Challenges and Sacrifices: An Assessment of the Growth of Sri Lanka's Public Debt in the Light of Debt Theory

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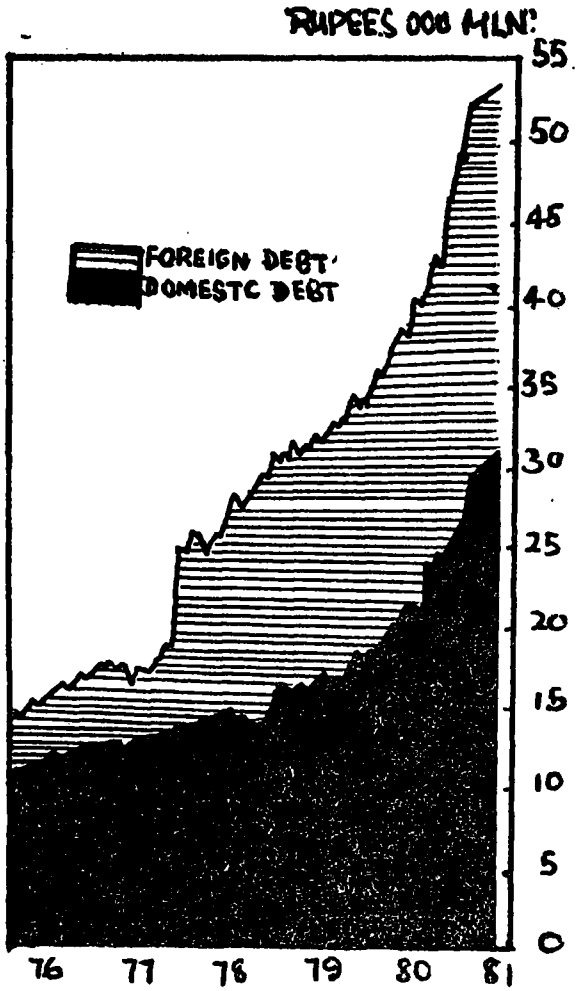

PUBLIC DEBT (GROSS) MONTHLY.

A quick assessment of Sri Lanka's economic performance, though not urgently, is yet, opportunely called for as a convenient background to see the recent growth in public debt. It is now almost four years since the experiment of a liberalised economy was initiated. The policy objectives, aspirations and results of this economic experiment require closer study. One fact is clearly discernible. The contrast between the pre 1977 and post 1977 economic environment is marked.

The gains todate are considerable and deeply satisfying. The new economic policies have paved the way for a freer economy; an economy exhibiting a drastic reduction or complete elimination of a wide array of controls, licensing and paper work to permit market oriented operations of production, resource allocation and distribution. Out of this new arrangement has arisen the signalling system of relative prices based on comparative costs and scarcity value, prices designed to stimulate new activities while throwing into bold relief the inefficiency of protectionism and sheltered enclaves. There have been singularly remarkable strides made in fostering export activities, in banking and in commerce and in the mobilisation of domestic savings, the latter through interest rate profiles which have made financial investments an attractive proposition. Above all there has been a breakaway from a fixed and intransigent development plan to a more practical and relevant rolling plan based wholly on the Capital projects of the public and corporate sectors.

The acceptance of an investment programme for 1981-85 has outlined in time perspective, the contours of a massive capital development programme linked to four lead projects. All these gains and achievements have been worked out amidst the most turbulent of economic circumstances and adversities. Critics of liberalisation have not hesitated to draw parallels from the experience of the previous regime of controls to argue for welfarism and restraint on growth or profits in the national accounts. The relative shares or distribution of profits and wages in the national account is only partially determined by the degree of monopoly and rate of profit on capital. In a developing situation besides the relative shares of income, labour and capital, the expanding size of the national income resulting from the process of development is worthy of attention. It is this apparent result which is swept aside, ignoring in other words the years of stagnation and stagflation which pervaded nearly all spheres of economic activities in the seventies.

The economic scenario of turbulent circumstances which rocked so severely and dangerously the economic programme of the Government in 1979 and more dramatically in 1980 were conditioned by the gloomy world economic situation. What were the economic circumstances in the world outside which so pervesely conditioned the economic performance of the export-import economy of Sri Lanka? To the rude economic shocks of the early seventies caused by the first oil price hike, unprepardeness to meet such an eventuality, protectionism and conservative monetarism, the late sevanties witnessed the painful economic adjustments of third world developing oil importing countries to the global recession permeating the industrial countries. High and upward swings in energy costs, unpredictable, fluctuating and volatile foreign exchange movements of key currencies, dampened world trade growth, lagging demand for primary products, sharp-

ly declining prices of primary products are some of the more immediately relevant circumstances.

It has been remarked that the eighties would reveal an equally dismal scenario of poverty and painful adjustments for the poorer non oil producing developing countries. In 1981 unfavourable developments are predicted on the basis of estimates made by the world monetary and lending institutions. It would appear that Balance of Payments deficits would have to be covered increasingly by additional debts abroad. Because of the high interest rates in industrial countries, the terms for future borrowing will remain unfavourable prompting poorer countries, least able to withstand such burdens, to have recourse to commercial borrowing in sheer desperation to avoid defaults on obligations. The servicing of existing debt would be a further burden with the result that even the securing of new loans would be difficult. In such gloomy circumstances the line up for immediate debt relief and grants and highly concessional terms of development assistance would lengthen, unless the world scenario were to change dramatically.

While the circumstances leading to debt negotiations for rescheduling of relief altogether would depend on individual country situations and stabilisation measures to be implemented, the fundamental circumstances for such a predicament could be traced to balance of payments deterioration and through same for excessively expansionary fiscal and monetary policies. Worsening terms of trade, export shortfalls, reduction in inward remittances, reduction in tourist earnings and a hardening of borrowing terms leading to higher servicing costs are likely to figure importantly as influencing the balance of payments situation and the resource gap. A further unsatisfactory trend has to be underlined, namely the disagreement now openly witnessed between Debtors and Creditors for re-structuring external obligations and the continuing disagreement on the length of the consolidation period and terms of repayment. These factors make it likely that the external debt problem would remain with the poorer countries, and Sri Lanka, too, would despite her heroic efforts to hurry her programme of development be faced with debt servicing problems of an excruciating character. The study of Sri Lanka's public debt growth and its assessment is therefore likely to be relevant and urgent.

The management of public debt has assumed increasing importance and economic significance in recent years because of the increase in magnitude of public borrowings. The significance of this growth has to be assessed in the perspective of certain key macro-economic relationships. Paragraphs following are devoted to such an examination.

As at the end of December 1980, the gross public debt of Sri Lanka stood at Rs. 51,655.6 million as against Rs. 7,873.2 million in September 1970, Rs. 3,787.4 million in September 1964 and Rs. 1,145.0 million at the end of September 1954. This growth in public debt can be conceptually related to the value of gross domestic product at current factor cost prices and the ratio (more appropriately, total net public debt to G.D.P.) is reckoned as a convenient indicator of the weight of public debt. The ratio measures the servicing cost of such debt and elucidates through capital-output functional relationships whether government capital expenditures (which are financed mainly from public borrowings) have contributed to higher productivity and the growth of gross domestic product. The relationships of net debt to G.D.P. are worked out for three periods namely, 1959 to 1964, 1970 to 1974, and 1975 to 1980. It is seen that in the period 1959-1964 total net public debt averaged 38.01% of G.D.P., in the period 1970-1974 it averaged 55.7% and total net debt for the recent period 1975-1980 revealed a phenomentally high figure of 65.2%. In other words, gross domestic product has in money terms at current factor cost prices risen at a slower rate than net public debt and the servicing cost of public debt in terms of real resources appears to have grown heavier in view of the differential rates of growth of the two items.

Resources absorbed to finance public debt are necessarily higher in the 1970-74 and 1975-80 periods as compared with 1959-1964. The acceleration in the period 1975-80 is most marked.

There are strikingly marked differences of opinion on the economic effects of an increase in public debt. Where there has been close scrutiny of public debt theory it is evident that differences of views prevail as to whether they are a blessing, a curse or a matter of indifference. Discussions of deficit financing for economic development have revived this issue but apparently have done barely anything to settle it. Those adherents following the Keynesian frame-work of analysis have favoured deficit financing and have dismissed the question of the "burden" of the debt in later years with the general statement that an internally held debt imposes no economic burden. On the other hand, those who have made special studies of the latter question and who favoured the classical methodology of reasoning, monetarists with inflationary and purchasing power theorus find themselves admitting that inflation makes the burden of debt less severe on future generations. Nevertheless, they argue for control of money supply and inflation thus discussing the growth of public debt in terms of real output and productivity growth, to arrive at a different conclusion. The statistical trends noted above are seen in Table 1. *

The principal factor underlining the increase in magnitude of public borrowings has been the expansion in total payments of government. The expenditure of government, current and capital outlays, has been increasing faster than the ability to mobilise financial resources by way of taxes, profits of nationalised ventures, borrowings of real savings of the public and revenue receipts secured through other fiscal and budgetary devices. The insufficiency of total receipts to match total expenditure has necessitated the running of large and increasing budgetary deficits (cash operating deficits) and the financing of these deficits has been through continued recourse to public borrowings from both bank and non-bank sources.

An examination of financial statistics of budgetary outlays would reveal that the totals of current receipts of government have increasingly fallen short of total payments. In the period 1964-65 to 1974 as well as 1977 to 1981, the unfinanced gap i.e. total payments of government minus current receipts, has shown a regular increase. The gap in 1964-65 was Rs. 463.8 million, this had reached Rs. 1,146.8 million in 1974 and Rs. 14,617.6 million in 1980 (provisionally estimated). The trend observed for the sixties and to date is in contrast to the performance in 1954-55 when total current receipts exceeded total payments by Rs. 173.3 million and the gap in 1955-56 was as small as Rs. 63.7 million. In Table 2 relevant financial data are presented in a manner (1) to reveal the financial gap between total payments and total current receipts (2) the extent of direct borrowing resorted to by government to cover the financial gap. From an economic standpoint of relating capital formation (ie. construction and maintenance of real assets) to budgetary outlays and for an assessment of government's fiscal policy it is necessary to adopt a different classification, so as to calculate the extents of capital expenditures of government which have been financed through borrowings. Loan finance of real capital formation (as against acquisition of financial assets) adds to productive capacity and helps to self liquidate the

* For tables refer page 12 onwards

debt incurred for financing it. In Table 3 (a) the contributions of current account surplus as available for financing capital expenditures and (b) the extent of net domestic borrowing utilised to finance capital expenditures are brought out.

A striking feature brought out in the calculations has been the very small contribution made by way of current account surplus in recent years towards financing capital expenditure and the concomitant heavy reliance on direct borrowing for this purpose. It is also a reflection of the general reluctance to use the tax system to mobilise revenue.

The corollary of this fact is that the government has increasingly relied upon public borrowings as well as foreign finance, including grants of capital transfers, for meeting capital expenditures. It is also observed that on occasions government has borrowed in excess of its requirements for capital expenditure with a view to adding to its cash balances. In the financial years 1970-71, 1971-72, 1979 and more recently in 1981 there had been deficits even in the current account, which required the government to borrow for meeting these deficits. Note in contrast the performance in 1955-56, 1956-57 and 1957-58. Budgeting in these three years had permitted substantial current account surpluses to be realised so as to reduce very considerably the dependence on public borrowings. It is apparent that the trend at present is to depend increasingly on public borrowings to finance capital expenditures.

Most developing economies are faced with the problem of enlarging the public sector and transferring resources for economic growth. Sri Lanka is no exception. Public borrowing has become a necessary instrument for such resource transfers. It is politically more acceptable than taxation. The economic effects of borrowing on the general price level and on product growth are much the same in a poor developing country in so far as economic effects are broadly concerned. Taxation or deficit financing which helps to keep the general price level high and rising affect the masses adversely and painfully until such time as output growth is evident. Even then the extent of the amelioration would depend on the composition of output flowing from the investments undertaken. The importance of public borrowing and management of public debt in the tasks of resource mobilisation can be shown in three important respects.

Firstly, there is the inescapable fact that government must borrow in order to ensure adequacy of fiscal resources for implementing its development programme. Even if there is no specific economic plan, annual (budgetary) capital expenditures are usually programmed over a period of years and the search for funds to finance these without interruption places on the government a heavy responsibility.

Secondly, a government through public borrowings is in a position to influence the liquidity of the economy and thereby the state of monetary stability. Most governments are averse to permitting a state of inflationary expectations and price increases to continue without checking same as inflation results in reductions in incomes of those whose incomes are not subject to price compensatory revisions. Cost push inflation invariably sets in motion wage-price spirals which governments wish to avoid dealing with. The extent to which the liquidity of the economy is affected and influenced through public borrowings depends from whom and which sectors the government borrows and the nature and term structure of securities offered.

The liquidity effect will be greater or weaker depending upon whether government borrowing from the banking system is more or less and whether such borrowing is on securities of very short term with a high nearness to money or long dated stock. For ensuring adequacy of financial resources borrowing from the banking system may be unavoidable but it may at the same time pose problems of a different order as regards liquidity, inflationary expectations and monetary stability. One of the problems a government faces in resorting to public borrowing is that of striking a balance between these effects and adopting policies to mitigate the consequences.

Thirdly, government is called upon to issues securities to provide avenues of investment for those who rank safety of principal and certainty of interest income as overriding considerations in the selection of financial investments. A large and active security market is one of the objectives which government endeavours to foster. It is a recognised fact that a government has to borrow from the public to supplement resources to meet its financial obligations. If a government could use the means of taxation and raise larger sums through profits of public enterprise its reliance on public debt and borrowings can be reduced and recourse to deficit financing for fiscal purposes can be significantly reduced. Expressed differently, if expenditure targets are set in conformity to availability of resources from taxation and profit transfers, the growth of public debt can be minimised. Such a course of action is not possible as the rate of growth of expenditure tends to outrun the rate of growth of income and profits siphoned to the government. The figures in Table 4 in this respect, underline very firmly that in an increasing trend growth of total payments the contribution made by taxes in absolute terms in recent years has shown only a modest increase and that too of a relatively small order. Between 1977 and 1980 while current payments increased by 224 percent the relative increase in total taxes was 127 percent with the result that the share of tax covering total payments fell from 62.51% to 43.83%, the lowest registered for the span of years examined. Direct borrowings have been resorted to as the tax effort has not been sufficiently large enough to fully meet total payments. While taxes and total borrowings together have shown upward movements, taking the period 1955/56 to 1980 as a whole it is seen that the percentage of borrowings utilised to cover total payments has been on the increase, baring 1973 and 1974 and this underlines the re- to raise taxes to levels high enough to contain or reduce dependence on public borrowing.

While the growth of public debt can be traced to the magnitude of the budgetary gap and the character of budgetary policy followed all of which are subsumed under the heading of 'fiscal policy', the form of financing resorted to, the type of securities issued. The rates of interest offered and the term structure of securities made available to the investing public for subscription are relevant for appraisal of Government policy and fall within the scope of monetary policy. The movements and characters of these instruments have a direct bearing on the level of liquidity of the economy. The scope of public debt and its influence, therefore, extends from fiscal policy at one end to monetary policy at the other and the area of influence of public debt management on economic matters is therefore unusually wide. It is pertinent to sort out for policy formulation those aspects of public debt policy which are infact measures originating from government per se and those of which are generally within the control of the Central Bank. In all, these measures (1) influence the size, composition and distribution of public debt, (2) alter the level and term structure of interest rates, supply of money and liquidity of the economy, (3) determine the timing, mode of borrowing, refinancing and conversion operations and (4) influence the volume and extent of trading in marketable securities.

Sri Lanka's public debt, as remarked earlier, has shown a steep and spectacular increase. It is clearly useful to single out the more important characteristics of the present debt position before discussing the necessity, if any, for making changes therein. The term 'public debt' in this paper refers to the domestic and foreign borrowings of the government of Sri Lanka only, excluding therefrom the debt of semi-government institutions such as debt of public corporations and local authorities. Likewise external suppliers' and acceptance credits, Central Bank borrowings from foreign governments and lenders abroad are excluded from foreign debt coverage.

At the end of December 1980, the gross public debt stood at Rs. 51,655.6 million having recorded an increase of Rs. 16,180.9 million (45.1%) over the previous year. Of the gross public debt outstanding in 1980 Rs. 29,378.8 million (56.9%) comprised domestic rupee debt while the balance 43.1% or Rs. 22,276.8 million rupees was foreign borrowings. The more important trends of public debt growth distinguishing between gross and net debt and foreign and domestic components in this debt are given in Table 5.

During the last four financial years, i.e. since 1977 there has been a steady increase in the foreign debt component of public debt. In 1967-68 gross foreign debt accounted for 17%, in 1974 24% and by 1980 the share had increased to 43% of total gross public debt. While the absolute increase in domestic debt has been marked in recent years, proportionately the increase in foreign debt has been higher. This higher trend rate of growth of foreign debt is explained largely in terms of increased dependence on external assistance in financing imports of government sources, the high import content of capital expenditures and more generally the acute foreign exchange resource gap facing the government.

The increases recorded in foreign debt in recent years have to be interpreted with certain reservations of a technical nature. Consequent to the linking of the Sri Lanka Rupee with the Pound Sterling on first October 1972, the parity rates between the Sri Lanka Rupee and foreign currencies were revised from time to time by the Central Bank of Ceylon. As the Pound Sterling was allowed to float against other currencies, the Rupee equivalent of foreign debt denominated in foreign currencies other than in Sterling was re-calculated with parity changes. Some order of the change involved is worthy of note. Such revaluation of debt resulted in an increase of Rs. 200 million and a decrease of Rs. 39 million in Sri Lanka's foreign liabilities in 1973 and 1974 respectively. The devaluation of the Sri Lanka Rupee in November 1977 and the floating of the rupee has no doubt increased the rupee equivalent of Gross and Net foreign debt.

There are certain economic considerations concerning the growth of foreign debt which require to be stressed. The increase in foreign debt, primarily reflects the heavy dependence of public sector expenditure on foreign exchange on the one hand and the country's inability to expand export earnings satisfactorily on the other. Leaving aside the difficulties brought about by adverse terms of trade and the debt servicing problems resulting from a shrinkage of export earnings, it would appear that the only satisfactory way of servicing the repayment of foreign obligations is through the creation of export surpluses. Unlike a rupee debt held internaly, the growth of foreign debt raised an entirely different set of problems.

The creation, servicing and subsequent retirement of rupee debt involves basically a transfer of resources (real and monetary) between private and public sectors. These transfers could have monetary effects which may be inflationary under certain circumstances, but nevertheless are manageable and within the framework of policies influenced by the Central Bank. When a foreign debt is incurred and expenditure is financed from such resources there is no transfer of real resources from the private sector to the public sector. The transaction enables goods and services in the debtor country to be increased and there is a supplementation of real resources. In effect the country is enabled to increase the flow of supplies all round with the minimum of current costs and hardships. Utilisation of foreign debt, however, creates obligations of repayment and servicing. The servicing and repayment of foreign debt has to be by way of external resources and this requires the creation of export surpluses or savings of import outlays. It is possible to utilise to a limited extent new foreign exchange loans, to repay previously contracted debt, but this exercise cannot be carried over an indefinite period of time. A time would come when foreign debt has to be serviced in foreign currency.

The pertinent issues when evaluating the utilisation of foreign debt are to bear in mind (1) the productivity of investments financed from foreign borrowings and (2) whether the export sector is being developed fast enough and large enough in the context of a commercial policy suited for this purpose for the realisation of export surpluses. The experience of most developing countries is that foreign loans have been utilised (a) for consumption purposes, (b) for infrastructure outlays and, (c) for the creation of or expansion of industries producing import substitutes. While such investment activities, in general can produce the beneficial effects of making available a wide variety of goods than would otherwise have been possible, infuse and spread technical know how and skills and also provide new opportunities for investment, the impact of all such activities on the export sector unless the activities financed are directly export biased, the creation of export surpluses would be small. Besides, the buoyancy of the domestic market arising from a general stimulation of investment activity has been to stimulate domestic sales in preference to exports. The sales of goods at home enable quick returns and an easing of liquidity and traders opt in such instances to direct sales to domestic sources thus reducing the chances of realising export surpluses. Besides there has been a noticeable failure on the part of Governments to impose a lien on export earnings or import expenditures saved through domestic substitution programmes for servicing, amortization and repayment of foreign debt contracted. Resultantly, foreign financing does not except in theory generate export surpluses in the absence of some export control and regimentation.

Sri Lanka's increase in foreign debt and the servicing obligations are problems common to other developing countries pursuing policies of structural transformation and accelerated economic growth.

A World Bank study on External Debt (EC 167/74) commented that between 1967 and 1972 the debt outstanding of developing countries increased at a rate of 14.6% per annum and that there had been a hardening in lending terms and consequent increase in the future debt servicing obligations of developing countries. The report stated "A number of countries had reached the point during the late 1960s and 1970s where they were unable to continue meeting their debt servicing obligations as originaly scheduled and had to arrange for debt relief...Countries ..... face the problem of adjusting to sharply adverse movements in their terms of trade.

"The problem may be more difficult for countries whose exports are largely composed of primary commodities.....and this adjustment will be particularly hard for countries with very low income levels". In a more recent publication EC 167/80 the World Bank commented that total medium and long term debt outstanding of the developing countries rose by 16% during 1979. Though

higher than the rate 14.6% referred to the performance in 1979 reveals a significantly improved position from the average annual rate of growth of 23% in 1974-78. Sri Lanka's relative position in the 'Debt league' is seen in the figures given in Table 13.

The increase in domestic debt in absolute terms has been quite substantial in recent years. The composition of domestic debt and its changes during the period 1968-69 to 1974 and 1977-1980 are summarised in Table 6.

Borrowings effected through the issue of rupee loans, baring the experience in 1980 have accounted for 95% of the increase in total domestic debt. In the computation of domestic debt since 1979 relative shares of the several items showed a near constancy with rupee loan stock accounting for 70-74%. Treasury Bills next in importance overaged 24%, Central Bank advances 5% and Tax Reserve Certificates 1%. The fiscal events of 1979 and 1980 disrupt this long standing pattern and were the outcome of special circumstances which necessitated the Government increasing its reliance on Treasury Bills as a means of budgetary financing. When compared with the fiscal performance of 1960s, the fiscal and debt management policy followed upto 1978 reveals that the government was averse to an increase of the level of Treasury Bills outstanding and to use these as the principal means in financing budgetary deficits. It is an indication of financial restrain and a desire to contain the magnitude of inflationary financing. In fact a clasification of public debt outstanding into two classes "floating debt" and "funded debt", the former comprising Treasury Bills, Tax Reserve Certificates, Central Bank advances and National Development Bonds and latter including Rupee Loan Stock would reveal that the share of floating debt (consisting mainly of Treasury Bills) in 1975 decreased to 30%, the lowest proportion recorded since 1959-60. The heavy and unusual recourse to Treasury bill financing both in 1979 and 1980 should be seen in the light of the severe resource constraint faced by Government. In 1980 in particular, the Sri Lanka economy was subject to very heavy pressures in the task of aggregate demand management. The economic policy pursued by the Government was basically a "big push" within the general framework of an open and liberalised economy. The public sector investment projects particularly the four lead projects gained momentum in 1980 and demanded a higher share of resources than previously planned. As the growth of resources (revenue) lagged seriously behind the growth of expenditure and events in the money market inducing the private sector to claim an equally large share of mobilised savings, the government seriously trapped in a resource constraint of major proportions was left with no choice but to resort to bank borrowing on an unprecedented scale particularly from the Central Bank. These came in the form of fresh issues of Treasury bills. The effect on the economy of Governments inflationary deficit financing was to raise money supply and to swell the level of aggregate demand in the economy. Inflationary borrowing in 1980 was the principal reason for the pressure on the balance of payments and the sharply expanded current account deficit caused a considerable and precipitous decline in the country's external reserves despite the vastly increased capital inflows.

Heavy and continued reliance on borrowings from non-bank sources through the issue of Rupee Loan Stock has been the main reason for the increasing share of the funded debt in the total of debt outstanding. It is useful to point out that the banking sector is now discouraged from subscribing directly to Rupee Loan Stock and subscriptions to Rupee Loan Stock are mainly from sources which are classified as institutions and persons in the non-banking sector. A significant trend noticeable in annual subscriptions to the Rupee Loan Stock is the enlargement of the captive sector as the main source of investible funds. With the amalgamation of the Post Office Savings Bank and the Ceylon Savings Bank and the centralisation of Government Savings in the National Savings Bank together with the Employee's Provident Fund and the Joint Investment Fund (on behalf of sinking funds) these institutional lenders have emerged as the principal subscribers to Rupee Loan Stock.

The share of these three sources in the total of loans floated in 1974 aggregated 83.4% When the subscriptions of the Insurance Corporation are added the share of the captive sector in 1974 stood as high as 95%. In 1980, 97 per cent of the outstanding rupee securities were held by the non Bank sector. Baring 1.1% subscribed by Private Provident and Pension Funds in both 1979 and 1980, the captive institutions contributed the near entirety of rupee security-issues. As in the past the Public Debt Sinking Fund, the National Savings Bank and the Employees Provident Fund continued to be the principal subscribers to Rupee Stock. The success of a government loan programme has become in these circumstances increasingly dependent on the availability of funds in these captive sources. The growing importance of the captive sector is seen in Table 7.

In examining these statistics it is important to bear in mind that an important function of the Central Bank is to obtain as wide a distribution of marketable debt as possible. It would appear that given dependence on the captive sector, the narrowness of the securities market has been a handicap in stepping up borrowings. In fact the differential rates of interest on National Savings Bank operations of borrowing from the public at 20% and 22% p.a. and investing in Government Stock at 16% on the one hand and the tax exempted interest on the funds of subscribers of 1/3 the assessable income or Rs. 2,500/- whichever is higher have been factors discouraging investors from selecting Government stock inspite of the reduced maturity period of stock from 10—12 years to 3 years and enhanced rates of interest.

The mechanism of Sinking Funds for redemption of rupee debt affords some relief for repayment yet there has been the budgetary problem of finding sufficient funds in current receipts to pay for the servicing of domestic debt. Servicing cost of domestic debt has always been regarded as a charge on current receipts. Theoretically there is no objection to financing interest charges from new loans floated. Yet very few governments have resorted to this practice. It is the growing burden of interest charges which is the mainspring of apprehension over domestic debt growth. Two points require to be underlined in this connection. Firstly, rising interest costs reduce the current account surplus and thereby reduces the volume of current receipts available for capital formation. Secondly, interest payments are in effect transfer payments and would necessitate taxation to cover payments. The redistribution of income which results is not without economic disincentives. Nor is it certain that the recipients would invest in Government Stock in view of the poor marketability of the securities.

The servicing costs of Sri Lanka's Domestic Debt has been calculated for the period 1964/65 and 1980. selected years and these are given in Table 8.

There is one other aspect of the public debt growth which remains to be examined, namely the maturity distribution of domestic debt. Rupee loans floated since 1970/71 to July 1980 carried an interest rate of 9% and 10% for a maturity period of 10—12 years. In July 1980 the interest rate on government stock was raised to 16 per cent for a shorter maturity period of 3 years. Consequently the maturity pattern of domestic debt has shifted from the

long term 20—25 years distribution group to the medium term 10—15 year distribution group and would in the current situation bunch in the short end of security listings. See Table 9 for a maturity distribution of domestic debt.

Changes in maturity structure have important consequence in debt management. Firstly, they alter the structure of interest rates and secondly refunding operations are made more or less difficult depending on whether the term structure of the debt is shortened or lengthened. The maturity structure of debt can be altered at the time of new floatations. The shorter the debt, the closer it gets to the condition of money — the primary liquid asset — and consequently makes budgetary provisions more imparative and immediate.

A government with a definite long terms investment programme is normally interested in lengthening debt because long dated securities render it convenient to undetake investment projects with long gestation periods. A government can which are longer than the average lengthen debt by issuing maturities weighted maturities of outstanding debt. Influences bearing on the saleability of longer dated stock are noted as lenthening of debt involves a cost which cannot be overlooked. Sri Lankan experience of recent date is, in the light of the above observation, somewhat at cross-purposes. While government lead projects and investment programmes are long gestated, the financing of these has been from short dated funded stock and securities of unfunded, very short maturities. This makes interest and amortization heavy charges on government's payments.

In an integrated, developed economy where markets are sensitive to economic impulses, decisions are readily transmitted between product and factor markets and where in particular, monetary and fiscal measures are enforceable and have their desired effects. the structure of market rates of interest is determined by the supply and demand for securities in every sub market. The demand for securities and their transaction prices reflects market evaluation of maturity term, risk element and the liquidity attributes of each type of asset. Securities of shorter maturity, lower capital risk and which consequently embody higher liquidity carry lower rates of interest while securities which have longer maturity periods to redemption and which are exposed to higher risk of capital loss in the event of interest rate changes carry higher interest to compensate for the drawbacks.

The relationships between various short term rate and the long term rate is a complex one. Money rates of interest paid for different loans at the same date differ from one another for three main reasons. Firstly, the rates of interest vary because of differences in the length of time for which loans are to run. Secondly, because of differences in the risk of default by the borrower and thirdly because of a risk of capital loss.

The relationship between various interest rates and their maturities are explained in the liquidity theory of interest. This theory maintains, other things being equal, a person engaging in a long term contract puts himself into a more risky position than he would be, if he refrained from making it. If no extra reward is offered for a long lending most people would prefer to lend short. 'If short rates are not expected to change the long rate will exceed the short rate by a normal risk premium. If the current short rate is regarded as abnormally low, the long rate will be decidedly above it; the short rate can only exceed the long rate if the current short rate is regarded as abnormally high" (J. R. Hicks; Value & Capital p. 147). While not contesting the logical premises of the theory which are valid it should be pointed out that financial data for the United Kingdom reveal that the short term rate has often exceeded the long rate and for long periods. Whatever might be the explanation for this outcome, the facts are striking. Between 1825 and 1938, the long rate was above the short rate in 764 months and in 580 months the short rate was above the long rate. The longest time for which the short rate was without interruption above the long rate was 42 months and periods of more than 20 months were not infrequent.

To bridge theory with observable facts is often a difficult task. Yet in determining the rate of interest payable on government stock, the liquidity theory offers a practical norm for guidance. In so far as government debt is concerned, government securities are not exposed to a risk of default and therefore the considerations which influence the coupon rate on government stock are (1) risk of capital loss caused by higher interest rates in the future and (2) the premium to be offered for parting with liquidity Although a government has a built in preference for a longer dated stock in view of the nature of the investment projects financed, a higher price has to be paid for inducing subscribers to part with their funds. The higher interest payable on long dated stock has often been in conflict with government's objective of keeping as low as possible interest rates in order to minimise the servicing cost of debt. The pursuit of a policy of low interest rates artificially kept down has the disability that it makes more difficult for the government to utilise debt management as a tool for maintaining monetary stability of the economy.

Some aspects of the theory of public debt should be considered to counter the notions of a "burden" in debt growth. The growth of public debt is generally viewed with concern and almost with disfavour. Anxiety over the increase of public debt stems from a comparison of public debt with private debt. Equation of public debt with private debt has often induced false reasoning. The analogy between individual or private debt and public debt is fallacious in essential respects. A government contracting debt domestically has also the privilege of creating the means of repayment of that debt. Besides any apprehension that government might not be in a position to repay debt is ill-founded. Repayment of past debts can be effected either through direct money creation (the issue of Treasury Bills to the Central Bank) or through the floatation of new loans. It is also possible, though not often resorted to, for a government to service its debt, interest charges due on domestic debt through new loans. The private individual contracting debt does not have the same means of repaying the debt.

There are three theoretical underpinnings on which current public debt theory is supported. These may be listed as follows—

(1) The analogy between individual or private debt is fallacious in all essential respects.

(2) The creation of public domestic debt does not involve any transfer of the primary real burden to future generations.

(3) There is a sharp and important distinction between an internal and external debt.

The necessity for drawing a firm distinction between private and public debt is seen with respect to production, employment and income effects of borrowing. The public sector (the government) as well as private sector (individuals) both strive to maximise their income. But this end can frequently be missed by the public economy, if it applies the financial principles appropriate for the private economy. To an individual it is important that his expenditure be kept below or within limits of his current disposable income. For the public economy however, an increase of expenditures may frequently increase total national income and improve the fiscal position of the state. An individual is concerned exclusively with the effect of his action upon his own business. The effect of his own economic activity upon other individuals is significant only in so far as

these have a bearing on his balance sheet. The balance sheet reveals to an individual all that is required to judge the appropriateness of different lines of business policy. In the case of public finance and public economy, however, it is quite otherwise. The success or failure of public policy cannot be solely read from the balance sheet of the nation. The success or failure of public policy can be determined only by noting the effect of expenditure, taxes and loans on the growth of national income, the fuller use of factors of production and how the resulting national income is distributed.

Leaving aside the consideration of an actual use to which real resources are put, also the social productivity and the time pattern of the flow of benefits from investments undertaken by the government out of borrowings, it can be stated that an act of government borrowing transfers current purchasing power from the private sector to itself. Monetary resources whether borrowed, obtained through taxes or through an increase in money supply enable the government to bid for and employ real resources in the same general time period as that in which the borrowing operation occurs. Where real resources are drawn from private employment, the full opportunity cost, that is the real cost of public expenditure is held to be borne by individuals living in the initial or current time period. Depending on the gestation lags of investment undertaken, the flow of real income takes place in a future period with the result that the current generation is called upon to sacrifice present consumption for future growth.

The precise extent of reduction in consumption is governed by the time pattern of investment outlays and the flow of services resulting therefrom. The financing of public expenditure by borrowing has close similarities to financing expenditure through taxation. In both instances the real burden of the sacrifice in consumption is borne currently. The loan method of financing as compared to the tax method involves different effects on individuals living in time periods following that of debt creation. Debt issues leave future generations with a heritage of both claims and obligations. But these claims and obligations in an internally held debt cannot constitute a burden to the community taken as a whole because they cancel each other. Future generations are no doubt obliged to pay sufficient taxes to service the debt. But the revenues collected by way of taxes are returned to the same generation though perhaps not to the same parties in the form of interest payments. Taxes are levied on income flows out of an enlarged capital stock created through abstinence in the past. As the transfer of income within the community by way of taxes is made as interest income to bond holders, it is tenable that there is no real sacrifice of resources involved in this exercise, more so if tax payers happen to be bond holders as well.

The case against public borrowing has also been expressed in terms of higher productivity of private business expenditures and its corollary that public investment is in more than one sense unproductive. To lend credibility to this thesis public debt has been classified into three types; (a) 'dead weight' debt (b) 'passive' debt and (c) 'active' debt.

Dead weight debt is one which is incurred in consequence of expenditure which in no way increases the productive power or potential of the community. These outlays yield neither an increase in revenues nor a flow of utilities which is commensurate with the amount of real resources utilised in debt creation. The most conspicuous type of public debt of the dead weight kind is that arising from war expenditure. Passive debt is one incurred from expenditures which while yielding utilities or enjoyment to the community such as public buildings, public parks and the like, neither return a money income themselves nor increase the efficiency in use of resources or productivity of labour and capital in a manner to justify the initial use of resources.

An active public debt is one incurred in consequences of (a) capital expenditures on projects which are self-liquidating and (b) expenditures directed to capital formation and economic growth which directly or indirectly increase the productive capacity of the community, enhance the flow of goods and services and enable the economy to grow at a rate faster than before borrowing was undertaken. Expenditures on public health, housing, education are designed to raise the efficiency of the people while expenditures on direct capital formation and on the conservation, improvement and exploitation of natural resources are designed to increase overall productivity and step up the tempo of capital formation.

The view that public investment is 'unproductive' while private investment is 'productive' is a very one-sided one. Public investment just as private investment may be merely utility creating or it may be efficiency creating. Public investment like private investment if wisely undertaken will be utility creating or both utility creating and efficiency promoting. There is another aspect of outlays tend concurrently to expand income and employment as well. This public expenditudes namely that it is income creating as wel in that these is particularly so in the case of public investment activity undertaken in a period when economic activity is greatly reduced. Deficit financing through debt creation for purposes of income creation may be a permanent and necessary feature in the modern public economy. The size of the public debt is of relatively little concern from the standpoint of the public economy. What is material is the manner of deployment of resources which government has absorbed and that is the productivity of investment undertaken. The assets created through (passive and active debt) match the value of the liability represented by the debt at any chosen point of time. These observations tend to show that the the notion of a burden of debt arising out of internal borrowing is misleading perhaps even a simplification. Whether in fact there is a burden depends upon the character of the expenditure for which is debt incurred and there should be justification for expenditures in terms of benefits i.e. (a) employment and income creating (b) utility creating (c) efficiency creating or some combination of these. The character of investment expenditure undertaken will effect the standard of living, the rate of growth of national product and the income (savings) available for repayment of debt. The corollary of this conclusion is that a repayment of debt by government (i.e. reduction of public debt) should come by way of a higher real product and larger flows of goods and services for private use.

Where an external debt is created the classical idea of a burden imposed on the future generation is fully applicable. The primary real burden can be shifted forward in time since there need be no domestic sacrifice of resources during the period of debt creation. The payment of interest represents a real burden when foreign debt is contracted because the domestic income stream is reduced by the necessity of transferring resources abroad. Current as well as future generations will find their incomes reduced by such transfers unless investment undertaken has augmented the real product. Finally, when a foreign debt has to be repaid, domestic resources have to be transferred to foreigners. Thus where foreign debt is contracted with extended grace period, the real burden of repayment is borne by future generation. Where there is no grace period the present generation too, is called upon to bear a part of the transfer burden. Where government expenditures have been directed to unproductive channels and such expenditures are financed through external debt creation, the growth of external public

debt may be regarded as acts of financial irresponsibility resulting in a financing burden on current and future generations.

There is one last observation to be made in the theoretical underpinnings of public debt theory, namely, that borrowing is only one of the means through which a government secures monetary resources for absorbing real resources. Except in the case of anti-inflationary debt issues for monetary management public borrowing involves the transfer of real resources. Borrowing is therefore, an alternative to taxation. If a given level of public expenditure is to be financed this can be accomplished in three ways: (1) taxes (2) loans and (3) credit (currency) creation. It is necessary to examine the problem of financing national expenditures in terms of the whole set of fiscal alternatives and the effects of debt creation should be analysed in differential terms. If debt is not to be issued and borrowing is to be contained then taxes have to be increased, alternatively credit creation should take place or there should be a reduction in the level of public expenditures or a mix of these alternatives.

Of the securities offered in the domestic market, rupee loan stock issues constitute the most important item in value terms of the internal debt of the country. But the absorption of rupee loan stock by private individuals and non-captive sources has been most disappointing, notwithstanding the higher rate of return and lower maturity. In fact, there hardly exists a market for these securities out side the the captive sector. Support for government loan stock has come principally from funds arising in the captive sector. There are several explanations which can be advanced for the poor response from private individuals and non-government institutions.

Firstly, the yield differential between government loan stock and interest rates paid on financial investment offered by National Savings Bank, Commercial Banks, hire purchase companies, financial companies and other private sector financial institutions has tended to widen, with the latter group offering appreciably higher interest rates on borrowed funds. These higher rates of interest may have lured investible funds from the government securities market. With the recent legislation of registration of finance companies with the Central Bank and the supervision of these operations by officials of the Bank Supervision Department. the investor could look forward to a more disciplined monetary structure. The risks of defaults being reduced the individual investor as well as the corporate investor would patronise these institutions, leaving the government stock issues to captive sources.

Secondly, government stock is despite shorter maturities offered relatively 'illiquid.' The Central Bank (Dept. of Public Debt) though willing to support the market and as is ready to prevent disorderly movements in market value so as to support investor confidence, nevertheless mediates only in respect of securities offered by small investors, trusts and charitable institutions. Central Bank purchases at the official valuation are thus restricted and transactions have in general to go through brokers. Besides there is very little trading which takes place even at market valuations. Institutional investors in the captive market are inclined only to support new issues and their purchase of stock in the open market is negligible. Thus subscribers are often faced without buyers and find themselves 'locked-in' with their investments.

Thirdly, the attractiveness of government securities as an investment outlet has greatly diminished because of the inflationary situation which has developed. It is during periods of stable or falling prices (i.e. the general level of prices) that investors show a preference for securities with a fixed rate of return. Under inflationary conditions investor preferences shift from bonds to capital appreciating assets, equities. bullion and real estate.

Fourthly, the poor response for government securities from private investors could well be the outcome of a divergence of preferences of investors and the needs of government and its financial commitments. The preference of government has has been till recently to float long terms loans so that funds raised may be directed to investment projects with long gestation lags. The terms of the loan and the returns from investment can be synchronised where long stocks are issued as to enable the loan to be repaid from the returns from investment. Besides the above, a long term debt structure renders debt management as easy task. However, given expectations of increases in interest rates and the use of higher interest rates to curb investment activity and monetary demand, investors are reluctant to tie up funds for long periods. Investor preference is for short dated stock as (1) they prefer to be more liquid in the situation of inflationary price increases (2) the market value of short dated stock is relatively more stable and (3) the risk of capital loss on short dated securities is comparatively small. There is then a conflict between government's financing terms and what the public is willing to absorb.

Fifthly, it is conceivable that taxation and fiscal policy may have also restricted the expansion of the government securities market as a possible outlet for private sector funds. High taxation of income is generally acknowledged to have encouraged widespread tax evasion. Those who have evaded taxes are not likely to deposit their earnings either in banks or in securities which may be scrutinised by tax authorities. The popularity of Certificates of Deposits as a investment outlet for 'Black Money' is evidence which supports this observation.

In the same context it should be mentioned that rules and regulations for administering debt which bear on the mode of payments of interest on government rupee stock. the requirements insisted as regards endorsement of securities before ownership of securities is transferred and the time lags that ensue between receipt of interest vouchers by stockholders and the actual receipt of interest, the streamling which is necessary to develop and foster the keenness of investors as subscribers to stock, may have militated against the development of a wider government securities market. Especially as these regulations have had the unintended effect of reducing the marketability of these investments.

The borrowings of the government in any one year are determined primarily by budgetary requirements. The volume of debt contracted and the maturity pattern of debt issued, however, influence the state of liquidity in the money market, as well in a round about way, the supply of loanable funds. Thus, it is an important task of the Central Bank to advice government on the feasible amounts of new loans to be floated and on the terms and timing of offering of these to the investing public. A loan programme has to take into account compulsory repayments falling due on maturity. If these repayments add up to a large amount, government may experience in the absence of Sinking Funds or ready subscribers for conversion loans — a temporary difficulty in meeting both the loan programme and raising of sufficient cash to meet cash conversions. A bunching of repayments (where conversion is not possible) coupled with a large domestic loan programme could bring about a temporary cash shortage. However. with captive markets to lend support and with repayment proceeds of maturing debts accruing to these sources such temporary difficulties are unlikely impair confidence in government's ability to repay. Besides through conversion operations (refunding) the extent of cash payments to be made can be minimised.

Nevertheless. to obviate even temporary difficulties of cash, the maturity pattern of debt should be

so arranged that as far as possible these would not hamper regular market borrowings. For purposes of ascertaining the bunching of debt payments, a maturity distribution of debt has been presented in table 10.

The above frequency distribution reveals that the repayments are evenly distributed with amount falling due for payment of roughly equal amount, baring 1984. However, the adoption of short maturity for the current borrowing programme would tend to increase the nominal amounts in respect of what Sinking Funds have been provided. In effect the 'conversion' which takes place by reinvestment of sinking fund monies amounts to a postponement of the debt for a further term equivalent to the latest date of maturity.

A study of Sri Lanka's external debt growth should focus on the Balance of Payments effects of external stocks and the modes of adjustment. For a large number of countries the adjustment to oil prices was crucially painful. Governments of oil importing countries had not only to aim at balance of payments adjustments but also to choose investment and production priorities so as to reduce the shocks of loss of growth..

The large and continuing external payments deficits and the inadequacy of our external resources to finance them has necessitated the placing of heavy reliance on foreign credits to tide over difficulties. This mode of financial accommodation resulted in the mid seventies in external liabilities increasing very sharply and concomitantly registering an increase in the service payments on foreign debt. As will be shown, the position has improved markedly in more recent years especially since 1978.

Service payments on foreign debt which absorbed 22% (1970-73) currently absorb on average about 14 per cent of the country's foreign exchange earnings in rupee terms as seen in the data given in Table 11.

The debt service ratio is the proportion of foreign exchange earnings on current account absored by external debt. A rising ratio indicates an increasing burden and a falling ratio signifies the opposite effect. Sri Lanka's debt ratio, shows an improvement which is most welcome. The ratio has fallen from 23% in 1973 to 12.4% in 1980.

Both amortisation and interest payments have shown in the early seventies sharp increases. The higher rate of increase of interest payment is the outcome of both the higher level of borrowings effected and the increasing reliance on short term credits and commercial borrowings which carry higher borrowing rates. There has been a gradual shift in the period since 1977 from suppliers credits to institutional borrowings. The fall in the debt service ration is both the result of higher export earnings and the greater recourse to short term acceptance credits which do not figure in debt service ratio calculations.

International comparisons of debt service ratios have many pitfalls. Debt service ratios are based on debt service actually paid and not on contractual debt due. If a country had defaulted on debt this would be reflected in a lower debt ratio than if contractual debt had been used. It is necessary to point out that the debt service ratio is per se an incomplete indicator of a country's debt situation. Many other factors have a bearing on debt servicing capacity. Among these the stability and diversification of the country's export structure, the prospects for future growth and development efforts undertaken. the extent of import substitution undertaken, the time profile of the country's debt, the size of foreign exchange reserves, compensatory drawing facilities available are worthy of note.

Noting these, it is still possible to list countries according to relative performance in respect of debt servicing and thereby place the country in question (i.e. Sri Lanka) on an international setting. Data in Table 12 show the debt servicing record of several countries, all worked out in terms of a common external currency.

Sri Lanka's debt servicing ratios have been in general, lower than that of India and Pakistan; yet compared with a number of developing countries of similar size, natural resource utilisation, and economic development, Sri Lanka's debt servicing ratios were high in the sixties and seventies. Note that in 1965 there was only one other country which had a debt service ratio lower than Sri Lanka, namely Malaysia. In 1972 there were six countries whose debt ratios were lower than Sri Lanka. In 1978, there were three countries with lower ratios. In other words, resources absorbed for debt servicing have grown larger and the servicing cost has increased over time. It would be a relevant inference that Sri Lanka would be faced with problems of rescheduling her debt or seeking debt relief unless present trends are maintained or there are compensatory increases in export earnings to bear higher debt incidence.

Maintaining current trends will not be an easy exercise because of the heavy investment programmes undertaken, the possible growth of short term debt in the event of delays in the receipt of official assistance and bank borrowings. These items have shown increases and because the repayment of principal follows very soon in the wake of the loan commitment there is limited scope for rescheduling except at a cost.

A containment of the growth in Sri Lanka's foreign debt service payment should begin by a reduced reliance on commercial borrowings. It is not necessary to interpret fully the data in Table 13 as the statistics are self explanatory. In the period 1969 to 1972, suppliers credits showed a steep increase and their servicing costs exceed the servicing costs of DAC loans even though in volume terms the loans from DAC group were nearly 4 times larger. Note also that repayment of principal on suppliers credit accounted for a disproportionately high share and nearly equalled the total of interest and repayment of principal on loans from DAC countries. Reliance on short term credit imposed a severe strain on the debt servicing obligations of the country. In the period 1977 to 1979 even following a much increased volume of borrowing, the weight of service payments (principal and interest) in debt outstanding showed a favourable downward trend. The latter result was principally due to the greatly reduced reliance on suppliers credit and the greatly increased dependence on international organisations and DAC assistance.

Although Sri Lanka had consciously reduced her reliance on costly commercial credits, the burden of foreign debt financing of loans already disbursed is likely, in the future, to be a problem of some magnitude. With a view to quantifying same, estimated debt service payments on debt outstanding as at end of year 1980 is given for years 1981 to 1986.

The burden of external debt servicing would apparently be most severe in the years 1985 and 1986 with

	Million US $					
	1981	1982	1983	1984	1985	1986
1. Total Debt Service	94.2	95.5	102.1	111.0	115.1	112.3
2. Of which principal payment	60.1	59.0	64.8	75.9	83.1	83.5
3. Amount of Principal due to official lending	47.1	48.5	43.3	54.8	63.9	65.5

Source: E 167/80

payments totalling US$ 115.1 million and US$ 112.3 million respectively falling due. These figures would alter as more foreign debt is contracted and utilised and repayment obligations are increased. A growing foreign debt inescapably underlines the central proposition that foreign debt repayment should come from real resources and export surpluses.

The scope for rescheduling debt in the event of a catastrophic fall in export receipts or a totally unforseen adverse import programme is yet promising as the share of official borrowing is higher than that from private and commercial sources. However, the actual relief that would be forthcoming would depend on the nature of fiscal and monetary policies pursued in correcting the "manageable" items of the balance of payments deficit as well as creditor confidence on the structural adjustment package accepted by Sri Lanka. Whatever be the scenario, whether it is a high forecast or otherwise. the safest course when embarking upon a foreign debt financed programme of investment would be for the government concerned to undertake additional domestic resource mobilisation, increase such efforts and constantly keep in review the size and scope of the investment programme. In such a context, donors too would oe agreeable to offer concessional terms as well as be willing to reschedule debt.

Sri Lanka has a good claim on figures studied here to request from lending countries more favourable terms for borrowing emphasising that as her economy's productive capacity gets enhanced the servicing of past debts could be achieved without undue strain on domestic consumption and real incomes of the people. The present foreign debt servicing ratios are modest in relation to export earnings. A fall in the ratio is seen for 1980 on account of higher rupee earnings of exports. For the servicing problem to be manageable, continuing gains on the export front will have to be buttressed by more judicious use of funds borrowed. Better borrowing terms on the plea of productive use of resources and a higher repayment potential stemming from an enlarged viable economy wil also help to lower the debt servicing ratio facing the country.

The formidable challenge before Sri Lanka is that of maintaining — within the constraints of resources available for development financing and the chosen time horizon for repaying these benefits — the now firmly committed accelerated and heavy capital intensive investment programme begun in 1977. The sacrifices to be made to achieve the growth objectives — as planned within the confines of the time horizon chosen — are many and hard. Nor for that matter is the path of adjustment to achieve these goals clearly defined or easily contoured. Among the sacrifices, one should reckon even a possibly lowered prospect for employment and economic growth in the short-medium term, if the mechanics of demand management necessitate a cutting back on the level of investment because of a lack of foreign assistance or domestic fiscal and monetary mismanagement and even

TABLE 1 INDICATORS OF PUBLIC DEBT GROWTH 1959-64, 1970-74 & 1975-80

Total Net Public Debt and Gross Domestic Product at Current Factor Cost Prices

Rs. Million

PEROD I	1959	1960	1961	1962	1963	1964	Av.
1. G.D.P.+	5930	6331	6353	6549	6849	7326	6556
2. Total Net Public Debt	1524.7	1912.8	2332.7	2688.9	3065.4	3436.0	2493.4
3. 2% 1 Weight of Debt ...	25.8	30.3	36.7	41.1	44.8	46.9	38.0

PERIOD II ...	1970	1971	1972*	'73 Dec.	'74 Dec.	Av.
1. G.D.P. ...	13,187	13,674	14,720	17.920	23,302	16,561.0
2. Total Net Public Debt	7,236.8	8,108.0	9,448.3	10,280.8	11,026.9	9,220.2
3. 2% 1 Weight of Debt	54.9	59.3	64.2	57.4	47.3	55.7

PERIOD III	'75 Dec.	'76 Dec.	'77 Dec.	'78 Dec.	'79 Dec.	'80 Dec.–	Av
1. G.D.P.	25,691	28,032	34,684	40,479	49,782	62,246	40,152
2. Total Net Public Debt	12,959.7	15,620.7	22,434.1	27,745.7	31,511.8	46,779.0	26,172.2
3. 2% 1 Weight of Debt	50.4	55.7	64.7	68.5	63.3	75.2	65.2

Notes:

+ G.D.P. data are on a calendar year basis. Public Debt data for all years upto 1970–71 relate to financial year ending 30th September. Data for 1971–72 relate to a 15 month period, October 1971 to December 1972. The fiscal year coincides with the calendar year with effect from 1973.

* 15 month period.

+ Provisional

Source: *Central Bank of Ceylon (Annual Reports)*

labour unrest reacting to a continuing inflationary situation. Loss of investor confidence for whatever reason and reduced international credit standing are also likely to arise if timely adjustments and sacrifices are not made to curtail unwarranted, conspicous consumption, the widening merchandise trade deficits and a re-alignment of possibly ambitious and mis-matched investment priorities. To survive these strains, more attention would have to be given to a better use of externally borrowed funds, cutting down on waste and the gearing or matching of investments to time profiles of output responses which help to augment aggregate supply for better management.

TABLE 2 COMPARATIVE POSITION OF NET BORROWING IN FINANCING BUDGETARY OUTLAYS, FINANCIAL YEARS 1954-55 to 1958-59, 1964-65 to 1974 and 1977 to 1981

Rs. Million

	(1) *Total* 1/ *payment*	(2) *Total current receipts*	(3) *Gap* 1-2	(4) *Direct* 2/ *borrowing*	(5) 4%3 *Amt. covered by direct borrowing*
1954–55	1,068.1	1,241.4	+173.3	35.1	(19.68)
1955–56	1,322.7	1,256.0	–66.7	190.3	284.9
1956–57	1,506.0	1,273.0	–233.0	189.0	81.12
1957–58	1,553.3	1,312.4	–240.9	344.8	143.13
1958–59	1,783.2	1,388.8	–384.4	423.1	110.07
1964–65	2,431.8	1,968.0	–463.8	386.8	83.40
1965–66	2,609.0	2,011.1	–597.9	606.9	101.51
1966–67	2,824.6	2,179.7	–644.9	609.9	94.57
1967–68	3,152.6	2,404.1	–748.5	722.8	96.57
1968–69	3,578.1	2,752.0	–826.1	656.9	79.52
1969–70	3,915.1	2,924.8	–990.3	898.4	90.72
1970–71	3,973.8	2,835.8	–1,138.0	900.3	79.11
1971–72	5,403.8	4,032.1	–1,371.7	1,364.1	99.45
1973	5,026.6	3,928.6	–1,098.0	882.6	80.38
1974	5,829.5	4,682.7	–1,146.8	743.7	64.85
1977	8.812.8	6,543.7	–2,269.1	2,117.6	93.32
1978	17,687.7	11,473.5	–6,214.2	5,281.6	85.00
1979	20,339.3	12,474.7	–7,864.6	6,246.5	79.42
1980+	28,532.3	13,914.7	–14,617.6	12,224.1	83.63
1981+	26,226.7	15,322.8	–10,903.9	10,230.0	93.82

Notes

1/ Total payments include Current Payments (Purchase of goods and services plus Transfers) Capital Payments (Acquisition, construction and maintenance of real assets, Transfers and acquisition of financial assets and Net payments on account of operation.

2/ Direct Borrowing includes borrowing from Central Bank, Commercial Banks, Private non-Banks, non market borrowings and Foreign borrowings and excludes grants and capital transfers from abroad.

\+ Provisional.

\+ Estimated.

Source: *Central Bank of Ceylon.*

The key elements in the exercise of meeting challenges and sacrifices would be to map out a medium term strategy consistent with the use of available and readily reckonable external borrowings, without endangering external stability. The alternative would be a painfully sharp currency devaluation to maintain relative export competitiveness.

An adjustment of public and corporate investment away from highly capital intensive programmes with built in high import content to favour quick gestating projects benefiting wider productive sectors (i.e. not merely trading banking and service sectors) would be opportune. So, too, would be the conscious development of fiscal and monetary intervention instruments and infrastructural institutional developments such as a stock exchange, a merchant banking network, variable reserve ratios for commercial banks and reasonable net advances to deposit liquidity ratios which would help to mobilise more effectively domestic resources out of incremental incomes and channel these to productive activity. Reinvestment activities financed from income absorption from the current income streams would enable investments to be financed from sources with a lower potential for monetary expansion as against direct credit creation. The sacrifices on the one hand made from restraining present consumption and the lowered employment and income targets arising from a modest growth rate and slightly lower waiting period and on the other hand, a restrain in the use of foreign commercial borrowings by a careful husbanding of foreign resources which infringe less severely or the servicing costs of loans would not be too costly a price to pay, when viewed against the alternatives of political choice open to the country and a jettisoning of current forward looking policies.

TABLE 3 SOURCE OF FINANCING CAPITAL EXPENDITURE FINANCIAL YEARS 1955-56 TO 1959-60, 1964-65 TO 1974 AND 1977 TO 1981

Rs. Million

	(1)	(2)	(3)	(4)	(5)
	Capital 1/ Expenditure	*Source of 2/ finance Current A/C Surplus / + Deficit (—) as % of Total capital expenditure.*	*Borrowings abroad Grants & Capital transfers as% of capital expenditure*	*Net domestic borrowing as % of capital expenditure*	*(3+4)3/ Total borrowing as% of capital expenditure*
1955/56	430.9	91.5	6.6	6.7	13.3
1956–57	395.9	70.5	6.5	44.3	50.8
1957/58	498.6	31.0	6.7	33.8	40.5
1958/59	493.0	7.7	9.7	63.9	73.6
1959/60	495.7	4.7	6.7	80.6	87.3
1964/65	536.7	14.7	18.6	58.0	76.6
1965/66	596.7	3.6	19.7	88.9	108.9
1966/67	698.7	12.4	29.9	60.2	90.1
1967/68	789.2	1.9	24.0	70.9	94.9
1968/69	909.8	15.3	38.7	35.4	74.1
1969/70	883.1	11.4	25.6	83.2	108.8
1970/71	789.6	–32.2	29.3	90.8	120.1
1971/72	1,140.2	–4.6	31.1	95.0	126.1
1973	1,160.8	12.8	13.8	65.3	79.1
1974	1,244.9	8.6	30.4	49.6	80.0
1977	2,193.8	–0.4	57.2	62.1	119.3
1978	5,424.1	17.6	72.9	36.7	109.6
1979	7,729.4	11.5	48.3	50.4	98.7
1980 + ...	11,757.1	3.2	52.1	74.0	126.1
1981 + ...	11,015.7	–1.0	68.4	24.4	92.8

Notes:

1/ Capital expenditure data given here include capital items in recurrent votes and projects but exclude current elements in capital votes and projects.

2/ Current account surplus or deficit (–) is the excess or shortfall of current receipts over current payments.

3/ The figures where these exceed 100% are reflected as increases in cash balances.

\+ Provisional.

Source: *Central Bank of Ceylon.*

TABLE 4 RELATIVE SHARES OF TAXES AND BORROWING IN COVERING PAYMENTS 1955/56 TO 1959/60, 1964/65 TO 1974 & 1977 TO 1981

Rs. million

	(1) *Total payments*	(2) *Total taxes* 1/	(3) *Total Direct Borrowing*	(4) 2% 1 *Tax share*	(5) 3% 1 *Borrowing share*	(6) 3% 2
1955/56 ...	1,322.7	1,015.5	34.1	76.77	2.58	3.36
1956/57 ...	1,506.0	1,011.7	190.3	67.18	12.64	18.81
1957/58 ...	1,533.3	1,016.6	174.7	65.44	11.25	17.18
1958/59 ...	1,773.3	1,057.5	351.8	59.63	19.84	33.27
1959/60 ...	1,821.3	1,119.5	423.4	61.47	23.25	37.82
1964/65 ...	2,431.8	1,439.9	386.8	59.21	15.91	26.86
1965/66 ...	2,609.0	1,400.0	606.9	53.66	23.26	43.35
1966/67 ...	2,824.6	1,401.3	609.9	49.61	21.59	43.52
1967/68 ...	3,152.6	1,682.4	722.8	53.37	22.93	42.96
1968/69 ...	3,578.1	1,981.3	656.9	55.37	18.36	33,15
1969/70 ...	3,915.1	2,260.1	898.4	57.73	22.95	39.75
1970/71 ...	3,973.8	2,276.5	900.3	57.29	22.66	39.55
1971/72 ...	5,403.3	3,284.7	1,364.1	60.79	25.25	41.53
1973 ...	5.026.6	3.309.2	882.6	65.83	17.56	26.67
1974 ...	5,829.5	4,020.8	743.7	68.97	12.76	18.50
1977 ...	8.812.8	5.508.6	2,177.6	62.51	24.03	38.44
1978 ...	17,687.7	10,382.3	5,281.6	58.70	29.86	50.87
1979 ...	20,339.3	11,154.8	6,246.5	54.84	30.71	56.00
1980 ...	28,532.3	12,506.9	12,224.1	43.83	42.84	97.74
1981+ ...	26,226.7	13,785.3	10,230.0	52.56	39.01	74.21

Notes:

1/ Total taxes include personal taxes plus taxes on corporate income plus taxes on production and expenditure plus death duties plus other capital taxes minus profits from food sales.

\+ Provisional.

Source: *Central Bank of Ceylon Annual Report.*

TABLE 5 TOTAL PUBLIC DEBT–1968/69 TO 1974 (a) (Financial Years) 1977 TO 1980

As at end of Financial Year	1968/69 *Amount Rs. Mn.*	%	1969/70 *Amount Rs. Mn.*	%	1970/71 *Amount Rs. Mn.*	%	1971/72 *Amount Rs. Mn.*	%	1972/73 *Amount Rs. Mn.*	%	1974 *Amount Rs. Mn.*	%
1. Gross Debt ...	6,888.5	100.0	7,873.2	100.0	8,782.8	100.0	10,318.7	100.0	11,379.9	100.0	12,380.1	100.0
1.1 Foreign ...	1,375.5	20.0	1,578.4	20.1	1,800.1	20.5	2,392.5	23.2	2,795.3	24.6	2,973.7	24.0
1.2 Domestic ...	5,513.0	80.0	6,294.8	79.9	6,982.2	79.5	7,926.2	76.8	8,584.6	75.4	9,406.4	76.0
2. Net Debt (b) ...	6,239.9	100.0	7,236.8	100.0	8,108.0	100.0	9,448.3	100.0	10,280.8	100.0	11,026.9	100.0
2.1 Foreign ...	1,337.3	21.4	1,550.9	21.4	1,767.6	21.8	2,352.5	24.9	2,750.5	26.8	2,921.5	26.5
2.2 Domestic ...	4,901.6	78.6	5,685.9	78.6	6,340.4	78.2	7,095.8	75.1	7,530.3	73.2	8,105.4	73.5

As at end of Financial Year	1977 *Amount Rs. Mn.*	%	1978 *Amount Rs. Mn.*	%	1979 *Amount Rs. Mn.*	%	1980 *Amount Rs. Mn.*	%
1. Gross Debt	25,985.9	100.0	20,949.8	100.0	35,474.7	100.0	51,655.6	100.0
1.1 Foreign	10,593.5	42.4	14,582.3	47.1	15,840.6	44.7	22.276.8	43.1
1.2 Domestic	14,392.4	57.6	16,367.6	52.9	19,963.4	55.3	29,378.8	56.9
2. Net Debt	22,434.1	100.0	27,745.7	100.0	31,511.8	100.0	46,779.0	100.0
2.1 Foreign	10,593.5	47.2	14,582.3	52.3	15,840.6	50.3	22,276.8	47.6
2.2 Domestic	11,840.6	52.8	13,163.4	47.7	15,671.2	49.7	24,502.2	52.4

Notes: (a) Excluding (i) National Housing and State Mortgage Bank debentures (ii) Debt on account of imports of government departments under suppliers, credit and (iii) Promissory notes issued in favour of international financial organisations).

(b) Gross debt less sinking funds in respect of sterling and rupee loans. Commencing 1975 there is no liability on transfers of sterling loans and hence net and gross foreign debt is the same.

Source: *Central Bank of Ceylon Annual Reports.*

TABLE 6 COMPOSITION OF DOMESTIC PUBLIC DEBT AND CHANGES-1968/69 TO 1974 AND 1977-1980

Rs. million

		Rupee Loans							Total	
		Gross	*Sinking Funds (a)*	*Net*	*Treasury Bills*	*Tax Reserve Certificates*	*Central Bank Advances*	*National Development Bonds & others*	*Gross*	*Net*
I Sept.	1969	3,409.1	611.4	2,797.7	1,750.0	24.5	329.3	0.1	5,513.0	4,901.6
,,	1970	3,924.9	608.9	3,316.0	1,950.0	45.4	374.4	0.1	6,294.8	5,685.9
,,	1971	4,511.9	642.2	3,869.6	2,025.0	66.0	379.	0.2	6,982.6	6,340.4
II Dece.	1972nn	5,103.0	830.4	4,273.0	2,325.0	78.0	419.6	0.2	7,926.2	7,095.3
,,	1973	5,812.2	1,054.3	4,757.9	2,250.0	66.1	456.1	0.2	8,584.6	7,530.4
,,	1974	6,590.5	1,301.0	5,289,5	2,250.0	67.9	497.9	37.9	9,444.2	8,143.2
III Dece.	1977	10,391.6	2,551.8	7,839.8	2,500.0	40.6	617.4	842.8	14,392.4	11,840.6
	78	12,049.1	3,204.1	8,845.0	2,635.0	29.5	955.5	698.5	16,367.5	13,163.4
	79	14,929.1	3,962.9	10,966.2	3,000.0	28.0	1,136.5	540.6	19,634.1	15,671.2
	80	17,611.0	4,876.6	12,734.4	9,800.0	12.5	1,627.6	327.7	29,378.8	24,502.2
Change	1970/69	+ 515.8	— 2.5	+ 518.3	+ 200.0	+ 20.9	+ 45.1	—	+ 781.8	+ 784.3
Change	1971/70	+ 587.0	+ 33.5	+ 533.6	+ 75.0	+ 20.6	+ 5.1	+ 0.1	+ 68.8	+ 654.5
Change	1972/Dec. '71 Sept. ...	+ 391.3	+ 188.2	+ 403.4	+ 300.0	+ 12.0	+ 40.1	—	+ 943.6	+ 755.4
Change	1973	+ 708.8	+ 223.9	+ 484.9	— 75.0	— 11.9	+ 36.5	—	+ 658.4	+ 434.5
Change	1974	+ 778.3	+ 246.7	+ 531.6	—	+ 1.8	+ 41.8	— 0.1	+ 821.8	+ 575.1
Change	78	+ 1,657.5	+ 652.3	+ 1005.2	+ 135.0	— 11.1	+ 338.1	— 144.3	+ 1975.1	+ 1322.8
Change	79	+ 2,880.0	+ 758.8	+ 2121.2	+ 365.0	— 1.5	+ 181.0	— 157.9	+ 3266.6	+ 2507.8
Change	80	+ 2,681.9	+ 913.7	+ 1768.2	+ 6800.0	— 15.5	+ 491.1	— 212.9	+ 9744.7	+ 8831.0

(a) Representing the market value of investments held on behalf of sinking funds (including supplementary Sinking funds).

(b) Including special loans towards payment of membership subscriptions to the IMF, the IBRD, the IDA and the ADB. Net of loans which amounted to Rs. 98.5 million at the end of December 1974, the Central Bank advances increased by Rs. 39.1 million in 1974. These special loans exclude promissory notes issued in favour of international financial organisations.

Source: *Central Bank of Ceylon.*

TABLE 7 CLASSIFICATION OF SUBSCRIPTIONS TO RUPEE SECURITIES (a)

	1968/69		1969/70		1970/71		1977		1979		1980 (Provisional)	
	Amount Rs. Mn.	*Percentage*	*Amount Rs. Mn.*	*Percentage*	*Amount Rs. Mn.*	*Percentage*	*Amount Rs. Mn.*	*Percentage*	*Amount Rs. Mn.*	*Percentage*	*Amount Rs. Mn.*	*Percentage*
Subscribers												
1. Bank Sector ...	0.6	0.2	117.5	20.3	12.7	1.9	—	—	—	—	—	—
1.1 Commercial Banks ...	0.6	0.2	117.5	20.3	12.7	1.9	—	—	—	—	—	—
2. Non-Bank Sector ...	339.4	99.8	461.7	79.7	668.1	98.1	1500.0	100.0	2950.0	100.0	2801.5	100.0
2.1 Savings Inst. (b) ...	36.9	10.6	156.1	26.9	216.0	31.7	402.1	26.8	1128.7	38.3	918.1	32.8
2.2 Sinking Funds ...	111.8	32.9	83.0	14.3	161.8	23.8	506.8	33.8	771.3	26.1	817.6	29.2
2.3 Departmental & other official funds ...	8.4	2.5	6.2	1.1	9.4	1.4	1.7	0.1	0.1	...	—	—
2.4 Employees' Prov. Fund.	101.3	29.8	97.9	16.9	143.0	21.0	397.1	26.5	835.9	28.4	900.7	32.1
2.5 Insurance Corp. ...	42.5	12.5	45.5	7.9	60.8	8.9	120.3	8.0	182.5	6.1	135.5	4.8
2.6 Private Prov. & Pension Funds ...	36.8	10.8	53.9	9.3	62.1	9.1	70.0	4.7	31.5	1.1	29.6	1.1
2.7 Insurance Corp. ...	0.6	0.2	16.1	2.8	6.3	0.9	0.3	...	—	—	—	—
2.8 Others Cos. ...	0.2	0.1	0.6	0.1	0.8	0.1	...	...	—	—	—	—
2.9 Individuals Clubs & Institutions ...	1.5	0.4	2.5	0.4	7.9	1.2	1.7	0.1	...	...	—	—
3. Total ...	340.0	100.0	579.2	100.0	680.9	100.0	1500.0	100.0	2950.0	100.0	2801.5	100.0

(a) Referes to rupee loans only.

(b) With effect from 1st April 1972, the National Savings Bank has taken over the assets and liabilities of the Post Office Savings Bank, Ceylon Savings Bank and the Savings Certificates Fund.

TABLE 8 INTEREST ON DOMESTIC DEBT 1964-1980–SRI LANKA

Rupees million.

	Total current expenditure	*Interest on domestic debt*	*Of which interest on Rupee Loan*	2% 1
1964/65	1895.8	87.4	73.6	4.6
1965/66	1996.8	103.2	85.4	5.2
1966/67	2096.7	118.4	100.1	5.6
1970/71	3096.7	263.4	195.7	8.5
1971/72	4084.8	401.0	309.5	9.8
1973	3790.6	392.8	319.1	10.4
1978	10,521.5	1054.7	839.0	10.0
1979	11,588.0	1276.9	1028.7	11.0
1980 (Prov.)	13,535.2	1787.4	1330.3	13.2

Source: *Central Bank of Ceylon.*

TABLE 9 DOMESTIC DEBT–ANALYSIS BY MATURITY DISTRIBUTION 1960/61 TO 1963/64, 1969/70 TO DEC. 73' AND 1978 TO 1980 (as at least date of maturity)

Financial Year	60/61	61/62	62/63	63/64	69/70	70/71	Dec. 72	Dec. 73	1978	1979	1980 (Prov.)
1. Total Domestic Debt. Rs. M.	2234.0	2693.7	3030.2	3375.3	6294.8	6982.5	7926.2	8584.6	16,367.5	19,634.2	29,378.8
2. Unfunded Debt* as % of Total	40.4	43.7	44.4	43.4	37.6	35.4	35.6	32.3	22.1	21.2	38.9
3.1 Funded Debt as % Total ...	59.6	56.3	55.6	56.6	62.4	64.6	64.4	67.7	77.9	78.8	61.1
3.2 Below 5 Yrs. % Total ...	11.6	10.1	8.1	6.1	7.8	5.7	5.4	5.0	6.4	8.1	13.4
3.3 5–10 Yrs. % Total ...	7.9	8.5	12.1	13.2	6.1	1.1	3.9	13.9	35.7	35.6	26.3
3.4 10–15 Yrs. % Total ...	9.8	6.7	7.4	6.4	8.5	19.4	28.7	26.6	29.2	32.2	20.2
3.5 15–20 Yrs. % Total ...	16.5	14.3	8.2	7.3	16.6	16.0	17.2	17.9	2.3	0.2	—
3.6 20–25 Yrs. % Total ...	13.8	16.6	19.8	23.6	23.3	16.5	9.1	4.3	—	—	—

Source: *Annual Report of Central Bank*

TABLE 10 MATURITY DISTRIBUTION OF RUPEE LOANS 1980-1995 BASED ON COMPULSORY DATE OF REPAYMENT

(Position as at 31st December, 1980)

No.	*Year of Maturity*	*No. of Loans*	*Total Amount Repayable*
1	1981	01	24,860,000*
2	1982	—	—
3	1983	21	2,038,111,900
4	1984	18	608,168,600
5	1985	20	1,277,278,600
6	1986	18	1,141,788,700
7	1987	18	1,172,275,300
8	1988	17	1,637,532.300
9	1989	17	1,752,417.100
10	1990	17	2,010,000.000
11	1991	24	3,307,123,100
12	1992	15	1,916,422.800
13	1993	11	350,000,0000
14	1994	11	340,000,000
15	1995	01	35,000,000
	Total	209	17,610,978,400

* Repaid on 1.2.1981

Source: *Dept. of Public Debt*
Central Bank of Ceylon.

TABLE 11 FOREIGN DEBT SERVICING RATIOS SRI LANKA 1970-1973 AND 1977-1980

Rs. million

	1970	1971	1972	1973	1977	1978	1979	1980 (Prov.)
1. Foreign debt service payments ...	453.4	491.6	480.2	629.2	1211.9	2347.2	2383.1	2762.8
a. Amortisation	353.7	387.1	378.3	520.8	2966.9	1862.4	1627.4	1781.5
b. Interest	99.7	104.5	101.9	108.4	45.0	484.0	755.7	981.3
2. Earnings on exports goods & services ...	2253.3	2244.2	2205.9	2733.3	7563.2	15148.8	18274.7	22208.0
3. Debt service ratio 1:2	20.1	21.9	21.8	23.0	16.0	15.5	13.0	12.4

Note: Values from 1971 onwards are affected by the Devaluation and subsequent floating of the rupee.

TABLE 12 INTERNATIONAL COMPARISON OF DEBT SERVICING RATIOS 1965-67, 1970-72 AND 1977-79

(Debt Service as percentage of the exports of goods & Services)

		1965	1966	1967	1970	1971	1972	1977	1978	1979
1.	Sri Lanka	2.0	2.8	3.4	9.7	11.3	14.3	14.5	9.2	6.5
2.	India	15.0	21.9	24.8	22.5	24.7	24.1	9.6	9.9	n.a
3.	Pakistan	11.0	13.0	17.2	24.2	34.0	25.0	13.7	12.4	12.2
4.	Burma	4.6	4.6	6.4	16.1	13.6	16.3	13.6	15.4	25.0
5.	Indonesia	10.3	8.4	5.3	7.0	7.8	8.0	11.4	12.3	13.4
6.	Malaysia	1.3	1.4	2.1	3.0	2.7	3.0	6.6	8.4	4.7
7.	Thailand	3.7	3.4	3.6	3.6	3.3	2.8	10.6	15.8	13.9
8.	Philippines	5.4	6.4	7.2	7.5	7.0	6.8	14.3	26.5	23.2
9.	Tanzania	4.5	3.8	4.4	6.7	7.4	9.5	7.2	7.4	n.a.
10.	Kenya	5.9	5.9	6.8	5.3	5.8	5.6	4.8	8.1	7.5

Source: *World Bank:* EC 167/74
EC 167/80

Note:

(1) While data for periods 1965-1967 and 1970-72 are directly comparable because the source is one and the same, the data for 1977-1979 should be compared only between these years as movements showing orders of magnitude. A period-wise comparison is not possible because of differences in sources and coverage of compliation.

DEVELOPING COUNTRIE'S OUTSTANDING DEBT 1970-79

(percentages)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Indicators										
Debt Ratio ...	8.9	9.2	9.0	8.8	7.1	8.4	8.4	9.5	12.4	12.6
Interest-service ratio	2.8	2.9	2.8	2.7	2.4	3.2	3.3	3.5	4.2	4.8
Capital-service ratio[a]	14.5	14.5	13.4	13.4	11.1	11.9	11.5	12.9	15.5	15.0
Debt/GNP (percentage)[b]	12.3	13.1	13.5	13.1	12.6	13.9	15.5	17.0	18.3	17.8
Debt/exports (percentage)[b]	80.1	85.2	81.8	70.0	59.6	72.1	75.6	79.6	86.6	78.3
Debt/reserves (percentage)[b]	263.7	239.9	183.2	153.9	143.5	193.9	204.6	214.5	217.3	176.4
Interest-service/GNP (percentage)[b] ...	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.7	0.9	1.1
Memo Item										
Total public debt outstanding and disbursed, all included countries (billion of dollars) ...	50.4	59.3	69.3	84.8	105.5	128.4	159.1	198.9	251.7	294.4

Note: Includes all developing countries that report to the World Bank's debt-reporting system except (1) the capital-surplus oil exporters; and (2) countries, for which complete and reliable time series data are not available (Afghanistan, Bahrain, Botswana, Burundi, Comoros, Guinea, Iran, Iraq, Lebanon, Lesotho, Liberia, Maldives, Nepal, Papua New Guinea, and South Africa).

a. Contractual service payments on long-term debt, plus remitted profits on direct investment divided by exports of goods and services.
b. Debt outstanding and disbursed.

Source: *"World Development Report"* 1981."

TABLE 13 SRI LANKA EXTERNAL DEBT OUTSTANDING (DISBURSED) AND RELATIVE GROWTH OF SUPPLIERS' CREDIT IN TOTAL DEBT 1969-1972 & 1976-1979

million US $

	Debt Outstanding (Disbursed)				Service Payments-Principal & Interest				
	Total	*Share of:* (a) *Suppliers' Credit*	(b) *Intern. Orgnzs.*	(c) *DAC Govts.*	*Total*	*Suppliers' Credit*	*Intern. Orgnzs.*	*DAC Govts.*	*Principal repayment Suppliers' Credit*
1969 ...	209.5	31.4	27.1	108.1	31.0	11.0	13.0	9.7	7.3
1970 ...	274.1	44.8	27.4	145.1	36.4	11.6	4.3	11.4	8.6
1971 ...	310.6	44.0	29.1	168.4	42.2	13.1	4.0	12.2	10.5
1972 ...	404.4	51.9	37.6	197.9	50.8	17.4	4.4	15.8	13.6
1976 ...	695.0	115.2	106.3	472.8	126.9	84.3	8.4	34.0	75.6
1977 ...	779.5	71.3	132.8	574.8	123.3	60.3	9.2	53.5	55.0
1978 ...	1012.7	51.1	221.0	740.3	88.9	34.9	10.3	43.6	31.0
1979 ...	1086.0	41.7	280.6	763.4	75.8	18.0	11.0	46.0	15.0

Note:

(1) DAG countries include Australia, Austria. Belgium, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland, U.K., U.S.A. and New Zealand.

(2) Disbursement represent drawings on loan commitments and are shown in the year in which the drawing tates place.

Source: *World Bank: EC*/167/74 *pp.* 141-142
EC/167/80 *pp.* 160–161.