

GOVERNMENT FINANCE

OVERALL TRENDS

The fiscal outturn in 1989 turned out to be a significant improvement from the original estimates, as well as the targets set under the stabilization programme. The overall budget deficit was contained at Rs. 25,091 million (or 10.0 per cent of GDP) as compared with a targetted deficit of Rs. 31,251 million (or 12.5 per cent of GDP). The improvement was a combined effect of both increased revenue and reduced expenditure. New revenue measures introduced during the year were the key factors that contributed to an enhanced collection from major revenue sources. The government revenue/GDP ratio in 1989 was more or less at the targetted level of 21.3 per cent. Meanwhile, a greater control of public expenditure, together with low utilization of voted capital funds due to implementation difficulties resulted in a substantial reduction in government outlays. Accordingly, government's total expenditure as a proportion of GDP was maintained at 31.6 per cent, as against 33.8 per cent originally targetted. Although the current expenditure/GDP ratio at 22.0 per cent reflected a reduction from the targetted level of 22.6 per cent, it was still higher than the ratio of 20.7 per cent recorded in the previous year. However, a disconcerting feature of fiscal performance in 1989 was a sharp reduction in capital expenditure. Accordingly, capital expenditure as a ratio of GDP fell from 10.3 per cent in 1988 to 7.9 per cent in 1989 with consequent implications on the future growth prospects of the country.

In financing the deficit, domestic borrowings were contained at Rs. 12,758 million, while the resources available from foreign sources at Rs. 5,926 million were considerably lower than in the previous year. Meanwhile, in the context of a sharply reduced budget deficit, there was no necessity to have recourse to the banking system for financing the deficit. The overall budgetary performance in 1989 was a significant improvement over the previous year. The budget deficit as a ratio of GDP which was 15.6 per cent in 1988 declined to 10.0 per cent in 1989, while expansionary financing of the deficit which stood at 4.6 per cent of GDP was totally eliminated.

FISCAL OUTTURN

Government revenue in 1989 at Rs. 54,003 million showed an increase of 29 per cent, while current expenditure at Rs. 54,981 million recorded a growth of 19 per cent over the preceding year. Accordingly, the deficit on the current account of the budget was reduced to Rs. 979 million, compared with the deficit of Rs. 4,383 million recorded in the previous year. In 1989, revenue collections from major sources such as import duties, turnover taxes, excise duties were considerably higher than those from the same sources in 1988. Additional tax revenue amounting to Rs. 2,343 million was also generated from a tax imposed on Treasury bills held by the Central Bank. The growth in revenue from these sources contributed to raise the tax/GDP ratio from 16.1 per cent in 1988 to 19.0 per cent in 1989.

On the expenditure front, major current expenditure items such as salaries and wages, household transfers, pensions, and transfers to public corporations showed considerable growth during the year. Interest payments on the government debt in relation to GDP was 5.7 per cent in 1989, the same level as in the previous year. However, commitments on salaries and wages as a proportion of GDP rose to 5.2 per cent in 1989 from 4.5 per cent in 1988, while household transfers by way of food stamps, mid-day meal and Janasaviya expenditure rose from 0.9 per cent of GDP in 1988 to 1.7 per cent in 1989. Reflecting these increases, the current expenditure/GDP ratio rose to 22.0 per cent in 1989 from 20.7 per cent in the previous year.

TABLE 1.50
Summary of Government Fiscal Operations

Item	1985	1986	1987	1988	1989		Rs. Million
					Approved Estimates	Provisional	1990
							Approved Estimates
Total Revenue and Grants	39,556	40,991	46,822	48,337	61,719	60,410	68,062
Total Revenue	36,249	37,238	42,145	41,749	56,119	54,003	61,262
Tax Revenue	30,442	31,272	35,119	35,946	48,727	47,419	55,920
Non-Tax Revenue	5,807	5,966	7,026	5,803	7,392	6,584	5,342
Grants	3,307	3,753	4,677	6,588	5,600	6,407	6,800
Expenditure and Lending minus Repayments	55,234	59,193	63,894	76,532	90,322	79,093	89,861
Current	32,645	33,966	39,560	46,132	56,619	54,981	64,161
Capital	21,530	23,236	22,816	22,878	28,694	19,644	21,053
Lending minus repayments	1,059	1,991	1,518	7,522	5,009	4,468	4,647
Current Account Surplus/Deficit (-)	3,604	3,272	2,585	-4,383	-500	-979	-2,899
Budget Deficit (before grants)	-18,985	-21,956	-21,749	-34,783	-34,203	-25,091	-28,599
Budget Deficit (after grants)	-15,678	-18,203	-17,072	-28,195	-28,603	-18,684	-21,799
Financing	15,678	18,204	17,072	28,195	28,603	18,684	21,799
Foreign Borrowings	7,109	9,061	5,716	7,128	12,004	5,926	10,558
Domestic Borrowings	8,569	9,143	11,356	21,065	16,598	12,758	11,241
Non-Market Borrowings	-1,801	-669	1,415	1,413	0	229	0
Market Borrowings	10,370	9,812	9,941	19,652	16,598	12,529	11,241
Non - Bank	5,659	6,765	6,400	9,227	13,203	13,648	10,199
Bank	4,711	3,047	3,541	10,425	3,395	-1,119	1,042

(contd.)

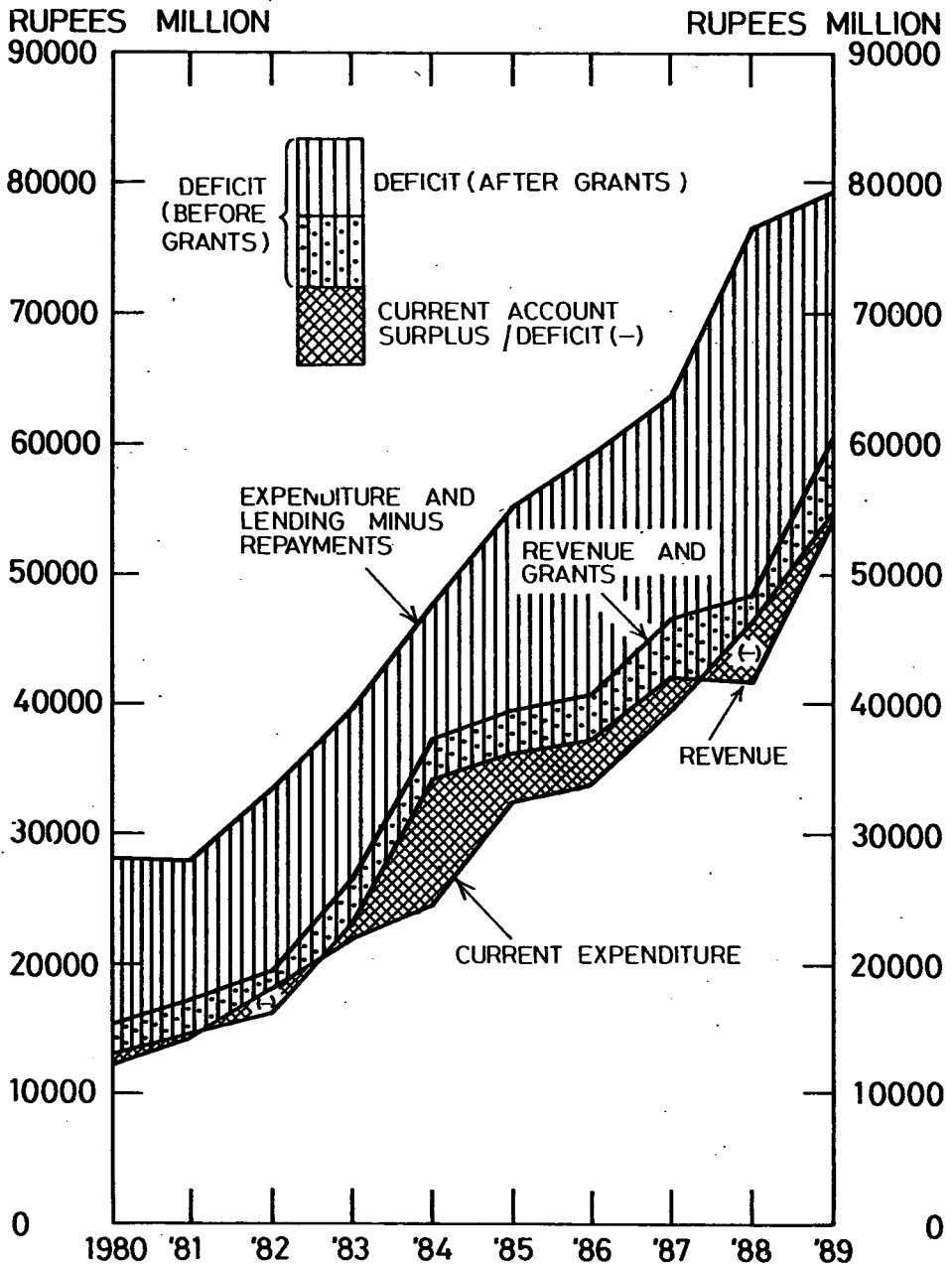
TABLE 1.50 (Contd.)

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

Item	1985	1986	1987	1988	1989		1990
					Approved Estimates	Provisional	Approved Estimates
Total Revenue and Grants	24.4	22.8	23.8	21.7	23.3	24.1	24.0
Total Revenue	22.3	20.8	21.4	18.7	21.2	21.6	21.6
Tax Revenue	18.7	17.4	17.9	16.1	18.4	19.0	19.7
Non-Tax Revenue	3.6	3.3	3.6	2.6	2.8	2.6	1.9
Grants	2.0	2.1	2.4	3.0	2.1	2.6	2.4
Expenditure and Lending minus Repayments	34.0	33.0	32.5	34.3	34.1	31.6	31.7
Current	20.1	18.9	20.1	20.7	21.4	22.0	22.4
Capital	13.3	13.0	11.6	10.3	10.8	7.9	7.6
Lending minus repayments	0.7	1.1	0.8	3.4	1.9	1.8	1.6
Current Account Surplus/Deficit (-)	2.2	1.8	1.3	-2.0	-0.2	-0.4	-0.9
Budget Deficit (before grants)	-11.7	-12.2	-11.1	-15.6	-12.9	-10.0	-10.1
Budget Deficit (after grants)	-9.7	-10.1	-8.7	-12.6	-10.8	-7.5	-7.7
Financing	9.7	10.1	8.7	12.6	10.8	7.5	7.7
Foreign Borrowings	4.4	5.1	2.9	3.2	4.5	2.4	3.7
Domestic Borrowings	5.3	5.1	5.8	9.4	6.3	5.1	4.0
Non Market Borrowings	-1.1	-0.4	0.7	0.6	0.0	0.1	0
Market Borrowings	6.4	5.5	5.1	8.8	6.3	5.0	4.0
Non-Bank	3.5	3.8	3.3	4.1	5.0	5.5	3.6
Bank	2.9	1.7	1.8	4.7	1.3	-0.4	0.4

Source : Central Bank of Sri Lanka.

TRENDS IN FISCAL MAGNITUDES



On the other hand, total capital expenditure at Rs. 19,644 million recorded a 14 per cent decline in 1989. Accordingly, capital expenditure/GDP ratio fell from 10.3 per cent in 1988 to 7.9 per cent in 1989. The decline in capital expenditure was largely due to implementation difficulties in foreign funded projects such as rehabilitation programmes and road development projects, and other capital projects on account of the unsettled conditions that prevailed during the year. Financial resources provided in the form of loans to a number of public corporations to implement specific public investment projects totalled Rs. 5,490 million in 1989 as compared to Rs. 5,093 million in the previous year. Accordingly, despite the reduction in capital expenditure of the government, total expenditure and lending minus repayment at Rs. 79,093 million recorded a marginal increase of 3 per cent over that in 1988. However, the total expenditure and lending minus repayments in relation to GDP declined to 31.6 per cent in 1989 from 34.3 per cent in 1988.

The overall outcome of the above revenue and expenditure flows was to generate a budget deficit (before grants) of Rs. 25,091 million. Accordingly, the budget deficit/GDP ratio fell from 15.6 per cent in 1988 to 10.0 per cent in 1989. However, borrowing requirements for financing the deficit was reduced to Rs. 18,684 million, as receipts from foreign grants for budgetary purposes amounted to Rs. 6,407 million in 1989. Hence, the deficit (after grants) as a proportion of GDP was only 7.5 per cent in 1989 as against 12.6 per cent in 1988.

In financing the deficit, a total sum of Rs. 5,926 million was mobilized from foreign sources in the form of concessionary foreign loans. However, the amount utilized in 1989 was lower by 17 per cent than the amount utilized in 1988. The decline was the result of a high level of under expenditure recorded under foreign funded projects. In relation to GDP, foreign borrowings for budgetary purposes was 2.4 per cent as compared to 3.2 per cent in the previous year.

Meanwhile, a total sum of Rs. 12,758 million was obtained from domestic sources for financing the deficit. This was a reduction of nearly 40 per cent over the resources mobilized from this source in the preceding year. The contribution from the non-bank sector was Rs. 13,648 million, an increase of 48 per cent over the previous year. Of the total resources utilized from domestic non-bank sources, a sum of Rs. 4,876 million was raised through rupee loans, while a further sum of Rs. 8,929 million was mobilized by way of Treasury bills. As a proportion of GDP, the contribution from the non-bank sector rose from 4.1 per cent of GDP in 1988 to 5.5 per cent in 1989. While the non-bank sector became a major domestic source of financing the budget deficit, borrowings from the banking system were reduced to Rs. 1,131 million. However, due to a build up of cash and bank balances amounting to Rs. 2,250 million, government was able to effect a net repayment of Rs. 1,119 million to the banking system in 1989, in sharp contrast to the situation in the previous year when government borrowed Rs. 10,425 million (or 4.7 per cent of GDP) for financing the budget.

A summary of the Government Fiscal Operations during 1985-1990 is given in Table 1.50

REVENUE

Government revenue in 1989 at Rs. 54,003 million was an increase of 29 per cent and was in sharp contrast to the experience in the previous year when the revenue declined by 1 per cent. Tax revenue at Rs. 47,419 million - an increase of 32 per cent over the preceding year - contributed about 90 per cent of the total revenue in 1989 as compared to 86 per cent in the previous year. Taxes on domestic goods and services formed 44 per cent of the total tax revenue as compared to 47 per cent in 1988. The revenue from international trade

oriented taxes accounted for 35 per cent of the total tax revenue, the same as in the previous year. The share of income taxes in the total tax revenue dropped from 13 per cent in 1988 to 11 per cent in 1989, whereas the share of taxes on property transactions rose marginally to 5 per cent. Meanwhile, the new tax on Treasury bills held by the Central Bank contributed 5 per cent of the total tax revenue in 1989.

The non-tax revenue of Rs. 6,584 million registered an increase of 13 per cent in 1989. Central Bank profit transfers continued to be the largest single source of non-tax revenue. As in the previous year, the total revenue from Central Bank profit transfers, interest income and operating surplus of the Telecommunications Department contributed nearly 70 per cent of the total non-tax revenue in 1989.

Revenue collections from domestic goods and services totalling Rs. 20,942 million in 1989 reflected an increase of 23 per cent as compared to 9 per cent growth in the previous year. The considerable increase in revenue from these taxes was due to higher prices and upward revisions in excise duties and turnover tax rates on selected items. Total collection from turnover taxes at Rs. 14,658 million formed 70 per cent of the tax collection from domestic goods and services, a slightly lower share than in the previous year. The turnover tax collection from manufacturing activities at Rs. 4,496 million recorded a growth of 25 per cent, owing to the increased value of manufacturing output as well as upward revisions in tax rates on selected items. Tax rates on luxury items were raised from 20 per cent to 40 per cent during the year. Meanwhile, the 5 per cent tax on manufacturing of coconut oil was also re-imposed in 1989. The turnover tax collection from non manufacturing activities declined by 11 per cent largely due to disruptions to service sector activities. The revenue from turnover taxes on imports registered an increase of 34 per cent due to both an increase in the value of imports as well as the upward revision of import duties on luxury items from 20 per cent to 40 per cent.

Revenue from excise taxes on tobacco and liquor totalled Rs. 5,926 million in 1989 and accounted for about 28 per cent of the total revenue from domestic taxes on goods and services. The rate of increase in excise tax revenue in 1989 was 34 per cent, as compared to a 6 per cent decline in the previous year. The revenue collection from excise taxes on tobacco recorded a growth of 45 per cent due to a high volume of tobacco sales and upward revisions in tobacco taxes. The unit tax on tobacco was raised in stages from Rs. 915/kg. to Rs. 1,315/kg. during 1989. Meanwhile, tax revenue from liquor increased by 18 per cent largely due to upward revisions in duty rates.

Despite the reduction in export taxes, international trade oriented taxes generated a total sum of Rs. 16,495 million, a 32 per cent increase over the revenue collection in the previous year due to a rapid growth in the collection from import duties. The higher value of imports as well as an increase in tariff rates on selected items such as plant, machinery and motor cars contributed to a larger revenue collection from import duties which totalled Rs. 14,923 million. The average duty rate in 1989 was 18 per cent as compared with 15 per cent in 1988. Import duties on petroleum products generated a sum of Rs. 4,485 million, nearly one-third of the total collection from import duties. Meanwhile, duty collection from the import of machinery, mechanical and electrical equipments, motor vehicles and spare parts rose from Rs. 2,049 million in 1988 to Rs. 2,749 million in 1989. Revenue from import duties on prepared food stuffs and vegetable products at Rs. 3,391 million was an increase of 10 per cent over the previous year. A further sum of Rs. 1,023 million, almost double the amount collected in the previous year, was raised from imports of chemicals and related products. Total receipts from export taxes amounted to Rs. 1,572 million in comparison to Rs. 1,830 million in 1988. Revenue from specific duty on tea dropped by 55 per cent due to a reduction

TABLE 1.51
Summary of Revenue by Component

Rs.Million

Item	1985	1986	1987	1988	1989		1990
					Approved Estimates	Provisional	Approved Estimates
Tax Revenue	30,442	31,272	35,119	35,946	48,729	47,417	55,920
Income Taxes	5,586	4,787	4,909	4,647	6,572	5,161	6,700
Personal	1,424	1,513	1,580	1,464	2,392	2,207	2,455
Corporate	4,162	3,274	3,329	3,183	4,180	2,954	4,245
Taxes on Property	499	648	1,568	1,777	2,378	2,476	2,525
Taxes on Treasury Bills held by Central Bank	-	-	-	-	1,700	2,343	3,350
Taxes on Goods and Services	13,359	14,787	15,667	17,021	22,147	20,942	25,973
General Sales and Turnover Tax	10,189	10,088	10,611	12,321	14,790	14,658	17,800
Manufacturing	3,768	3,270	3,675	3,610	4,785	4,496	5,765
Non Manufacturing	2,590	2,415	2,426	3,386	3,825	3,004	4,415
Imports	3,831	4,403	4,510	5,325	6,180	7,158	7,620
Excise Tax	2,982	4,414	4,718	4,420	6,977	5,926	7,780
Liquor	1,104	1,485	1,644	1,754	2,285	2,071	2,440
Tobacco	1,877	2,927	3,071	2,665	4,690	3,855	5,340
Licence Fees	188	285	340	280	380	358	393
International Trade	10,998	11,050	12,975	12,501	15,935	16,495	17,372
Imports (a)	8,093	9,414	11,051	10,671	14,040	14,923	15,330
Exports	2,905	1,636	1,924	1,830	1,895	1,572	2,042
Tea	2,214	996	1,152	872	470	628	750
of which : ad valorem	1,032	62	262	264	200	355	500
Rubber	254	307	530	842	1,250	766	1,080
Coconut	342	232	148	67	125	126	150
Other exports	95	101	94	49	50	52	62
Non Tax Revenue	5,807	5,966	7,026	5,803	7,391	6,584	5,342
Property Income	3,926	4,731	4,541	4,080	5,181	4,671	3,383
of which : Central Bank profits	1,500	1,779	1,723	1,650	2,000	2,000	500
Interest Income	1,186	1,560	1,404	1,451	1,326	1,180	971
Surplus of Trading Enterprises	666	803	1,229	850	1,725	1,342	1,784
Fees and charges	364	347	344	412	717	627	660
Other non tax revenue (b)	1,517	888	2,151	1,311	1,493	1,266	1,299
Total Revenue	36,249	37,238	42,145	41,749	56,120	54,001	61,262

(cont.)

TABLE.1.51 (contd.)

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

Item	1985	1986	1987	1988	1989		1990
					Approved Estimates	Provisional	Approved Estimates
Tax Revenue	18.7	17.4	17.9	16.1	18.4	19.0	19.7
Income Taxes	3.4	2.7	2.5	2.1	2.5	2.1	2.4
Personal	0.9	0.8	0.8	0.7	0.9	0.9	0.9
Corporate	2.6	1.8	1.7	1.4	1.6	1.2	1.5
Taxes on Property	0.3	0.4	0.8	0.8	0.9	1.0	0.9
Taxes on Treasury Bills held by Central Bank	-	-	-	-	0.6	0.9	1.2
Taxes on Goods and Services	8.2	8.2	8.0	7.6	8.3	8.4	9.2
General Sales and Turnover Tax	6.3	5.6	5.4	5.5	5.6	5.9	6.3
Manufacturing	2.3	1.8	1.9	1.6	1.8	1.8	2.0
Non Manufacturing	1.6	1.3	1.2	1.5	1.4	1.2	1.6
Imports	2.4	2.5	2.3	2.4	2.3	2.9	2.7
Excise Tax	1.8	2.5	2.4	2.0	2.6	2.4	2.7
Liquor	0.7	0.8	0.8	0.8	0.9	0.8	0.9
Tobacco	1.2	1.6	1.6	1.2	1.8	1.5	1.9
Licence Fees	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Taxes on International Trade	6.8	6.2	6.6	5.6	6.0	6.6	6.1
Imports	5.0	5.2	5.6	4.8	5.3	6.0	5.4
Exports	1.8	0.9	1.0	0.8	0.7	0.6	0.7
Tea	1.4	0.6	0.6	0.4	0.2	0.3	0.3
of which : ad valorem	0.6		0.1	0.1	0.1	0.1	0.2
Rubber	0.2	0.2	0.3	0.4	0.5	0.3	0.4
Coconut	0.2	0.1	0.1	0.0	0.0	0.1	0.1
Other Exports	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Non Tax Revenue	3.6	3.3	3.6	2.6	2.8	2.6	1.9
Property Income	2.4	2.6	2.3	1.8	2.0	1.9	1.2
Of which : Central Bank profits	0.9	1.0	0.9	0.7	0.8	0.8	0.2
Interest Income	0.7	0.9	0.7	0.7	0.5	0.5	0.3
Surplus of Trading Enterprises	0.4	0.4	0.6	0.4	0.6	0.5	0.6
Fees and charges	0.2	0.2	0.2	0.2	0.3	0.3	0.2
Other non tax revenue	0.9	0.5	1.1	0.6	0.6	0.5	0.5
Total Revenue	22.3	20.8	21.4	18.7	21.1	21.6	21.6

Source : Central Bank of Sri Lanka.

in export volume, while receipts from tea ad-valorem tax recorded an improvement due to favourable prices especially during the last quarter of 1989. Collection from export duty on rubber declined by 9 per cent in 1989 due to a decline in both the volume of exports and prices. Meanwhile, revenue from export duty on coconut products recorded an increase due to a higher volume of exports.

Despite a reduction in revenue collection from corporate income taxes in 1989, revenue from income taxes totalling Rs. 5,161 million recorded a growth of 11 per cent over the previous year. In addition to an increase in the total number of tax payers from 198,640 in 1988 to 207,021 in 1989, an imposition of 15 per cent surcharge on income tax payable and the withdrawal of the exemption of dividend income from income tax contributed to enhanced revenue from personal income taxes. In spite of a marginal increase in the total number of corporate tax payers from 6,927 in 1988 to 7,017 in 1989, revenue collection from corporate taxes declined by 7 per cent. A statistical summary of government revenue is given in Table 1.51

FOREIGN GRANTS

Total foreign grants utilized for budgetary purposes in 1989 amounted to Rs. 6,407 million, a marginal decline over the previous year's receipts of Rs. 6,588 million. In relation to GDP, foreign grants declined from 3.0 per cent in 1988 to 2.6 per cent in 1989. The project grants totalled Rs. 5,024 million in 1989 as compared to Rs. 4,518 million in 1988, while commodity and food aid grants amounted to Rs. 1,383 million in comparison to Rs. 2,071 million in the previous year. The grant disbursement from Japan at Rs. 2,585 million accounted for 40 per cent of the total grants in 1989 as compared to 31 per cent in 1988, while grant receipts from Canada, the Netherlands, the United Kingdom, the United States and the United Nations Development Agencies were lower than in the previous year. Meanwhile, Finland, Sweden and other sources recorded increased quantum in 1989 over the previous year.

CURRENT EXPENDITURE

The current expenditure in 1989 totalled Rs. 54,981 million, an increase of 19 per cent over that of the previous year. However, the structure of current expenditure remained almost the same as in the previous year. The expenditure on goods and services amounting to Rs. 24,536 million, formed 45 per cent of the total current expenditure in 1989, as same as in the previous year. Meanwhile, the total current transfers of Rs. 16,099 million contributed 29 per cent as compared to 28 per cent in the previous year. The interest payments on government debt at Rs. 14,346 million represented 26 per cent of the current expenditure in 1989 in comparison to 27 per cent in 1988.

Of the total expenditure on goods and services, Rs. 12,981 million was on account of salaries and wages of government employees. These expenditure items which accounted for one-fourth of the total current expenditure in 1989 reflected an increase of 30 per cent due to the salary increases granted to government employees following the recommendation of the Administrative Reforms Committee. The expenditure on other goods and services which include travelling expenses, electricity and communication charges, rent, purchase of materials and office supplies and defence related goods, etc. totalling Rs. 11,555 million recorded a marginal increase of 9 per cent. Despite the reduction in expenses on overtime, travelling and other miscellaneous items, the expenditure on goods and services recorded an increase largely due to increased outlays on security related activities.

Transfer payments in 1989 amounting to Rs. 16,099 million showed an increase of 25 per cent over the previous year. The direct income transfers through the food and kerosene stamp scheme, mid-day meal and the Janasaviya Programme totalled Rs. 5,450 million as compared to Rs. 2,216 million in 1988. The considerable increase in these outlays was largely due to doubling of food stamp values effected in late 1988 and additional expenditure on account of the mid-day meal and Janasaviya programmes. The expenditure on account of pensions amounting to Rs. 4,569 million recorded a 11 per cent increase and accounted for 8 per cent of the current expenditure in 1989. The transfers to public corporations totalling Rs. 2,645 million marked an increase of 13 per cent largely due to enhanced current transfers made to the Sri Lanka Transport Board to meet additional expenditure on account of salaries and wages.

Interest payments on government debt were Rs. 14,346 million, which reflected an increase of 14 per cent as compared to 24 per cent growth in the previous year. Interest payments on domestic debt totalling Rs. 11,011 million marked an increase of 14 per cent, while those on the foreign debt amounting to Rs. 3,335 million recorded a growth of 15 per cent. Interest payments on rupee loans amounted to Rs. 5,918 million and showed an increase of 8 per cent over the previous year. Meanwhile, interest payments on Treasury bills at Rs. 5,075 million recorded a growth of 21 per cent due to both an enhanced volume of borrowings and the higher interest rates on Treasury bills.

CAPITAL EXPENDITURE

Capital expenditure in 1989 amounted to Rs. 19,644 million, a marginal increase over the targetted capital expenditure of Rs. 19,599 million. However, in comparison to the previous year, capital expenditure in 1989 registered a decline of 14 per cent. Accordingly, government capital formation as a proportion of GDP dropped from 10.3 per cent in 1988 to 7.9 per cent in 1989. The substantial reduction in capital expenditure in 1989 was a result of implementation difficulties of capital expenditure programmes during the year due to unsettled conditions in the country. Rehabilitation expenditure showed a 50 per cent under expenditure during the year. Capital expenditure on education, health and decentralized budgetary activities also showed considerable under expenditure during the year under review.

Capital projects directly undertaken by government departments and ministries on account of acquisition, construction and maintenance of fixed assets absorbed Rs. 12,177 million as compared to Rs. 12,006 million in the preceding year. The major investment activities undertaken on this account comprised Health, Higher Education, Railways, Telecommunication and Land Development activities.

The capital transfers to public enterprises and statutory boards to undertake public investment projects totalled Rs. 7,467 million in comparison to Rs. 10,872 million in 1988. Of the total capital transfers to these institutions, Rs. 2,413 million was utilized by the Mahaweli Development Authority. However, this was 30 per cent lower than the capital expenditure incurred by the Mahaweli Development Authority in the previous year. The capital expenditure incurred by the Road Development Authority at Rs. 1,067 million was nearly 40 per cent lower than the allocation made for 1989. However, in comparison to the previous year, capital expenditure of the Road Development Authority recorded 64 per cent increase in 1989. Meanwhile, the National Water Supply & Drainage Board incurred Rs. 754 million as compared to Rs. 922 million in 1988.

A summary of capital transfers to corporations is given in Table 1.52

TABLE 1.52
Summary of Capital Transfers to Corporations

Item	1985	1986	1987	1988	1989		
					Approved Estimates	Provi- sional	Appr- oved - Esti- mates
Total Transfers of which :	13,441	14,874	11,198	9,683	8,822	5,874-	7,792
Mahaweli Development Authority	7,233	5,952	5,101	3,429	2,995	2,413	2,461
Air Lanka	800	2,404	892	809	406	0	0
Airports and Aviation Services Ltd.	955	1,423	910	1,617	345	490	110
Road Development Authority	679	876	773	650	2,593	1,067	2,379
National Water Supply and Drainage Board	966	994	1,233	922	1,056	754	-787
National Housing Development Authority	3600	465	374	380	324	352	210
National Youth Services Council	4	249	394	13	13	14	71
Sub Total	10,997	12,363	9,677	7,820	7,732	5,088	6,418
Sub Total as a percentage of total	81.8	83.1	86.4	80.8	87.6	86.6	82.4
Transfers to other Corporations	2,444	2,511	1,521	1,813	1,090	786	1,374

Source : Central Bank of Sri Lanka.

LENDING MINUS REPAYMENTS

The lending minus repayments in 1989 totalled Rs. 4,468 million in comparison to Rs. 7,522 million in 1988. The transactions under advance accounts produced a surplus of Rs. 644 million in 1989, as against a net outpayment of Rs. 2,732 million in 1988. Meanwhile, on lending to public corporations amounted to Rs. 5,490 million as compared to Rs. 5,093 million in 1988. The loan repayments amounted to Rs. 378 million in 1989. The Ceylon Electricity Board utilized Rs. 3,367 million largely for the continuing development activities of the Samanalawewa and Rantembe power projects. On lending to the Janatha Estates Development Board was Rs. 460 million, while a sum of Rs. 630 million was made available to the Sri Lanka Ports Authority for the expansion of the Colombo Port. A economic classification of total expenditure and lending minus repayment is given in Table 1.53

FUNCTIONAL CLASSIFICATION OF EXPENDITURE AND ON-LENDING

According to functional classification, a total sum of Rs.23,864 million, consisting of Rs.20,516 million of current expenditure and Rs.3,348 million of capital expenditure, was channelled to social services. The expenditure on social services showed an increase of 32 per cent as compared to 17 per cent rise in the previous year. Accordingly, expenditure on social services as a proportion of GDP rose from 8.1 per cent in 1988 to 9.5 per cent in 1989.

TABLE 1.53

Economic Classification of Expenditure and Lending Minus Repayments

Rs. Million

Item	1985	1986	1987	1988	1989		1990
					Approved Estimates	Provisional	Approved Estimates
Current Expenditure	32,645	33,967	39,560	46,132	56,618	54,981	63,561
Expenditure on Goods and Services	16,287	15,155	18,466	20,653	24,329	24,536	25,779
Salaries and Wages	6,878	8,028	8,006	10,016	12,437	12,981	14,129
Other Goods and Services	9,409	7,127	10,460	10,637	11,892	11,555	11,650
Interest Payments	7,428	8,762	10,157	12,590	13,388	14,346	19,941
Foreign	1,970	2,209	2,564	2,896	3,265	3,335	3,461
Domestic	5,458	6,553	7,593	9,694	10,123	11,011	16,480
Current Transfers and Subsidies	8,929	10,050	10,937	12,889	20,385	16,099	18,497
To Public Corporations	882	2,350	1,722	1,515	2,532	2,645	1,681
To other levels of Government	501	600	609	918	939	913	1,027
To households and other sectors	7,546	7,100	8,606	10,456	16,914	12,541	15,789
Food stamps, food subsidy etc	1,514	1,549	1,666	1,895	5,180	4,325	3,782
Pensions	2,728	2,984	3,242	4,128	4,181	4,569	4,967
Fertilizer Subsidy	788	614	511	600	600	346	-
Other	2,516	1,953	3,187	3,833	6,953	3,647	7,040
Under Expenditure Provision	-	-	-	-	-1,484	-	-656
Capital Expenditure	21,530	23,236	22,816	22,878	28,694	19,644	21,653
Acquisition of Real Assets	7,375	7,788	10,970	12,007	17,104	12,177	13,336
Capital Transfers	14,155	15,448	11,846	10,871	13,504	7,467	9,767
To Public Corporations	13,441	14,874	11,198	9,683	8,822	5,874	7,792
To other Levels of Government	481	472	571	1,123	1,689	1,523	1,715
Other	26	101	77	65	193	70	260
Treasury Deposits by Govt. Corp.	207	-	-	-	-	-	-
Less : Provision for under expenditure	-	-	-	-	-1,914	-	-1,450
Lending Minus Repayments	1,059	1,991	1,518	7,521	5,009	4,468	4,647
Of which : Under Advance Accounts	314	-170	-1,180	2,732	-1,600	-644	250
Total Expenditure and Net Lending	55,234	59,194	63,894	76,531	90,322	79,093	89,862

(Contd.)

TABLE 1.53 (Contd.)

Economic Classification of Expenditure and Lending Minus Repayments - (as a percentage of GDP)

Item	1985	1986	1987	1988	1989		1990
					Approved Estimates	Provisional	Approved Estimates
Current Expenditure	20.10	18.93	20.11	20.69	21.33	21.97	22.42
Expenditure on Goods and Services	10.03	8.45	9.39	9.26	9.17	9.81	9.09
Salaries and Wages	4.24	4.47	4.07	4.49	4.69	5.19	4.98
Other Goods and Services	5.79	3.97	5.32	4.77	4.48	4.62	4.10
Interest Payments	4.57	4.88	5.16	5.65	5.04	5.73	7.03
Foreign	1.21	1.23	1.30	1.23	1.33	1.33	1.22
Domestic	3.36	3.65	3.86	4.35	3.81	4.40	5.81
Current Transfers and Subsidies	5.50	5.60	5.56	5.78	7.68	6.43	6.52
To Public Corporations	0.54	1.31	0.88	1.05	0.95	1.06	0.59
To other levels of Government	0.31	0.33	0.31	0.41	0.35	0.36	0.36
To households and other sectors	4.65	3.96	4.38	4.31	6.37	5.01	5.57
Food stamps and food subsidy etc	0.93	0.86	0.85	0.85	1.95	1.73	1.33
Pensions	1.68	1.66	1.65	1.85	1.58	1.83	1.75
Fertilizer Subsidy	0.49	0.34	0.26	0.27	0.23	1.46	0.00
Other	1.55	1.09	1.62	1.72	2.62	-	2.48
Provision for Under Expenditure	-	-	-	-	-0.55	-	-0.23
Capital Expenditure	13.26	12.95	11.60	10.26	10.81	7.85	7.63
Acquisition of Real Assets	4.54	4.34	5.58	5.38	6.44	4.67	4.70
Capital Transfers	8.72	8.61	6.02	4.88	5.09	2.98	3.44
To Public Corporation	8.28	8.29	5.69	4.34	3.32	2.35	2.74
To other levels of Government	0.30	0.26	0.29	0.50	0.64	0.61	0.60
Other	0.02	0.06	0.04	0.03	0.07	0.03	0.09
Treasury Deposits by Govt.corp	0.13	-	-	-	-	-	-
Under Expenditure Provision	-	-	-	-	-0.72	-	-0.51
Lending Minus Repayments	0.65	1.11	0.77	0.37	1.89	1.79	1.64
Total Expenditure and Net lending	34.02	32.99	32.48	34.32	34.03	31.61	31.69

Source : Central Bank of Sri Lanka.

The total expenditure, inclusive of on-lending, on economic services at Rs.22,014 million registered a decline of 13 per cent over the previous year. While the current expenditure on economic services remained more or less at the previous year's level, the capital expenditure and on-lending dropped from Rs.21,128 million in 1988 to Rs.17,942 million in 1989. A considerable reduction was recorded in expenditure on agriculture, irrigation and energy. As a proportion of GDP, total expenditure and on-lending on economic services fell from 11.3 per cent in 1988 to 8.8 per cent in 1989.

The expenditure channelled to general public services totalling Rs.15,928 million recorded a marginal decrease of 2 per cent over the preceding year. The decline was recorded in expenditure on civil administration as well as defence and public order and safety. Hence, as a ratio of GDP, expenditure on civil administration dropped from 3.7 per cent in 1988 to 3.3 per cent in 1989, while those on defence and public order and safety declined to 3.1 per cent from 3.6 per cent. The functional classification of expenditure and on-lending is given in Table 1.54.

FINANCING OF THE BUDGET DEFICIT

The fiscal operations in 1989 resulted in a budget deficit (after grants) of Rs. 18,684 million. This was a 34 per cent reduction over the previous year's deficit of Rs. 28,195 million. The total resources available from foreign and domestic non-bank sources amounted to Rs. 19,803 million leaving a resource surplus of Rs. 1,119 million in 1989. In the previous year, deficit (after grants) exceeded the resources available from foreign and domestic non-bank sources by Rs. 10,425 million which had to be financed from the banking sector.

The gross foreign borrowings for budgetary purposes in 1989 was Rs. 11,668 million as compared to Rs. 12,337 million in 1988. However, as loan repayments totalled Rs. 5,742 million net foreign borrowings turned out to be only Rs. 5,926 million, a reduction of 17 per cent over that in the previous year. Although the targetted net foreign borrowings amounted to Rs. 8,273 million, the actual utilization was only 72 per cent of the targetted level due to substantial under expenditure on foreign funded capital investment projects.

Meanwhile, gross borrowings from domestic sources totalled Rs. 18,804 million, consisting of Rs. 17,673 million from non-bank sources and Rs. 1,131 million from bank sources. In mobilizing resources from non-bank sources, Rupee securities contributed Rs. 8,672 million. However, as repayments on this account amounted to Rs. 3,796 million, net borrowings through the rupee loan programme was only Rs. 4,876 million as compared to Rs. 6,062 million in the previous year. Meanwhile, the large bulk of the government's borrowings from domestic non-bank sources came from Treasury bills which generated a sum of Rs. 8,929 million in 1989. The traditional captive source, viz; the Employees' Provident Fund (EPF) continued to be the principal subscriber to Rupee securities. The other traditional sources, viz; the National Savings Bank, other savings institutions, private provident funds, and insurance companies subscribed more to the Treasury bills as interest rates on Treasury bills were attractive in 1989.

The gross resource mobilization from the banking system was Rs. 1,131 million, which consisted of Rs. 974 million from Central Bank's Provisional Advances and Rs. 157 million through sale of Treasury bills to the banking system. However, on account of a build up of cash and bank balances amounting to Rs. 2,250 million, the fiscal operations in 1989 resulted in a net repayment of Rs. 1,119 million to the banking system.

TABLE 1.54
Functional Classification of Expenditure

Item	Rs.Million						
	1985	1986	1987	1988	1989		1990
					Approved Esti- mates	Provisi- onal	Approved Esti- mates
Current Expenditure							
General Public Services	8,768	8,680	11,113	12,496	12,233	13,425	15,340
Civil Administration	3,095	2,884	2,943	5,217	4,541	6,150	6,353
Defence	4,614	4,351	6,001	4,732	3,066	4,035	4,907
Public Order and Safety	1,059	1,445	2,169	2,547	4,626	3,240	4,080
Social Services	10,323	11,004	12,714	15,253	23,619	20,516	22,818
Education	3,523	3,775	4,066	5,036	7,620	6,770	6,020
Health	1,773	1,841	2,401	2,420	3,380	3,379	3,501
Welfare	4,889	5,254	6,098	7,609	12,438	10,149	13,045
Housing	13	13	13	15	21	-	-
Community Services	125	121	136	173	160	218	252
Economic Services	2,544	3,960	2,905	4,050	4,181	4,073	2,946
Agriculture & Irrigation	1,313	1,336	1,086	1,401	1,556	1,310	873
Fisheries	31	38	40	40	75	47	46
Manufacturing and Mining	255	443	141	197	456	126	174
Energy and Water Supply	7	50	73	80	444	415	170
Transport & Communication	592	1,668	1,200	1,613	1,104	1,765	1,072
Trade and Commerce	94	152	190	415	207	150	134
Other	252	273	175	304	339	260	477
Other	11,009	10,324	12,828	14,333	16,585	16,968	22,516
Of which: Interest	7,428	8,762	10,220	23,590	11,962	14,388	19,841
Under Expenditure Provision	-	-	-	-	-1,484	-	-656
Total Current Expenditure	32,645	33,967	39,560	46,132	56,618	54,981	63,620
Capital Expenditure and Lending							
General Public Services	1,039	1,217	1,676	1,532	2,938	2,503	2,221
Civil Administration	859	864	870	893	2,310	2,001	1,693
Public Order and Safety	180	353	806	639	628	502	528
Social Services	1,826	2,567	2,817	3,400	4,839	3,348	3,483
Education	930	1,252	787	927	1,780	1,235	1,281
Health	318	408	979	1,518	2,005	1,246	1,619
Welfare	11	15	53	41	18	10	25
Housing	459	575	505	477	884	687	428
Community Services	108	320	493	437	152	170	130
Economic Services	18,950	21,547	20,834	21,436	25,309	17,941	21,356
Agriculture & Irrigation	9,370	8,217	8,484	6,431	6,564	5,179	6,289
Of which: Mahaweli Project	7,233	5,952	5,101	3,430	2,995	2,413	2,861
Fisheries	108	223	294	142	445	282	270
Manufacturing and Mining	1,114	793	1,162	533	390	475	144
Energy and Water Supply	1,492	2,476	3,226	5,451	6,518	4,239	4,861
Transport & Communication	4,805	7,648	5,633	6,728	7,957	6,162	6,078
Trade and Commerce	156	445	309	103	75	152	6
Other	1,905	1,745	1,727	2,048	3,360	1,452	3,708
Other	714	574	648	1,602	4,682	1,342	975
Under Expenditure Provision	-	-	-	-	-1,914	-	-1,450
Total Capital Expenditure and Lending	22,528	25,905	25,975	27,970	35,854	25,134	26,585

Source: Central Bank of Sri Lanka.

GOVERNMENT DEBT

The outstanding government debt at the end of 1989 amounted to Rs. 272,305 million. This was an increase of 21 per cent over the outstanding debt of Rs. 224,252 million at the end of the previous year. The total domestic debt at Rs. 117,561 million recorded an increase of 19 per cent, while the foreign debt amounting to Rs. 154,744 million registered a growth of 23 per cent. The share of short term debt in the total debt rose from 49 per cent in 1988 to 54 per cent in 1989. Meanwhile, the share of project loans in total foreign debt rose to 71 per cent in 1989 from 68 per cent in the previous year. Outstanding Government debt is given in Table 1.55

Domestic Debt

The domestic debt accounted for 43 per cent of the total outstanding government debt at the end of 1989 as compared to 44 per cent at the end of 1988. The amount of outstanding domestic debt held by the banking sector was Rs. 46,874 million, an increase of 10 per cent over the amount held in the previous year. The total domestic debt held by the non-bank sector at Rs. 70,497 million was an increase of 26 per cent over the amount held a year ago.

Domestic debt classified according to the maturity pattern showed that the medium and long term (maturity of more than one year) debt totalled Rs. 54,407 million, an increase of Rs. 4,447 million during the year. Meanwhile, the short term debt amounting to Rs. 63,154 million recorded an increase of Rs. 14,519 million during 1989.

The outstanding liabilities on account of rupee securities, which formed almost the entire medium and long term domestic debt, at Rs. 54,217 million registered a growth of 9.0 per cent as compared to 11 per cent increase in the previous year. A total sum of Rs. 8,672 million was raised through rupee securities during the year as compared to Rs. 10,000 million raised during 1988. However, the outstanding debt on account of rupee loans rose by only Rs. 4,420 million as repayments of rupee loans during the year totalled Rs. 4,252 million, of which Rs. 456 million was paid out from Sinking Fund balances. Total resources available in the Sinking Fund as at end of the year was Rs. 3,251 million. Accordingly, the outstanding rupee securities net of the Sinking Fund balances amounted to Rs. 50,966 million as compared with Rs. 45,603 million a year ago.

The Employees' Provident Fund (EPF) which invested Rs. 8,449 million (or 97 per cent of the resources mobilized through rupee loans) continued to be the largest single subscriber to the rupee loan programme. Unlike in the previous year, the National Savings Bank made no investment in rupee securities in 1989 as its investments were directed to the Treasury bills market in response to higher interest rates.

Total resources raised by the issue of Treasury bills, the principal instrument of short term borrowings, amounted to Rs. 13,546 million, almost the same volume of resources raised in the previous year. However, subscriptions by the banking system to Treasury bills at Rs. 3,585 million was substantially lower than Rs. 11,172 million subscribed in the previous year. A significant development in 1989, was that the non-bank sources invested as much as Rs. 9,960 million in Treasury bills as compared to Rs. 2,678 million in 1988. The private provident funds invested Rs. 3,761 million, while finance and insurance companies subscribed a total sum of Rs. 2,077 million. Total investment in Treasury bills by the National Savings Bank amounted to Rs. 1,726 million, while the Insurance Corporation of Sri Lanka contributed a further sum of Rs. 1,143 million. Resources mobilized through Treasury bills from other sources including private individuals totalled Rs. 1,253 million as compared to Rs. 79 million in the previous year. While outstanding liability on account of Treasury bills rose from Rs. 43,700 million at the end of 1988 to Rs. 57,246 million at the end of 1989, the Central Bank's

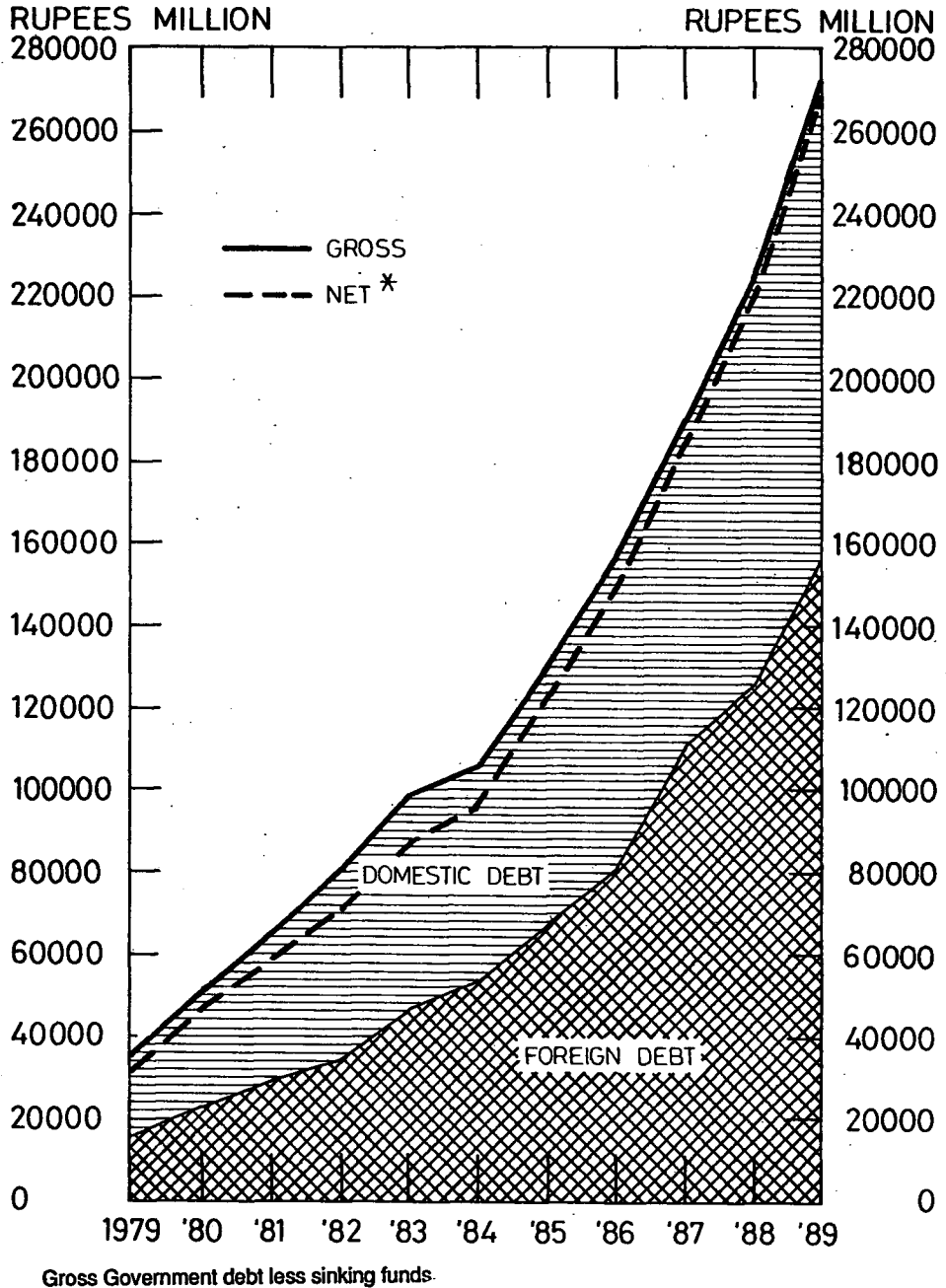
TABLE 1.55
Outstanding Central Government Debt,
1985 - 1989 (end of period)

Rs. Million

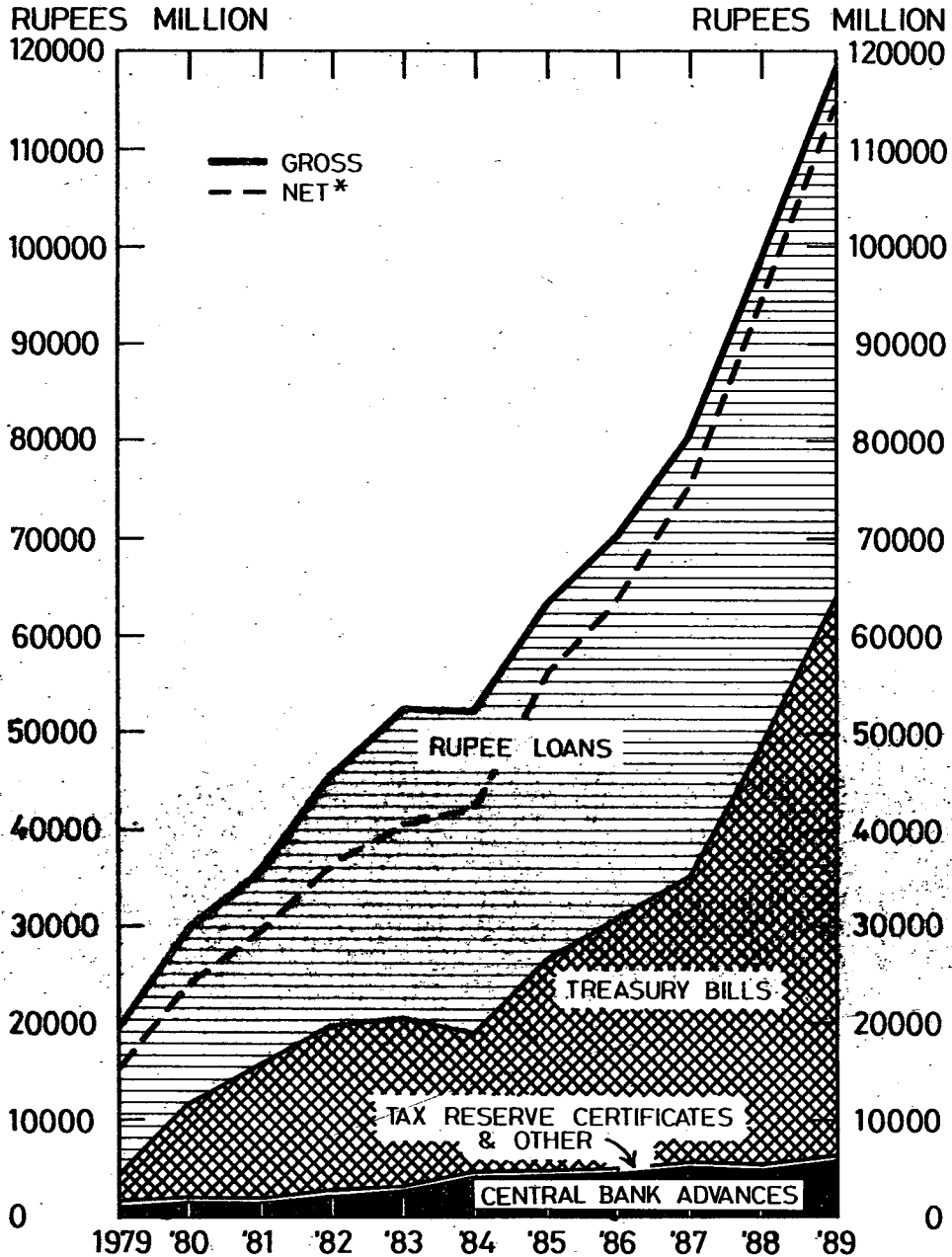
	1985	1986	1987	1988	1989	Change			
						1986	1987	1988	1989
Total Domestic Debt	62,611	69,500	78,999	98,595	117,560	6,888	9,499	19,596	18,965
Rupee Loans	36,570	39,130	44,958	49,797	54,216	560	5,828	5,002	4,256
Treasury Bills	22,280	26,173	29,850	43,700	57,246	3,893	3,677	13,850	13,546
Others	3,761	4,197	4,191	5,098	6,098	435	(6)	908	1,000
Banks									
Central Bank	24,299	26,190	26,324	38,228	40,025	1,891	134	11,904	1,797
By Debt Instruments	24,299	26,190	26,324	38,288	40,025	1,891	134	11,904	1,797
Rupees Loans	45	36	36	32	27	(9)	0	(4)	(5)
Treasury Bills	20,621	22,144	22,288	33,270	34,098	1,493	174	10,982	828
Advances	3,633	4,040	4,000	4,926	5,900	407	(40)	926	974
Commercial Bank									
By Debt Instruments	856	1,003	4,181	4,227	6,849	147	3,178	46	2,622
Rupees Loans	855	852	845	594	566	(3)	(7)	(251)	(28)
Treasury Bills	0	150	3,335	3,632	6,282	150	3,185	297	2,650
Other	1	1	1	1	1	0	0	0	0
By Institutions	856	1,003	4,181	4,227	6,849	147	3,178	46	2,622
Bank of Ceylon	296	294	788	1,030	1,707	(2)	494	242	677
People's Bank	557	706	2,871	1,894	3,265	149	2,165	(977)	1,371
Other	3	3	522	1,303	1,877	0	519	781	574
Sinking Fund	6,871	4,808	4,475	2,832	2,289	(2,063)	(333)	(1,643)	(543)
Rupees Loans	6,871	4,808	4,475	2,832	2,289	(2,063)	(333)	(1,643)	(543)
Treasury Bills	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Non-Bank Sector	30,586	37,497	44,019	53,308	68,397	6,911	6,522	9,289	15,089
By Debt Instruments	30,586	37,497	44,019	53,308	68,397	6,911	6,522	9,289	15,089
Rupee Loans	28,799	33,434	39,602	46,502	51,335	4,635	6,168	6,900	4,833
Treasury Bills	1,659	3,909	4,227	6,798	16,865	2,250	318	2,571	10,067
Other	128	154	190	8	197	26	36	(182)	189
By Institutions	30,586	37,497	44,019	53,308	68,397	6,911	6,522	9,289	15,089
National Savings Bank	12,949	14,025	16,113	17,952	18,960	1,076	2,088	1,839	1,008
Other Savings Institutions	2,513	1,626	2,558	5,974	15,175	(887)	932	3,416	9,201
Employees' Provident Fund	13,616	17,285	21,190	25,816	31,648	3,669	3,905	4,626	5,832
Insurance Companies	1,102	4,120	3,874	3,289	2,387	3,018	(246)	(585)	(902)
Other	406	441	284	277	227	35	(157)	(7)	(50)
Departmental & Official Fund	287	294	103	114	37	7	(191)	11	(77)
Foreign Administrative Borrowings	119	147	181	163	190	28	34	(18)	27
Total Foreign Debt	69,453	88,304	112,441	125,657	154,744	18,850	24,137	13,216	29,088
Project Loans	39,565	53,897	73,356	85,745	110,295	14,332	19,459	12,389	24,550
Non-Project Loans	29,888	34,407	39,085	39,912	44,450	4,518	4,678	827	4,538
Commodity Loans	20,973	26,383	32,894	35,886	42,390	5,410	6,511	2,992	6,504
Other	8,916	8,024	6,191	4,026	2,060	-892	-1,833	-2,165	-1,966
External Suppliers' Credit	523	515	525	340	333	-8	110	-185	-7
Total Outstanding Govt. Debt	132,064	157,803	191,438	224,252	272,305	25,739	33,636	32,812	48,053
Total Outstanding Govt.- Debt Net of Sinking Fund	124,914	151,786	186,260	220,058	269,054	26,873	34,475	33,796	48,996

Source: Central Bank of Sri Lanka.

COMPOSITION OF GOVERNMENT DEBT



COMPOSITION OF DOMESTIC DEBT



* Gross Domestic debt less sinking funds.

holdings of Treasury bills rose from Rs. 33,270 million to Rs. 34,098 million. Accordingly, the share of Central Bank's holdings of outstanding Treasury bills fell from 76 per cent at the end of 1988 to 60 per cent at the end of 1989.

Government borrowings through Central Bank's Provisional Advances during the year was Rs. 974 million as compared to Rs. 926 million during 1988. Accordingly, the outstanding liability on this account rose from Rs. 4,926 million at the end of 1988 to Rs. 5,900 million at the end of 1989.

Foreign Debt

The outstanding foreign debt of the government as at the end of 1989 totalling Rs. 154,744 million recorded an increase of 23 per cent over the outstanding debt of Rs. 125,657 million a year ago. The share of foreign debt in the total public debt rose marginally from 56 per cent in 1988 to 57 per cent in 1989. Although the net foreign borrowings for budgetary purposes during 1989 totalled Rs. 5,926 million, the outstanding foreign debt as at the end of the year recorded a substantial increase of Rs. 29,087 million due to an additional rupee liability of Rs. 23,162 million arising from exchange rate variations during the year. In comparison, the additional rupee liability on account of exchange rate variations in the previous year amounted to Rs. 5,438 million. The total liability on account of multilateral loans at Rs. 47,392 million accounted for 31 per cent of the total external debt of the government as compared to 29 per cent a year ago. Although the outstanding obligations on account of bilateral loans rose by 23 per cent to Rs. 97,263 million in 1989, the share of such obligations in the total foreign debt of the government amounted to 63 per cent in 1989, same as in the previous year.

The total foreign debt comprised a sum of Rs. 110,294 million of project loans and Rs. 44,450 million of non-project loans. The outstanding liability on account of project loans recorded an increase of 29 per cent and that of non-project loans by 11 per cent over the respective outstanding liabilities at the end of the previous year. The gross foreign borrowings in the form of project loans during 1989 was Rs. 9,535 million, 7 per cent lower than the amount utilized in the previous year. When allowance is made for repayments of Rs. 1,889 million on account of existing liabilities with respect to project loans, the net receipts totalled Rs. 7,646 million as compared to Rs. 8,931 million in 1988. However, due to an additional liability of Rs. 16,904 million on account of exchange rate variations, the outstanding liability on account of project loans rose by Rs. 24,549 million in 1989.

TABLE 1.56

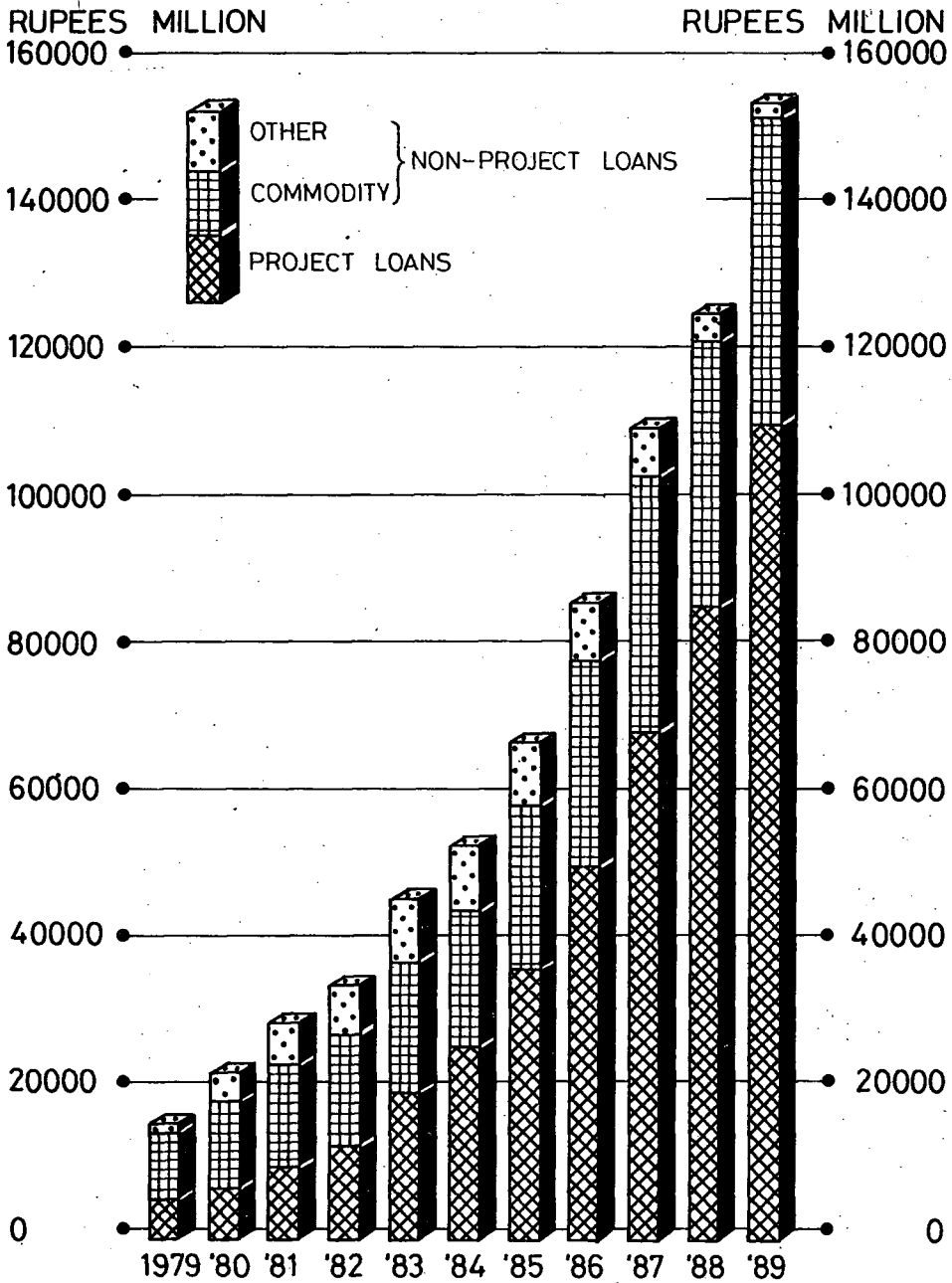
Effect of Exchange Rate Variation on Foreign Loans 1985 - 1989 (a)

Item	Rs. Million				
	1985	1986	1987	1988	1989(a) Provisional
1. Gross Receipts	9,985.6	12,163.5	10,088.2	12,975.3	11,668.0
2. Repayments	1,805.2	3,004.6	4,169.9	5,197.2	5,742.3
3. Net Receipts	8,180.4	9,158.9	5,418.3	7,778.1	5,925.7
4. Change in liability due to Exchange rate variations	7,090.8	9,692.4	18,718.5	5,438.0	23,161.5
5. Liability as at end of period	69,452.7	88,304.0	112,440.8	125,656.9	154,744.1

Source : Central Bank of Sri Lanka.

(a) Data is based on value date recording system.

COMPOSITION OF FOREIGN DEBT



Meanwhile, total repayments on account of existing non project loans exceeded the total disbursement of Rs. 2,133 million by Rs. 1,720 million during the year. However, due to an additional liability of Rs. 6,258 million arising from exchange rate changes, the total outstanding liability on account of non-project loans rose by Rs. 4,538 million. The effect of exchange rate variation on foreign loans is given in Table No. 1.56

Government Debt Service Payments

Debt service payments of the Government, consisting of amortisation and interest payments, amounted to Rs. 24,206 million in 1989, an increase of 9 per cent over the previous year. Accordingly, the total debt service payments on the government debt as a proportion of GDP remained around 10 per cent, the same ratio as in the previous year.

Total repayments on foreign debt amounting to Rs. 5,742 million marked an increase of 10 per cent, while interest payments totalling Rs. 3,359 million showed a growth of 16 per cent. Hence, the total debt service on foreign debt at Rs. 9,101 million rose by 12 per cent in 1989 as compared to an increase of 12 per cent in the previous year. The repayments on account of domestic debt at Rs. 3,797 million recorded a 15 per cent decline over the amount in the previous year due to an uneven maturity pattern in outstanding rupee loans. Meanwhile, total interest payments on domestic debt amounting to Rs. 11,308 million recorded an increase of 14 per cent over the previous year. Accordingly, the total domestic debt service payments at Rs. 15,105 million registered an increase of 5 per cent. The government debt service is given in Table 1.57

TABLE 1.57
Government Debt Service Payments - 1985-1989

Item	Rs. Million				
	1985	1986	1987	1988	1989 Provisional
Debt Service Payments	14,325	16,287	15,749	22,270	24,206
(i) Amortization	6,897	7,525	5,592	9,680	9,539
(a) Domestic (Medium & Long Term)	5,108	4,505	902	4,471	3,797
(b) Foreign	1,789	3,020	4,690	5,209	5,742
(ii) Interest Payments	7,428	8,762	10,157	12,590	14,667
(a) Domestic	5,458	6,553	7,593	9,694	11,308
Short-Term	2,241	2,602	3,094	4,198	5,075
Medium & Long Term	3,217	3,951	4,499	5,496	6,233
(b) Foreign	1,970	2,209	2,564	2,896	3,359
Interest/Current Expenditure (%)	22.7	25.8	25.7	26.1	26.7
Debt Service/GDP (%)	8.8	9.1	8.0	10.0	9.7

Source : Central Bank of Sri Lanka.