

# 2024



## PRE-ELECTION BUDGETARY POSITION REPORT

**Issued under Section 52 of the  
Public Financial Management Act, No. 44 of 2024**

**Secretary  
Ministry of Finance, Economic Development,  
Policy Formulation, Planning and Tourism**





# **PRE – ELECTION BUDGETARY POSITION REPORT 2024**

Issued under Section 52 of the  
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Secretary

Ministry of Finance, Economic Development, Policy  
Formulation, Planning and Tourism

**14<sup>th</sup> October, 2024**



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## **Pre-election Budgetary Position Report – 2024**

### **Public Financial Management Act, No. 44 of 2024 Statement in terms of Section 52(6)(a)**

I, Anura Kumara Dissanayake, President, as the Minister of Finance, Economic Development, Policy Formulation, Planning and Tourism, do hereby state, that I have complied with the requirements of section 52(8) of the Public Financial Management Act, No. 44 of 2024, by disclosing to the Secretary to the Treasury, the information required to be disclosed under that section for the purpose of preparation of the Pre-election Budgetary Position Report.



**Anura Kumara Dissanayake**

President as the Minister of Finance,  
Economic Development, Policy Formulation,  
Planning and Tourism,  
Colombo,  
14<sup>th</sup> October, 2024.





## **Pre-election Budgetary Position Report – 2024**

### **Public Financial Management Act, No. 44 of 2024 Statement in terms of Section 52(6)(b)**

I, Kanakarathna Mudiyanseelage Mahinda Siriwardana, Secretary to the Treasury, in terms of the requirement imposed on me by Section 52(6)(b) of the Public Financial Management Act, No. 44 of 2024 do hereby state that information contained in this Pre-election Budgetary Position Report to the fullest extent possible;

- i. Reflects the best professional judgment of the officers of the Ministry of Finance, Economic Development, Policy Formulation, Planning and Tourism;
- ii. Takes into account all economic and fiscal information available to the Ministry of Finance, Economic Development, Policy Formulation, Planning and Tourism; and
- iii. Incorporates the fiscal implications of the Government decisions and circumstances disclosed to me by the Minister of Finance, Economic Development, Policy Formulation, Planning and Tourism in terms of section 52(8) of the said Act.



**Kanakarathna Mudiyanseelage Mahinda Siriwardana**

Secretary, Ministry of Finance,  
Economic Development, Policy Formulation,  
Planning and Tourism & Secretary to the Treasury,  
Colombo,  
14<sup>th</sup> October, 2024.



# **Pre-election Budgetary Position Report – 2024**

## **Issued by the Secretary to the Treasury in terms of Section 52 of the Public Financial Management Act, No. 44 of 2024**

### **1. Introduction**

This report is issued in terms of Section 52 of the Public Financial Management Act, No. 44 of 2024, which requires the Secretary to the Treasury to present to the Public, within three weeks of the publication of proclamation or Order requiring the holding of a general election for the election of members of Parliament, a Pre-election Budgetary Position Report containing information on the fiscal position of the country<sup>1</sup>.

Accordingly, this report contains provisional figures of government revenue, expenditure and borrowings based on legal arrangements pertaining to collection of revenue and commitments for public expenditure. The key macroeconomic developments in the first eight months of 2024 are also provided to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted<sup>2</sup>.

This Report also refers to the basis of information on economic and other assumptions used in the preparation of estimates, risks, and such other information that may have a material effect on the fiscal performance, so as to reflect the financial position of the country.

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1 The Hon. President made a proclamation to dissolve Parliament on 24<sup>th</sup> September, 2024 by the Extraordinary Gazette Notification No. 2403/13, dated 24.09.2024.

2 Statistics are being collected for 2023 by relevant authorities and this Report is based on provisional figures available as at end August 2024 and is subject to change once all accounts are finalized. However, such changes are not expected to make a material impact to the overall contents of this report.

## 2. Overview

The Sri Lankan economy has demonstrated strong signs of recovery with real Gross Domestic Product (GDP) growth in the first half of 2024, enhanced tax revenue, low inflation and increased foreign currency reserves. The economy grew by 5.0 percent in the first half of 2024, tax revenue increased by 41.4 percent to Rs. 2,348.5 billion in the first eight months of 2024 compared to the same period of 2023, inflation dipped into a deflation of 0.5 percent in September 2024 and the Gross Official Reserves built up to USD 6.0 billion including the swap arrangement with the People's Bank of China (PBOC) as at end August 2024.

The Sri Lankan rupee strengthened recording an overall appreciation of 8.2 percent up to the end September 2024. The reforms implemented under Extended Fund Facility arrangement of the International Monetary Fund (IMF-EFF) supported the economic recovery benefiting the living conditions of the people. Maintaining macro stability and restoring debt sustainability has been a cornerstone for improving fiscal operations in 2025 and beyond to reach medium term primary balance target of 2.3 percent of GDP by end 2025. However, recent tensions in the Middle East are likely to pose risks to the Sri Lankan economy, including a potential uptick in petroleum prices which could weigh down on economic activities with the possible escalation of inflation and resultant implications for interest rates.

At the time of this report was compiled, Sri Lanka had successfully completed the second review of the IMF-EFF programme which will continue to support Sri Lanka's economic reforms.

The fiscal sector is strongly positioned to achieve the targets set under the IMF-EFF programme. In the first half of 2024, Sri Lanka recorded a primary balance of 3.7 percent of GDP and revenue and grants of 12.7 percent of GDP. Further, Sri Lanka has achieved the Quantitative Performance Criterion (QPC) on tax revenue and primary balance in the first two quarters of 2024.

In the first eight months of 2024, government revenue including grants increased by 40.5 percent to Rs. 2,565.9 billion from Rs. 1,826.6 billion in the same period of 2023. This marks the realization of 62.2 percent of the annual estimate of Rs. 4,127.0 billion.

Government expenditure increased by 5.4 percent to Rs. 3,476.9 billion in the first eight months of 2024 from Rs. 3,297.3 billion in the same period of 2023. The expenditure has reached 49.8 percent of the annual estimate of Rs. 6,978 billion which includes the allocation of Rs. 450 billion for bank recapitalization. Accordingly, the budget deficit narrowed by Rs. 559.7 billion to Rs. 911.0 billion in the first eight months of 2024 from Rs. 1,470.7 billion recorded in the same period of 2023. Further, the primary surplus improved significantly to Rs. 648.8 billion in the first eight months of 2023 from Rs. 55.0 billion recorded in the same period of 2023.

### **3. Economic Developments in 2024**

The Sri Lankan economy expanded by 5.0 percent in the first half of 2024 compared to the contraction of 7.3 percent in the first half of 2023. The Industry sector expanded significantly by 11.4 percent in the first half of 2024 due to the expansion of the construction, mining and quarrying and manufacturing industry. The Agriculture sector grew by 1.4 percent in the first half of 2024 mainly due to the growth witnessed in the growing of cereals, freshwater fishing and freshwater aquaculture and animal production. The Services sector grew by 2.6 percent in the first half of 2024 with the expansion in accommodation, food and beverage service activities and insurance, reinsurance and pension funding activities.

The headline inflation, as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI, 2021=100) registered a deflation of 0.5 percent in September 2024 for the first time since September 2015 due to the deflation in both food and non-food categories. The recent downward revisions to the electricity tariffs, fuel and LP gas prices along with the drop in food prices emanating from improved supply side conditions were mainly attributable to this deflation. Meanwhile, the unemployment rate declined to 4.5 percent in the first quarter of 2024 compared to the 4.7 percent recorded in the same period of 2023.

The Central Bank of Sri Lanka (CBSL) adopted an accommodative monetary policy stance since June 2023. The Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were reduced by 275 basis points to 8.25 per cent and 9.25 per cent, respectively by August 2024 from 11.00 per cent and 12.00 per cent, respectively in August 2023. The restriction imposed on the Standing Deposit Facility (SDF) in January 2023 to limit availability of the facility for a particular Licensed Commercial Bank (LCB) to a maximum of five (05) times per calendar month was removed in April, 2024.

The Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) reduced by 200 basis points to 2.00 percent in August 2023 in order to inject additional liquidity into the domestic money market. Consequently, domestic money market liquidity, which remained in deficit, on average, of around Rs. 450 billion during 2022, improved to an average deficit of around Rs. 70 billion during 2023.

Consolidated Broad money ( $M_{2b}$ ) increased by 9.3 percent to Rs. 13,876.8 billion by end-August, 2024 from Rs. 12,697.9 billion in August 2023. Net credit to the government decreased by 4.8 percent from Rs. 8,465.3 billion in August, 2023 to Rs. 8,152.6 billion in August, 2024 with the offloading of government securities.

All share price index (1985=100) (ASPI) decreased by 2.2 percent to 10,869.07 as at end August 2024 from 11,114.17 in end August 2023. In addition, S&P SL20 index declined by 2.3 percent to 3,058.60 as at end August 2024 from 3,131.07 as at end August 2023. Market capitalization also dropped by 2.7 percent from Rs. 4,441.26 billion as at end August 2023 to Rs. 4,320.98 billion as at end August 2024. Total foreign sales amounted to Rs. 41,735.5 million while total foreign purchases were Rs. 35,926.1 million by the end of August 2024.

The external sector demonstrated a positive momentum in the first eight months of 2024 recording a surplus of USD 2,184.4 million in the Balance of Payments (BoP) benefitting from increased earnings from exports, tourism and improved inflows from workers' remittances. Export earnings increased by 6.1 percent to USD 8,499.1 million while expenditure on imports also increased by 10.0 percent to USD 12,072.5 million. As a result, the trade deficit widened to USD 3,573.4 million in the first eight months of 2024 from USD 2,964.0 million in the same period of 2023.

Earnings from tourism increased to USD 2,167.0 million in the first eight months of 2024, from USD 1,304.5 million in the same period of 2023 due to an increase in tourist arrivals by 50.7 percent to 1,362,668 persons in the first eight months of 2024 with the revival of the tourism sector. The workers' remittances increased by 11.0 percent to USD 4,288.2 million in the first eight months of 2024 from USD 3,862.7 million in the same period of 2023 with the increase in departures for foreign employment by 4.0 percent to 205,929

persons and due to the receipt of remittances through formal channels. Meanwhile, including the swap facility from the People's Bank of China, Gross official reserves improved significantly to USD 6.0 billion at the end August 2024 from USD 3.6 billion at the end August 2023.

The Sri Lankan rupee appreciated by 8.2 percent against the USD by the end of September 2024 reflecting the positive outcomes in the external economy as a result of appropriate fiscal and monetary policy measures. The Colombo Stock Exchange (CSE) recorded an increase in net inflow of USD 44.4 million in the first eight months of 2024 from USD 15.4 million in the same period of 2023.

Earnings from industrial exports increased by 6.1 percent to USD 6,658.6 million, agricultural exports increased by 5.9 percent to USD 1,804.0 million while mineral export earnings increased by 19.8 percent to USD 18.8 million in the first eight months of 2024. Increased export earnings from textile and garments, tea, petroleum products, and rubber products mainly contributed to this growth.

Import expenditure on consumer goods, intermediate, and investment goods increased by 7.3 percent to USD 2,176.3 million, by 7.9 percent to USD 7,750.0 million, by 22.5 percent to USD 2,140.3 million, respectively in the first eight months of 2024. Total import expenditure grew mainly due to the increase in import expenditure on refined petroleum, textiles and textile articles, machinery and equipment, and food and beverages with the revival of economic activities, removal of import restrictions, and due to the impact of high commodity prices of the global markets.

**Table 1: External Trade**

Category	USD Million			
	2022	2023	2023 Jan-Aug	2024 Jan-Aug
<b>Exports</b>	<b>13,106.4</b>	<b>11,910.7</b>	<b>8,010.1</b>	<b>8,499.1</b>
<b>Agricultural Products</b>	<b>2,568.0</b>	<b>2,566.5</b>	<b>1,702.9</b>	<b>1,804.0</b>
Tea	1,258.8	1,309.9	870.4	942.3
Other Agricultural Products	1,309.2	1,256.6	832.5	861.7
<b>Industrial Products</b>	<b>10,465.3</b>	<b>9,277.7</b>	<b>6,273.6</b>	<b>6,658.6</b>
Textile and Garments	5,952.0	4,878.9	3,325.7	3,364.8
Rubber Products	977.0	902.2	588.1	663.1
Machinery and Equipment	580.9	598.2	418.7	336.1
Gem, Diamond and Jewellery	450.6	500.0	353.0	282.1
Food , Beverages and Tobacco	519.5	539.3	354.4	427.7
Petroleum Products	568.0	539.4	325.7	702.5
Other Industrial Products	1,417.3	1,319.7	908.0	882.8
<b>Mineral</b>	<b>50.0</b>	<b>38.5</b>	<b>15.7</b>	<b>18.8</b>
<b>Other</b>	<b>23.2</b>	<b>28.0</b>	<b>17.9</b>	<b>17.7</b>
<b>Imports</b>	<b>18,291.0</b>	<b>16,811.0</b>	<b>10,974.1</b>	<b>12,072.5</b>
<b>Consumer Goods</b>	<b>2,813.0</b>	<b>3,043.9</b>	<b>2,028.3</b>	<b>2,176.3</b>
Food and Drinks	1,607.9	1,693.0	1,158.0	1,214.1
Other Consumer Goods	1,205.1	1,350.9	870.3	962.2
<b>Intermediate Goods</b>	<b>12,438.8</b>	<b>11,006.6</b>	<b>7,185.5</b>	<b>7,750.0</b>
Petroleum	4,896.8	4,702.6	3,079.5	2,896.5
Fertilizer	275.9	235.0	139.8	102.9
Textiles and Clothing	3,065.2	2,371.2	1,584.0	1,839.3
Wheat and Maize	303.1	338.2	201.9	204.5
Other Intermediate Goods	4,174.0	3,359.6	2,180.3	2,706.8
<b>Investment Goods</b>	<b>3,030.4</b>	<b>2,744.6</b>	<b>1,747.9</b>	<b>2,140.3</b>
Machinery and Equipment	1,969.0	1,867.6	1,219.0	1,438.6
Transport Equipment	132.1	98.5	45.6	98
Building Material	926.3	775.1	481.4	601.9
Other Investment Goods	3.0	3.3	1.9	1.8
<b>Other</b>	<b>8.8</b>	<b>16.0</b>	<b>12.4</b>	<b>5.9</b>
<b>Trade Balance</b>	<b>-5,184.6</b>	<b>-4,900.3</b>	<b>-2,964.0</b>	<b>-3,573.4</b>

Source: Central Bank of Sri Lanka



#### 4. Government Fiscal Operations 2024

The fiscal operations of the government substantially improved in the first eight months of 2024, mainly driven by the revenue based fiscal consolidation measures geared towards achieving a primary surplus in the fiscal accounts in 2024. The government revenue including grants increased by 40.5 percent or Rs. 739.3 billion in the first eight months of 2024 from Rs. 1,826.6 billion in the same period of 2023. However, the government expenditure increased by 5.4 percent to Rs. 3,476.9 billion in 2024. As such, a primary surplus of Rs. 648.8 billion was recorded in the first eight months of 2024 from Rs. 55.0 billion in the same period of 2023. The overall budget deficit declined by 38.1 percent or Rs. 559.7 billion to Rs. 911.0 billion in the first eight months of 2024 from Rs. 1,470.7 billion in the same period of 2023. The current account deficit narrowed by 56.9 percent or Rs. 637.9 billion to Rs. 483.8 billion in the first eight months of 2024 from Rs. 1,121.7 billion in the same period of 2023. Net domestic financing decreased by 46.1 percent to Rs. 742.4 billion in the first eight months of 2024 from Rs. 1,376.8 billion, while net foreign financing increased by 79.7 percent to Rs. 168.6 billion in the first eight months of 2024 from Rs. 93.8 billion. The outstanding government debt stock increased by 6.1 percent to Rs. 28,563.5 billion at the end of June 2024 from Rs. 26,916.2 billion at the end of June 2023, with foreign debt accounting for 38.5 percent and domestic debt for 61.5 percent of the total outstanding debt in 2024.

The total government revenue which includes tax revenue, non-tax revenue, and grants realized 62.2 percent of the annual estimate of Rs. 4,127.0 billion in the first eight months of 2024. This outstanding performance of government revenue was driven by tax policy reforms implemented to broaden the tax base and increase tax rates, measures taken to improve tax administration that have led to higher compliance rates, and the recovery of economic activities. Tax revenue significantly increased by 41.4 percent to Rs. 2,348.5 billion in the first eight months of 2024 from Rs. 1,661.2 billion in the same period of 2023, achieving 61.5 percent of the annual estimate of Rs. 3,820.0 billion.

Revenue collected from income taxes increased by 16.3 percent to Rs. 624.7 billion in the first eight months of 2024, achieving 57.8 percent of the annual estimate of Rs. 1,080.0 billion. The increase in revenue from income tax was mainly due to the increase in revenue collection from Advance Personal Income Tax (APIT) and Withholding Tax (WHT) in the first eight months of 2024 from the same period of 2023. Revenue from taxes on goods and services increased by 59.8 percent to Rs. 1,421.3 billion in the first eight months of

2024. This was mainly due to the increase in revenue collected from Value Added Tax (VAT) by 87.2 percent to Rs. 842.5 billion, surpassing the total VAT revenue realized in 2023 by Rs. 148.0 billion stemming from the increase in VAT rates, reduction in the registration threshold, and removal of the vast majority of exemptions. This increase was also driven by increased revenue from the Excise Duty on petroleum products, Excise Duty on liquor, and Social Security Contribution Levy (SSCL).

Revenue from taxes on external trade increased by 29.0 percent to Rs. 302.5 billion in the first eight months of 2024 from the same period in 2023, emanating from increase in imports due to the gradual relaxation of import restrictions. The increases in revenue collection from Special Commodity Levies (SCL) by 110.1 percent to Rs. 67.2 billion with the increase in SCL rates on essential commodities such as sugar and potatoes and the increase in revenue receipts from Customs Import Duty (CID) and CESS. Revenue collection from the Ports and Airports Development Levy (PAL) slightly increased by 3.4 percent despite the phasing out of PAL on selected items.

The revenue from non-tax increased by 31.7 percent to Rs. 209.3 billion in the first eight months of 2024 from Rs. 158.8 billion in the same period of 2023. This has mainly been driven by the increase in revenue from fines, fees and charges, and interest income.

The total government expenditure increased slightly by 5.4 percent to Rs. 3,476.9 billion in the first eight months of 2024. Recurrent expenditure, which accounted for around 87.5 percent of total expenditure in the first eight months of 2024, slightly increased by 3.4 percent to Rs. 3,041.6 billion from Rs. 2,941.7 billion in the same period of 2023. This was mainly driven by the increase of salaries and wages by 6.7 percent to Rs. 659.5 billion in the first eight months of 2024 from Rs. 618.1 billion in the same period of 2023 due to an increase in cost-of-living allowance and the increase of interest payments by 2.2 percent to Rs. 1,559.7 billion in the first eight months of 2024 from Rs. 1,525.7 billion in the same period of 2023 owing to the increase in interest payment on domestic debt, foreign debt and domestic loans. Expenditure on subsidies and transfers increased slightly by 1.5 percent to Rs. 623.8 billion in the first eight months of 2023. Meanwhile, the capital and net lending significantly increased by 22.4 percent to Rs. 435.3 billion in the first eight months of 2024 from Rs. 355.6 billion in the same period of 2023.

**Table 2: Summary of Government Fiscal Operations (Jan-Aug)**

Item	Rs. Million		
	2023 (Jan-Aug)	2024 Estimate	2024 (Jan-Aug)
<b>Total Revenue and Grants</b>	<b>1,826,623</b>	<b>4,127,000</b>	<b>2,565,921</b>
<b>Total Revenue</b>	<b>1,819,990</b>	<b>4,107,000</b>	<b>2,557,792</b>
Tax Revenue	1,661,152	3,820,000	2,348,529
Non Tax Revenue	158,838	287,000	209,263
Grants	6,633	20,000	8,129
<b>Total Expenditure</b>	<b>3,297,278</b>	<b>6,977,783</b>	<b>3,476,885</b>
<b>Recurrent</b>	<b>2,941,675</b>	<b>5,277,008</b>	<b>3,041,565</b>
Salaries and Wages	618,066	1,126,885	659,502
Interest	1,525,673	2,650,989	1,559,721
Subsidies and Transfers	614,417	1,157,952	623,779
Other Goods and Services	183,519	341,182	198,563
<b>Capital and Net Lending</b>	<b>355,603</b>	<b>1,700,775</b>	<b>435,320</b>
Public Investment	389,634	1,709,775	454,744
Other	(34,031)	(9,000)	(19,424)
<b>Revenue Deficit (-)/Surplus (+)</b>	<b>(1,121,685)</b>	<b>(1,170,008)</b>	<b>(483,773)</b>
<b>Overall Budget Deficit (-)/Surplus (+)</b>	<b>(1,470,655)</b>	<b>(2,850,783)</b>	<b>(910,965)</b>
<b>Total Financing</b>	<b>1,470,655</b>	<b>2,850,783</b>	<b>910,965</b>
Foreign Financing (Net)	93,806	726,000	168,551
Domestic Financing (Net)	1,376,849	2,124,783	742,414

Source: Department of Fiscal Policy

#### 4.1 Government Revenue

Government Revenue including grants increased by 40.5 percent or Rs. 739.3 billion in the first eight months of 2024 from Rs. 1,826.6 billion in the same period of 2023 owing to the increase in tax revenue by 41.4 percent to Rs. 2,348.5 billion in the first eight months of 2024 from Rs. 1,661.2 billion in the same period of 2023. Revenue from taxes on goods and services, which account for 60.5 percent of total tax revenue, increased by 59.8 percent, or Rs. 531.9 billion, to Rs. 1,421.3 billion in the first eight months of 2024 from Rs. 889.5 billion in the same period of 2023. This increase was largely driven by

the notable increase in revenue from Value Added Tax (VAT), which increased by 87.2 percent to Rs. 842.5 billion in the first eight months of 2024 from Rs. 450.0 billion in the same period of 2023. Thus, revenue collected from VAT in the first eight months of 2024 outperformed and surpassed Rs. 694.5 billion of revenue collected from VAT for the entire year of 2023. However, positive momentum in revenue generation must be sustained and enhanced over the medium term with a focus on tax compliance, eliminating tax leakages, digitalization, and minimizing corruption vulnerabilities through strengthened tax administration.

**Table 3: Summary of Government Revenue (Jan-Aug)**

Item	Rs. Million		
	2023 (Jan-Aug)	2024 Estimate	2024 (Jan-Aug)
<b>Tax Revenue</b>	<b>1,661,152</b>	<b>3,820,000</b>	<b>2,348,529</b>
Income Tax	537,175	1,080,000	624,670
Taxes on Goods & Services	889,460	2,235,000	1,421,342
VAT	449,981	1,400,000	842,487
Excise Tax	271,675	545,000	385,740
Other Taxes and Levies	167,804	290,000	193,114
Tax on External Trade	234,518	505,000	302,517
<b>Non Tax Revenue</b>	<b>158,838</b>	<b>287,000</b>	<b>209,263</b>
<b>Total Revenue</b>	<b>1,819,990</b>	<b>4,107,000</b>	<b>2,557,792</b>

Source: Department of Fiscal Policy

#### 4.1.1 Tax Revenue

##### Income Taxes

Revenue from income taxes increased notably by 16.3 percent to Rs. 624.7 billion in the first eight months of 2024 compared to Rs. 537.2 billion in the same period of 2023. This is mainly due to the impact of the implemented tax policy changes on Personal and Corporate Income Tax (CIT), Advance Personal Income Tax (APIT) and Withholding tax (WHT) during recent years as well as the impact of improved tax administration measures such as mandating financial institutions to submit details of individual taxpayers' transactions to the Inland Revenue Department, making electronic tax filing mandatory for individual income tax payers, disallowing deduction as expenses for

tax purposes and issuing a regulation for regular exchange of information by individuals including government agencies to the Commissioner General of Inland Revenue. Revenue from personal and corporate income taxes also increased by 16.3 percent in the first eight months of 2024 compared to the same period of 2023. Meanwhile, revenue collection from APIT increased substantially by 32.6 percent to Rs. 31.7 billion during the first eight months of 2024 compared to Rs. 23.9 billion in the same period of 2023. Further, revenue from WHT on interest also recorded an increase of 16.0 percent to Rs. 113.4 billion from Rs. 97.8 billion.

### **Value Added Tax (VAT)**

VAT has become the largest contributor to the tax revenue in the first eight months of 2024 representing around 35.9 percent of the total tax revenue 2024. Revenue from VAT increased considerably by 87.2 percent to Rs. 842.5 billion in the first eight months of 2024 from Rs. 450.0 billion in the same period of 2023 mainly due to the combined effect of increasing the standard VAT rate from 15 percent to 18 percent, the reduction in the VAT registration threshold and the removal of a vast majority of VAT exemptions with effect from January 01, 2024 along with the impact of removal of import restrictions. Revenue from VAT on domestic economic activities increased significantly by 49.8 percent to Rs. 468.8 billion in the first eight months of 2024 compared to Rs. 312.9 billion in the same period of 2023. VAT revenue from imports increased significantly by 172.7 percent to Rs. 373.7 billion in the first eight months of 2024 compared to Rs 137.0 billion in the same period of 2023. However, only 60.2 percent of VAT revenue was achieved during the first eight months of 2024 from the annual estimate.

### **Excise duty**

Revenue generated from Excise Duty increased by 42.0 percent to Rs. 385.7 billion in the first eight months of 2024 compared to Rs. 271.7 billion in the same period of 2023 mainly due to the increase of revenue from petroleum, liquor, motor vehicles, and other excisable articles despite the decline in revenue from cigarettes. Revenue from Excise Duty accounted for 16.4 percent of the tax revenue and 15.1 percent of the total revenue collected during the first eight months of 2024 while achieving 70.8 percent of the annual estimate.

Revenue from petroleum products increased significantly by 137.4 percent to Rs. 139.3 billion during the first eight months of 2024 compared to Rs. 58.7 billion in the same period of 2023 mainly due to the net effect of the Excise Duty on fuel with the increase by Rs. 25 per litre effective from June 01, 2023 and decrease of rates for Diesel by Rs. 6 per litre and for Petrol by Rs. 5 per litre on January 1, 2024 and increase in fuel imports with the removal of fuel quota system and the rise in demand with the economic growth recorded in the first quarter of 2024.

Revenue from liquor increased by 22.8 percent to Rs. 133.6 billion during the first eight months of 2024 compared to Rs. 108.8 billion during the same period of 2023 owing mainly to the increase of the Excise Duty on liquor by 14 percent with effect from January 01, 2024. However, the total liquor production declined by 5.4 percent to 21.4 million absolute liters during the first eight months of 2024 compared to 22.6 million absolute liters during the same period of 2023. Revenue from locally produced hard liquor increased by 17.8 percent to Rs. 83.6 billion in the first eight months of 2024 compared to Rs. 71.0 billion collected during the same period of 2023. The realization of revenue from Excise Duty on liquor against the annual estimate was 58.1 percent during the first eight months of 2024.

Excise Duty from motor vehicles increased by 74.3 percent to Rs. 36.5 billion during the first eight months of 2024 compared to Rs. 21.0 billion in the same period of 2023 due to the relaxation of temporary restrictions on imports of fully electric vehicles under the scheme for migrants employed abroad.

Further, the excise duty revenue generated from other excisable items such as fat contained productions, lime and cement, sugar and sugar confectionery and mechanical appliances increased by 59.1 percent to Rs. 4.7 billion in the first eight months of 2024, compared to Rs. 2.9 billion in the same period of 2023 reflecting the effect of certain relaxation of import restrictions.

However, Excise revenue from cigarettes declined by 10.8 percent to Rs. 71.6 billion during the first eight months of 2024 compared to Rs 80.3 billion in the same period of 2023 mainly due to the decline of sales of cigarettes by 21.8 percent to 1,228 million sticks. The tax rates on cigarettes have been scaled up by 14 percent effective from January 1, 2024 with the implementation of the government policy on inflation adjusted indexation.

## **Taxes on External Trade**

Revenue generated from taxes on external trade comprising Customs Import Duty (CID), CESS Levy, Ports and Airports Development Levy (PAL) and Special Commodity Levy (SCL) increased by 29 percent to Rs. 302.5 billion in the first eight months of 2024 compared to Rs. 234.5 billion recorded in the same period of 2023.

Revenue from CID increased notably by 20.5 percent to Rs. 69.4 billion in the first eight months of 2024 compared to Rs. 57.6 billion in the same period of 2023 mainly due to the certain relaxation of import restrictions by the third quarter of 2023 and the upward revision of CID rates.

Revenue from the CESS levy increased by 49.6 percent to Rs. 52.0 billion in the first eight months of 2024 compared to Rs. 34.7 billion in the same period of 2023 due to the certain relaxation of import restrictions. Accordingly, revenue from the CESS levy on imports increased significantly by 52.2 percent to Rs. 50.5 billion in the first eight months of 2024 from Rs. 32.2 billion in the same period of 2023. Meanwhile, revenue from the CESS levy on exports declined slightly by 7.5 percent to Rs. 1.4 billion in the first eight months of 2024 from Rs. 1.5 billion in the same period of 2023. The revenue from the CESS Levy collected in the first eight months of 2024 was a realization of 86.6 percent of the annual estimate of Rs. 60.0 billion for 2024.

Despite phasing out of 1,631 items in April 2023 and 26 items in January 2024, revenue collected from PAL increased by 3.4 percent to Rs. 113.9 billion in the first eight months of 2024 from Rs. 110.2 billion in the same period of 2023 benefiting from the import relaxation. The revenue collected from PAL in the first eight months of 2024 represents 65.1 percent of the annual estimate of Rs. 175 billion for 2024.

Revenue collected from SCL increased significantly by 110.1 percent to Rs. 67.2 billion due to the relaxation of import restrictions by the third quarter of 2023 and the upward revision of rates on sugar and Potatoes.

#### **4.1.2 Non-tax Revenue**

Non-tax revenue increased significantly by 31.7 percent to Rs. 209.3 billion in the first eight months of 2024 from Rs. 158.8 billion in the same period of 2023. This reflects the increase in revenue collection from fines, fees and charges by 33.3 percent to Rs. 102.8 billion in the first eight months of 2024 from Rs. 77.2 billion in the same period of 2023. This was attributable to the upward revision of fees and charges administered by the Department of Motor Traffic, the Department of Immigration and Emigration and the Department of Registration of Persons. Meanwhile, revenue from interest income increased notably by 203.5 percent to Rs. 34.5 billion in the first eight months of 2024 from Rs. 11.4 billion in the same period of 2023. Profits and dividends from State Owned Enterprises (SOEs) also increased by 20.6 percent to Rs. 26.8 billion in the first eight months of 2024 from Rs. 22.2 billion in the same period of 2023. Revenue from Social Security Contributions increased by 16.6 percent to Rs. 27.7 billion in the first eight months of 2024 from Rs. 23.7 billion in the same period of 2023. Meanwhile, rent income decreased by 13.7 percent to Rs. 3.3 billion in the first eight months of 2024 from Rs. 3.9 billion in the same period of 2023. The non-tax revenue collected in the first eight months of 2024 was a realization of 72.9 percent of the annual estimate of Rs. 287.0 billion for 2024.

#### **4.2 Government Expenditure**

In the first eight months of 2024, total government expenditure increased by 5.4 percent to Rs. 3,476.9 billion from Rs. 3,297.3 billion in the same period of 2023, recording 49.8 percent of the expenditure estimate of Rs. 6,977.8 billion. Recurrent expenditure moderately increased by 3.4 percent to Rs. 3,041.6 billion in the first eight months of 2024 from Rs. 2,941.7 billion recorded in the same period of 2023. All four categories of recurrent expenditure recorded moderate increases: salaries and wages by 6.7 percent or Rs. 41.4 billion to Rs. 659.5 billion from Rs. 618.1 billion, interest expenditure by 2.2 or Rs. 34.0 billion percent to Rs. 1,559.7 billion to Rs. 1,525.7 billion, goods and services by 8.2 percent or Rs. 15.0 billion to Rs. 198.6 billion from Rs. 183.5 billion, subsidies and transfers by 1.5 percent or Rs. 9.4 billion to Rs. 623.8 billion from Rs. 614.4 billion.

Capital expenditure and net lending increased by 22.4 percent to Rs. 435.3 billion in the first eight months of 2023 from Rs. 355.6 billion from the same period of 2023. Public Investment has increased by 16.7 percent to Rs. 454.7 billion from Rs. 389.6 billion owing to the increase in the acquisition of fixed assets by 36.1 percent and on-lending to government institutions by 74.8 percent. However, other investments declined by 42.9 due to the impact of repayment of on-lending.



**Table 4: Government Expenditure- Economic Classification**

Item	Rs. Million		
	2023 (Jan-Aug)	2024 Estimate	2024 (Jan-Aug)
<b>Recurrent</b>	<b>2,941,675</b>	<b>5,277,008</b>	<b>3,041,565</b>
Salaries and Wages	618,066	1,126,885	659,502
Goods and Services	183,519	341,182	198,563
Interest Payment	1,525,673	2,650,989	1,559,721
Subsidies and Transfers	614,417	1,157,952	623,779
<b>Capital and Net Lending</b>	<b>355,603</b>	<b>1,700,775</b>	<b>435,320</b>
Public Investments	389,634	1,709,775	454,744
Other	(34,031)	(9,000)	(19,424)
<b>Total Expenditure</b>	<b>3,297,278</b>	<b>6,977,783</b>	<b>3,476,885</b>

Source: Department of Fiscal Policy

### Expenditure on Salaries and Pensions

Expenditure on salaries and wages for public servants in the first eight months of 2024 including the salaries of employees attached to security forces, police, and Provincial Councils increased by 6.7 percent to Rs. 659.5 billion in 2024 from Rs. 618.1 billion in the same period of 2023. The increase in salaries was mainly attributable to the rise in the cost-of-living allowance by Rs. 5,000 per month effective from January 2024, and the increase of the same allowance by another Rs. 5,000 per month effective from April 2024, as per Public Administration Circular No. 03/2024 and Management Services Circular No. 01/2024. Total pension payments increased by 9.7 percent to Rs. 254.0 billion in the first eight months of 2024 from Rs. 231.6 billion in the same period of 2023.

### Interest Payments

Expenditure on interest payments on foreign and domestic debt amounted to Rs. 1,559.7 billion in the first eight months of 2024, which marks an increase of 2.2 percent compared to Rs. 1,525.7 billion recorded in the same period of 2023. Interest payments for foreign debt increased by 34.9 percent to Rs. 100.0 billion in the first eight months of 2024 from Rs. 74.1 billion recorded in the same period of 2023 partly due to the commencing of repayment of some bilateral loans. Moreover, the interest payments on domestic loans slightly increased by 0.6 percent to Rs. 1,459.7 billion in the first eight months of 2024 from Rs. 1,451.6 billion in the same period of 2023.

## Welfare and Subsidy Payments

The estimates of Rs. 1,055.7 billion for 2024 have been earmarked for the welfare programmes of social welfare, social security, education, health and nutrition and development assistance which is 15.4 percent of the government's primary expenditure and 3.5 percent of the GDP. The estimate of Rs. 1,055.7 billion for 2024 represents a 15.3 percent increase compared to the actual expenditure of 2023 amounting to Rs. 915.4 billion.

In the first eight months of 2024, the government's welfare expenditure amounted to Rs. 562.4 billion including Rs. 112.7 billion for the "Aswesuma" programme, Rs. 9.5 billion for school nutrition food programme, Rs. 4.1 billion for the "Poshana Malla" programme, Rs. 4.4 billion for school textbooks and uniforms and Rs. 24.2 billion for fertilizer subsidy.

Total welfare expenditure in the first eight months of 2024 increased by 3.3 percent to Rs. 562.4 billion from Rs. 544.3 billion in the same period of 2023. The increase was mainly driven by the increase of 83.9 percent of expenditure on health and nutrition, and the increase in development assistance by growth of 12.4 percent.

**Table 5: Summary of Expenditure on Welfare and Relief Programs Implemented by the Government**

	Rs. Million			
	2023 Actual	2024 Revised Estimate	Actual as at 31.08.2023	Actual as at 31.08.2024
Social Welfare	188,525	220,660	110,377	120,056
Social Security	566,170	622,190	343,183	336,179
Welfare Programmes for Education	40,873	46,279	25,879	15,311
Welfare about Health & Nutrition	21,576	32,302	8,621	15,851
Development Assistance	98,148	103,486	56,208	63,183
Other	63	30,804	1	11,783
<b>Total</b>	<b>915,356</b>	<b>1,055,721</b>	<b>544,269</b>	<b>562,364</b>

Source: Department of National Budget

## Public Investment

The Government has allocated Rs. 1,260 billion for 2024 for public investments on roads, bridges, agriculture, irrigation, education, health, drinking water supply, and urban development. In the first eight months of 2024, Rs. 454.7 billion was spent on public investments, reflecting 26.6 percent of the estimate for 2024. Further, this marks an increase of 16.7 percent compared to Rs. 389.6 billion recorded in the same period of 2023.

The road sector has the highest actual expenditure, accounting for roughly 47 percent of the allocated funds in 2024. Further, road development has received the most investment, accounting for approximately 25 percent of the total investment, followed by irrigation at around 6 percent.

**Table 6: Revised Estimates and Actual Expenditure of Capital Investment**

	Rs. Million			
	2023 Actual	2024 Revised Estimate	Actual as at 31.08.2023	Actual as at 31.08.2024
<b>Total Capital</b>	<b>932,745</b>	<b>1,259,774</b>	<b>389,634</b>	<b>454,744</b>
o/w Health	26,115	64,635	11,565	12,246
Education	34,135	58,480	16,277	17,220
Roads	226,907	320,857	166,495	150,051
Transport	21,986	48,588	11,808	10,172
Irrigation	45,890	79,529	23,764	27,081
Power and Energy	12,579	47,318	8,813	5,095
Water Supply	48,006	71,432	27,453	14,091
Agriculture and Plantation	36,148	47,077	14,803	15,810
Defence	26,666	58,645	13,142	15,235
Ports and Shipping	1,839	8,108	1,823	244

Source: Department of National Budget

## 4.3 Treasury Operations

Continued efforts to enhance revenue flow while rationalizing the expenditure during the year 2024 up to the end of August reflect a positive liquidity status within the Treasury cash flow management. Resulted cash surpluses supported in managing market interest rates at a reasonably low level while allocating a reasonable amount for debt service payments. While complying

with the IMF-EFF indicative targets of maintaining zero outstanding payments at any given time for more than three months, prompt settlement of bills due to the goods and services suppliers of the Government helped cashflow operations of private sector suppliers, which has a positive impact on the overall economy.

### Performance of the Government Treasury Cash Flow

Treasury cash inflows from revenue and other receipts in the first eight months of 2024 were Rs. 2,496.8 billion as against the estimate of Rs. 2,545.3 billion, achieving 98 percent of the estimate applicable for the period. Total cash outflows for the recurrent and capital payments were recorded as Rs. 3,664.7 billion resulting in a net cash deficit of Rs. 1,167.8 billion. Accordingly, the net cash deficit declined by Rs. 577.6 billion in the first eight months of 2024 compared to the same period of 2023. The decrease in net cash deficit occurred mainly due to the increase in government revenue, reflecting an overall positive cash/bank balance as at 31<sup>st</sup> August 2024.

**Table 7: Government Treasury Cash Flow Operations**

Item	Rs. Billion		
	2023	January – August	
		Actual	Estimate
Opening Cash balance	-84.2	599.5	599.5
Total cash inflow from revenue and other receipts	1,733.0	2,545.3	2,496.8
Total cash outflow for recurrent payments	-2,949.2	-3,383.9	-3,065.0
Total cash outflow for capital payments*	-529.2	-878.6	-599.7
Net cash surplus / (deficit)	-1,745.4	-1,717.2	-1,167.8
Gross borrowing *	2,930.5	2,877.9	2,306.5
Debt repayment	-1,017.5	-856.1	-924.6
Net borrowing	1,913.1	2,021.8	1,382.0
Balance proceeds of Commercial Borrowing previous year	-	-	-
Adjustment account balance (TEB, net deposits, Other Transfer etc.)	11.2	-	-53.5
<b>Closing Cash balance</b>	<b>94.6</b>	<b>904.1</b>	<b>760.1</b>

Source : Department of Treasury Operations

\*Includes project/programme loans accounted by the Government

## Management of Government Debt

The Government has borrowed Rs. 1,881 billion, in face value terms, by way of Treasury Bills, Treasury Bonds and foreign loans under the gross borrowing limit of Rs. 7,350 billion approved for the year. The debt service payments both domestic and foreign amounted to Rs. 2,321 billion of which Rs. 762 billion was for amortization payments and the balance Rs. 1,559 billion was for interest payments.

**Table 8: Government Debt Service Payments**

	Rs.Billion
Item	As at 31.08.2024
<b>Debt Service Payments</b>	<b>2,321</b>
Domestic	2,114
Foreign	207
<b>Amortization Payments<sup>(a)</sup></b>	<b>762</b>
Domestic	655
Foreign	107
<b>Interest Payment</b>	<b>1,559</b>
Domestic	1,459
Short Term	304
Medium and Long Term	1,155
Foreign	100

Source : Department of Treasury Operations

(a) without Treasury Bills Amortizations.

## Disclosure of contingent liabilities on Treasury Guarantees

The value of Treasury Guarantees issued and remained valid as at 31<sup>st</sup> August 2024 was Rs. 2,251.2 billion. The list of Treasury Guarantees issued by the General Treasury as at 31<sup>st</sup> August 2024, is given in Annexure I.

### 4.4 Foreign Financing

The second review of the IMF-EFF programme was completed on June 12, 2024, resulting in disbursement of the third tranche of approximately USD 334 million to support economic policy reforms and strengthening social safety net in Sri Lanka. Since March 2023, the IMF has disbursed USD 1.0 billion under

its financial support to Sri Lanka. The approval and successful implementation of the IMF-EFF programme has further helped Sri Lanka secure the receipt of foreign financing from other International Financial Institutions (IFIs).

Marking a significant milestone for the official debt treatment process, Sri Lanka has successfully finalized its debt restructuring agreements with the members of the Official Creditor Committee (OCC) of Sri Lanka's major bilateral lenders and Exim Bank of China on June 26, 2024. Sri Lanka has also secured agreements with private creditors including International Sovereign Bondholders (ISBs) and is working towards conclusion of this process as well. With the conclusion of the official debt restructuring agreements, the government of Japan officially announced its decision to resume disbursements for the Japan funded project portfolio of the country on July 24, 2024.

### Foreign Financing Commitments

The foreign development partners and lending agencies had entered into 10 agreements of foreign financing of USD 398.7 million with the government of Sri Lanka as of end August 2024. Of which, USD 350.0 million was obtained in the form of loans. USD 48.7 million was committed through seven grant agreements with the Government of Japan and the Government of Australia under Official Development Assistance (ODA).

**Table 9: Lender-wise Foreign Financing ODA Commitments from January 1 to August 31, 2024**

Development Partner/ Lending Agency	Commitment (USD million)
<b>Bilateral</b>	<b>48.7</b>
Australia	27.8
Japan	20.9
<b>Multilateral</b>	<b>350.0</b>
Asian Development Bank	200.0
World Bank	150.0
<b>Total</b>	<b>398.7</b>

Source: Department of External Resources

Notes:

Financial values committed in difference currencies have been converted into USD as per the daily indicative exchange rates prevailed on each agreement as published by the Central Bank of Sri Lanka (CBSL) in its website.

For conversion of SDR into USD, monthend exchange rate prevailed at the end of previous month published by CBSL have been used.

## Foreign Financing Disbursements and Utilization

Total foreign financing disbursements during the period from January 1 to August 31, 2024, was amounted to USD 1,005.7 million. Of which, USD 994.4 million was disbursed as loans, and USD 11.3 million was disbursed by way of grants.

The highest amount of the disbursements was from the Asian Development Bank (ADB), which recorded 36 percent of the total disbursements followed by the loan agreements signed with the IMF (33 percent) and the World Bank (24 percent).

The major portion of the disbursements was utilized in the budget support sector, which accounted for 33 percent of the total disbursements, followed by the power and energy sector at 13 percent, the SME development sector at 10 percent and the finance sector at 7 percent.

**Table 10: Actual Disbursements of Foreign Loans and Grants from January 1, 2024 to August 31, 2024**

Development Partner/ Lending Agency	Actual Disbursements* (USD million)		
	Loan	Grant	Total
<b>Bilateral</b>	<b>28.7</b>	<b>1.6</b>	<b>30.3</b>
Japan	20.1	1.3	21.4
Saudi Fund	5.2	-	5.2
Korea	2.0	-	2.0
Netherlands	1.4	-	1.4
Germany	-	0.3	0.3
<b>Multilateral</b>	<b>965.7</b>	<b>9.7</b>	<b>975.4</b>
Asian Development Bank	356.1	2.2	358.3
IMF**	334.0	-	334.0
World Bank	232.3	7.5	239.8
Asian Infrastructure Investment Bank	26.6	-	26.6
OPEC Fund	12.7	-	12.7
International Fund for Agricultural Development	4.0	-	4.0
<b>Total</b>	<b>994.4</b>	<b>11.3</b>	<b>1,005.7</b>

Source: Department of External Resources

\* Provisional, not included USD 200.9 million of capitalized amount of unpaid interest and default interest of restructured loans.

For conversion of disbursements made in different currencies into USD, the exchange rates prevailed on each disbursement date have been used

\*\*For conversion of SDR into USD, monthend exchange rate of SDR applied to the end of previous month published by CBSL have been used.

## Committed Undisbursed Balance (CUB)

As of 31<sup>st</sup> August 2024, the undisbursed balance of multilateral foreign financing available from the already committed loans with multilateral agencies that are to be utilized in coming 3–5 years was USD 1,696 million. The undisbursed balance of foreign financing available for the already committed loans with bilateral lenders have been affected due to the interim policy of temporary suspension of debt servicing.

## External Debt Stock and External Debt Service Payments

The external debt of the government as of the end of August 2024 amounted to USD 38.1 billion<sup>3</sup>.

Total debt service payments<sup>4</sup> from 1<sup>st</sup> January to 31<sup>st</sup> August in 2024 amounted to USD 676.4 million, of which USD 350.6 million was in lieu of principal repayments and the balance USD 325.8 million for the interest payments.

In line with the interim policy of the debt standstill adopted by the Government, the servicing of the external debt of affected loans obtained from bilateral and commercial creditors have been temporarily suspended for an interim period commencing from 12<sup>th</sup> April, 2022. Accordingly, the principal amount of USD 5,784 million and interest<sup>5</sup> of USD 2,623 million have been accumulated as unpaid debt service by the end of August 2024.

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3 – *Provisional, Only the Central Government outstanding Foreign Debt are depicted.*  
– *Included unpaid Principal accumulated from the date of debt standstill policy was adopted.*  
– *Non-resident holdings of T-bills / T-bonds are not included.*  
– *Includes ISBs, however outstanding amounts of ISBs have not been classified on the current resident/ non-resident basis of their holdings.*  
– *included USD 200.9 million accumulated due to the capitalization of interest and default interest of 39 restructured loans extended by China Exim Bank.*

4 *Debt Service = Principal Payments + Interest Payments*

5 *To be reconciled with creditors during restructuring discussions.*



## 4.5 Government Debt

The total outstanding government debt stock stood at Rs. 28,563.4 billion as at end of June, 2024. This was an increase of 6.1 percent from Rs. 26,916.2 billion recorded in the same period of 2023. Total domestic debt grew by 10 percent to Rs. 17,555.2 billion in the first half of 2024 from Rs. 15,961.4 billion recorded in the same period of 2023. Out of the domestic debt stock, Treasury bills saw a significant decline of 24.5 percent to Rs. 3,883.1 billion in the first half of 2024 from Rs. 5,140.9 billion in the same period of 2023. However, the stock of Treasury bonds saw significant increase by 41.5 percent to Rs. 12,767.1 billion in the first half of 2024 from Rs. 9,019.9 billion in the same period of 2023.

**Table 11: Outstanding Government Debt**

Item	Rs. Billion			
	2022	2023	End June 2023	End June 2024
<b>Total Domestic Debt</b>	<b>12,822.96</b>	<b>17,051.85</b>	<b>15,961.41</b>	<b>17,555.21</b>
<i>of Which;</i> Treasury Bills	4,113.91	4,017.04	5,140.94	3,883.09
Treasury Bonds	8,709.06	12,002.34	9,019.97	12,767.06
<b>Total Foreign Debt</b>	<b>12,458.16</b>	<b>11,644.09</b>	<b>10,954.82</b>	<b>11,008.23</b>
<b>Total Debt</b>	<b>25,281.12</b>	<b>28,695.94</b>	<b>26,916.23</b>	<b>28,563.44</b>

*Source: Central Bank of Sri Lanka*

## 5. Economic Outlook

The near-term economic growth outlook appears promising driven by macroeconomic reforms followed by the progress made on the debt restructuring. The positive growth momentum witnessed in the Sri Lankan economy since the third quarter of 2023 will continue throughout 2024, with the expectations to exceed the IMF growth target of 2 percent. Gradual wage adjustments are likely to boost demand, contributing to overall economic activity. However, maintaining policy certainty and continuity will be crucial, especially with upcoming elections. The prompt execution of measures to tackle governance weaknesses and corruption vulnerabilities is essential for economic and social upliftment. Strengthening the governance framework will not only enhance investor confidence but also ensure that economic benefits reach the broader population, fostering sustainable growth and development.

Inflation is expected to remain notably below the 5 percent target in the forthcoming months. On average, inflation is expected to remain below the target of 5 percent during 2024 and is expected to gradually align with the targeted level over the medium term, supported by appropriate policy measures. Greater public accountability enhanced by the independence of the Central Bank and improved fiscal discipline supported by the Public Financial Management Act (PFM Act) has ensured a robust framework for combatting inflation and supporting sustainable growth over the medium-term.

External buffers are expected to improve in 2024 due to the revitalized tourism industry, strong levels of workers' remittances and improvements in non-debt-creating inflows. The trade deficit is expected to reach manageable levels in the medium term, supported by the expected revival and expansion of earnings from exports. Workers' remittances are expected to continue to remain at elevated levels in 2024 and beyond. The faster than expected recovery of the tourism sector is expected to support the growth momentum in the near term with positive spillover effects on other related sectors.

Financial account inflows are anticipated to rise, bolstered by positive investor sentiment stemming from the successful continuation of the IMF-EFF program and the debt restructuring process. Support from multilateral agencies including the IMF, ADB and the World Bank, alongside the expected resumption of bilateral funding, should enhance these inflows and strengthen gross official reserves through 2024 and beyond. Non-debt-creating foreign inflows, particularly foreign direct investment (FDI) are projected to strengthen in the medium term with improved reforms in governance. Efforts to improve investment promotion and address longstanding challenges in the business environment are likely to improve perceptions of Sri Lanka among investors, further supporting economic growth.

Benign inflation dynamics and outlook during the near term is expected to be supportive of economic activity. As eased monetary conditions and robust fiscal performance continue, improved liquidity in the domestic money market and a reduction in risk premia for government securities should lead to a continued normalization of market interest rates, especially lending rates. This normalization is expected to provide much-needed relief for businesses and households by lowering financing costs, which could further support economic growth.

## 6. 2024 Budget Outlook

The 2024 Budget was based on several key economic and other assumptions. At the time of the compilation of the Budget in November 2023, Sri Lanka showed signs of recovery from the economic crisis that escalated in 2022.

The following assumptions were made when the compilation of Budget 2024:

- The economy was expected to grow at 1.8 percent with expansion in all three sectors of the economy. Both industry and agriculture sectors were expected to recover with enhanced and uninterrupted availability of key inputs compared to 2023. Further, the Services sector was expected to pick up with the continued economic revival.
- Inflation was expected to be maintained at a mid-single-digit level. The unemployment rate was expected to be maintained below 5 percent.
- The external sector was projected to be stabilized stronger in 2024 with expected increases in export earnings, proceeds from tourism, and workers' remittances. Accordingly, exchange rate was expected to be stable. The money supply was also expected to be maintained at a suitable level.

### 6.1 Revenue

As per 2024 Budget, the estimate for total revenue including grants amounts to Rs. 4,127 billion with tax revenue of Rs. 3,820 billion, non-tax revenue of Rs. 287 billion and grants of Rs. 20 billion.

The projected increase in revenue was based on new revenue measures implemented since the beginning on 2024, implementation of re-structuring measures targeting loss-making State-Owned Enterprises (SOEs), and implementation of revenue administration and digitization measures.

In the first eight months of 2024, total revenue and grants have displayed a faster growth rate of 40.5 percent than the growth of 20.8 percent assumed in the budget. Tax revenue has also shown a faster growth of 41.4 percent than the budgeted growth of 22.0 percent. When considering the three main types of tax revenue, only the growth in the revenue from income taxes has displayed slower growth than the budgeted growth which is expected to be caught up with the two remaining income tax payments for Corporate Income Tax and Personal Income Tax in the remaining four months of 2024.

**Table 12: Revenue Performance Assessment 2024**

Indicator	Rs. Billion						
	2023		2024		Budgeted Growth	Jan-August growth	2024 Achievement
	Estimate	Jan-August	Estimate	Jan- August Provisional	%	%	(as a % of Budget)
<b>Total Revenue and Grants</b>	<b>3,415.0</b>	<b>1,826.6</b>	<b>4,127.0</b>	<b>2,565.9</b>	<b>20.8</b>	<b>40.5</b>	<b>62.2</b>
<b>Total Revenue</b>	<b>3,408.0</b>	<b>1,820.0</b>	<b>4,107.0</b>	<b>2,557.8</b>	<b>20.5</b>	<b>40.5</b>	<b>62.3</b>
<b>Tax Revenue</b>	<b>3,130.0</b>	<b>1,661.2</b>	<b>3,820.0</b>	<b>2,348.5</b>	<b>22.0</b>	<b>41.4</b>	<b>61.5</b>
Income Taxes	912.0	537.2	1,080.0	624.7	18.4	16.3	57.8
Taxes on Goods and Services	1,763.0	889.5	2,235.0	1,421.3	26.8	59.8	63.6
Taxes on External Trade	455.0	234.5	505.0	302.5	11.0	29.0	59.9
<b>Non-Tax Revenue</b>	<b>278.0</b>	<b>158.8</b>	<b>287.0</b>	<b>209.3</b>	<b>3.2</b>	<b>31.7</b>	<b>72.9</b>
<b>Grants</b>	<b>7.0</b>	<b>6.6</b>	<b>20.0</b>	<b>8.1</b>	<b>185.7</b>	<b>22.6</b>	<b>40.6</b>

Source: Department of Fiscal Policy

In the first half of 2024, total revenue and grants of Rs. 1,864.6 billion amounted to 12.7 percent of GDP indicating that Sri Lanka is geared towards achieving the estimated revenue of 13.1 percent of GDP for 2024.

## 6.2 Expenditure

Government expenditure for 2024 was estimated as Rs. 6,978 billion which included the allocation of Rs. 450 billion for bank recapitalization. However, this allocation is not considered in the following analysis as it has been excluded from relevant targets under the IMF-EFF programme. Without the allocation for bank recapitalization, Rs. 5,277 billion was allocated for recurrent expenditure and Rs. 1,251 billion was allocated as capital expenditure and Net Lending.

The expenditure estimates were based on several assumptions such as the projected number of employees and pensioners in the public service, anticipated increases in the expenditure on Social Safety Net programmes, forecasted expenditure on interest payments, projected expenditure on goods and services, forecasted moderate increase in transfers to public institutions and expected increases in public investment.

In the first eight months of 2024, all recurrent expenditure categories displayed slower growth than the growth anticipated by the budget. However, expenditure on interest payments displayed significantly lower actual growth of 2.2 percent in the first eight months of 2024 over the budgeted growth of 20.9 percent.

In the first eight months of 2024, public investments recorded a growth of 16.7 percent over a budgeted growth of 3.3 percent. This was primarily led by an increase in the acquisition of capital assets.

**Table 13: Expenditure Performance Assessment 2024**

Indicator	Rs. Billion						
	2023		2024		Budgeted Growth	Jan-August growth	2024 Achievement
	Estimate	Jan-August	Estimate (a)	Jan- August Provisional	%	%	(as a % of Budget)
<b>Total Expenditure</b>	<b>5,819</b>	<b>3,297</b>	<b>6,528</b>	<b>3,477</b>	<b>12.2</b>	<b>5.4</b>	<b>53.3</b>
<b>Recurrent Expenditure</b>	<b>4,609</b>	<b>2,942</b>	<b>5,277</b>	<b>3,042</b>	<b>14.5</b>	<b>3.4</b>	<b>57.6</b>
<b>Non-Interest Recurrent Expenditure</b>	<b>2,416</b>	<b>1,416</b>	<b>2,626</b>	<b>1,482</b>	<b>8.7</b>	<b>4.6</b>	<b>56.4</b>
Salaries and Wages	1,002	618	1,127	660	12.5	6.7	58.5
Goods and Services	300	184	341	199	13.7	8.2	58.2
Subsidies & Transfers	1,114	614	1,158	624	3.9	1.5	53.9
<b>Interest Expenditure</b>	<b>2,193</b>	<b>1,526</b>	<b>2,651</b>	<b>1,560</b>	<b>20.9</b>	<b>2.2</b>	<b>58.8</b>
<b>Capital Expenditure and Net Lending</b>	<b>1,210</b>	<b>356</b>	<b>1,251</b>	<b>435</b>	<b>3.4</b>	<b>22.4</b>	<b>34.8</b>
o/w Public Investments	1,220	390	1,260	455	3.3	16.7	36.1

Source: Department of Fiscal Policy

(a) Estimates for 2024 do not include Rs. 450 billion allocation for bank recapitalization, which has been excluded from relevant targets under the IMF programme.

### 6.3 Fiscal Balances and Financing

For the fiscal year 2024, a budget deficit of Rs. 2,851 billion was envisaged by the budget including the Rs. 450 billion allocation from bank recapitalization. In the first eight months of the year, a budget deficit of Rs. 911 billion was recorded which marks a significant narrowing from the deficit of Rs. 1,470.7 billion recorded in the same period of 2023.

The primary balance also notably improved to Rs. 648.8 billion in the first eight months of 2024 from Rs. 55 billion recorded in the same period of 2023. In the first six months of 2024, a primary balance of 3.7 percent of GDP was recorded, reflecting that the government finances are well positioned to achieve the primary balance of 1.0 percent prescribed under the second review of the IMF-EFF programme.

To finance the estimated budget deficit, it was expected to borrow Rs. 2,851 billion on a net basis with Rs. 726 billion in foreign borrowings and Rs. Rs. 2,125 billion borrowed from domestic sources on a net basis.

## 6.4 Statement of Risks

Although there are three more months for the completion of 2024 at the time of compilation of this report, there are a number of risks that could lead to underperformance of annual budget estimates.

- Potential slowdown of global growth due to the geo-political tensions in the Middle- East.
- High global commodity prices particularly, petroleum prices which could adversely affect the import cost, domestic consumer prices, production costs as well as budget costs, while also potentially affecting the external demand for Sri Lankan goods.
- High adjustment costs to external shocks which may impact domestic production, international trade, domestic prices and overall growth.
- Risks associated with natural disasters and unfavourable weather conditions which could adversely affect agriculture, hydropower generation and government budget.
- Impediments and delays in administration and procurement
- Increasing recurrent expenditure with the developments in domestic and global inflation

The combined effect of these factors could slow down revenue generation and implementation of development/operational activities, increase recurrent expenditure, affect fiscal deficits and the level of government borrowings.

**Annexure I : The List of Treasury Guarantees Issued by the General  
Treasury up to 31.08.2024**

<b>S. No.</b>	<b>Name of Institution</b>	<b>Name of the Bank or Institution</b>	<b>Rs. Mn.</b>	<b>Total Rs.Mn.</b>
1	Airport & Aviation Services (Sri Lanka) Limited	Hongkong & Shanghai Banking Co.Ltd.	13,444	174,749
		Hatton National Bank	4,000	
		Japan International Cooperation Agency (JICA)	157,305	
2	Ceylon Electricity Board	Asian Development Bank	121,833	163,238
		Bank of Ceylon	4,540	
		People's Bank	15,333	
		National Savings Bank	5,000	
		Hatton National Bank	3,748	
		Industrial And Commercial Bank of China Limited	12,784	
3	Ceylon Petroleum Corporation	Bank of Ceylon	100,000	115,686
		People's Bank	2,353	
		China National Chemical Engineering No.14 Construction Co. Ltd	13,333	
4	Ceylon Shipping Corporation Ltd'	People's Bank	21,903	21,903
5	Ceylon Fisheries Corporation	Bank of Ceylon	250	250
6	General Sir John Kotelawala Defence University	Bank of Ceylon	835	41,144
		National Savings Bank	40,309	
7	Janatha Estates Development Board	Bank of Ceylon	200	200
9	Lanka Coal Company (Pvt) Ltd	People's Bank	-	49,500
		Bank of Ceylon	49,500	
10	Lanka Sathosa Limited	People's Bank	2,241	2,241
11	National School of Business Management Limited	Bank of Ceylon	8,600	8,600

**Annexure I : The List of Treasury Guarantees Issued by the General Treasury up to 31.08.2024 Cont.**

<b>S. No.</b>	<b>Name of Institution</b>	<b>Name of the Bank or Institution</b>	<b>Rs. Mn.</b>	<b>Total Rs.Mn.</b>
12	National Water Supply & Drainage Board	Bank of Ceylon	65,892	323,307
		Commercial Bank	968	
		China Development Bank	50,259	
		DFCC Bank	6,026	
		Exim Bank of India	78,186	
		Hatton National Bank	15,457	
		ING Bank, NV of Netherlands	28,123	
		National Development Bank PLC	17,380	
		National Savings Bank	36,711	
13	Paddy Marketing Board	Bank of Ceylon	363	1,122
		People's Bank	759	
14	Road Development Authority	Bank of Ceylon	147,102	370,101
		Commercial Bank	4,756	
		DFCC Bank	5,897	
		Hatton National Bank	20,133	
		National Development Bank	6,299	
		National Savings Bank	114,416	
		People's Bank	56,998	
15	Sri Lanka Land Reclamation & Development Corporation	National Savings Bank	3,500	3,500
16	State Development and Construction Corporation	Bank of Ceylon	1,127	1,127
17	State Engineering Corporation	Bank of Ceylon	2,400	2,400
18	Urban Development Authority	National Savings Bank	2,770	2,770



**Annexure I : The List of Treasury Guarantees Issued by the General Treasury up to 31.08.2024 Cont.**

<b>S. No.</b>	<b>Name of Institution</b>	<b>Name of the Bank or Institution</b>	<b>Rs. Mn.</b>	<b>Total Rs.Mn.</b>
19	Northsea Ltd	Bank of Ceylon	39	
		Sri Lanka Savings Bank	60	99
20	Telecommunications Regulatory Commission of Sri Lanka	Exim Bank of China	27,003	27,003
21	State Printing Corporation	People's Bank	1,165	1,165
22	Building Materials Corporation Ltd	Bank of Ceylon	500	500
23	Sri Lanka Insurance Corporation	Sri Lanka Insurance Corporation	3,655	3,655
24	Sri Lankan Airlines Limited	Bank of Ceylon	1,523	
		People's Bank	14,413	
		DB Trustees (Hong Kong) Limited	53,302	
		International Air Transport Association (IATA)	3,533	72,771
25	Sri Lanka Rupavahini Corporation	Bank of Ceylon	93	93
26	Sri Lanka State Plantation Corporation	People's Bank	100	100
27	National paper Corporation	People's Bank	140	140
28	Bank of Ceylon & Peoples Bank	Asian Infrastructure Investment Bank (AIIB)	54,825	54,825
29	Techno Park Development Company Private Limited	National Savings Bank	750	
		People's Bank	750	1,500
31	Regional Development Bank	Asian Development Bank	15,229	15,229
32	Central Bank of Sri Lanka	Reserve Bank of India	792,350	792,350
<b>Total Amount</b>			<b>2,251,266</b>	<b>2,251,266</b>

**Annexure II: The List of Letter of Comfort Issued by the General Treasury up to  
31.08.2024**

<b>S.No</b>	<b>Name of Institution</b>	<b>Name of the Bank or Institution</b>	<b>Guaranteed Amount Rs. Mn.</b>
1	Lanka Sathosa Limited	People's Bank	6,000
2	Co-operative Wholesale Establishment	Paddy Marketing Board	880
3	Sri Lankan Air Lines Limited	Bank of Ceylon People's Bank	43,358 43,808
4	Mihin Lanka (Pvt) Ltd	Bank of Ceylon People's Bank	3,173 3,173
5	Export Development Board	Bank of Ceylon & People's Bank	60
<b>Total Amount</b>			<b>100,452</b>