

## **Fiscal Management Report -2009**

**Placed before the Parliament by the Honorable Minister of Finance as required under the Fiscal Management (Responsibility) Act No. 3 of 2003, consisting of the *Fiscal Strategy Statement -2008-2011* (in compliance with Sections 4, 5 and 6 ) and the *Budget Economic and Fiscal Position Report -2009* (in compliance with Sections 7, 8 and 9)**



## CONTENTS

### FISCAL MANAGEMENT (RESPONSIBILITY) ACT NO. 3 OF 2003

Objectives Underlying Responsible Fiscal Management	7
Annual Reporting Requirements by the Minister of Finance	8
Compliance - 2008	9

### FISCAL STRATEGY STATEMENT-MEDIUM TERM 2008-2011

Medium Term Fiscal Strategy	12
Medium Term Strategic Priorities in Fiscal Policy	16
Key Fiscal Measures for Overall Fiscal Policy Implementation	16
Medium Term Fiscal Targets and Expected Outcomes	17

### BUDGET, ECONOMIC AND FISCAL POSITION REPORT - 2009

#### AN OVERVIEW OF THE ECONOMY

Sustained Economic Growth Amidst Challenges	20
Robust Growth in Agriculture Sector	20
Industry Sector Records a Moderate Growth Amidst Challenges	21
A Stable Performance in the Service Sector	21
Declining Trend in Unemployment	23
Inflation a Concern	23
Trade and Current Account Deficit	24
Continuation of a Tight Monetary Policy	24
Fiscal Developments (January - September 2008)	24
Budget Out-turn (January - September, 2008)	25
Government Revenue (January - September 2008)	26
Variance Analysis of Government Revenue (January - September 2008)	27
Buoyant Growth in Income Tax Revenue	28
Marginal Growth in Excise Tax Revenue	30
Moderate Expansion in Value Added Tax (VAT)	31
Modest Performance of Import Duty Revenue	32

Special Commodity Levy	33
Continued Growth in Other Revenue	34
Changes in other taxes	34
Non Tax Revenue Performance	34
Policy Thrust to Rationalize Public Expenditure	35
Pressure on Expenditure	36
High Interest Rates	37
A Variance Analysis of Government Expenditure (January- September 2008)	38
Greater Support for Rural Development	38
Welfare and Social Safety Net for Vulnerable Groups	40
Resettlement of Internally Displaced Persons	41
Initiatives for Disaster Management	41
Assistance for Agriculture Sector	41
Increased Accessibility for Quality Education	42
Improved Access to Healthcare	42
Mega Projects Capable of Addressing Power & Energy	42
Efforts to Develop Ports	43
Greater Investment on Road Development	43
Expanded Services in Water Supply & Sanitation	43
Improved Public Transport Facilities	44
Multi Purpose Irrigation Projects	44
Allocations made under Section 6 of Appropriation Act No. 47 of 2006 and Act No.61 of 2007	44
<b>FOREIGN ASSISTANCE</b>	
Foreign Financing Commitments	60
Committed Un-disbursed Balance	63
Foreign Fund Disbursements	64
External Debt Service Payments	64
Technical Assistance Focus on Capacity Building	64

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## TREASURY OPERATIONS

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Performance of the Government Cash Flow	66
Government Debt Managed within Approved Limits	66
Basis for 2009 Budget Estimates	68
Basis of Projection	68
Sensitivities to the Estimates	69
Risks likely have a Material Effect on the Fiscal Position	69

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## TABLES

### FISCAL STRATEGY STATEMENT-MEDIUM TERM 2008-2011

<b>Table 1</b>	2007 -2010 Medium Term Macro Fiscal Framework	12
<b>Table 2</b>	Macro Economic Position Summary	15
<b>Table 3</b>	Revised Medium Term Macro Fiscal Framework (2008-2011)	17
<b>Table 4</b>	Medium Term Macro Fiscal Framework 2008-2011 (as a percentage of GDP)	18

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### BUDGET, ECONOMIC AND FISCAL POSITION REPORT - 2009

<b>Table 1</b>	The Highest Ever Paddy Production Recorded in 2008	21
<b>Table 2</b>	Selected Indicators of Service Sector Expansion	22
<b>Table 3</b>	Declining Trends in Unemployment	23
<b>Table 4</b>	Headline Inflation and Core Inflation in Sri Lanka	23
<b>Table 5</b>	Summary of the Budget (January to September)	26
<b>Table 6</b>	Income Tax Performance (January to September)	28
<b>Table 7</b>	Excise Tax Performance (January to September)	30
<b>Table 8</b>	Excise Duty Rate Revisions on Cigarettes	30
<b>Table 9</b>	Estimated Shortfalls in Excise Duty Revenue (January to September, 2008)	31
<b>Table 10</b>	Collection of Value Added Tax (January to September, 2008)	31
<b>Table 11</b>	Estimated Shortfalls in VAT Revenue (January to September, 2008)	31
<b>Table 12</b>	Import Duty Revenue Foregone as a Result of Duty Relief Granted to Various Sector Schemes, (January to September, 2008)	32
<b>Table 13</b>	Estimated Revenue Loss on Import Duty due to Tariff Concessions Offered by Sri Lanka under Major Free Trade Agreements (January to August, 2008) (Rs. Mn.)	33
<b>Table 14</b>	Revenue Loss due to the imposition of Commodity Levy to ease the Cost of Living Considerations during January to August, 2008 (Rs.Mn)	33
<b>Table 15</b>	Domestic Petroleum Price Adjustments-2007/ 2008 (Rs per litre)	36
<b>Table 16</b>	Recruitments to the Public Sector	37
<b>Table 17</b>	Behavior of Yield Rates-2008	37
<b>Table 18</b>	Gama Neguma	39
<b>Table 19</b>	"Maga Neguma" - Rural Road Development Program	39
<b>Table 20</b>	Welfare Payments and Subsidies	40
<b>Table 21</b>	Resettlement in Trincomalee and Batticaloa Districts	41
<b>Table 22</b>	Fertilizer Subsidy-Paddy Sector	41
<b>Table 23</b>	Investment on Roads	43
<b>Table 24</b>	Allocations made between 16th October 2007 to 31st December 2007	45
<b>Table 25</b>	Allocations made between 1st January to 30th September 2008	52
<b>Table 26</b>	Supplementary Estimate Approved by the Parliament (January to September - 2008)	59

---

<b>Table 27</b>	Foreign Financing Commitment (January to September 2008)	60
<b>Table 28</b>	Commitments from 01.01.2008 to 30.09.2008	61
<b>Table 29</b>	Committed Un-disbursed Balance-(by sector) as of 30th September 2008	63
<b>Table 30</b>	Foreign Aid Disbursement	64
<b>Table 31</b>	Utilization Rates	64
<b>Table 32</b>	Statement on Government Cash Flow Operations January-September 2007/2008 (Rs. Mn)	66
<b>Table 33</b>	Summary of Bank Guarantees Issued by the Treasury upto 30.06.2008	67

## CHARTS

### FISCAL STRATEGY STATEMENT-MEDIUM TERM 2008 - 2011

<b>Chart 1</b>	Salaries and Pensions on the Rise / Higher Funds for Debt Servicing	14
<b>Chart 2</b>	Cost of Petroleum Imports	15

### BUDGET, ECONOMIC AND FISCAL POSITION REPORT - 2009

<b>Chart 1</b>	Real GDP Growth (%)	20
<b>Chart 2</b>	Headline and Core Inflation Rates	24
<b>Chart 3</b>	Composition of Tax Revenue (January to September 2008)	26
<b>Chart 4</b>	Income Tax Performance	28
<b>Chart 5</b>	Treasury Bill Yield Rates (%) / Exchange Rate Variation	37
<b>Chart 6</b>	Foreign Financing Commitments	60
<b>Chart 7</b>	Disbursements by Donars/Lenders	64

## ANNEX 1

MACRO ECONOMIC INDICATORS	70 - 79
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## ANNEX II

ASSUMPTIONS FOR REVENUE ESTIMATES - 2009	80 - 86
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## **FISCAL MANAGEMENT (RESPONSIBILITY) ACT NO. 3 OF 2003**

### **Objectives Underlying Responsible Fiscal Management**

This act aims at ensuring that the Government's financial strategy is based on principles of responsible fiscal management and facilitating public scrutiny of fiscal policy performance.

Objectives underlying responsible fiscal management;

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Reduction of Government debt to prudent levels, by ensuring that the budget deficit as at end 2006, shall not exceed five per cent of the estimated GDP and to ensure maintenance of such levels thereafter

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Prudent management of fiscal risks having regard to changing economic circumstances

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Adoption of policies relating to spending which do not increase Government debt to excessive levels

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Adoption of policies relating to spending and taxing as are consistent with a reasonable degree of stability and predictability in the level of tax rates in the future

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Ensuring that the sum which is calculated as the guarantee and given as a per centage of GDP for the current financial year along with 2 preceding financial years , does not in the aggregate exceed 4.5 per centum

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Ensuring that at the end of the financial year commencing January 2006, the total liabilities of the Government (including external debt at the 2003 exchange rates), do not exceed 85 per cent of GDP for the financial year ; and that at the financial year commencing January 2013, the total liabilities of the Government (including external debt at the current exchange rates), do not exceed 65 per cent of the estimated GDP for that financial year

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Ensuring that policy decisions of the Government have regard to the financial impact of such decisions on future generations

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## Annual Reporting Requirements by the Minister of Finance

Section	Requirement	Contents	Compliance
Section 4, 5 and 6	Submission of the Fiscal Strategy Statement	Fiscal Strategy Statement to increase public awareness of Government's fiscal policy and establish standards for evaluating the conduct of Government's fiscal strategy.	To be laid before the Parliament on the day of the 2 <sup>nd</sup> reading of the Appropriation Bill.
Section 7 8 and 9	Submission of the Budget, Economic and Fiscal Position Report	The Budget, Economic and Fiscal Position Report to setout the basis to evaluate Government's fiscal performance as against its fiscal strategy.	To be placed before the Parliament on the day of the 2 <sup>nd</sup> reading of the Appropriation Bill.
Sections 10,11 and 12	Submission of the Mid-year Fiscal Position Report	Mid-year Fiscal Position Report to provide updated information of the Government's fiscal performance pertaining to the first four months of the relevant year, to enable an evaluation of the same against Government's fiscal strategy.	To be released annually by the last day of June or prior to the lapse of 6 months from the date of passing of the Appropriation Act, whichever is later; and to be placed in Parliament within 2 weeks from the date of such release.
Section 13,14 and 15	Submission of the Final Budget Position Report (Annual Report)	Final Budget Position Report (Annual Report) to provide updated information of the Government's fiscal performance pertaining to the relevant financial year, to enable an evaluation of the same against Government's fiscal strategy.	To be released to the public within five months from the end of the Financial Year and placed before the Parliament there after.

## Compliance - 2008\*

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- **Final Budget Position Report** – The *Annual Report - 2007 of Ministry of Finance and Planning* stating the fiscal and economic position of 2007 was released to the public by end May 2008 and was soon thereafter placed before the Parliament.
  - **Mid Year Fiscal Position Report** of the *Ministry of Finance and Planning*, setting out the actual fiscal performance of the first four months of 2008 with an overview of the economy of the first half of 2008, was released to the public by end June 2008 and was soon thereafter placed before the Parliament.
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### **This Fiscal Management Report, 2009 contains;**

- **Fiscal Strategy Statement – 2008 - 2011**, of the *Ministry of Finance and Planning*, setting out Government's Medium Term Fiscal Strategy 2008- 2011, indicating the broad strategic priorities and key fiscal measures considered important for the overall fiscal policy implementation, to be placed before the Parliament on the day of the 2<sup>nd</sup> reading of the Appropriation Bill.
  - **Budget, Economic and Fiscal Position Report - 2009**, of the *Ministry of Finance and Planning* setting out the basis to evaluate Governments fiscal performance as against its fiscal strategy, with estimates relating to Government revenue, expenditure etc., to be placed before the Parliament on the day of the 2<sup>nd</sup> reading of the Appropriation Bill.
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\* This Report contains *Fiscal Strategy Statement 2008-2011 & Budget, Economic and Fiscal Position Report -2009*.



# **FISCAL STRATEGY STATEMENT**

**2008 - 2011**

## Medium Term Fiscal Strategy

Government's medium term fiscal policy strategy spelt out in the 2008 Fiscal Management Report issued under Section 4 of the Fiscal Management (Responsibility) Act No. 3 of 2003, envisaged that in the medium term 2007-2010, a GDP growth of around 6.7 percent in 2007 and 8.5 percent by 2010 with enhanced regionally diversified production coupled with increased employment, complimented with stable domestic as well as global macro economic conditions. It was also envisaged to reduce the inflation to around 12.9 percent in 2007 and a gradual reduction to around 7 percent by 2010, through increasing domestic production, reducing supply side bottlenecks especially in relation to food production and by preventing excessive

monetary expansion to curtail demand side pressures. Key objectives in relation to the Balance of Payments (BoP) was to diversify export earnings through encouraging value added exports, exploiting international markets for country's non traditional exports, enhancing foreign remittances by introducing measures to promote a skillful and globally competitive work force and increasing direct foreign investments, thereby building external reserves to a level in excess of 3 months of imports. Fiscal adjustments were aimed at augmenting revenue and rationalizing recurrent expenditures aiming a revenue surplus of 0.8 percent in 2008 and to increase it to around 2.3 percent by 2010.

**Table 1**  
**2007-2010 Medium Term Macro Fiscal Framework**  
**(as per Fiscal Management Report - 2008)**

Indicator	Projections**			
	2007*	2008	2009	2010
GDP- Market Prices Rs. Bn.	3,548	4,176	4,903	5,772
GDP Growth (%)	6.7	7.5	8.2	8.5
Inflation - GDP deflator (%)	12.9	9.5	8.5	7.0
Total Investment/GDP %	29.5	31.0	32.5	33.0
Private Investments/GDP %	22.3	23.0	24.2	24.7
Public Investments/GDP %	7.2	8.0	8.3	8.3
Domestic Savings/GDP %	17.2	18.7	21.2	22.4
National Savings/GDP %	23.7	26.1	28.6	29.9
Exports (US \$ Million)	7,570	8,351	9,189	10,108
Imports (US \$ Million)	11,485	12,813	13,879	15,043
Services ( US \$ Million) ( net)	182	46	278	314
Worker Remittances ( US \$ Million)	2,726	3,137	3,492	3,885
Current Account ( US \$ Million)	-1,357	-1,477	-1,552	-1,585
Current Account Deficit /GDP %	-4.3	-4.1	-3.8	-3.4
Overall Balance ( US\$ Million)	450	301	349	403
Gross Official Reserves ( US \$ Million)	3,282	3,510	3,762	4,129
Revenue/GDP %	17.1	18.0	18.5	19.0
Expenditure/GDP %	23.4	24.0	24.0	23.9
Revenue ( Deficit/Surplus)/GDP %	-0.7	0.8	1.7	2.3
Overall Budget Deficit/GDP% ***	6.3	6.0	5.5	4.9
Government Debt/GDP %	90.0	88.0	85.0	82.0
Reserve Money (%)	15.0	15.0	15.0	14.5
Broad Money Supply (%)	19.0	16.5	16.0	15.0
Growth in Credit to Private Sector(%)	22.0	19.1	17.0	15.3

Source: Department of Fiscal Policy

\* Based on the first 7-9 months performance

\*\* Based on Macro Economic Assumptions

\*\*\* Excluding fully foreign funded key Development Projects of State Enterprises and Tsunami Relief.

However, the underlying assumptions behind this Medium Term Fiscal Strategy changed in 2008 thus affecting the targetted outcomes. The oil prices increased to record levels of around US\$ 147 per barrel in 2008 and remained in excess of US\$ 100 per barrel in the first nine months of 2008. This exerted unprecedented pressure on domestic prices and BoP. Ceylon Petroleum Corporation was compelled to increase domestic fuel prices substantially twice in 2008 but still petroleum products such as Diesel and Kerosene carried a subsidy element. With increased domestic petroleum prices the cost of services such as transport and electricity increased and caused extra pressure on the Budget as a full pass through was not feasible. The consequent price increase of fertilizer aggravated the budgetary position. More funds were also demanded for humanitarian assistance to displaced people and security operations to counter terrorist activities.

Since the latter part of 2007, the world economy was heading towards a recession. The collapse of the US housing market and the financial system, losses faced by international banks and the deepened credit crunch have drastically reduced the investment and growth outlook in many countries. The declining economic growth and rising inflation in most countries have resulted in lesser demand for certain commodities. With these developments and stiff global competition, the apparel industry which is one of country's main foreign exchange earner recorded a less than expected growth. Moreover, the entire industrial sector growth was also affected due to difficulties with increased cost of production, stemming from high oil prices and the consequent increases in electricity, transportation costs etc.

Another notable development was the rising inflation associated with oil price escalation and sharp rise in food prices. The international food prices rose sharply with rising global demand, use of some of the food commodities for biofuel to face rising oil prices, bad weather and speculation in commodity markets, created a negative impact on the domestic inflation. This situation was aggravated with demand pressures stemming from increased salaries, pensions and enhanced development activities of major projects as well as small to medium scale projects throughout the country. Further, the related domestic price adjustments to accommodate high oil prices, also had substantial influence on general price levels. The tightening of financial polices and resulting contraction in market liquidity has led to higher interest rates for the year 2008. With high domestic inflationary pressures, Government was compelled to grant duty exemptions or reduced duties and taxes on essential commodities to curtail the rising domestic prices of such items.

More than expected expenditure increases on salaries on account of new recruitments to strengthen the security services, correction of certain salary anomalies and granting of an enhanced cost of living allowance for lower grades in the public sector created an additional burden on the Budget. Increased operational expenditure stemming from high fuel and electricity prices, coupled with additional allocations for the fertilizer subsidy arising from high international prices resulted in more than projected recurrent expenditure in 2008. Further, high interest rates that prevailed in the domestic market affected the debt service payments. In this background, Government recurrent expenditure which was expected to be 16.1 percent of GDP in 2008 is likely to increase to around 16.7 percent of GDP.

Granting of duty exemptions for importation of essential commodities with a view to stabilize commodity prices to curb rising food prices, implementation of a concessionary duty structure on motor vehicles for public servants, drop in sales of cigarettes and production of liquor resulted in a decline of revenue to GDP in 2007. By imposing a composite levy on essential commodities, removal of the duty concessions granted for public servants, revisions of cigarettes and liquor duties, limiting duty free items at the airport, Government was successful in partly arresting the revenue leakages in 2008. Declining prices of oil and other items in the international markets coupled with domestic supply improvements especially in agricultural products, gives a leeway to the Government to introduce forgone taxes which were imposed in a high international price scenario. Nevertheless, slower growth in revenue from custom and excise duties as well as VAT during the first nine months of 2008 indicate that the revenue growth will be moderate. It is expected that the Government revenue to GDP would be around 16.1 percent in 2008.

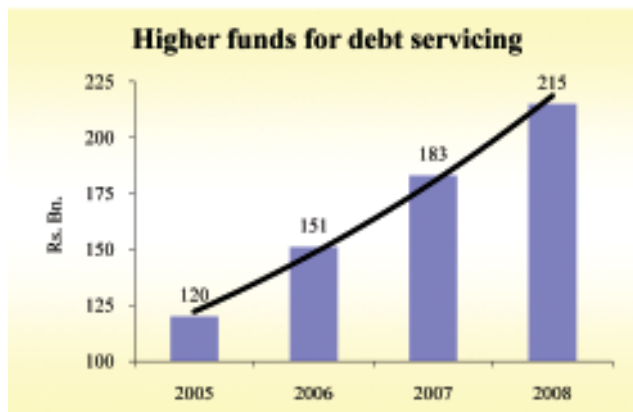
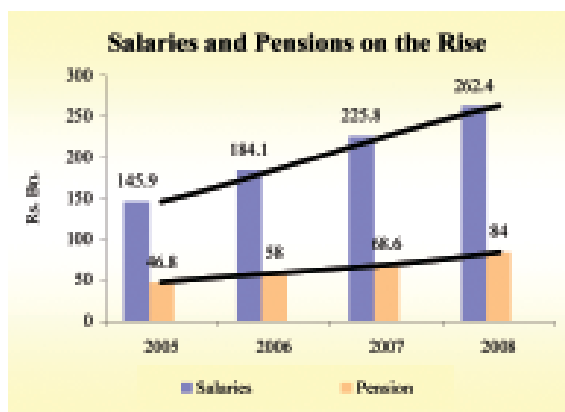
Amidst the above challenges, the Sri Lankan economy is projected to expand by 6.5 percent in 2008. The agricultural sector is projected to grow by 7.8 percent with major export agriculture products expected to perform favourably, while paddy sector and other agricultural productions also expected to enhance performance in 2008. Favourable weather conditions coupled with avenues opening up to use the untapped resources in the Eastern Province and liberated areas in the Northern Province, will give an additional impetus to the growth of the economy. The service sector is expected to grow by 6.3 percent, while amidst high competition, lower world demand and high production costs, the industry sector is expected to record a moderate growth of around 4.8 percent.

Despite increased recurrent expenditure and shortfalls in revenue, Government maintained its commitments to channel more resources to development activities. The public investment/GDP ratio is expected to be around 6.3 percent. The public investment ratio has been in excess of 6 percent for the fourth consecutive year which is a creditable performance, taking into consideration the fiscal challenges which the Government had to encounter during this period. Although these developments caused the Government to inter alia resort to bank borrowings in 2008 of around 0.7 percent of GDP, it was a decline from 2.1 percent in 2004. The sustenance of higher public investment was supported by increased foreign financing arrangements and domestic institutional borrowings which are largely, medium to long term.

elections and provincial council elections in the East were completed in 2008.

The external sector growth momentum has continued in 2008, in the backdrop of the slowing down of the world economy, stiff competition faced by major industrial exports, slower growth in tourist arrivals and higher import bills stemming from high oil and commodity prices as well as large scale investment and capital goods, imported for major development projects. Higher remittance flows from migrant Sri Lankans, increased foreign direct investment and higher debt inflows have helped to mitigate these negative factors.

Chart 1



Source: Department of Fiscal Policy

With the easing of oil prices in international markets, the external pressure on domestic prices and BoP is expected to moderate in the remainder of 2008. Favourable developments are also expected on the supply side with increased domestic production, especially agricultural products that will ease inflationary pressures. This trend was evident with point to point inflation measured by the new Colombo Consumers Price Index (CCPIN) which reached 28.2 percent in June 2008 from 18.8 percent at end 2007, declining to 24.3 percent in September 2008.

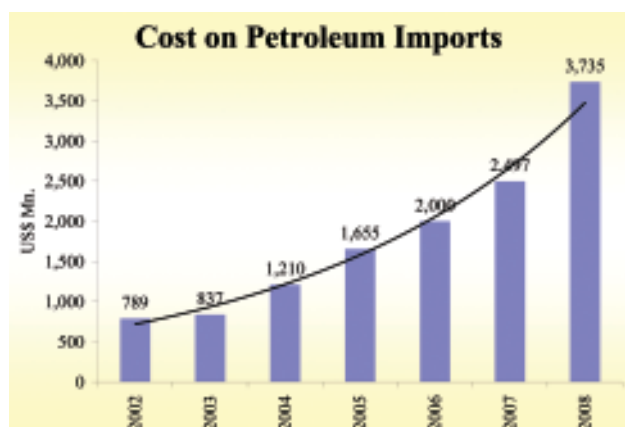
During the first eight months of 2008, worker remittances have increased by 22 percent to US\$ 1,975 million in comparison with the same period of 2007 and foreign direct investments have realized US\$ 425 million, by June 2008 also registering an increase. Exports in US\$ terms record a significant increase of 12 percent as opposed to the same period last year, where non traditional exports such as fruits, vegetables, recorded an increase of around 40 percent in comparison to the same period of last year. It is expected that exports will grow by 10 percent and reach US\$ 8,507 million in 2008 in comparison to US\$ 7,740 million in 2007.

Government has given national security its priority and notable improvements in the area of security were experienced since 2007. Consolidation of security in the Eastern Province which was fully, liberated from, grips of terror and eliminating terrorist activities and liberating the Northern Province has been undertaken in 2008. These activities demand more resources to meet salaries and other needs of strengthened security forces, and procurement and replenishment of security related equipment. Greater emphasis was given to the resettlement of internally displaced people especially in the Eastern Province, other humanitarian activities of such persons and developing infrastructure to create economic activities in such areas. Local government

The value of imports in 2008 is expected to increase by US\$ 2,974 million to US\$ 14,275 million, mainly due to the higher cost of imports on petroleum, fertilizer and increased demand from investment on goods emanating from several major infrastructure projects. Oil import bill is expected to increase from US\$ 2,497 million in 2007 to US\$ 3,736 million in 2008. With these developments the trade gap is expected to be around US\$ 5,767 million. Despite the higher trade deficit, surplus in savings accounts for US\$ 242 million, inward remittance of US\$ 3,020 million, foreign direct investment of US\$ 800 million coupled with increased

foreign funds for development projects of around US\$ 1,600 million, the overall BoP in 2008 could be managed in a surplus position of around US\$ 300 million.

**Chart 2**



Source: Department of Fiscal Policy

The Gross Official Reserves increased to US\$ 4,204 million by August 2008 compared to US\$ 3,100 million in the corresponding period of 2007 while total foreign reserves stood at US\$ 5,525 million.

Amidst a high import bill, the exchange rate remained stable with the rupee appreciating against most major currencies, despite Central Bank's intervention in favour of absorption of foreign exchange from the market. Higher foreign remittances, suppliers credit extended to CPC mainly contributed to the stability of the exchange rate.

Another noteworthy development was the continuous declining trends observed in Debt/GDP ratio. The Debt/GDP ratio which was around 102 in 2004 has declined and reached 85.8 in 2007 reflecting that government has kept a moderate growth in debt financing together with high economic growth in excess of 6 percent with stability in the exchange rate. It is expected that the Debt/GDP ratios would further declined to 78.2 in 2008.

**Table 2**  
**Macro Economic Position Summary**  
**(In US Dollar million unless otherwise indicated)**

	2007	2008 Budget Projections	2008 Revised Projections
<b>Domestic economy</b>			
Real GDP growth (per cent)	6.8	7.5	6.5
Inflation (GDP Deflator)	14.0	9.5	18.0
National savings (per cent of GDP)	23.4	26.1	22.5
Gross investment (per cent of GDP)	27.9	31.0	30.0
<b>Fiscal position</b>			
Revenue (per cent of GDP)	15.8	17.1	16.1
Expenditure (per cent of GDP)	23.5	23.8	23.0
Overall deficit (per cent of GDP) *	7.7	6.7	7.0
Total Government debt (per cent of GDP)	85.8	88.0	78.2
<b>External economy</b>			
Exports	7,740	8,351	8,507
Imports	11,301	12,813	14,275
Current account balance (in per cent of GDP)	-1,354 -4.2	-1,477 -4.1	-3,077 -7.3
Gross official reserves (including ACU balances)	3,463	3,910	3,687
Months of prospective imports	3.3	3.0	2.8
External debt (in per cent of GDP)	44.3	39.7	38.8
<b>Monetary variables</b>			
Broad money growth (annual per cent change)	16.6	16.5	12.0
Credit to the private sector	19.3	19.1	13.8

Sources: Ministry of Finance & Planning, Central Bank of Sri Lanka

\*Including fully foreign funded development projects of State Enterprises

In the light of multifaceted challenges, the Government further strengthened policy initiatives to address areas of concern. As such, the monetary policy was tightened with increased open market operations. A composite Levy was imposed on certain essential commodities as a device to reduce prices through easing supply restrictions where this duty was much less than the advelorum rates which were applicable on these items.

Commercial bank credit for imports continued to be subject to deposit margins with mandatory deposit margins on non priority imports with a view to influence the trend of imports. Non Residents were also allowed to invest in Treasury Bills and tax concessions were extended to Sri Lankan professionals earning abroad, to promote greater foreign currency inflows.

Expenditure rationalization was further improved through identified curtailments in the provision of budgetary allocations. Expenditure streamlining process was continued through sectoral budgeting thereby minimizing duplication. The fuel allowance permitted to public servants was maintained at same threshold, in spite of several increases in the domestic fuel prices. Further, the ceiling imposed on the Cost of Living Allowance also continued for higher salaried public servants while Rs. 375 per month was revised to Rs. 1,000 per month for lower salary earning public servants. Treasury Operations were strengthened using the single account concept thereby reducing ideal cash in Government accounts.

### Medium Term Strategic Priorities in Fiscal Policy

- Augment Government revenue to reach an overall revenue GDP ratio of around 17.5-19 percent in the medium term, with greater emphasis to increase the buoyancy of income taxes.
- Rationalize recurrent expenditure to keep in line with Government revenue.
- Improve the quality of operational expenditures of the Government through an effective treasury control system, cadre management and procurement.
- Consolidate public security to provide a conducive environment for development and system stability.
- Consolidate strategic infrastructure development coupled with development needs in the lagging regions.
- Livelihood development to empower the poor and extend social protection to the needy, while implementing projects especially to reduce regional disparities.
- Broad base human resource development to ensure a productive labour force.

- Maintain fiscal transparency and accountability through an effective governance mechanism.
- Develop institutional capabilities to conduct a medium term budgetary framework based on a sector approach and performance.
- Maintain public debt at prudent levels through fiscal consolidation and improved management of public debt portfolio.

### Key Fiscal Measures for Overall Fiscal Policy Implementation

- Ensure institutional and human capacity building in revenue agencies to augment Government revenue.
- Broaden the tax base, modernize the tax administration and further strengthen the legal and regulatory framework, to contain tax evasion and avoidance.
- Assert pressure on state owned enterprises to improve their performance to be able to operate as commercially viable entities without being a burden to the national Budget.
- Rationalize expenditure through a medium term sectoral budgeting approach to ensure efficient allocation and productive use of public funds.
- Promote private and public sectors in development.
- Continue support to SMEs and micro enterprises to promote gainful employment.
- Extend income support targeting the needy including the Internally Displaced Persons, the vulnerable and the differently abled.
- Ensure that Government's borrowing program would have a proper mix of foreign and domestic debt to minimize cost of funds and facilitate debt sustainability.
- Continue to improve Government cash management operations.
- Ensure effective utilization of foreign aid and rationalization of programs to maximize effective use of foreign assistance.

### 2008-2011 Medium Term Economic Framework

Considering the actual performance and the emerging trends of the economy as of September 2008, the global economic conditions and the priorities in terms of Mahinda Chinthana: A vision for a New Sri Lanka-10 Year Horizon Development Framework 2006-2016, the revised position of 2008-2011 Medium Term Macro Economic Framework is as follows.

**Table 3**  
**Revised Medium Term Macro Fiscal Framework (2008-2011)**

Indicator	2007	Projections			
		2008	2009	2010	2011
GDP at Market prices (Rs. Bn)	3,578	4,420	5,217	6,085	7,058
GDP Growth (%)	6.8	6.5	6.8	7.5	7.9
Inflation-GDP deflator (%)	14.0	18.0	11.0	8.5	7.5
Total Investments/GDP (%)	27.9	30.0	31.5	32.5	33.2
Private Investments /GDP (%)	20.7	23.0	23.9	24.9	25.2
Public Investments /GDP (%)	7.2	7.0	7.6	7.6	8.0
Domestic Savings /GDP (%)	17.6	16.8	19.8	21.9	23.8
National Savings /GDP (%)	23.4	22.5	25.3	27.5	29.5
Exports (US\$ Million)	7,740	8,507	9,368	10,334	11,418
Imports (US\$ Million)	11,301	14,275	15,340	16,578	17,920
Services (US\$ Million)(net)	238	241	348	501	719
Worker Remittances (US\$ Million)	2,502	3,020	3,374	3,793	4,329
Current Account (US\$ Million)	-1,354	-3,077	-2,905	-2,663	-2,220
Current Account Deficit /GDP (%)	-4.2	-7.3	-6.0	-4.9	-3.6
Overall Balance (US\$ Million)	531	300	337	480	527
Gross Official Reserves (US\$ Million)	3,463	3,687	3,922	4,365	4,880
Revenue /GDP (%)	15.8	16.1	16.3	17.0	17.5
Expenditure /GDP (%)	23.5	23.0	22.8	22.7	22.4
Revenue (Deficit/Surplus) /GDP (%)	-1.6	-0.8	0.2	1.5	2.5
Overall Budget Deficit** /GDP (%)	7.7	7.0	6.5	5.8	5.0
Government Debt	85.8	78.2	75.6	73.4	70.5
Reserve Money (%)	10.2	12.7	14.8	15.3	15.0
Broad Money Supply (%)	16.6	12.0	15.0	15.5	15.5
Growth in Credit to Private Sector (%)	19.3	13.8	15.7	14.8	15.0

Source :Department of Fiscal Policy, Central Bank of Sri Lanka.

\*Based on Macro Economic Assumptions

\*\*Including fully foreign funded key development projects of State Enterprises and Tsunami related

### Medium Term Fiscal Targets and Expected Outcomes

The thrust of the overall fiscal strategy is fiscal consolidation and debt reduction while promoting economic development. Medium term fiscal targets include sustaining a revenue effort of 17.5-18 percent of GDP in excess of current expenditure to generate a revenue surplus, limit expenditure at around 22 per cent while containing the budget deficit to around 5 per cent by 2011 with a significant up-scaling of public investments and quality improvements in public spending within the medium term. Under the accelerated public investment program, essential infrastructure projects are expected to be funded

through long-term foreign financing, to be undertaken on turnkey/ joint venture basis. Due consideration will be given to emerging trends in fiscal indicators while monitoring risks to ensure fiscal consolidation.

With the expected high growth in GDP in the medium term, coupled with the envisaged reduction of the budget deficit as shown in the medium term macro framework, the Debt /GDP ratio is expected to decline to around 75 percent in 2009 which would be a lower GDP ratio than the 85 percent anticipated in the Fiscal Management Report -2008.

**Table 4**  
**Medium Term Macro Fiscal Framework 2008-2011**  
**(as a percentage of GDP)**

Indicator	2007	Projections			
		2008	2009	2010	2011
<b>Revenue</b>	<b>15.8</b>	<b>16.1</b>	<b>16.3</b>	<b>17.0</b>	<b>17.5</b>
Tax Revenue	14.2	14.7	14.8	15.5	16.0
Income Tax	3.0	3.1	3.2	3.6	3.9
VAT	5.2	5.2	5.2	5.7	6.0
Excise Tax	2.7	2.5	2.4	2.3	2.2
Import Duty	2.0	2.3	2.3	2.3	2.3
Other	1.3	1.6	1.7	1.6	1.6
Non Tax Revenue	1.6	1.5	1.5	1.4	1.4
<b>Expenditure</b>	<b>23.5</b>	<b>23.0</b>	<b>22.8</b>	<b>22.2</b>	<b>22.4</b>
Current Expenditure	17.4	16.8	16.0	15.5	14.9
Revenue (Deficit/Surplus)	-1.6	-0.8	0.2	1.5	2.5
Budget Deficit	7.7	7.0	6.5	5.8	5.0
Government Debt	85.8	78.2	75.6	73.4	70.5

Source : Department of Fiscal Policy

The Fiscal Management (Responsibility) Act No. 3 of 2003 envisages a reduction of Government debt to prudent levels, by ensuring that the budget deficit as at end 2006 would not exceed five per cent of the estimated GDP to be maintained thereafter. The Act also envisages that at the end of the financial year commencing from January 2006, the total liabilities of the Government (including external debt at the current exchange rates), would not exceed 85 per cent of GDP for the financial year, while noting that the Government may in exceptional circumstances with the approval of Parliament granted by way of a resolution, depart from these requirements, for a specified period.

The Government's medium term fiscal policy strategy spelt out in Fiscal Management Report - 2005, issued under Section 4 of the Fiscal Management (Responsibility) Act No.3 of 2003, having made an analysis, informed Parliament that the aforesaid targets pertaining to 2006 were unrealistic and hence would be able to achieve only after 2008. Thereafter, through the Fiscal Management Reports - 2008, the Parliament was appraised that this position is confirmed.

This Report issued under Section 4 of the Fiscal Management (Responsibility) Act No. 3 of 2003, also confirms this position as set out in Table 3.

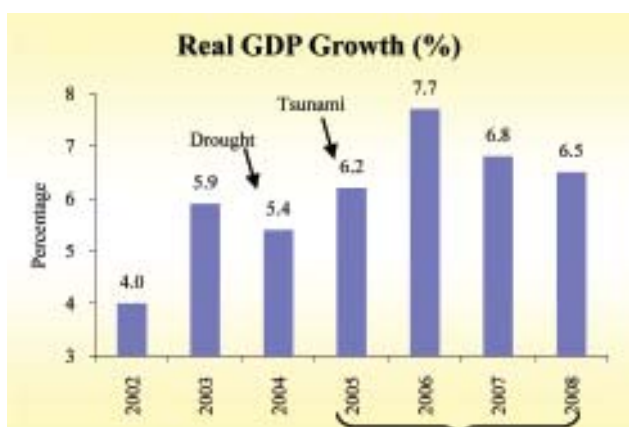
# **BUDGET, ECONOMIC AND FISCAL POSITION REPORT - 2009**

## AN OVERVIEW OF THE ECONOMY

### Sustained Economic Growth Amidst Challenges

The Sri Lankan economy is expected to record a strong performance in 2008, boosted by the expansion of the services sector and encouraging performance of the agriculture and industry sectors. The growth rate is well above 6 percent for the fourth consecutive year for the first time since Independence, demonstrating that Sri Lanka has now geared to a growth economy. Signifying this positive growth momentum in all sectors, the GDP grew by 6.9 percent in the first three quarters of 2008 surpassing the 6.6 percent growth achieved in 2007. This was achieved amidst a number of challenges such as escalating petroleum prices and high commodity prices, fight against terrorism, the world economic and financial downturns in the United States & the European Union countries and high inflation in the world economy.

#### Strong Growth Even in a Period of Instability Chart 1



High Oil Prices

Source : Department of Census & Statistics

### Robust Growth in Agriculture Sector

Increased production particularly in tea and paddy sectors and increased world demand provided an added momentum for the agriculture sector. In the first three quarters of 2008, agricultural growth reached to 5.3 percent, up considerably from the 2007 annual growth of 3.3 percent. This upturn came largely from stronger performance in the food crops sub sector, and especially the paddy crop, a major factor in agriculture sector growth.

The tea production shows an impressive growth of 19.3 percent in the first half of 2008 over the same period of 2007. The quantity of tea produced during the reference period of 2008 was 171.3 million kgs and the annual production is expected to be around 337 million kgs, an increase of 10.7 percent over 2007. The favourable weather conditions and absence of labour unrests caused this surge. Continuous efforts to enhance the quality of Sri Lankan tea, higher global demand and increased value addition, led tea prices to rise well above the global average. The tea exports rose in excess of 40 percent in the first eight months of the year and are on track to earn a record 1.4 billion dollars in 2008 as against 1.02 billion dollars witnessed in 2007. The average prices of the Colombo Tea Auction increased by 30 percent, with low green tea prices rising by 34 percent, fetching all time high prices.

The rubber sector also benefited from attractive prices with increasing demand for natural rubber due to escalating oil prices and adoption of new technologies. The rubber production rose by 6.7 percent to 67 million kgs as against 2007, despite the continued disruption by the torrential rainfall. Rubber prices climbed sharply with average prices of Ribbed Smoked Sheet (RSS) rubber increasing by 33 percent while latex and crepe rubber rose by 30 percent. On the contrary, coconut production declined by 15.3 percent in the first half of 2008 over the same period of 2007. The production of coconut during this period was relatively low, recording 1,279 million nuts due to the pests outbreak in the Southern Province and drought prevailed in related areas. Consequently, the price of coconut and coconut based products increased sharply benefiting from the high demand and supply shortages in the world market, coupled with increasing demand for coconut oil and coconut based products. Average prices of copra, coconut oil and desiccated coconut increased by over 90 percent in the first half of 2008.

The highest ever paddy production of 3.69 million mt was recorded in 2008, an increase by 18 percent over 2007. This significant increase was due to improving security situation in the Eastern province, the promotion of a local food production drive, "Api Wavamuna Rata Nagamu programme", better producer prices, increased fertilizer subsidy and favourable weather conditions. The paddy production in 2007/2008 Maha recorded a bumper harvest of 2.12 million mt, an increase of about 7 percent over 2006/07 Maha season. The total extent harvested increased by 6.3 percent over 2007 during the period. It has been projected that the 2008 Yala harvest would increase by over 35 percent to around 1.57 million mt.

**Table 1**  
**The Highest Ever Paddy Production Recorded in 2008**

Category	Unit	2004	2005	2006	2007	2008
Production	'000 mt	2,628	3,246	3,342	3,129	3,697
Area Sown	'000 hectares	779	937	910	817	1,018
Area Harvested	'000 hectares	643	819	808	713	978
Yield	Kg/hectare	4,086	3,963	4,137	4,385	4,220

*Source: Department of Census & Statistics*

The most of the crops of subsidiary food sector registered an improvement in 2007/2008 Maha. Food crops such as maize, green gram, cowpea, sweet potatoes, manioc and kurakkan recorded an production increases while the production declined in crops such as soybeans, gingerly, potatoes, big onions during this period. The vegetable and fruit sector registered a significant increase in 2008.

The production of Export Agricultural Crops (EACs) such as clove, cocoa, coffee, cardamom vanilla, arecanut increased in the first half of 2008 as against the same period of 2007. However, cinnamon and pepper production declined during this period. The export prices of all EACs except pepper fetched higher prices.

The fresh milk production accelerated by 2 percent to 115 million litres in the first half of 2008. It is expected to increase to 220 million litres in 2008 from 202 million litres recorded in 2007. These achievements were supported by the policy initiatives taken by the government to uplift the local milk industry through promotion of fresh milk consumption programme, heifer calf rearing programme to increase high yielding cows and dairy village programme. The farm-gate prices of liquid milk have increased from Rs. 20-22 per litre to Rs. 30-35 per litre in 2008. Meat production sector also indicated an improvement in 2008 while the egg production increased by 4 percent in the first half of 2008 over the corresponding period of 2007.

With the awakening of economic activities of the Eastern province, coupled with government initiatives taken to develop fishery harbors and provide fishing gears, the fish production grew by 6.8 percent in the first half of 2008. The fish production in this period was 172,000 mt.

### **Industry Sector Records a Moderate Growth Amidst Challenges**

Withstanding the stiff competition, declining demand following the slowdown in major economies, high cost of production stemming from high oil prices and related domestic price increases, the apparel industry grew marginally by 1.4 percent in the second half of 2008. Implementation of green and eco-friendly

manufacturing process to attract the global market, brand promotion activities, investments in improving qualitative standards and introducing a range of styles and designs on special products helped to mitigate the negative impacts faced by the industry and gain comparative advantage in the global markets.

The output of food, beverages and tobacco products increased by 5.3 percent with enhanced production of biscuits, canned fruit and vegetables, ice-cream etc, contributed to the better performance of the sector. This performance should be viewed in the backdrop of declining cigarette sales and production of liquor due to health concerns and government initiatives to discourage consumption of such items.

Chemical, rubber and plastic products category grew by 6.6 percent despite the declining world demand. Local tyre manufacturers have introduced new products to both the local and global markets enjoying the duty concessions under the Free Trade Agreements. The PVC and plastic products also recorded a higher production, benefiting from the increased demand from the local construction industry.

The high energy consuming industries such as ceramic and cement have recorded a slower growth in the first half of 2008 owing to higher fuel and power costs. The growth in gold and diamond products also declined with the reduced demand for such products stemming from the slowing down of the world economy.

The growth momentum in the construction sector continued in 2008 with value addition of the sector recording a growth of over 9 percent. Expansion of the development initiatives such as port development, highway construction and power sector projects and rehabilitation and re-construction activities undertaken in the liberated Eastern Province contributed for the sustained growth momentum of the construction sector.

### **A Stable Performance in the Service Sector**

The services sector recorded a 6.7 percent growth in the first half of 2008 contributing 60.4 percent to the GDP mainly driven by banking, insurance, telecommunications and port related services.

The growth momentum in the telecommunication sector continued in 2008, largely supported by further expansion in the coverage, introduction of advanced technology and value added services, increased competition and affordability. The number of fixed and mobile telephones increased by 45 percent and 48 percent respectively compared to the same period of 2007. The internet and email subscribers and public pay phones also increased by 38.7 percent and 11 percent respectively in 2008. These developments contributed to increase the telephone density (telephone per 100 persons) to 60 by June 2008 from 53.6 at the end of 2007. This sector is expected to further expand with the entrance of a fifth mobile service provider into the market.

Banking, insurance and real estate sector expanded by 6.8 percent growth in the first half of 2008 compared to 8.6 percent in 2007. Tight monetary policy environment with high interest rates and deceleration of private sector credit mainly contributed for the slower growth. Commercial bank network further expanded with the operation of new branches and other banking outlets.

Port services continued to expand in 2008, with cargo and container handling increased to 9.6 percent and 10.4 percent respectively. The transshipment facilities also recorded a significant growth of 11.5 percent during the first six months of 2008. The management improvements through increased supervision to maximize utilization of resources and measures to reduce the non operational time of the port undertaken by the Ports Authority coupled with the addition of new terminal handling equipment and terminal management computer system helped to boost the port activities. The Government continued to invest in public transport system with a view to enhance the services by adding 219 new buses to augment operational fleet of CTB and 15 Railway Diesel Multiple Units (DMUs) to the existing fleet.

Both the domestic and external trade accelerated by 6 percent while the hotel and restaurant sector recovered marginally recording 0.6 percent growth.

**Table 2**  
**Selected Indicators of Service Sector Expansion**

	2005	2006	2007	End June	
				2007	2008
<b>Port Services</b>					
Vessels arrived	4,139	4,469	4,710	2,325	2,343
Total Cargo Handled ( MT 000)	37,301	42,661	46,344	22,666	24,843
Total Container Handled ( TEU 000)	2,455	3,079	3,381	1,625	1,794
Transshipment ( TEU 000)	1,716	2,330	2,608	1,242	1,385
<b>Telecommunication Sector</b>					
Fixed Telephone Lines ( nos 000)	954	1,188	2,742	2,216	3,146
Cellular Phones	3,362	5,412	7,983	6,450	9,000
Wireless Phones ( nos 000)	290	708	1,810	944	2,206
Internet and E-mail Subscribers	115	130	202	150	223
<b>Health Sector</b>					
Private Hospitals	190	208	212	212	212
Public Hospitals	606	606	619	619	619
<b>Financial Sector</b>					
Bank Branches & Other Outlets	3,516	4,128	4,830	3,569	4,986
Credit Cards Issued	637,326	811,289	889,780	828,982	914,796
Automated Teller Machines (nos 000)	901	1,155	1,422	1,173	1,541

Source: Central Bank of Sri Lanka and Ministry of Finance & Planning, Telecommunication Regulatory Commission  
Sri Lanka, Ports Authority

## Declining Trend in Unemployment

Unemployment rate which was at 6 percent in 2007, recorded 5.3 percent during the second quarter. The steady decline in unemployment has been a notable feature with the country achieving a sustained growth in excess of 6 percent for several years. The number of unemployed population is estimated at around 382,403 in the first quarter of 2008 and about 400,000 during the second quarter, against 462,000 and 481,666 in the first and second quarters of 2007 respectively. The labour force increased by 2 percent from 7.36 million in second quarter of 2007 to 7.51 million in 2008 (excluding Northern and Eastern Provinces). This has resulted in increasing the number of employed population in the country to 7.11 in the second quarter of 2008 against 6.88 million in 2007.

Of the total employment, 41.8 percent was occupied by service sector followed by agriculture (37.8 percent) and industry (26.4 percent) sectors indicating the continued dominance of service sector in providing employment opportunities in the labour market. This declining trend

in unemployment is expected to continue with the implementation of large scale infrastructure projects, the efforts made by the Government to streamline procedures and prepare job aspirants to suit the domestic and international labour markets, coupled with the revitalizing of agriculture and other activities in the Eastern Province.

## Inflation a Concern

The inflation pressure felt more strongly since 2007, with the domestic supply shortages intensified by continued increase in world food prices and oil prices, coupled with the demand pressures resulted from high credit growth. This resulted in an increased inflation measured by new Colombo Consumer Price Index to 28.2 percent in July 2008. Conversely, this increasing trend has started to decelerate and has reached 23.4 by September 2008. Increased supply of domestic agriculture production, mainly, vegetables, rice, coconut oil, eggs contributed heavily towards the decelerating of the general price levels.

**Table 3**  
**Declining Trends in Unemployment**

Category	2006	2007		2008	
		Q1	Annual	Q1	Q2
Labour Force ('000)	7,599	7,471	7,489	7,531	7,506
Employed ('000)	7,105	7,008	7,042	7,148	7,106
Unemployment Rate (%)	6.5	6.2	6.0	5.1	5.3

Source : Department of Census & Statistics

**Table 4**  
**Headline Inflation and Core Inflation in Sri Lanka**

Month	Headline Inflation				Core Inflation			
	Point to Point		Annual Average		Point to Point		Annual Average	
	2007	2008	2007	2008	2007	2008	2007	2008
January	13.7	20.8	10.6	16.4	8.8	6.9	8.5	7.5
February	15.2	21.6	11.1	17.0	8.9	8.4	8.5	7.5
March	15.1	23.8	11.7	17.7	7.6	9.3	8.5	7.6
April	14.3	25.0	12.3	18.7	8.1	9.3	8.5	7.7
May	13.2	26.2	12.6	19.8	7.9	9.6	8.4	7.9
June	13.5	28.2	12.8	21.0	8	14.1	8.3	8.2
July	15.4	26.6	13.3	21.9	7.4	17.2	8.2	9.3
August	16.5	24.9	13.8	22.6	7.2	17.4	8.1	10.1
September	16.1	24.3	14.2	23.2	6.8	18.7	8.0	11.1
October	18.2		14.8		6.7		7.9	
November	19.3		15.4		6.6		7.7	
December	18.8		15.8		8.1		7.7	

Source: Central Bank of Sri Lanka

**Chart 2**



Source: Central Bank of Sri Lanka

Inflation is expected to continue to abate due to the increased supply of domestic agricultural products to the local market, declining commodity prices in the world market including oil and tight monetary policies adopted by the Central Bank of Sri Lanka.

### Trade and Current Account Deficit

During the first nine months of 2008, exports increased by 11 percent to around US\$ 6,245 million, while imports recorded a 30 percent increase incurring around US\$ 10,669 million. The growth in exports was mainly driven by the agricultural sector exports which grew by 33 percent during the period under review. Favorable conditions prevailed in the tea and rubber sectors with increased output and higher international prices have mainly contributed to the noteworthy performance of the agriculture sector. The fruits and vegetables export also increased by 42 percent during the period. Apart from agriculture sector, industrial sector led by garment industry too has shown a modest growth of 2.8 percent, earning value of foreign exchange in the region of US\$ 2,542 million. Slowdown of the world economy during this period has adversely affected the anticipated growth in the garment industry.

Phenomenal escalations in global oil and food prices during the period under review, resulted in a bigger than expected surge in the country's import bill recording an increase of 30.3 percent. Global oil prices peaked to US\$ 147 per barrel during the month of July 2008, though a downward trend in global oil prices was seen towards the latter half of the year. Out of the country's total import bill of US\$ 10,669 million during first nine months in 2008, US\$ 2,746 million or 26 percent of the total import bill was spent on oil imports as opposed to 21 percent spent on oil imports during the corresponding period in the previous year. Import cost of intermediate goods other than petroleum products also increased substantially by 23 percent to US\$ 3,123 million, mainly due to higher international fertilizer

prices which were increased by almost three fold during the period under review. In addition to higher fertilizer prices, major infrastructure development projects undertaken during this year including the construction of major highways, flyovers, expansion work of four major ports etc, also have largely contributed to the high import cost of investment goods which recorded a 37 percent increase over the corresponding period of 2007.

As such, skyrocketing prices of fuel and other intermediate products in the international markets have resulted in widening the country's trade deficit to US\$ 4,424 million during first nine months of 2008. However, increased remittances and higher service receipts helped partly mitigating the adverse impact of widening trade deficit on the country's Current Account Balance.

During the period under review, worker remittances recorded a healthy net earnings of US\$ 1,710 million compared to US\$ 1,403 million earned during the corresponding period in the previous year. Departures for foreign employment increased by 23 percent during the first half of 2008. Overall, country's current account has shown a deficit of US\$ 1,888 million during the first half of the year 2008, an increase of US\$ 1,200 million, over the current account deficit of the first half of 2007.

### Continuation of a Tight Monetary Policy

The tightened monetary policy adopted by the Central Bank since 2004 has helped to maintain its reserve money targets at anticipated levels during the first three quarters in 2008, curbing the demand driven inflationary pressure to a certain extent.

As such, the trend in monetary expansion further moderated since early 2008. The broad money growth decelerated from 16.6 percent at the end of 2007 to 13.6 percent by end June 2008. The growth rate of the credit to private sector which was on a higher rate than desired growth direction has also slowed down to 12.7 percent by end June 2008, from the higher growth rates ranging from 20-26 percent in 2007.

### Fiscal Developments (January- September 2008)

Government revenue has recorded an increase of Rs. 85 billion during January-September 2008 over the same period of 2007. Tax revenue increased by 21 percent during the first nine months of 2008, while the non-tax revenue recorded an increase of 28 percent over the corresponding period of 2007. The revenue collected during this period as a percentage of GDP was around 10.7 percent. This revenue performance should be viewed in the backdrop of revenue shortfalls arising

due to granting of duty concessions on essential commodities, slowdown in vehicle imports and declining trend observed in cigarette sales and liquor production.

Government expenditure also increased by 23 percent reflecting an 18 percent increase in recurrent expenditure and 26 percent increase in capital expenditure. The greater emphasis placed by the Government on infrastructure development have resulted in channeling more resources for capital expenditure. Government managed the recurrent expenditure at these levels despite the extra pressure been exerted by rising fertilizer prices, interest rates, salary and pension bills and the additional funds needed for consolidation efforts in public security and associated humanitarian expenditure.

During the first nine months of 2008, Ministries and Departments had utilized 73 percent of the provisions made for recurrent expenditure and around 55 percent of the provisions made for capital expenditure.

The provisional data for the first nine months indicates an overall deficit of Rs. 231 billion, around 5.2 percent of GDP. This is an improvement over the 5.6 percent recorded during the corresponding period of 2007. Following the continuous decline in the revenue account, which has created an additional fiscal space to be utilized for capital projects, the revenue deficit has reduced to 1.2 percent compared to 1.4 percent recorded in the first nine months of 2007.

The gross project related foreign funding which stood at US\$ 770 million in the first nine months of 2008 is a

further improvement over US\$ 750 million mobilized during the corresponding period of last year. Foreign funds for major projects such as Norochchole Coal Power Plant Project, Upper Kotmale Hydro Power Project, Hambantota Port Development Project, Colombo South Harbour Project were disbursed during the period while the Government was able to mobilize foreign funds for projects such as Uma Oya Hydro Electricity and Irrigation Project (US\$ 450 million), Colombo-Matara Railway Line Project (US\$ 100 million) and Outer Circular Road Project (US\$ 53 million) during the period.

### **Budget Out-turn (January - September, 2008)**

The Government revenue witnessed a 22 percent growth in the first nine months of 2008 registering an overall revenue/GDP ratio of 10.7 percent.

The current expenditure registered an increase of 18 percent in the first three quarters of 2008. During the first nine months of 2008, recurrent/GDP was around 11.9 percent compared to 12.6 percent in corresponding period of 2007 maintaining the declining trend witnessed during last few years. Public investments increased by 26 percent to 4.3 percent of GDP as against 4.2 percent compared to the same period of 2007.

In the back drop of these developments, the revenue account deficit decreased to 1.2 percent of GDP during the period against 1.4 percent recorded in the same period of 2007, while the overall deficit also reduced in terms of GDP to 5.2 percent from 5.6 percent in January to September 2007.

**Table 5**  
**Summary of the Budget (January - September)**

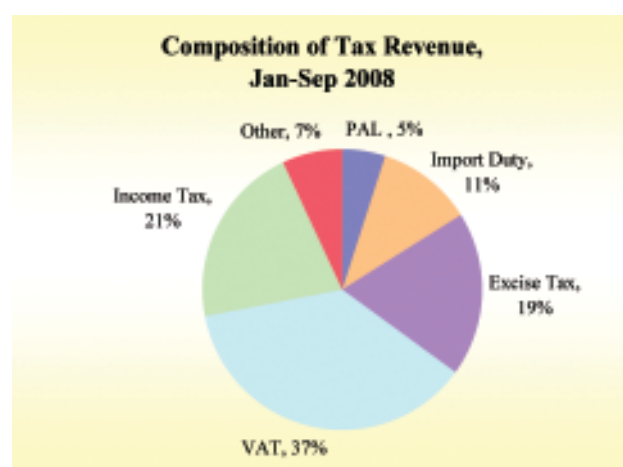
	Rs. Million	
	2007	2008
<b>Revenue</b>	393,776	478,677
Tax	358,321	433,155
Income Tax	82,154	95,084
VAT	131,347	153,422
Excise Tax	65,490	72,731
Import Duty	40,774	45,114
PAL	18,077	23,982
Other	20,479	42,823
Non-Tax	35,455	45,522
<b>Expenditure</b>	593,372	710,368
Current	451,541	531,247
Salaries	150,726	171,120
Pensions	50,030	53,613
Interest Payments	133,171	152,136
Samurdhi	6,950	9,145
Fertilizer Subsidy	8,669	21,768
Other	101,995	123,465
Public Investment	149,222	187,505
Other	(7,391)	(8,384)
<b>Revenue Account</b>	(57,765)	(52,570)
<b>Overall Deficit</b>	199,596	231,691
<b>Financing</b>		
Grant	19,203	14,256
Foreign Loans	51,397	50,055
Domestic Financing	128,996	167,380
<b>Revenue/GDP (%)</b>	11.0	10.7
<b>Current Expenditure / GDP(%)</b>	12.6	11.9
<b>Public Investment / GDP (%)</b>	4.2	4.3
<b>Revenue Deficit / GDP (%)</b>	1.4	1.2
<b>Overall Deficit / GDP (%)</b>	5.6	5.2

Source: Department of Fiscal Policy

### Government Revenue (January- September 2008)

The government revenue augmented by 22 percent in the first 9 months of 2008. The tax revenue increased by 21 percent despite the revenue shortfalls arising due to duty concessions, slowing down of vehicle imports and slower growth in cigarettes and liquor duties. The policy measures implemented during the last few years to broaden the tax base coupled with administrative improvements helped to maintain the revenue growth.

**Chart 3**



Source: Department of Fiscal Policy

## Variance Analysis of Government Revenue (January - September)

Rs. Mn

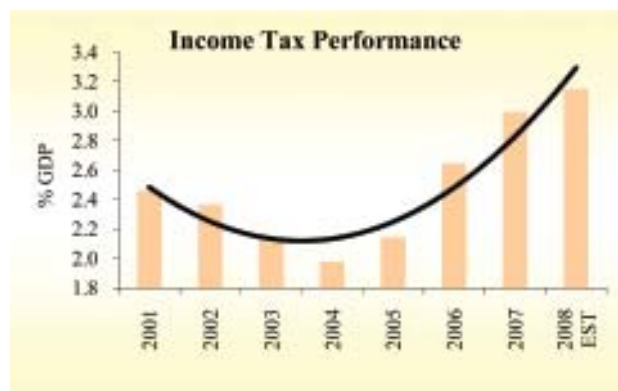
	2007	2008	Reasons
Income Tax	82,154	95,084	Series of policy measures taken to broaden the tax base coupled with the administrative measures, and increased work force resulted in improved income tax collection.
VAT	131,347	153,422	The better performance in the telecommunication and financial sectors, and restrictions on input credit created a positive impact. However, reduced value of motor vehicle imports, removal of VAT with the introduction of a consolidate tax on essential commodities, the impact of the concessionary duty scheme applied for import of vehicles for public servants, reduced liquor and cigarette sales and reduction of VAT on petrol to 5 percent had a negative impact on the collection.
Excise Tax	65,490	72,731	Upward rate revisions of some selected categories of cigarettes, increased excise duty on liquor and increased beer production contributed positively for the excise tax collection. However, slow down in cigarette sales and liquor production as a result of Government's policy introduced through "Mathata Thitha", the national drug and alcohol prevention initiatives and related legislations and measures, the duty concessions granted for public servants to import vehicles and slow down in vehicle imports resulted in a slower growth in excise tax. Around Rs. 10 billion of excise duty revenue was foregone on account of duty concessions to public servants while decline in cigarette and liquor sales accounted for Rs. 3 billion revenue shortfall from the anticipated excise revenue.
Import Duty	40,774	45,114	Increase in the surcharge on imports, introduction of specific and minimum retail price based duties on certain items to curb the under valuation issue, and curtailing duty free concessions at the duty free shops resulted positively on import duty collection. However, introduction of the specific duty on essential commodities, duty waivers granted on petrol imports due to the high petroleum prices in international markets, a slow down in vehicle imports coupled with imports of vehicles under the concessionary duty schemes by public servants, had a negative impact on import duty collection. Majority of imports being predominantly investments and intermediate goods which carry lower duty rates also affected the import duty collection.
Port and Airport Development Levy (PAL)	18,077	23,981	The revenue increased reflecting the high import growth as all the imports other than few selected items and imports for export purposes are liable for PAL.
Other	19,496	42,823	The increase in other taxes is attributable to the increased in cess rates and imposition of cess on certain items with a view to curtail non essential imports and protect domestic industries coupled with the imposition of the special commodity levy on certain essential commodities. Further, the rate revision implemented with respect to the social responsibility levy and the regional infrastructure levy contributed positively to the revenue increase.
Non Tax	35,455	45,522	Increases recorded in sales and charges, profit and dividends, transfers from state banks and telecommunication regulatory commission coupled with the increased social security contributions due to the salary increases to public sector employees boosted the non tax revenue.

Source: Department of Fiscal Policy

## Buoyant Growth in Income Tax Revenue

Income tax constitutes of Corporate Tax, Personal Income Tax, Tax on Interest Income and Economic Service Charge (ESC) amounted to Rs. 95,084 million up to September 2008. The personal and corporate income tax recorded a growth of 19.2 percent as against the same period of 2007. The ESC and Tax on interest increased by 13.7 percent and 10.6 percent respectively over the same period of 2007. The Income Tax as a percentage of GDP is expected to increase to 3.1 percent in 2008. This notable achievement was due to the policy measures taken by the government to broaden the tax base, rate revisions and other administrative measures while this effort was further strengthened by completing the legal framework prior to the commencement of the tax year. In this context, the government adopted an aggressive and bold agenda to augment income tax revenue while embarking on series of reform initiatives to strengthen the Inland Revenue Department and create an environment conducive to the tax payer as well as tax administration.

Chart 4



Source: Department of Fiscal Policy

**Table 6**  
**Income Tax Performance (January to September)**

	Rs. Million		
	2007	2008	Growth (%)
Corporate and Personal Tax			
ESC	45,830	54,637	19.2
Withholding Tax	9,083	10,326	13.7
<b>Total</b>	<b>27,241</b>	<b>30,121</b>	<b>10.6</b>
	<b>82,154</b>	<b>95,084</b>	<b>15.7</b>

Source: Department of Fiscal Policy

Several measures were implemented from 2005 to broaden the tax base and this was further expanded in 2008.

### Measures implemented in 2008 to Broaden the Tax Base

- Tax holidays that are granted will not be extended further after the expiry of each tax holiday granted.
- Tax holidays that commenced after 01.04.2008 will not be more than three years maximum other than investments in strategic development and regional development projects.
- Any loss from the business of leasing could only be set off against profits from such business.
- If an employer has undertaken to pay income tax on the employment income of an employee, the deduction to the employer will be restricted to the amount of income tax actually payable by the employer in respect of such employment income.
- Tax compilation with regard to both foreign and local persons employed in Sri Lanka to be done in an equal basis.
- Economic service charge rate on turnover of sales of liquor and motor vehicles increased to 1 percent.

## Administrative Changes

- Any person or partnership paying Economic Service Charge, was exempted from paying withholding tax in respect of specified fees, rent, lease, royalty, annuity and management fees.
- Simplify the prevailing system relating to taxation of salaries and allowances of public servants.
- With respect to tax arrears and resolving pertaining issues, a Special Act to be proposed enabling the recovery of such taxes.

The government has also granted income tax exemptions and concessions for several sectors to boost such industries.

## Exemptions and Other Concessionary Measures

### Concessions

- Granting tax relief for new investments under the program of “*Negenahira Udanaya*” for the revival of the Eastern Province. Interest income on loans granted on such investments by the banks be exempted from income tax.
- Granting qualifying payment subject to a maximum of Rs. 25 million for the construction of a new cinema hall and Rs. 10 million for modernization of an existing hall with sophisticated equipment to boost the local film industry.

- Increased the qualifying payment up to Rs. 50 million for the production of films approved by Film Corporation.
- A concessionary rate of 2.5 percent will be applicable for gems sold at gem auctions conducted under the sponsorship of the State Gem Corporation to promote the gem industry.
- If the turnover of any business comprises of exports or earnings in foreign exchange, the applicable ESC rate was reduced to a maximum of 0.25 percent. The concessionary ESC rate of 0.1 percent applicable for apparel exports at present was extended to the business of exporting apparels through buying offices, with a view to give an impetus to exports.

## Exemptions

- Profits and income from the export of gems after cutting and polishing of gems imported in raw form were exempted with a view to promote industry as a high foreign exchange earning industry.
- Profits and income earned outside Sri Lanka by any person or partnership in Sri Lanka, and if such profits and income are remitted to Sri Lanka through a bank were exempted from income tax to boost the inflow of foreign exchange to the country.
- Any profit of a cooperative society was exempted from income tax for a period of 5 years and tax on interest was exempted on interest accruing on the deposits made by such societies, with a view to revive the co-operative system and promote the distribution of essential items at affordable prices.

## Marginal Growth in Excise Tax Revenue

Excise tax revenue generated from cigarette, liquor, motor vehicles, petroleum and other products during the first nine months in 2008 amounted to Rs 72,731 million, an increase of 11 percent over the corresponding period in 2007.

marginally during the same period in 2008. However, excise duty on hard liquor has increased by 19 percent, in the first nine months in 2008, mainly due to the excise duty rate increase of Rs. 65/= for a proof liter of hard liquor in October 2007. Excise duty on beer industry

**Table 7**  
**Excise Tax Performance (January to September)**

Category	Rs. Million.		Growth (%)
	2007	2008	
Liquor	16,830	20,126	19.6
Cigarette	22,828	26,118	14.4
Motor vehicles & Petroleum	22,838	21,298	- 6.7
Other	2,994	5,189	73.3
<b>Total</b>	<b>65,490</b>	<b>72,731</b>	<b>11.1</b>

Source: Department of Fiscal Policy

In line with *Mathata Thitha*; the government policy to discourage tobacco and alcohol consumption, and related legislative and awareness programmes, the declining trend in cigarette sales witnessed in 2007 continued in 2008. The overall cigarette production decreased by 5.3 percent during first nine months in 2008, compared to that of 2007. However, the upward rate revisions of some selected categories of cigarettes contributed to a 14 percent increase in excise duty collected from cigarettes during this period, mitigating the revenue loss due to drop in sales.

Hard liquor production which recorded a growth of 4 percent in the first nine months of 2007 declined

recorded an increase of over Rs. 450 million in the first nine months in 2008, indicating a growth of 28 percent and this is mainly due to the 20 percent growth in beer production, over the same period in 2007.

The excise duty collected on motor vehicles in 2007 registered a negative growth of 16 percent over that of 2006. Continuing this declining trend, a further drop of 35 percent has witnessed in the first nine months of the year over that of 2007. Importation of motor vehicles by public servants under concessionary terms, decline in the number of motor vehicle importations under standard fiscal levies together with the shift towards low value small motor vehicles can be identified as the key factors for this situation.

**Table 8**  
**Excise Duty Rate Revisions on Cigarettes**

Category	Rs./1,000 sticks						
	2006 Oct	2007 June	2007 Oct	2007 Nov	2008 Mar	2008 Sep	% Increase from Oct 2006 to Sep 2008
Benson & H.	7,306	7,588	8,588	8,868	9,840	10,870	49
Gold leaf	7,018	7,283	8,086	8,314	8,850	9,380	34
Viceroy	5,919	6,183	6,986	7,219	7,219	7,745	31
Other	3,722	3,722	3,722	3,722	4,520	5,048	35

Source: Department of Fiscal Policy

**Table 9**  
**Estimated Shortfalls in Excise Duty Revenue**  
**(January to September, 2008)**

Category	Rs. Mn.
Public servants concessionary duty scheme	10,018
Decrease in liquor sales	2,200
Decrease cigarettes sales	370

*Source: Department of Fiscal Policy Department*

### Moderate Expansion in Value Added Tax (VAT)

VAT Revenue has shown a moderate growth of 17 percent in the first nine months of 2008, which is below the nominal growth in the economy. Domestic VAT revenue registered a 23 percent increase while VAT on imports increased by 11 percent during the first nine months of the year.

The decline in the motor vehicle imports, relief extended to Tsunami construction related activities, the introduction of composite levy on essential commodities which was aimed at stabilizing consumer prices and the concessionary duty scheme implemented for public

servants to import motor vehicles, contributed for the slower growth in VAT revenue. Rate revision of VAT on petrol, imposed from the beginning of 2008 also had a negative impact on VAT revenue, since the bulk of the petrol consumed in the country is imported in the refined form.

However, the growth in the telecommunication and financial sectors, restrictions on input credit, contributed for the better performance in the domestic VAT collection.

**Table 10**  
**Collection of Value Added Tax (January to September)**

Tax Base	Rs. Million.		% Growth
	2007	2008	
Domestic	67,479	82,134	22
Imports	71,259	77,783	9
<b>Gross Revenue</b>	<b>138,738</b>	<b>159,917</b>	<b>15</b>
Refunds	7,391	6,495	(12)
<b>Net Revenue</b>	<b>131,347</b>	<b>153,422</b>	<b>17</b>

*Source: Department of Fiscal Policy*

**Table 11**  
**Estimated Shortfalls in VAT Revenue (January to September, 2008)**

Description	Rs. Mn.
Decrease in vehicle imports/ Public servants concessionary duty scheme	3,800
VAT rate revision on Petrol	5,800
Introduction of Special Commodity Levy	2,600
Decrease in liquor sales	1,030
Decrease in cigarettes sales	85
<b>Total revenue foregone</b>	<b>13,315</b>

*Source: Department of Fiscal Policy*

## Development Measures

### Exemptions

- Import of machinery for business purposes by enterprises qualified for tax holiday under the 'Nagenahira Udanaya' programme/yarn used for domestic textile industry/supply of milk and rice products made out of local production.
- Co-operative Societies and Financial Services provided by Co-operative Rural Banks.
- Locally manufactured sugar and clay roof tiles, import of yarn, locally produced vegetables and fruits, unprocessed fishing products, import and supply of rattans.
- Import of aircraft engines and air craft spare parts

### Concessions

- Import of certain equipments with approval of State Film Corporation for the production of films were reduced from 15 to 5 per cent.
- VAT on petrol was reduced from 15 to 5 percent

### Modest Performance of Import Duty Revenue

Import Duty Revenue has shown a modest growth of 11 percent generating Rs. 45,114 million, during January-September 2008. Although the imports have recorded a growth of around 37 percent during this period, the imports were predominantly investment and capital goods, which carry lower duty rates. In addition, slower growth in vehicle imports in volume as well as value terms coupled with the impact on concessionary vehicle imports by public servants, implementation of a composite levy where the rates were below the normal rates on essential commodities to address inflationary pressures can be cited as the main factors that contributed to the slower growth in import duties. The duty waivers granted on petroleum products to ease the high international price pressures also affected the import revenue.

**Table 12**  
**Import Duty Revenue Foregone as a Result of Duty Relief Granted to Various Sector Schemes (January to September, 2008)**

Type of Duty Relief	Import Duty Foregone (Rs. Million)
Duty Waivers	
Vehicles*	59
Food Items	5,012
Petrol	2,914
Other	17
Duty Exemptions	1,151
Duty Concessions	525

Source: Department of Sri Lanka Customs

\*Vehicles imported under PA Circular No.22/99 and FM Circular No. 165 only

To arrest the declining trend in import duties, the facility to import vehicles on concessionary basis by public servants was terminated from end March. A restriction was also imposed on items that could be brought into the country under the duty free concessions with a view to control leakages at the duty free shops.

### Impact of Free Trade Agreements on Import Duty Revenue

Currently Sri Lanka is signatory to several bilateral and multilateral free trade agreements and thereby has agreed to provide tariff concessions for selected imports from contracting parties on reciprocal basis. Though the country can benefit by way of concessions offered to our exports by the partner countries, country also has to forego certain amount of revenue as a result of concessions granted to selected imports from the partner countries. During first eight months of 2008, the country had to forego a revenue around Rs. 4 billion due to the tariff concessions granted on preferential imports. Estimated revenue losses on Import Duty under some of the major Free Trade Agreements during the period under review appear in the Table 13.

**Table 13**  
**Estimated Revenue Loss on Import Duty due to Tariff Concessions Offered by Sri Lanka under Major Free Trade Agreements ( January to August 2008) (Rs. Mn.)**

Free Trade Agreement	Number of Products subject to Tariff Concessions	CIF Value	Estimated Revenue Foregone
India-Sri Lanka Free Trade Agreement (ISFTA)	4,486	38,694	3,084
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	5,245	1,600	247
South Asia Free Trade Agreement (SAFTA)	4,893	1,622	50
Asia-Pacific Trade Agreement (APTA)	914	280	41

*Source: Department of Sri Lanka Customs*

### Special Commodity Levy

Special Commodity Levy, imposed as a composite import levy in lieu of different taxes and duties applicable for 10 food commodities is now encompasses 11 essential commodities including dhal, sugar, potatoes, onions and milk powder which have a significant bearing on the cost of living considerations of the general public.

Special Commodity Levy generated Rs. 11,278 million in the first nine months of 2008. By the imposition of a single levy, the Government had to forgo a revenue around Rs. 6.5 billion during this period.

**Table 14**  
**Revenue Loss due to the Imposition of Commodity Levy to ease the Cost of Living Considerations during January to August, 2008 (Rs. Mn)**

Commodity	Special Commodity Levy (Rate)	CIF Value 1,900	Special Commodity Levy (Revenue)	Revenue if regular taxes / duties were in force	Revenue Foregone
Sprats	Rs. 20 per kg	1,900	310	304	-
Milk Powder	Rs. 5 per kg	21,723	226	3,959	3,733
Potatoes	Rs. 15 per kg	1,865	1,150	1,796	646
B'onion	Rs. 20 per kg	2,730	2,450	2,847	397
Peas	Rs. 15 per kg	1,380	264	593	329
Chick Peas	Rs. 15 per kg	1,311	205	354	150
Lentils	Rs. 6 per kg	6,770	290	802	512
Green Gram	Rs. 13 per kg	920	138	145	7
Chillies	Rs. 30 per kg	3,093	730	1,046	316
Canned Fish	Rs. 25 per kg	2,506	318	676	358
Sugar	Rs. 14 per kg	14,804	5,197	5,279	83
<b>Total Revenue Foregone</b>					<b>6,531</b>

*Source : Department of Sri Lanka Customs*

## Continued Growth in Other Revenue

Revenue from Port and Airport Development Levy (PAL) recorded an impressive performance in 2008 despite the exemption granted for imports that are used for export and concessionary rates applicable on certain medicines, and machinery and equipment. PAL generated Rs. 23,981 million in the period of January-September, an increase of 33 percent over the same period of 2007 mainly due to high turnover of imports.

Cess generated Rs.16,342 million during the reference period compared to Rs. 9,377 million in 2007. It was around 74 percent increase over 2007. Increase in Cess rates, imposition of Cess on certain imports and revision of the Cess on imports which have local substitutes resulted in improving the Cess revenue.

The Regional Infrastructure Development Levy amounted to Rs. 1,921 million during the period under review, an increase of 49 percent over the same period of 2007. This is mainly due to scale up of rate by 2.5 percent in 2008. The stamp duty introduced on selected instruments such as licenses issued for the sale of liquor and cash receipts, generated Rs. 2,845 million during the reference period, an 18 percent increase compared to the same period of 2007. Debit tax recorded a growth of 20 percent during the period of January-September 2008 over the corresponding period of 2007.

## Changes in other taxes Rate Changes

- Regional Infrastructure Development Levy, based on motor vehicles has been increased by 2.5 percent.
- Cellular Mobile Phone Subscribers Levy, presently at 10 percent has been extended with an application to both mobile and codeless phones.
- Social Responsibility Levy has been increased from 1 percent to 1.5 percent in support of further strengthening the National Action Plan for children.

- Stamp duty on renewal of liquor license fee has been increased from Rs. 1,000 to Rs. 10,000.
- Environment conservation levy was imposed on selected items from August 2008 but it could not be implemented due to the stay order granted by the Supreme Court.
- A Cess of Rs.50/kg was imposed on textiles imports for domestic consumption and a cess of Rs. 75/kg on imported paints to provide safe guards to local industry.

## Exemptions/ Other Development Measures

- Accounts maintained by the Co-operative Societies, School Development Societies and "Api Wenuwen Api" fund have been exempted from debit tax for a period of 5 years.
- Registration of a ship under the Sri Lankan flag has been exempted from the PAL.
- Cess on selected imports which have local substitutions has been revised.
- Stamp duty on any deed of mortgage of aircrafts and ships has been exempted.
- Land transfer tax was exempted for foreigners who invest on IT related training institutions, educational institutions and the BPO industry, with an investment not less than US\$ 2 million.

## Non Tax Revenue Performance

Non tax revenue generated Rs. 45,522 million a growth of 28 percent over the corresponding period of last year. Increases in social security contribution arising from higher salaries, sales & charges coupled with increase in profit transfers from Telecommunication Regulatory Commission mainly contributed for the higher non-tax revenue.

## Finance & Revenue related Legislations (2007 November- 2008 September)

Statute	Objective
Value Added Tax(Amendment) Act No.15 of 2008	To grant the exemptions and rate reductions as mentioned in budget 2008
Finance (Amendment) Act No.7 of 2008	To extend the 10 percent mobile telephone levy presently imposed on mobile phones to cover the codeless telephones.
Finance (Amendment) Act No.8 of 2008	To revise the Social Responsibility Levy (SRL) rate from 1 percent to 1.5 percent and remove SRL charged on personal income tax.
Inland Revenue (Amendment) Act No.9 of 2008	To implement proposals in budget 2008.
Stamp Duty (Special Provision) (Amendment) Act No.10 of 2008	To make the tax system simplify and to fall in line with the existing mechanism adopted by Provincial Councils, stamp duty payable on leases and mortgages could be done either by affixing the receipt proving such payment to a bank or affixing the stamp.
Economic Service Charge (Amendment) Act No. 11 of 2008	To enable the ESC rate not to exceed 0.25 percent if the turnover of any business comprises of export earnings in foreign exchange and to increase the rate with respect to the turnover of liquor and motor vehicle sales to 1 percent from 0.5 percent. Also amendments have been done to rectify the existing anomalies.
Regional Infrastructure Development Levy (Amendment)Act No. 12of 2008	Increase the Regional Infrastructure Development Levy by 2.5 percent.
Butchers Ordinance (Amendment) Act No.13 of 2008	To prohibit slaughtering of lactating cows and imposing a fine of Rs 50,000 or an imprisonment for a period not exceeding three years, for not adhering to the prohibition.
Strategic Development Project Act No.14 of 2008	This act will enable to grant tax free period/concessions for identified Strategic Development Projects.
Environment Conservation Levy Act No.26 of 2008	This act will enable imposing a levy on items imported , domestically manufactured and on a service provided within Sri Lanka which is likely to have a harmful impact on the environment.

### Policy Thrust to Rationalize Public Expenditure

A number of policy measures were taken in line with fiscal consolidation to rationalize growth in current expenditure while enhancing more resources towards accelerating development initiatives to sustain a rapid and equitable economic growth. Development initiatives designed and implemented during the medium term continued with greater emphasis targeting national infrastructure development initiative; 'Randora' , and enhancing the provincial and rural infrastructure, aiming at empowering the rural mass through 'Jathika Saviya - Gama Neguma' and 'Maga

*Neguma'* programmes. Policy measures were taken for effective implementation of development projects through issuance of new circular instructions during 2008. This was mainly to focus the enhancement of economic development through better public expenditure management.

The cap on the Cost Of Living Allowance (COLA) at Rs. 375 per month for public servants and Rs. 187.50 for pensioners were continued, in the first half of 2008 while the allowance for public servants in lower grades was

revised to Rs. 1,000 per month from July and for the upper grades it was confined to Rs. 750. The leave encashment for public servants was terminated with effect from January 2008.

Due to rising international oil prices, Ceylon Petroleum Corporation (CPC) raised the administered prices of petroleum products placing the domestic prices on cost recovery rates and eliminating the subsidy on petrol. However, domestic prices of diesel and kerosene carried a subsidy element. Electricity tariff was also adjusted by 40 percent in line with the petroleum price increases in March 2008. Government also took measures to increase the railway and bus fares to curtail losses arising from the increased fuel cost thus easing the pressure on the budget.

## Pressure on Expenditure

The overall expenditure for the first nine months of 2008 was Rs. 710 billion, recording a 20 percent increase over the corresponding period of 2007. This constitutes Rs. 531 billion for recurrent expenditure and Rs 179 billion for capital expenditure.

Increased cost on fertilizer subsidy owing to high international oil prices, increase in salary bill to meet the wage commitment of the new recruitments mainly to security related establishments, enhance COLA to public servants of lower grades and the increase in recurrent costs arising from higher electricity and fuel prices exerted pressure on the recurrent expenditure.

**Table 15**  
**Domestic Petroleum Price Adjustments-2007/2008 (Rs per litre)**

Item	2007					2008				
	Jan	5 <sup>th</sup> Jan	30 <sup>th</sup> Mar	18 <sup>th</sup> Apr	27 <sup>th</sup> Apr	11 <sup>th</sup> May	29 <sup>th</sup> Jun	29 <sup>th</sup> Jul	14 <sup>th</sup> Jan	25 <sup>th</sup> May
Petrol	92.00	97.00	104.00	104.00	105.00	106.00	111.00	117.00	127.00	157.00
Diesel	60.00	60.00	60.00	63.00	65.00	67.00	71.00	75.00	80.00	110.00
Kerosene	48.50	48.50	48.50	50.00	50.00	51.00	67.00	68.00	70.00	80.00
Fuel Oil 180 ct	37.70	37.70	37.70	40.70	40.70	43.70	47.70	51.70	61.70	71.70
Fuel Oil 380 ct	41.00	35.65	35.65	35.65	35.65	38.65	42.65	46.65	56.65	66.65

Source:: Department of Fiscal Policy

The Government extended the facility granted to foreigners by allowing them to invest in Treasury Bills too, while the capital account was opened up further up to 10 percent during this period with a view to ease the pressure on the domestic interest rates and to reduce the crowding out effect on domestic funds. The Government was also able to stabilize the exchange rate during the period supported by foreign inflows materializing through enhanced remittances, exports and bond issues carried out in international capital markets. Strict Treasury operations through the single account system also helped to minimize the idling funds in Government accounts.

The salary bill which was at Rs 151 billion for the January to September period in 2007, increased by Rs 21 billion during the corresponding period of 2008 while the pension cost was Rs. 53 billion during the period. Increased COLA, new recruitments, revision of allowances for public officers attached to health and judiciary contributed to the salary and wage enhancements. The full impact of over 25,000 retirees in 2007 coupled with further 14,755 new entrants as pensioners constitute to the increased pension bill.

**Table 16**  
**Recruitments to the Public Sector**

Institution	2006		2007		2008 upto Sept.	
	Creation of Posts	Filling of Vacancy	Creation of Posts	Filling of Vacancy	Creation of Posts	Filling of Vacancy
Ministries	20,769	3,673	2,389	2,718	476	4,664
Departments	3,798	13,097	2,860	5,709	31,522	2,167
Districts/Divisional Secretariat <sup>#</sup>					2	23
Statutory Boards <sup>#</sup>			3,420	2,209	3,082	1,330
Provinces	4,287	2,276	9,734	3,760	1,523	4,820*
<b>Total</b>	<b>28,854</b>	<b>19,046</b>	<b>18,403</b>	<b>14,396</b>	<b>36,605</b>	<b>13,004</b>

Source: Department of Management Service

<sup>#</sup> 2006 & 2007 figures included under Ministries & Departments \* Includes Tharuna Aruna

## High Interest Rates

Interest cost increased by 14 percent to Rs. 152 billion compared to first three quarters of 2007. The high domestic interest rates prevailed during the period consequent to the tight monetary policy adopted by the Central Bank of Sri Lanka and preference moving to

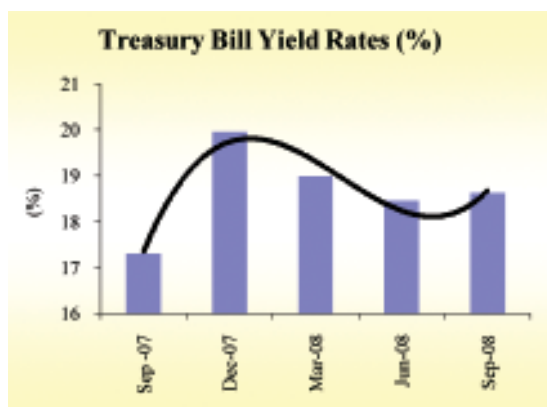
short term maturities in a high inflationary environment resulted in the interest expenditure. The stability of the exchange rate helped to mitigate the pressure on the interest cost.

**Table: 17**  
**Behavior of Yield Rates-2008**

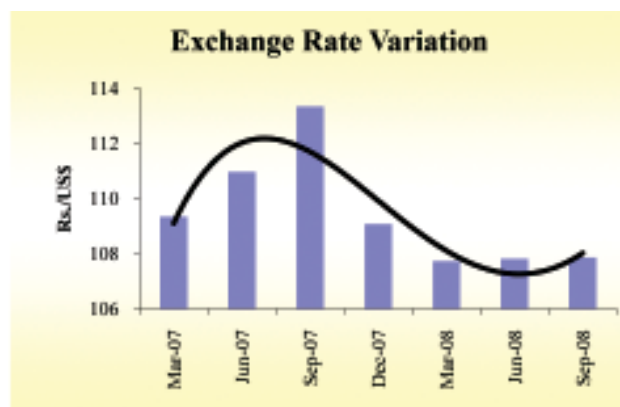
Year	Treasury Bills			Treasury Bonds				(%)
	91 days	182 days	364 days	2 year	3year	4 year	5 year	
Sep 2007	18.20	17.47	17.31	17.27	16.45	14.32	14.22	
Dec 2007	21.30	19.99	19.96	15.50	15.99	14.32	15.55	
Mar 2008	18.41	18.96	19.00		17.05			
Jun 2008	17.29	18.11	18.46	17.83	16.93			
Sep 2008	17.22	17.83	18.63	18.54	17.89	17.48	17	
<b>Change</b>	<b>-0.89</b>	<b>0.36</b>	<b>1.32</b>	<b>1.27</b>	<b>1.44</b>	<b>3.16</b>	<b>2.78</b>	

Source: Department of Treasury Operations

**Chart 5**



Source: Department of Fiscal Policy



## A Variance Analysis of Government Expenditure (January - September)

	2007	2008	Reasons
Salaries and Wages	150,726	171,120	Granting of enhanced cost of living allowance from July 2008 in addition to Rs 375/- increased from January 2008, increasing other allowances for Judges and Medical Officers, and impact of meeting wage commitments to new recruitments in the public service and to security personnel, influenced the increase in the salary bill.
Pensions	50,030	53,613	Granting enhanced cost of living adjustments, and full impact of the entry of over 25,000 retirees in 2007 and 14,755 new pensioners in 2008 caused the pension bill to increase.
Interest Payments	133,171	152,136	Increase in domestic interest rates and investors moving to short term Government securities.
Fertilizer Subsidy	8,669	21,768	Continuation of fertilizer subsidy at a rate of Rs. 350 per 50 kg bag, in the backdrop of high international fertilizer prices consequent to rise in oil prices.
Other	108,945	132,610	Significant increase in operational expenditure in spending agencies due to high oil prices - fuel, electricity, water etc, enhanced expenditure towards ensuring the national security in the country including expenditure on resettlement & rehabilitation and increased transfers to public institutions have resulted in an increase of other expenditure.
Public Investment	149,222	187,505	Priority was given to accelerate strategic development programmes at both national and provincial levels in the areas of power generation, ports, roads, irrigation as well as rural development enhancing the expenditure on public investment. Additional funds were channeled for major infrastructure projects which are now in the construction phase.

### Greater Support for Rural Development

The “*Gama Neguma*” programme, which was initiated in 2006 has targeted to develop 14,000 poorest villages empowering the rural community. Around Rs. 5,000 million have been invested on this planned development so far at village level while the priorities of the needs of the people under this programme were identified through “*Janasaba*”.

During the period under review, a number of projects on community based rural infrastructure development were implemented at a cost of Rs. 2,877 million, covering rural housing, electricity and livelihood development projects.

In 2008, Samurdhi Authority of Sri Lanka implemented programmes related to agriculture, animal husbandry and fisheries, trade and industrial and social

development, at a cost of Rs 403 million giving priority to 3,060 villages identified under “*Gama Neguma*” Programme. In addition, micro financing programmes were implemented through 1,042 Divisional Samurdhi Banks situated island wide targeting enhancement of living status of low income groups.

Under the “*Maga Neguma*” programme initiative designed to up lift the rural road net work, 2,061 projects were completed covering 528 kilo meters of inter connective roads at a cost of Rs. 1,747 million benefiting 39,910 families in rural areas. So far around 4,700 km of rural roads have been rehabilitated under this programme benefiting over 225,000 rural families at a cost of over Rs. 5 billion. Majority of such roads have been uplifted using modern techniques to ensure durability.

**Table 18**  
**Gama Neguma**

Sector	Completed Projects at end August 2008
Rural Roads	256 kms
Bridges and Culverts	20
Rural Electricity Schemes	431
Rural Water and Sanitation	246
Rural Housing	9
Livelihood Development	6,582
Small Irrigation Schemes	132
Social and Sports Development	409
Other	41

*Source: Ministry of Nation Building and Estate Infrastructure Development*

**Table 19**  
**"Maga Neguma"- Rural Road Development Program**

District	No. of Projects	Total Distance(Km)	Expenditure (Rs.Mn.)	Beneficiary Families
Colombo	56	8.9	32	848
Gampaha	410	75.0	311	7,383
Kalutara	192	28.7	87	3,036
Kandy	24	5.8	35	380
Matale	30	5.7	20	422
Nuwara Eliya	36	5.5	18	469
Galle	62	16.3	55	1,294
Matara	198	49.8	165	3,220
Hambantota	400	81.0	327	7,052
Jaffna	5	2.6	18	60
Mannar	6	1.4	11	60
Vavunia	6	7.8	20	1,575
Mullaitivu	2	2.0	5	50
Kilinochchi	7	2.1	2	100
Batticaloa	3	1.5	4	113
Ampara	78	64.0	76	3,809
Trincomalee	14	3.0	13	258
Kurunegala	257	93.0	267	4,534
Puttalam	19	6.8	50	513
Anuradhapura	54	13.1	39	974
Polonnaruwa	18	13.9	42	523
Badulla	69	20.1	59	1,391
Moneragala	25	4.3	19	379
Ratnapura	49	8.5	45	776
Kegalle	41	7.7	25	691
<b>Total</b>	<b>2,061</b>	<b>527.9</b>	<b>1,747</b>	<b>39,910</b>

*Source :Department of National Budget*

## Welfare and Social Safety Net for Vulnerable Groups

Cost-effective nutrition intervention programmes that were initiated in 2006 and 2007 continued improving maternal and child healthcare during 2008. 115,000 mothers have been benefited at a cost of Rs.219 mn under the programme to provide a nutritional food package worth of Rs. 500 per month for expectant mothers in the first eight months of 2008. Further, 750,000 expectant and lactating mothers have been benefited through "Thriposha" programme utilizing Rs. 352 million up to August 2008. Fresh milk worth of Rs.

360 per month was provided for children between 2-5 years benefiting 39,128 children covering 68 AGA divisions.

Funds allocated for School Mid Day Meal programme increased with the enhanced coverage of the programme from grade one to four children, totaling 895,633 children in under-privileged areas including the North and East, at a cost of Rs. 1,505 million by the end of August 2008.

**Table 20**  
**Welfare Payments and Subsidies**

Item	(Rs.Mn)	
	2007	2008
<b>Children</b>	<b>6,439</b>	<b>8,026</b>
Poshana Manpetha (Included Senehasa Bank Accounts)	22	25
Poshana Malla	418	689
Triposha Programme	488	700
Fresh Milk for Children between 2-5 years	13	500
Free Text Books & Uniforms	3,317	3,260
School & University Season Tickets	500	600
Dharma School Text Books & Uniforms	102	112
Bursaries & Scholarships	200	409
School Nutritional Foods	1,308	1,650
Handicapped Student	71	81
<b>Agriculture</b>	<b>11,496</b>	<b>27,449</b>
Fertilizer Subsidy	11,000	26,854
Agriculture Related Development Subsidy	496	595
<b>Welfare Payments</b>	<b>29,526</b>	<b>33,535</b>
Samurdhi Relief and Fuel Subsidy for Samurdhi Beneficiaries	9,200	10,850
Assistance to Disabled Soldiers	7,426	8,000
Internally Displaced Persons	1,670	1,360
Flood and Drought Relief	345	300
Fuel subsidy for Fisherman	60	-
Medical Supplies	10,804	13,000
Vocational Training Institutions for Disabled	20	25
<b>Community Services</b>	<b>1,030</b>	<b>1,408</b>
Street Lightening	1,000	1,300
Water to Religious Places	30	46
Rice Subsidy for the Plantation Sector	-	62
<b>Total</b>	<b>48,491</b>	<b>70,418</b>

Source: Department of National Budget

## Resettlement of Internally Displaced Persons

Around 57,747 displaced persons were resettled in Batticaloa and Trincomalee districts under the "Negenahira Navodaya" programme, during the first nine months of 2008. The Government has taken action to distribute cooked meals and dry rations to 103,191 affected families by terrorist activities through 301 welfare centres at a cost of Rs. 792 million by end August 2008.

**Table 21**  
**Resettlement in Trincomalee and Batticaloa Districts**

District & DS Division	Resettled Families
<b>Batticaloa</b>	<b>33,200</b>
Manmunai West-Vavunathivu	8,028
Eravur Pattu-Chenkalady	3,448
Koralaipattu South-Kiran	1,644
Mamunai South West-Paddipalai	6,437
Poraitivu Pattu-Vellavelly	9,098
Koralaipattu North-Vakarai	4,545
<b>Trincomalee</b>	<b>18,651</b>
Verugal	3,033
Muttur	13,349
Seruwila	2,269
<b>Total</b>	<b>57,747</b>

Source: Ministry of Resettlement and Disaster Relief Services

## Initiatives for Disaster Management

Since mitigation of the effects of natural disasters and improvement of the meteorological forecasting have become a high priority, the Government has taken action to establish 50 Tsunami Warning Towers

through out the island and a Doppler Weather Radar System at Gongala. Out of the 50 Tsunami Warning Towers, foundation has been laid for 20 Towers and it is expected that 25 Towers will be activated at the end of this year.

## Assistance to Agriculture sector

Fertilizer subsidy scheme continued in 2008 particularly, targeting small scale paddy farmers. The paddy farmers enjoy all varieties of fertilizer at a subsidized price of Rs. 350 per 50 kg bag despite high fertilizer prices in international market. Urea fertilizer subsidy expanded to plantation sector in 2008, covering plantations less than 50 acres, at a subsidized price of Rs. 1,200 per 50 kg bag. The Government bears nearly 93-95 percent of the total cost of fertilizer. With these developments, the budgetary allocation has been increased in 2008 with a supplementary budget giving extra pressure on the budget. The total allocation for fertilizer subsidy scheme has been increased to Rs. 27 billion in 2008.

To ensure stable price for paddy farmers, the advances for paddy purchasing programme continued at a cost of Rs. 190 million. The programme was mainly implemented by the Government agents that covered North and East Provinces as well.

Around Rs. 43 million was channeled to assist the agriculture sector in 2008 by way of interest subsidy on cultivation loans of small scale paddy farmers and other subsidiary food crops. Around 62,734 cultivation loans amounted to Rs. 2,407 million were provided under the New Comprehensive Rural Credit Scheme (NCRCS) for 2007 Yala and 2007/2008 Maha seasons. Further, loans amounting to Rs.6,586 million was disbursed to private sector to purchase paddy at subsidized interest rates.

**Table 22**  
**Fertilizer Subsidy - Paddy Sector**

Fertilizer	Market rate per 50 kg bag as at August 2008	Subsidized price per 50 kg bag	Subsidy per 50kg bag	Government subsidy as a percentage of the market price (%)
Urea	5,300	350	4,950	93
MOP	7,200	350	6,850	95
TSP	6,300	350	5,950	94

Source : Fertilizer Market Bulletin, August, 2008

## Increased Accessibility for Quality Education

Government accord high priority for education and has channeled over Rs. 62 billion by end August 2008.

Under the “*Isuru School Programme*” designed to upgrade one school from each Divisional Secretariat to fully fledged secondary school, 75 schools have been selected to be developed in 2008. Rs. 220 million has been provided for *Navodya School Programme* to construct new school buildings, purchase equipment etc. during 2008.

The Model Primary School Project which was developed to eradicate inequality among primary schools were implemented successfully during the first eight months of 2008, by utilizing Rs. 142 million for construction of buildings, rehabilitation of schools, provision of sanitation facilities, supply of water, furniture and computers. In addition, 25 computer labs have also been installed in 25 national schools with the aim of developing IT knowledge among the students.

Further, 351 computer labs under ADB funded Secondary Education Modernization Project were set up during 2008 while providing 90 percent of equipment to the same centres.

The financial assistance given on Higher Education sector has been increased from Rs. 20 billion in 2007 to Rs. 21 billion in 2008 which has been utilized for university infrastructure development, undergraduate education development, improve e-learning, develop distance education, infrastructure development of advance technological institutes and strengthening research facilities.

## Improved Access to Healthcare

Public investment for the health sector in 2008 was mainly directed towards improving access to healthcare, focusing people particularly in the lagging regions. Investment in curative healthcare services was significantly increased during 2008 allocating Rs. 8,669 million on hospital development projects. These funds were mainly channeled for expansion of specialized healthcare facilities with technologically advanced equipment in the areas of Neuro Trauma, Epilepsy, Nephrology, Oncology, Cardiology etc.

Establishment of Nephrology Unit at Maligawatta, Laundry Building at Karapitiya Teaching Hospital, Out Patient Department Building at Kalmunai North Hospital, Oncology Unit at Badulla General Hospital, improvement of Kantale Hospital and Drug Stores at Kurunegala Teaching Hospital are some of the key development projects which have been completed

during the first nine months of 2008. Ninety five percent of building construction work of Neuro Trauma Unit at National Hospital Colombo with Saudi Arabian assistance has been completed by September 2008, at a cost of Rs 1,137 mn.

In addition, special emphasis was also given to implement the programmes such as development of quarters for Medical Officers and improvement of Estate Hospitals in Kandy, Kegalle, Ratnapura, Nuwara Eliya and Badulla districts. The work on key development projects of Korean funded Matara-Godagama Hospital and Dental Institute of Colombo were initiated during this year.

New initiatives to control communicable and non communicable diseases were introduced to face the challenges posed with the epidemiological and demographic transition. Funds were directed towards an effective continuation of Rabies Control Programme as well as to the Expanded Programme on Immunization.

Increased funds have been allocated for pharmaceuticals from Rs 10.8 billion in 2007 to Rs. 13 billion in 2008 to maintain better patient care services in all Government hospitals. Out of the total amount allocated, around Rs. 9.0 billion has been utilized during the first nine months of 2008.

Meanwhile, the acute shortage and inequities in human resource distribution has been minimized through recruitment of new staff and better deployment of trained and quality human resources more particularly to the backward areas during the year. 184 Post-intern Medical Officers, 1,041 Nurses and 243 Para Medical staff have been recruited to the health sector in 2008.

## Mega Projects Capable of Addressing Power & Energy

Investments have been made to develop 16 power generation, 22 transmission and 15 distribution projects in view of addressing the future power needs in the country. The Norochcholi Coal Power Plant funded by China, and the Upper Kotmale Hydro Power Project are in construction phase. The first phase of Kerawalapitiya Combined Cycle Power Plant to be commissioned in October 2008 providing 150 MW to the national grid while the work related to second phase with further 150 MW capacity has already commenced.

Among the transmission projects, construction of Kerawalapitiya - Kotugoda Transmission Line has been completed in 2008 and Power Sector Development Project relating to system improvements is nearing completion. Construction of Grid Substation at Kotugoda is also scheduled to be completed in 2008.

## Efforts to Develop Ports

Funds have been mobilized from Asian Development Bank and China for the break water construction of Colombo South Harbour Project and Hambantota Port Development Project. A steady progress has been made on the construction work of both the projects that were started in 2007.

The construction work on the Development of Oluvil Port was also commenced in 2008 with the assistance of Denmark Government.

## Greater Investment on Road Development

Investment on road sector stood at Rs 62 billion by August 2008 an increase of 34 percent over the same period of 2007. These funds were channeled for the development of national, provincial and rural roads.

**Table 23**  
**Investment on Roads**

Item	Expenditure up to August 2008 (Rs Million)
National Roads	
Expressways Development	6,543
Highways Development	11,647
Construction of Bridges & Fly-overs	3,086
Rehabilitation of Tsunami Affected Roads	3,817
Other Roads	2,397
Maga Neguma - Rural Roads Development	1,426
Rural & Plantation Roads	295
Provincial Roads	2,377

Source : Department of National Budget

57 km of Balangoda-Bandarawela and around 30 km section of Wellawaya-Siyambalanduwa-Ampara roads were rehabilitated during 2008 targeting road development in lagging regions. Rehabilitation work of 122 km Hambantota-Kantale, Kandy-Mahiyangana and Badulla-Nuwara Eliya roads have commenced during this year. Further, 55 km of roads have been widened and improved while reconstructing of 17 damaged and weak bridges have been completed.

The Arugam Bay Bridge was commissioned in June 2008. Under the post-Tsunami reconstruction of roads and bridges around 78 km of the Matara-Wellawaya road has also been completed.

## Expanded Services in Water Supply & Sanitation

The Government has invested Rs. 18,911 million by August 2008 on water and sanitation projects. This includes Rs. 11,663 million for large-scale water supply schemes in urban areas, Rs. 915 million for water supply to small and medium townships, Rs.2,395 million for water supply to tsunami affected areas, Rs.952 million on rural water supply and sanitation and Rs. 3,286 million on sewerage systems in urban areas.

During the period under review Koggala water supply scheme was completed adding 35 km long distribution system, with a coverage of about 7,000 households providing a 24 hour supply and a bulk supply of 2,500 cubic meters per day (m<sup>3</sup>/d) to Koggala Export Processing Zone. Nawalapitiya water supply scheme was commissioned providing uninterrupted supply for over 4,400 households through a 4,500 m<sup>3</sup>/d capacity treatment plant and 30 km long distribution system.

Water supply to the UC area under the Ampara water supply scheme has been completed while Ginigathhena and Rikillagaskada Predeshiya Sabha areas are in near completion. Two schemes at Tangalle and Beliatta which were serving only 7,700 households through a 4 -10 hour supply of 4,300 m<sup>3</sup> per day, were integrated and commissioned with a 24 hour supply through a 43 km long distribution system with a capacity of 10,800 m<sup>3</sup> per day. About 14,000 households will benefit from these projects.

Extension of the Bandaragama and Horana pipe system by 26 km was completed while a water tower with a capacity of 1,000 m<sup>3</sup> per day at Raigama was also completed to serve Horana and Bandaragama areas. During this period further six thousand water connections have been provided to towns south of Kandy.

Major part of the Community Water Supply Schemes covering 353 Grama Niladari Divisions (GNDs) of Matale, Kandy, Nuwara Eliya, Kurunegala, Ampara, Trincomalee, Hambantota and Badulla Districts were completed.

## Improved Public Transport Facilities

Expansion of public transport system continued in 2008 with addition of 173 new buses to the existing fleet while around 275 buses were made road worthy by repairing engines and gear boxes etc.

Fifteen new locomotive railway engines are expected to be added to the railway service by end 2008 while 100 new carriages were also added during 2007-2008.

## Multi Purpose Irrigation Projects

Multi purpose mega irrigation project, Menik Ganga – Weheragala which was commenced in 2006 is expected to be completed at the end of 2008 benefiting 8,000 families in Moneragala and Hambantota Districts, while the balance development work of the national park, roads and minor tanks will be completed in 2009. Of the total estimated cost of Rs. 1,722 million, a cumulative expenditure of Rs. 1,566 million has been spent on this project up to August 2008.

Construction of Moragahakanda dam is in progress utilizing domestic funds. The work on a deviated road net work, infrastructure development for resettlement and land acquisition are in progress. Environmental Impact Assessment has been completed on Kaluganga while head works of the Moragahakanda and Kaluganga reservoir projects are to be commenced with Kuwait and Saudi assistance in 2009.

The Government was successful in mobilizing US\$ 450 million from the Government of Iran to commence the work on Uma Oya project. It is expected to cultivate 15,000 hectares by benefiting 12,000 farmer families in Badulla, Moneragala and Hambantota Districts while generating 120 MW hydro power.

Dam Safety and Water Resources Planning Project with World Bank assistance was commenced in August 2008, aiming at ensuring the safety and operational efficiency of 32 large dams out of the selected 80 dams. This project also includes a modern Hydro-Meteorological information system, developing Prakarama Samudraya and improving water resource planning of the country with other stake holders such as Mahaweli Authority of Sri Lanka, Department of Irrigation, Ceylon Electricity Board etc. Further, other facilities such as repairing of leakages, fixing of Pieso meters for another 48 dams will also be implemented under this project.

## Allocations under Section 6 of Appropriation Act No. 47 of 2006 and Act No.61 of 2007

The details of allocations made during 1st January to 15th of October, 2007 were given in the Fiscal Management Report - 2008. The allocations covering the balance period of 2007 is shown in Table 24 while Table 25 shows the allocations from 1st January to 30th September, 2008.

**Table 24**  
**Allocations made between 16th October 2007 to 31st December 2007**

Head No	Ministry/Department	Purpose	Expenditure (Rs.)	
			Recurrent	Capital
1	His Excellency the President	Presidential Commissions, Personal emoluments, Rehabilitation of buildings, E-Sri Lanka project	90,969,000	299,756,178
2	Prime Minister's Office	Rehabilitation of buildings	-	2,130,450
3	Judges of the Supreme Court	Fuel, Maintenance of vehicles	2,900,000	-
4	Office of the Cabinet of Ministers	Rehabilitation of vehicles	-	449,000
5	Parliament	Personal Emoluments, Retirement benefits	186,841,302	-
6	Office of the Leader of the House of Parliament	Purchase of vehicles	-	5,500,000
7	Office of the Chief Government Whip of Parliament	Personal emoluments	1,100,000	-
8	Office of the Leader of the Opposition of Parliament	Fuel	500,000	-
13	Judicial Service Commission	Training, Vehicles	4,500	675,000
15	Administrative Appeals Tribunal	Personal Emoluments	594,000	-
16	Commission to Investigate Allegations of Bribery or Corruption	Personal Emoluments	5,720,000	-
17	Department of Elections	Personal Emoluments, Purchase of vehicles	10,000,000	8,400,000
101	Ministry of Religious Affairs	International Buddhist Conference, Vehicles	5,000,000	100,000
102	Ministry of Finance and Planning	Payment of gratuity (CCC), Equity contribution	-	1,500,605,844
103	Ministry of Defence, Public Security, Law & Order	Purchase of vehicles, VAT payment for Ranaviru Township Complex	-	248,788,660
105	Ministry of Nation Building & Estate Infrastructure Development	Transition Programme, Purchase of vehicles	-	20,535,000

106	Ministry of Disaster Management and Human Rights	Institutional support	7,500,000	-
107	Ministry of Tourism	Vehicles	-	300,000
108	Ministry of Posts & Telecommunication	Rents	2,010,430	-
110	Ministry of Justice and Law Reforms	Personal Emoluments, Traveling, Training and Capacity Building	2,700,000	14,000,000
111	Ministry of Healthcare & Nutrition	Diets and Uniforms, Security and sanitary services, UNICEF grant, Medical supplies, Personal emoluments, Emergency Health Supply and Rehabilitation	1,390,172,010	172,037,628
112	Ministry of Foreign Affairs	Foreign travel, Supplies, Flood relief to Nepal and Bangladesh, Training, Personal Emoluments, Office equipment, Delimitation of the continental margin of Sri Lanka	17,261,500	10,600,000
114	Ministry of Transport	Restructuring of Sri Lanka Transport Board	108,400,000	7,500,000
116	Ministry of Trade , Marketing Development, Co-operatives & Consumer services	Restructuring of the Building Materials Corporation Ltd.	-	15,600,000
117	Ministry of Highways and Road Development	Road Network Improvement Project, National Highways Sector Project, Vehicles, Southern Transport Development, Road Sector Assistant Project, Rent, Personal Emoluments, STAART	13,041,000	919,500,000
118	Ministry of Agricultural Development and Agrarian Services	Taxes and duties, Udawalawe Left Bank Project, Personal emoluments, Fertilizer subsidy, Southern transport Development Project, Personal Emoluments, Institutional support, Sustainable Water Assistance Management	1,018,038,129	696,886,483
119	Ministry of Power and Energy	Subsidy payment to CEB, Exposure fee for Puttlam Coal Power Project, Norochcholai Coal Power Plant Project	-	7,508,379,243
120	Ministry of Child Development and Women's Empowerment	Purchase of vehicles	-	9,850,000
121	Ministry of Public Administration and Home Affairs	Foreign travel	1,500,000	-

122	Ministry of Mass Media and Information	Foreign travel	1,908,014	-
124	Ministry of Social Services & Social Welfare	Institutional support, Personal Emoluments, Project on Installation of Solar Power Unit	5,586,000	4,360,000
125	Ministry of Housing and Common Amenities	Institutional support	-	250,000,000
126	Ministry of Education	Grants to schools, Buddhist and Pali University, Free text books to students, School Nutritional Food Programme, Institutional Support, Secondary Education Modernization Project, Personal Emoluments, Relief and Reconstruction in Tsunami Affected Area	2,834,282,000	4,473,850,000
128	Ministry of Rural Industries and Self Employment	Purchase of vehicles, Institutional support, Personal Emoluments	33,760,000	7,900,000
129	Ministry of Vocational and Technical Training	Vehicles, Employment Oriented Training for Rural Youth, University of Vocational Technology	-	74,990,000
130	Ministry of Local Government & Provincial Councils	Personal Emoluments, Conflict Affected Area Rehabilitation Project, Road Sector Development Project	450,000	150,000,000
132	Ministry of Enterprise Development and Investment Promotion	Gem and Jewelry Authority (Salary), Operational and capital expenses	37,945,000	1,220,000
133	Ministry of Science and Technology	Institutional support, Purchase of vehicles, Personal Emoluments, Supplies, Services	50,304,000	14,847,510
134	Ministry of Constitutional Affairs & National Integration	Purchase of vehicles	-	13,100,000
139	Ministry of Fisheries and Aquatic Resources	Institutional support	30,452,530	-
140	Ministry of Livestock Development	Fuel	175,500	-
141	Ministry of Coconut Development	Coconut Development Authority, Vehicles	-	23,513,634
142	Ministry of Cultural Affairs	Personal Emoluments, Sri Lanka Netherlands Cooperation Programme	3,700,000	60,000,000

143	Ministry of Parliamentary Affairs	Personal Emoluments	12,300,000	-
146	Ministry of Resettlement and Disaster Relief services	Welfare programmes	34,000,000	-
151	Ministry of Foreign Employment Promotion	Services	4,600,000	-
154	Ministry of Promotion of Botanical and Zoological Gardens	Purchase of vehicles	-	3,500,000
155	Ministry of Regional Development	Purchase of Vehicles	-	7,900,000
156	Ministry of Youth Affairs	Common Wealth Meeting (preliminary arrangements)	500,000	-
160	Ministry of Environment and Natural Resources	Institutional support, Personal Emoluments	11,600,000	-
161	Ministry of Internal Administration	Training and capacity building	-	50,000
164	Ministry of Community Development and Social Inequity Eradication	Vehicles	-	500,000
165	Ministry of National Heritage	Promotion and Preservation of National Heritage	-	2,000,000
166	Ministry of Water Supply and Drainage	Purchase of vehicles, Rehabilitation, Reconstruction and resettlement Programme	-	49,700,000
168	Ministry of Public Estate Management and Development	Making EPF, FTF and Gratuity payments for Janatha Estate Dev. Board	-	50,000,000
169	Ministry of Construction and Engineering Services	Taxes and duties, Purchase of vehicles	-	6,300,000
171	Ministry of Higher Education	Purchase of vehicles	-	1,500,000
201	Department of Buddhist Affairs	Rents, Personal Emoluments	10,457,775	-
207	Department of Archaeology	Personal Emoluments	4,246,111	-
208	Department of National Museums	Buildings, Personal emoluments	1,600,000	5,000,000
209	Department of National Archives	Personal Emoluments	244,000	-
211	Department of Government Printer	Rehabilitation of machinery	-	16,000,000
212	Department of Examination	Examination related activities	100,000,000	-
213	Department of Education and Publication	Personal Emoluments	1,910,000	-
217	Department of Probation and Childcare Service	Personal Emoluments, Senehasa Savings Account	3,000,000	-

218	Department of Commissioner General of Samrudhi	Kerosene subsidy, Personal Emoluments	201,100,000	-
221	Department of Labour	Career Guidance and Counseling Programme, UNFPA project	-	617,004
222	Sri Lanka Army	Personal Emoluments, Traveling, Supplies, Rehabilitation of buildings, Vehicles, Contingency services, Welfare programmes	9,564,000,000	8,503,572,617
223	Sri Lanka Navy	Personal emoluments, Supplies, Rehabilitation (machinery)	2,145,000,000	200,000,000
224	Sri Lanka Air Force	Personal Emoluments, Traveling, Supplies, Rehabilitation of buildings, Contingency services	1,200,000,000	1,552,208,270
225	Department of Police	Personal Emoluments, Vehicles, Equipment Rehabilitation of buildings	1,450,000,000	200,136,140
226	Department of Immigration and Emigration	Printing of new passport, Personal Emoluments	5,300,000	250,000,000
228	Courts Administration	Personal Emoluments, Services, Acquisition of buildings, Institutional Support	298,250,000	210,000,000
229	Attorney General's Department	Personal Emoluments	14,000,000	-
230	Department of Legal Draftsman	Allowances	17,150	-
231	Department of Debt Conciliation Board	Allowances	175,000	-
234	Registrar of the Supreme Court	Stationary and Office requisites, Purchase of vehicles	100,000	14,432,000
236	Department of Official Language	Training and capacity building	-	2,033,013
237	Department of National Planning	Services, Pro-poor Rural Development Project	4,300,000	5,800,000
238	Department of Fiscal Policy	Refund of tax rebate on export	150,000,000	-

243	Department of Development Finance	Personal Emoluments	650,000	-
246	Department of Inland Revenue	Vehicles	-	285,000
247	Sri Lanka Customs	Personal Emoluments, To account duties and charges for goods released on provisional entry basis, Vehicles	6,000,000	5,587,700,000
249	Department of Treasury Operations	Tsunami Home Owner Driven Housing Programme, Loan flotation expenses, Interest payment	2,300,000,000	200,000,000
251	Department of Valuation	Domestic Traveling, Personal Emoluments	6,657,669	-
253	Department of Pensions	Purchase of vehicles, Retirement benefits, Welfare programmes	7,828,160,000	1,000,000
254	Department of Registrar General	Personal Emoluments	10,000,000	-
255	District Secretariat- Colombo	Personal Emoluments	18,000,000	-
256	District Secretariat- Gampaha	Personal Emoluments	48,493,549	-
257	District Secretariat- Kalutara	Personal Emoluments	31,015,000	-
258	District Secretariat- Kandy	Personal Emoluments	8,450,000	-
260	District Secretariat- Nuwara Eliya	Personal Emoluments	2,470,000	-
261	District Secretariat- Galle	Personal Emoluments	5,460,000	-
262	District Secretariat- Matara	Personal Emoluments	1,600,000	-
265	District Secretariat - Mannar	Personal Emoluments	800,000	-
266	District Secretariat- Vavuniya	UNICEF Programme	-	274,000
267	District Secretariat- Mulative	Personal Emoluments	500,000	-
270	District Secretariat- Ampara	Personal Emoluments	14,000,000	-
272	District Secretariat- Kurunegala	Personal Emoluments, Property loan interest	42,000,000	-

273	District Secretariat- Puttalam	Personal Emoluments	2,500,000	-
274	District Secretariat- Anuradhapura	Personal Emoluments	855,000	-
275	District Secretariat- Polonnaruwa	Personal Emoluments	8,000,000	-
276	District Secretariat- Badulla	Personal Emoluments	3,900,000	-
277	District Secretariat- Moneragala	Personal Emoluments	12,000,000	-
278	District Secretariat- Ratnapura	Personal Emoluments	8,000,000	-
281	Department of Agarian Development	Japanese Food Production grant, Personal Emoluments	31,124,000	10,010,000
282	Department of Irrigation	Personal Emoluments	39,500,000	-
284	Department of Wildlife Conservation	Personal Emoluments	5,500,000	-
285	Department of Agriculture	Japanese Food Production grant, Personal Emoluments	50,000,000	10,560,000
288	Department of Survey General	Personal Emoluments	26,746,500	-
293	Department of Rubber Development	Personal Emoluments	8,000,000	-
294	Department of National Zoological Gardens	Personal Emoluments	6,000,000	-
297	Department of Registrar of Companies	Personal Emoluments	120,000	-
304	Department of Meteorology	Personal Emoluments	3,000,000	-
306	Sri Lanka Railways	Personal Emoluments	140,000,000	-
307	Department of Motor Traffic	Services	12,500,000	-
308	Department of Posts	Personal Emoluments	238,799,500	-
309	Department of Buildings	Personal Emoluments	12,365,000	-
311	Department of National Physical Planning	Personal Emoluments	3,800,000	-
312	Western Provincial Council	Urban Agriculture Programme	-	800,622
313	Central Provincial Council	Personal Emoluments	1,660,000,000	-
314	Southern Provincial Council	UNICEF Programme, Personal Emoluments	95,000,000	16,040,675

