17.4	17.9	17.6	16.0	17.9
Non Tax Revenue ..	1.5	2.8	2.7	3.6	3.3	3.6	2.8	2.9	4.0
Grants ..	3.4	2.9	2.1	2.0	2.1	2.4	2.2	2.6	2.1
Expenditure and Lending minus Repayments	33.8	32.6	31.1	34.0	33.0	32.5	32.0	34.1	34.8
Current ..	18.5	18.1	16.0	20.1	18.9	20.1	17.9	21.6	21.3
Capital ..	15.6	13.0	13.0	13.3	13.0	11.6	11.9	9.5	10.9
Lending minus repayments ..	0.3	1.5	2.1	0.7	1.1	0.8	2.2	3.0	2.5
Current Account Surplus/Deficit (-) ..	- 2.1	1.1	6.1	2.2	1.8	1.3	2.5	- 2.7	0.6
Budget Deficit (before grants) ..	- 17.4	- 13.4	- 9.0	- 11.7	- 12.2	- 11.1	- 11.6	- 15.2	- 12.9
Budget Deficit (after grants) ..	- 14.0	- 10.6	- 6.8	- 9.7	- 10.1	- 8.7	- 9.4	- 12.6	- 10.8
Financing ..	14.0	10.6	6.8	9.7	10.1	8.7	9.4	12.6	10.8
Foreign Borrowings ..	4.8	5.2	4.2	4.4	5.1	2.9	5.5	3.2	4.5
Domestic Borrowings ..	9.3	5.4	2.6	5.3	5.1	5.8	3.9	9.5	6.3
Non Market Borrowings ..	1.5	1.6	0.6	1.1	0.4	0.7	0.0	1.2	0.0
Market Borrowings ..	7.8	3.7	2.0	6.4	5.5	5.1	3.9	8.2	6.3
Non-Bank ..	4.1	3.4	3.3	3.5	3.8	3.3	2.7	4.2	5.0
Bank ..	3.7	0.4	1.4	2.9	1.7	1.8	1.1	4.1	1.3

(117)

Source : Central Bank of Sri Lanka.

Revenue

Government revenue in 1988 amounted to Rs. 42,149 million, almost the same amount as in the previous year. Tax revenue at Rs. 35,691 million reflected a marginal growth of 2 per cent and accounted for 85 per cent of the total revenue in 1988, in comparison to 83 per cent contributed in the previous year. Taxes on domestic goods and services formed 48 per cent of the tax revenue, as compared to 45 per cent in the previous year. Meanwhile, the contribution of the international trade oriented taxes dropped from 37 per cent of the tax revenue in 1987 to 35 per cent in 1988. The share of income taxes in the total tax revenue declined marginally from 14 per cent in 1987 to 13 per cent in 1988, whereas the revenue from taxes on property transactions remained at 4 per cent, as in the previous year. Central Bank profits transfer, operating surplus of the Department of Telecommunications and interest income continued to be the largest sources of non-tax revenue in 1988. These three sources together contributed nearly 69 per cent of the non-tax revenue in 1988, as compared to 62 per cent in 1987.

Receipts from domestic taxes on goods and services totalling Rs. 17,063 million in 1988, showed an increase of 9 per cent, as compared to 6 per cent growth in the previous year. Despite the unsettled conditions in the country, revenue from domestic taxes on goods and services showed some improvement, owing to higher prices and upward revisions in excise duties and turnover tax rates on selected items. The revenue collection from turnover taxes, which accounted for nearly three-fourths of the total tax revenue from domestic goods and services, rose by 16 per cent, in comparison to a 5 per cent increase in the previous year. Despite an 11 per cent growth in the value of output in manufacturing activities, turnover tax collection from these activities declined by 2 per cent, as compared to a 12 per cent increase in the previous year. The decline in revenue collection from these activities was a result of the exemption granted to these manufacturers as their liquidity position was affected by disruption. Reflecting a satisfactory performance in the services sector, particularly services such as banking and finance, the turnover tax collection from non manufacturing activities grew by 39 per cent in 1988. The yield from turnover taxes on imports showed an expansion of 18 per cent, owing to a substantial increase in the value of imports during the year.

Revenue from excise taxes at Rs. 4,443 million accounted for about a fourth of tax revenue from domestic goods and services in 1988. Despite the upward revisions in excise duties on tobacco, the revenue collection from this source registered a decline of 15 per cent due to the shortfall in the volume of sales resulting from both labour disputes and unsettled conditions in the country. However, revenue collection from excise duty on liquor at Rs. 1,839 million recorded an increase of 12 per cent, as compared to an 11 per cent rise in the previous year. The increase was entirely due to the upward revisions in duty rates effected during the year.

Revenue raised through international trade oriented taxes during 1988 amounted to Rs. 12,442 million. This was a decline of 4 per cent, in comparison to an increase of 17 per cent in the previous year. Despite an increase in the volume of imports in 1988, revenue from import duties in 1988 at Rs. 10,610 million showed a decline of

TABLE 1.42
Summary of Revenue by Component

	Rs. Million								
Item	1982	1983	1984	1985	1986	1987	1988 Approved Estimates	1988 Provisional	1989 Approved Estimates
Tax Revenue	14,737	19,912	29,939	30,442	31,272	35,119	39,785	35,691	47,634
Income Taxes	2,923	3,366	5,480	5,586	4,787	4,909	4,865	4,746	5,977
Personal	808	891	1,760	1,424	1,513	1,580	1,440	1,532	1,767
Corporate	2,115	2,475	3,720	4,162	3,274	3,329	3,425	3,214	4,210
Taxes on Property	322	397	489	499	648	1,568	1,553	1,440	2,370
Taxes on Goods and Services	6,320	8,710	10,888	13,359	14,787	15,667	18,707	17,063	22,072
General Sales and Turnover Tax	4,052	6,224	8,143	10,189	10,088	10,611	12,450	12,301	14,560
Manufacturing	1,806	2,718	3,045	3,768	3,270	3,675	3,740	3,615	4,811
Non Manufacturing	1,524	1,891	1,928	2,590	2,415	2,426	2,910	3,375	3,330
Imports	722	1,615	3,170	3,831	4,403	4,510	5,800	5,311	6,419
Excise Tax	2,123	2,298	2,551	2,982	4,414	4,716	5,922	4,443	7,132
Liquor	808	867	1,013	1,104	1,485	1,644	2,040	1,839	2,328
Tobacco	1,315	1,431	1,537	1,877	2,927	3,071	3,880	2,603	4,802
Licence Fees	145	188	194	188	285	340	335	319	380
Tax on International Trade	5,172	7,439	13,082	10,998	11,050	12,975	14,660	12,442	15,915
Imports ^{1/}	2,538	4,047	6,670	8,093	9,414	11,051	12,445	10,610	13,900
Exports	2,634	3,392	6,412	2,905	1,636	1,924	2,215	1,832	2,015
Tea	1,594	2,222	5,004	2,214	996	1,152	1,305	875	470
of which : ad valorem	150	932	3,236	1,032	62	262	550	267	200
Rubber	753	852	1,009	254	307	530	725	842	1,250
Coconut	191	241	297	342	232	148	110	67	125
Other exports	96	77	102	95	101	94	75	48	170
Other taxes not elsewhere classified	—	—	—	—	—	—	—	—	1,300
Non Tax Revenue	1,473	3,405	4,122	5,807	5,966	7,026	6,440	6,458	10,485
Property Income	777	2,605	3,085	3,926	4,731	4,541	4,556	4,575	6,530
of which : Central Bank profits	—	1,500	1,650	1,500	1,779	1,723	1,650	1,650	3,700 ^(a)
Interest Income	243	492	367	1,186	1,560	1,404	1,150	1,451	1,326
Surplus of Trading Enterprises	327	356	692	666	803	1,229	1,638	1,338	1,375
Fees and charges	186	202	265	364	347	344	460	390	597
Other non tax revenue ^{2/}	510	597	772	1,517	888	2,151	1,424	1,493	3,358
Total Revenue	16,210	23,317	34,061	36,249	37,238	42,145	46,225	42,149	58,119

1/ Net of import duty rebates.

2/ Includes sales of capital goods.

^(a) Includes a sum of Rs. 1,700 million being non-refundable tax on Treasury bills held by the Central Bank.

(Contd.)

TABLE 1.42

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

(Contd.)

Item	1982	1983	1984	1985	1986	1987	1988 Approved Estimates	1988 Provisional	1989 Approved Estimates
Tax Revenue	14.9	16.4	19.5	18.7	17.4	17.9	17.6	16.0	17.9
Income Taxes	2.9	2.8	3.6	3.4	2.7	2.5	2.1	2.1	2.3
Personal	0.8	0.7	1.1	0.9	0.8	0.8	0.6	0.7	0.7
Corporate	2.1	2.0	2.4	2.6	1.8	1.7	1.5	1.4	1.6
Taxes on Propetry	0.3	0.3	0.3	0.3	0.4	0.8	0.7	0.6	0.9
Taxes on Goods and Services	6.4	7.2	7.1	8.2	8.2	8.0	8.3	7.7	8.3
General Sales and Turnover Tax	4.1	5.1	5.3	6.3	5.6	5.4	5.5	5.5	5.5
Manufacturing	1.8	2.2	2.0	2.3	1.8	1.9	1.7	1.6	1.8
Non Manufacturing	1.5	1.6	1.3	1.6	1.3	1.2	1.3	1.5	1.3
Imports	0.7	1.3	2.1	2.4	2.5	2.3	2.6	2.4	2.4
Excise Tax	2.1	1.9	1.7	1.8	2.5	2.4	2.6	2.0	2.7
Liquor	0.8	0.7	0.7	0.7	0.8	0.8	0.9	0.8	0.9
Tobacco	1.3	1.2	1.0	1.2	1.6	1.6	1.7	1.2	1.8
Licence Fees	0.1	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Taxes on International Trade	5.2	6.1	8.5	6.8	6.2	6.6	6.5	5.6	6.0
Imports	2.6	3.3	4.3	5.0	5.2	5.6	5.5	4.8	5.2
Exports	2.7	2.8	4.2	1.8	0.9	1.0	1.0	0.8	0.8
Tea	1.6	1.8	3.3	1.4	0.6	0.6	0.6	0.4	0.2
of which: ad valorem	0.2	0.8	2.1	0.6	...	0.1	0.2	0.1	0.1
Rubber	0.8	0.7	0.7	0.2	0.2	0.3	0.3	0.4	0.5
Coconut	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Other exports	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Other Taxes not elsewhere classified	—	—	—	—	—	—	—	—	0.5
Non tax Revenue	1.5	2.8	2.7	3.6	3.3	3.6	2.8	2.9	4.0
Property Income	0.8	2.1	2.0	2.4	2.6	2.3	2.0	2.1	2.5
of which: Central Bank profits	—	1.2	1.1	0.9	1.0	0.9	0.7	0.7	1.4
Interest Income	0.2	0.4	1.2	0.7	0.9	0.7	0.5	0.7	0.5
Surplus of Trading Enterprises	0.3	0.3	0.5	0.4	0.4	0.6	0.7	0.6	0.5
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	0.5	0.5	0.5	0.9	0.5	1.1	0.6	0.7	1.3
Total Revenue	16.3	19.2	22.2	22.3	20.8	21.4	20.4	18.9	21.9

Source : Central Bank of Sri Lanka.

4 per cent, owing to the downward revisions in duties on selected items such as motor cycles and motor scooters, liquor, tobacco, cement, etc. and exemption of some essential consumer items such as wheat grain, milk powder, dhal, etc. from import duties. Accordingly, the average import duty rate declined from 18 per cent in 1987 to 15 per cent in 1988. Taxes based on exports yielded Rs. 1,832 million and reflected a decline of 5 per cent over the amount collected in the previous year. Revenue from the specific duty on tea exports declined by 32 per cent, owing to a reduction in duty rates, while the collection from export duties on rubber improved by 59 per cent owing to favourable prices. Meanwhile, revenue from export duty on coconut recorded a substantial decline of 55 per cent, primarily owing to a decline in the volume of exports during the year.

Revenue from income taxes of both corporate and personal tax payers at Rs. 4,746 million registered a decline of 3 per cent over the previous year's revenue of Rs. 4,909 million. The decline in the income tax receipts in 1988 was largely due to the collection delays resulting from unsettled conditions that prevailed in the country especially during the last quarter of the year.

A statistical summary of government revenue is given in Table 1.42.

Current Expenditure

Total current expenditure in 1988 amounted to Rs. 48,180 million. This was an increase of 22 per cent over the previous year's current expenditure of Rs. 39,560 million. As in the previous year, the current expenditure accounted for about three-fifths of the total expenditure in 1988. The expenditure on goods and services amounting to Rs. 21,916 million formed 45 per cent of the current expenditure, while transfer payments to households, corporations and other levels of government institutions totalling Rs. 13,519 million accounted for 28 per cent. The total interest payments on government debt amounted to Rs. 12,745 million and formed about 26 per cent of the current expenditure in 1988.

Of the total expenditure on goods and services, Rs. 10,086 million was on account of salaries and wages of government employees. Expenditure on salaries and wages which accounted for 21 per cent of the total current expenditure in 1988 showed a growth of 26 per cent, largely owing to the salary increases effected in 1988. The outlays on other goods and services at Rs. 11,830 million registered a growth of 13 per cent, primarily owing to increased outlays on security related activities.

The transfer payments totalling Rs. 13,519 million in 1988 showed an increase of 24 per cent, as compared with a 9 per cent rise in the previous year. Pension payments at Rs. 4,057 million increased by 25 per cent. The current transfers on account of food and kerosene stamps and drought relief amounted to Rs. 4,223 million, as

TABLE 1.43

Economic Classification of Expenditure and Lending Minus Repayments

Rs. Million.

Item	1982	1983	1984	1985	1986	1987	1988 Approved Estimates	1988 Provisional	1989 Approved Estimates
Current Expenditure	18,341	22,002	24,630	32,645	33,967	39,560	40,548	48,180	56,682
Expenditure on Goods and Services	6,500	7,848	9,195	16,287	15,155	18,466	19,129	21,916	24,329
Salaries and wages	4,561	4,811	5,554	6,878	8,028	8,006	10,001	10,086	12,437
Other goods and services	1,940	3,037	3,642	9,409	7,127	10,460	9,128	11,830	11,892
Interest Payments	5,104	6,606	6,738	7,428	8,762	10,157	11,962	12,745	13,499
Foreign	915	1,270	1,623	1,970	2,209	2,564	3,199	3,305	3,265
Domestic	4,189	5,336	5,115	5,458	6,553	7,593	8,763	9,440	10,234
Transfer Payments	6,736	7,548	8,697	8,929	10,050	10,937	10,497	13,519	20,385
Public Enterprises	1,232	1,768	1,762	882	2,350	1,722	1,736	2,189	2,532
Other Levels of Government	317	388	444	501	600	609	833	833	939
Households	5,187	5,392	6,491	7,546	7,100	8,606	7,928	10,497	16,914
Under expenditure	—	—	—	—	—	—	1,040	—	-1,531
Capital Expenditure	15,427	15,863	19,915	21,530	23,236	22,816	27,017	21,212	25,960
Acquisition, construction and maintenance of Real assets	4,829	5,375	5,849	7,375	7,788	10,970	15,532	7,148	13,716
Capital Transfers	10,598	10,488	14,066	14,155	15,488	11,846	11,489	14,064	11,311
Public Enterprises	10,591	10,422	13,681	13,441	14,874	11,198	10,729	13,203	9,429
Other levels of government	167	317	198	481	472	571	672	773	1,689
Other	15	11	44	26	101	77	88	88	193
Other	- 176	- 262	143	207	—	0	0	0	2,800
Under expenditure	—	—	—	—	—	—	4	—	-1,867
Lending Minus Repayment	256	1,772	3,292	1,059	1,991	1,518	4,969	6,611	7,009
Advance Account	879	1,120	2,917	314	- 170	- 1,180	100	1,750	400
Lending to Corporations	720	801	901	997	2,669	3,159	5,324	5,324	7,160
Repayment of Loans	97	- 149	- 526	- 252	- 508	- 461	- 455	- 463	- 551
Total Expenditure and Lending minus repayments	33,512	39,637	47,837	55,234	59,194	63,894	72,534	76,003	89,651

Source : Central Bank of Sri Lanka.

compared with Rs. 2,925 million in the previous year. The increase was largely due to the additional assistance provided to the people in drought affected areas through drought relief and enhanced food stamp benefits. Meanwhile, current transfers made to public enterprises in 1988 was Rs. 2,425 million. This showed an increase of about 41 per cent, owing to higher operational losses, particularly in utility services such as the Railways and the Postal Department, resulting from wage increases and disruptions to these services.

Interest payments on government debt in 1988 amounted to Rs. 12,745 million, as compared with Rs. 10,157 million in 1987. The interest payments on domestic debt at Rs. 9,440 million recorded an increase of 24 per cent, while those on foreign debt at Rs. 3,305 million registered a growth of 29 per cent. Interest payments on rupee loans, at Rs. 5,257 million, registered an increase of 6 per cent and accounted for 56 per cent of total interest payments on domestic debt. Meanwhile, interest payments on Treasury bills amounting to Rs. 4,198 million reflected an increase of 36 per cent, owing to both an enhanced volume of borrowings through Treasury bills and a rise in the Treasury bill rate, especially during the last quarter of the year.

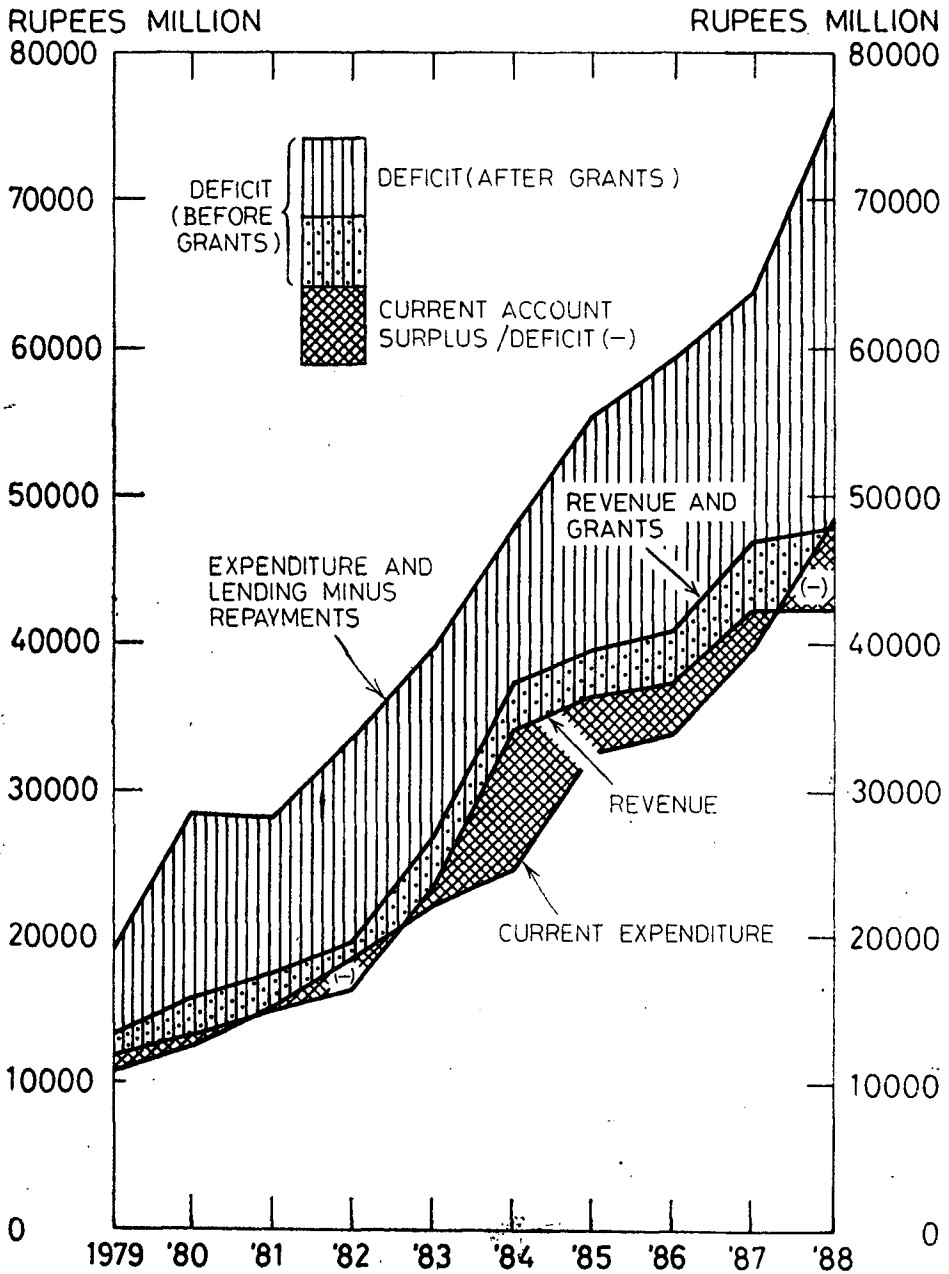
Capital Expenditure

Capital expenditure amounted to Rs. 21,212 million, as compared to Rs. 27,017 million provided in the approved budget estimates for 1988. In comparison to the previous year, capital expenditure in 1988 showed a decline of 7 per cent. Accordingly, government capital formation as a proportion of GDP declined from 11.6 per cent in 1987 to 9.5 per cent in 1988. The decline in capital expenditure during 1988 was largely due to the under expenditure on account of rehabilitation and reconstruction work resulting from unsettled security conditions.

Capital projects directly sponsored by government departments and ministries absorbed a sum of Rs. 7,503 million, or 35 per cent of the total capital expenditure incurred in 1988. The major investment activities undertaken by these agencies comprised land development, major irrigation rehabilitation projects, development of the telecommunication net work and the construction of buildings for general and teacher education.

The capital investment undertaken by public enterprises amounted to Rs. 13,203 million or about 62 per cent of the total capital expenditure in 1988. Of this, nearly 70 per cent of the investment was undertaken by four agencies namely, Mahaweli Development Authority (Rs. 5,050 million), Airports and Aviation Ltd. (Rs. 1,943 million), Water Supply and Drainage Board (Rs. 1,056 million) and the Road Development Authority (Rs. 895 million). The investments by these agencies were entirely on on-going infrastructural development activities.

TRENDS IN FISCAL MAGNITUDES



Lending Minus Repayments

The lending minus repayments during the year amounted to Rs. 6,611 million, as compared with Rs. 1,518 million in 1987. Of this, a sum of Rs. 1,750 million was on account of advance account operations, which resulted in net outpayments arising from the Food Commissioner's operations. A sum of Rs. 5,324 million was provided to a number of corporations in the form of loans. Of this, Rs. 3,901 million was to the Ceylon Electricity Board for the continuing development activities of Samanalawewa and the Rantembe Power Projects and several transmission and distribution projects. Other noteworthy borrowers were the State Plantations Corporation (Rs. 373.2 million) and the Janatha Estate Development Board (Rs. 463.2 million).

A statistical summary of government expenditure and lending minus repayments is given in table 1.43.

Financing of the Budget Deficit

The budget deficit (after grants) in 1988 amounted to Rs. 28,126 million, as against an originally targetted deficit of Rs. 21,309 million. The deficit in the previous year was Rs. 17,072 million. The total resources available from foreign sources and domestic non-bank sources was Rs. 19,048 million, thus leaving a resource gap of Rs. 9,078 million in 1988, which had to be financed from banking sources.

The net foreign borrowings at Rs. 7,029 million, registering an increase of 23 per cent, accounted for a fourth of resources utilized for deficit financing in 1988. Although the original budget estimates anticipated to utilize a sum of Rs. 12,520 million by foreign borrowings or approximately 60 per cent of the approved budget deficit, the actual utilization was much lower owing to a substantial level of under expenditure on account of rehabilitation and reconstruction work programmed for the year.

The non market borrowings amounted to Rs. 2,703 million. This was mobilized through Treasury deposit account operations. Although it has been recognised that the creation of liabilities through Treasury deposit accounts was an unhealthy feature of fiscal management, the 1988 fiscal operations showed an enhanced use of these accounts.

Market borrowings in 1988 at Rs. 18,394 million was an increase of 85 per cent over the amount borrowed in the previous year. This comprised Rs. 9,316 million from non-bank sources and Rs. 9,078 million from bank sources. Rupee securities to a large extent and Treasury bills to an appreciable degree were instrumental in mobilizing resources from non bank sources. The resources mobilized through rupee securities amounted to Rs. 4,840 million, while sinking fund transfers provided a further sum of Rs. 1,239 million. Resources mobilized from non-bank sources through Treasury bills totalled Rs. 2,601 million, as against Rs. 282 million obtained in the previous year. The traditional captive sources, viz. the Employees' Provident Fund (EPF) and the National Savings Bank (NSB) continued to be the principal subscribers to rupee securities in 1988.

The gross resources mobilized from the banking system in 1988 totalled Rs. 11,289 million. However, on account of a repayment of Rs. 251 million to the banking system and a build-up of deposits amounting to Rs. 1,960 million during the year, the

net borrowings from the banking system were Rs. 9,078 million. Of this, a sum of Rs. 926 million was through Central Bank's provisional advances. The transactions under Central Bank provisional advances in the previous year resulted in a net repayment of Rs. 40 million. The large bulk of the borrowings from the Central Bank during the year was through the issue of Treasury bills. The gross amount so borrowed was Rs. 9,357 million.

Government Debt

The outstanding government debt at the end of 1988 stood at Rs. 223,002 million. This was an increase of Rs. 32,193 million, or 17 per cent over the outstanding amount of Rs. 190,809 million, a year ago. The outstanding domestic debt increased by 25 per cent to Rs. 98,594 million, while the foreign debt rose by 11 per cent to Rs. 124,408 million. Medium and long term debt accounted for 51 per cent of the outstanding domestic debt in 1988, as compared to 57 per cent in the previous year. Meanwhile, long-term concessional loans formed 92 per cent of foreign debt in 1988, as compared to 90 per cent in 1987. The composition of government debt by type of debt holder and by type of debt instrument are given in tables 1.44 and 1.45.

The outstanding liability on account of domestic debt at Rs. 98,594 million accounted for 44 per cent of the total debt at the end of 1988. In the previous year, domestic debt formed 42 per cent of the total government debt. The non-bank sector's holding of the outstanding debt amounting to Rs. 56,085 million, registered an increase of 16 per cent in 1988, as compared to a growth of 15 per cent in 1987. Meanwhile, the banking sector's holding of outstanding domestic debt at Rs. 42,347 million at the end of the year, reflected an expansion of 39 per cent, as compared to a 12 per cent increase in the previous year. The outstanding debt held by the banking sector as a ratio of the total outstanding domestic debt rose from 39 per cent in 1987 to 43 per cent in 1988. Medium and long term (maturity of more than one year) domestic debt at the end of the year totalled Rs. 49,959 million, while the short term (maturity of less than a year) debt amounted to Rs. 48,635 million. Accordingly, outstanding medium and long term domestic debt grew by 11 per cent, while the short term debt increased by 44 per cent. Hence, the share of short term debt in the total domestic debt rose from 43 per cent in 1987 to 49 per cent in 1988, the result of heavy borrowings through Treasury bills during the year. Accordingly, authorised limit of Treasury bills outstanding had to be raised on several occasions. It was raised from Rs. 35,000 million to Rs. 40,000 million as from 21st August, 1988, then to Rs. 45,000 million on 25th October, and subsequently to Rs. 55,000 million as from 7th December, 1988.

Rupee securities formed almost the entire medium and long term domestic debt. The outstanding liabilities on account of rupee securities at the end of the year of Rs. 49,797 million registered a growth of 11 per cent, as compared with a 15 per cent expansion in the previous year. During the year under review, a total sum of Rs. 10,000 million was raised through rupee securities, as against Rs. 7,000 million in 1987. However, the outstanding liability on account of rupee loans rose by only Rs. 4,840 million, as repayments of rupee loans during the year amounted to Rs. 5,160 million.

TABLE 1.44
Outstanding Government Debt by Holder

Item	Amount (Rupees Million)					Percentage Change in the Outstanding				
	1984	1985	1986	1987	1988*	1984	1985	1986	1987	1988*
1. Domestic	51,651	62,611	69,499	78,997	98,594	- 0.2	21.2	11.0	13.7	24.8
1.1 Market	51,555	62,492	69,352	78,816	98,432	...	21.2	11.0	13.6	24.9
1.1.1 Non - Bank	33,783	37,338	42,159	48,312	56,085	9.0	10.5	12.9	14.6	16.1
1.1.2 Bank	17,772	25,154	27,193	30,504	42,347	-13.6	41.5	8.1	12.2	38.8
1.2 Non - Market	96	119	147	181	162	-51.0	23.3	24.0	22.8	-10.5
2. Foreign	53,681	67,673	86,208	111,812	124,408	16.6	26.1	27.4	29.7	11.2
2.1 Multi - lateral	16,131	19,512	23,983	31,113	36,079	25.7	21.0	22.9	29.7	15.9
2.2 Bilateral	30,181	39,956	53,176	69,722	78,209	9.5	32.4	33.1	31.1	12.2
2.3 Financial Markets	7,369	8,205	9,049	10,976	10,120	31.1	11.3	10.3	21.3	- 7.8
Total	105,332	130,284	155,707	190,809	223,002	7.7	23.7	19.5	22.5	16.9

* Provisional

Source : Central Bank of Sri Lanka.

TABLE 1.45

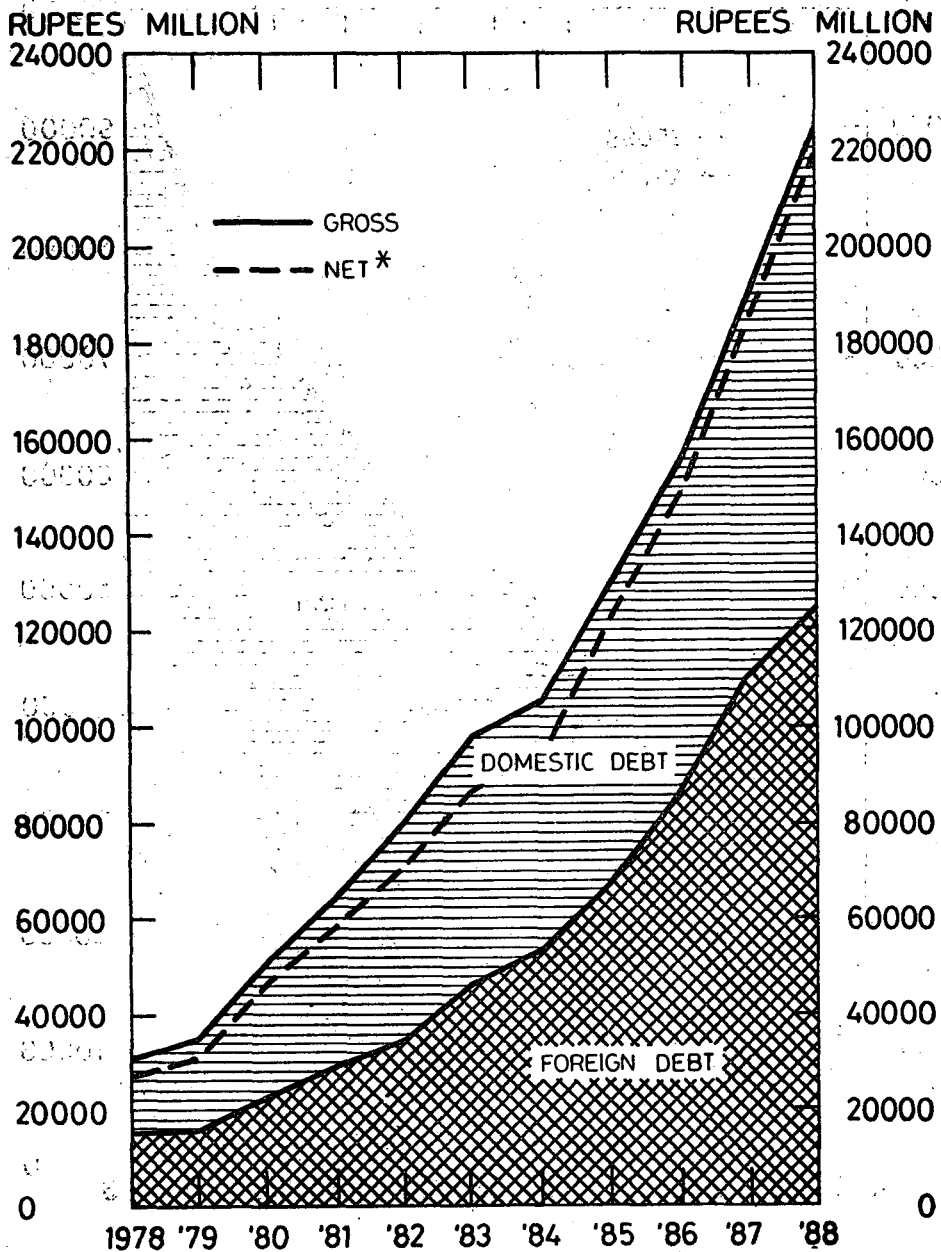
Government Debt by Debt Instrument

Item	Outstanding Amount (Rupees Million)					Percentage Change in the Outstanding				
	1984	1985	1986	1987	1988*	1984	1985	1986	1987	1988*
1. Domestic Debt	51,652	62,611	69,499	78,997	98,594	- 0.2	21.2	11.0	13.7	24.8
1.1 Medium and Long-term	33,324	36,689	39,277	45,138	49,959	3.7	10.1	7.1	14.9	10.7
1.1.1 Rupee Loans	33,228	36,570	39,130	44,957	49,797	4.0	10.1	7.0	14.9	10.8
1.1.2 Administrative Borrowing	96	119	147	181	162	- 51.0	23.4	23.9	23.1	- 10.5
1.2 Short-term	18,328	25,922	30,222	33,859	48,635	- 6.6	41.4	16.6	12.0	43.6
1.2.1 Treasury Bills	14,860	22,280	26,173	29,850	43,700	- 14.6	49.9	17.5	14.0	46.4
1.2.2 Tax Reserve Certificates	10	9	9	9	9	- 3.0	- 10.0	—	—	—
1.2.3 Central Bank Advances	3,458	3,633	4,040	4,000	4,926	56.5	5.1	11.2	—	23.1
2. Foreign Debt	53,681	67,673	86,208	11,812	124,408	16.6	26.1	27.4	29.7	11.2
2.1 Project Loans	25,971	36,406	50,418	72,945	85,176	33.0	40.2	38.5	44.7	16.8
2.2 Commodity	18,426	22,373	27,766	32,682	35,206	3.0	21.4	24.1	17.7	7.7
2.3 Other	9,284	8,894	8,024	6,185	4,026	7.9	- 4.2	- 9.8	- 22.9	- 34.9
Total	105,333	130,284	155,707	190,809	223,002	7.7	23.7	19.5	22.5	16.9

* Provisional

Source : Central Bank of Sri Lanka.

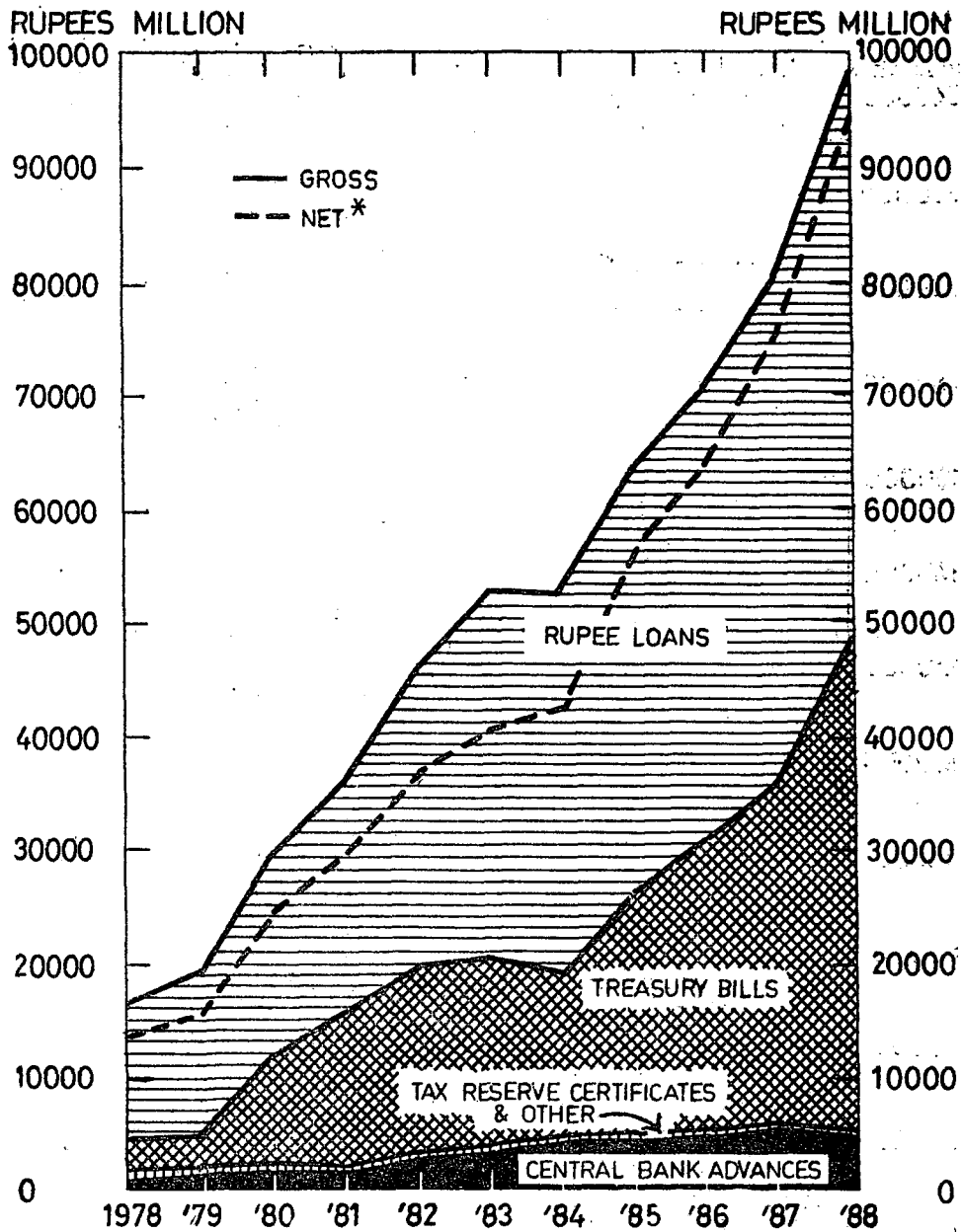
COMPOSITION OF GOVERNMENT DEBT



* Gross Government debt less sinking funds.

Central Bank of Sri Lanka.

COMPOSITION OF DOMESTIC DEBT



* Gross Domestic debt less sinking funds.

Central Bank of Sri Lanka.

The Employees' Provident Fund (EPF) investing Rs. 6,163 million in rupee securities, continued to be the largest single subscriber to the rupee loan programme. The investment made by the EPF in rupee loans during 1988 registered an increase of 46 per cent, as against a decline of 17 per cent in the previous year. The National Savings Bank (NSB) subscribed Rs. 3,339 million or 33 per cent of the total resources raised through the rupee loan programme in 1988. This was an increase of 59 per cent over the investment made in the previous year. The investment in rupee securities by other sources declined from Rs. 676 million in 1987 to Rs. 498 million in 1988, mainly due to enhanced investment on Treasury bills by these sources in response to high interest rates.

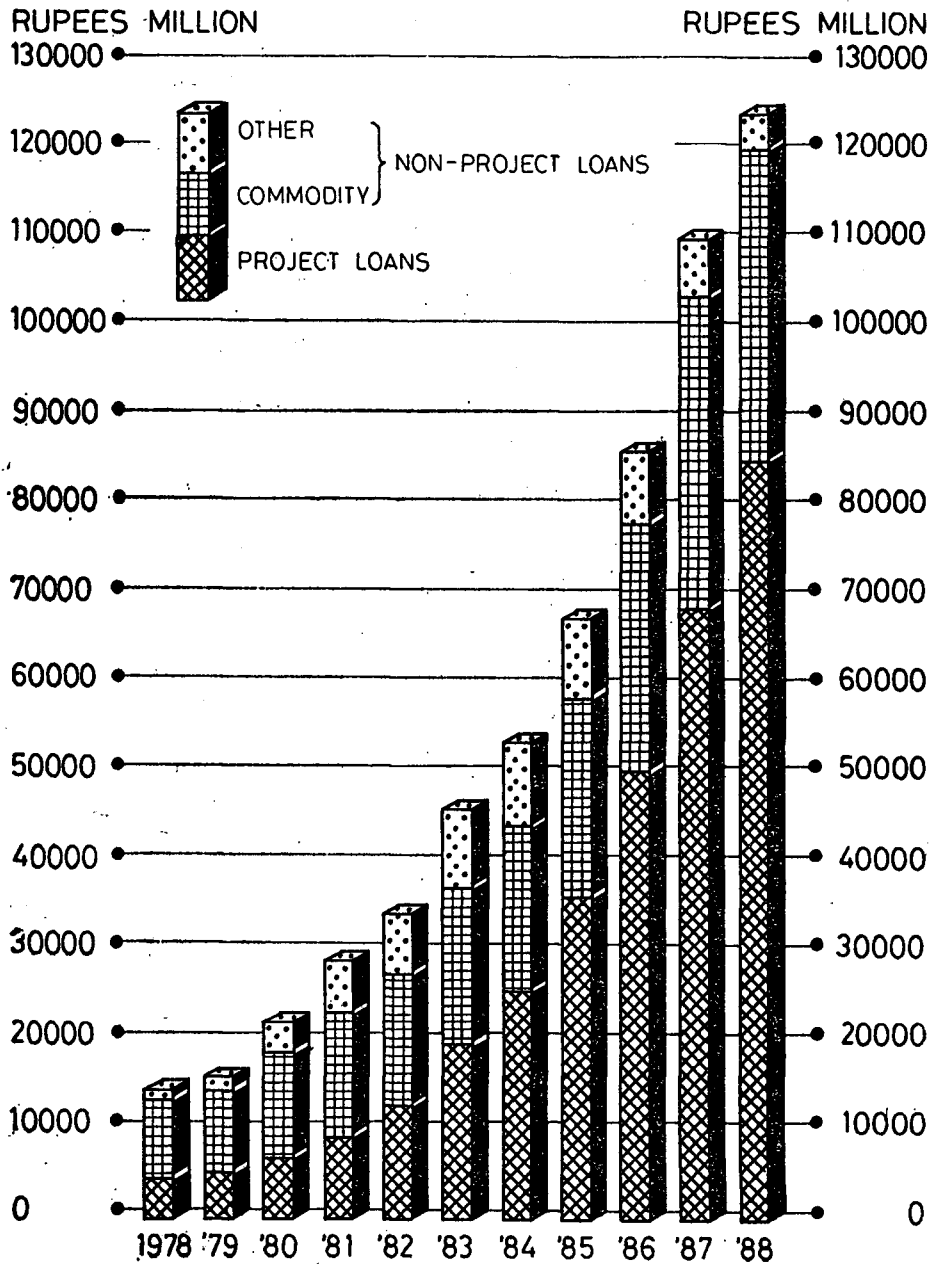
Resources raised by the issue of Treasury bills, the principal instrument of short term borrowing, amounted to Rs. 13,850 million, as compared with Rs. 3,677 million in 1987. The banking system subscribed Rs. 11,249 million to Treasury bills, as against Rs. 3,509 million in the previous year. The outstanding liability on account of Treasury bills at the end of the year amounted to Rs. 43,700 million, as compared to Rs. 29,850 million a year ago. Meanwhile the banking sector's holding of Treasury bills at the end of 1988 amounted to Rs. 36,902 million, as against Rs. 25,653 million in 1987.

Government borrowings through Central Bank's provisional advances during 1988 amounted to Rs. 926 million. Accordingly, the outstanding liability on this account rose from Rs. 4,000 million at the end of previous year to Rs. 4,926 million at the end of 1988.

The outstanding foreign debt of Rs. 124,408 million registered an increase of 11 per cent over the outstanding debt of Rs. 111,812 million at the end of 1987. Reflecting a relatively slow growth in the external debt, the share of foreign debt in the total debt dropped, from 59 per cent in 1987 to 56 per cent in 1988. Although the net foreign borrowings for budgetary purposes during the year amounted to Rs. 7,029 million, the outstanding foreign debt at the end of the year showed an increase of Rs. 12,575 million, owing to an additional liability of Rs. 5,546 million, arising from exchange rate variations. The outstanding multilateral loans, accounting for 29 per cent of the total foreign loans, rose by 16 per cent to Rs. 36,079 million. Meanwhile, the outstanding obligation of Rs. 78,209 million on account of bilateral loans reflected an increase of 12 per cent. Bilateral loans formed 63 per cent of the outstanding foreign obligations at the end of the year.

The outstanding foreign debt comprised a sum of Rs. 85,176 million of project loans and Rs. 39,232 million of non-project loans. Thus, the outstanding project loans grew by 17 per cent, while non project loans increased by a mere 1 per cent, over the respective liabilities outstanding at the end of the previous year. Although the net resources utilized through project loans during the year amounted to Rs. 8,646 million, the outstanding liability on project loans rose by Rs. 12,231 million, as there was an additional liability of Rs. 3,585 million on account of exchange rate variations. Meanwhile, transactions under non-project loans resulted in a net repayment of Rs. 1,638 million, but the outstanding liability on this account rose by Rs. 365 million owing to an additional liability of Rs. 1,983 million arising from exchange rate changes.

COMPOSITION OF FOREIGN DEBT



Government Debt Service Payments

Debt service payments, comprising amortization and interest payments, totalled to Rs. 22,769 million in 1988. This reflected an increase of 42 per cent over 1987. Thus, the total service-payments on the government debt as a proportion of GDP rose from 8 per cent in 1987 to 10 per cent in 1988.

Amortization payments on foreign debt amounting to Rs. 5,235 million registered an increase of 12 per cent, while interest payments totalling Rs. 3,262 million showed an expansion of 32 per cent. Accordingly, the total service payments on the foreign debt at Rs. 8,497 million registered an increase of 17 per cent over the previous year.

The repayments on account of domestic debt rose from Rs. 902 million in 1987 to Rs. 4,775 million, as a result of an uneven maturity pattern in the Rupee Loan Programme. The interest commitment on domestic debt at Rs. 9,455 million reflected an expansion of 18 per cent in 1988, owing to an enhanced quantum of domestic borrowing, largely through Treasury bills. Thus, the total service payments on domestic debt showed an increase of 59 per cent in 1988.