

**MID-YEAR
FISCAL POSITION REPORT
2012**

**Ministry of Finance and Planning
Sri Lanka**

29th June 2012



MID-YEAR FISCAL POSITION REPORT-2012

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

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

29th June 2012

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 2012. 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

- The fiscal performance has to be analyzed considering the impact of the measures introduced by the government in February 2012 to contain the trade deficit of the country, which was widened significantly in 2011. The measures included the pursuance of greater exchange rate flexibility, tightening of monetary policy through increases in Central Bank policy rates and the pursuance of strategies to moderate bank credit growth as well as adjustments in domestic petroleum, electricity and transport prices to reflect the developments in the international market. These measures, together with the depreciation of the Rupee in line with the exchange rate flexibility during the first five months of the year, had a mixed impact on the government fiscal operations.
- The government revenue during the January-May 2012 period increased by 9.1 percent over the corresponding period of 2011. The tax revenue increased by 11.9 percent during this period despite the tax reforms affected since April 2011.
- The current expenditure during the first four months increased by 24.7 percent mainly due to higher and front loaded interest payments that amounted to Rs. 31 billion. The non interest expenditure increased reflecting the high wage and welfare expenditures. The capital expenditure and net lending increased at a higher rate of 50.8 percent largely reflecting the higher utilization of foreign funds earmarked for development projects.
- Reflecting these developments, the revenue deficit during the first four months of 2012 reached Rs. 139.8 billion and was 1.9 percent of GDP compared to 1.2 percent in the same period of the previous year. The overall budget deficit, in nominal terms, was Rs. 285.8 billion, which accounted to 3.8 percent of GDP compared to 2.7 percent in the corresponding period of the previous year. The first four months outcome reflects the impact of revenue lags and expenditure leads and higher revenue and moderation of expenditure is expected in the second half of the year. Hence, the fiscal operations in the year as a whole are expected to remain consistent with the targeted deficit of 6.2 percent of GDP. The measures taken to provide support for local industries such as the reduction of duty waiver on milk powder imports, increase of Special Commodity Levy (SCL) on sugar etc. in the wake of declining commodity prices in the international market that required local economy safeguard and commitment controls are conducive for fiscal consolidation.
- The Government was able to mobilize US\$ 608 million as gross project related loans during the first four months of 2012 compared to US\$ 382.5 million received during the same period in 2011.

Table 1.1: Summary of the Budget (Jan-Apr) - Economic Classification

Rs. Million

	2011	2012
Revenue and Grants	286,231	307,675
Revenue	284,913	305,577
Tax	249,790	276,488
Non Tax	35,123	29,089
Grants	1,318	2,098
Expenditure	458,503	593,471
Recurrent	360,283	445,389
Interest Payments	142,284	173,651
Other	217,999	271,738
Public Investment	103,948	152,401
Other	(5,728)	(4,319)
Revenue Deficit (-) / Surplus (+)	(75,370)	(139,812)
Overall Budget Deficit (-) / Surplus (+)	(172,272)	(285,796)
Financing	172,272	285,796
Foreign Financing*	17,136	87,077
Domestic Financing	155,136	198,719
Non Bank	90,485	66,804
Bank	64,652	131,914
Revenue / GDP (%)	4.4	4.1
Recurrent Expenditure / GDP (%)	5.6	5.9
Public Investment/ GDP (%)	1.6	2.0
Revenue Deficit / GDP (%)	(1.2)	(1.9)
Overall Budget Deficit / GDP (%)	(2.7)	(3.8)

Source: Department of Fiscal Policy

* Includes foreign investments in Treasury Bonds and Treasury Bills

Government Revenue

- The government revenue during January-May 2012 period amounted to Rs. 386,655 million recording a 9.1 percent increase over the corresponding period of 2011. Tax revenue increased by 11.9 percent to Rs. 353,314 million while non tax revenue reflected a decline of 13.4 percent to Rs. 33,341 million.
- An improvement in revenue from international trade related taxes such as Special Commodity Levy (SCL), Ports and Airports Development Levy (PAL) and Value Added Tax (VAT) on imports was observed in the first five months of the year due to improved performance in imports. The revenue from Excise duty also recorded a moderate growth during this period with the increase in the taxes on liquor, cigarettes and tobacco and the enhanced demand stemming from the improved tourism related activities, new markets in Northern and Eastern provinces, the increase in motor vehicle imports as well as increase in applicable Excise (Special Provision) duty on motor vehicles, three-wheelers and motor bicycles at the end of March 2012 and the depreciation of the rupee against major foreign currencies during this period. Meanwhile, the income tax revenue grew at a higher rate with the better performance in corporate and non-corporate taxes and withholding tax. The revenue from Pay-As-You-Earn (PAYE) tax indicated a decline reflecting the impact of rate reductions and the concessions that have been granted on it.

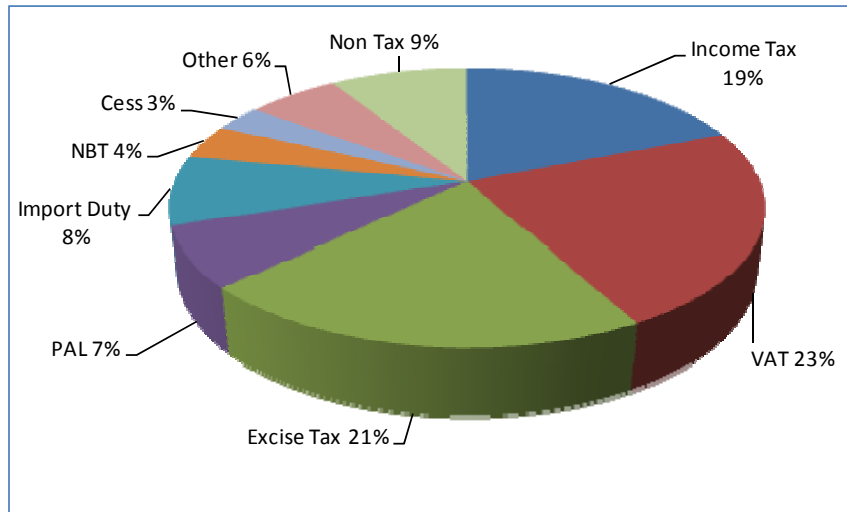
Table 1.2: Revenue Performance (Jan-May)

Rs. Million

Item	2011	2012	Growth (%)
Tax Revenue	315,786	353,314	11.9
Income Tax	59,315	71,831	21.1
VAT	86,907	90,410	4.0
Excise Tax	70,758	79,892	12.9
PAL	24,194	27,837	15.1
Import Duty	30,098	30,151	0.2
Nation Building Tax	13,258	15,791	19.1
Other	31,255	37,402	19.7
Non Tax Revenue	38,502	33,341	-13.4
Total Revenue	354,288	386,655	9.1

Source: Department of Fiscal Policy

Chart 1.1: Composition of Government Revenue (Jan-May 2012)



Income Tax

- Total income tax revenue increased by 21.1 percent to Rs. 71,831 million during the first five months in 2012 compared to Rs. 59,315 million in the corresponding period of 2011. This was mainly due to the notable increase of 71.5 percent in Withholding Tax (WHT) which was more than set off the negative impact by significant decrease of 22.1 percent in PAYE tax.
- Although the WHT on specified fees, rent etc. was decreased due to the removal of WHT on specified fees, WHT on interest recorded a significant increase due to the issue of Treasury Bonds/Bills and relatively high interest rates prevailing in the market since the latter part of 2011.
- Revenue from PAYE tax declined significantly, mainly due to the increase in the tax free threshold to Rs.600,000 from Rs.500,000 by way of granting of an additional tax free allowance of Rs.100,000 and change of income tax rate to 4 - 24 percent from the previous rate of 5 - 35 percent, with effect from 01 April 2011.
- Revenue from Corporate/Non Corporate taxes was also increased significantly benefiting particularly from the more favourable economic conditions and improved performance in banking and financial services, food, beverages and tobacco sectors and the construction industry. Meanwhile, the revenue from ESC increased only marginally due to the increase of ESC threshold.

Table 1.3: Performance of Revenue from Income Tax (January-May)*Rs. Million*

Tax Base	2011	2012 Prov.	Growth %
Corporate and Non Corporate	25,318	28,754	13.6
PAYE	8,541	6,654	-22.1
Economic Service Charge	10,503	10,772	2.6
Withholding Tax on Interest/ Fees and Other	14,954	25,652	71.5
Total	59,315	71,831	21.1

*Source: Department of Fiscal Policy***Value Added Tax (VAT)**

- The revenue from VAT during the first five months of 2012 amounted to Rs.90, 410 million in comparison to Rs 86,907 million recorded in the corresponding period of 2011. The increase in imports particularly during the first two months of the year in value terms was mainly attributable to this performance. However, there was a decline in the revenue from VAT on domestic sources.

Table 1.4 : Performance of VAT (January-May)*Rs. Million*

Tax Base	2011	2012	% Growth
Domestic	47,814	46,219	-3.3
Imports	41,847	45,286	8.2
Gross Revenue	89,661	91,505	2.1
Refunds	2,754	1,095	-60.2
Net revenue	86,907	90,410	4.0
Refunds as a % of Gross Revenue	3.1	1.2	

*Source: Department of Fiscal Policy***Excise Taxes**

- The revenue from Excise Tax on liquor, cigarettes and tobacco, petroleum, motor vehicles and other items generated Rs. 79,892 million during the first five months of 2012 indicating a 12.9 percent increase compared to Rs. 70,758 million for the same period of 2011.
- The production of hard liquor decreased by 2.6 percent and the production of soft liquor increased by 14.5 percent, respectively during the first five months of 2012 compared to the same period of 2011. Due to the increase of excise duty on liquor on 30.03.2012, the excise duty revenue on liquor increased by 11.8 percent to Rs.25,404 million in January – May 2012 period compared to the same period of 2011.

- Revenue from excise duty on cigarettes and tobacco increased by 9.6 percent generating Rs. 21,753 million during the first five months of 2012 compared to the Rs.19,846 million generated in the same period of 2011. Increase of excise duty on cigarettes and tobacco on 31.03.2012 and opening up of new markets in Northern & Eastern provinces were the main reasons behind this increase.
- Excise duty revenue on petroleum and motor vehicles generated Rs. 30,624 million during January – May 2012 period compared to Rs. 26,887 million in the same period of 2011. The excise duty on motor vehicles, three-wheelers and motor bicycles was increased from 31.03.2012, considering the rapid increase of motor vehicles imported to the country since 2009 and the traffic congestion as well as the subsequent high demand for fuel which required discouraging such imports in order to reduce the import bill. However, no changes have been made on the taxes levied on agricultural tractors, busses, lorries and trucks, etc.

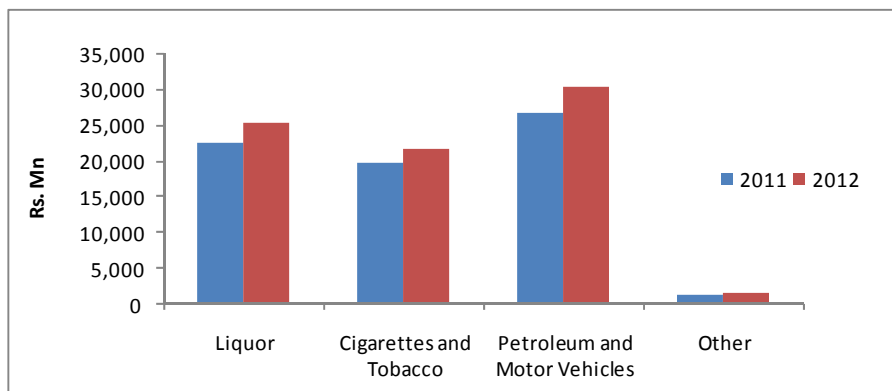
Table 1.5: Performance of Excise Duty (January – May)

Rs. Million

Tax Base	2011	2012	Growth (%)
Liquor	22,725	25,404	11.8
Cigarettes and Tobacco	19,846	21,753	9.6
Petroleum and Motor Vehicles	26,887	30,624	13.9
Other	1,300	2,112	62.4
Total	70,758	79,892	12.9

Source: Department of Fiscal Policy

Chart 1.2 Performance of Excise Duty (January - May)



Import Duty

- The revenue from Import duties during the first five months of 2012 increased marginally by 0.2 percent to Rs. 30,151 million compared to the Rs. 30,098 million earned in the same period of 2011. The reduction of import duty waiver for petrol & diesel with effect from 13.02.2012 and the increase of import duty on cut parts of motor vehicles, bodies and other spare parts and imported beer have been the main factors for this marginal increase. The positive impact stemming from the depreciation of the rupee against major foreign currencies also supportive to the revenue performance from imports during this period. Further, to discourage the importation of milk powder so as to promote local liquid milk, the duty waiver on milk powder (except infant milk) was reduced with effect from 04.05.2012.
- The revenue generated from Special Commodity Levy (SCL), which is a single tax on selective commodities, increased significantly by 115.7 percent and amounted to Rs. 13,643 million during January – May 2012 period compared to Rs. 6,325 million in the corresponding period of 2011. Adding up of new commodities to the list where SCL is applicable to promote domestic agriculture and to ease the price pressures in the domestic market caused this sharp increase. Further, SCL is continuously used by the Government as a measure to protect the local farmers of certain essential commodities such as Potatoes, B' Onions, Watana, Kurakkan, Chilies etc. during the harvesting season.

Other Taxes

- The revenue generated from the Ports and Airports Development Levy (PAL) increased by 15.1 percent to Rs. 27,837 million during the first five months of 2012 compared to the same period of 2011 as it was subjected to relatively fewer number of exemptions. Meanwhile, the total revenue collected from Cess on imports and exports amounted to Rs. 12,912 million and indicated an increase of 15.2 percent compared to the revenue of Rs. 11,207 million collected in 2011. Of this total, Cess on imports amounted to Rs. 11,614 million which was an increase of 14.4 percent compared to the revenue of Rs. 10,150 million in 2011.
- The Nation Building Tax (NBT), which was introduced to meet the post war rehabilitation expenditure was extended to the wholesale and retail trade sectors to replace the Provincial turnover tax (PTT) applicable to those sectors in 2011. During the first five months of 2012, the total revenue generated from the NBT increased by 19.1 percent to Rs. 23,686 million compared to Rs. 19,887 million generated in 2011. This was achieved amidst several changes that were introduced to the NBT structure in 2011. The NBT rate was reduced to 2 percent from 3 percent with certain exemptions and concessions for selected areas and 1/3 of the revenue generated from the NBT is being transferred to Provincial Councils (PCs) under the revenue sharing mechanism introduced to compensate the revenue loss incurred by the PCs due to the abolition of the Provincial turnover tax (PTT). Both NBT on domestic activities and

NBT on imports were increased by 19.7 percent and 18.4 percent, respectively owing to the increased domestic activities mainly in the areas of construction, tourism etc. and the increased value of imports.

- The revenue from NBT for the central government amounted to Rs. 15,791 million during this period and transfers to PCs were Rs. 7,896 million. In addition, 70 percent of the total revenue of Rs.868 million collected from motor vehicle registration fees and the entire revenue of Rs. 3,376 million collected from stamp duties were also transferred to PCs during the first five months of 2012.

Table 1.6: Revenue Transferred to Provincial Councils (January-May, 2012)

Rs. Million

Month	NBT			Stamp Duty
	Inland Revenue Department	Customs	Total	
January	1,064	743	1,807	1,301
February	742	632	1,374	204
March	725	816	1,541	221
April	996	657	1,653	1,330
May	781	740	1,521	320
Total	4,308	3,588	7,896	3,376

Source: Department of Fiscal Policy

Non Tax Revenue

- Total non tax revenue collected during the first five months of 2012 was declined by 13.4 percent to Rs. 33,341 million compared to Rs. 38,502 million collected in the same period of 2011. The non tax revenue accounted to 9 percent of the total government revenue. This was mainly attributed to the transfer of Rs. 10,000 million of profits by the Central Bank which accounted for 24 percent of the total non tax revenue. Sales and charges, the second main contributor to this source, generated Rs. 9,246 million and accounted for 22 percent of the total non tax revenue in the first five months of 2012.

Table 1.7: Finance and Revenue Related Legislations (Nov 2011 – May 2012)

Statute	Objective
Inland Revenue (Amendment) Act No -8 of 2012	To extend the tax holiday period and the scope for SME sector and Large scale investments, to introduce new tax holiday for strategic import replacement enterprises, to introduce new tax exemptions and concessionary rates, to introduce certain deductions from the calculation of profits, and new qualifying payments for development activities and SME sector opening up expenses
Value Added Tax (Amendment) Act No 7 of 2012	To introduce certain amendments to VAT suspension scheme, to introduce provision of the deferment facility during the project implementation period on plant, machinery and equipment to tax holiday enterprises, to introduce special rates for fabric and garments, to expand the set off of unabsorbed input credit, to introduce new exemptions
Nation Building Tax (Amendment) Act No 9 of 2012	To introduce new exemptions and changes consequent to that
Economic Service Charge (Amendment) Act No 11 of 2012	To introduce new exemptions, rate changes, expansion of the tax threshold to Rs 50 mn per quarter and consequential amendments
Finance Act No 12 of 2012	To introduce the removal of withholding tax on motor vehicle registration, Rate changes of luxury, semi luxury and dual purpose vehicles, Adjustment to tax on hotel room rate where the rooms are rented to Air line crew for specific rate that are gazetted.
Port and Airports Development (Amendment) Act No 10 of 2012	To introduce deferment on plant, machinery and equipments imported for tax holiday projects during the project implementation period

Table 1.8: Fiscal Measures (June 2011 - May 2012)

Excise (Special Provisions)	
01.06.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1708/21 of 01.06.2011) - To exempt Excise (Special Provisions) Duty on selected excisable articles, including motor vehicles / articles and grant specific concessions from the payment of Excise (Special Provisions) Duty on the specified excisable articles
19.10.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1728/10 of 19.10.2011) - To increase the Excise (Special Provisions) Duty on Cigarettes
21.11.2011	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1733/1 of 21.11.2011) - To exempt electric motor bicycles and polymers of ethlene in primary forms from the payment of Excise (Special Provisions) Duty
27.02.2012	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1747/01 of 27.02.2012) - To exempt from the payment of Excise (Special Provisions) Duty on selected excisable motor vehicles /articles and grant specific concessions from the payment of Excise (Special Provisions) Duty on the specified excisable articles
30.03.2012	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1751/28 of 30.03.2012) - To increase the Excise (Special Provision) Duties on motor vehicles for transport of persons and certain motor vehicles for transport of goods
Cess	
30.06.2011	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1712/23 of 01.07.2011) - Due to delay in submitting the Gazette No. 1695/31 to the Parliament, this Gazette was re-published
21.11.2011	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1733/5 of 21.11.2011) – To exempt the Cess on export of scrap/waste generated by enterprisers registered under BOI or Customs Manufacture-in-Bond, or a scheme under Temporary Importation for Export Processing (TIEP), to increase/impose Cess on export of raw rubber and low value added mineral exports to encourage local value addition
21.11.2011	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1733/6 of 21.11.2011) - To exempt the Cess on importation of goods for specified projects of national interest thereby facilitating the implementation of development projects, to reduce the upfront cost of local manufacturers by way of reduction/removal of Cess on a variety of raw material, to reduce Cess on such imports to enhance the availability of branded products of personal use at affordable prices and to increase the Cess on import of some items that could be locally manufactured
Excise Ordinance	
21.06.2011	Excise Notification No. 937 (Gazette Notification No. 1711/8 of 21.06.2011) -To grant permission to export undenatured, potable and bottled liquor meant for sales, on permits issued by Commissioner General of Excise on payment of excise duty or on furnishing a Bond or Bank guarantee for export of such article on a duty free basis

21.06.2011	Excise Notification No. 938 (Gazette Notification No. 1711/9 of 21.06.2011) – To amend the Excise duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations and for approved industrial and other use
19.10.2011	Excise Notifications Nos. 939, 940, 941 and 942 (Gazette Notification No. 1728/12 of 19.10.2011) – To amend the Excise duty on liquor, molasses, palmyrah, coconut and processed arrack, country made foreign spirits and malt liquor
20.10.2011	Excise Notification No. 943 (Gazette Notification No. 1728/23 of 20.10.2011) – To amend the Excise duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations and for approved industrial and other use
21.11.2011	Excise Notification No. 944 (Gazette Notification No. 1733/2 of 21.11.2011) – To amend the annual licence fee for the manufacture of drugs, cosmetics, Ayurvedic products etc. using ethyl alcohol
21.11.2011	Excise Notification No. 945 (Gazette Notification No. 1733/3 of 21.11.2011) – To amend the Excise duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations and for approved industrial and other use
21.11.2011	Excise Notification No. 946 (Gazette Notification No. 1733/4 of 21.11.2011) – To introduce a lower Excise duty on locally produced wine
30.03.2012	Excise Notifications Nos. 947, 948, 949 and 950 (Gazette Notification No. 1751/29 of 30.03.2012) - To amend the Excise duty on liquor, molasses, palmyrah, coconut and processed arrack, country made foreign spirits and malt liquor
30.03.2012	Excise Notification No. 951 (Gazette Notification No. 1751/30 of 30.03.2012) – To amend the Excise duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations and for approved industrial and other use
Ports and Airports Development Levy	
22.11.2011	Ports and Airports Development Levy Act, No.18 of 2011 (Gazette Notification No. 1733/17 of 22.11.2011) – To exempt the importation of selected articles used by disabled persons, timber logs, certain types of yarn and fabric from the payment of Ports and Airports Development Levy
09.05.2012	Ports and Airports Development Levy Act, No.18 of 2011 (Gazette Notification No. 1757/3 of 09.05.2012) – To exempt plant, machinery or equipment imported by selected enterprises and goods imported for international transportation and to amend the order for importation of raw materials used for manufacturing of pharmaceuticals
Inland Revenue Act	
19.10.2011	Notice under Section 217, Inland Revenue Act, No. 10 of 2006 (Gazette Notification No. 1728/13 of 19.10.2011) – To expand the coverage of deposits in Regional Development Funds and Government Securities in the scope of investment of the Pension Funds, Gratuity Funds or Savings Funds which are approved by the Commissioner General of Inland Revenue

07.12.2011	Order under Section 16(2) (c), Inland Revenue Act, No. 10 of 2006 (Gazette Notification No. 1735/26 of 07.12.2011) – To qualify “Samaposa” manufactures using locally produced grains such as corn, rice, soya and green gram and sold on or after the April 01 st , 2006, for the purpose of section 16 (l) (c) of the Inland Revenue Act, No. 10 of 2006
Finance Act, No. 11 of 2004	
04.08.2011	Order under Section 26, Finance Act, No.11 of 2004 (Gazette Notification No. 1717/20 of 04.08.2011) – To specify the period for which a domestic Public Switched Telephone Network (PSTN) operator be eligible to claim two thirds of the Telecommunication Development Charge (TDC) Fund
29.12.2011	Orders made under Sections 22 and 26, Finance Act, No.11 of 2004 (Gazette Notification No. 1738/15 of 29.12.2011) – To revise the International Telecommunication Operators Levy on incoming/outgoing international calls
Fiscal Management (Responsibility) Act	
30.06.2011	Order made under Section 10 of Fiscal Management (Responsibility) Act, No. 3 Of 2003 (Gazette Notification No. 1712/20 of 30.06.2011) – To publish the Mid – Year Fiscal Position Report - 2011
21.11.2011	Order made under Sections 4 and 7 of Fiscal Management (Responsibility) Act, No. 3 Of 2003 (Gazette Notification No. 1733/7 of 21.11.2011) – To publish the Fiscal Management Report - 2012
30.05.2012	Order made under Section 13 of Fiscal Management (Responsibility) Act, No. 3 Of 2003 (Gazette Notification No. 1760/11 of 30.05.2012) – To publish the Final Budget Position Report - 2011
Stamp Duty (Special Provisions) Act	
04.04.2012	Stamp Duty (Special Provisions) Act, No. 12 of 2006 (Gazette Notification No. 1752/17 of 04.04.2012) - To exempt share certificate on the issue of any share to the Government of Sri Lanka from Stamp Duty
09.05.2012	Stamp Duty (Special Provisions) Act, No. 12 of 2006 (Gazette Notification No. 1757/4 of 09.05.2012) - To exempt share certificate on the transfer or assignment of any share belongs to the Government of Sri Lanka from Stamp Duty

Government Expenditure

- The overall government expenditure stood at Rs. 593,471 million during the first four months of 2012 which constituted of Rs. 445,389 million of recurrent expenditure and Rs. 148,082 million of capital expenditure. The public investment on development projects in the areas such as power generation, ports, roads and irrigation, etc. during this period amounted to Rs. 152,401 million.

Table 1.9: Performance of Government Expenditure (Jan-April)

Rs. Million

	2011	2012 (Pro)
Current Expenditure	360,283	445,389
Salaries and Wages	108,218	112,114
Interest	142,284	173,651
Samurdhi	3,100	3,638
Fertilizer Subsidy	5,625	13,002
Pension	32,238	37,133
Other Expenditure	68,818	105,851
Public Investment	103,948	152,401

Source: Department of State Accounts

Salaries and Pension Cost

- The government spent Rs. 112,114 million on salaries and wages of public servants during the first four months with an increase of 4 percent over the corresponding period of the previous year. This was due to the increase in the special allowance by 10 percent of the basic salary of public servants of non staff category and 5 percent of the basic salary to staff category from January 2012.
- The expenditure on pension payments increased by 15 percent to Rs. 37,133 million. This was mainly due to the full impact of 22,773 of new retirees in 2011 and partial impact of 8,100 new retirees in the first four months of 2012. The increase in pension payments by Rs.500 to those who retired before 01.01.2004 and by Rs.250 to the pensioners retired during the period between 02.01.2004 and 31.12.2006 also contributed to this increase.

Interest Cost

- Interest payments on foreign and domestic debt amounted to Rs. 173,651 million with a 22 percent increase over the corresponding period of last year. The increase in domestic market interest rates on government securities and the depreciation of the rupee against major foreign currencies, which increased the interest payments on foreign currency denominated debt, were the major reasons for this increase.

Table 1.10: Behavior of Yield Rates (%): 2011-2012

Period	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 years	3 years	4 years	5 years
2011 Apr	7.04	7.14	7.34	-	-	-	-
2011 Jul	7.11	7.19	7.25	-	-	8.20	-
2011 Oct	7.29	7.35	7.44	-	-	-	-
2011 Dec	8.68	8.71	9.31	-	-	-	-
2012 Jan	8.67	8.71	9.30	9.45	-	9.55	-
2012 Feb	9.51	9.64	10.19	-	10.20	-	10.75
2012 Mar	11.00	11.06	11.32	10.61	-	10.83	-
2012 Apr	11.93	12.05	12.16	11.46	11.60	11.80	12.10
Percentage Change (2011 Apr- 2012 Apr)	4.89	4.19	5.27				

Source: Department of Treasury Operations

Welfare Payments and Social Safety Net on Vulnerable Groups

- The expenditure on welfare payments and subsidies of the government in the first five months of the year totaled at Rs. 32,565 million. This is a 22 percent increase over the same period in 2011. The government continued to provide welfare assistance addressing the hardships faced by the poorer segments of the society including Samurdhi relief, flood and drought relief and meals and dry rations to internally displaced persons spending Rs.5,403 million. The service compensation to injured and dead soldiers increased to Rs. 6,107 million during this period from Rs.5,499 million of the previous year.
- The Nutritional Intervention Programmes carried out by the government to improve the maternal and child health care such as "Poshana Malla", Thriposhna programme, fresh milk programme and school nutrition programme continued in 2012 costing Rs. 1,712 million. Expenditure on the Poshana Malla programme to provide a nutritional food package to expectant mothers was Rs. 87 million while the total cost born on school nutrition programme was Rs. 1,053 million. The Ministry of Health spent Rs. 544 million on Thriposhna programme and Rs. 28 million was spent to provide fresh milk for children between 2-5 years. World Food Programme was continued at a cost of Rs. 1,161 million during the corresponding period.
- Ensuring the provision of free education to all school children, the government expenditure on providing free school text books, uniforms, season tickets and free dharma school books, bursaries increased to Rs. 3,352 million for the period of January to May from Rs. 2,234 million in the previous year.

- The government policy decision to expand the fertilizer subsidy programme to any crop increased the relevant spending to Rs 16,071 million. This is an increase of 35 percent over the corresponding period of the previous year.

Table 1.11: Welfare Payments and subsidies- (January - May)

Item	Rs. Million	
	2011	2012*
Mothers and Children		
Infant Milk Food Subsidy	41	28
Poshana Malla	103	87
Thriposha Programme	422	544
Free Text Books & Uniforms	1,407	2,424
School Season Tickets	549	659
Dharma School Text Books & Uniforms	189	189
School Nutritional Foods	818	1,053
Agriculture		
Fertilizer Subsidy	11,876	16,071
Welfare Payments		
Samurdhi Relief	3,922	4,210
Assistance to Differently able Soldiers	5,499	6,107
WFP food Assistance	1,270	1,161
Welfare Assistance to IDP	69	23
Flood and Drought Relief	409	9

* Provisional

Source: Department of State Accounts, Department of National Budget

Public Investment Expenditure

- The Government continued to channel 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", and regional development initiatives such as "Uthuru Wasanthaya" Nagenahira Navodaya" 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 January-April 2012 with the total public investment amounting to Rs. 152,401 million.

Rural Development Initiatives

- "Divi Neguma", the one million home economy programme which is aimed at empowering household back yard economies for strengthening the economic base of the families, improving nutrition level as well as ensuring the food security, was continued during the first five months of 2012 with a cost of Rs. 556 million. Under this program, development of cottage industries,

self employment support initiatives, fishery and livestock development along with the small scale agricultural projects were mainly focused.

- "Gama Neguma", the major initiative to empower the rural economy through developing efficient linkages between mainstream development activities and rural centric activities such that rural communities are promoted as a major contributor to the national economy, continued in 2012 with the new approach of "one project for one village" concept. Accordingly, one development project worth of Rs. 1 million is implemented in each village. This program was continued during first five months of 2012 at a cost of Rs. 3,592 million focusing on road development and improving minor irrigation and drinking water facilities.

Spending on Development Programmes

Roads

- The investment on national roads was around Rs.36, 894 million during the period of January – May 2012. This includes Rs.11,363 million on expressway development and Rs. 17,526 million on development of highways island wide. Meanwhile, Rs.6,943 million on widening and improving national roads, Rs. 294 million on construction of bridges and flyovers and Rs. 768 million on Tsunami affected road rehabilitation had been incurred during this period. In addition, Rs.8,939 million spent for the development of Provincial roads. Also, under the "Maga Neguma" and "Gama Neguma" programmes, Rs.1,715 million and Rs. 2,800 million were spent respectively, for the development of rural roads.

Ports

- Three key port development projects are currently 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 to higher economic growth. In particular, during the period from January to May 2012, the investment in CSHP was Rs.136 million while it was Rs. 158 million on Oluvil Port Development Project. Construction of Hambantota Port Development Project was also continued during the period under review.

Power and Energy

- The government invested about Rs. 6,889 million on the development activities in the power sector during the first five months of 2012, with the aim of achieving 100 percent electrification level by 2012. Of this, Rs. 3,838 million was related to improving generation facilities in the country. In addition, Rs. 2,133 million on the expansion of electricity distribution facilities and Rs. 918 million on the development of electricity transmission system have been invested during the period.

Water Supply and Sewerage

- The investment on the water supply and sanitation sector during the first five months of 2012 amounted to Rs. 12,998 million. In addition, Rs. 888 million has been invested during the same period on the development of 55 small and medium scale water supply schemes.

Table 1.12: Water Supply and Sanitation (Jan-May, 2012)

Rs. Million

	Foreign Funds	Domestic Funds	Total
Large Scale Water Supply Schemes; Ja-Ela, Ekala, Kandana, Mahara, Biyagama, Polonnaruwa, Anuradhapura, Trincomalee, Hambantota, Batticaloa, Kandy, Jaffna, Killinochchi, Negombo, Colombo, Chilaw, Vavuniya, Mannar, Piliyandala, Panadura, Rathnapura, Balangoda, Amapara, Pothuwil, Dambulla, Badulla and Kurunegala	6,081.4	2,871.2	8,952.6
Small Scale Water Supply Schemes; Matale, Kundasale, Marassana, Anuradhapura, Kantale, Madu Church, Ibbagamuwa, Galigamuwa, Pelmadulla, Wellawaya, Buttala, Kalutara, Kirindiwela, Hakmana	-	888.3	888.3
Tsunami Water Supply Projects Trincomalee	279.6	103.4	383.0
Sewerage Schemes; Kandy, Colombo, Moratuwa, Rathmalana, Ja-Ela, Ekala, Maharagama, Boralesgamuwa and Galle	475.3	234.4	709.7
Total	6,836.3	4,097.3	10,933.6

Source: National Water Supply and Drainage Board

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 2012. The development work consists of land acquisition, resettlement, land development, construction of irrigation network, access roads, provision of necessary social infrastructure facilities and environment conservation and management and during the January – May period, Rs. 434 million was spent on this project.

- Uma Oya Diversion Project, which was commenced in 2009, benefiting 12,000 families in Badulla, Monaragala and Hambantota districts while generating 120 MW hydro power continued in this period. It is expected to cultivate 15,000 acres under this project. The cumulative expenditure up to end May 2012 under this project was Rs. 9,546 million.
- Deduru Oya Reservoir Project, which is designed to irrigate 11,000 Ha of new and existing land in Kurunegala and Puttlam districts and provides benefits to about 11,000 farmer families also continued 70 percent of the construction work of the main dam, left and right bank sluices, main channel, spillway and trans-basin has been completed. The cumulative expenditure on this project up to the end of May 2012 was Rs 4,840 million.
- Head works on 32 major dams, together with rehabilitation of water conveying systems, desilting modernization and installation of modern gauging and meteorological information equipment for 80 dams, are being undertaken through the Dam Safety and Water Resources Planning Project. The expenditure of the project from January to May 2012 was Rs.302 million.

Human Resource Development

Education

- In the area of education, Rs. 10,977 million has been spent under the allocation made to the general education sector during the first four months of 2012. Further, Rs. 5,737 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. 1,118 million during the first four months of 2012 while Rs. 1,238 million has been spent on infrastructure development in the general education sector during this period.

Health

- The government expenditure on health consisting of Western and Indigenous medicine sectors amounted to Rs 25,439 million during the first four months of 2012. Out of the total, 89 percent was utilized on recurrent expenditure. In addition, Rs 5,044 million has been spent on medical supplies while spending Rs 544 million on Thripasha Programme during the first five months of the year.
- The utilization of capital expenditure in this sector during January to April 2012 was Rs 2,782 million. A major share of capital expenditure is for hospital development, maintenance and rehabilitation and provision of equipment and ambulances. Construction of Epilepsy Unit at National Hospital of Sri Lanka, Improvement of Central Functions at Teaching Hospital Jaffna, improvement of basic social services targeting the emerging regions are some of the major projects successfully implemented during the first four months of 2012.

Table 1.13: Allocations Provided by Treasury Votes under Budgetary Support Services and Contingent Liability Project up to April 2012

Rs.

Head No.	Ministry/Department	Purpose	Recurrent	Capital
1	His Excellency the President	Initial expenses of Petroleum Resources Development Secretariat and Account the grant given for setting up the National Nutritional Secretariat.		42,500,000
3	Secretariat for Special Functions (Senior Ministers)	Purchase of Vehicles and Traveling Expenses	500,000	40,000,000
5	Office of the Cabinet of Ministers	Purchase of Vehicles		830,000
6	Public Service Commission	Purchase of a Vehicle		11,000,000
11	Office of the Finance Commission	Personal Emoluments	1,036,935	-
16	Parliament	Purchase of Vehicles		44,000,000
18	Office of the Chief Govt. Whip of Parliament	Purchase of Vehicles		6,271,223
20	Department of Elections	Purchase of a Vehicles,		600,000
21	Auditor General	Purchase of Vehicles		1,397,309
22	Office of the Parliamentary Commissioner for Administration	Printing of Annual Report - 2010	75,000	

102	Ministry of Finance and Planning	Account the grant given to Institute of Policy Studies for conducting a study on developing a Comprehensive Social Protection Scheme.		8,250,000
247	Sri Lanka Customs	Construction of Office Building		300,000,000
248	Department of Excise	Building Rent	16,416,000	
249	Department of Treasury Operations	Increase the limit of Paddy Purchasing Revolving Fund.		750,000,000
252	Department of Census and Statistics	Provisions for completion of Census of Population and Housing of 2011.		500,000,000
323	Department of Legal Affairs	Other Recurrent Expenditure	160,000	-
103	Ministry of Defence and Urban Development	Relocation of Defence Headquarters Complex and Flood Mitigation Work		350,000,000
222	Sri Lanka Army	Settle outstanding bills of the Uthuru Wasanthaya Project, Purchase of Vehicles, and Plant, Machinery & Equipment,		100,000,000
223	Sri Lanka Navy	Settle outstanding bills of 2010, vehicle maintenance, transport, acquisition of building, machinery and equipment.	140,000,000	460,000,000
226	Department of Immigration and Emigration	Introducing an Electronic Payments for Online Visa Application Processing Charges		20,000,000
227	Department of Registration of Persons	Purchase of Protective Covers and Laminating Roll for preparation of National Identity Cards.		15,000,000
291	Department of Coast Conservation	Participatory Coastal Zone Restoration & Sustainable Management Project		22,000,000

105	Ministry of Economic Development	Account the Grant given for the Conflict Affected Region Emergency Project.		100,000,000
106	Ministry of Disaster Management	Account the Grant given for Disaster Reliefs and Purchase of Vehicles.		22,080,000
110	Ministry of Justice	Purchase of Vehicles		207,000,000
233	Department of Government Analyst	Completion of construction of Office Building		150,000,000
111	Ministry of Health	Account the Grant given for improvement of Maternal and Child Health Units in hospitals and Infrastructure and Human Resource Development of the National Drugs Quality Assurance Laboratory.		125,000,000
112	Ministry of External Affairs	Purchase of Vehicles for Sri Lankan Embassies in New York, Netherlands, Singapore Doha Qatar, New Delhi and Jordan, Construction of Office Buildings of Sri Lankan Embassy in Canberra and Purchase of a Generator.		151,287,500
115	Ministry of Petroleum Industries	Purchase of Vehicles		3,000,000
116	Ministry of Co-operatives and Internal Trade	Purchase of Vehicles, Subsidy for purchasing Plastic Crates to minimize the Post Harvest Losses of Vegetables and Fruits	25,000,000	3,044,000
302	Co-operative Employees Commission	Purchase of two Air Condition Machines		350,000
117	Ministry of Ports & Highways	Purchase of Vehicles		17,800,000
118	Ministry of Agriculture	Foreign Travelling	1,296,300	

119	Ministry of Power and Energy	Advance for payment of contract value of the Nagenahira Navodaya Project.		700,000,000
120	Ministry of Child Development and Women's Affairs	Purchase of Vehicles and Personal Emoluments	18,280,387	18,842,938
121	Ministry of Public Administration and Home Affairs	Purchase of Vehicles		10,000,000
253	Department of Pensions	Completion of construction works of Circuit Bungalow at Ramboda		10,000,000
255	District Secretariat, Colombo	Allowances for Graduate Trainees	19,590,000	-
256	District Secretariat, Gampaha	Allowances for Graduate Trainees	28,440,000	-
257	District Secretariat, Kalutara	Allowances for Graduate Trainees	22,350,000	-
258	District Secretariat, Kandy	Allowances for Graduate Trainees	40,000,000	-
259	District Secretariat, Matale	Allowances for Graduate Trainees	19,530,000	-
260	District Secretariat, Nuwara-Eliya.	Allowances for Graduate Trainees	20,790,000	-
261	District Secretariat, Galle	Allowances for Graduate Trainees	55,000,000	-
262	District Secretariat ,Matara	Allowances for Graduate Trainees	40,000,000	
263	District Secretariat , Hambantota	Allowances for Graduate Trainees	50,000,000	
272	District Secretariat, Kurunegala	Construction of Office Building the Divisional Secretariat at Kuliypitiya and Nikaweratiya, and Allowances for Graduate Trainees.	50,000,000	10,000,000
273	District Secretariat, Puttalam	Allowances for Graduate Trainees	11,940,000	-

274	District Secretariat, Anuradhapura	Expenditure of Dayata Kirula Exhibition 2012 and Allowances for Graduate Trainees.	34,000,000	476,600,000
275	District Secretariat - Polonnaruwa	Allowances for Graduate Trainees	10,890,000	-
276	District Secretariat - Badulla	Allowances for Graduate Trainees	7,500,000	-
277	District Secretariat, Monaragala	Allowances for Graduate Trainees	21,360,000	-
278	District Secretariat, Ratnapura	Allowances for Graduate Trainees	26,970,000	-
279	District Secretariat, Kegalle	Allowances for Graduate Trainees	41,640,000	-
122	Minister of Mass Media and Information	Recurrent and Capital Expenditure of Sri Lanka Television Training	5,000,000	7,000,000
123	Ministry of Construction, Engineering Services, Housing and Common Amenities	Purchase a Vehicle		959,280
311	Department of National Physical Planning	Settlement of payment for preparation a Local Level Development Plans.		3,100,000
124	Ministry of Social Services	Purchase of Vehicles		1,070,000
128	Ministry of Traditional Industries and Small Enterprises Development	Purchase of a Vehicle		9,600,000
317	North Central Provincial Council	Deyata Kirula Development Exhibition - 2012, Criteria Based Grant for Rehabilitation of Flood Damaged Provincial Roads and Minor Irrigation Schemes.		850,000,000
321	Eastern Provincial Council	Rural Road Development		125,000,000

133	Ministry of Technology and Research	Account the Grant given for organizing a Global Forum of Sri Lankan Scientists through National Science Foundation		2,048,887
138	Ministry of Indigenous Medicine	Purchase of a Land for Ayurvedic Drugs Corporation		25,000,000
220	Department of Ayurveda	Account the Grant given for National Ayurvedic Research Conference	780,900	780,900
140	Ministry of Livestock and Rural Community Development	Reimbursement of losses borne by in Milco due to increasing buying price of fresh milk.		60,000,000
292	Department of Animal Production and Health	Compensation paid under the project of Immediate Assistance for Highly Pathogenic Avian Influenza.		7,000,000
142	Ministry of National Heritage	Purchase of Vehicles		2,300,000
145	Ministry of Re-settlement	Account the Grant given for purchasing of Agricultural Equipment supporting the Resettlement activities, and for providing shelter grant for resettled Refuge Families.		36,046,400
149	Ministry of Industry and Commerce	Purchase of Vehicles.		11,000,000
160	Ministry of Environment	Account the Grant given for the Technology Need Assessment Project and Purchase of a Vehicles		20,769,000

166	Ministry of Water Supply and Drainage	Purchase of Vehicles, Expenditure for Water and Sanitation Trust Fund	10,000,000	5,200,000
174	Ministry of Rehabilitation and Prison Reforms	Purchase of a Vehicle, and Renovation of office Quarters of the Minister.		13,500,000
175	Ministry of State Resources and Enterprise Development	Purchase of a Vehicle		3,643,217
176	Ministry of Civil Aviation	Capitalization of Sri Lankan Airlines and Mihin Lanka Airlines		2,286,325,000
177	Ministry of Culture & the Arts	Purchase of a Vehicle		7,000,000
181	Ministry of Productivity Promotion	Purchase of a Vehicle and Recurrent Expenditure of Pelawatta and Sewanagala Sugar Industries.	550,000,000	7,000,000
183	Ministry of Public Relations and Public Affairs	Renovation of Office Building		1,028,000
184	Ministry of Private Transport Services	Purchase of a Vehicle		6,475,000
185	Ministry of Telecommunication and Information Technology	Construction of School Computer Lab Buildings and Provide Furniture and Equipments for same & Computerization of 3 Hospitals in Anuradhapura District, and Construction of Information Technology Parks in Mannar and Jafna.		267,700,000
Total			1,268,545,522	8,436,398,654

Treasury Operations

Performance of the Government Treasury Cash Flow

- Cash inflow to the Government Treasury in the 1st five months of 2012 has increased by 8 percent compared to the same period in 2011. Cash deficit after outflow for recurrent and capital expenditure amounted to Rs. 266.6 billion, which is higher than the corresponding figure for the year 2011 by Rs. 75.2 billion. This was mainly due to the increase in cash outflows for recurrent and capital expenditure by 14 percent and 35 percent, respectively, compared to the corresponding period of the previous year. The overall closing cash balance (deficit) as at end May 2012 was Rs. 88.3 billion, which is lower than the cash deficit prevailed at the end of May 2011 by Rs. 7.0 billion.

Table 1.14: Statement on Government Treasury Cash Flow Operations (January to May)

Rs. Million

Item	2011	2012	
	January - May	January - May	
	Actual	Estimate	Actual
Total cash inflow from revenue and other receipts	347,754	400,042	376,402
Total cash outflow for recurrent expenditure	(408,320)	(461,216)	(466,680)
Total cash outflow for capital expenditure*	(130,795)	(159,468)	(176,281)
Net cash surplus (deficit)	(191,361)	(220,642)	(266,559)
Opening cash balance as at 1st January	(86,809)	(97,809)	(97,809)
Gross borrowing *	410,722	458,662	556,059
Debt repayment	(231,340)	(273,076)	(283,831)
Net borrowing	179,382	185,586	272,228
Adjustment account balance (TEB, net deposits, etc)	3,479		3,849
Closing cash balance as at 31st May	(95,309)	(132,865)	(88,291)

* Includes project/programme loans received by the government and recorded in the CS-DRMS as at 31 May 2012

Source: Department of Treasury Operations

Management of Government Debt

- The government debt operations indicated a total gross borrowing of Rs. 556.1 billion during the first five months of 2012. The repayments of government debt, both domestic and foreign, amounted to Rs. 283.8 billion thus limiting net borrowings to Rs. 272.2 billion during this period.
- The table below summarizes the government's gross domestic borrowing during January-May 2012.

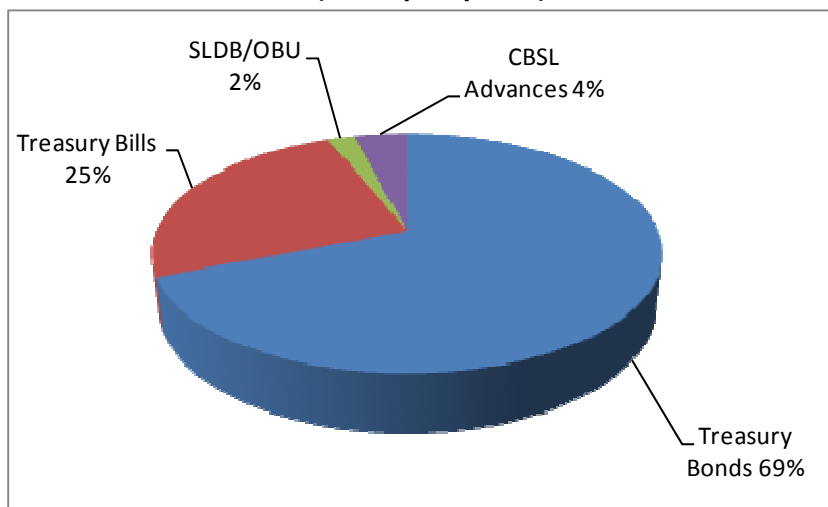
Table 1.15: Gross Domestic Borrowing by instrument (January-May 2012)

Rs. Million

Gross Borrowing by Instrument		January -May 2012
Domestic	Rupee Loans	-
	Treasury Bonds*	329,591
	Treasury Bills	120,064
	SLDB/OBU	11,270
	CBSL Advances	17,908
	Other	-
Total		478,833

* Excludes Treasury bonds issued to Capitalize CPC dues of Rs 60bn

Chart 1.3: Gross Domestic Borrowing By Instrument (January-May 2012)



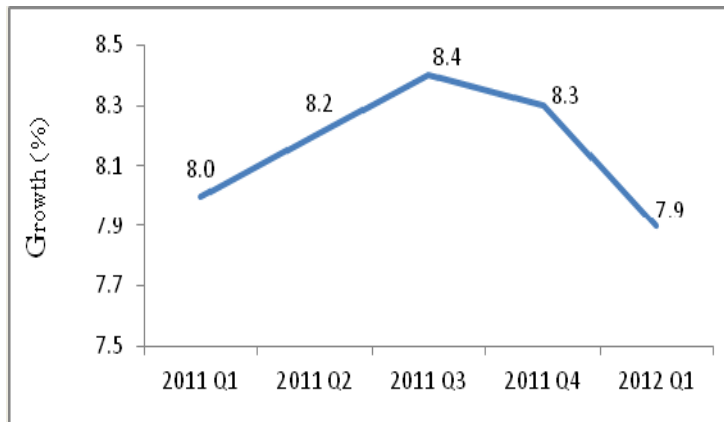
CHAPTER 2

The Economy

Economic Growth

- The economy recorded a 7.9 percent growth, in real terms, during the first quarter of the 2012 compared to 8.0 percent growth recorded in first quarter of 2011. This was mainly contributed by the Services sector and Industry sector which grew by 5.8 percent and 10.8 percent, respectively during this period compared to 9.5 percent and 11.1 percent growth recorded during the respective period in 2011. However, agriculture sector grew significantly by 11.5 percent in the first quarter of 2012 compared to 4.3 percent decline recorded during the same period in 2011.

Chart 2.1: GDP Growth



- The growth in the Agriculture sector, which contributed for 12.7 percent share of Gross Domestic Product (GDP) in first quarter of 2012, was supported by the better performance in paddy, coconut, fruits & vegetables and highland crops production. Industry sector which contributed for 30 percent share of GDP in first quarter of 2012 grew by 10.8 percent mainly with the impact of 17.5 percent growth in construction activities and 26.8 percent growth in mining and quarrying industry. However, manufacturing sector, which contributed for 17.5 percent share of GDP grew by 6.7 percent during this period compared to 8.2 percent recorded in first quarter in 2011. Further, electricity, gas and water sector grew by 5.6 percent during this period compared to 15.6 percent recorded in first quarter in 2011, mainly due to the slower growth in electricity by 5.5 percent and gas by 4.9 percent.

Table 2.1: Sectoral Composition of GDP (2002 Constant Prices) (Jan. – Mar.)*Rs. Million*

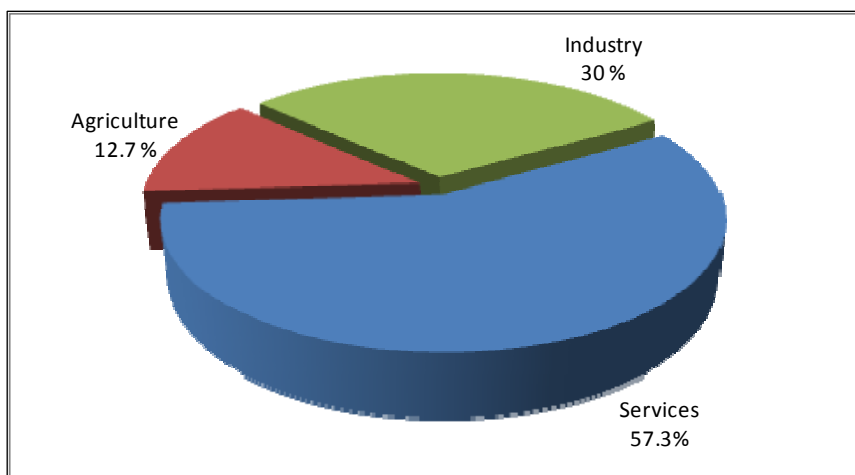
	2011	2012 *
Agriculture, Forestry and Fishing	85,371	95,162
Agriculture, Livestock and Forestry	77,390	86,698
Tea	6,806	6,353
Rubber	1,130	1,068
Coconut	6,683	7,336
Minor Export Crops	3,582	2,623
Paddy	18,468	24,977
Highland Crops	11,464	12,064
Fruits and Vegetables	15,400	17,701
Livestock	5,108	5,393
Other Agriculture	4,801	5,057
Firewood & Forestry	3,948	4,126
Fishing	7,981	8,464
Industry	203,086	225,057
Mining and Quarrying	15,952	20,232
Manufacturing	123,035	131,285
Processing Industries	3,915	4,079
Factory Industry	111,310	118,934
Small Industry	7,810	8,272
Electricity, Gas and Water	15,004	15,844
Electricity	13,039	13,760
Gas	1,277	1,340
Water	688	744
Construction	49,095	57,696
Services	406,688	430,186
Wholesale and Retail Trade	159,033	170,278
Import Trade	50,668	55,887
Export Trade	26,720	27,177
Domestic Trade	81,645	87,214
Hotels and Restaurants	3,321	4,052
Transport and Communication	100,908	106,665
Transport	84,215	89,025
Cargo Handling-Port and Civil Aviation	4,522	4,661
Post and Telecommunication	12,171	12,979
Banking, Insurance and Real Estate etc.	61,121	65,548
Ownership of Dwellings	18,911	19,161
Government Services	46,554	46,932
Private Services	16,840	17,550
Gross Domestic Product	695,145	750,405

Source: Department of Census and Statistics

*Provisional

- Services sector, which contributed for 57.3 percent of share of GDP in first quarter of 2012, recorded a slower growth of 5.8 percent mainly due to the slowdown in the performance in wholesale & retail trade, hotels & restaurants and transport & communication sectors. During this period, even though import trade grew by 10.3 percent, export trade and domestic trade grew by 1.7 percent and 6.8 percent, respectively compared to 15.3 percent and 8.5 percent growth respectively, recorded in the same period in 2011. Accordingly, wholesale and retail trade services which contributed for 22.7 percent share of GDP recorded 7.1 percent growth compared to 10.7 percent in the first quarter 2011. Hotels and restaurants sector services also had a slower growth of 22 percent during the first quarter 2012 compared to 34.2 percent in respective period in 2011. Further, the transport and communication services, which contributed for 14.2 percent share of GDP grew by 5.7 percent compared to 12.9 percent growth during the respective period in 2011 stemming from the negative impact of slower growth of 5.7 percent in transport services, 3.1 percent in cargo handling, ports and civil aviation and also 6.6 percent in post and telecommunication services during the first quarter 2012 compared to 11.8 percent, 19.4 percent and 18.7 percent, respectively, recorded during the same period in 2011.

Chart 2.2: Sectoral Composition of GDP - First Quarter 2012



Inflation

- The annual average inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), decreased to 5.6 per cent in May 2012 from 5.7 per cent in April 2012. Further, the inflation on year-on-year basis (YoY) increased to 7.0 per cent in May 2012 from 6.1 per cent in the previous month.

- Meanwhile, the core inflation, which measures the price movements excluding fresh food, energy, transport, rice and coconut in the CCPI basket decreased to 6.0 per cent and 4.8 per cent, respectively, in May 2012 compared to April 2012 in terms of both annual average and YoY basis.

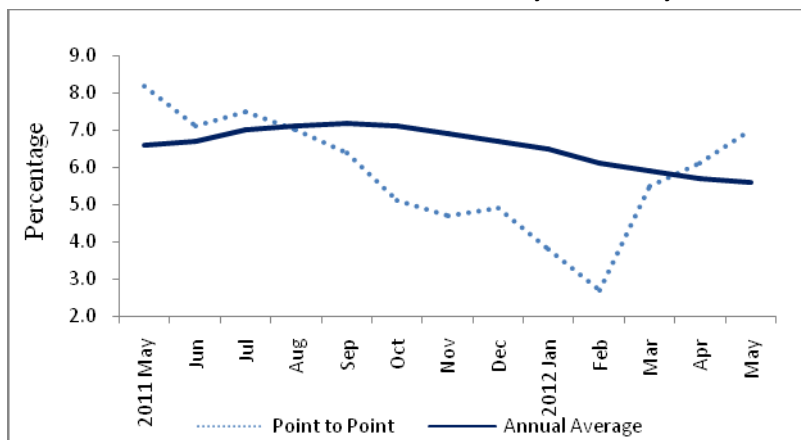
Table 2.2: CCPI of Headline and Core Inflation (point to point)

Year/Month	Headline Inflation (%)	Core Inflation (%) *
2011- January	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
July	7.5	8.9
August	7.0	7.8
September	6.4	6.9
October	5.1	5.6
November	4.7	4.9
December	4.9	4.7
2012- January	3.8	4.7
February	2.7	4.7
March	5.5	4.9
April	6.1	5.2
May	7.0	4.8

Source: Department of Census and Statistics

* Excluding fresh food, energy, transport, rice and coconut

Chart 2.3: CCPI Headline Inflation: May 2011- May 2012



Source: Department of Census and Statistics

Stock Market

- The stock market activities continued to show relatively lower performance in the first four months of 2012. During this period, measures were introduced to strengthen the market, including the restrictions introduced on the credit extended by brokers.
- Accordingly, compared to end April 2011, the All Share Price Index (ASPI) declined by 26 percent to 5,419 and Milanka Price Index (MPI) declined by 29 percent to 4,851 by end April 2012. The annual turnover declined by 59 percent to Rs. 91 billion and market capitalization declined by 19 percent to Rs. 2,017 billion compared to end April 2011. However, foreign purchases increased by 119 percent and foreign sales decreased by 59 percent during this period, compared to respective period in 2011.

Table 2.3: Movements in the Capital Market

Indicator	2007	2008	2009	2010	2011	End April	
						2011	2012
All Share Price Index (1985=100)	2,541	1,503	3,386	6,636	6,074	7,357	5,419
Milanka Price Index	3,292	1,631	3,849	7,062	5,229	6,823	4,851
Market Capitalization (Rs.Bn)	821	489	1,092	2,210	2,214	2,487	2,017
No. of Listed Companies in Trading	231	232	231	241	272	231	279
Annual Turnover (Rs. Bn.)	105	105	142	570	546	220	91
Foreign Sales (Rs. Mn.)	35,543	52,682	43,846	118,761	68,816	28,480	11,661
Foreign Purchases (Rs. Mn.)	46,797	66,632	43,057	92,426	49,776	15,004	32,897

Source : Colombo Stock Exchange

External Sector Developments

- The external sector performance has to be looked into in the backdrop of policy measures introduced by the government in February 2012 to address the trade deficit issue as well as the international events that are unfolding, including the Euro crisis, which had a negative impact on Sri Lanka's external sector performance.
- Accordingly, the external sector performance reflected a slower growth during the first four months of 2012 mainly due to 3 percent decline in exports to US\$ 3,314 million compared to respective period in 2011. However, with the continuation of positive impacts of increased investor confidence as a result of the cessation of terrorist activities coupled with the expansion of domestic economic activities, imports grew by 12 percent to US\$ 6,634 million. Accordingly, the trade deficit widened by 32 percent to US\$ 3,320 million, the increase in the worker remittances inflows by 16.6 percent to US\$ 1,968 million, improved performance in services account through increased earnings especially from tourism by 26 percent to US\$ 340 million helped partly offset it. As at end April 2012, the gross official reserves amounted to US\$ 5,835 million which is equivalent to 3.3 months of imports while total reserves amounted to US\$ 7,258 million which is equivalent to 4.2 months of imports.

Exports

- Total export earnings declined by 3 percent to US\$ 3,314 million during the first four months of 2012 compared to respective period in 2011 due to the decline in agriculture as well as industrial exports. Agricultural exports declined by 12 percent to US\$ 720 million during this period. The export of coconut products grew by 13 percent while export of tea, rubber and other agricultural products declined by 11 percent, 31 percent and 11 percent, respectively, following the decrease in domestic production and also due to the unfavourable international prices and demand. During this period, industrial exports declined by 4 percent to US\$ 2,478 million compared to respective period in 2011, as export of textile and garments declined by 3 percent to US\$ 1,323 million and petroleum products declined by 19 percent to US\$ 164 million.

Table 2.4: External Trade

US\$ Million

Category	2011 (Jan-Apr)	2012* (Jan-Apr)
Exports	3,419	3,314
Agriculture	816	720
Tea	477	421
Rubber	93	64
Coconut Products	63	71
Other Agriculture Products	183	163
Industrial Product	2,589	2,478
Textiles and Garments	1,362	1,323
Petroleum Products	202	164
Other Industrial	1,025	991
Minerals	12	24
Other	3	92
Imports	5,928	6,634
Consumer Goods	1,180	1,115
Food and Drink	549	463
Other Consumer Goods	631	652
Intermediate Goods	3,552	3,849
Petroleum	1,334	1,792
Fertilizer	95	89
Textiles and Clothing	754	709
Other Intermediate Goods	1,369	1,259
Investment Goods	1,180	1,657
Machinery and Equipments	601	755
Transport Equipments	276	482
Building Materials	301	418
Other Investment Goods	1	1
Other	17	12
Trade Balance	(2,509)	(3,320)

Source: Central Bank of Sri Lanka

*Provisional

Imports

- The imports reflected a gradual deceleration since March 2012 responding to the policy measures taken by the government in February 2012 to reduce the imports. Nevertheless, with the expansion of domestic economic activities, imports during the first four months grew by 12 percent to US\$ 6,634 million compared to relevant period in 2011, mainly due to the increase in import of investment goods by 40 percent to US\$ 1,657 million and intermediate goods by 8 percent to US\$ 3,849 million. Increase in import cost of investment goods consists of 25 percent increase in machinery and equipments to US\$ 755 million and 39 percent increase in building materials to US\$ 418 million with the improvements in the construction industry and manufacturing sector. Import of transport equipments also grew by 75 percent to US\$ 482 million. Even though fertilizer imports declined by 6 percent to US\$ 89 million, increase in imports cost of intermediate goods was mainly driven by 34 percent increase of petroleum products to US\$ 1,792 million due to international market price increases. However, import cost of consumer goods declined by 6 percent to US\$ 1,115 million as food and beverages imports declined by 16 percent to US\$ 463 million, even though import of other consumer goods increased by 3 percent to US\$ 652 million.

CHAPTER 3

Foreign Financing

- The total commitments made by development partners to Sri Lanka during the period from January to April 2012 was US\$ 1,054 million, of which project loans amounted to US\$ 774 million and grants amounted to US\$ 280 million. Compared to the total grant commitments made at the end of April 2011, remarkably higher grant commitment was recorded by end of April 2012. This was due to the grant assistance extended by the Government of India for the construction of 49,000 housing units in Northern, Eastern, Central and Uva Provinces.

Table 3.1: Foreign Financing Commitments (January – April, 2012)

US\$ million

Development Partner	Amount		
	Loan	Grant	Total
Bilateral	740.8	275.1	1,015.9
India	443.1	257.3	700.3
Japan	162.7	12.6	175.3
Netherland	102.5	-	102.5
China	32.5	-	32.5
Other	-	5.3	5.3
Multilateral	33.0	4.9	37.9
IFAD ¹	22.0	-	22.0
WB ²	11.0	0.5	11.5
Other	-	4.4	4.4
Total	773.8	280.0	1,053.8

Source: Department of External Resources

¹ International Fund for Agricultural Development

² World Bank, includes commitments made with International Development Association and International Bank for Reconstruction & Development

Chart 3.1: Foreign Financing Commitments (by Development Partners)

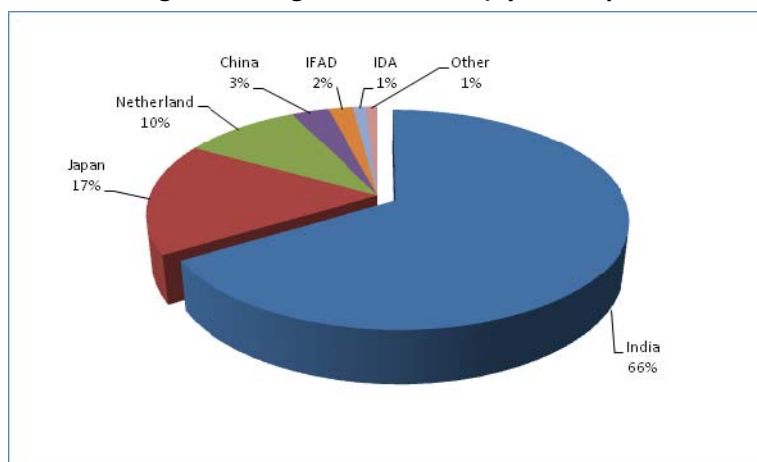


Table 3.2: Foreign Commitments - List of Agreements Signed – 1st January to 30th April, 2012

Million

Development Partner	Project	Type	Amount in Loan Currency		US\$
			Currency	Amount	
India	Grant for 49000 housing units in Northern, Eastern, Central & Uva provinces	Grant	INR	13,190.0	257.3
	Greater Dambulla Water Supply Project 1	Export Credit	USD	60.7	60.7
	Restoration of Northern Railway Services	Export Credit	USD	382.4	382.4
Japan	Habarana-Veyangoda Transmission Line Project	Loan	JPY	9,573.0	115.3
	Improvement of Basic Social Services Targeting Emerging Regions	Loan	JPY	3,935.0	47.4
	Rehabilitation of Kilinochchi Water Supply Scheme	Grant	JPY	677.0	8.3
	Improvement of Japanese Language Learning Equipment of the University of Kelaniya and Sabaragamuwa	Grant	JPY	48.4	0.6
	Provision of Industrial Products	Grant	JPY	300.0	3.7
Germany	Vocational Training Institute in the North	Grant	EUR	4.0	5.3
Netherland	Development of Nuwara Eliya District General Hospital	Export Credit	EUR	35.7	47.0
	Development of Hambantota District General Hospital	Export Credit	EUR	42.2	55.5
China	Finance Material Required for Lighting Sri Lanka Eastern Province Project	Export Credit	USD	32.5	32.5
Food & Agriculture Organization (FAO)	Irrigation & Agricultural Livelihood Development in Kilinochchi & Mullaitivu	Grant	EUR	3.3	4.4
International Bank for Reconstruction & Development (IBRD)	Strengthening Institute of Chartered Accountants Sri Lanka [ICASL]	Grant	USD	0.5	0.5
International Fund for Agricultural Development (IFAD)	Iranamadu Irrigation Development Project	Standard Loan	XDR	14.4	22.0
International Development Association (IDA)	Additional financing for E_Sri Lanka Development Project	Loan	XDR	7.1	11.0
United Nations High Commissioner for Refugees (UNHCR)	Assistance to return & reintegration of IDPs in Sri Lanka	Grant	LKR	5.7	0.04
Total					1,053.8

Source: Department of External Resources

Foreign Financing Disbursements

Total disbursements from January to April 2012 were US\$ 625 million. Of the total disbursements, project loans and grants accounted for US\$ 608 million and US\$ 17 million respectively.

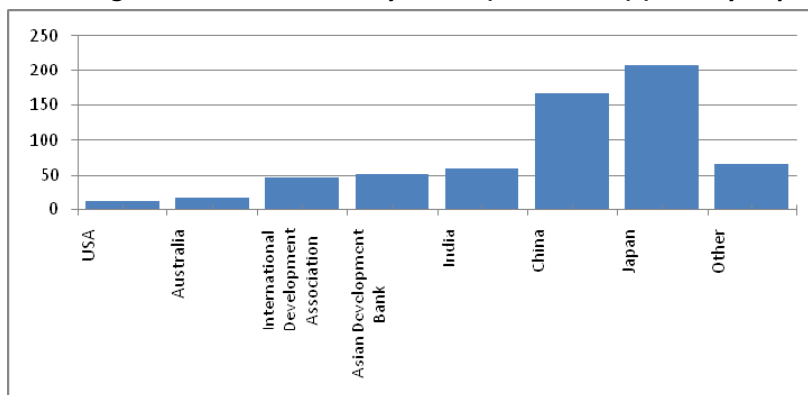
Table 3.3: Foreign Aid Disbursements (January –April, 2012)

US\$ Million

Development Partner	Loans	Grants	Total Amount
Bilateral	506.7	15.7	522.4
China	166.4	-	166.4
France	8.5	-	8.5
Germany	0.3	-	0.3
India	58.6	-	58.6
Japan	202.4	5.2	207.6
South Korea	11.9	-	11.9
Kuwait	0.9	-	0.9
Saudi Fund	0.1	-	0.1
Sweden	14.2	-	14.2
Australia	17.1	-	17.1
Netherland	6.2	-	6.2
Iran	7.0	-	7.0
Malaysia	4.0	-	4.0
UK	0.5	-	0.5
Denmark	3.4	-	3.4
Austria	5.2	-	5.2
United States of America	-	10.5	10.5
Multilateral	101.5	1.3	102.8
Asian Development Bank	50.4	0.1	50.5
International Development Association	44.9	0.8	45.7
International Fund for Agricultural Development	3.2	-	3.2
United Nations High Commissioner for Refugees	-	0.4	0.4
OPEC Fund for International Development	3.0	-	3.0
Total	608.2	17.0	625.2

Source: Department of External Resources

Chart 3.2: Foreign Aid Disbursements by Donor (US\$ million) (January –April, 2012)



Committed Undisbursed Balance

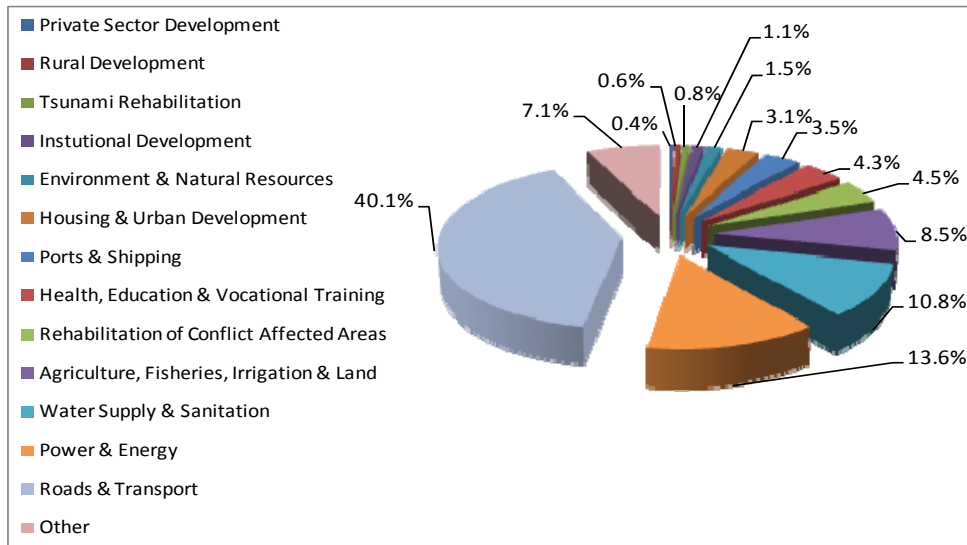
The total undisbursed balance of foreign financing available for development projects as at end of April 2012 was US\$ 8,118 million. The project implementation duration for these commitments will be in the range of 2-5 years and hence the utilization will be on the same basis. Table 3.4 indicates the sector wise classification of the committed undisbursed balance.

Table 3.4
Committed Undisbursed Balance by Sector (CUB) – as at end of April 2012

Economic Sector	CUB Amount
Agriculture	696.5
Agriculture	57.7
Fisheries & Aquatics Resources	7.3
Livestock Development	12.5
Land & irrigation	619.0
Economic Infrastructure	5,560.1
Transport	3,269.6
Ports & Shipping	286.1
Power & Energy	1,106.4
Communication & IT	22.6
Water Supply and Sewerage	875.4
Social Infrastructure	1,064.5
Education & Vocational Training	123.4
Health & Social Welfare	233.2
Housing & Urban Development	256.1
Rehabilitation	404.3
Regional & Rural Development	47.5
Financing & Banking	74.5
Institutional & Industrial Development	117.1
Environment	118.8
Other	487.0
Total	8,118.5

Source: Department of External Resources

Chart 3.3: Committed Undisbursed Balance by Major Economic Sectors – as at end of April 2012



External Debt

At the end of April 2012, the total outstanding external debt of the Government is US\$ 18.9 billion¹. Total debt service payment² from January to April 2012 amounted to US\$ 378.4 million. Of this, US\$ 216.3 million was for principal payments and the balance US\$ 162.1 million was for the interest payments. The total estimated debt service payments for 2012 is US\$ 1,630 million³, of which 23 percent has already been paid by 30th April 2012.

¹ This includes outstanding only for loans obtained to finance development projects and International Bond Issues

² Debt Service Payments = Principal Payments + Interest Payments

³ Includes the Debt Service Payments of International Sovereign Bond Issues. Estimates in terms of US\$ are based on the exchange rates as at 30th April 2012