



Fiscal Management Report - 2011

Mahinda Rajapaksa
President and Minister of Finance and Planning

Issued under section under the Fiscal Management (Responsibility) Act No. 3 of 2003, consisting of the *Fiscal Strategy Statement-2011* (in compliance with Sections 4, 5 and 6), the *Budget Economic and Fiscal Position Report -2011* (in compliance with Sections 7, 8 and 9) by the Hon. Minister of Finance.

Reporting Requirements under Fiscal Management (Responsibility) Act No. 3 of 2003

Section	Requirement	Required 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 released to the public and laid before the Parliament on the day of the 2 nd 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 set out the basis to evaluate Government's fiscal performance as against its fiscal strategy.	To be released to the public and placed before the Parliament on the day of the 2 nd 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 to the public 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 before 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 within 2 weeks from the date of such release.
Section 16,17,18 and 19	Submission of Pre-Election Budgetary position report **	Pre-Election budgetary Position Report to provide updated information of the fiscal position of the country	To be released to the public within three weeks of the publication of proclamation order requiring the holding of a general election for the election of members of parliament and placed before the parliament within two weeks of the first sitting of the new parliament.

* *by the Minister of Finance*

** *by the Secretary to Ministry of Finance*

COMPLIANCE - 2010

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- **Pre-Election Budgetary Position Report -2010** of Ministry of Finance and Planning stating the fiscal position of the country was released to the public by 1st March 2010 and was soon after placed before the parliament.

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- **Final Budget Position Report – The *Annual Report - 2009 of Ministry of Finance and Planning*** stating the fiscal and economic position of 2009 was released to the public by end May 2010 and was soon thereafter placed before the Parliament.

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- **Fiscal Management Report,2010 of Ministry of Finance and Planning** stating the Fiscal Strategy Statement, Budget Economic and Fiscal Position Report -2010 and Mid Year Fiscal Position Report was released to the public by 29th June 2010 and was soon thereafter placed before the Parliament.

This Fiscal Management Report, 2011 contains;

- **Fiscal Strategy Statement** of the *Ministry of Finance and Planning*, setting out government fiscal strategy statement indicating the broad strategic priorities specifying key fiscal measures which the Government considers important for the overall fiscal policy, to be placed before the Parliament on the day of the 2nd reading of the Appropriation Bill.

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- **Budget, Economic and Fiscal Position Report - 2011** , 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 and Government borrowing etc., to be placed before the Parliament on the day of the 2nd reading of the Appropriation Bill.
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Fiscal Strategy Statement

Fiscal strategy statement 2011
Issued by the Hon. Minister of Finance
Under sections 4,5 and 6 of the Fiscal Management (Responsibility) Act No. 3 of 2003

This report is issued under the sections 4,5 and 6 of Fiscal Management(Responsibility) Act No. 3 of 2003 where the Finance Minister is requested to present the fiscal strategy statement of the Government to the public and also laid before parliament on the day of the second reading of the Appropriation Bill in Parliament.

This report explains the broad strategic priorities on which the budget is based and specifying key fiscal measures which the Government considers important in view of the strategy and the overall fiscal policy to be implemented.

Medium Term Fiscal Strategy

The fiscal strategy of the country has been formulated to achieve a sustained reduction in the budget deficits and public debt burden while further strengthening the process of accelerated economic development in line with the "Mahinda Chintana-vision for the future". This is to be achieved through a combination of investment and growth friendly revenue enhancing and expenditure rationalization measures. In a context of still fragile world economic outlook, with many uncertainties associated with large macro economic imbalances within and among major countries in the world economy and highly volatile currency markets and commodity prices, the government's fiscal strategy will further consolidate the progress already made particularly in containing fiscal deficit below 8 percent and reducing inflation to around 5 percent. This fiscal strategy along with the infrastructure development will provide the required support for the economy and its people to reap the full benefits of renewed economic opportunities in the country after eradicating terrorism and associated conflict related expenditure. The revised medium-term fiscal policy framework targets the budget deficit to be 5 percent of GDP by end 2012 and further improvements thereafter.

The concerted efforts made in managing the operational expenditures of the government and mobilizing and directing resources to meet the infrastructure development needs and other essential expenditures have helped to enhance the growth potential of the economy despite unprecedented challenges that the country confronted with during the past few years. The public investment was raised to around 6.5 percent through the channelling of both domestic and foreign resources to several important infrastructure development projects, covering power generation, ports and airports, irrigation, expressways, roads and bridges, transport, water supply, schools and hospitals etc. in the government's endeavor to address neglected infrastructure needs early as possible. These together with improved economic and political stability should further improve domestic environment for increased private sector investments sustaining higher economic growth.

The overall budget deficit in 2009 reached 9.9 percent of GDP due to the large shortfall in government revenue in the context of depressed global trade, the fiscal stimulus provided by way of subsidized credit for agriculture and SMEs, tax moratorium, concessionary electricity and fuel prices for industry to help private sector to manage the challenges caused by global economic situation and the additional resources needed for the de-mining and resettlement of IDPs in the post conflict environment. The increased interest costs associated with excessively high interest rates that prevailed in the past too contributed to higher deficit. The poor performance in the revenue in 2008/2009 was a result of a continued deterioration in revenue collection from VAT, import duties and excise duties levied at the point of imports due to the erosion in the value of imports during the global economic downturn. The debt to GDP ratio also increased to 86.2 percent in 2009. This temporary aberration of fiscal deficit and debt ratios is being addressed and the budget deficit for 2010 is targeted to be around 8 percent of GDP, a

reduction of 2 percentage points over 2009 level, requiring a significant adjustment in the deficit thereby contributing to medium term fiscal consolidation.

The overall fiscal situation will improve as a result of the improvements in the government revenue with international trade gradually returning to near normalcy and the adjustments already made to import duty structure, reductions in recurrent expenditures and more prioritized government spending with public investment maintaining at the desired level to support higher growth. The phased out reduction in resettlement and rehabilitation expenditure on IDPs with the progress made in demining in the conflict affected areas, reduction in defence related procurement expenditures and some easing of interest burden on the budget with the recent restructure of government debt will help to rationalize the recurrent expenditures significantly in 2010.

The realization of the medium-term to long-term GDP growth target of 8-10 percent requires steady improvement in the overall investment ratio to around 33-34 as a percentage of GDP as well as a significant increase in productivity, both in the public and private sectors. While the public investment will be maintained around 6-7 percent of GDP, concentrating on key infrastructure development projects and important infrastructure in lagging regions, health and education, private investment is expected to play the larger role in growth process. Accordingly, the private investment component will be around 80 percent of the total investment. Thus to achieve the envisaged growth path, it is necessary that the private investment needs to be augmented to around 28 percent of GDP. In this back ground government will encourage both domestic private sector and foreign direct investment through further improvements in infrastructure, tax system, regulatory arrangements and public service delivery.

The tax system in the medium-term will be designed to be development friendly and equitable. Towards this low tax regime with a simplified, broad based structure is being worked out to replace the operation of multiple taxation and excessive tax exemptions. In this context, government has already introduced a four band tariff structure consisting of 0, 5, 15 and 30 percent with exemptions limited to national security, health, environment considerations and international commitments. Import surcharges have been eliminated and prohibitive taxes applied to a wide range of items including motor vehicles have been simplified. The government has also brought down total tax rates on consumer durables not manufactured in Sri Lanka but vulnerable to smuggling and tax evasion such as cameras, telephones, watches etc below ten percent by eliminating many multiple taxes on those items. This initiative will also promote international shopping facilities and considered to be less rewarding for smuggling and tax evasion. Various taxes that were applied on most essential commodities also have been unified under Special Commodity Levy which is also another major step taken towards making the tax administration more efficient and taxation simpler. The excessive tax rates on direct taxes will be reduced in the medium term. Further, the excessive tax concessions including ad-hoc tax holidays and duty exemptions are being reduced and phased out. The Board of Investment (BOI) incentive regime will be reformulated to correct the dichotomy between BOI and non BOI regimes and to create a level playing field thus creating an equitable incentive regime for private

sector investors. A simpler, broad based affordable tax regime would lead to enhanced economic activities in the formal economy and would generate more revenue. Strategic Development Projects Act is being further strengthened to deal with large investments.

Considering the country's degree of integration with the global economy and the heavy reliance on external trade for income generation as well as tax revenues, the trade taxes are being reformed in a manner to complement the desired economic growth. In this context, the raw materials and intermediate goods needed to be imported for local value added industries are being placed at a low tax regime while commodities that Sri Lanka has a comparative advantage to develop are to be placed at a desired rate so that those industries will be able to face fair competition and grow on sound footing. Government has already taken steps to remove import duties and Cess and surcharges on most of the raw materials while import duty on intermediate goods has been reduced. Also steps have been taken to impose or scale up the Cess rates applicable for commodities which are domestically manufactured. Also to promote exports in value added form, exports in raw form are being considered for taxation.

Priority has been given to simplify operational modalities of the VAT and income tax system to eliminate weaknesses such as complexities, differential tax rates for different sections, a wide range of exemptions and cumbersome tax refund and setting off mechanisms. A process for improving tax administration has already been launched with financial support from the Asian Development Bank under the Fiscal Management Efficiency Project. It is expected to help simplification of procedures and processes, improvement in management information system, human resources development, tax audit and effective use of information technology.

On the expenditure front, concerted effort has been made to manage the operational expenditure of the Government and unprecedented progress has been made to improve the quality of public spending. Government has expressed its commitment for implementing necessary reforms and policy initiatives to address structural and institutional issues. The structure of reformulated duties of the functions of the ministries is expected to play a major role in this regard, particularly in focusing their activities within the available resources.

Also the co-ordination of policy implementation has already been strengthened by the Government while private sector entrepreneurship has been infused to key public sector institutions with a view to improve their performance. Overall, the medium term strategy places strong emphasis on improving the performance and efficiency of public enterprises to make them commercially efficient and reduce their reliance on the government budget which will generate fiscal space for infrastructure development and also free resources for private sector activities. It is envisaged that management improvements including their pricing decisions will make them financially stronger.

To create a modern and efficient administrative system and procedures, a Cabinet sub Committee has been appointed to come up with recommendations to simplify all administrative and regulatory procedures, practices and related laws. Also all the line ministries have been

requested to identify areas and related fields which can be opened up for the private sector with a view to enhance efficient use of idle assets and facilitate emerging commercial needs of the economy.

While efforts are being made to curtail unproductive expenditures, the medium term fiscal strategy and actions will ensure social protection to the vulnerable and the needy. Also fiscal adjustments to lower deficit are being carried out while protecting social spending particularly targeting Millennium Development Goals in the areas of education and health. In this context, the expenditure on education and health have been kept at a level 2-3 percent of GDP. Also productive livelihood development initiatives to empower poor and reduce regional disparities will be carried out through Government's rural development initiatives - "Gama Neguma" providing village centric infrastructure such as rural access roads , drinking water, and sanitation projects, rural electrification programmes, minor tanks and irrigation systems.

Adequate resources will be devoted to ensure sustained consolidation of national and public security, preservation of law and order in the post conflict environment thereby facilitating this critical aspect of overall system stability of the country.

Excise policy will be geared towards discouraging cigarettes and liquor consumption. The campaign against the use of illicit liquor, drugs and narcotics will be strengthened through strict enforcement of laws as well as through educational and awareness programmes.

The wide ranging initiatives and policy actions in the fiscal front will enhance Sri Lanka's development prospects while contributing to sustained fiscal consolidation and it is envisaged that the revenue/GDP ratio will be augmented to around 17 percent in the medium term and contribute to generating revenue surplus and sustaining public investment around 6.5-7 percent of GDP. The full implementation of this fiscal strategy would reduce the overall fiscal deficit below 5 percent of GDP, the public debt level to below 70 percent of GDP by 2016 with its composition undergoing significant improvement with longer maturities and proper mix of domestic and foreign financing and make Sri Lanka economy stronger to increase its strength to effectively manage the challenges of a growing middle income economy.

Table 1
Medium Term Macro Fiscal Framework 2010-2013
(as a percentage of GDP)

Indicator	2009	Projection			
		2010	2011	2012	2013
Revenue	14.5	14.6	15.5	16.0	16.5
Tax Revenue	12.8	13.0	13.9	14.6	15.0
Income Tax	2.9	2.4	2.3	2.4	2.7
VAT	3.6	4.0	4.9	5.1	5.4
Excise Tax	2.0	2.3	2.5	2.3	2.2
Tax on External Trade	3.4	2.8	2.9	3.2	3.2
Other	1.0	1.5	1.3	1.6	1.5
Non Tax Revenue	1.7	1.7	1.6	1.4	1.5
Grants	0.5	0.3	0.4	0.3	0.1
Expenditure	24.9	22.9	22.7	21.5	21.3
Current Expenditure	18.2	16.6	16.4	15.0	14.8
Salaries and Wages	5.6	5.4	5.4	5.3	5.2
Interest payments	6.4	6.1	5.6	5.1	5.0
Subsidies and Transfers	3.9	3.6	3.2	3.0	3.0
Other goods and services	2.2	1.6	2.1	1.6	1.5
Public Investment	6.8	6.5	6.5	6.5	6.5
<i>O/W</i>					
Highways	1.7	1.5	1.6	1.7	1.1
Ports and Aviation	0.6	0.5	0.4	0.2	0.1
Electricity	0.7	0.4	0.5	0.5	0.1
Water and Irrigation	0.8	0.7	0.8	1.1	1.1
Education and Health	0.6	0.5	0.6	0.8	0.9
Rural Sector	0.3	0.3	0.6	0.6	0.4
Revenue Deficit (-)/Surplus (+)(% of GDP)	(3.7)	(2.0)	(0.9)	1.0	1.7
Budget Deficit (-)/Surplus (+)(% of GDP)	(9.9)	(8.0)	(6.8)	(5.2)	(4.8)
Government Debt (% of GDP)	86.2	84.0	79.8	76.0	72.5

Source : Department of Fiscal Policy

Budget Economic and Fiscal Position Report - 2011

Budget, Economic & Fiscal Position Report - 2011
Issued by the Hon. Minister of Finance
Under Sections 7,8,9 of the Fiscal Management (Responsibility) Act No. 3 of 2003

Budget, Economic and Fiscal Position report is issued in terms of sections 7,8,9 of the Fiscal Management (Responsibility) Act No. 3 of 2003, which requires to provide a basis for the evaluation of the Government's fiscal performance as against it's fiscal strategy statement and to be placed before the parliament on the day of the second reading of the Appropriation Bill in Parliament. It includes estimates relating to gross domestic product, consumer prices, balance of payments, assumptions based for estimating revenue and expenditure.

Accordingly, this report contains provisional figures of Government revenue, expenditure and borrowing in first nine months of 2010. This report also provides key macro economic developments during this period to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted. This report also refers to the basis of information on economic and other assumptions used in preparation of estimates for 2011 and downside risks associated with these assumptions and other information that may have a material effect on the fiscal performance of the Government.

Fiscal Developments

An overview

- The circumstances which led to a weak revenue collections and high deficits in 2009 have begun to disappear with the economy showing signs of recovery reflecting peace dividends and post war economic prospects with renewed investor confidence. Also the gradual global economic recovery also has provided an impetus. The aberration in revenue outcome in 2009 which was a result of a continued deterioration in revenue collection mainly from VAT and excise duties levied at the point of import due to the erosion in value of imports as the tax base, has been reversed with the improvement in external trade and certain policy measures taken by the Government to simplify the tax system and improve compliance. However, Government was compelled to waive off import duties on petroleum products to maintain domestic price stability and revised Special Commodity Levy on essential items to maintain competitiveness for domestic agricultural products and price stability. The revenue forgone due to duty waivers on petroleum products alone was more than Rs. 25 billion. Despite these developments the Government revenue grew by Rs. 60 billion or 11 percent in the first nine months of 2010 compared to the corresponding period of 2009.
- The expenditure for the first four months of 2010 was governed by the Vote on Account approved by the Parliament and subsequent 3 months was under the provisions of section 3 of article 150 of the Constitution. Government presented the 2010 Budget in June subsequent to the Presidential and Parliamentary elections. The phased out reduction in resettlement and rehabilitation expenditure on IDPs with the progress made in de-mining in the conflict affected areas, reduction in defence related procurement expenditure, easing of interest burden with the reduction of market interest rates in the backdrop of an outlook with low inflation helped to reduce the recurrent expenditures in the review period. In this background the recurrent expenditure as a percentage of GDP declined to 12.8 percent from 14.5 percent in the corresponding period of 2009.
- The momentum gained in public investment in recent years kept pace of progress as there was a conscious commitment by the Government not to allow public investment to be vulnerable to fiscal constraints considering the long term benefits of such public investments to the national economy. Public investments targeting infrastructure development in ports, roads and bridges, water supply, irrigation, power generation, rural infrastructure, education and health all over the country were continued during this period. Public investment at Rs. 207 billion was 3.7 percent of GDP during the first nine months of 2010.
- Government while placing high emphasis on quality of public spending has also expressed its commitment for implementing necessary reforms and policy initiatives to address structural and institutional issues. In this regard reformulation of duties of the functions of the ministries has been done. Also the co-ordination of policy implementation has been strengthened with private sector entrepreneurship been infused to public sector institutions, while a Cabinet Sub Committee has been appointed to make necessary recommendations to simplify administrative and regulatory procedures, practices and related laws. Also all line

ministries have been requested to identify specific areas pertaining to their field of operation which can be opened for private sector with a view to enhance the use of idle assets in a productive manner.

- Even under a volatile external environment Government was able to mobilize US \$ 956 million by end September 2010 as gross project related foreign funding while total commitments made by donor agencies and lenders to Sri Lanka during this period amounted to US \$ 2,469 million surpassing the previous highest level of commitments of US \$ 2,222 million reported in 2009.
- Government successfully raised US \$ 1,000 million through sovereign bond issue with a ten year maturity reflecting the improved investor confidence and funds mobilized was utilized to retire high cost rupee and foreign denominated debt which will further ease the interest burden on the budget.
- Reflecting the improved revenue performance and the slower growth in recurrent expenditure the deficit in the revenue account declined to Rs. 129 billion and was 2.3 percent of GDP in the first nine months of 2010 compared to a deficit of 3.6 percent in the same period of 2009. Consequently, the overall deficit at Rs 323 billion was 5.8 percent of GDP in the first nine months of 2010 compared to 6.6 percent in the corresponding period of 2009.

Table 2
Summary of the Budget (Jan-Sep) - Economic Classification

	Rs. Mn.	
	2009	2010
Revenue and Grants	542,791	592,484
Revenue	522,338	581,871
Tax	457,580	511,351
Non-Tax	64,759	70,520
Grants	20,453	10,613
Expenditure	862,691	915,818
Current	698,141	710,998
o/w salaries & Wages	208,370	228,597
Interest	253,619	278,456
Public Investment	180,550	207,102
Other	(8,000)	(2,282)
Revenue Deficit(-) / Surplus (+)	(175,803)	(129,127)
Overall Deficit(-) / Surplus (+)	(319,900)	(323,334)
Financing	319,900	323,334
Net foreign Financing	3,013	44,750
Net Domestic Financing	316,887	278,584
Revenue / GDP (%)	10.8	10.5
Current Expenditure / GDP (%)	14.5	12.8
Public Investment/GDP (%)	3.7	3.7
Revenue Deficit (-) / Surplus (+) /GDP (%)	(3.6)	(2.3)
Overall Budget Deficit (-) / Surplus (+) / GDP (%)	(6.6)	(5.8)

Source: Department of Fiscal Policy

Government Revenue

Government Revenue grew by Rs 60 billion, a 11 percent growth and reached to Rs 581,871 million in the first nine months of 2010. The improved performance in the overall domestic economic activities, the increase in imports coupled with policy decisions to eliminate prohibitive excise taxes applied to a wide range of items and bringing most of the consumable durables which were vulnerable to smuggling and tax evasions to a lower tax incidence contributed to better performance of the Government revenue.

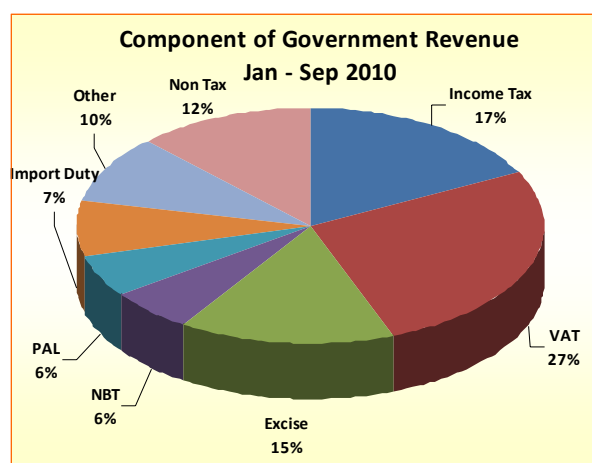
Improved performance in the domestic manufacturing sector and the services sector resulted in an improvement in domestic VAT and excise duty collection while a 37 percent increase in imports boosted the trade related tax revenue. This was further complemented by the volume increase of motor vehicles with the slashing of excise duty applicable on such items by 50 percent. However, the import revenue growth from import duties was stalled as the Government scaled down such duties when international oil and commodity prices moved up with a view to stabilize prices without permitting imports to hurt domestic economic activities.

Table 3
Revenue Performance (Jan-Sept)

	Rs. Mn		
	2009	2010	Growth
Tax Revenue	457,580	511,351	11.8
Income Tax	109,628	101,506	(7.4)
VAT	125,322	156,227	24.7
Excise Tax	73,333	87,325	19.1
Nation Building Tax	16,088	32,530	102.2
PAL	25,014	34,732	38.9
Import Duty	59,795	43,104	(27.9)
Other	48,400	55,927	15.6
Non Tax Revenue	64,759	70,520	8.9
Total Revenue	522,338	581,871	11.4

Source: Department of Fiscal Policy

Chart 1



Income taxes

Revenue collection from Income tax which consists of Personal Income Tax, Corporate Income Tax, Economic Service Charge (ESC) and tax on interest income at Rs. 101,506 million registered a 7 percent decrease during the first nine months of 2010 over the corresponding period of 2009. With the revival of the economy from a sluggish state in early part of 2009 the corporate and non corporate income tax has increased by 4 percent to Rs. 47 billion while revenue from ESC increased by 27 percent to Rs. 13 billion during this period benefiting from increased turn over of establishments and the removal of concessions which were granted on certain sectors in the backdrop of the world economic crisis. The overall contraction in income tax revenue was a result of the sharp drop in tax on interest income arising from the declining yield rates on Government securities. The treasury bill yield rates on 3, 6 and 12 months declined by 257, 280, 374 basis points respectively while treasury bond rates also declined by over 425 basis points, from end September 2009 to end September 2010.

Table 4
Performance in income Tax Revenue (Jan-Sep)

Tax Base	Rs. Mn.		
	2009	2010	Growth %
Corporate & Non Corporate	44,864	46,521	4
PAYE	11,078	12,250	11
Economic Service Charge	10,164	12,860	27
Tax on Interest	43,522	29,875	(31)
Total	109,628	101,506	(7)

Source: Department of Fiscal Policy

Value Added Tax (VAT)

VAT revenue up to September 2010 amounted to Rs. 156,227 million, compared to Rs. 125,322 million in the corresponding period of 2009, recording a 25 percent increase in the period under review. Reflecting the revival in domestic manufacturing and services sectors, the domestic VAT collection on net basis expanded by 14 percent in the first nine months of 2010. With the increase in imports in value term, high petroleum prices compared to 2009 coupled with the increase in motor vehicle imports responding to the duty reduction from 1st June 2010 helped to increase the VAT on imports on net basis to Rs. 63 billion from Rs. 43 billion in the corresponding period of 2009. Improvement in domestic trade in the post war environment and revitalizing of the tourism sector activities added a positive impact on VAT revenue collection.

Table 5
Performance of VAT (Jan-Sep)

Tax Base	Rs. Mn.		Growth %
	2009	2010	
Domestic	82,829	94,210	14
Import	47,205	68,213	45
Gross Revenue	130,034	162,423	25
Refunds	4,712	6,196	32
Net Revenue	125,322	156,227	25
Refunds as % of Gross Revenue	3.6	3.8	

Source : Department of Fiscal Policy

Excise Taxes

Revenue from excise tax on cigarettes, liquor, petroleum products, motor vehicles and selected consumer durables amounted to Rs. 87,325 million during the first nine months of 2010, which is an increase of 19 percent over the corresponding period in 2009.

Table 6
Excise Tax Performance (Jan - Sept)

Category	Rs. Million		Growth %
	2009	2010	
Liquor	21,077	26,045	24
Cigarettes	29,365	29,589	1
Petroleum	16,971	19,123	12
Motor Vehicles	1,995	9,920	397
Other	3,926	2,648	-32
Total	73,333	87,325	19

Source: Department of Fiscal Policy

With the increase in hard and malt liquor production by 19 percent and 31 percent respectively coupled with certain measures adopted on issuing of alcohol for domestic manufacturing industries to curb malpractices, the excise duty revenue on liquor expanded by 24 percent to Rs. 26,045 million in Jan-Sep 2010 over the same period of 2009. The excise duty on cigarettes generated Rs. 29,589 million with the increased cigarette sales in 2010 mainly due to opening up of new markets in North and East coupled with the positive impact of the upward rate revisions in June 2010.

Government excise policy to discourage the consumption of liquor and cigarettes continued with periodical upward revisions in excise duty rates of cigarettes and liquor. Also strict enforcement of laws as well as educational programmes and awareness campaigns have been conducted to curb the use of illicit liquor, drugs and narcotics.

Table 7
Excise Duty Rate Revisions on Cigarettes

Category	Rs. / 1,000 sticks						% Increase from Nov-2007 to June 2010
	2007 Nov	2008 Mar	2008 Sep	2009 Jan	2009 Mar	2010 June	
Benson & H.	8,868	9,840	10,870	11,170	12,170	13,170	49
Gold Leaf	8,314	8,850	9,380	9,681	10,715	11,260	35
Viceroy	7,219	7,219	7,745	7,991	8,485	9,028	25
Other	3,722	4,520	5,048	5,215	5,706	6,246	68

Source: Department of Fiscal Policy

Considering the drop in motor vehicle imports during last few years mainly due to high excise duties applicable on motor vehicle imports, to facilitate the positive outlook in the economy and to boost the expected revival in the tourism sector, the excise duty applicable on motor vehicles was slashed with effect from 1st June 2010. Benefiting from the rate revision the excise duty on motor vehicles generated Rs. 9,920 million in the first nine months of 2010 nearly a five fold increase over the corresponding period of 2009. Apart from motor cars, imports of three wheelers and vehicles for transport goods also increased responding to the revival of the economy and the improved connectivity in the backdrop of better road network and the ending of the conflict.

Table 8
Vehicle Imports

Description	2009	2010		Growth % 2009/2010	
	Jan-Sep	Jan-May	June-Sep		Jan-Sep
Tractors	10,482	6,773	9,716	16,489	57
Passenger Vans	23	30	88	118	413
Busses	422	547	819	1,366	224
Motor Cars	1,282	1,300	10,515	11,815	822
Three Wheelers	16,149	21,483	21,032	42,515	163
Ambulances	23	27	17	44	91
Hearses	6	4	8	12	100
Vehicles for Transport of goods	3,797	6,001	7,646	13,647	259
Special Purpose Vehicles	151	134	100	234	55

Source: Department of Sri Lanka Customs

Excise duty on petroleum also recorded a growth during the period mainly due to the increased demand with the opening of new markets in North and East, expansion of motor vehicle imports and implementation of mega infrastructure projects.

Import Duty

Import duty revenue collected during the first nine months of 2010 amounted to Rs. 43,135 million. Even though total imports have increased by 37 percent during the period, duty waivers granted on petrol and diesel during the full reviewed period, and wheat grain in the first four months had a negative impact on the revenue performance of this source. Further, with the coverage of free trade agreements entered into by Sri Lanka expanding over a period of time and bulk of imports have enjoyed duty free or nominal duty status exerting a negative impact in revenue from import duty. The revenue loss due to concessions granted under these agreements was around Rs 3 billion during Jan-Sept 2010.

Table 9
Value of imports under Tariff Concessions Offered by Major Free Trade Agreements
(Jan.– June 2010)

Free Trade Agreement	Number of Products subject to tariff Concessions	Imports (Rs. Mn)
India-Sri Lanka Free Trade Agreement (ISFTA)	4,598	28,019
Pakistan-Sri Lanka Free trade Agreement (PSFTA)	5,318	4,464
South Asia Free Trade Agreement (SAPTA)	4,801	1,209
Asia-Pacific Trade Agreement (APTA)	579	450

Source: Department of Trade Tariff and Investment Policy

Several measures were taken to simplify the import duty structure. The custom duty structure has been reduced to a four band tariff structure consisting of 0,5,15 and 30 percent while import surcharges have been eliminated. In order to further support local value added activities, the 2.5 percent import duty applicable on machinery and raw materials was removed. Also with a view to promote Sri Lanka as an attractive shopping centre for internationally branded products the import duty, VAT, excise duty and cess imposed on most of the electronics items were removed and brought them into an effective tax rate below 10 percent.

Special Commodity Levy

The revenue generated from Special Commodity Levy which is a single tax on selective commodities amounted to Rs. 7,765 million during Jan-Sept 2010, compared to Rs. 15,680 million in the same period of 2009. This significant decline in revenue collection was due to the reduction in rates on dhal, sugar, B onions etc. considering the cost of living and the availability of domestic supply, government has revised the Special Commodity Levy rates from time to time to protect the local producer prices.

Table 10
Special Commodity Levy - Rates applicable on selected commodities .

Item	Rates (Rs. per Kg)	
	Oct. 2009	End Oct. 2010
Sprats	30	30
Potatoes	25	10
Red Onions	10	25
B' Onions	25	10
Garlic	30	10
Green Gram	15	15
Lentils - Whole	15	10
Spilt	20	15
Chillies -Not Crushed	50	20
Crushed	40	25
Canned Fish	85	85
Sugar	16	5

Source: Department of Trade Tariff and Investment Policy

Other taxes

Reflecting the growth in value of imports, revenue generated from Port & Airport Development Levy increased by 39 percent to Rs. 34,732 millions in the first nine months of 2010. Cess revenue at Rs. 22,468 million grew by 12 percent over corresponding period of 2009 mainly due to import growth, scaling up of existing cess rates and the expansion of coverage of selected items to give price incentives for local value additions. The cesses applicable on most of the raw materials were removed in June 2010 to give an impetus to local value added industries, while the scaling up of rates were carried out with a view to safeguard local industries from comparatively low prices and substandard imports.

The Nation Building tax generated Rs. 32,530 million as the full impact of the rate revisions which was introduced to meet the post war rehabilitation and reconstruction expenditure and was applicable during the review period of 2010.

Non Tax Revenue

Non tax revenue in Jan-Sep 2010 amounted to Rs. 70,520 million compared to Rs. 64,759 million in the same period of 2009. This increase was mainly due to increased profit transfers from state banks and a Levy of Rs. 10 billion from Telecommunication Regulatory Commission and transfer of surplus funds from Government establishments. However, Central Bank profit transfers amounted to Rs. 10 billion compared to Rs. 20 billion in 2009.

Table 11
Variance Analysis of Government Revenue (January-September)

Items	2009	2010	Reason
Income Tax	109,628	101,506	Decline in withholding tax on interest income arising from drop in yield rates on Government securities was the main reason for the decline in income tax revenue. However, increases in ESC collection with the removal of exemptions in certain sectors which were granted in the backdrop of global economic crisis and increase in corporate taxes benefiting from the revival of the economic activities had a positive impact on the income tax collection.
VAT	125,322	156,227	Growth in manufacturing and service sectors in the post war environment expanded the domestic VAT collection while increase in imports in value terms coupled with high petroleum prices resulted in for increase in VAT on imports. The revitalization of the tourism sector in the post war environment and increase in vehicle imports with the reduction of excise duties on motor vehicles also had a positive impact on VAT revenue collection.
Excise Tax	73,333	87,325	Upward rate revisions of all categories of cigarettes and liquor, increased imports due to slashing of high excise duties applied on motor vehicles and increased demand for petroleum products with the opening of new market in north and east contributed positively for the excise tax collection.
Import Duty	59,795	43,104	Duty waivers granted on petroleum products and wheat grain, and the imports that have been enjoyed duty free or nominal duty status with the coverage of free trade agreements entered by Sri Lanka exerted a negative impact on import duty revenue. However, increase in motor vehicle imports and the removal of duty waiver on wheat grain had a positive impact on import duty collection after June 2010.
Port and Airport Development Levy (PAL)	25,014	34,732	Increase in imports had a positive impact on the PAL revenue collection.
Nation Building Tax (NBT)	16,088	32,530	The full period impact of the rate revision coupled with the revival of the economy had a positive impact on the NBT collection.
Other Taxes	48,400	55,927	The improvements in the domestic activities, more lending in the banking sector improved the debit tax collection while with the revival of the construction and related services had a positive impact on mortgages resulting an increase in stamp duties collection. Despite the negative impact due to the removal of cess applicable on raw materials, the scaling up and expanding the coverage of certain items with a view to safeguard local industries helped to increase the cess revenue.
Non Tax Revenue	64,759	70,520	Despite the lower profit transfers compared to 2009 from Central bank, increased profits from state banks, transferring of surplus funds from Government institution and levy of Rs. 10 billion from Telecommunication Regulatory Commission helped to boost the non tax revenue.

Complied by the Fiscal Policy Department

Government Expenditure

The expenditure for the first four months of 2010 was governed by the Vote on Account approved by the Parliament and the subsequent 3 months under the provisions in the constitution. The expenditure estimates incorporating the expenditures under Vote on Account and the provisions of the constitution for the balance period of 2010 were presented in end June 2010 and was approved by the Parliament. According to the provisional data the overall expenditure at Rs. 915,818 million recorded a nominal growth of 6 percent over corresponding period of 2009. This constituted recurrent expenditure of Rs. 710,998 million and public investment of Rs. 207,102 million.

The recurrent expenditure grew moderately during the first nine months of 2010, with significant decrease in recurrent expenditures excluding interest and salaries complementing the government effort in rationalizing the recurrent expenditures. Although the interest cost increased in nominal term as a percentage of GDP, it decreased to 5 percent from 5.3 percent in the corresponding period of 2009 benefiting from the reduced interest rates on Government securities.

The public investment stood at Rs. 207 billion during the first nine months of 2010. Reflecting the Government commitment to the on going infrastructure development programmes and the completion of such projects on schedule considering the economical advantages from long term growth and private investment, major development projects in the areas such as power generation, ports, roads and irrigation continued while rural development initiatives were also carried out with enhanced resources.

Table 12
Performance of Government Expenditure (Jan-Sep)

	2009	2010(prov)
Current Expenditure	698,141	710,998
Salaries & Wages	208,370	228,597
Interest	253,619	278,456
Samurdhi	6,389	6,964
Fertilize Subsidy	23,087	12,656
Pension	60,459	64,916
Other	146,217	119,409
Public Investment	180,550	207,102

Source: Department of National Budget

Salaries and Pension Cost

Expenditure on salaries for public servants including those attached to the provincial councils and security services, in the first nine months of 2010 amounted to Rs. 228 billion, an increase of 10 percent over the same period of 2009. Increased cost of Living Allowance of Rs. 5,250 per month, the impact of the special payment of Rs. 1,000 per month for the security personal introduced in November 2009 and the extension of the operational area risk allowance to all security personal contributed for the increase in the salary bill.

Total pension payments during Jan-Sep 2010 amounted to Rs. 65 billion an increase of 7 percent over the same period of 2009. The full impact of around 21,000 retirees in 2009 and further around 13,000 entering as retirees in the first nine months of 2010 contributed to this increase. The enhancement of COLA per pensioner from Rs. 2,000 per month to Rs. 2,375 per month also influenced the increase in pension payments.

Interest Cost

Interest payment on foreign and domestic debt amounted to Rs. 278,456 million, an increase of 10 percent over the first nine months of 2009. However, interest cost as a percentage of GDP decreased to 5% during this period from 5.3 percent in the same period of 2009. The sharp reduction in interest rates on Government securities from September 2009 coupled with initiatives taken by the Government to restructure debt profile to longer maturities helped to reduce the growth in interest cost. The spill over effects of the heavy borrowings from the domestic market especially in the latter part of 2009 to finance rupee funds needed for capital and other expenditure in the back drop of huge revenue shortfalls had a negative impact on the interest cost during this period.

Table 13
Behavior of Yield Rates (%) - 2009-2010

Period	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2009 Sep	9.70	10.72	11.17	-	12.83	11.35	11.44
2009 Dec	7.73	8.73	9.33	9.55	12.83	9.78	-
2010 Mar	8.41	9.15	9.47	-	-	-	-
2010 Jun	8.07	8.90	9.26	-	9.65	-	-
2010 Sep	7.13	7.32	1.43	-	8.57	-	8.89
Change (basis point) (2009 Sep-2010 Sep)	(257)	(340)	(374)	-	(426)	(255)	-

Source: Department of Treasury Operations

Welfare and Subsidy Payments

According to the provisional data, the total expenditure on welfare payments and subsidies amounted to Rs 45,026 million in Jan-Aug 2010 compared to Rs.65,098 million in the same period of 2009. Favourable fertilizer prices in international markets in the latter part of 2009 coupled with gradual phasing out of welfare assistance provided in support of displaced persons in the back drop of progress achieved in resettlement of IDPs and de-mining activities, contributed for this decline.

Government continued the assistance provided in support of poorer segments of the society, and vulnerable groups at a cost of Rs. 12,196 million while the assistance to differently abled soldiers continued with an enhanced cost of Rs. 7,380 million. The cost of welfare programmes implemented for the benefit of school children by providing free school text books, uniforms,

season tickets and free Dhamma School books amounted to Rs. 1,629 million while school nutritional food programme cost was Rs. 1,268 million. The cost of the fertilizer subsidy scheme targeting small holder agriculture with a view to assist low income farmers amounted to Rs. 12,656 million in the first nine months of 2010. Paddy farmers continued to enjoy all varieties of fertilizer at a subsidized price of Rs. 350 per 50 Kg bag.

Table 14
Expenditure on Key Welfare Programmes (Jan.-Aug)

Item	Rs. Mn.	
	2009	2010 (prov.)
Mothers and Children		
Infant Milk Food Subsidy	112	79
Poshana Malla	336	225
Thripasha Programme	770	570
Free Text Books & Uniforms, Bursaries	2,304	1,585
Dhamma School Text Books & Uniforms	52	44
School Nutritional Foods	1,500	1,268
Agriculture		
Interest Subsidy for Agricultural Loans etc	253	696
Fertilizer Subsidy	22,482	11,469
Welfare Payments		
Samurdhi Relief	6,389	6,964
Assistance to differently abled Soldiers	6,531	7,388
WFP food Assistance	6,552	4,055
Welfare Assistance to IDP	962	881
Flood and Drought Relief	492	183

Source: National Budget Department

Resettlement of Internally Displaced Persons (IDPs)

The Government successfully faced the challenge of resettlement of IDPs and demining activities in the North and East and development of basic infrastructure facilities in those areas. Within the 18 months since end of the conflict, the government was able to resettle nearly 280,000 IDPs liberated from the terror of the LTTE and presently around 18,000 such displaced persons remain in welfare centres. During the first nine months of 2010 Rs. 8,803 million has been spent on these activities with Rs. 4,936 million to provide cooked meals and other welfare assistance while utilizing further Rs. 3,887 million to provide basic infrastructure and common amenities.

Public Investments

The Government continued its commitment to accelerate development programmes targeting rural sector especially through rural development initiatives such as "Gama Neguma", "Maga Neguma", "Uthuru Wasanthaya" and other pro-poor development programmes. The momentum gained in respect of key national infrastructure development projects consisting of roads and bridges, power generation, ports, irrigation, water supply and human resource development during the past years was maintained during the review period. The total public investment amounted to Rs. 207 billion, an increase of 14 percent over the same period of 2009.

Table 15
Public Investment - by Key areas of Investment (Jan-Sep)

Sector	Rs Mn	
	2009	2010
Roads and Bridges	47,801	52,333
Electricity	18,589	18,568
Ports and Aviation	15,338	18,028
Irrigation	8,775	5,005
Agriculture & Products	2,091	5,974
Water Supply	10,456	12,428
Education	4,342	8,902
Health	4,129	5,543
Rural Infrastructure	21,516	26,026
Transport	6,751	7,164
Administration / Judicial/ security related and other	40,762	47,131
Total	180,550	207,102

Source: Department of National Budget

Rural Development Initiatives

Under the "Gama Neguma" programme, which is designed to empower the rural sector population through reconstruction of roads, drinking water, rural electricity and housing, 11,918 projects have been completed at a cost of around Rs. 11 billion. The expenditure on "Maga Neguma", the island wide rural infrastructure development programme continued at a cost of Rs. 1,700 million reconstructing 704 km of rural roads benefiting 51,085 families during the period of January to September 2010. So far, over 8,200 Km of rural roads have been reconstructed under "Maga Neguma" Programme at a cost of around Rs. 13,500 million .

Table 16
“Maga Neguma” Rural Road Development Programme-2010

District	No of Projects	Length of Road (km)	Expenditure (Rs. mn.)	Beneficiary Families
Colombo	91	17	47	2,557
Gampaha	182	20	96	3,621
Kalutara	194	22	91	2,423
Kandy	130	28	77	1,843
Matale	88	23	54	1,251
Nuwara Eliya	36	21	50	918
Galle	39	12	32	979
Matara	329	64	180	4,519
Hambanthota	929	129	612	11,888
Jaffna	8	4	10	212
Mannar	4	1	5	109
Vavuniya	11	10	15	332
Mullaitive	-	0	0	0
Killinochchi	-	0	0	0
Batticaloa	2	0	2	20
Ampara	111	33	78	1,528
Trincomalee	4	0	2	42
Kurunegala	341	219	256	11,400
Puttalam	88	23	60	1,863
Anuradhapura	124	23	86	1,737
Polonnaruwa	84	36	60	1,320
Badulla	25	3	15	256
Moneragala	162	4	43	1,106
Ratnapura	89	8	41	788
Kegalle	43	4	28	373
Total	3,114	704	1,940	51,085

Source: Department of National Budget

Table 17
Additional allocations made between 09th July 2010 to 25th October 2010

Head No.	Ministry /Department	Purpose	Expenditure (Rs.)	
			Recurrent	Capital
1	His Excellency the President	Settlement of deferred payment for procurement of earth moving machines and Pre-fabricated buildings for North -East Development, Purchase of vehicles, Transport, Services	416,000,000	1,758,040,000
2	Office of the Prime Minister	Personal emoluments, Maintenance of vehicles , Services, Rehabilitation and maintenance of buildings , Purchase of vehicles,	14,000,000	29,250,000
3	Judges of the Superior Courts	Official visit abroad, Services Maintenance of vehicles,	6,000,000	
8	Office of the Leader of the Opposition of Parliament	Purchase of vehicles		8,850,000
17	Department of Elections	Purchase of a vehicle		4,500,000
19	Office of the Parliamentary Commissioner for Administration	Official visit abroad, Transport, rent,	135,000	
22	Human Rights Commission of Sri Lanka	Personal emoluments, Tax payments for vehicles, For accounting the grant given by UNFPA	12,900,000	9,315,114
101	Ministry of Buddhasasana and Religious Affairs	Purchase of a vehicle, Construction of Dhahampaya building		46,000,000
102	Ministry of Finance and Planning	Personal emoluments, Purchase of vehicles, Institutional support (Social Security Board, SLAAMB), Supplies, Maintenance of buildings/equipment, For accounting the expenditure incurred by the former Ministry of Plan Implementation	82,488,468	34,779,853
103	Ministry of Defense	Welfare programme, Institutional support (UDA), Services, Prefabricated buildings programme	58,600,000	400,731,954
106	Ministry of Disaster Management	Flood and drought relief, Erecting Tsunami Warning Towers in coastal areas, Maintenance of vehicles, Completion of 1st stage of the building for the Disaster Management Centre, Purchase of vehicles, Institutional support(NBRO)	101,000,000	100,000,000

Table 17 Continued . . .

108	Ministry of Posts and Telecommunication	Purchase of vehicles		4,000,000
110	Ministry of Justice	Maintenance of vehicles, Furniture and office equipment, Services, Acquisition of buildings, Personal emoluments, Institutional support(Legal Aid Commission), Allowances to the Chairman and Commissioners of the Mediation Board	31,760,424	102,000,000
111	Ministry of Health	Procurement of machinery/ equipment, Personal emoluments, Travelling ,Services, supplies, Maintenance of buildings/ machinery, Property loan interest, Rehabilitation of buildings	1,287,700,000	53,000,000
112	Ministry of External Affairs	Purchase of vehicles for missions abroad		12,075,000
113	Ministry of Ports and Aviation	Purchase of vehicles		12,000,000
114	Ministry of Transport	Reconstruction of railway line between Palai and Kankasanturai, Purchase of vehicles forfeited by the Sri Lanka Customs		50,040,000
116	Ministry of Cooperatives and Internal Trade	Purchase of vehicles		12,200,000
117	Ministry of Highways	Improvement of roads in Moneragala District, Purchase of office equipment, Services	490,000	1,001,610,000
118	Ministry of Agriculture	Purchase of vehicles		21,200,000
119	Ministry of Power and Energy	Rural Electrification Project(on lending)		1,681,316,981
120	Ministry of Child Development and Women's' Affairs	Electricity and water, Transport, UNICEF Child Protection Programme, Purchase of vehicles	4,000,000	21,000,000
121	Ministry of Public Administration and Home Affairs	Purchase of vehicles		18,000,000
122	Ministry of Mass Media and Information	Fuel, Institutional support(SLBC)	4,000,000	
123	Ministry of Construction, Engineering Services, Housing and Common Amenities	Institutional support(NEMO,USDA), Implementation of UN Habitat Programme, Personal Emoluments, Services, Maintenance of vehicles, Purchase of office equipment , Domestic travel, Rehabilitation of buildings, Property loan interest, Rural Housing Development Programme, Supplies , Services , Official visits abroad	16,131,235	146,600,000

Table 17 Continued . . .

124	Ministry of Social Services	Rehabilitation of buildings, Rent, Institutional support (National Council and Secretariat for persons with disabilities), Community based rehabilitation programme, National Counseling Programme, Purchase of vehicles ,GOSL country Programme	9,800,000	22,670,000
127	Ministry of Labour Relations and Productivity Improvement	Domestic travel, rent training and capacity building	2,000,000	8,000,000
128	Ministry of Traditional Industries and Small Enterprises Development	Electricity and water, Institutional support(National Craft Council)	3,500,000	
130	Ministry of Local Government and Provincial Councils	Vehicle rent, Disaster Response Network Project, Rehabilitation of buildings,	700,000	301,000,000
133	Ministry of Technology and Research	Purchase of vehicles		11,500,000
134	Ministry of National Languages and Social Integration	Purchase of a vehicle		6,000,000
135	Ministry of Plantation Industries	Plantation Reform Project, Institutional support(Coconut Development Authority), Purchase of vehicles	6,000,000	381,000,000
136	Ministry of Sports	Purchase of vehicles, Maintenance of vehicles, Services, Institutional support(Sugathadasa National Sports Complex), Fuel	18,400,000	4,000,000
138	Ministry of Indigenous Medicine	Payment for Ayurveda drugs		3,000,000
139	Ministry of Fisheries and Aquatic Resources Development	Purchase of vehicles, Completion of Peliyagoda Fish Market Complex, Construction of a landing site (Dickovita Fishery Harbor)		1,081,000,000
140	Ministry of Livestock and Rural Community Development	Estate Housing Programme,		75,000,000
143	Ministry of Parliamentary Affairs	Retirement benefits	15,000,000	
145	Ministry of Re-settlement	Rent, Support for resettlement activities	3,403,000	42,625,600
149	Ministry of Industry and Commerce	Purchase of a vehicle		6,300,000
153	Ministry of Lands and Land Development	Purchase of vehicles		15,500,000

Table 17 Continued . . .

156	Ministry of Youth Affairs	Technical Education Development Project , Purchase of vehicles, Institutional support (NHRDC, CGTTI, NYSC, VTI, NAITA), Personal emoluments, Official visit abroad, Supplies, Maintenance of vehicles, Services, Rehabilitation of buildings and vehicles, Purchase of furniture and office equipment	162,500,000	414,500,000
160	Ministry of Environment	Purchase of a vehicle, Training and Capacity Building, Stationary and office requisites	800,000	13,949,850
166	Ministry of Water Supply and Drainage	Purchase of vehicles, Transport, Electricity and water, Personal emoluments, rent	8,600,000	14,000,000
171	Ministry of Higher Education	Enhance research activities in Post Graduate Institute of Science		1,404,637
173	Ministry of Public Management Reforms	Rehabilitation of buildings, Purchase of furniture and office equipment		1,660,000
174	Ministry of Rehabilitation and Prison Reforms	Programme of Rehabilitation of Misguided Youth Surrendered, Fuel, Electricity and water, Rent, Maintenance of vehicles, Rehabilitation of buildings, Purchase of vehicles, machinery and equipment	3,000,000	334,623,000
175	Ministry of State Resources and Enterprise Development	Settlement of outstanding liabilities of Hingurana Sugar Industries Ltd.		80,000,000
201	Department of Buddhist Affairs	Printing of Dhamma School text books, Uniforms for Dhamma School Teachers, All island Dhamma School Competition, Library allowance for Dhamma School Teachers, Purchase of vehicles(customs)	50,000,000	1,176,000
202	Department of Muslim Religious and Cultural Affairs	Customs duty for dates donated for Ramazan	2,197,422	
203	Department of Christian Religious Affairs	Library allowance to Dhamma Schools	4,796,000	
206	Department of Cultural Affairs	Electricity and water, Cultural programmes	11,500,000	
209	Department of National Archives	Stationary and office requisits	500,000	
215	Department of Technical Education and Training	Personal emoluments	6,600,000	
216	Department of Social Services	Institutional Support (National Secretariat for Elders)	6,000,000	
219	Department of Sports Development	National Sports Festival	25,000,000	

Table 17 Continued . . .

221	Department of Labour	Personal Emoluments, Maintenance of vehicles, Services, Supplies, Property loan interest	20,525,000	
222	Sri Lanka Army	Payment of compensation, Travelling, Supplies, Services, Property loan interest, Maintenance of buildings, Acquisition of capital assets, Transport, Maintenance of vehicles, Rehabilitation of buildings, vehicles, and machinery	2,287,400,000	600,000,000
223	Sri Lanka Navy	Deferred payments, Diets and uniforms, Welfare programmes, Property loan interest, Purchase of vehicles, Rehabilitation of vehicles and machinery, Training and capacity building, Rehabilitation of ships and crafts, Domestic travelling, Supplies Maintenance of vehicles and machinery,	1,122,000,000	1,409,459,175
224	Sri Lanka Air Force	Deferred payments, Diets and uniforms, Acquisition and maintenance of machinery and equipment, Fuel, Electricity and water,	675,000,000	879,322,300
225	Department of Police	Personal emoluments, Domestic and Official visit abroad, Fuel, Medical supplies, Electricity and water, Property loan interest	685,000,000	
228	Courts Administration	Lease payment for vehicles, Official visits abroad, Rehabilitation of court houses and judges residential complexes in the North East, Institutional support(Superior Courts Complex), For accounting the grant given by UNICEF	11,942,180	117,041,096
229	Department of Attorney General	Official visit abroad, Rehabilitation of buildings	5,300,000	8,930,000
230	Department of Legal Draftsman	Electricity and water,	1,100,000	
231	Department of Debt Conciliation Board	Payment of allowances to the Chairman and Members of the Debt Conciliation Board	765,000	
233	Department of Government Analyst	Training and Capacity Building, Personal Emoluments, services	2,000,000	2,500,000
234	Registrar of Supreme Court	Official visits abroad, Purchase of vehicles and equipment, Personal emoluments, Stationary and office requisites	4,480,000	5,914,000
235	Department of Law Commission	Electricity and water	200,000	
237	Department of National Planning	Maintenance of vehicles	500,000	

Table 17 Continued . . .

239	Department of External Resources	Personal emoluments, Official visits abroad, Property loan interest, Maintenance and rehabilitation of vehicles, , Education Sector Development Project	5,330,000	1,170,000
241	Department of Public Enterprises	Gratuity payment for ex-employees of Colombo Commercial Company		417,391
246	Department of Inland Revenue	Maintenance and rehabilitation of buildings, Rent	82,500,000	267,100,000
249	Department of Treasury Operations	Loan facility for Ceylon Fisheries Corporation, Payment of insurance premium to China Export and Insurance Credit Corporation (Hambantota Port Devp. Project)	805,000,000	50,000,000
250	Department of State Accounts	Personal emoluments	1,525,000	
251	Department of Valuation	Cost of living allowance, Purchase of furniture and office equipment	3,900,000	10,000,000
252	Department of Census and Statistics	Purchase of 250 nos. motor cycles for the use of Census of Population and Housing in 2011,		28,750,000
253	Department of Pensions	Personal Emoluments, Maintenance of vehicles	1,000,000	
264	District Secretariat/Kachcheri - Jaffna	Construction of pediatric unit at Chavakachcheri Hospital		5,650,000
280	Department of Foreign Aid and Budget Monitoring	Personal emoluments, Services, rehabilitation of buildings	2,420,000	150,000
290	Department of Fisheries and Aquatic Resources	Domestic travel, Services, Welfare programmes	5,500,000	
298	Department of Measurement units, Standards and Services	To cover the expenses of the auction from the proceeds of the sales of vehicles credited at the Consolidated Fund	42,000	
308	Department of Posts	Personal emoluments, Services	250,000,000	
309	Department of Buildings	Personal emoluments, Domestic travel, Services	9,400,000	
314	Southern Provincial Council	For accounting the grant given by Wilson Transformer Co. pvt. Ltd in Australia for the construction of a building at All Saints College, Galle		2,841,887
315	Northern Provincial Council	Personal emoluments	300,000,000	
317	North Central Provincial Council	Provincial Specific Development Grant(PSDG), Provincial Roads Project		497,500,000
318	Uva Provincial Council	Health Sector Development Project (HSDP), Provincial Roads Project		853,230,000
320	Department of Civil Security	Rehabilitation of buildings and machinery, Purchase of machinery		78,000,000
323	Department of Legal Affairs	Domestic travel, Postal and communication	90,000	
Total			8,658,420,729	13,163,393,838

Source: Department of National Budget

TREASURY OPERATIONS

Performance of the Government Cash Flow Operations

There was an increase in revenue as against the revenue forecast of Rs.559 billion for the period from January to September in 2010. This increase has resulted in lower net cash deficit when compared to same at the end of corresponding time period. Cash deficit after outflow for operating activities and investment activities amounted to Rs. 297.4 billion which is less than the comparative figure for the year 2009 by Rs.15.1 billion. The reduction in cash deficit was mainly due to increase in revenue collection during the period of 9 months over the same period in last year. The overall closing cash balance (deficit) was Rs.62.1 billion which is higher than the cash balance prevailed at end of corresponding time period in 2009 by Rs. 2.1 billion.

Table 18

Statement on Government Cash Flow Operations -January to September 2009 and 2010

Rs. Bn

Item	Actual 2009 Jan - Sep	Jan - Sep 2010	
		Original Estimate	Actual Cash Flow
Total Cash inflow from revenue	507.9	559.0	571.0
Total Cash outflow for operating activities	(636.3)	(687.7)	(690.2)
Net Cash flow for Operating Activities	(128.4)	(128.7)	(119.2)
Cash Flow for investing Activities	(184.1)	(176.0)	(178.2)
Net Cash Surplus /(Deficit)	(312.5)	(304.7)	(297.4)
Opening Cash Balance	(69.1)	(75.9)	(75.9)
Gross Borrowing	730.8	679.7	667.9
Debt Repayment	(411.9)	(356.9)	(357.1)
Net Borrowing	318.9	322.8	310.8
Adjustment Account Balance (TEB, RFA, Deposits, etc)	2.7	1.5	0.4
Closing cash balance	(60.0)	(56.3)	(62.1)

Source: Department of Treasury Operations

Government Debt Management.

The Government debt operations indicated a total gross borrowing of Rs. 667.9 billion for the period from January to September in 2010. The repayments of public debt which included domestic and foreign loans, amounting to Rs. 357.1 billion thus limiting net borrowing to Rs.310.8 billion. The total gross borrowings were within the approved limit of Rs.980.0 billion for the year 2010.

Disclosure of contingent liabilities on Treasury Guarantees

The value of Bank Guarantees issued and remaining valid as at 30.09.2010, amounts to Rs.184.2 billion which does not exceed 4.5 percent of GDP as prescribed in section 3(e) of Fiscal Management (Responsibility) Act No.3 of 2003. The list of the Bank Guarantees issued by the General Treasury up to 30.09.2010 is mentioned in Annex III.

Foreign Financing

Foreign Financing Commitments

The total commitment made by donor agencies and lenders to Sri Lanka during the period of January to end September 2010 was USD 2,481.9 million. Of the total commitments, project loans accounted for USD 2,402 million and grants accounted for USD 79.9 million.

Table 19
Foreign Financing Commitments (Jan to end Sep 2010)

Donor	US \$ mn.		
	Loan	Grant	Total
Bilateral	528.0	65.1	593.0
Japan	396.6	27.7	424.3
India	67.4	-	67.4
Australia	-	10.5	10.5
France	16.3	-	16.3
Germany	1.6	-	1.6
Saudi Fund	46.1	-	46.1
Netherlands	-	0.1	0.1
USA	-	26.7	26.7
Export Credit	1,265.3	-	1,265.3
Australia	105.2	-	105.2
Austria	45.3	-	45.3
Iran	111.2	-	111.2
Russia	300.0	-	300.0
HSBC Bank Plc - UK	35.0	-	35.0
China	668.6	-	668.6
Multilateral	608.7	14.8	623.5
Asian Development Bank	366.7	3.0	369.7
World Bank	217.8	-	217.8
IFAD	24.2	-	24.2
UN Agencies	-	11.8	11.8
Total	2,402.0	79.9	2,481.9

Source: Department of External Resources

2010 will be a remarkable year in terms of new foreign financing commitments as the new commitments made in the first nine months of the year has surpassed the previous highest level of commitment of USD 2,221.7 million reported in 2009. Over 68 percent of the new commitments in 2010 were for the development of productive infrastructure such as port development, roads and bridges and power supply. The list of the agreement signed from January to September 2010 is given in Table 20.

Chart 2
Foreign Financing Commitments

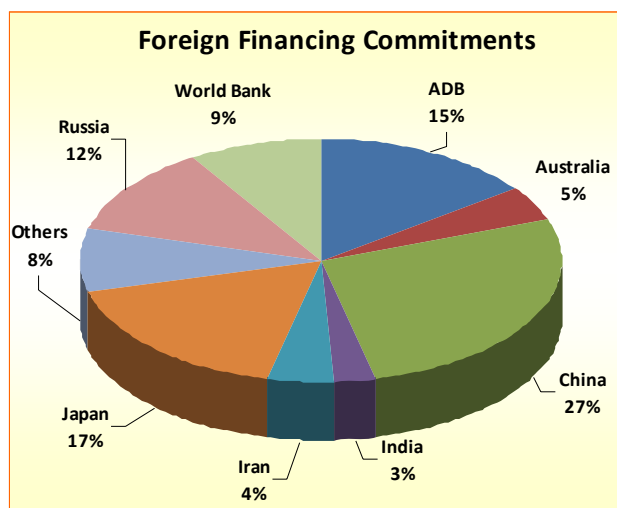


Table 20
Foreign Financing Commitments from 01st January to 30th September 2010

Donor	Project Name	In Loan/Grant Currency	Grant USD	Loan USD	Total USD
	Improving Connectivity to Support Livelihoods & Gender Equality	USD 3,000,000	3,000,000		3,000,000
	Fiscal Management Efficiency Project	USD 50,000,000		50,000,000	50,000,000
ADB	North - East Community Restoration and Development Project II - Supplementary	SDR 8,333,000		12,267,731	12,267,731
	Conflict Affected Region Emergency Project	USD 150,000,000		150,000,000	150,000,000
	Northern Road Connectivity Project	USD 130,000,000		130,000,000	130,000,000
	Northern Road Connectivity Project	SDR 16,080,000		24,408,211	24,408,211
	Integrated Water Supply Scheme for Un-served Areas of Ampara District - Phase III	USD 105,190,000		105,10,000	105,190,000
Australia	Emergency Northern Recovery Project	USD 10,539,070	10,539,070		10,539,070
Austria	Rehabilitation Old Laxapana Hydroelectric Power Plant	EUR 24,141,348		34,776,820	34,776,820
	Rehabilitation of Eastern Railway Line	EUR 8,500,000		10,540,002	10,540,002
China	Mattala - Hambantota International Airport Project	CNY 1,300,000,000		190,785,771	190,785,771
	Supply of 13 Nos. Diesel Multiple Units to Sri Lanka Railway Project	CNY 700,000,000		102,730,800	102,730,800
	Supply of two MA-60 Aircrafts	CNY 280,000,000		41,114,296	41,114,296
	Procurement of Material for the Northern Province Power Sector Development Programme	USD 31,659,392		31,659,392	31,659,392

Table 20 Continued . . .

	Northern Road Rehabilitation Project - A9 (From Galkuma to 280Km Post)	USD 71,021,514	71,021,514	71,021,514
	Northern Road Rehabilitation Project - Contract 11A	USD 42,777,300	42,777,300	42,777,300
	Northern Road Rehabilitation Project - Contract 11B	USD 42,509,700	42,509,700	42,509,700
	Northern Road Rehabilitation Project - (AB20), (AB32), (AB16) and (AB18)	USD 75,420,000	75,420,000	75,420,000
	Northern Road Rehabilitation Project -A9 (from 230km to Post to Jaffna)	USD 70,583,452	70,583,452	70,583,452
	Surveillance for Accreditation of Freedom from Rinderpest	USD 184,000	184,000	184,000
	Dairy Cattle and Buffalo Improvement Project	USD 335,000	335,000	335,000
	Provision of Seed & Other Essential Agricultural Inputs in North	USD 876,000	876,000	876,000
Food and Agriculture Organization	Improving Post-harvest & Sustainable Market Development for Fisheries	USD 85,800	85,800	85,800
	Emergency Agriculture and Food Security Assistance for IDPs	USD 4,283,361	4,283,361	4,283,361
	Agro-enterprise Development Project	USD 405,000	405,000	405,000
	Improvement of Food Security and Livelihoods in Northern Sri Lanka	USD 1,483,435	1,483,435	1,483,435
France	Grater Trincomalee Water Supply Project - Supplementary	EUR 2,500,000	3,385,375	3,385,375
	Provision of Oxygen Concentrators, Operating Theaters & Medical Equipment to Tsunami Affected & Remote Hospital Project	EUR 9,529,000	12,901,316	12,901,316
Germany	Reconstruction of Water Supply in Galle District	EUR 1,258,204	1,604,273	1,604,273
India	Upgrading of Railway Line Colombo Matara Phase II	USD 67,400,000	67,400,000	67,400,000
International Fund for Agriculture Development	National Agribusiness Development Programme	SDR 15,550,000	24,245,264	24,245,264
Iran	Implementation of Rural Electrification Project 8	EUR 77,140,574	111,217,410	111,217,410
Japan	Provincial/Rural Road Development Project (Central Province and Sabaragamuwa Province)	JPK 9,156,000	99,047,097	99,047,097
	Provincial/Rural Road Development Project (Eastern Province)	JPK 3,965,000	42,892,283	42,892,283
	Eastern Province Water Supply Development Project	JPK 4,904,000	53,050,127	53,050,127

Table 20 Continued . . .

	Kandy City Wastewater Management Project	JPK 14,087,000		152,389,303	152,389,303
	Upper Kotmale Hydro Power Project (II)	JPK 4,552,000		49,242,288	49,242,288
	Reconstruction of 05 Bridges in Eastern Province (Detailed Design)	JPK 29,000	319,980		319,980
	The Project for the Improvement of Central Function of Jaffna Teaching Hospital	JPK 2,298,000	24,859,134		24,859,134
	Project for Human Resources Development Scholarships	JPK 229,000	2,539,600		2,539,600
Netherlands	Restoration, Conservation & Publicizing of Dutch Records in National Archives of Sri Lanka	LKR 12,990,000	114,336		114,336
Russian Federation	Russian Credit Line	USD 300,000,000		300,000,000	300,000,000
Saudi Fund	Kalu-Ganga Development Project	SAR 172,500,000		46,056,262	46,056,262
United Nations Development Programme	Contribution to the UNDP Mine Action Project	USD 3,250,000	3,250,000		3,250,000
	Capacity Building for South - South Cooperation	USD 360,000	360,000		360,000
United Nations High Commissioner for Refugees	Assistance to Resettlement of IDPs in Sri Lanka	USD 530,787	530,787		530,787
	Increased Competitiveness in the Global Market Place - Enhancement	USD 13,689,687	13,689,687		13,689,687
USA	Improved Integration of Targeted Disadvantaged Groups into the Community - Enhancement	USD 300,000	300,000		300,000
	Peace, Good Governance & Citizens Rights - Enhancement	USD 589,365	589,365		589,365
	Peace Process Supported - Enhancement	USD 12,130,000	12,130,000		12,130,000
HSBC Bank Plc UK	Emergency Purchase of Container Handling Equipments- Jaya Terminal	USD 35,000,000		35,000,000	35,000,000
World Bank	Provincial Roads Project	SDR 66,100,000		103,238,346	103,238,346
	Additional Financing for Community Livelihoods in Conflict Affected Areas	SDR 7,600,000		11,870,067	11,870,067
	Emergency Northern Recovery Project	SDR 40,900,000		63,879,703	63,879,703
	Higher Education for the Twenty-First Century Project	SDR 25,600,000		38,839,873	38,839,873
	Total		79,874,555	2,402,043,976	2,481,918,531

Source: Department of External Resources

Committed Undisbursed Balance

The total Committed Un-disbursed Balance of foreign financing available for the Government development programmes as at 31st August 2010 was approximately USD 7 billion. The project implementation duration for these commitments is in the range of 2 -5 years and hence the utilization will be on that basis. Table 21 indicates the sector-wise classification of the committed and un-disbursed balance.

Table 21
Committed Undisbursed Balance as at 31st August 2010

Sector	USD mn	% of Total
Roads and Transport	1701.7	24.4
Ports and Airport Development	662.3	9.5
Water Supply & Sanitation	887.3	12.7
Tsunami Rehabilitation	160.1	2.3
Conflict Affected Areas Rehabilitation	387.4	5.6
Health, Education & Vocational Training	261.5	3.8
Power & Energy	1,156.6	16.6
Private Sector Development	75.8	1.1
Agriculture, Fisheries, Irrigation and Land	698.5	10.0
Rural Development	100.4	1.4
Environment & Natural Resources	115	1.7
IT, Science & Technology	28.2	0.4
Housing & Urban Development	41.1	0.6
Other	692.89	9.9
Total	6,968.79	

Source: Department of External Resources

Foreign Financing Disbursements

The total foreign financing disbursement up to end of September 2010 was USD 1,460.3 million. Of this, project loans accounted for USD 1,387 million (95 percent) and grants USD 73.3 million (5 percent).

Table 22
Disbursement of Foreign Financing
From 1st January - 30 September 2010 (in USD million)

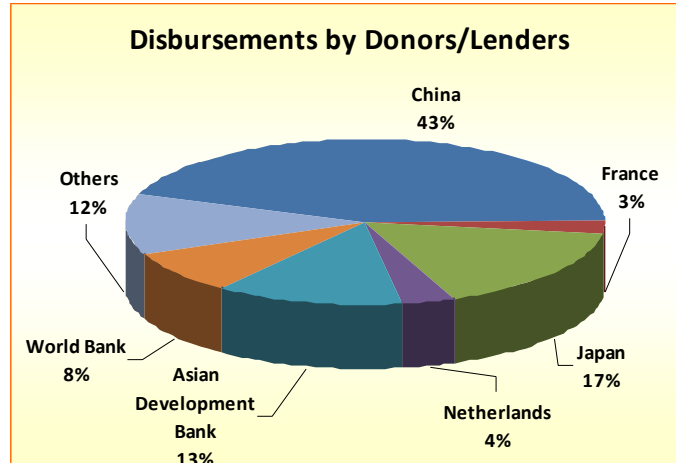
	Donor	Loan	Grant	Total
Bilateral		386.8	30.1	416.9
China		98.7		98.7
Denmark		2.5		2.5
France		25.2		25.2
Germany		6.6	0.5	7.1
India		10.9		10.9
Japan		223.5	13.6	237.1
Korea		14.4	1.1	15.5
Kuwait		3.7		3.7
Netherlands			13.4	13.4
Other Bilateral		1.3	1.5	2.8
Multilateral		286.5	43.2	329.7
Asian Development Bank		169.9	17.2	187.1
World Bank		110.6	9.9	120.5
IFAD		5.5		5.5
UN Agencies			9.9	9.9
Other Multilateral		0.5	6.2	6.7
Export Credit		713.7		713.7
Australia		0.6		0.6
Austria		7.1		7.1
China *		545.0		545.0
Denmark		26.9		26.9
France		12.9		12.9
HSBC Bank Plc - UK		35.0		35.0
Japan		5.2		5.2
Netherlands		39.7		39.7
Sweden		24.4		24.4
United Kingdom		16.9		16.9
Total		1,387.0	73.3	1,460.3

Source: Department of External Resources

* Includes lending of US \$ 445.5 million to CEB

The Government of China, Japan and the Asian Development Bank were the three main donors who made the highest disbursement during the period 01st January to 30th September 2010. These three donors contributed USD 1,073 million or 73.5 percent of the total disbursement.

Chart 3



The Government of China disbursed USD 643.7 million mainly for Puttalam Coal Power Project (USD 544.2 million), Hambantota Port Development Project (USD 87.4 million) and Supply of 13 Nos of Diesel Multiple Units to Sri Lanka Railway (USD 29.9 million). The total disbursement made by Japan during the first nine months of the year was USD 242.3 million. Of this, USD 228.7 million was from loans and the balance US \$ 13.6 million from grants. Water Sector Development Project (USD 40.9 million), Greater Colombo Transport Development Project (USD 35.1 million), Upper Kotmale Hydro Power Project (USD 41.2 million), Colombo City Electricity Distribution Development Project (USD 19.6 million) and Southern Highway Construction Project (USD 24.5 million) were among major Japanese projects which achieved highest disbursement in 2010.

Asian Development Bank (ADB) disbursed USD 187.1 million which included USD 169.9 million loans and USD 17.2 million grants. ADB disbursements were mainly for the Colombo Port Expansion Project (USD 47.9 million), National Highway Sector Project (USD 21 million), Conflict Affected Areas Rehabilitation (USD 16.4 million), Tsunami Affected Areas Rehabilitation Project (USD 22.7 million) and Southern Expressway Project (USD 15.3 million). The list of projects which reported disbursements over USD 10 million is given in Table 23.

Table 23
Projects with Disbursements over USD 10 million in 2010
(up to end September)

Project	Donor/Creditor	Amount USD mn
Colombo Port Expansion Project	Asian Development Bank	47.9
Conflict Affected Areas Rehabilitation		16.4
National Highway Sector Project		21.0
Southern Highway Construction Project		15.3
Tsunami Affected Areas Rebuilding Project	Asian Development Bank/European Commission	22.7
Bunkering Facility & Tank Farm Project at Hambantota	China	12.1
Supply of 13 nos of Diesel Multiple Units to Sri Lanka		29.9
Hambantota Port Development Project		87.4
Puttalam Coal Power Project - Phase I		98.7
Puttalam Coal Power Project - Phase II		445.5
Oluvil Port Development Project	Denmark	15.8
Rehabilitation of Wimalasurendra and New Laxapana Power Stations	France	14.2
Trincomalee Integrated Infrastructure Project		25.2
Emergency Purchase of Container Handling Equipments for Jaya- Terminal	HSBC Bank Plc - UK	35.0
Colombo City Electricity Distribution Development Project	Japan	19.6
Greater Colombo Transport Development Project		35.1
Lunawa Environment Improvement and Community Development Project		12.7
Pro-poor Economic Advancement & Community Enhancement Project		12.9
Southern Highway Construction Project		24.5
Upper Kotmale Hydro Power Project		41.2
Water Sector Development Project		40.9
Development of Dikkowita Fishery Harbour		Netherlands
Ratmalana and Ja-Ela Waste Water Treatment Facilities Project	Sweden	15.9
Regional Bridge Project	United Kingdom	16.9
Provincial Roads Project	World Bank	14.6
Emergency Northern Recovery Project		23.4
Second Community Development & Livelihood Improvement Project		15.2
Total		1,182.3

Source: Department of External Resources

External Debt and Debt Service Payments

The Government external debt stock as at 30th September 2010 stood at USD 14.5 billion (Rs. 1,631.7 billion). This was an increase of 7.4 percent or USD 1 billion compared to the debt stock at 31st December 2009. However, the rupee value of the debt stock has increased by 5.7 percent or Rs. 87.6 billion during the same period. The lower rate of increase in rupee terms was due to the appreciation of Sri Lankan Rupee against the other major currencies.

The total external debt service payments made up to 30th September 2010 amounted to USD 530 million. Of this USD 368.6 million was for principal payments and the balance USD 161.4 million for the interest payments. The total estimated external debt service payment for 2010 is USD 815.7 million, of which 65 percent has already been paid by 30th September 2010.

Table 24
The debt service forecast from 2010 – 2015 (in USD million)

	2010	2011	2012*	2013	2014	2015*
Principal	570.6	614.2	1,179.6	721.4	732.8	1,284.6
Interest	245.1	287.7	282.0	230.0	218.7	194.3
Total	815.7	901.9	1,461.6	951.4	951.5	1,478.9

Source: Department of External Resources

**Note: 1. The higher debt service forecast for 2012 and 2015 is due to the maturing of USD 500 million each International bonds issued in 2007 and 2009.*

2. Debt services related to the funds disbursed under the IMF Stand-by Arrangement are not included.

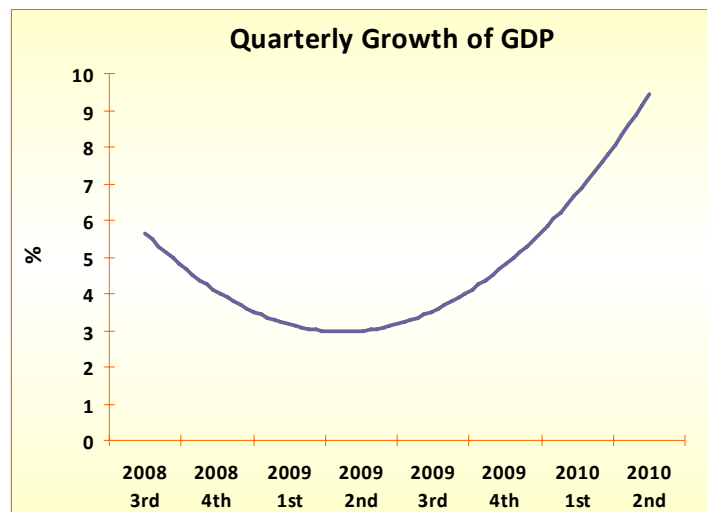
The Economy

Overview

Sri Lankan economy, registered an impressive growth of 7.8 percent during the first half of 2010, displaying strong recovery after the depressed growth rate in 2009 and the renewed growth momentum in the new atmosphere after the ending of war against terrorism. With the strengthening of macro economic stability, domestic economic outlook has become more promising in the back drop of a gradual recovery of the global economy. The GDP growth for the full year 2010 is likely to be around in the range of 7.5 to 8.0 percent. The growth is broad based, with higher growth rates projected in most sectors of the economy.

The domestic economy grew by 7.8 percent during the first half of 2010 compared to 1.9 percent during the corresponding period of 2009. All sectors of the economy contributed strongly to the high economic growth recorded during the first half of 2010. The agricultural sector grew by 7.2 percent while with the gradual revival of the global and domestic demand, industry sector grew by 8 percent. The services sector which recorded the lowest sectoral growth during the first half of 2009 expanded by 7.8 percent in the first half of 2010 mainly reflecting the recovery of the external trade and tourism related activities.

Chart 4



Agriculture

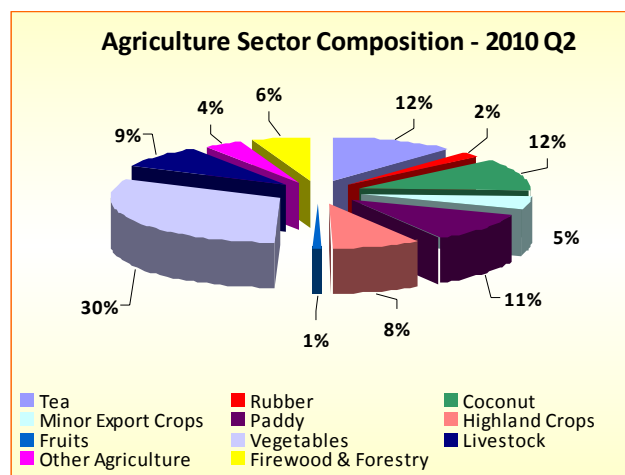
Agriculture, forestry and fishing sector expanded by 7.2 percent during the first half of 2010 relative to the 4.2 percent achieved in the review period last year. The sector accounted for 12 percent to total GDP and contributed 5.1 percentage points to the review half year GDP growth. The agriculture sector accumulated high growth due to many factors. The expansion of the area under new cultivation, the good commodity prices, fertilizer subsidy scheme, post conflict development in the North and East as well as favourable policy strategies adopted by the Government towards agricultural development could be cited as main contributory factors for

this surge. The weather situation also has been mostly favorable and it has been a strong incentive for the impressive growth in agriculture both in plantation as well as non-plantation sectors. The output of tea, rubber, minor export crops and paddy registered a significant growth. However, the output of the coconut sector contracted by 10 percent in the first half of 2010, mainly reflecting a cyclic effect and a disease affecting some parts of the country. The marine fishing sector performed well benefiting from the removal of restrictions on fishing in the North and East, rehabilitation and improvement of fisheries harbours coupled with providing fishing gears such as boats and nets, and livelihood supports to the fishermen in the North and East.

The total paddy production in 2010 is estimated to increase by 15 percent to 4.18 million metric tons compared to 3.65 million metric tons recorded in 2009. This will be the highest paddy production in the post independent Sri Lanka. It is estimated a bumper harvest of 1.56 million metric tons in the forthcoming 2010 Yala season in line with the increase in extent cultivated in the North and East. This surge was due to increased extent in cultivation by about 8 percent, augmented productivity supported by favorable weather during the seasons coupled with continuation of fertilizer subsidy by the Government, adopting a conducive tax policy to help local production and the continuation of the paddy purchasing scheme of the government to stabilize the producer prices.

The total newly cultivated paddy lands in the Northern Province were 4,424 hectares in the 2009/2010 Maha season which included 1,406 hectares in Jaffna and 2,741 hectares in Mannar districts. It is also notable that the paddy production in 2009/2010 Maha Season in Eastern Province recorded a growth in extent by around 10 percent to 150,696 hectares. Accordingly, during 2009/2010 Maha Season alone, the total extent cultivated increased by 6.4 percent to 646,001 hectares, while the average yield has increased to 4,583 Kg per hectares compared to 4,421 Kg per hectares recorded during 2008/2009 Maha season.

Chart 5

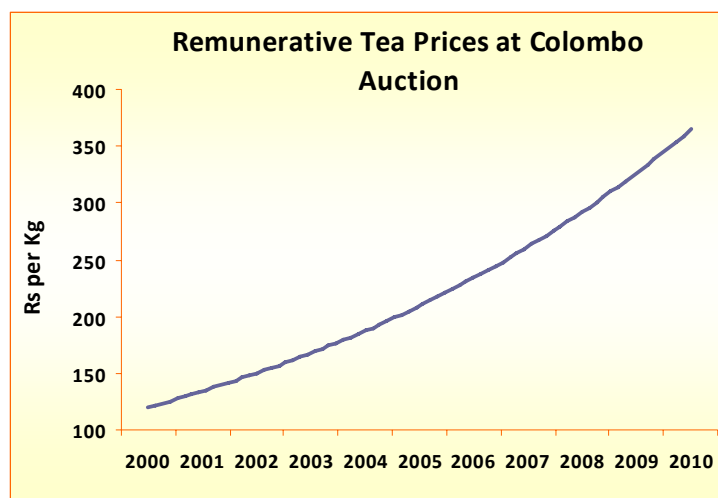


The favorable weather conditions in all tea growing districts, stable prices, non existence of labour unrest, adoption of better crop management practices resulting from high prices coupled with increased extent of tea cultivation by small holders contributed to an increased tea production in the first half of 2010. The tea production at 167 million Kg in the first half of 2010 recorded a growth of 26 percent compared to the same period of 2009.

Tea small holders continued to be the major contributor to the tea production and contributing 75 percent of the total production in the first half of 2010 while the extent cultivated by small holdings increased by 6 percent by 2010 from the extent in 2005. Also the yield is estimated to be around 2,154 Kg / hectare against the estimated national yield of 1,419 Kg / hectares in 2010. Meanwhile, around 58 percent of the tea production in the first half of 2010 was contributed by the low grown tea production, recording a growth of 23 percent in the first half of 2010.

The tea exports rose by 24 percent to US \$ 626 million in the first half of 2010 benefiting from higher prices and production. The prices at Colombo Tea Auction continued to remain high in the first half of 2010 with average prices increased by 15 percent to Rs. 374 per kg compared to Rs. 323 per kg in the first half of 2009 reflecting the increased demand from the Middle East and Russia and supported by winter season demand. Government has also introduced several initiatives during this period such as quality certification program, suspension of tea sale through private treaty to assure price momentum of the auctions, subsidies for re-plantation, monitoring mechanism for maintaining quality standards of fertilizer to sustain higher production and prices.

Chart 6



Despite the unfavorable weather conditions especially in the second quarter of 2010, rubber production increased by 8 percent to 75 million kg in the first half of 2010 benefiting from attractive prices with increased demand for natural rubber due to improved global economic conditions stemming from the high demand of the auto industry coupled with enhanced

demand for natural rubber due to increased oil prices. All categories of rubber prices registered the highest ever prices in Sri Lanka in the first half of 2010. Heavy rainfall in some major producing countries, supply shortage of natural rubber in the international markets caused by winter season and heavy demand for natural rubber from China, Malaysia and India resulted in remunerative prices for natural rubber. The average prices of both RSS No. 1 and No. 2 increased by 128 percent to Rs. 381 per Kg and Rs. 375 per Kg respectively while average price of crepe rubber increased by 139 percent to Rs. 390 per Kg in the first half of 2010. Reflecting these remunerative prices of the auctions, the rubber exports increased by 83 percent to US \$ 84 million in the first half of 2010.

Coconut production dropped by 10 percent to 1,553 million nuts in the first seven months of 2010 compared to 1,719 million nuts recorded in the review period of 2009. The decline in coconut production was mainly attributable to the lag effect of the low rainfall and higher temperature prevailed in the Gampaha, Kurunegala and Puttlam districts in the first half of 2009, the lower usage of fertilizer due to drought conditions coupled with the decline in production in the Southern Province especially Matara district due to the effect of "Weligama coconut wilt disease".

The most of the other field crops sector comprising of maize, kurakkan, green gram, onions, cowpea, sweet potatoes and manioc etc registered an improvement in the 2009/2010 Maha season benefiting from increased domestic consumption, favourable weather conditions, farmers shifting to cash crops with the increase in producer margins. Government continued to support local growers through the tax policy. Maize production increased by 11 percent to 127,760 metric tons in 2009/10 Maha season compared to 114,660 metric tons recorded in the previous Maha season. The production of red onions increased by 51 percent compared to 2008/2009 Maha season. The extent of cultivation of red onion has increased by 350 hectares during 2009/2010 Maha season with the restarting of production in North and East. However, the production of chillies declined by 4.2 percent to 31,842 metric tons in 2009/2010 Maha season mainly due to farmers shifting to higher margin crops such as maize and soya beans.

Minor exports crops sector expanded by 60 percent in the first half of 2010 after containing 3.4 percent in the review period of 2009 benefiting from the expanded global demand coupled with increased export prices. This was the highest performance registered within last ten years. The government intervention by means of providing subsidy, financial assistance, extension and research inputs and assistance for value added products and organic farming also helped to boost the production.

The output of livestock sector grew by 3.8 percent in the first half of 2010 relative to the 4.7 percent registered in the reference period of 2009. Local milk production increased by 7 percent to 120 million liters. This growth was largely driven by the remunerative producer prices for liquid milk. The Government increased the producer price of milk by Rs. 3 per litre from June 2010 to encourage the local milk production. The activities with regard to rounding up displaced

cattle in the conflict affected areas and handing over such animals to farmers, expansion of diary villages and artificial insemination program also helped to boost the milk production. However, the egg and broiler meat production declined by 19 and 5 percent respectively to 479 million and 46,190 metric tons in the first half of 2010. The decline in parent bird stock imports due to fear of bird flu in exporting countries and short supply of day old chicks resulting higher prices of them contributed for the decline which caused price escalation of eggs and chicken in the domestic market. With a view to stabilize the domestic market prices, government slashed the import duties of day old chicks and eggs. Also duties of powdered form eggs have been slashed with a view to encourage such imports for bakery products and biscuit manufacturing industries thereby reducing the demand of raw form eggs from such industries which in turn will help to release more eggs for the consumers.

Implementation of island wide food production programme, continuation of fertilizer subsidy scheme, implementation of government paddy purchase programme, guaranteed prices for paddy and milk helped to boost the agriculture sector in recent years. Demonstrating the government's commitment towards development of the agriculture sector, resources were channeled investment on irrigation, provision of agricultural machineries, equipment and seeds, extension services coupled with agricultural credit facilities and interest subsidies thus creating a conducive environment to improve the sector. The government also implemented a tax structure to safeguard the domestic producers as well as consumers.

Table 25
Gross Domestic Product - Sectoral Composition (2002) Constant Prices

Sector	Rs. Mn				
	First Half				
	2007	2008	2009	2009	2010 *
Agriculture, Forestry and Fishing	265,870	285,897	294,921	153,717	164,732
Agriculture, Livestock and Forestry	241,285	258,881	266,033	139,943	149,432
Tea	26,494	27,601	25,154	11,480	14,018
Rubber	5,205	5,743	6,198	2,139	2,297
Coconut	30,403	31,975	33,646	16,830	14,981
Minor Export Crops	10,706	10,478	11,028	4,308	6,877
Paddy	35,261	43,406	41,179	27,440	30,267
Highland Crops	28,428	29,439	31,368	16,305	17,349
Fruits	1,826	1,900	1,995	1,001	1,034
Vegetables	55,249	58,197	62,436	35,377	36,361
Livestock	19,415	20,495	21,761	10,020	10,405
Other Agriculture	14,755	15,147	15,911	7,879	8,356
Firewood and Forestry	13,544	14,499	15,357	7,164	7,488
Fishing	24,585	27,016	28,888	13,774	15,300
Industry	635,199	672,791	701,129	334,425	361,097
Mining and Quarrying	42,631	48,090	52,030	22,985	25,772
Manufacturing	394,233	413,681	427,334	205,460	220,402
Processing Industries	14,150	14,897	14,995	7,455	8,376
Factory Industry	355,611	373,215	385,927	184,750	198,072
Small Industries	24,472	25,570	26,412	13,254	13,954
Electricity, Gas and Water	55,339	56,847	58,974	27,088	28,991
Electricity	48,303	50,184	52,017	23,877	25,589
Gas	4,525	4,062	4,280	2,010	2,160
Water	2,512	2,601	2,677	1,201	1,242
Construction	142,996	154,173	162,790	78,892	85,932
Services	1,331,587	1,406,813	1,453,254	698,408	752,685
Trade, Hotels and Restaurants	555,345	580,653	580,053	273,359	293,816
Import Trade	203,105	212,651	198,603	84,752	92,751
Export Trade	103,926	104,861	99,450	49,344	49,660
Domestic Trade	239,115	254,400	272,099	135,895	146,638
Hotels and Restaurants	9,199	8,741	9,901	3,368	4,767
Transport and Communication	286,764	310,029	330,390	157,539	175,905
Transport	241,648	256,954	272,422	131,465	145,899
Cargo Handling-Ports and Civil Aviation	14,773	15,951	16,494	7,095	8,353
Post and Telecommunication	30,343	37,124	41,475	18,979	21,653
Financial Services, Real Estate and Business Services	265,720	279,185	291,870	144,479	152,517
Banking and Insurance and Real Estates	193,375	206,048	217,819	107,520	115,230
Renting and Business Services	72,345	73,137	74,051	36,959	37,287
Government and Other Services	223,759	236,947	250,942	123,032	130,448
Public Administration and Defense	171,259	181,051	191,778	93,427	99,067
Community and Other Services	52,500	55,896	59,164	29,605	31,381
Gross Domestic Product	2,232,656	2,365,501	2,449,304	1,186,550	1,278,513

Source: Department of Census and Statistics

* Provisional

Industry

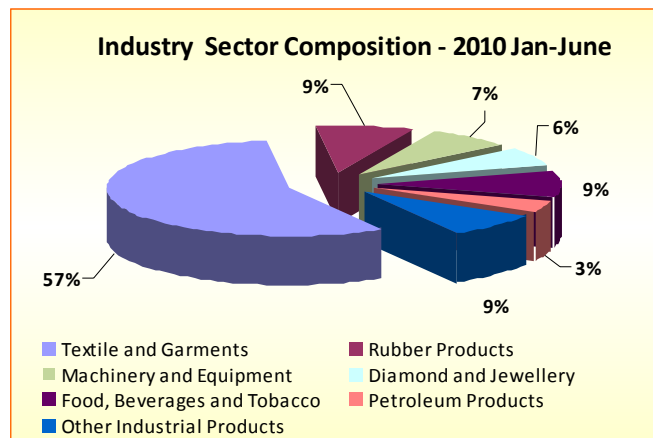
Benefiting from the recovery of both domestic and export market oriented industries, the industry sector grew by 8 percent in the first half of 2010 compared to a relatively low growth of 2.4 percent during the corresponding period of 2009. All four sub sectors, i.e. mining, and quarrying, manufacturing, electricity, gas, and water and construction grew at a higher rate than in 2009.

The manufacturing sub sector which accounts for a share of 17 percent of total GDP grew by 7.3 percent compared to 1.9 percent growth in the first half of 2009, with the improvements in the factory industries due to favourable domestic economic environment, increased tourism activities, connectivity of whole country and the gradual recovery of external demand. The food, beverages and tobacco products and non-metallic mineral products contributed to the output of domestic market oriented industries.

The output of food and beverages products increased by 6.8 percent in the first half of 2010 compared to 5.2 percent in the reference period of 2009 with enhanced production of biscuits, canned fruits, beverages and milk products. Buoyant growth in the tourism sector, expansion of the domestic demand align with improved domestic tourism, introduction of value added products supported by the government safeguard measures such as cesses help the sector to grow rapidly.

Despite the challenging global environment and the temporarily withdrawals of GSP+ scheme, the textile and apparel industry also recovered in the first half of 2010 registering 3.9 percent growth after contracting 1.4 percent during the review period last year. The exports of textile and garments reached US \$ 1,500 million in the first half of 2010. The industry has focused long term preparations to face the emerging conditions to remain competitiveness through quality improvements, eco-friendly manufacturing, solid waste management and emission of low carbon and penetrating niche markets.

Chart 7



Chemical, rubber and plastic products sub-category expanded by 11.6 percent in the first half of 2010 after containing by 0.3 percent in the review period of 2009 particularly with increased world demand. The demand for tyres and gloves in the international market increased from latter part of 2009 and continued in the first half of 2010 with the recovery of United States and European factory industry. The PVC, paints and plastic products also registered a higher production due to the impressive growth in domestic construction industry coupled with recent slashed duties on these products. The industries such as gem and jewellery, mineral products, fabricated metal products, machinery and equipments etc registered a significant growth in the second quarter of 2010. The Small and Medium Enterprises (SME) sector also recorded a growth of 5.2 percent in the first six months of 2010. As a whole, the recovery of the global economy coupled with booming the construction industry, post conflict development and lower interest rates will have a positive impetus to the manufacturing sector.

In line with significant GDP growth registered in the review period, electricity, gas and water expanded by 7.8 percent in the first six months of 2010 relative to a 1.1 percent recorded in the same period of 2009. In terms of power generation, the total power generated by both the public and private sector increased by 8.5 percent to 6,122 Gwh during Jan-July period of 2010. The hydropower generated by the Ceylon Electricity Board (CEB) increased by 41 percent due to the heavy rains prevailed in the catchments areas. As a result, the thermal power generation by the CEB decreased by 28 percent in the first seven months of 2010. The total power generation by the private sector also increased by 6.5 percent.

Growth in the construction sector increased to 8.9 percent in the first half of 2010 from a slowdown of 4.2 percent during the first half of 2009. Meanwhile increased level of construction activity was reflected in the growth of domestic building material production by 11.8 percent during the first half of 2010. Public sector construction activities continued in the first half of 2010 with the Government's commitment in mega infrastructure projects in the areas of Port development, electricity generation, roads, irrigation and water supply and sanitation, while private sector participation in construction activities also picked up during the period under review.

Services

The services sector grew at a faster pace of 7.8 percent during the first six months of 2010 relative to the 1.1 percent registered a year ago. This sector represented 60 percent of GDP during the first half of 2010 while the major contributors to the service sector performance were the hotels and restaurants, transport and communication, banking and insurance and the promising trade sector.

Table 26
Selected Indicators of Service Sector

Indicator	2007	2008	2009	2009 Jan-July	2010 Jan-July
Port Services					
Vessels arrived	4,710	4,814	4,456	2,635	2,351
Total Cargo Handled (MT '000)	46,344	50,582	48,777	26,887	35,210
Total Container Handled (TEU '000)	3,381	3,687	3,464	1,929	2,375
Transshipment (TEU '000)	2,578	2,785	2,633	1,478	1,774
Telecommunication Sector					
Fixed Telephone Lines (No. '000)	932	934	871 ^(a)	325	350
Cellular Phones (No. '000)	7,983	11,083	13,950	12,640	15,868
Wireless Phones (No. '000)	1,810	2,513	2,560	2,378	2,616
Internet and E-mail Subscribers ('000)	202	234	240	240	260
Health Sector					
Private Hospitals	212	220	220	161	161
Public Hospitals	619	619	555 ^(b)	555	555
No. of Beds (Government)	62,197	65,835	68,897	68,905	68,905
No. of Doctors (Government)	11,442	13,026	13,633	13,666	14,961
No. of Nurses (Government)	22,088	22,996	25,549	25,795	26,674
Financial Sector					
Bank Branches and Other Outlets	4,951	5,427	5,703	5,632	5,803
Credit Cards Issued	889,338	917,418	840,509	867,499	829,716
Registered Finance Companies	32	34	35	35	36
Registered Leasing Companies	76	78	74	74	70
Tourism Sector					
Tourist Arrivals	494,008	438,500	447,890	229,956	341,991
Tourist Earnings (US \$ mn)	385	342	350	179	301
Room Occupancy Rate	46.2	43.9	48.4	40	66.3
Transport Services (New Registration)					
Buses	2,637	1,180	739	310	1,101
Cars	22,595	20,237	5,762	3,854	4,069
Lorries	18,408	14,038	8,202	3,540	7,273
Motor Cycles	182,508	155,952	135,471	72,315	113,953
Three Wheelers	43,076	44,804	37,164	19,144	45,044
Tractors	23,476	26,132	15,278	8,644	10,282

Source : Central Bank of Sri Lanka

Ministry of Finance and Planning

^(a) This decline was due to shift of some users to cellular phones.

^(b) Government hospitals were re-categorized in 2009. As a result, 64 hospitals were re-named as Primary Healthcare Units.

Hotels and restaurants sub sector grew by 41.5 percent in the first six months of 2010 compared to the contracted 8.6 percent witnessed in the same period of 2009 showing a quick response to the end of terrorism activities coupled with booming tourism sector. Improvement of travel related activities such as aviation, tour operation, development of tourist infrastructure, expansion of both local and foreign tourism enabled this sector to register an impressive growth. This improvement clearly reflected in the increasing trend in the hotel charges. Realizing the

potentials of tourism and associated leisure industry, the tourist arrivals rose by 47 percent to 397,889 tourists during the period of January-August 2010. Tourist arrivals from Western Europe and South Asia increased by 45 percent and 53 percent respectively. Sri Lanka is eyeing at attracting 2.5 million tourists with earnings of around US \$ 2.8 billion by 2016, opening new avenues for the construction industry, domestic agriculture, recreation, food and beverages industry and traditional Ayurvedic treatment.

Table 27
Promising Tourism sector

Month	Tourist Arrivals				Tourist Earnings (US \$ Mn.)			
	2007	2008	2009	2010	2007	2008	2009	2010
January	56,751	56,916	38,468	50,757	49.1	44.4	30.0	44.7
February	43,033	40,551	34,169	57,300	37.3	36.1	26.7	50.4
March	35,031	38,049	34,065	52,352	30.4	29.7	26.5	46.1
April	33,039	29,747	26,054	38,300	14.0	23.2	20.4	33.7
May	26,307	31,140	24,739	35,213	20.5	24.3	19.3	31.0
June	30,810	27,960	30,234	44,730	24.0	21.8	23.5	39.3
July	44,202	32,982	42,227	63,339	34.5	25.7	33.0	55.8
August	44,682	30,672	41,207	55,898	34.9	24.0	32.1	49.1
September	37,104	29,529	37,983		28.9	23.0	30.2	
October	39,656	35,103	37,571		30.05	27.4	28.7	
November	42,548	36,901	44,311		34.05	28.8	34.6	
December	61,116	48,950	56,862		47.6	38.1	79.1	
Total	494,008	438,500	447,890	397,889	385.3	342	349.5	350.1

Source: Sri Lanka Tourist Board

Reflecting the strong performance of both domestic and external trade with easing off the global economic slow down, prevalence of favourable conditions in terms of peaceful security situation in the country, wholesale and retail trade sector registered a 7.1 percent growth in the first half of 2010 after contracting by 3.7 percent in the review period of 2009. Export and import trade sector bounced back in the second quarter of 2010 registering a growth of 5.0 percent and 13.2 percent respectively. The earning from exports increased by 13.7 percent to US \$ 3,624 million and import bill rose by 42 percent to US \$ 6,468 million in the first half of 2010. The exports of tea, rubber and rubber based products, gem and petroleum products were the major contributors to the rebounded export growth. Import bill surged mainly due to the higher expenditure on petroleum, fertilizer, building material, coupled with motor vehicles and electrical equipments particularly benefiting from the slashing tariff and other levies imposed on motor vehicles and electric equipments. With increased supply of agricultural and industrial

production coupled with increased connectivity and mobility in the post war environment, the domestic trade sector grew by 7.9 percent in the first half of 2010 as against 5.8 percent recorded in the review period of 2009.

The telecommunication sector expanded by 14.1 percent in the first half of 2010 relative to 10.3 percent achieved in the same period of 2009, with the initiatives taken by the service providers in terms of value added products, competitive rates and expansion of the services. Cellular phone connections increased by 25 percent to 15.8 million while the fixed line phone connection rose to 3.5 million with a growth of 3.1 percent in the first half of 2010. The wireless connection rose by 3.8 percent to 2.6 million in the first six months of 2010 from 2.5 million recorded in the reference period of 2009. This paved the way to increase telephone density (telephone per 100 persons) to 94 in the second half of 2010 from 78 registered in the review period of 2009. Internet and e-mail subscribers also increased by 8.3 percent to 260,000 in the review period.

Transport sector grew by 12 percent in the first six months of 2010 as against 5 percent recorded in the same period of 2009. The new registration of motor vehicles rose by 71 percent to 185,595 supported by initiatives of the government slashing the import taxes on motor vehicles by about 50 percent. The new registration of buses increased by 255 percent to 1,101 buses during the January-July period in 2010. The new registration of three wheelers, vehicles of transport goods and motor cycles increased by 135 percent, 105 percent and 58 percent respectively in the first seven months of 2010. The government continued its efforts in upgrading the transport service by adding 280 rehabilitated buses to the existing fleet of the Sri Lanka Transport Board (SLTB). Sri Lanka Railway also initiated several projects in 2010 to rehabilitate and reconstruction of railway lines. The rehabilitation of the Colombo-Matara railway line is in the progress with Indian assistance while the re-construction of Northern railway infrastructure, one from Medawachchiya to Thalaimannar, and other from Omanthai to Palai initiated with the assistance of the India and China.

Table 28
Sectoral Distribution of GDP Growth (%)

Sector	2007	2008	2009	2009 First Half	2010 First Half*
Agriculture	3.4	7.5	3.2	4.2	7.2
Tea	-1.8	4.2	-8.9	-22.8	22.1
Paddy	-6.2	23.1	-5.1	12.2	10.3
Minor Exports	5.1	-2.1	5.2	-3.4	59.6
Livestock	7.9	5.6	6.2	4.7	3.8
Food Crops	4.4	4.7	7.0	6.9	3.9
Fisheries	15.6	9.9	6.9	6.8	11.1
Industry	7.6	5.9	4.2	2.4	8.0
Agri. Processing	2.4	5.3	0.7	-4.2	12.3
Factory Industry	6.7	5.0	3.4	2.1	7.2
SMEs	5.6	4.5	3.3	3.0	5.3
Electricity	4.6	3.9	3.7	1.1	7.0
Construction	9.0	7.8	5.6	4.2	8.9
Services	7.1	5.6	3.2	1.1	7.8
Trade	6.1	4.7	-0.3	-3.7	7.1
Hotels	-2.3	-5.0	13.3	-8.6	41.5
Cargo	8.8	8.0	3.4	-4.4	17.7
Post and Telecommunications	21.5	22.3	11.7	10.3	14.1
Financial Services	8.7	6.6	5.7	4.6	7.2
Government Services	6.0	5.7	5.9	5.2	6.0
Private Services	7.8	6.5	5.8	5.2	6.0
GDP	6.8	6.0	3.5	1.9	7.8

Source: Department of Census and Statistics

** Provisional*

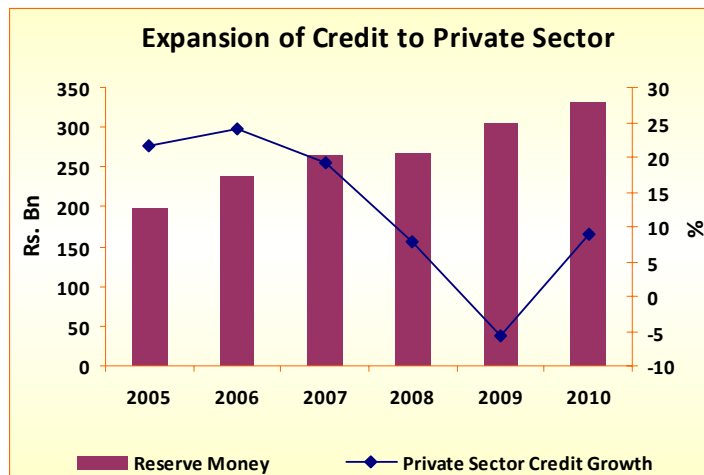
Reflecting the impressive performance in the international trade resulted from the recovery of global economic downturn and the enhanced domestic activities, port and aviation sector expanded by 17.7 percent in the first half of 2010 after containing 4.4 percent in the same period last year. Although, the total vessels arrived at Sri Lanka Port were 2,681 ships compared to 3,138 in the first eight months of 2009, total container handled increased by 21.2 percent to 2.7 million TEUs in the first eight months of 2010. The total cargo handled also increased by 28 percent to 41 million metric tons.

Banking, insurance and real estate sector expanded by 7.2 percent in the first half of 2010 relative to the 4.6 percent registered in the same period of 2009 benefiting from the improvement in overall economic activities . Market interest rates continued to decline in response of the easing off monetary policy stance adopted by the Central Bank of Sri Lanka since 2009. The sound macroeconomic condition observed in the country helped to reduce risk premia added to lending rates eventually reducing the lending rates. As such, the Central Bank of Sri Lanka requested all banks to reduce interest rates on housing loans to 14 percent per annum and credit card advances to 24 percent per annum. The interest income of banks dropped by about 10 percent due to the reduction of interest rates. However, the expenses on interest also declined by about 27 percent making an increase in net income of all financial institutions. This led a further expansion of the financial sector in the reference period. Both the government and the private services also expanded by 6.0 percent in the first half of 2010.

Monetary Sector Developments

Critical reforms implemented to sustain financial system stability in the in context of world economic crisis have ensured the banking sector soundness with further strengthening of the stability of the banking system during the first half of 2010. The performance of the banking system was characterized by solid asset growth, improving loans and asset quality, continuing good returns of equity and robust capitalization on par with international norms.

Chart 8

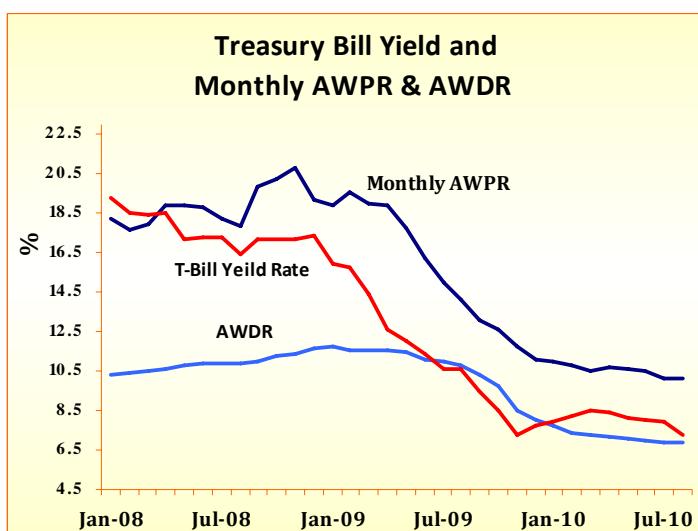


The easing off of tight monetary policy stance adopted by the Central Bank of Sri Lanka since 2009, continued in 2010 in support of economic activity. With the favorable development on the inflation front and outlook for relatively stable inflation, compared to high inflation rates prevailed in the past the policy interest rates were reduced in July 2010. Since February 2009, the Repurchase rate was reduced by 325 basis points to 7.25 percent whilst the Reverse Repurchase rate (Repo) was reduced by 300 basis points to 9 percent. This has resultant to

downward adjustments to the market interest rates coupled with declined benchmark yield curves for government securities in the secondary market.

The Statutory Reserve Requirements (SRR) remained at 7 percent while the penal rate of interest was totally removed in May 2009 signaling the need for a recovery in private sector credit growth. The relaxed monetary policy stance of the Central Bank of Sri Lanka has led the other market interest rates to decline providing an impetus to expanding economic activities. The average weighted call money rate was within the policy interest rate corridor and showed less volatility compared to previous years. Deposit and lending rates also sustained the downward trend in 2010. The Average Weighted Deposit Rate (AWOR) declined by about 115 basis points to 6.86 percent by August 2010 while Average Weighted Fixed Deposit Rate (AWFDR) declined over 174 basis points to 9.17 percent. The average weighted prime lending rate which serves as a benchmark for selected lending rates declined by nearly 100 basis points to 10.13 percent by end August 2010. A further reduction in market interest rates would help to achieve a sustainable improvement in private investments and economic activity.

Chart 9



Reserve money rose by 23.3 percent to Rs. 339 billion as at end of September 2010. Reflecting the increase in net foreign assets and the growth of private sector credit, the broad money expanded by 14 percent to Rs. 1,940 billion by the end of August 2010. The improved credit conditions, the credit to private sector continued to increase. The credit to private sector obtained from commercial banks expanded by about 13 percent as per end of August 2010. Reflecting the recovery of economic activity affected by the global economic crisis as well as resurgence of domestic economic activity in the renewed domestic economic environment, credit to private sector expanded. In addition the policy support given to improve trade related activities led to further growth in credit demand which could be met without causing undue inflationary pressure. It is expected a further expansion of credit to private sector with the GDP outlook of 7.5 to 8 percent in 2010.

Declining Trend in Unemployment

Unemployment rate which increased to 5.8 percent in 2009 in the back drop of declining external demand, declined to 5.4 percent in the second quarter of 2010 with the revival of economic activity. The wide spread expansion in economic activities in the post war setting, together with improvement in external trade contributed to the reduction in unemployment.

The employed population was increased from 7.47 million in second quarter of 2009 to 7.61 million in second quarter of 2010. Of the total employed population, 44.4 percent was in the service sector followed by 32.0 percent from Agriculture and 23.6 percent from industries in the first quarter of 2010. The foreign employment demand that slightly decreased during 2009 due to the impact of global crisis, improved notably from first quarter 2010. In addition, acceleration of the development projects also contributed for this decline in unemployment.

Table 29
Declining Trends in Unemployment

Category	2008*	2009*			2010*	
		Q1	Q2	Annual	Q1	Q2
Labour Force ('000)	8,082	8,160	7,961	8,074	8,130	8,051
Employed ('000)	7,648	7,710	7,465	7,602	7,726	7,613
Unemployment Rate (%)	5.4	5.5	6.2	5.8	5.0	5.4

Source: Department of Census & Statistics

**Excluding Northern Province*

Inflation Remained in Single Digit

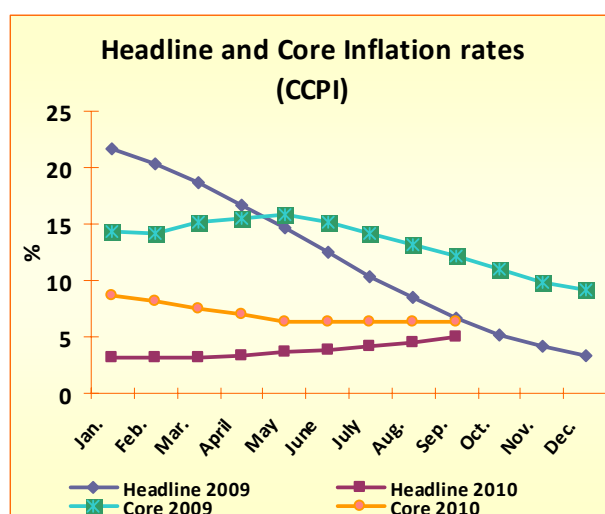
The high inflation rates that prevailed in 2008 had declined to 4.8 percent by the end of 2009 with the easing of key commodity prices in international markets and supply side improvements especially in agricultural products. Year on year inflation despite some increases during the first nine months of this year stayed at 5.8 percent, a relatively lower rate and manageable rate compared to historically high rates of inflation. Meanwhile, the core inflation which measures the price movements of non-food and non-energy items in the CCPI decreased to 5.5 percent in August 2010 from 5.9 percent in the previous month on year on year basis, while stabilizing the annual average core inflation at 6.3 percent for the third consecutive month. This was the result of cautious monetary policy, supportive fiscal measures coupled with improved domestic supply conditions although the risks of some inflationary pressures cannot be ruled out in a growing economy with very low unemployment.

Table 30
Headline Inflation and Core Inflation in Sri Lanka

Month	Headline Inflation				Core Inflation			
	Point to Point		Annual Average		Point to Point		Annual Average	
	2009	2010	2009	2010	2009	2010	2009	2010
January	10.7	6.5	21.6	3.1	15.5	7.9	14.3	8.6
February	7.6	6.9	20.3	3.1	14.1	8.0	14.8	8.1
March	5.3	6.3	18.6	3.2	14.2	6.7	15.2	7.5
April	2.9	5.8	16.7	3.4	13.5	6.4	15.5	7.0
May	3.3	5.3	14.7	3.6	13.5	6.5	15.8	6.4
June	0.9	4.8	12.5	3.9	7.7	6.7	15.2	6.3
July	1.1	4.3	10.4	4.2	6.0	5.9	14.2	6.3
August	0.9	5.0	8.5	4.5	6.4	5.5	13.2	6.3
September	0.7	5.8	6.6	5.0	5.4	5.7	12.1	6.3
October	1.4		5.2		5.1		11.0	
November	2.8		4.1		5.1		9.9	
December	4.8		3.4		5.9		9.2	

Source: Department of Census & Statistics

Chart 10



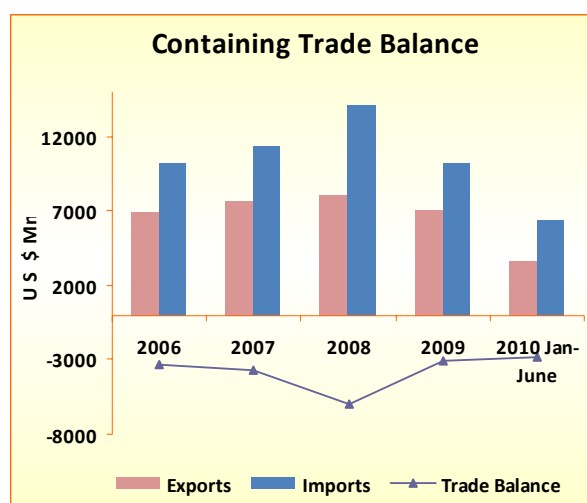
Growth in Per Capita Income

With a annual GDP growth rate of 6.04 per cent during the last five years country's per capita income reached US\$ 2,053 in 2009 and with the expected higher growth rate, modest inflation and relatively stable exchange rate it is likely to reach around US\$ 2,450 in 2010.

External Sector

The favourable external sector developments witnessed from the second half of 2009 continued in 2010 underpinned by increased investor confidence with the end of conflict, arrest of contagious effects of the recent global crisis, improved financial market conditions and strong macro economic environment with the recovery of external trade. Both earnings from exports and expenditure on imports grew significantly during the first eight months of 2010. Imports led by high intermediate and capital goods exceeded the earnings from exports expanding the trade deficit. The increase in worker remittances and improved surplus in service account with improvements in port and tourism related activities partially offset the trade deficit. These led to a current account deficit of US\$ 1,142 million by end June 2010.

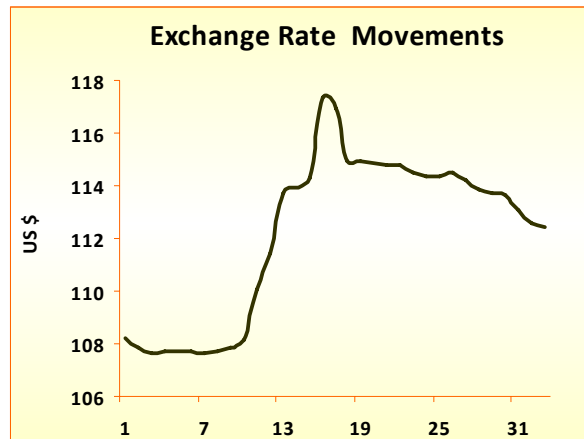
Chart 11



Foreign financial flows increased reflecting the faster disbursement of foreign loans to finance major infrastructure projects and in the context of renewed confidence, stable exchange rate and comparatively lower international interest rates, there were continuous foreign inflows to the Government securities as well. The positive investor confidence was further boosted with the approval of two tranches under the IMF-SBA facility in June 2010 and the fourth tranche was also disbursed in September 2010. Government successfully raised US\$ 1,000 million through the sovereign bond issue in the international capital market with a ten year maturity which is a further reflection of the improving investor confidence. In the context of high volatility of exchange rates among major currencies these flows also helped to maintain a relatively stable exchange rate against the US Dollar, despite the widening of the trade and current account deficits. Widened current account deficit was partly due to larger capital goods imports used for on going infrastructure projects and the increased oil bill. To avoid an excessive rupee appreciation there by significant loss of external competitiveness, Central Bank of Sri Lanka purchased foreign exchange from the domestic foreign exchange market. as a net buyer during the first nine months of 2010. With these developments the Balance of Payment (BoP) recorded a surplus of US\$ 432 million during the first eight months of 2010 while the Gross Official Reserves increased from US\$ 5,357 million at end 2009 to US\$ 6,414 million by end September

2010 which was equivalent to 5.8 months of imports. The total reserves at end July reached US\$ 7,149 million.

Chart 12

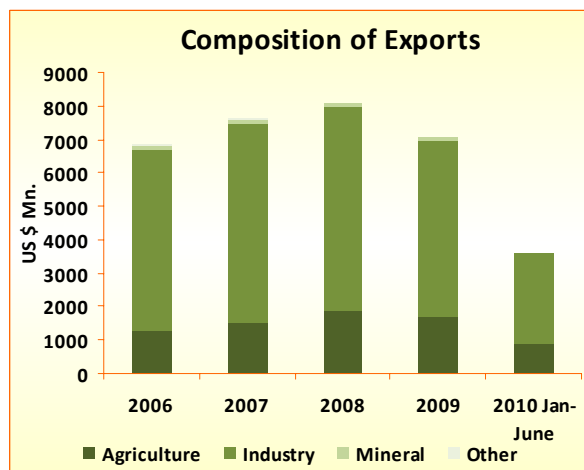


Exports

Exports recorded a 11 percent increase accumulating US \$ 5,040 million during the first eight months of 2010, compared to US\$ 4,551 million in the corresponding period of 2009.

The agricultural exports grew by 21 percent in the first eight months of 2010 and increased to US\$ 1,267 million compared to US\$ 1,051 million in the same period of 2009. The growth in agricultural exports in 2010, mainly accounted from strong performance of the tea sector and the higher prices fetched by minor agricultural crops such as cardamoms and essential oil coupled with increased export volume in sesame seeds, cocoa, cloves and pepper. Export volumes in rubber declined mainly owing to reduced supply and higher demand from the domestic manufacturers of rubber based products as reflected by increased export of rubber based products.

Chart 13



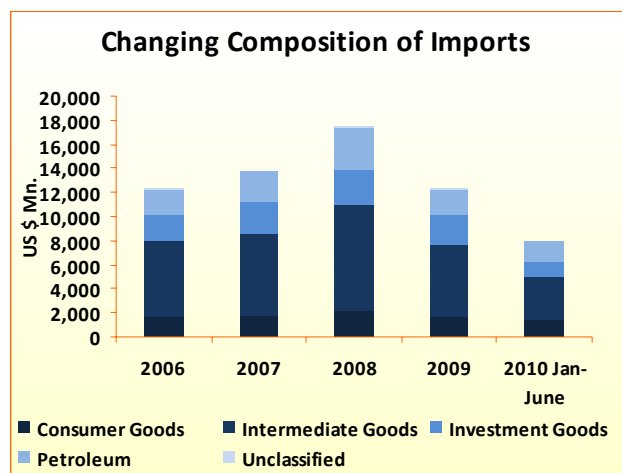
Earnings from industrial exports increased by 8 percent to US\$ 3,713 million during the first eight months of 2010, with main contributors been petroleum products, rubber products and machinery and equipment. A significant export earnings were recorded in rubber products led by retreated and pneumatic tyres as well as gloves during 2010 while electrical equipments such as insulated cables, inductors and converters recorded increases. Among the food beverages export coca preparations, fruits and vegetable juices performed well during this period.

Earnings from textile and garment exports declined due to lower global demand but reflected gradual recovery. Earnings from apparel and garment exports amounted to US\$ 2,076 million during the first eight months of 2010 reflecting a 4 percent decline compared to corresponding period of 2009 mainly due to lower demand from US and EU markets which recorded 4 and 7 percent declines respectively. Although EU has temporarily withdrawn the preferential tariff benefits that Sri Lanka received under the GSP+ scheme, its noteworthy to mention that the exporters had focused on long term preparations to face the emerging conditions through actions taken towards differentiating and diversifying products, quality improvement, branding products, reducing input costs, enhancing productivity etc and have been able to gradually offset the possible impact of the withdrawal of GSP+ concessions.

Imports

Expenditure on imports amounted to US\$ 8,670 million in the first eight months of 2010, an increase of 37 percent over the corresponding period in 2009. The increase in intermediate goods imports reflected a notable increase of 40 percent as at August 2010. A rapid increase in intermediate goods imports reflected due to higher expenditure on petroleum price imports during the first eight months of 2010. The import price of crude oil increased by 7 percent to US\$ 77.87 per barrel during the first eight months of 2010 compared to the US\$ 72.79 per barrel during the corresponding period of 2009, resulting a rise on the import bill on crude oil to US\$ 2,009 million by end August 2010.

Chart 14



Consumer goods imports also increased to US\$ 1,832 million reflecting a considerable increase of 45 percent during the first eight months of 2010 compared to review period of 2009. Increase in expenditure on sugar and milk due to the higher volumes and prices compared to 2009 also swelled import expenditure. A notable increase in non-food consumer good imports was observed due to tariff reductions introduced on motor vehicle imports and electrical equipment from June 2010. Meanwhile, the imports of investment goods enhanced to US\$ 1,878 million with 21 percent increase as at August 2010 compared to same period in 2009 largely due to the ongoing major infrastructure projects and the growth in the construction industry.

Table 31
External Trade

Indicator	US \$ Mn				
	2007	2008	2009	2009 Jan-Aug	2010 Jan-Aug
Exports	7,640	8,111	7,085	4,551	5,040
Agricultural Exports	1,507	1,855	1,690	1,051	1,267
Tea	1,025	1,272	1,185	738	870
Other Agricultural Products	482	583	505	313	397
Industrial Exports	5,967	6,158	5,305	3,442	3,713
Textile and Garments	3,340	3,469	3,274	2,162	2,076
Rubber Products	483	542	385	225	332
Machinery and Equipment	542	461	330	201	310
Diamond and Jewellery	367	435	330	196	217
Food, Beverages and Tobacco	514	458	406	286	325
Petroleum Products	169	255	135	80	128
Other Industrial Products	554	539	446	292	325
Gem and Mineral Products	128	98	89	58	60
Unclassified	38	0	0	0	0
Imports	11,297	14,091	10,207	6,333	8,670
Consumer Goods	1,768	2,184	1,713	1,263	1,832
Food and Beverages	831	1,138	987	802	1,144
Other	937	1,047	726	461	688
Intermediate Goods	6,751	8,720	5,928	3,440	4,812
Petroleum	2,501	3,368	2,167	1,285	2,008
Fertilizer and Chemicals	474	938	506	279	417
Textiles and Clothing	1,632	1,702	1,442	916	1,055
Wheat Grain	234	375	259	164	189
Other	1,910	2,337	1,555	796	1,143
Investment Goods	2,685	3,048	2,451	1,551	1,878
Machinery and Equipment	1,247	1,331	1,013	681	731
Transport Equipment	365	439	436	203	427
Building Material	780	943	715	475	527
Other	294	336	287	192	193
Unclassified	92	139	115	79	148
Trade Deficit	-3,627	-5,981	-3,122	-496	-1,621

Source: Central Bank of Sri Lanka

The surplus in the services account increased by 128 percent in the first half of 2010 reversing the sharp contraction witnessed during the same period of 2009 with increased earnings from freight and port related services, passenger fares, export of software and information technology enabled services and tourism activities. However deficit in the income account widened to US\$ 236 million during the first six months of 2010 from US\$ 173 million in the same period of 2009 reflecting the decrease in interest earnings of foreign assets due to the decline in global interest rates.

Worker Remittances

Worker remittance has become an important and stable source of external financing for Sri Lanka and despite the rising layoffs across the globe inflows from remittances increased by 14 percent to US\$ 1,820 million in the first six months of 2010. The expected strengthening of the currencies of major workers' remittance originating countries against the US dollar would have a positive impact in Sri Lanka receiving higher inflows in the 2010. Also with the new banks opening in the North and East, higher inflows of remittances are expected to be received through formal channels.

External Environment and Outlook

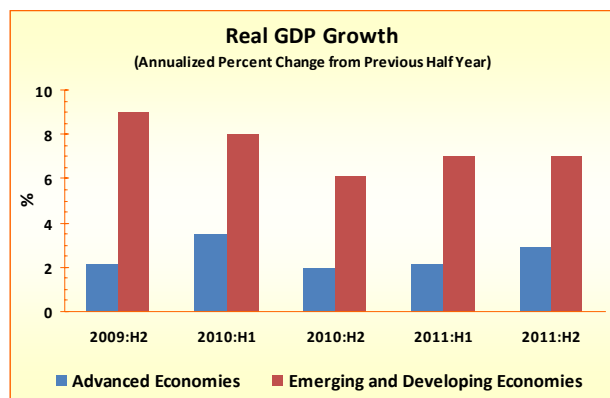
The world economy continued on a recovery path with significant differences in the pace of that recovery and downside risks to the outlook. The confidence re-building process facilitated through the extraordinary monetary and fiscal stimulus packages had their positive effects and avoided Great Depression. The growth of consumer demand in many advanced countries remained sluggish owing to the large loss of household incomes and wealth during this period. While inflation remained relatively low in many countries some countries had to take corrective monetary policy actions to arrest emerging inflationary pressures. The advanced countries were saddled with major macroeconomic challenges of high unemployment, enlarged budget deficits, growing debt and external imbalances threatening exchange rate stability. While the need to strengthen financial sector has been well recognized, the global attention has focused on those key challenges and macro-economic policy co-ordination issues among major economies.

The ongoing world economic adjustments will have direct and indirect impact on Sri Lanka's economic outlook. Global action to support the continuation of the world economic recovery with financial market stability would have an overall positive impact on the country's growth prospects. Meanwhile, the most disheartening feature in the external development has been continued the large appreciation particularly of the Japanese Yen which is causing undue outflow of resources from Sri Lanka.

The world economy in 2009 contracted by 0.6 per cent reflected in a combination of 3.2 per cent contraction in advanced countries and 2.5 per cent growth in emerging and developing economies. The United States, Euro Area, Japan and UK experienced a contraction of their GDP by 2.6 per cent, 4.1 per cent, 5.2 per cent and 4.9 per cent, respectively in 2009. In the emerging and developing economies category, despite some deceleration of the growth rate India and China continued to expand and registered growth rates of 5.7 per cent and 9.1 per cent, respectively. The GDP in Russia fell by 7.9 per cent while in Brazil it fell by 6.5 per cent.

The IMF in its World Economic Outlook expects the world GDP to grow by 4.8 per cent in 2010 and 4.2 per cent in 2011. The growth rate of the emerging and developing economies is projected to be 7.1 per cent in 2010 and 6.4 per cent in 2011. The Asia, particularly India and China are leading the growth scenario with impressive performance and action being taken to address inflationary pressures and making a major contribution to the positive but fragile outlook for global economic recovery.

Chart 15



Quoted from World Economic Outlook (WEO) October 2010 published by IMF

Table 32
GDP Growth Rates (%)

	Actual		Projection	
	2008	2009	2010	2011
World GDP Growth	2.8	-0.6	4.8	4.2
Advanced Countries	0.2	-3.2	2.7	2.2
United States	0.0	-2.6	2.6	2.3
Euro area	0.5	-4.1	1.7	1.5
Japan	-1.2	-5.2	2.8	1.5
United Kingdom	-0.1	-4.9	1.7	2.0
Canada	0.5	-2.5	3.1	2.7
Other Advanced Countries	1.7	-1.2	5.4	3.7
Emerging and Developing Economies	6.0	2.5	7.1	6.4
Asia	7.7	6.9	9.4	8.4
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.7	8.4
ASEAN-5*	4.7	1.7	6.6	5.4
Sri Lanka**	6.0	3.5	7.6	7.5
Africa	5.5	2.6	5.0	5.5
Central and Eastern Europe	3.0	-3.6	3.7	3.1
Commonwealth of Independent States	5.3	-6.5	4.3	4.6
Russia	5.2	-7.9	4.0	4.3
Middle East	5.0	2.0	4.1	5.1
Latin American and the Caribbean	4.3	-1.7	5.7	4.0
Brazil	5.1	-0.2	7.5	4.1
Mexico	1.5	-6.5	5.0	3.9

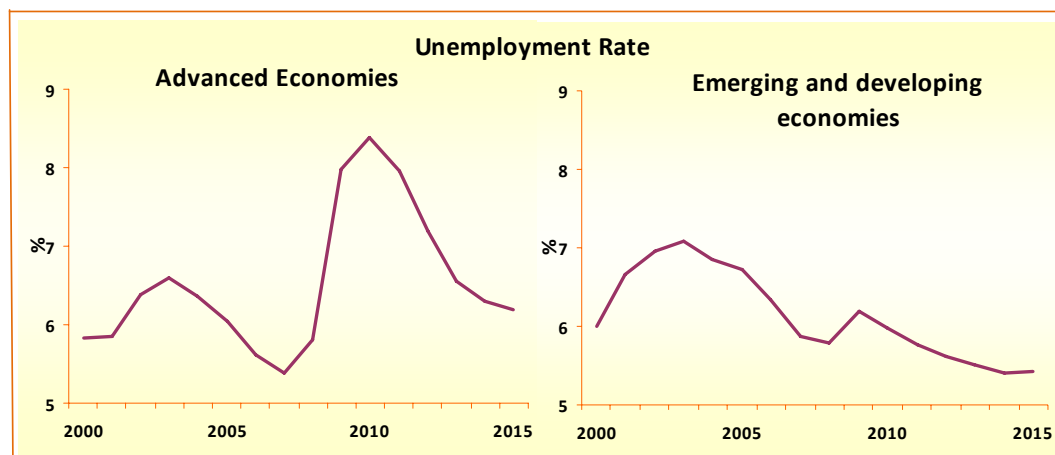
Source: International Monetary Fund

* Includes Indonesia, Malaysia, Philippines, Thailand and Vietnam

**For 2010 and 2011 revised projections

The average inflation rate in advanced countries declined from 3.4 per cent in 2008 to 0.1 per cent in 2009 and is predicted to be 1.4 per cent in 2010. Given continuing high unemployment and sluggish growth in domestic demand they are experiencing relatively low inflation compared to the emerging and developing economies which experienced a reduction of inflation from 9.2 per cent in 2008 to 5.2 per cent in 2009. The average inflation in emerging and developing economies is predicted at 6.2 per cent for 2010.

Chart 16



Quoted from World Economic Outlook (WEO) April 2010 published by IMF

The unemployment rates in advanced countries increased from 5.8 per cent in 2008 to 8 per cent in 2009. With the lay-offs in many advanced countries, prospects of early easing of these high rates remains very bleak and remains a major socio-economic problem. These high rates of unemployment with near zero interest rates and already high budget deficits and rising debt ratios, implies a considerable degree of uncertainty evolving external macro-economic outcomes for the future.

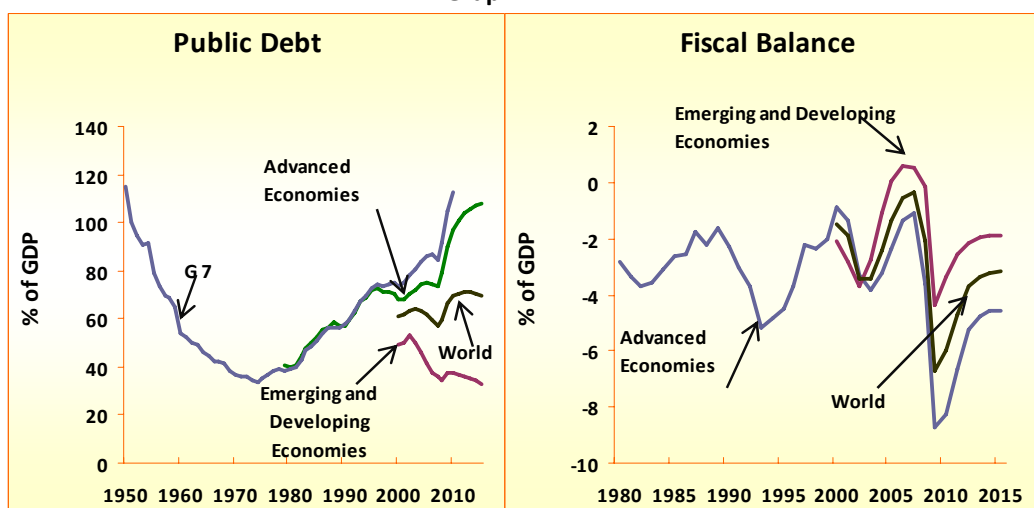
Table 33
Inflation and Unemployment

	Actual		Projection	
	2008	2009	2010	2011
Consumer Price Inflation				
Advanced Economies	3.4	0.1	1.4	1.3
Developing Asia	7.5	3.1	6.1	4.2
Central and Eastern Europe	8.1	4.7	5.2	4.1
Commonwealth of Independent states	15.6	11.2	7.0	7.9
Latin America and the Caribbean	7.9	6.0	6.1	5.8
Middle East and North America	13.5	6.7	6.8	6.2
Sub-Saharan Africa	11.7	10.4	7.5	7.0
Unemployment Rates				
Advanced Economies	5.8	8.0	8.3	8.2
United States	5.8	9.3	9.7	9.6
Euro Area	7.6	9.4	10.1	10.0
Germany	7.3	7.5	7.1	7.1
France	6.7	7.8	8.7	8.6
Italy	6.7	7.8	8.7	8.6
Spain	11.3	18.0	19.9	19.3
Japan	4.0	5.1	5.1	5.0
UK	5.6	7.5	7.9	7.4
Newly Industrialized Asian Economies	3.4	4.3	3.8	3.7

Source: International Monetary Fund, WEO data base

Large fiscal deficits and accompanied increase in government debt, particularly in the advanced countries, is unlikely to be reversed in the near future. Many developing countries also experienced a rise in debt/GDP ratios, but not as much as sharp rise in some advanced countries.

Graph 17



Quoted from World Economic Outlook (WEO) April 2010 published by IMF

Table 34
Government Debt/GDP Ratios in Selected Countries (%)

	2008	2009	2010	2011
Canada	69.8	81.6	81.7	80.5
France	67.5	78.1	84.2	87.6
Germany	66.3	73.5	75.3	76.5
Greece	99.2	115.2	130.2	139.3
Italy	106.1	115.8	118.4	119.7
Japan	194.7	217.6	225.9	234.1
Korea	29.0	32.6	32.1	30.5
Singapore	95.6	106.2	98.9	95.2
Spain	39.7	53.1	63.5	70.2
United Kingdom	52.1	68.5	76.7	81.9
United States	71.1	84.3	92.7	99.3
India	72.6	74.2	71.8	71.4
Indonesia	33.2	28.6	26.7	26.3
Malaysia	42.8	55.4	55.1	56.6
Thailand	37.3	45.2	45.5	45.5
Pakistan	58.7	57.3	58.7	57.2
Philippines	48.7	48.9	46.3	45.6
Brazil	64.1	68.9	66.8	66.6
Mexico	43.3	44.9	45.2	45.7
Sri Lanka	81.4	86.3	78.7	74.9

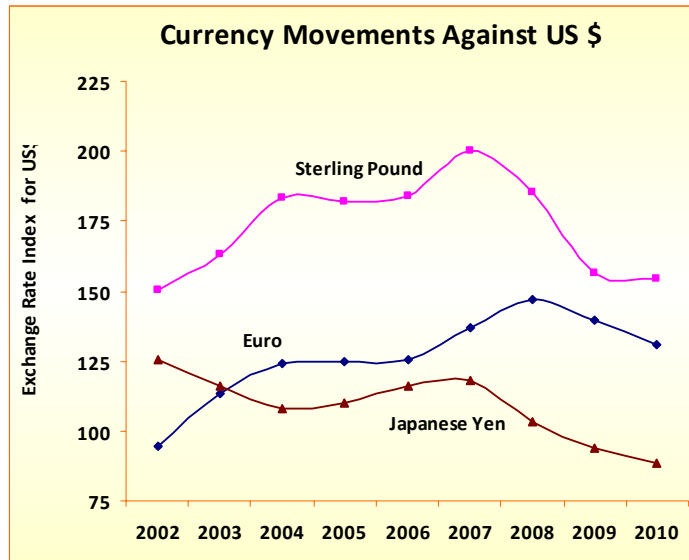
Source: International Monetary Fund, WEO data base. For Sri Lanka latest official projections.

International commodity prices also have shown sharp volatility with non-fuel commodity prices on average declining by 18.7 per cent in 2009 after an increase of 7.5 per cent in 2008. These prices on average are expected to increase by 16.8 per cent in 2010 and their future directions will be influenced, among other things, by the large exchange rate fluctuations which have been quite large in the past few months. Although there has been a considerable uncertainty in the prediction of oil price behavior, IMF's October 2010 prediction was an increase of 23.3 per cent in 2010.

In the international currency markets, the yen after remaining relatively less volatile against the US dollar during 2003 to 2006 appreciated by 9.4 per cent in 2009 and has indicated further sharp appreciation. The Euro after appreciating by 18 per cent between 2005 and 2008 has also shown significant volatility against the dollar and remains considerably above the more stable level of 1.25, the average rate that prevailed during the three years from 2004 to 2006. These currency movements are a cause for concern particularly given that Sri Lanka has a major share

of yen denominated debt. The yen appreciation has caused a considerable transfer of resources out of Sri Lanka for debt servicing.

Chart 18

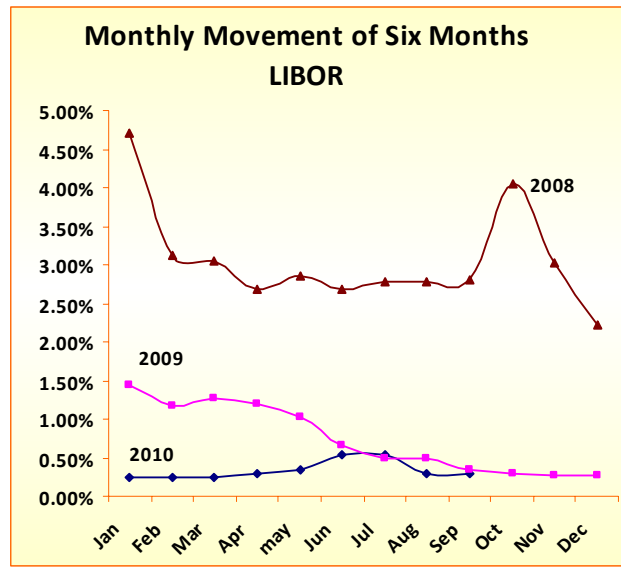


The volume of world trade in goods and services which declined by 11 per cent in 2009 is now predicted to indicate a recovery of 11.4 per cent with a further 7 per cent increase in 2011. Imports by advanced countries, which is a major factor affecting the performance of Sri Lanka's exports, declined by 12.7 per cent in 2009. The current prediction is that it will increase by 10.1 per cent in 2010 and by another 5.2 percent in 2011. Imports by emerging and developing economies are expected to grow faster by 14.3 per cent in 2010 and 9.9 per cent in 2011 which is an encouraging development for the world economy.

In the above context, Sri Lanka's exports which declined by 12.7 per cent in 2009 and are expected to indicate a recovery of 12.5 per cent in 2010 while and imports after a sharp decline of 27.6 per cent in 2009 would indicate a growth rate of 31 per cent. This faster growth in imports is a result of policy incentives through the adjust of tariffs, growing domestic incomes economic activity and the accelerated implementation of development programs which require imports mainly funded through external development assistance.

The net foreign direct investment flows to emerging developing economies declined sharply in 2009 to US\$ 241 billion from US\$ 439 billion in 2008 and some recovery is expected in 2010, but likely to remain about 30-35 per cent lower than its level in 2008. In the context of renewed opportunities for accelerated development, Sri Lanka is revisiting its investment incentive schemes to have a more rationalized structure for attracting higher level of inflows of foreign direct investment and other private capital inflows.

Chart 19



Interest rates remained low in many countries with medium-term to government bond yields remaining relatively stable at lower rates. Sri Lanka experienced reduction in interest rates in response to lower inflation and improved liquidity situation. This together with the improved investor sentiment led to an improvement in share market activity. In addition, conditions also contributed positively to improve Sri Lanka’s position in the international debt capital market which was reflected in the success in the recent sovereign bond issue to the tune of US\$ 1 billion with the longer term maturity.

When viewed in the overall context, the international environment has both positive as well as discouraging features with continuing uncertainty. The country is preparing itself to ensure that it reaps the benefits of improved domestic conditions and the positive development in the external side, well realizing the risks and challenges in the emerging global economic outlook.

Basis Used for the preparation of 2011 Budget estimates.

Gross Domestic Product

The economy is expected to register a growth around 7.5-8 percent in 2011 and the growth is projected to be broad based with the positive contribution from all the major sectors of the economy. The agriculture sector is expected to perform well with the contribution of major agricultural crops in both export and domestic agriculture with the prevalence of favourable weather, revival in the North and Eastern Provinces. The industry sector would also expand in 2011, particularly with the expected expanded contribution from the factory industry output with the increase in demand emanating from both domestic and international markets. Implementation of several planned mega projects in the country is likely to boost aggregate demand and output. Meanwhile, the service sector is projected to expand on higher growth path with positive contribution coming mainly from port related services, tourism, transportation, financial services and external and domestic trade. The projected growth momentum is expected to be supplemented by investment expenditure by private sector in an environment of positive investor confidence.

Consumer Prices

Inflation in 2011 is expected to remain subdued at around 6-7 percent. The supply side improvements in domestic agricultural production are expected to impact favourably on the price developments. Globally also the demand pressures are expected to remain subdued in 2011 reflecting the slower recovery of the world economy. However, with the gradual recovery of the world economy which would lead to utilization of excess capacities in major economics is likely to exist pressure on commodity prices especially petroleum prices.

Employment and Unemployment

Greater employment opportunities are expected to be created through Government's strategies towards improved production and commitment to speed up the infrastructure development. Emphasis placed on human resource and skills development are also expected to create a better skilled and productive labor force capable of being gainfully employed in new openings. These measures coupled with the expansion in the private sector investments & production and related expansion in all sectors of the economy are expected to reduce unemployment around 5 percent of the labor force.

Balance of Payment (BOP)

Sri Lanka's external sector is expected to improve further in 2011 recording an overall BOP surplus and thereby the country's external reserves. Export growth is expected to continue in 2011 over 10 percent (in dollar terms) with higher value addition, diversification of export products, markets with increased production frontiers in the North and East and gradual recovery of the global economy.

Positive impact of free trade agreements and deeper regional economic integration will favourably influence the exports. Imports are projected to grow around 10 percent in 2011, mainly due to higher import demand arising from expanded economic activities. Even though the trade deficit is expected to widen, envisaged improvements in services account through enhanced tourism and port services etc. and continuous improvement in inflows of foreign worker remittances is expected to ease the deficit of the external current account. Worker remittances are expected to generate around US \$ 4,500 million in 2011. Renewed foreign investor confidence in debt and equity investment would help to strengthen the capital account.

Exchange Rate

The stabilizations of the exchange rate would be continued in the backdrop of the strengthening of the external resources.

Monetary Aggregate

Money supply would be maintained at a level compatible with the expected growth in the nominal GDP in 2011. With the envisaged fiscal consolidation in Government's fiscal operation would help to allow sufficient resources to be channeled to the private sector to achieve the expected economic growth.

Revenue

Assumptions used for revenue estimate are given in Annex II

Expenditure

A concerted effort is made managing the operational expenditures of the government and mobilizing and directing resources to meet infrastructure development needs in areas including roads, ports, electricity etc at national level and supporting infrastructure of provincial and local level to ensure high economic growth will spread across regions benefiting lower income groups as well. It is expected that public investment would be, maintained around 6.5 percent of GDP to complement a 7-8 percent economic growth in the medium term. Recurrent expenditure estimates have taken into consideration the need to allocate adequate provisions for payments pertaining to wages, pensions, utility services and supplies.

Borrowings

It is proposed to adopt a proper combination of domestic and foreign borrowings to ensure that the debt/GDP ratio would continue to decline. Whole debt restriction will be done to convert high cost short maturity debt to low cost longer maturity debt to minimize the cost of borrowings.

Sensitivities to the estimates

Economic Projections could be sensitive to following challenges

- A faster recovery of the global economy than envisaged may effect the price trends in international oil and other commodities. This would affect imports as well as the domestic supply and budget costs.
- Unfavorable weather conditions would have an impact on agriculture and hydro power generation.
- Natural disasters.
- Adjustment costs to external shocks may impact the domestic production and growth.
- Administrative and procurement impediment
- Capacity constraints to the medium term transformation may affect the use of funds in relation to foreign funded large projects and thereby investment level and growth.

Risks likely have a Material Effect on the Fiscal Position

- Higher than expected oil and commodity prices in international markets could threaten the macroeconomic stability and growth targets while affecting Government expenditure and revenue.
- Global imbalances resulting lower than expected global economic growth could adversely affect external demand for Sri Lankan goods and services which will result in slowing down of the Sri Lankan economy.
- new recruitments to the public service in excess of the targeted retirements.
- Poor/under performance of state and public enterprises.

Annex 1

Table 1
Estimated Quarterly Growth Rates of Key Sub-Sectors of Agriculture

Sector	2009					2010				
	Q ₁	Q ₂	Q ₃	Q ₄	Annual	Q ₁	Q ₂	Q ₃	Q ₄	Annual
Tea (Mn kg)	49.8	82.5	76.6	81.8	290.7	73.97	92.9	76.7	80.43	324
Growth %	-42.1	-11.8	-4.9	17.1	-9.1	48.6	12.6	0.1	-1.67	11.5
Rubber (Mn kg)	37.9	31.6	32.1	35.3	136.9	42.3	32.8	33	37	145
Growth %	2.6	4.5	-3.5	22.4	5.9	11.7	3.7	2.1	4.8	5.9
Coconuts (Mn nuts)	676	883	664	630	2,853	576	795	647	613	2,632
Growth %	30.3	8.0	-6.6	-3.7	-1.9	-14.8	-10.0	-2.6	-2.6	-7.7
Paddy ('000mt)	2,384		1,268		3,652	2,630		1,558		4,188
Growth %	12.2		-27.6		-5.8	10.3		22.9		14.6
Fish (Mn kg)	85.3	74.9	85.2	94.3	339.7	88.5	88.6	90.0	98.0	365
Growth %	6.0	7.7	12.6	1.0	6.5	3.7	18.3	5.6	3.9	7.4

Source: Sri Lanka Tea Board, Rubber Development Department, Ministry of Plantation, Central Bank of Sri Lanka, Department of Census and Statistics, Ministry of Fisheries and Aquatic Resources

Table 2
Performance in Industrial Sector: 2008-2010

Description	%						
	2008 (a)	2009 (a)	2010 Proj. (b)	2010			
				Q ₁ (a)	Q ₂ (a)	August (c)	Jan - August (c)
Food, Beverages and Tobacco products	5.2	5.9	6.9	6.8	6.7	6.7	6.8
Textile, apparel and leather Products	3.1	0.6	4.7	0.8	7.9	0.9	2.9
Apparel	3.1	1.0	3.6	2.6	6.9	0.4	2.6
Textile	3.1	0.6	4.9	-0.8	8.1	1.6	3.9
Leather	3.1	-1.5	6.8	6.5	6.2	15.9	6.8
Chemical, petroleum, rubber and plastic products	6.4	1.8	10.3	7.1	16.5	13.6	11.7
Non-metallic mineral products	5.2	-3.3	13.6	7.9	15.9	18.4	14.3
Overall Industrial Growth	5.0	3.4	7.3	5.4	9.2	8.5	7.6

Sources: Department of Census and Statistics (DCS), Central Bank of Sri Lanka (CBSL)

(a) Based on DCS Data

(b) CBSL Projection

(c) Based on Monthly Industrial Production Volume Index (MIPVI) Compiled by the CBSL

Table 3
Performance in Electricity Generation and Services Sector: 2008- 2010

Category	2008	2009	2009			2010 proj	2010		
			Q ₁	Q ₂	1st Half		Q ₁	Q ₂	1st Half
Electricity Generation									
Total Generation (GWh) (Excluding Self Generation)	9,901	9,882	2,363	2,429	4,792	10,524	2,587	2,628	5,215
<i>Growth Rate</i>	0.9	-0.2	-5.1	-1.9	-3.5	6.5	9.5	8.2	8.8
Hydro	4,128	3,905	632	824	1,456	4,317	1,007	1,136	2,143
<i>Growth Rate</i>	4.6	-5.4	-26.7	-41.3	-35.7	10.6	59.3	37.9	47.2
Thermal (includes Independent Power Plants)	5,763	5,974	1,731	1,603	3,334	6,207	1,578	1,489	3,067
<i>-Growth Rate</i>	-1.7	3.7	6.5	49.7	23.7	3.9	-8.8	-7.1	-8.0
Hydro: Thermal Ratio	42:58	40:60	27:73	34:66	31:69	41:59	39:61	44:56	41:59
Reservoir Water Level % (End Period)	53.0	43.2	34.3	30.5	32.2	-	64.2	51.6	58.9
Port Services									
Total Cargo Handled ('000 MT)	50,582	48,777	10,427	12,072	22,499	60,200	14,650	15,232	29,883
<i>Growth Rate</i>	9.1	-3.6	-13.5	-6.1	-9.4	23.4	40.5	26.6	32.8
Total Container Handled ('000 TEUs)	3,687	3,464	780	841	1,621	4,300	993	1,018	2,011
<i>Growth Rate</i>	9.1	-6.0	-12.1	-7.3	-9.7	22.9	27.4	21.0	24.1
Telecommunications Services (no. of subscribers)									
Fixed Lines ('000)	3,446	3,431	3,350	3,391	3,391	3,533	3,465	3,495	3,495
<i>Growth Rate</i>	25.7	-0.5	12.8	7.8	7.8	3.0	3.4	3.1	3.1
Cellular ('000)	11,083	13,950	11,495	11,675	11,675	17,232	15,044	15,868	15,868
<i>Growth Rate</i>	38.8	25.9	30.1	23.2	23.2	23.5	30.9	25.4	25.4
Total Fixed Lines & Cellular ('000)	14,529	17,381	14,843	15,067	15,067	20,765	18,509	19,363	19,363
<i>Growth Rate</i>	35.5	19.6	25.7	19.4	19.4	19.5	24.7	20.6	20.6
Internet and email ('000)	234	240	234	240	240	-	250	260	260

Sources: Ceylon Electricity Board
Sri Lanka Pots Authority
South Asia Gateway Terminals (Pvt.) Ltd.
Telecommunications Regulatory Commission of Sri Lanka

External Sector Developments

Table 4
Export Performance in 2009-2010

Item	US \$ Mn.					
	2009 (a)			2010		
	Jan-Jul	Aug-Dec	Total	Jan-Jul (b)	Aug-Dec (a)	Total (a)
Agricultural Products	882.5	807.8	1,690.3	1,090.2	930.6	2,020.8
Tea	617.3	567.8	1,185.1	746.5	611.3	1,357.8
Rubber	50.7	47.9	98.6	88.6	76.6	165.2
Coconut Products	93.7	72.5	166.2	88.8	91.2	180.0
Other Agricultural products	120.9	119.5	240.4	166.3	151.7	318.0
Industrial Products	2,908.7	2,396.8	5,305.4	3,138.3	2,690.7	5,829.0
Textile and Garments	1,838.3	1,436.0	3,274.2	1,766.8	1,433.2	3,200.0
Petroleum	69.3	65.4	134.7	111.4	48.6	160.0
Other Industrial Products	1,001.2	895.4	1,896.5	1,260.1	1,208.9	2,469.0
Gems	37.3	31.6	68.9	40.6	49.4	90.0
Other Exports	12.3	7.5	19.8	11.0	19.0	30.0
Total Exports	3,840.9	3,243.6	7,084.5	4,280.1	3,689.8	7,969.8

Source: Sri Lanka Customs

Central Bank of Sri Lanka

(a) Revised

(b) Provisional

Table 5
Import Performance in 2009-2010

Item	US \$ Mn.					
	2009 (a)			2010		
	Jan-Jul	Aug-Dec	Total	Jan-Jul (b)	Aug-Dec (c)	Total (c)
Consumer Goods	961.4	751.2	1,712.5	1,417.3	1,161.7	2,578.9
Rice	4.9	18.0	22.9	57.6	24.9	82.5
Sugar	124.3	94.4	218.7	223.8	150.0	373.8
Other Food Products	431.8	313.6	745.4	571.6	436.0	1,007.6
Other Consumer Goods	400.4	325.2	725.6	564.3	550.7	1,115.0
Intermediate Goods	3,069.3	2,859.2	5,928.5	4,356.6	3,407.5	7,764.1
Petroleum Products	1,067.3	1,099.4	2,166.6	1,777.8	1,354.8	3,132.6
Wheat	146.2	113.1	259.3	166.4	89.9	256.3
Fertilizer	75.5	118.0	193.4	144.2	137.1	281.3
Textile & Clothing	796.1	645.9	1,442.0	902.5	672.5	1,575.0
Other Intermediate Goods	984.2	882.9	1,867.2	1,365.7	1,153.2	2,518.9
Investment Goods	1,391.1	1,059.8	2,450.8	1,614.1	1,165.9	2,780.0
Other Imports	69.2	45.6	114.8	139.4	110.7	250.0
Total	5,490.9	4,715.8	10,206.6	7,527.3	5,845.7	13,373.0

Source: Sri Lanka Customs

Central Bank of Sri Lanka

(a) Revised

(b) Provisional

(c) Projections

Table 6
Balance of Payments – 2010

Item	US \$ Mn		
	Q1	Q2	Annual (a)
A. Trade Balance	-1,538	-1,306	-5,403
Exports	1,764	1,861	7,970
Imports	3,302	3,166	13,373
B. Services	180	104	593
Receipts	648	553	2,461
Payments	469	450	1,869
C. Income, Net	-137	-101	-649
Receipts	12	46	185
Payments	149	147	834
D. Goods, Services and Income, Net	-1,495	-1,302	-5,459
E. Current Transfers, Net	786	870	3,362
Private Transfers, Net	777	857	3,292
Official Transfers, Net	9	13	70
F. Current Account	-710	-432	-2,097
G. Capital Account	46	56	218
Private Capital Transfers, Net	29	32	88
Official Capital Transfers, Net	17	24	130
H. Financial Account	1,013	664	3,179
Long-Term, Net	415	546	2,654
Direct Investment	77	84	500
Foreign Direct Investment, Net	77	84	500
Privatization Proceeds	0	0	0
Private long-term, Net	6	-2	533
Inflows	27	32	816
Outflows	21	34	283
Government long-term, Net	332	464	1,620
Inflows	457	622	2,315
Outflows	125	158	695
Short-Term, Net	598	118	525
Portfolio Investment, Net	-114	-34	37
Private Short-term, Net	22	14	88
Commercial Banks, Net	508	38	0
Government short-term, Net	182	100	400
I. Errors and Omissions	-214	-434	0
J. Overall Balance	136	-146	1,300
K. Monetary Movements	-136	146	-1,300

Source: Central Bank of Sri Lanka
(a) Projections

Table 7
International Reserves

US \$ Mn.

Item	End 2008	End 2009	Jul-10	Aug-10
Total External Reserves	2,832	6,770	6,913	6,935
Months of Imports	2.4	8.0	6.8	6.6
Gross Official Reserves	1,594	5,097	5,467	5,739
Months of Reserves	1.4	6.0	5.4	5.5

Source: Central Bank of Sri Lanka

Table 8
Government Foreign Currency Debt Outstanding

US \$ Mn

Items	End Sep 2010
Total Outstanding	
Government Foreign Debt	16,409.4
Dollar dominated Domestic Debt	
SLDBs	1,572.1
FCBUs	195.0

Source: Central Bank of Sri Lanka

Table 9
Outstanding Domestic Foreign Currency Debt of the Government

US \$ Mn

	End 2009	2010 End August
Outstanding		
FCBUs	207.0	195.0
SLDBs	1,469.4	1,572.1
Receipts		
FCBUs	100.1	-
SLDBs	541.1	573.0
Payments		
FCBUs	-	12
SLDBs	475.3	470.3

Source: Central Bank of Sri Lanka

Table 10
Movements in Selected Exchange Rates (against the US \$)

Currency	Appriciation(+)/ Depreciation(-)		Current Account Deficit(-)/ Surplus(+) (as a percentage of GDP)	Inflation (Annual Average)*
	End 2008 - End 2009	End 2009 - Sep 2010	2009	2009
Sri Lanka Rupee	-1.19	2.18	-0.5	3.4
Indian Rupee	3.17	4.41	-2.9	10.9
Bangladesh Taka	-0.14	-0.65	3.3	5.4
Parkistan Rupee	-2.33	-23.82	-5.7	20.8
Singapore Dollar	2.33	6.78	17.8	0.6
Thailand Bhat	4.11	9.68	7.7	-0.8
Taiwan Dollar	1.43	3.35	11.3	-0.9
Indonesian Rupiah	16.09	5.65	2.0	4.8
Philippine Peso	2.20	5.81	5.3	3.2
Korean Won	7.64	2.57	5.1	2.8
Japanese Yen	-1.97	10.27	2.8	-1.4

Source : Central Bank of Sri Lanka & IFS, IMF

* average consumer prices except for India

Table 11
Central Bank Holdings of Treasury Bills

End Period	Rs. Bn	
	Gross (Book value)	Net of Repos (Book value)
2007	41.8	41.8
2008	143.7	143.2
2009	36.0	36.0
End Sep. 10	57.1	16.6

Source: Central Bank of Sri Lanka

Table 12
Commercial Banks' Advances to the Private Sector - June 2010 (a)

	Amount (Rs.mn) *	as a % of Total
1. Agriculture & Fishing	183,831	14.25
<i>of which...</i>		
Tea	39,134	3.03
Rubber	14,404	1.12
Paddy	8,103	0.63
Vegetable and Fruit Cultivation & Minor Food Crops	6,136	0.48
Fisheries	3,070	0.24
2. Industry	499,555	38.74
<i>of which...</i>		
Construction	212,410	16.47
<i>of which...</i>		
-----Personal Housing including purchasing/construction/repairs	122,821	9.52
Food and Beverages	30,840	2.39
Textiles & Apparel	85,446	6.63
Fabricated metal products, Machinery and Transport equipment	35,400	2.74
3. Services	268,590	20.83
<i>of which...</i>		
Wholesale and Retail Trade	90,831	7.04
Tourism	30,543	2.37
Financial and Business Services	45,637	3.54
Shipping, Aviation and Supply, & Freight Forwarding	9,223	0.72
4. Consumption	320,038	24.82
<i>of which...</i>		
Consumer durables	33,106	2.57
Pawning	131,922	10.23
Credit Card	29,835	2.31
5. Safety Net Scheme Related (e.g Samurdhi)	17,610	1.37
6. Total	1,289,625	100.00

Source: Central Bank of Sri Lanka

(a) Advances include loans, overdrafts and bills discounted and exclude cash items in process of collection.

* Provisional

Table 13

Interest Rate Movements in 2008 - 2010

Interest Rate	End Dec 2008	End Dec 2009	End Mar 2010	End June 2010	End Sep 2010
Policy Rates of the Central Bank					
Repurchase Rate	10.50	7.50	7.50	7.50	7.25
Reverse Repurchase Rate	12.00	9.75	9.75	9.75	9.00
Weighted Average Call Money Rate (with tax)					
	14.66	9.07	9.05	8.89	7.97
Weighted Average OMO Auction Rate	10.96	8.24	8.13	8.18	7.86
Treasury Bill Rates					
91 days	17.33	7.73	8.52	8.07	7.13*
180 days	18.57	8.73	9.24	8.93	6.95
364 days	19.12	9.33	9.47	9.29	7.10
Lending Rates					
Average Weighted Prime Lending Rate (weekly)	18.50	10.91	10.62	10.37	9.91
Average Weighted Prime Lending Rate (monthly)	19.17	11.12	10.54	10.47	9.98
Average Weighted Lending Rate (Quarterly)	20.13	17.41	16.89	16.08	
Deposit Rates					
Average Weighted Deposit Rate (AWDR)	11.63	8.01	7.22	7.00	6.58
Average Weighted Deposit Rate (AWFDR)	16.89	10.91	9.71	9.40	8.68

Source: Central Bank of Sri Lanka

* Auction rate for the week ending 3 September 2010

Table 14
CCPI changes in Expenditure Values

	Rupees			Change		
	Weight	Sep-09	Sep-10	Rupees	%	Contri. to change
Food and Non Alcoholic Beverages	8,405.65	18,454.57	19,835.67	1,381.10	7.5%	3.7%
Food	8,188.70	18,017.54	19,315.92	1,298.38	7.2%	3.5%
Bread and cereals	3,086.56	7,489.32	7,527.38	38.05	0.5%	0.1%
Meat and Meat products	534.75	1,252.94	1,441.83	188.89	15.1%	0.5%
Fish and Sea Food	1,011.07	2,359.02	2,742.24	383.21	16.2%	1.0%
Milk, Cheese and Eggs	1,359.96	2,646.57	2,865.83	219.27	8.3%	0.6%
Oils and Fats	273.28	592.79	668.48	75.69	12.8%	0.2%
Fruit	392.98	744.58	766.22	21.64	2.9%	0.1%
Vegetables	579.35	987.21	1,180.50	193.29	19.6%	0.5%
Sugar, Jam, Honey, Chocolate and Confectionary	302.57	729.49	729.93	0.45	0.1%	0.0%
Food Products n.e.c.	648.17	1,215.62	1,393.51	177.90	14.6%	0.5%
Non - Alcoholic Beverages	216.95	437.03	519.74	82.72	18.9%	0.2%
Coffee, Tea and Cocoa	135.80	281.48	355.42	73.93	26.3%	0.2%
Mineral Waters, Soft drinks, Fruit and Vegetable juices	81.15	155.54	164.33	8.78	5.6%	0.0%
Clothing and Footwear	554.86	929.77	998.46	68.69	7.4%	0.2%
Housing, Water, Electricity, Gas and other Fuels	3,291.30	7,566.45	7,814.67	248.22	3.3%	0.7%
Furnishing, household equipment and routine household maintenance	580.16	989.17	1,027.22	38.05	3.8%	0.1%
Health	752.01	1,536.43	1,729.78	193.35	12.6%	0.5%
Transport	1,703.83	4,108.38	4,112.24	3.86	0.1%	0.0%
Communication	796.06	873.14	870.58	-2.56	-0.3%	0.0%
Recreation and culture	393.21	647.36	667.27	19.91	3.1%	0.1%
Education	1,041.67	1,622.87	1,789.20	166.33	10.2%	0.4%
Miscellaneous goods and services	477.64	814.30	876.53	62.23	7.6%	0.2%
All Items	17,996.38	37,542.44	39,721.62	2,179.18	5.8%	5.8%

Source: Department of Census and Statistics

Annex II

ASSUMPTIONS FOR REVENUE ESTIMATES - 2011

Key Sectoral Growth Rates %

	2010	2011
Agriculture	6.5	5.3
Industry	8.0	7.9
Services	7.6	7.9
▪ Inflation - GDP deflator (%)	7.0	6.0
▪ Unemployment Rate (%)	5.0	5.0
▪ Private Investment (% of GDP)	21.0	24.0

Value Added Tax (VAT)

Zero Rate	Export Goods
Standard Rate (12%)	General Items
Luxury Rate (20%)	Luxury consumer goods(motor vehicles, Liquor, air conditioners, refrigerators, washing machines)- Refunds are limited are to 15%
Exemptions	Goods and Services which are listed in the VAT exemption list of the VAT Act,.

Value of Imports

	US \$ Mn	
	2009 (a)	2010 (b)
Rice	22.9	82.5
Sugar	218.7	373.8
Other Food	745.4	1,007.6
Other Consumer Goods	725.6	1,115.0
O / W Motor Vehicles	157.0	385.0
Petroleum	2,166.6	3,132.6
Fertilizer	193.4	281.3
Wheat Grain	259.3	256.3
Chemicals	312.5	450.0
Textiles	1,442.0	1,575.0
Other Intermediate Goods	1,554.6	2,068.9
Machinery	1,012.8	1,050.0
Transport	436.3	650.0
Building Materials	714.5	850.0
Other	402.1	480.0
Total	10,206.6	13,373.0

Composition of Imports

Category	% of Total Imports	
	2009	2010
Consumer Goods	16.8	19.3
Intermediate Goods	58.1	58.1
Investment Goods	25.1	22.6

Duty Structure

Zero	Essential Commodities, Basic raw materials, and Machinery
5.0%	Semi Processed items
15.0%	Intermediate products, spare parts etc.
30.0%	Motor Vehicles and other finished products

Custom Duty

	US \$ Mn.	
	2009	2010
Value of Imports	10,206.6	13,373.0
Growth	-27.6	31.0

Excise

	2010	2011
Volume of Hard Liquor (Million Lt.)	45	50
Volume of Malt Liquor (Million Lt.)	72	86
Volume of Cigarettes (Million Sticks.)	4,511	4,800
Volume of Aerated Water (Million Lt.)	150	155
Volume of Petrol (Million Lt.)	700	750
Volume of Diesel (Million Lt.)	2,200	2,400
Volume of Kerosene (Million Lt.)	325	300

Cigarettes Duty Structure (per 1,000 Cigarettes) as at 31.09.2010

	Rs. per 1,000
Cigarettes each not exceeding 60mm. in length	2,830
Cigarettes each exceeding 60mm. but not exceeding 67mm in length	6,246
Cigarettes each exceeding 67mm. but not exceeding 72mm in length	9,028
Cigarettes each exceeding 72mm. but not exceeding 84mm in length	11,260
Cigarettes each exceeding 84mm. in length	13,170

Liquor Duty Structure (as at 31.09.2010)

	Rs. Per Proof Liter
Coconut Processed / Molasses Arrack	660
Country made Foreign Liquor	790
Molt Liquor (Beer) above 5% in strength (per lit)	74
Molt Liquor less 5% in strength (per lit)	58
Wine containing more than 4% in strength	515
Aerated water	6

Petroleum Rate Structure

Petrol	Rs. 25.00 per liter
Diesel	Rs. 2.50 per liter

Excise (Special Provision) Duty

Motor Vehicle Duty Structure:

(i) Petrol

Cars

Not exceeding 1000 cc	7%
1000 cc - 1600 cc	17%
Exceeding 1600 cc	27%
Luxury type - Ten seated	40%
Small Vans - Transport of goods	20%
Auto trishaws	0%

(ii) Diesel

Cars

Not Exceeding 1600 cc	40%
Exceeding 1600 cc	63%
Vans	
Not Exceeding 1500 cc	40%
Exceeding 1500 cc	63%
Luxury type - Ten seated	74%
Passenger Van - (not more than 17 persons)	30%
Auto trishaws	0%

Port and Airport Development Levy

General Rate	5%
Imports for re-export	Exempt

Receipt of Profits/ Profit Transfers and Dividends: 2010 – 2011

	2009	2010 Budget	2011 Estimated
1. Bank of Ceylon	1,346	2,346	4,346
2. National Savings Bank	1,810	1,060	2,563
3. People's Bank	1,116	1,816	4,202
4. State Mortgage and Investment Bank	50	40	50
5. Telecommunications Regulatory Comm.	3,321	8,000	10,000
6. Sri Lanka Insurance Corporation	-	-	1,000
7. Sri Lanka Export Credit Ins Corp	30	50	25
8. State Pharmaceuticals Corp.	35	25	30
9. Local Loan & Development Fund	5	5	5
10. State Pharmaceutical Manufacturing Corp.	-	25	35
11. State Timber Corp.	50	250	150
12. De La Rue Lanka Currency & Security Print	38	100	35
13. Lanka Electricity Company	-	50	50
14. Airport Aviation Sri Lanka Ltd.	200	100	200
15. Sri Lanka Telecom	893	240	223
16. Lanka Industrial Estates	31	65	30
17. Lanka Mineral Sands Ltd.	60	81	100
18. Lanka Phosphate Ltd.	5	6	10
19. Pussellawa Plantation Ltd.	-	6	-
20. Kotagala Plantation Ltd.	3	-	15
21. Chilaw Plantation Ltd	30	30	40
22. Kurunagela plantation	30	20	35
23. Kalubovitiyana Tea Factory	6	8	25
24. National Development Bank	2	-	-
25. Paranthan Chemicals Co Ltd.	3	6	5
26. Rajarata Development Bank	21	25	-
27. Ruhunu Development Bank	35	17	-
28. Sabaragamuwa Development Bank	13	17	-
29. Kandurata Development Bank	6	8	-
30. Uva Development Bank	10	14	-
31. Wayamba Development Bank	56	25	-
32. Pradeshiya Sanwardana Bank	-	-	200
33. Asian Reinsurance Corp	0.6	-	3
34. Independence Television Network	3	50	10
35. Milco (Private) Ltd.	28	31	40
36. National Insurance Trust Fund	2,250	4,600	2,000
37. Geological Survey & mine Bureau	481	384	300
38. Others	14	500	312
Total Levy & Dividends	11,982	20,000	26,039

Source: Department of Public Enterprises

Rent Income

	Rs. Mn.		
	2009	2010 Budget	2011 Estimated
Rent on Government Buildings & Housing	664	855	690
Rent on Crown Forests	251	650	840
Rent from Land & Other	23	50	15
Lease Rental from Regional Plantation Companies	443	600	639
Others	44	125	60
Total Rent Income	1,425	2,280	2,244

Fees and Charges

	Rs. Mn		
	2009	2010 Budget	2011 Estimated
Service Charges by Government Press	202	220	237
Fees of Passport, Visas and Dual Citizenship	3,765	4,850	3,718
Examination & other Fees	142	135	100
Fees under the Motor Traffic Act & other Receipts	2,083	3,000	2,500
From others Various Sources	19,195	19,737	11,835
Total	25,387	27,942	18,390

Annex III

LIST OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 30.09.2010

NO:	NAME OF INSTITUTE	NAME OF THE BANK / INSTITUTE	PURPOSE	GUARANTEED AMOUNT IN FOREIGN CURRENCIES	GUARANTEED AMOUNT IN RUPEES MILLION.	DATE OF ISSUE
1	Grayline International Pvt. Ltd.	People's Bank	Credit facilities		400.00	11-Aug-1994
2	Co-operative Whole Sale Establishment	People's Bank	Loan facility		207.10	2-Feb-2005
3	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	Credit facilities		50.00	31-Jul-2006
4	Lakdanavi Ltd./ West Coast Power(Pvt.)Ltd.	National Savings Bank	Secure Domestic Financing		2,992.00	22-Feb-2007
5	Lakdanavi Ltd./West Coast Power(Pvt.)Ltd.	Employee's Trust Fund Board	Secure Domestic Financing		2,992.00	1-Mar-2007
6	West Coast Power(Pvt)Ltd.	Hongkong & Shanghai Banking Co.	Kerawalapitiya Power Project	Euro 134,836,834	20,307.77	28-Jun-2007
7	Ceylon Electricity Board 300MW Kerawalapitiya Combine Cycle Power Plant Project	People's Bank	Secure a Loan		4,116.00	7-May-2008
8	Ceylon Electricity Board	People's Bank	Secure Letter of Credit	US \$ 4,200,000	466.96	11-Jun-2008
					1,200.00	
9	Ceylon Petroleum Corporation	Bank of Ceylon	Secure overdraft facilities	US \$ 700,000,000	77,826.00	9-Sep-2008
10	Ceylon Electricity Board	People's Bank	Secure Standby Letter of Credit facility	Euro 16,133,193	2,731.35	29-Sep-2008
11	People's Bank Pension Trust Fund	People's Bank	Debentures		2,500.00	17-Dec-2008
12	Relief Package For Tea Sector	DFCC	Loan scheme on a short-term basis for registered tea factory owners		382.13	12-Jan-2009
13	Relief Package For Tea Sector	DFCC Vardhana Bank	do		9.55	12-Jan-2009
14	Relief Package For Tea Sector	Bank of Ceylon	do		329.76	12-Jan-2009
15	Relief Package For Tea Sector	People's Bank	do		87.82	12-Jan-2009
16	Relief Package For Tea Sector	National Development Bank	do		202.24	12-Jan-2009
17	Relief Package For Tea Sector	Commercial Bank	do		265.46	12-Jan-2009
18	Relief Package For Tea Sector	Hatton National Bank	do		225.21	12-Jan-2009
19	Relief Package For Tea Sector	Seylan Bank	do		71.77	12-Jan-2009
20	Relief Package For Tea Sector	Sampath Bank	do		50.97	12-Jan-2009
21	Ipolagama Housing Project "Api Wenuwen Api" Fund	Bank of Ceylon	Secure Loan facility		2,112.60	19-Jan-2009

Annex III continued. . . .

22	Ceylon Petroleum Corporation (Ceylon Petroleum Storage Terminals Ltd.)	People's Bank	Secure Credit facility to Muthurajawela SPBM Off Shore Fuel Oil Pipe Line Project	US \$ 3,800,000	422.48	3-Sep-2009
23	Ceylon Electricity Board	People's Bank	Short Term Loan Facility		7,000.00	7-Sep-2009
24	Ceylon Petroleum Corporation	Bank of Ceylon	Securing the Loan		25,000.00	29-Sep-2009
25	Ceylon Petroleum Corporation (Ceylon Petroleum Storage Terminals Ltd.)	People's Bank	Secure Credit facility to Muthurajawela SPBM Off Shore Fuel Oil Pipe Line Project	US \$ 40,300,000	4,480.55	9-Oct-2009
26	People's Bank Pension Trust Fund	People's Bank	Debentures		2,500.00	23-Oct-2009
27	Urban Development Authority	National Savings Bank	Secure Loan facility for Sethsiripaya Administrative Complex. Satage ii		2,770.00	6-Nov-2009
28	Mihin Lanka (Pvt)Ltd	Bank of Ceylon	Mihin Lanka	US \$ 13,500,000	1,500.93	25-Nov-2009
29	STC General Trading Company Ltd.	People's Bank	Secure Short Term Loan facility		40.00	30-Nov-2009
30	State Trading (Co-operative Wholesale) Company Ltd.	People's Bank	Import Cement and other essential commodities	US \$ 10,000,000	1,111.80	17-Dec-2009
31	STC General Trading Company Ltd.	Bank of Ceylon	Secure Credit facility to import rice		2,500.00	22-Dec-2009
32	SriLankan Airlines Limited	Bank of Ceylon	Secure Letter of Comfort issued for a part of Bridging Finance facility	US \$ 10,000,000	1,111.80	30-Dec-2009
33	Ceylon Electricity Board	People's Bank	Secure Short Term Loan facility		5,000.00	17-Aug-2010
34	Urban Development Authority	Bank of Ceylon	Secure UDA Debenture Issue		10,000.00	17-Aug-2010
35	Mihin Lanka (Pvt) Ltd.	Bank of Ceylon	Secure the Loan facility		252.27	6-Sep-2010
36	Lanka Coal Company (Pvt) Ltd.	People's Bank	Secure Letter of Credit facility		1,000.00	27-Sep-2010
	GRAND TOTAL				184,216.52	