

**MID - YEAR
FISCAL POSITION REPORT
2011**

**Ministry of Finance and Planning
Sri Lanka**



MID-YEAR FISCAL POSITION REPORT - 2011

**Issued under Section 10 of the Fiscal Management (Responsibility)
Act No. 3 of 2003**

**Mahinda Rajapaksa
President and Minister of Finance and Planning**

Mid-Year Fiscal Position Report

Issued by the Hon. Minister of Finance

Under Section 10 of the Fiscal Management (Responsibility) Act No. 03 of 2003

In terms of Section 10 of the Fiscal Management (Responsibility) Act No. 03 of 2003, the Minister of Finance is requested to present the Mid-Year Fiscal Position Report to the public by the last day of June of the year and thereafter lay before Parliament.

The purpose of this report is to provide updated information on the Government's fiscal performance as per the fiscal strategy of the Government.

The report contains the performance of Government revenue, expenditure, cash flow operations and borrowings during the first four months of the year 2011. The report also provides updated information, depending on the availability of information, relating to macroeconomic performance, price developments, foreign aid, Government debt and official reserves.

CHAPTER I

Fiscal Developments

Overview

- With the revival of the economy after the ending of the terrorist insurgency coupled with the expansion in the international trade related activities, the Government revenue grew by 19.8 percent in the first five months of 2011 with tax revenue recording an increase of 23.8 percent compared to the same period of 2010. The import duty concessions granted on petroleum products, LP gas, selected food items and milk powder had a negative impact on the revenue performance during this period.
- The recurrent expenditure during the first four months of 2011 grew by 10.2 percent while capital expenditure increased at a higher rate of 17.2 percent reflecting the government's commitment to continue the public investment programme at a higher pace.
- Reflecting the improved revenue performance and the slower growth in recurrent expenditure, the deficit in the revenue account during the first four months of 2011 declined further to Rs. 75 billion and was 1.2 percent of GDP compared to the deficit of 1.5 percent recorded in the same period of 2010. The overall budget deficit, in nominal terms, indicated a marginal increase to Rs. 172 billion but declined to 2.7 percent of GDP compared to 3.0 percent recorded in the corresponding period in the previous year.
- The Government was able to mobilize US\$ 382.5 million as gross project related loans during the first four months of 2011.

Table 1.1
Summary of the Budget (January-April) - Economic Classification
Rs. Million.

	2010	2011
Revenue and Grants	243,345	286,231
Revenue	240,654	284,913
Tax	204,035	249,790
Non Tax	36,619	35,123
Grants	2,691	1,318
Expenditure	410,865	458,503
Recurrent	327,041	360,283
Public Investment	89,114	103,948
Other	(5,290)	(5,728)
Revenue Deficit (-) / Surplus (+)	(86,387)	(75,370)
Overall Budget Deficit (-) / Surplus (+)	(167,520)	(172,272)
Financing	167,520	172,272
Foreign Financing*	42,332	17,136
Domestic Financing	125,188	155,136
Non Bank	109,064	90,485
Bank	16,124	64,652
Revenue / GDP (%)	4.3	4.4
Recurrent Expenditure / GDP (%)	5.8	5.6
Public Investment/ GDP (%)	1.6	1.6
Revenue Deficit / GDP (%)	(1.5)	(1.2)
Overall Budget Deficit / GDP (%)	(3.0)	(2.7)

Source: Department of Fiscal Policy

* Includes foreign investment in Treasury Bonds

Government Revenue

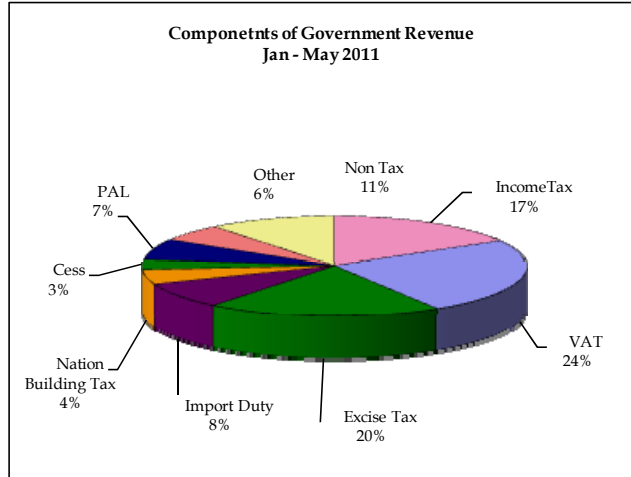
- The government revenue during January-May 2011 amounted to Rs. 358,266 million recording a 19.8 percent increase over the corresponding period of 2010. The improved performance in the overall domestic economic activities coupled with the increase in imports contributed for this growth in revenue collection during this period.
- An improvement in international trade related taxes such as import duties, PAL and VAT on imports was observed in first five months of the year due to improved performance in imports. The duty reduction applicable on motor vehicles resulted in a significant increase in imports and consequent increase in excise tax on the import of motor vehicles. Meanwhile, the income tax grew at a higher rate with the contribution from all the sub sectors therein.

Table 1.2
Revenue Performance (January-May)

Rs.Million			
Item	2010	2011	Growth (%)
Tax Revenue	258,389	319,764	23.8
Income Tax	49,402	60,072	21.6
VAT	79,206	86,931	9.8
Excise Tax	44,213	70,758	60.0
PAL	17,553	24,194	37.8
Import Duty	21,053	30,098	43.0
Nation Building Tax	16,947	16,344	(3.6)
Other	30,015	31,367	4.5
Non Tax Revenue	40,770	38,502	(5.6)
Total Revenue	299,159	358,266	19.8

Source: Department of Fiscal Policy

Chart 1.1



Income Tax

- Total income tax revenue increased by 21.6 percent to Rs. 60,072 million during the first five months in 2011 compared to Rs. 49,402 million in the corresponding period of 2010. This was mainly due to the better contribution from all the four sub sectors, namely corporate and non corporate, PAYE, Economic Service Charge (ESC) and Withholding Tax (WHT) on interest and fees benefitting particularly from increased income tax on deemed dividend and seasonal sales, special audits made on banking units, increased WHT on management fees and dividends, increased PAYE due to salary increases and bonus payments, better performance in ESC owing to increase of vehicle importation and expansion of economic activities.

**Table 1.3
Performance in Income Tax Revenue (January-May)**

Tax Base	2010	2011	Rs.Million
			Growth %
Corporate and Non Corporate	20,922	26,180	25.1
PAYE	7,280	8,435	15.9
Economic Service Charge	8,130	10,503	29.2
Withholding Tax on Interest/ Fees and other	13,070	14,954	14.4
Total	49,402	60,072	21.6

Source: Department of Fiscal Policy

Value Added Tax (VAT)

- The revenue from VAT during the first five months of 2011 amounted to Rs. 86,931 million compared to Rs. 79,206 million recorded in the corresponding period of 2010. The increase in imports in value terms mainly helped to increase the VAT on imports on net basis to Rs. 39,416 million from Rs. 30,197 million in the same period of the previous year. There was a marginal decline in the revenue from VAT on domestic sources.

Table 1.4
Performance of VAT (January - May)

Rs.Million

Tax Base	2010	2011	Growth
			%
Domestic	49,551	48,124	(2.9)
Import	32,362	41,846	29.3
Gross Revenue	81,913	89,970	9.8
Refunds	2,707	3,039	12.3
Net Revenue	79,206	86,931	9.8
Refunds As a % of Gross Revenue	3.3	3.4	

Source: Department of Fiscal Policy

Excise Taxes

- The revenue from excise duty on liquor, cigarettes and tobacco, petroleum products, motor vehicles and other items generated Rs. 70,758 million during the first five months of 2011 showing a 60 percent increase compared to Rs. 44,214 million for the same period of 2010.
- The production of hard and soft liquor increased by 12 percent and 30 percent, respectively during the first five months of 2011 compared to the same period of 2010. Due to that reason as well as the increase of excise duty on liquor, the excise duty revenue on liquor increased by 59 percent to Rs. 22,725 million in Jan – May 2011 compared to the same period of 2010.

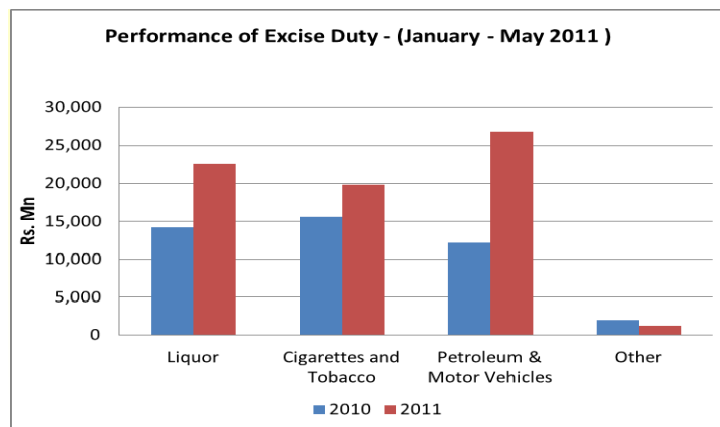
- Revenue from excise duty on cigarettes and tobacco generated Rs. 19,845 million in Jan - May 2011 compared to Rs. 15,663 million in the same period of 2010 mainly due to opening up of new markets in Northern and Eastern provinces and increase of excise duty on cigarettes in 2010.
- Excise duty revenue on petroleum and motor vehicles has more than doubled during this period generating Rs. 26,888 million compared to Rs. 12,284 million in 2010 particularly with the expansion in import of motor vehicles.

Table 1.5
Performance of Excise Duty (January – May)

Tax Base	2010	2011	Rs.Million
			Growth %
Liquor	14,257	22,725	59.4
Cigarettes and Tobacco	15,663	19,845	26.7
Petroleum and Motor Vehicles	12,284	26,888	118.9
Other	2,010	1,300	(35.3)
Total	44,214	70,758	60.0

Source: Department of Fiscal Policy

Chart 1.2



Import Duty

- The revenue collected from import duties during the first five months of 2011 increased by 43 percent to Rs. 30,098 million compared to the corresponding period of 2010. The increase in motor vehicle imports was the major contributory factor for this increase. Meanwhile, the import duty on petroleum products and milk powder imports was removed completely during this period to quell the increase in their domestic prices. In addition, the Revenue Protection Order was amended to reduce the age limit of imported reconditioned motor vehicles from three and half years to two years and to change Customs duty rates for hybrid electric vehicles and vehicles of low cylinder capacity.
- The revenue generated from Special Commodity Levy (SCL), which is a single tax on selective commodities, amounted to Rs. 6,325 million during Jan-May 2011 compared to Rs. 4,191 million in the corresponding period of 2010 recording an increase of 51 percent. The significant increase in revenue collection was supported by a higher SCL rate on potatoes to protect the domestic producers as well as the imposition of levy on Garlic and Watana.

Other Taxes

- Ports and Airports Development Levy (PAL) increased by 38 percent to Rs. 24,194 million during the first five months of 2011 compared to the same period of 2010 reflecting the improved performance in imports. Cess revenue at Rs. 11,207 million indicated a decrease by 17.3 percent over the same period of 2010 as a combined outcome of the removal of cess particularly on motor cycles and certain other items, and scaling down of existing cess rates on some items.
- During the first five months of 2011, the Nation Building Tax (NBT) generated Rs. 24,516 million. Out of this, Rs. 8,172 million or 33 1/3 percent was transferred to Provincial Councils (PCs) as per the revenue sharing arrangement introduced with effect from 01 January 2011. Hence, the revenue from NBT for the central government amounted to Rs. 16,344 million during this period. In addition, Rs. 353 million was transferred to PCs as revenue from motor vehicle registration fees (which is 70 percent of the total revenue from this source) and the entire revenue of Rs. 2,804 million collected from stamp duties was also transferred to PCs during the first five months of 2011.

Table 1.6
Revenue Transferred to Provincial Councils
(January- May, 2011)

Rs.Million

Month	NBT			Stamp Duty
	Inland Revenue Department	Customs	Total	
January	974	914	1,888	1,138
February	536	805	1,341	259
March	583	1,044	1,627	280
April	892	874	1,766	855
May	644	907	1,551	272
Total	3,628	4,544	8,172	2,804

Source: Department of Fiscal Policy

Non Tax Revenue

- Total non tax revenue collected during the first five months of 2011 was Rs.38,502 million compared to Rs. 40,770 million recorded in the same period of 2010. Profits and dividends from state banks, Airport and Aviation Services (Sri Lanka) Ltd and Telecommunications Regulatory Commission (TRC) as well as transfer of Rs. 9,000 million of profits by the Central Bank were the main contributors to the non tax revenue generated during this period.

Table 1.7

Finance and Revenue Related Legislations (November 2010 – May 2011)

Statute	Objective
Value Added Tax (Amendment) Act, No. 9 of 2011	To change rates, grant exemptions, extend input tax restriction, change operations in VAT suspension scheme.
Nation Building Tax (Amendment) Act, No. 10 of 2011	To change rates and liabilities, increase threshold level and grant exemptions.
Economic Service Charge (Amendment) Act, No. 11 of 2011	To simplify rates schedule, introduce exemption for certain institutions and annual returns with monthly payments, increase the threshold to Rs. 25 million, and grant exemptions.
Strategic Development Projects (Amendment) Act, No. 12 of 2011	To infuse clarity that tax exemptions could be granted from time to time, either in full or part, to facilitate attracting strategic investments.
Provincial Councils (Transfer of Stamp Duty) Act, No. 13 of 2011	To enable all revenue collected by the Government from stamp duties to be transferred to Provincial Councils.
Debits Tax (Repeal) Act, No 14 of 2011	To remove the Debit Tax w.e.f. April 01, 2011.
Finance (Amendment) Act, No 15 of 2011	<p>Social Responsibility Levy (SRL) To remove SRL on income tax w.e.f. April 01, 2011 and on other levies from November 22, 2010.</p> <p>Share Transaction Levy To increase present rate of 0.2 percent to 0.3 percent with effect from January 1, 2011.</p> <p>Construction Industry Guarantee Fund Levy (CIGFL) To grant exemptions for specified projects approved by the Minister in charge of the subject of Finance.</p> <p>Levy on Rooms of Five Star Hotels To introduce a levy in relation to occupying residential facilities in Five Star Hotels, if such hotels comprise of rooms in respect of which the charge is less than US\$ 125.</p>

	<p>Levy on Motor Vehicles To introduce a new rates schedule for luxury and semi-luxury motor vehicles.</p>
Regional Infrastructure Development Levy (Repeal) Act, No 16 of 2011	To remove Regional Infrastructure Development Levy w.e.f. January 01, 2011
Excise (Special Provisions) (Amendment) Act, No. 17 of 2011	To remove the cascading effect prevailed by changing the computation methodology
Ports and Airports Development Levy Act, No. 18 of 2011	To incorporate the provisions of the Ports and Airports Development Levy which was imposed under various Finance Acts into one Act named as Ports and Airports Development Levy (PAL) Act, while granting some exemptions.
Recovery of Loans by Banks (Special Provisions) (Amendment) Act, No. 19 of 2011	To further clarify that the exemption from being able to follow <i>Parate Execution</i> process will be applicable only if the principal amount borrowed is less than Rs.5 million, for the benefit of the SME sector.
Excise (Amendment) Act, No. 20 of 2011	To enable tapping of Palmyrah and Kithul trees without having to obtain special permits, to encourage related domestic industries.
Telecommunication Levy Act, No. 21 of 2011	To introduce a composite levy in place of all existing levies on telecommunication services (which is around 31 percent), at the rate of 20 percent of the value of services w.e.f. January 01, 2011.
Inland Revenue (Amendment) Act, No. 22 of 2011	To change rates and slabs applicable to individuals and corporates, increase threshold levels, grant exemptions, introduce changes in ascertainment of profits and income, WHT and other administrative changes.
Tax Appeal Commission Act, No. 23 of 2011	To set up an independent Tax Appeals Commission w.e.f. April 01, 2011, and provide for the procedure to be followed relating to hearing and disposing of tax appeals, to be operative in place of the Board of Review in existence under the Inland Revenue Act, to ensure a speedy and effective hearing of tax appeals.

Table 1.8
Fiscal Measures (February 2010 - May 2011)

Excise (Special Provisions)	
01.03.2010	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1643/1 of 01.03.2010) - Revision of Excise Duty on Petroleum Gases and other Hydro carbon gases.
31.05.2010	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1656/3 of 31.05.2010) - Revision of Excise Duty on Petroleum Gases and other Hydro carbon gases.
22.11.2010	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1681/5 of 22.11.2010) - Revision of Excise Duty on Motor Vehicles
15.12.2010	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1684/28 of 15.12.2010) - Revision of Excise Duty on Petroleum Gases.
31.12.2010	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1686/43 of 31.12.2010) - Revision of Excise Duty on Cigarettes.
21.04.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1702/19 of 21.04.2011) - Revision of Excise Duty on Motor Vehicles
21.04.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1702/18 of 21.04.2011) - Revision of Excise Duty on Motor Vehicles
21.04.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1702/17 of 21.04.2011) - Revision of Excise Duty on Motor Vehicles
16.05.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1706/03 of 16.05.2011) - Revision of Excise Duty on Motor Vehicles
01.06.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1708/21 of 01.06.2011) - Revision of Excise Duty on Motor Vehicles
Cess	
19.11.2010	Export Development Act, No.40 of 1979 (Gazette Notification No. 1680/25 of 19.11.2010) - Rates Revision of Import Cess
22.11.2010	Export Development Act, No.40 of 1979 (Gazette Notification No. 1681/15 of 22.11.2010) - Rates Revision of Export Cess
23.12.2010	Export Development Act, No.40 of 1979 (Gazette Notification No. 1685/18 of 23.12.2010) - Rates Revision of Export Cess on Coconut

04.03.2011	Export Development Act, No.40 of 1979 (Gazette Notification No. 1695/31 of 04.03.2011) - Rates Revision of Export Cess on Rubber
Excise Ordinance	
12.02.2010	Excise duty notification No. 912 (Gazette Notification No. 1640/30 of 12.02.2010)
17.02.2010	Excise duty notification No. 913 (Gazette Notification No. 1641/29 of 17.02.2010)
06.05.2010	Excise duty notification No. 914 (Gazette Notification No. 1652/40 of 06.05.2010)
31.05.2010	Excise duty notification No. 915 (Gazette Notification No. 1656/02 of 31.05.2010)
23.06.2010	Excise duty notification No. 916,917,918 and 919 (Gazette Notification No. 1659/18 of 23.06.2010) - Revision of excise duty rates on Liquors other than Toddy or any liquor made from any Cereal, Molasses, Palmyrah, Coconut and Processed Arrack, Country made Foreign Spirits and Malt Liquor
28.09.2010	Excise duty notification No. 920 (Gazette Notification No. 1673/8 of 28.09.2010)
28.10.2010	Excise duty notification No. 921,922,923 and 924 (Gazette Notification No. 1677/24 of 28.10.2010) - Revision of excise duty rates on Liquors other than Toddy or any liquor made from any cereal, Molasses, Palmyrah, Coconut and Processed Arrack, Country made Foreign Spirits and Malt Liquor
28.10.2010	Excise duty notification No. 925 (Gazette Notification No. 1677/23 of 28.10.2010) - Revision of excise duty rates on Spirits (Ethyl Alcohol) to be used in the manufacture of medicinal preparation and for approved industrial and other used
19.11.2010	Excise duty notification No. 926 (Gazette Notification No. 1680/24 of 19.11.2010) - Prescribing Annual License Fees
19.11.2010	Excise duty notification No. 927,928,929 and 930 (Gazette Notification No. 1680/23 of 19.11.2010) - Revision of excise duty rates on Liquors other than Toddy or any liquor made from any Cereal, Molasses, Palmyrah, Coconut and Processed Arrack, Country made Foreign Spirits and Malt Liquor
05.01.2011	Excise duty notification No. 931,932,933 and 934 (Gazette Notification No. 1687/18 of 05.01.2011) - Revision of excise duty rates on Liquors other than Toddy or any liquor made from any Cereal, Molasses, Palmyrah, Coconut and Processed Arrack, Country made Foreign Spirits and Malt Liquor
21.01.2011	Excise duty notification No. 935 (Gazette Notification No. 1689/20 of 21.01.2011) - Providing rules and regulation on approval for serving Wine, Beer and all liquids containing Alcohol.

Ports and Airports Development Levy	
24.11.2010	Finance Act, No. 11 of 2002 (Gazette Notification No. 1681/33 of 24.11.2010) - Granting exemption for the payment of PAL on specific items w.e.f. 24.11.2010.
17.01.2011	Finance Act, No. 11 of 2002 (Gazette Notification No. 1689/2 of 17.01.2011) - Granting exemption for the payment of PAL on Dairy animals for breeding purposes, Milking machines machinery and parts
25.04.2011	Ports and Airports Development Levy Act, No.18 of 2011 - (Gazette Notification No. 1703/1 dated 25.04 2011)
Inland Revenue Act	
01.01.2011	Regulation under Section 212, Inland Revenue Act, No. 10 of 2006 (Gazette Notification No. 1686/55 of 01.01.2011) - Announcing the enforcement period of time
03.06.2011	Order under Subsection 17 A, Inland Revenue Act, No. 10 of 2006 (Gazette Notification No. 1708/34 of 03.06.2011) - Prescribing activities referred in the Schedule of the Act
Default Tax	
31.03.2011	Order under Section 1 of Default Taxes (Special Provision) Act No. 16 of 2010 (Gazette Notification No. 1699/44 of 31.03.2011) - Announcing the enforcement date of the Act as 01.04.2011.
Registered Stocks and Securities Ordinance (RSSO)	
25.02.2011	Registered Stocks and Securities Ordinance (Gazette Notification No. 1694/19, 20 and 21 of 25.02.2011) - Announcing the early redemption date of 3 registered stocks as 30.08.2011

Government Expenditure

- Total government expenditure during the first four months of 2011 was Rs. 458,503 million, an increase of 11.6 percent over the corresponding period in 2010, consisting Rs. 360,283 million of recurrent expenditure and Rs. 103,948 million of public investment. There was only a 10.2 percent increase in recurrent expenditure mainly benefiting from the relatively low interest expenditure while major development projects in the areas such as power generation, ports, roads and irrigation etc. as well as rural development initiatives contributed to the increased expenditure on public investment during this period.

Table 1.9
Performance of Government Expenditure (January-April)

Rs. Million

	2010	2011 (Pro)
Current Expenditure	327,041	360,283
Salaries and wages	98,867	108,218
Interest	138,205	142,284
Samurdhi	3,080	3,100
Fertilizer Subsidy	2,596	5,625
Pension	28,640	32,238
Other expenditure	55,653	68,818
Public Investment	89,114	103,948

Source: Department of National Budget

Salaries and Pension Costs

- Expenditure on salaries for public servants stood at Rs. 108,218 million, an increase of 9.5 percent over the corresponding period of the previous year. Provision of all public servants with a special allowance equivalent to 5 percent of their basic salary and the increase of cost of living allowance (COLA) by Rs. 600 to Rs. 5,850 for the non staff grade category of public sector employees primarily contributed to this increase.

- Meanwhile, the total pension payments increased to Rs. 32,238 million recording a 12.6 percent increase over the same period of 2010. The full impact of retirees in 2010 and partial impact of the new retirees during first four months of 2011 as well as the increase of COLA to pensioners by Rs. 300 to Rs. 2,675 per month contributed to this increase.

Interest Cost

- Interest payments on foreign and domestic debt amounted to Rs. 142,284 million with only a 3 percent increase over the corresponding period of last year. The positive impact of the relatively low interest rates on government securities was the main reason for this improvement.

Table 1.10
Behaviour of Yield Rates (%): 2010-2011

Period	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2010 Apr	8.48	9.20	9.42	-	-	-	-
2010 Jul	7.98	8.80	9.17	-	-	9.64	9.62
2010 Oct	7.11	7.25	7.20	-	8.28	-	8.80
2010 Dec	7.26	7.38	7.55	-	8.36	8.60	8.76
2011 Jan	7.04	7.09	7.33	-	6.03	8.20	6.57
2011 Feb	6.99	7.08	7.33	7.77	7.99	-	8.49
2011 Mar	6.97	7.05	7.33	-	-	8.20	-
2011 Apr	7.00	7.10	7.31	-	-	-	-
Percentage Change (2010 Apr - 2011 Apr)	(1.48)	(2.10)	(2.11)	-	-	-	-

Source: Central Bank of Sri Lanka

Welfare payments and social safety net on vulnerable groups

- The total expenditure on welfare payments and subsidies during the first five months of 2011 increased by 37 percent to Rs. 23,648 million compared to the corresponding period of the last year. Of this, welfare assistance provided in support of poorer segments of the society, displaced persons, differently abled soldiers and vulnerable groups was Rs 11,294 million.
- Nutritional Intervention Programmes conducted with the intention of improving maternal and child healthcare continued in the period under review. Accordingly, the "Poshana Malla", a programme to provide nutritional food to expectant mothers and school children, was continued at a cost of Rs. 103 million while the school nutritional food programme was also continued utilizing Rs. 818 million in the first five months of 2011. Other nutritional programmes such as infant milk food subsidy and Thriposha Programme were carried out spending Rs. 463 million while food assistance programmes such as World Food Programme were continued at a cost of Rs. 1,270 million during the period under review.
- The welfare programmes implemented for the benefit of school children by providing free school textbooks, uniforms, season tickets and free dharma school books, and bursaries etc. were continued at a cost of Rs. 2,234 million.
- The assistance to differently able soldiers continued with an enhanced cost of Rs. 5,499 million. As proposed in the budget, a new welfare programme for the war affected service personnel and their families was initiated at a cost of Rs. 125 million during this period. Meanwhile, Rs. 69 million was spent to provide cooked meals and other welfare assistance to internally displaced families.
- Under the fertilizer subsidy programme, the government incurred Rs. 11,876 million during the first five months of 2011. Accordingly, all varieties of fertilizer for paddy farmers were provided at Rs. 350 per 50 kg bag while small holder tea producers received urea at a subsidized price of Rs. 1,000 per 50 kg bag.

Table 1.11
Welfare Payments and Subsidies (January-May)

Item	Rs. Million	
	2010	2011
Mothers and Children		
Infant Milk Food Subsidy	32	41
Poshana Malla	85	103
Thripasha Programme	170	422
Free Text Books and Uniforms	964	1,407
School Season Tickets	192	549
Dharma School Text Books and Uniforms	52	189
School Nutritional Foods	433	818
Agriculture		
Interest Subsidy for Agricultural Loans etc	165	60
Fertilizer Subsidy	4,317	11,876
Welfare Payments		
Samurdhi Relief	4,350	3,922
Assistance to Differently Able Soldiers	3,967	5,499
WFP Food Assistance	1,677	1,270
Welfare Assistance to IDP	709	69
Flood and Drought Relief	92	409
Welfare for War Affected Service Personnel and Their Families	-	125

Source: Department of National Budget

Public Investment Expenditure

- The Government continued in channeling enhanced resources for public investment with a commitment to accelerate development programmes, targeting the rural sector, through rural development initiatives such as "Gama Neguma", "Maga Neguma", "Uthuru Wasanthaya" and other development initiatives. The momentum gained with respect to key national infrastructure development projects consisting of roads, bridges, ports, power generation, irrigation etc, was also maintained during the period under review. The total public investment amounted to Rs. 104 billion during Jan-April 2011.

Rural Development Initiatives

- The expenditure on "Maga Neguma", the island-wide rural infrastructure development programme, amounted to Rs. 939 million during Jan-May 2011. During this period, around 156 km of rural roads have been rehabilitated using modern techniques aiming at eradication of development bottlenecks for boosting local economic activities. Further, a total of 340 bridges, flyovers, culverts and causeways have also been constructed benefiting 26,314 families.

Divi Neguma

- "Divi Neguma", the one million home economy programme, aimed at empowering household back yard economies, was launched on 12 March 2011.

Table 1.12

Maga Neguma Rural Development Programme: (January-May, 2011)

District	No. of Projects	Total Road Length Completed (km)	Bridges/ Flyovers/Culverts/ Causeways (No.)	Retaining Walls (m ²)	Expenditure (Rs. Million)	Beneficiary Families (No.)
Colombo	119	7.61	1	387	56	3,374
Gampaha	69	6.06	2	121	36	1,838
Kalutara	90	5.51	35	130	45	1,724
Kandy	70	5.52	1	161	32	736
Matale	65	7.46	-	145	35	739
Nuwara Eliya	13	1.54	-	-	6	98
Galle	46	3.95	1	38	22	562
Matara	368	30.27	32	823	171	3,831
Hambantota	204	15.43	29	73	98	2,187
Jaffna	-	-	-	-	-	-
Mannar	1	1.01	-	-	5	75
Vavunia	2	0.76	-	-	3	70
Mullaitivu	-	-	-	-	-	-
Kilinochchi	-	-	-	-	-	-
Batticaloa	16	0.36	10	-	11	347
Ampara	80	2.85	52	-	30	672
Trincomalee	10	0.78	-	-	6	152
Kurunegala	334	27.73	70	-	147	3,886
Puttalam	67	5.96	1	24	35	766
Anuradhapura	54	3.64	24	32	23	646
Polonnaruwa	96	8.44	4	-	44	1,003
Badulla	27	2.4	3	-	14	298
Moneragala	124	4.56	70	95	37	1,332
Ratnapura	104	8.08	4	214	49	1,212
Kegalle	68	6.01	1	202	34	766
Total	2,027	155.93	340	2,445	939	26,314

Source: Road Development Authority.

- Meanwhile, the "Gama Neguma", the major initiative to empower the rural economy through creation of economically prosperous villages, was continued at a cost of Rs. 1,153 million in the first five months of 2011.

Spending on Development Programmes

Infrastructure Development

Roads

- The investment on road sector was around Rs.19,479 million during the period of January – May 2011. This includes Rs.4,279 million on expressway development and Rs. 8,914 million on development highways islandwide. Meanwhile, Rs.4,861 million on widening and improvement of Provincial roads, Rs. 524 million on construction of bridges and flyovers and Rs. 898 million on Tsunami affected road rehabilitation had been incurred during the period. Also, under the Maga Neguma and Gama Neguma programmes, Rs.939 million and Rs. 1,153 million were spent respectively for the development of rural roads etc.

Ports

- At present, three key port development projects are in progress viz. Colombo South Harbour Project (CSHP), Hambantota Port Development Project and Oluvil Port Development Project aiming at improving port facilities to provide impetus in higher economic growth. In particular, during the period from January to May 2011, the investment in CSHP was Rs.88 million while it was Rs 320 million in Hambantota Port Development Project. Construction of Oluvil Port Development Project was also continued during the period under review.

Power and Energy

- With the aim of achieving 100 percent electrification level by 2012, an investment amounting to Rs. 3,066 million has been made on the development activities of power sector during the first five months of 2011. Of this investment, Rs. 2,256 million was related to improving generation facilities in the country. In addition, Rs. 627 million on the expansion of electricity distribution facilities and Rs. 183 million on the development of electricity transmission system have been invested during the period.

Irrigation and Water Management

- The construction work on dam as well as social and irrigation infrastructure development activities in resettlement areas under the Moragahakanda Kalu Ganga Reservoir Project progressed during the first five months of 2011. This included construction of road network, other infrastructure development and land acquisition for resettlement. During January – May 2011, Rs. 335 million was spent on this project.
- Uma Oya Diversion Project, which was commenced in 2009 under the Iranian assistance at a cost of US\$ 529 million, is expected to cultivate 15,000 acres in Badulla, Monaragala and Hambantota districts benefiting 12,000 farmer families while generating 312 GWH of hydro power annually. The cumulative expenditure up to end May 31st 2011 stood at Rs. 9,363 million and during Jan-May 2011, Rs.3,036 million has been spent.
- Construction of Deduru Oya Reservoir Project, which is designed to irrigate 1,500 ha of new land and 8,500 ha of existing land in Kurunegala and Puttlam districts and generate hydro electricity, continued with construction work of the main dam, left and right bank sluices main canal, spillway and trans basin. Cumulative expenditure on this up to May 31st 2011 was Rs 2,838 million.
- Dam Safety and Water Resource Planning Project with World Bank assistance aiming at ensuring safety and operational efficiency of 32 large dams, to establish a modern hydro meteorological information system and to improve water resource planning of the country continued in 2011. The expenditure of the project from January to May 2011 was Rs.232 million.

Water Supply and Sewerage

- The investment on the water supply and sanitation sector during the first five months of 2011 amounted to Rs. 12,998 million. Of this, Rs. 10,599 million is invested on the implementation of large scale water supply projects. Investment on the sewerage projects and water supply schemes in some coastal areas has been Rs. 1,321 million and Rs. 405 million, respectively. In addition, Rs. 671 million has been invested during the same period on the development of 47 small and medium scale water supply schemes.

Table 1.13
Water Supply and Sanitation (January-April, 2011)

Rs. Million

	Foreign Funds	Domestic Funds	Total
Large scale water supply schemes; Ampara, Kandy, Colombo, Polonnaruwa, Batticaloa, Muttur, Hambantota, Galle, Nuwara Eliya, Kadugannawa, Geliya, Udunuwara, Yatinuwara, Gampola, Peradeniya, Ulapane, Ginigathhena, Hatton, Maskeliya, Ragala, Rikillagaskada, Negambo and Lunugamvehera	140.5	1,985.0	2,125.0
Small scale water supply schemes; Thalawakele-Lindula, Medirigiriya, Ippalogama, Pelmadulla, Kantale, Mahawa, Udawalawa, Galigamuwa, Akuressa, Monaragala, Ohiya, Thihagoda etc.	-	268.0	268.0
Rural water supply schemes; Anuradhapura, Colombo, Matara, Ratnapura, Gampaha, Kandy, Matale, Nuwara Eliya, Ampara, Kurunegala Districts and in Estates	-	60.5	60.5
Sewerage schemes; Moratuwa, Ratmalana, Jaela, Ekala, Kandy and Colombo	-	193.0	193.0
Total	140.5	2,506.5	2,646.5

Source: National Water Supply and Drainage Board

Human Resource Development

Education

- In the area of education, Rs. 11,218 million has been spent under the allocation made to the general education sector during the first five months of 2011. Further, Rs. 7,778 million has also been spent for the higher education sector.
- The capital expenditure on the improvement of infrastructure facilities of the universities has been Rs. 2,310 million during the first five months of 2011 while Rs.812 million has been spent on infrastructure development in the general education sector during this period.

Health

- The government expenditure on health during the first five months of 2011 amounted to Rs 23,440 million covering both health and indigenous sectors. In order to maintain a safe and effective medical supply to government institutes, around Rs 5,861 million has been incurred on medical supplies and Rs 430 million on bio medical equipment and lab apparatus for the hospitals during January to May 2011.
- Some foreign funded projects such as Stage I - Construction of Maternity Ward and Pediatric Unit in Korea-Sri Lanka Friendship Hospital at Matara Godagama, Establishment of Emergency and Trauma Centre at Karapitiya Teaching Hospital, Improvement of Curative Healthcare Services in Anuradhapura General Hospital and supply of medical equipment for the Kurunegala Teaching Hospital and other essential hospitals in Sri Lanka have almost been finished during this period.

Performance of the Government Treasury Cash Flow

- Cash inflow to the Government Treasury during the first five months of 2011 increased by 18 percent compared to the same period of 2010. Cash deficit after outflow for recurrent and capital expenditure amounted to Rs. 191.3 billion which is Rs. 7.5 billion higher than the corresponding value for the same period in 2010. This was mainly due to the increase in cash outflows for recurrent and capital expenditure by 9 percent and 24 percent, respectively compared to the corresponding period of the previous year. The overall closing cash balance (deficit) as at end May 2011 was Rs. 95.3 billion, an increase of Rs. 11.4 billion of the cash deficit prevailed as at end May 2010.

Table 1.14

Statement on Government Treasury Cash Flow Operations (January to May)

Item	2010	2011	
	January - May	January - May	
	Actual	Estimate	Actual
Total cash inflow from revenue and other receipts	295,687	359,080	347,754
Total cash outflow for recurrent expenditure	-373,825	-420,122	-408,320
Total cash outflow for capital expenditure*	-105,709	-119,718	-130,795
Net cash surplus (deficit)	-183,847	-180,760	-191,361
Opening cash balance as at 1st January	-75,969	-86,809	-86,809
Gross borrowing *	308,370	396,820	410,722
Debt repayment	-134,536	-219,522	-231,340
Net borrowing	173,834	177,298	179,382
Adjustment account balance (TEB, net deposits, etc)	1,999		3,479
Closing cash balance as at 31st May	-83,983	-90,271	-95,309

* Includes project/programme loans received by the government and recorded in the CS-DRMS as at 20 June 2011

Management of Government Debt

- The Government debt operations indicated a total gross borrowing of Rs. 410.7 billion during the first five months of 2011. The repayments of government debt, both domestic and foreign, amounted to Rs. 231.3 billion thus limiting net borrowings to Rs. 179.3 billion during this period.

CHAPTER 2

The Economy

Economic Growth – First Quarter 2011

- The economy grew by 7.9 percent during the first quarter of 2011 compared to the 7.1 percent recorded in the same period of 2010. This level of growth in the first quarter of 2011 is remarkable as this is achieved despite a drawback in some sub sectors, such as paddy, coconut and other food crops due to flood damages in the beginning of the year, which resulted in a negative growth of 5.1 percent in the Agriculture sector.
- However, the Industry sector grew by 11.1 percent during the first quarter of 2011 supported by the buoyant performance in manufacturing, mining and quarrying, power generation and construction sub sectors. The Services sector grew by 9.5 percent mainly supported by the improved performance of sub sectors such as wholesale and retail trade, hotels and restaurants, transport and communication, banking and insurance, and private services during this period.

Inflation

- The point to point inflation, as measured by the percentage change in the Colombo Consumer's Price Index (CCPI - Base year: 2006/07 = 100) declined to 7.1 percent in June 2011 from a higher rate of 8.9 percent in April mainly due to moderating of the supply side pressures emanated from the high vegetable prices due to flood damages in producing areas in the first two months of the year.
- Meanwhile, the core inflation that measures the price movements excluding fresh food, energy, transport, rice and coconut in the CCPI basket stood at 8.7 percent on a point-to-point basis in June 2011.

Table 2.1
Headline and Core Inflation in Sri Lanka (point to point)*

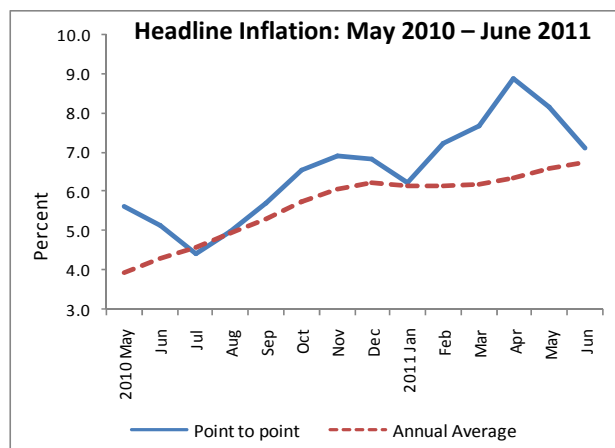
Month/Year	Headline Inflation (%)	Core Inflation (%)**
January 2010	7.1	8.0
February	7.5	8.1
March	7.2	7.5
April	6.8	7.1
May	5.6	5.7
June	5.1	5.7
July	4.4	5.5
August	5.0	6.0
September	5.7	6.2
October	6.5	7.2
November	6.9	7.9
December	6.8	8.9
January 2011	6.2	6.5
February	7.2	5.7
March	7.7	6.6
April	8.9	7.6
May	8.2	8.4
June	7.1	8.7

* Base year: 2006/07=100

** Excluding Fresh Food, Energy, Transport, Rice and Coconut.

Source: Department of Census and Statistics

Chart 2.1



Stock Market

- The stock market continued to grow with the positive outlook in the favourable macroeconomic environment, decline in interest rates, higher business confidence and brightened growth prospects following the end of the terrorist insurgency.
- The All Share Price Index (ASPI) averaged at 7,418.1 by end May 2011, a 75 percent increase from end May 2010 level while Milanka Price Index (MPI) also increased by 43 percent to close at 6,853.6. The average turnover was Rs. 3,470.3 million, an increase of 91 percent as against end May 2010. Market capitalization by end May 2011 was Rs. 2,515 billion, an 83 percent increase over the same period of 2010.

Table 2.2
Movements in the Capital Market

Indicator	2006	2007	2008	2009	2010	End April	
						2010	2011
All Share Price Index (1985=100)	2,722	2,541	1,503	3,386	3,385	4,189	7,357
Milanka Price Index	3,712	3,292	1,631	3,849	3,849	4,712	6,823
Market Capitalization (Rs. Bn)	835	821	489	1,092	2,210	1363	2,487
No. of Listed Companies in Trading	232	231	232	231	241	231	247
Annual Average Turnover (Rs.Bn)	115	105	105	110	2,396	1,540	1,953
Foreign Sales (Rs.Million)	31,790	35,543	52,682	43,846	118,761	28,480	29,094
Foreign Purchases (Rs.Million)	37,167	46,797	66,632	43,057	92,426	15,004	20,748

Source: Colombo Stock Exchange

External Sector Developments

- The external sector continued to improve its performance during the first quarter of 2011 with increased investor confidence, positive sentiments brought in line with the end of the terrorist insurgency and the improvement in the external demand. The earnings from exports increased by 54.3 percent to US dollars 2,721 million during the first quarter of 2011. Import expenditure also increased by 39.9 percent to US dollars 4,458 million reflecting the increased domestic economic activities. Although the trade deficit during the first three months of 2011 increased to US\$ 1,737 million from US\$ 1,424 million during the same period of 2010, inflows on

account of services, especially from tourism and port related activities and worker remittances increased during this period. Meanwhile, gross official reserves (without ACU receipts) at end April 2011 stood at US\$ 7,164 million, which is equivalent to 5.6 months of imports.

Exports

- The export earnings during the first quarter of 2011 expanded significantly by 54.3 percent to US\$ 2,721 million compared to US\$ 1,763 million in 2010. The agricultural export earnings grew by 26 percent to US\$ 593 million during the first quarter of 2011 compared to US\$ 469 million in the same period of the previous year. The export earnings from tea grew by 21 percent benefiting from the favourable international prices. The industrial exports indicated a significant increase of 63.8 percent to US\$ 2,078 million during this period. In particular, the textile and garments exports recorded a significant 74.2 percent growth to US\$ 1,225 million during the period compared to US\$ 703 million in 2010. Meanwhile, the earnings from rubber products were also increased by 29.9 percent during the first three months of 2011.

Imports

- The total import bill for the first three months of 2011 amounted to US\$ 4,458 million, an increase of 39.9 percent over the same period of 2010. Consumer goods imports increased by 35.5 percent to US\$ 1,003 million while the intermediate goods imports increased by 47.4 percent to US\$ 2,430 million. The increase in intermediate goods imports reflects the high crude oil prices during this period compared to the same period of 2010. The cost of petroleum product imports was increased by 29.2 percent to US\$ 924 million during the first quarter of 2011. The cost of non-oil intermediate imports was increased by 61 percent during this period reflecting particularly the revival of the domestic manufacturing sector. The cost on the importation of investment goods was US\$ 1,008 million by end March 2011 compared to US\$ 692 million in the same period of 2010.

Table 2.3
External Trade (January – March)

US\$ Million

Category	2010	2011
Exports	1,763	2,721
Agriculture	469	593
Tea	306	370
Rubber	57	74
Coconut Products	31	47
Other Agricultural Products	75	102
Industrial	1,269	2,078
Textiles and Garments	703	1,225
Petroleum Products	43	139
Other Industrial	523	713
Gems	21	24
Other	5	27
Imports	3,188	4,458
Consumer Goods	740	1,003
Food and Drink	522	557
Other Consumer Goods	219	446
Intermediate Goods	1,648	2,430
Petroleum	715	924
Fertilizer	34	56
Textiles and Clothing	367	596
Other Intermediate Goods	533	854
Investment Goods	692	1,008
Machinery and Equipment	285	446
Transport Equipment	136	244
Building Materials	196	220
Other Investment Goods	74	99
Trade Balance	-1,424	-1,737

Source: Central Bank of Sri Lanka

Worker Remittances

- Worker remittance flows posted a 27.8 percent increase to US\$ 1,273.7 million in the first quarter of 2011 compared to the same period of 2010 complemented by expansion of banking facilities, particularly the opening up of bank branches in the Northern and Eastern provinces.

CHAPTER 3

Foreign Assistance

- The total commitments made by lenders and donor agencies to Sri Lanka during the period of January to end April 2011 was US\$ 1,385 million, of which project loans amounted to US\$ 1,360.6 million and grants amounted to US\$ 24.4 million.

Table 3.1
Foreign Financing Commitments (January-April, 2011)

Donor	Amount
Bilateral	1,176.2
China	759.8
Japan	413.4
India	3.0
Multilateral	208.8
Asian Development Bank	89.2
World Bank	105.8
UN Agencies	13.8
Total	1,385.0

Source: Department of External Resources

Chart 3.1
Aid Commitments (by percentage)

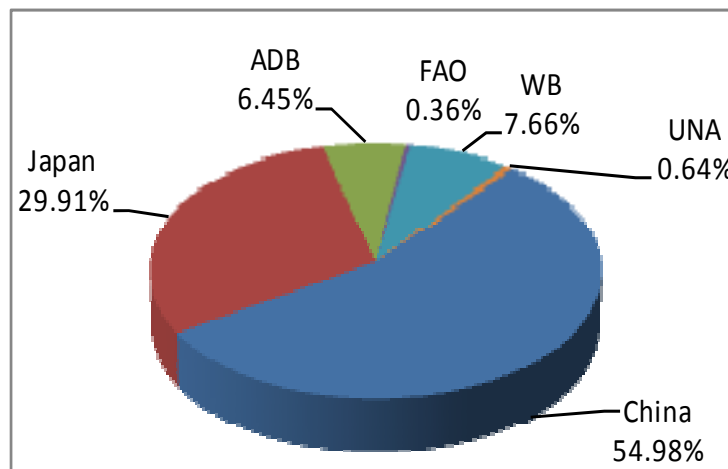


Table 3.2

Foreign Commitments - List of Agreements Signed - 2011 1st January to 30th April

Donor	Project Name	In Loan/ Grant Currency		Loan in US\$	Grant in US\$	Total
China	Improvement and Rehabilitation of Priority Roads	USD	500.0	500.0		500.0
	Highway Section from Pinnaduwa to Kodagoda (30 KM to 45 KM)	USD	75.1	75.1		75.1
	Highway Section from Kodagoda to Godagama (45 KM to 61 KM)	USD	63.1	63.1		63.1
	Rehabilitation and Improvement of 67km Length of Navatkuli-Karaitivu-Mannar Road	USD	48.4	48.4		48.4
	Rehabilitation and Improvement of 113km Length of Puttalam-Marichchikade-Mannar Road	USD	73.2	73.2		73.2
Japan	Greater Colombo Urban Transport Development Project Phase 2	JPK	31.7	391.0		391.0
	Vavuniya- Kilinochchi Transmission Line Project (II)	JPK	1.4	17.5		17.5
	Improvement of TV Production Equipment of Sri Lanka Rupavahini Corporation	JPK	0.0	-	0.5	0.5
	The Food Security Project for Underprivileged Farmers	JPK	0.4	-	4.3	4.3
Asian Development Bank	Jaffna and Kilinochchi Water Supply and Sanitation Project OCR	USD	20.0	20.0		20.0
	Jaffna and Kilinochchi Water Supply and Sanitation Project ADF	XDR	44.3	69.2		69.2
Food and Agriculture Organization	Urgent provision of essential agricultural inputs for IDPs North	USD	5.0		5.0	5.0
World Bank	Second Additional Financing for Road Sector Assistance Project	XDR	63.6	103.1		103.1
	Local Level Nutrition Interventions for the Northern Province (JSDF) Project-	USD	2.7	0.0	2.7	2.7
UN Agencies	Country Programme of Technical Cooperation 2010 - 14	USD	8.8	0.0	8.8	8.8
India	Setting up of Facilities at vocational Training Centers Vantharamoolai and Onthachchimadam, Batticaloa District	INR	134	0.0	3.0	3.0
	Total			1,360.6	24.4	1,385.0

Source: Department of External Resources

Committed Un-disbursed Balance

- The total committed un-disbursed balance of foreign financing available for government's development program as at end April 2011 was US\$ 8.6 billion. The project implementation duration for these commitments will be in the range of 2 -5 years and hence the utilization will be on the same basis. Table 3.3 indicates the sector-wise classification of the committed un-disbursed balance.

Table 3.3

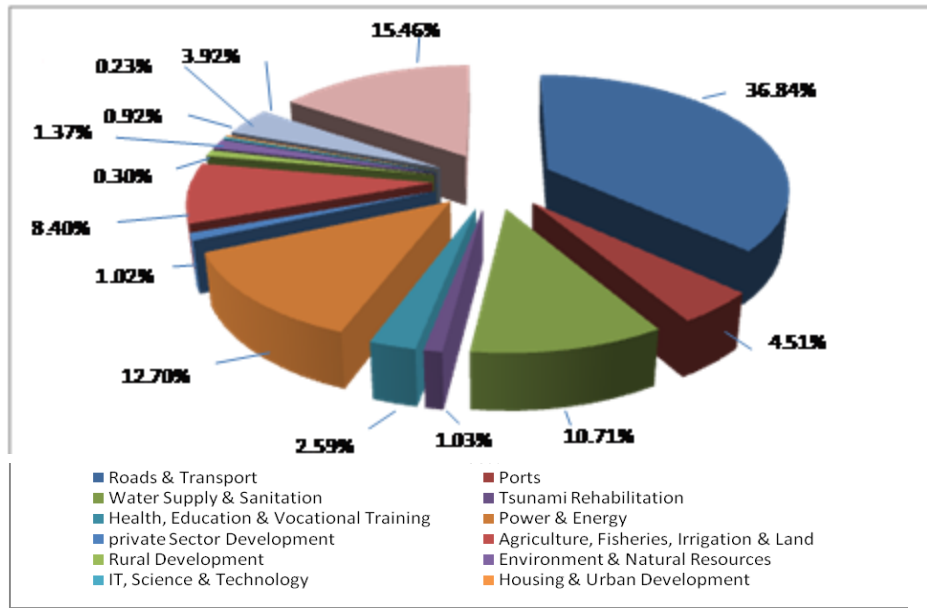
Committed Un-disbursed Balance by Sector - As at end April 2011

Sector	US\$ Million	% of Total
Roads and Transport	3,170.8	36.8
Ports	388.4	4.5
Water Supply and Sanitation	921.8	10.7
Tsunami Rehabilitation	88.4	1.0
Health, Education and Vocational Training	222.7	2.6
Power and Energy	1,092.8	12.7
Private Sector Development	87.8	1.0
Agriculture, Fisheries, Irrigation and Land	722.9	8.4
Rural Development	79.0	0.9
Environment and Natural Resources	118.2	1.4
IT, Science and Technology	25.9	0.3
Housing and Urban Development	19.5	0.2
Rehabilitation of Conflict Affected Areas	337.8	3.9
Other	1,330.8	15.5
Total	8,606.8	100.0

Source: Department of External Resources

Chart 3.2

Committed Un-disbursed Balance by Sector - As at end April 2011



Foreign Fund Disbursement

- The total foreign fund disbursement up to end April 2011 was US\$ 408.5 million. Of the total disbursement, project loans and grants accounted for US\$ 382.5 million and US\$ 26.0 million, respectively.

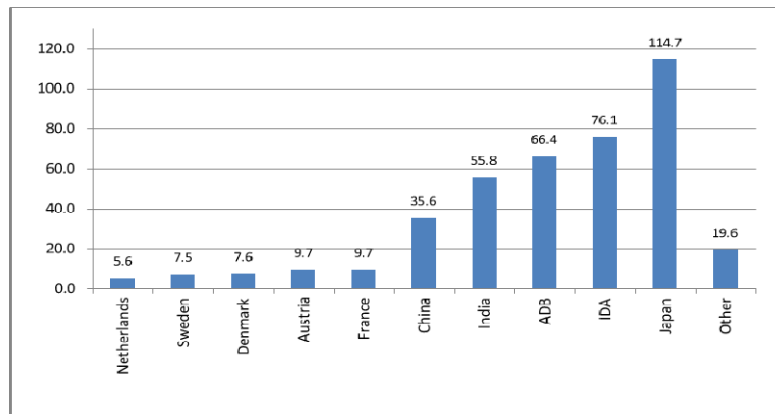
Table 3.4
Foreign Aid Disbursement (January-April, 2011)

US\$ million

Donor		Loan	Grant	Total
Bilateral	China	35.6	-	35.6
	France	9.7	-	9.7
	Germany	1.0	1.2	2.2
	India	55.8	-	55.8
	Japan	108.0	6.8	114.7
	Korea	1.7	-	1.7
	Kuwait	0.5	-	0.5
	Saudi Fund	0.2	-	0.2
	UK	2.9	-	2.9
	Iran	4.7	-	4.7
	Denmark	7.6	-	7.6
	Austria	9.7	-	9.7
	Netherlands	5.6	-	5.6
	Sweden	7.5	-	7.5
Multilateral	Asian Development Bank (ADB)	54.0	12.4	66.4
	International Development Association (IDA)	72.2	3.9	76.1
	International Fund for Agricultural Development (IFAD)	3.8	-	3.8
	OPEC Fund for International Development	0.3	-	0.3
	European Community	1.7	1.7	3.3
Total		382.5	26.0	408.5

Source- External Resources Department

Chart 3.3
Foreign Aid Disbursement by Donor (US\$ Million)
(January-April,2011)



External Debt

- The total external debt of the government as at end April 2011 stood at US\$ 16.9 billion.
- The total debt service payment up to 30th April 2011 amounted to US\$ 369.8 million. Of this, US\$ 211.1 million was for principal payments and the balance US\$ 158.7 million was for the interest payments. The total estimated debt service payments for 2011 is US\$ 1,038.4 million, of which 36 percent has already been paid by 30th April 2011.