



# BUDGET SPEECH 2015

## 01. Introduction

- 1.1 Honorable Speaker, I am pleased to present the 10<sup>th</sup> consecutive Budget of the United People's Freedom Alliance (UPFA) Government guided by "*Mahinda Chintana* National Vision for Development", to this august assembly today.
- 1.2 Our Government in 2005 inherited a conflict trapped, Tsunami shattered nation with a grim economic outlook. It was a country which was suffering from depleted infrastructure that marginalized the economy in the emerging competitive global environment. Education was not oriented towards providing the much-demanded skills necessary to build up our new generation. We witnessed brain-drain with professionals migrating overseas seeking better living. A pool of over 50,000 graduates remained unemployed for years, looking out for employment opportunities. Public servants were waiting to regain their lost pension rights and better salaries.
- 1.3 Domestic production was not recognized and food supply was externally dependent. Paddy lands were reclaimed. Paddy mills and tea small factories witnessed a natural closure having been trapped with unmanageable debt.
- 1.4 As a result of the privatization policy carried out by successive governments since 1985, a sizable amount of Government entities and valuable Government assets including plantation industries, lubricant oil, gas, steel, ceramics, tyre, cement, telecom, insurance, airline were sold during the time. The once prosperous textile factories were closed down and sugar factories were run-down, compelling the country to be solely dependent on foreign supplies. With the forming of several companies in the name of peoplisation, the Sri Lanka Transport Board was badly run down. The domestic construction industry did not get any recognition either.
- 1.5 Land laws that restricted sale of land to foreigners, which were in existence since 1963 were repealed by the 2002 - 2004 Unite National Front Government, allowing foreigners to own land even without having to pay a proper tax. Weird plant varieties that created adverse impact on the natural habitat and the climate had been introduced without serious thought on repercussions. The absence of a proper

wildlife conservation program had aggravated the human - elephant conflict. Historical religious and cultural sites had been neglected. *Pirivena* education, indigenous medicine and sports did not receive sufficient attention of the Government.

- 1.6 From 1977, the Budget deficit was on average around 10 percent of GDP per year, on a successive basis, resulting in the buildup of debt in excess of GDP at 102 percent by 2004. Banks, railways, the Customs Department and the Inland Revenue Department were in fact lined up to be privatized. It was a common feature during those days that the exchange rate depreciated by 10 percent per year. International reserve at US\$ 2 billion by 2005, was not sufficient to meet country's food, energy and national security requirements. It is no wonder that the LTTE took an upper hand in this weak environment, by consistently violating the Peace Accord that was signed by the Prime Minister in 2002, which in fact contributed to corner the country even more.
- 1.7 The recruitment freeze that prevailed for over 2 decades led to a collapse in education, health, agrarian and irrigation and other public services. Rural schools were without teachers and were allowed to remain closed. Hospitals lacked doctors, nurses and other support staff, causing immense suffering to the sick - especially the less privileged. Withdrawals of pension rights of public servants demoralized those in the public service. The closure of the Paddy Marketing Board, CWE, and the Marketing Department had shattered the operations of the logistics management of essential public services.
- 1.8 It is the rural community and low-income households that suffered most from all this. There were no preschools for child development or proper schooling for children. The housing and sanitation needs and a majority of the old housing complexes were in a poor state. Many areas in the Colombo city, Kolonnawa, Bloemendall, Bellanwila became garbage-dumping yards. Colombo was subject to frequent flooding. Many villages did not have access to electricity. Over 50,000 families living in urban shanties and plantation workers did not have good housing. We could sense LTTE terrorism at close proximity. Several people in the North were displaced and living in refugee camps in desperate conditions. Children of such areas became child soldiers. Poverty amongst the plantation and rural population was well over 20 percent and such children suffered high malnutrition.

1.9 The desperate conditions that prevailed at the time in our rural society were well articulated by Hon. Minister Wijithamuni Zoysa at the pre-Budget consultations meeting held at Moneragala in June 2014, citing poems written by the well known poet Late Sagara Palansuriya;

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1.10 Honorable Speaker, I have no doubt that you would appreciate the deep meaning embedded in these poems, having been influenced by the path taken by Late D.M. Rajapaksa, followed by our father Late D A Rajapaksa who firmly supported the rural agrarian society from the days he was in the State Council and further in view of your own conviction on the importance of agriculture and irrigation. We must value leaders such as Late Dr. S A Wickramasinghe, Late Phillip Gunawardena, Late Dr. N M Perera, Late Dr. Colvin R De Silva, Late Sir Waithilingam Duraiswamy, Late Savumiamoorthy Thondaman, Late T B Jayah, Late Dr. Badiudin Mahmud, as well as Late D S Senanayake, our first Prime Minister, who promoted an agricultural economy to empower the rural society.

1.11 The underlying philosophy of the founder leader of SLFP - Prime Minister Late S W R D Bandaranaike was empowerment of the 'five great forces'- namely clergy, teachers, physicians, farmers and workers. The first lady Prime Minister of the world, Late Sirimao Bandaranaike initiated a massive industrialization process, moved progressive land reforms and represented the voice of Third World Nations, based on non- aligned principles and proved that gender fear is only a western concept. Northern people at the 1982 Presidential Election supported Late Hector Kobbekaduwa endorsing SLFP's policy stance towards strengthening the domestic

economy. Building a modern economy for our children based on such values should remain to be our responsibility.

- 1.12 The foremost expectation of the people from our Government in 2005 was to defeat terrorism and regain democracy. The second was to get the stage right for development by putting in place modern infrastructure so as to ensure prosperity to our people. Last but not the least, was to create an advanced economy and develop human resources capable of satisfying the long-term aspirations of our children.
- 1.13 Honorable Speaker, this is *Mahinda Chintana* Vision for a New Sri Lanka. It aims at taking urban facilities to the village - while bringing the value system that prevails in the village to the urban life. We have to bear in mind that despite any form of pressure, we need to start from where we can, do boldly what is possible, and be determined to succeed with good intentions - then we could never fail.
- 1.14 That was how we managed to defeat successfully, the sinister LTTE terrorism. That is how we managed to get once stalled infrastructure development initiatives to move rapidly. This is how we managed to get our economy moving ahead in the region - while expanding livelihood development opportunities for our people and creating new hope for our children.

## **02. A Review of Progress : 2006 - 2014**

- 2.1 Honorable Speaker, 10 years of our journey is indeed a journey of progress. The terrorist trapped areas now enjoy functional democracy and freedom with elected Provincial Councils and Local Authorities. Children go to schools and return home without having to face the risk of falling into the hands of the LTTE and ending up as child soldiers or suicide bombers. Maternal mortality and child mortality in those areas have drastically declined. The 'mined - lands' have become rich 'green - fields' providing income opportunities to the people. Annual defense expenditure in relation to GDP that was around 5.5 percent for nearly 30 years is now contained at 3 percent, giving space for spending on development and public services.
- 2.2 We made this transformation through inclusive development. Every household now enjoys access to electricity, which was then available to urban townships only. Transportation has improved, providing easy access to schools, hospitals, markets

and work places. The entire population enjoys telecommunication facilities. Schools and hospitals are upgraded to provide better education and health care. *Sathi Polas* (Weekly Marketplaces) have emerged with a modern outlook, expanding market facilities. Pipe borne water facilities have expanded at an accelerated phase, so as to ensure that every household would have access to quality drinking water by 2017. The implementation of *Divi Neguma*, *Gama Neguma* and women entrepreneurship development programs have added value to rural centric development strategies.

2.3 Honorable Speaker, this Budget is also presented soon after hosting the Prime Minister of Japan and President of the People's Republic of China, both of whom made State Visits to our country. Foreign Ministers, Finance Ministers, senior leaders and state officials of several other nations also visited Sri Lanka during this year. The President of the Asian Development Bank also visited Sri Lanka -strengthening our development partnership. In September this year, we hosted a two day International Conference of Asian Political Parties. Last year we hosted the Commonwealth Heads of Government Summit attended by several global leaders. These events amply demonstrate how well we have elevated our international relations to a high altitude - proving the success of our Government's foreign policy. This helped to convince how incorrect and misleading are the perceptions propagated by a handful in the international community against Sri Lanka with the help of an isolated few from within who are bearing extreme views and ulterior motives, desperately trying to use the Human Right Council in Geneva as their only forum.

2.4 Honorable Speaker, we never led communally targeted military activities during the operations conducted to rescue our people from the grips of LTTE terror. All benefitted through peace and security. Displaced people were settled and helped to develop their livelihood. Former LTTE cadres were rehabilitated and reunited with their families, having even channeled budgetary resources. Over 3,000 jobs were given to them in security and police forces. We have launched a reconciliation process to consolidate the hard-won peace.

2.5 We all know how our country was governed under emergency regulations for years. Since the removal of emergency regulations, restoration of public services throughout the country, encouragement of press freedom and the conduct of regular elections including the Northern Provincial Council elections, the country has

witnessed a notable improvement in governance. For the first time all 9 Provincial Councils are functioning since their creation in 1987.

2.6 As we have consistently explained in this Parliament and at international forums, while appreciating the joint efforts of the international community to understand our domestic problems, there should be no international interference on national security, peace and development. The world must appreciate our success that was achieved while managing the diversity in our country within a democratic setting. The Tamil political parties and concerned groups must work with the Parliament Select Committee to find a durable solution to their concerns within the Sri Lankan context since Provincial Councils are already functioning with regular elections being held.

2.7 Further, I cannot see the rationale to devolve the subjects of land and police powers to 9 separate Provincial Councils and how such a move could serve the best interest of law and order and the national economy. We must develop national standards for education, health, poverty reduction and social services to ensure equality. For this we must see how well we can setup *Jana Sabas* at *Pradeshiya Sabas* and Provincial Councils and coordinate them with the Government through a meaningful and cost-effective governance framework. I therefore invite the Tamil National Alliance once again, to move away from ideological barriers and work with the Government towards finding a realistic political proposal that will make Provincial Councils more meaningful to promote development for the benefit of all our people. Instead of pursuing communally biased political perspectives, all of us must work together towards building a united community with strong economies in the regions while reaping benefits from the hard-won peace and reconciliation.

2.8 Honorable Speaker, the government donated rice to the World Food Program, surgical gloves to Ebola Virus affected African countries through the World Health Organization, medical assistance to those affected by the cyclone in the Philippines, deployed our security personnel on humanitarian missions to Haiti and Sudan and donated humanitarian assistance to the value of US\$ 1 million to the people of Palestine. It is a matter of pride that our nation has graduated from a humanitarian aid recipient country status to a humanitarian aid donor country status. These are

reflections of our endeavors to promote humanitarian and peace building efforts in the world and our desire to strengthen global peace.

- 2.9 All this could be done, only since our security forces, our farmers, our labour force, our women and small entrepreneurs, those who are engaged in overseas employment, our teachers throughout the country, our health workers, our rural based public servants, our religious leaders, our artists, the emerging business community and SMEs, global financial institutions and entrepreneurs, were devoted to development. Above all, our people continued to place trust in democracy by actively participating in a peaceful election process that could be placed on par with any advanced democracy in the world, adding value to democratic institutional arrangements of governance. We wish to extend our heartfelt appreciation for their uncompromising commitment to promote peace, national reconciliation and economic progress that are unstoppable within the democratic setting that we gained ground since the end of the terrorist conflict.
- 2.10 The 3 Provinces in which Provincial Council Elections were held this year which represent around 47 percent of total registered voters in the country, 54 percent of voters, voted for the United People's Freedom Alliance. Our Government is encouraged that an overwhelming majority of our people continue to place their confidence in '*Mahinda Chintana*- National Vision for the Future' which, is designed to create a proud future for our children blessed by the success achieved in building peace, reconciliation and development all over the country.
- 2.11 Honorable Speaker, the per capita income of 2015, for which I am presenting this Budget, is expected to be US\$ 4,000. It is 4 times higher than what it was in 2005 and we achieved one year ahead of our expectations. The economy is growing around 8 percent. Earnings from exports, tourism and remittances have increased income sources of the people and have opened new investment opportunities to the business community. They have strengthened our external transactions to generate a lower current account deficit of around 3 percent of GDP. International Reserves are nearing US\$ 10 billion as we have increased local production having restored peace and security. The Budget deficit is below half of what it was in 2005 and public debt is below 30 percent of GDP in comparison to 2005.



- 2.12 Our Government has developed country's international ports and airports to global standards, attracting trade and tourism and enabling the country to gain from its strategic locational advantage. Equally, the country is progressing rapidly with regard to its expressway network that connects all major townships and development corridors to industrial, agricultural and tourism zones as well as IT and university townships. The Northern Expressway and Ruwanpura Expressway with a parallel new railway line to Ratnapura are expected to be ready by 2017. The country's national highways have been modernized almost fully with new capacity to be able to cater to transport requirements of the next decade. Northern railway line connecting Thalaimannar and Jaffna has been completed. Similarly, the Colombo - Matara railway connection has been upgraded. The Matara - Katharagama new railway line is under construction and the Beliatta section will be ready by end of 2015.
- 2.13 The power generation capacity between 2005 and 2015 has doubled at around 5,000 MW and transmission losses have been reduced to 9 percent - saving around 300 MW of generated power. Alternative renewable energy sources have also generated about 300 MW power in the country. With the strategy that was adopted by us to gradually move onto low cost power generation, the Government was able to reduce the cost of electricity by 25 percent from last September, to provide benefits to almost all our 4.5 million households.
- 2.14 Moragahakanda, Uma Oya, Deduru Oya and Yan Oya diversions will provide irrigated water to the dry zone areas in the Northern, North Western and Southern districts, by 2016. Several new schemes such as Veheragala, Rambaken Oya, Gurugal Oya reservoirs, have been built. All major reservoirs including Parakrama Samudraya, Minneriya, Giritale, Ridiyagama, Tabbowa, Inginimitiya have been rehabilitated with new safety standards. Making use of the drought, the major and minor irrigation schemes have been rehabilitated. Investment made in this sector from 2005 to increase the production of agriculture, fisheries, livestock, power generation and sustain bio diversity has been significant.
- 2.15 Honorable Speaker, the rehabilitation of existing fishery harbour facilities, the early completion of Silawathura, Gurunagar, Gandara and Kalametiya new fishery harbours, the development of fishery harbours and anchorages at Wennappuwa,

Kapparithota, Dodandoowa, Hikkaduwa and Negambo lagoon in support of the coastal fishing industry commenced in order to explore the vast fishery resource base of the country. Fishing boats consisting of 4,374 multi day vessels, 24,364 one day vessels and 20,868 normal vessels have been maintained and 186,939 fishermen in the industry are assisted through a variety of development assistance.

- 2.16 In terms of public investment strategy, the Government has completed the construction of water distribution systems in Galle, Colombo, Polonnaruwa, Trincomalee, and ongoing work has been accelerated of major water schemes in Gampaha, Kurunegala, Puttalam, Matale, Anuradapura, Hambantota, Kandy, Ampara, Batticaloa, Jaffna and Kilinochchi districts. Community water supply schemes are developed in small towns and rural areas under the newly created Community Water Supply Department.
- 2.17 Honorable Speaker, our Government attaches special importance for the development of Human Resources. The University Townships initiative has progressed well with each University having developed new facilities for expansion by providing new subjects for advanced studies. Hostel facilities for over 25,000 undergraduates are under construction to solve their accommodation problems. Salaries and research incentives of university lecturers have been increased by twofold.
- 2.18 Vocational education is another area that went through revival in recent years having targeted youth towards skills development. The construction of a new School of Business Management and an Institute of Technology at Malabe, an Advanced Technology Institute at Mulative, the expansion of the IT school and a Teacher Training Collage at Malabe and several advanced university colleges in which technical education could be pursued, are in progress. The establishment of an Ocean University was legislated to undertake skills education that is in demand with regard to fisheries and ocean resource management.
- 2.19 The Government ventured on a child friendly school development initiative to accommodate about 350,000 children entering schools every year. Facilities in 6,500 secondary schools are being upgraded and all other primary schools are being improved with the introduction of a more child friendly environment, sanitation and

staff facilities. In order to promote English, Mathematics, IT and Science to all school going children, new Mahindodaya Labs have been completed in 1,000 schools all over the country. A school specific recruitment drive is in progress to fill teacher vacancies in distance schools. Conducting teacher training programs, providing teaching material, improving standards of examinations and extra curricular activities are in progress to extend greater benefits to children.

- 2.20 Due to these initiatives, the success rate of students of far away districts such as Hambantota, Killinochchi, Batticalo, Polonnaruwa, Badulla at the Ordinary Level Examination has increased from 46.6 percent in 2005 to 62.4 percent as of now. It is a matter of pride for all of us to hear that nine out of the top ten students who got highest marks in the Grade 5 Scholarship Examination this year, are from remote primary schools in the country which confirms the revival in education in rural areas. Pirivena education and *Daham* School education were given a boost through the last year Budget to promote the number of students attending such education.
- 2.21 Honorable Speaker, what is most encouraging is the global recognition that we have received for promoting IT education at rural level through the setting up of 900 Nanasala Centers in rural areas and 26 Prajashakthi Technology Centers in planation areas. This has contributed to raise country's IT literacy to 45 percent this year from a negligible level in 2005. The World renowned Milinda and Bill Gates Foundation Award was awarded to Sri Lanka out of over 140 global applications, in recognition of the success of e-library Nanasala initiative.
- 2.22 Research undertaken by our scientists in areas such as food technology, non-communicable deceases, low cost construction technology, renewable energy, and indigenious medicine is encouraging. Private - Public Partnerships in Nano Technology initiatives have produced advanced results.
- 2.23 Preserving and protecting a free health care system is also an important priority in the *Mahinda Chintana* Development Framework. Our Government recruited the required specialists, medical personnel, nurses and para-medical staff, revised their emoluments and incentives, an increased expenditure for pharmaceutical drugs, ambulances, and medical equipment to develop hospital facilities. Nearly 50,000 persons were recruited to the Health Sector alone. The Government has also

expanded its capacity to manufacture essential drugs in addition to encouraging local pharmaceutical manufactures to increase their production capacity so that the cost of these drugs will reduce while also saving foreign exchange. The total annual expenditure for the provision of free health services as of now is nearly Rs. 150 billion.

- 2.24 Sport is another area of priority in the overall child and youth development strategy. It is a must that all schools have a playground, with sports instructors who will promote a healthy and sporty lifestyle development among students. Sports activities are now an integral part of education, providing extra curricular activities to school going children. The Government has also developed several international stadiums and modern sports facilities in many districts. This nation at one time had only few urban sports facilities.
- 2.25 Honorable Speaker, our country has a rich rural heritage. Majority of our people live in rural settings. Respecting this strong cultural attachment and national values of our rural life, our development policies were centered round empowerment of villages through the *Gama Neguma* infrastructure development program and *Divi Neguma* livelihood development program. On priority basis, we accelerated the implementation of rural electrification program, *Maga Neguma* - rural road development program, while also expanding telecommunication facilities to all Grama Niladari divisions spread across the country. We also expanded small irrigation facilities, maternity care centers and primary schools at village level. 6 rounds of *Divi Neguma* assistance have been carried out to promote backyard economies and to develop livelihood initiatives covering around 2.5 million low income households.
- 2.26 The provision of fertilizer at Rs. 350 per 50 kg bag from 2006 to date for paddy and at Rs. 1,200 per 50 kg bag for other crops, popularizing the cultivation of maize, onion, potato, green beans, vegetable and fruits, as well as promoting poultry and aquaculture, processing dry - fish and engaging in small industries have helped low income people to expand their livelihood opportunities. Micro financing facilities have been expanded through *Divi Neguma* community banking societies and agrarian banking. The provisions in the annual Budget for *Divi Neguma/ Samurdi* cash allowances have been increased. Over 100,000 motorcycles have been distributed

among field level officers at villages giving new recognition to government services at rural level. The Farmer's Pension Scheme was restored and crop insurance and compensation coverage for wild life related destructions were expanded.

- 2.27 Honorable Speaker, during the last 8 years, the housing stock of low income people have increased by about 750,000 through rehabilitation of houses that are in a poor condition and new constructions targeted for low income households, provision of toilets and roofing tiles, providing replacements in the case of houses affected by disasters and through the provision of housing loans. Nearly 100,000 houses destroyed by the LTTE were rebuilt in the North. Further, the Government commenced the rehabilitation of old housing schemes, while providing improved common facilities. Already 22 housing schemes including Maligawatta, Bluemendol, Gunasinghapura housing schemes have been fully modernized and a further 23 housing schemes including Zoysapura and Anderson Flats are being rehabilitated.
- 2.28 The new facilities provided to rural and urban townships, coupled with security and livelihood development helped many low income families to improve their living standards having purchased motor bicycles, three wheelers, hand tractors, small cars, water pumps, fishing boats etc. Most of the low income people also use mobile phones.
- 2.29 The income growth and improved living standards among low income people are shown from the decline in people below poverty line. The number of people living below the National Poverty Line has declined from 15.7 percent in 2006/07 to 8.7 percent in 2012/13. Rural poverty has declined from 15.7 percent to 7.6 percent while poverty in the plantation sector has declined from 32 percent to 10.9 percent. People below US\$ 2 per day income have declined from 28.3 percent to 18.9 percent. Maternal mortality has declined from 12.1 per 100,000 live births in 2004 to 7.2 in 2013. The nation has approached malaria free status. The number of children attending primary schools has increased to 98 percent while the number attending secondary schools have increased to 84 percent. Rural unemployment has also declined from 7.8 percent to 4.5 percent. Unemployment among youth in the age group of 18-30 has declined from 15.8 percent to 13.1 percent.

2.30 However, the remaining facets of poverty including vulnerabilities to droughts, non-communicable diseases, lack of access to quality drinking water and sanitation and malnutrition remain to be addressed further to eradicate poverty and reduce unemployment.

### **03. The Real Economy - 2014**

3.1 Honorable Speaker, paddy agriculture, the backbone of our rural community has suffered a setback during the last two years due to severe drought conditions. The 2013/14 *Maha* paddy production and the 2014 *Yala* paddy and maize production, suffered losses. However, the Government promptly implemented 'cash for work' programs targeting those in such districts, who are dependent on daily earnings. Arrangements were made to distribute drinking water and neglected wells were restored. Using the drought as an opportunity, several major and minor irrigation systems totaling 678 were rehabilitated at a cost of about Rs.3,000 million to create extra water storage capacity in Hambantota, Monaragala, Anuradapura, Kurunegala, Mannar, Polonnaruwa and Vavunia districts. The importation of rice was temporarily liberalized to ensure sufficient food supplies and to prevent speculative price hikes in the market.

3.2 Despite the setback to the paddy and maize production, the production of black gram, green gram, big onion, potatoes, fruits and vegetables has increased. Milk, poultry, fish and eggs have also shown a similar improvement. The coconut production which, severely suffered due to the prolonged drought in the coconut triangle, is recovering with a favorable production trend. The production of tea, cinnamon and other export crops has also shown an improvement. Remunerative farm gate prices, the fertilizer subsidy, the price stabilization tax structure that prevails at the point of import, provision of quality seeds and planting materials and better storage and marketing facilities have helped our farmers to increase production through diversified crop cultivation.

3.3 Tourism industry has sustained its growth momentum with foreign tourist arrivals exceeding 1.1 million and domestic tourism expanding to 5.1 million, at present. Foreign earnings have reached US \$ 1.9 billion up to September and are expected to surpass US\$ 2.5 billion this year. The contribution of country's construction industry increasingly driven by local companies is growing at around 17 percent due to

expanded investments in infrastructure as well as higher private investments in urban property development, housing, tourism facilities, new factories and other logistics.

- 3.4 Honorable Speaker, import competing industries such as cement, steel, rubber based products, agricultural and industrial machinery, equipment, spare parts, power generation and transmission machinery and equipment, building materials, furniture and boat and ship building have expanded. A similar expansion is seen through new investments in food processing, sugar and vegetable oil manufacturing, dairy and pharmaceutical production and renewable energy industries. Many of these activities have a potential to graduate to export markets in the medium term. The foreign investment is nearing US\$ 2 billion. The revised Customs tariffs that will come into force tonight will facilitate a further expansion of such value creating, import competing industries. Quality standards will be enforced on imports and exports to promote competitive industries. An anti-dumping legislation will be placed before Parliament shortly to ensure fair practices in external trade.
- 3.5 Export industries have picked up showing a 12 percent growth. The apparel industry has shown a 15 percent growth and is expected to generate US\$ 5,000 million export earnings this year. Value added tea, rubber and cinnamon products have increased exports earnings to US\$ 3,000 million. Software, gem and jewelry, handloom and confectionary industries have gained momentum. Export earnings are expected to generate US\$. 11,500 million this year.
- 3.6 An increase number of people in the skilled categories have secured foreign employment and departures for housemaid jobs have declined. The remittance income from foreign employment is expected to be around US\$ 7,000 million this year.
- 3.7 The Government maintained stability in commodity prices and the food supply. Annual average inflation registering at 4.2 percent so far confirms our ability to secure a mid - single - digit inflation this year in spite of adverse impacts of the drought. The exchange rate stabilized in comparison to the historical average of an annual 10 percent depreciation. I wish to table the reports of the Central Bank of Sri

Lanka and the Ministry of Finance and Planning that provides a full account of the economy and finance.

#### **04. Development Goals - 2020 and Beyond**

- 4.1 Honorable Speaker, sustaining an employment level at 97 percent of the labour force remains our employment goal for 2020. Our vision is to engage students after reaching GCE Ordinary Level and Advanced Level standards, either in higher education for graduate studies or in the vocational stream of education to drive the economy making optimum use of knowledge and skills of our work force, is the overall target of our employment strategy. Maintaining youth employment at 95 percent is a special target of our employment strategy.
  
- 4.2 Pre school child development, 100 percent school enrollment for primary and secondary education, 100 percent literacy and 90 percent computer literacy, knowledge in English, Mathematics and Science, and basic vocational skills, together with active involvement of children in sports are our goals for general education. Marching to the top of the Asia Pacific region in Human resources by 2020, remains to be our primary goal in education. Matching advanced country standards in health remains our goal for health. Improving health care to reach higher standards while registering a zero maternal and child mortality is our goal in healthcare for women and children. The elimination of malnutrition among children gets equal high priority. Similarly, we must double our efforts to eliminate risks faced by our people to communicable and non - communicable diseases and raise life expectancy to beyond 80 years of age, by 2020.
  
- 4.3 As proposed in the 2014 Budget, steps have been taken to set up a National Science Center to promote scientific knowledge required for the advancement of our society. The Government and private sector partnership has worked well in the setting up of a Science Park for the promotion of nanotechnology in manufacturing and to further advanced technology and research. An Atomic Energy Authority is being set up to promote specialized research and technology development in advanced science. The number of professionals engaged in the field of accountancy, commerce, finance, law, medicine, IT, engineering and architecture has increased considerably. Our vision is to increase the university intake to 100,000 in 2020 and place our universities among the top 30 in Asia.



- 4.4 A National Drug Policy has been formulated for the regulation of drug usage, clinical trials and research activities in specialized hospitals. Parallel to these developments, we propose to expand the subject areas of the Postgraduate Institute of Medicine and also to double the intake for postgraduate studies in medicine. The Post Graduate Institute of Medicine will be transformed over the next 3 years, as a state-of-the-art facility that would connect neighbouring teaching hospitals to engage in postgraduate research and advanced studies and increase medical specialists capable of treating kidney ailments, malnutrition and similar contemporary challenges faced by our society.
- 4.5 The Government's effort over the last 8 years to promote IT as a major industry is expected to raise foreign earnings to about US\$ 1 billion by 2016, while creating around 100,000 well-paid employment opportunities. Our vision is to lift Sri Lanka to be among the 'Top 30' IT destinations in the world over the next three years and to raise foreign earnings to US\$ 5 billion and make it a major employment generation sector for youth, by 2022. The ICT Zone at Hambantota offers facilities of global standards for IT/BPO services, to transform Sri Lanka as the emerging ICT Hub in South Asia.
- 4.6 Honorable Speaker, I have explained to this august assembly and in other international forums - that economic growth makes no meaning to the ordinary and less economically privileged people unless it improves their incomes and living conditions. Therefore, raising income and livelihood opportunities of low income people will continue to be an uncompromising goal of our development strategy. Our effort is not only directed at raising their income but also to eliminate their vulnerabilities to climate related challenges, non - communicable deceases, disabilities etc. and improve their access to quality drinking water, decent housing and sanitation, easy access to schools and hospitals.
- 4.7 Honorable Speaker, we have set our export target at US\$ 20 billion in 2020. Our aim is to raise export earnings of high value tea, apparel, handlooms and rubber products to US\$ 15 billion by 2020. Our vision for tea, apparel and cinnamon exports is to position Sri Lanka among the 'Top 10' high quality product manufacturing countries in the world by 2020. Natural rubber, cinnamon and spices while being exports

capable of securing premium value, will also protect our environment and bio diversity interests in development. We have requested the World Trade Organization to declare Ceylon Cinnamon as a specific product based on a geographical identification. These will pass on broad based benefits of development to a majority of our people, who are predominantly smallholders. Our desire is also to promote fruits, vegetable, foliage and poultry also as exports, since our producers have developed such products to a level that meets international standards. The promotion of pineapple, mango, papaya, banana, dragon fruit and strawberry as export earning sources, are expected to earn US\$ 500 million by 2020.

4.8 Sri Lanka has the potential to export high value products from mineral sands, graphite, Ilmenite and gems. However, these valuable natural resources must be exported only with full value addition done locally, while adhering with stringent environmental compliances to be able to secure the best export income from such manufacturing industries. The export performance in ship and boat building, machinery and equipment argues well for entering high-skilled engineering stage of industrialization which can raise the value of manufactured exports beyond US\$ 20 billion in 2020.

4.9 Honorable Speaker, this country has also proved its potentials in exporting services such as business & knowledge processing services, professional services, ports & aviation services and banking & financial services. It is encouraging that IT and tourism industries are projecting US\$ 5 billion each in foreign exchange earnings in 2022. As skilled and technical categories are encouraged towards foreign employment, remittance income from overseas employment is projected to be over US\$ 15 billion in 2020.

4.10 Honorable Speaker, the Government is committed to gain a higher Investment Grade by reducing debt to GDP to below 60 percent, further strengthening country's already strong macro economic environment by 2020 to consolidate country's economic strength. In the backdrop of this direction, the overall investment to GDP is expected to rise to 40 percent. The total Gross Domestic Production is expected to exceed US\$ 165 billion at a rate of around 13 percent growth. Taking the process of transforming the economy from a less developed economy with a per capita income of less than US\$ 1,200 prior to 2005 to a US\$ 4,000 per capita economy by 2015 -

moving further forward we plan to surpass US\$ 7,500 per capita income for our people, as a high middle income country is our national income goal by 2020.

- 4.11 Consolidating the progress made in governance between 2005 and 2014, we aim at gaining a ranking among Top 10 countries in the Asia Pacific region in the World Peace Index, Economic Freedom Index, Rules of Law Index, Doing Business Index, Human Resource Development Index and Infrastructure Development Index, with a povertyfree status in 2020.

**05. The 2015-17 Fiscal Framework**

- 5.1 Honorable Speaker, I wish to remind our fiscal experts in the opposition, that our fiscal policy framework is significantly different from the way they approached the Budget. All post 1977 governments prior to us operated on higher budget deficits - way above 8 percent of GDP and left us an accumulated debt stock in excess of National Income. Our immediate past United National Front Government removed pension rights of public servants and also imposed a recruitment freeze to curtail public services to 300,000. Subsidies were curtailed. Privatization was accelerated. Public Investments were reduced. These were the salient features of the fiscal policy during that period.
- 5.2 Our Government did not privatize a single State Enterprise since 2005. To the contrary, we got back the Gas Company, SriLankan Airline, Sri Lanka Telecom, Insurance Corporation, Pelawatte and Sevanagala Sugar companies, Colombo Hilton etc. The value of asset creation in CEB, Port Authority, Water Supply and Drainage Board, Airports and Aviation Authority, Urban Development Authority, Road Development Authority, Irrigation Department, in universities, hospitals, schools, public offices, land and property are far in excess of Government debt that we raised to build them up.
- 5.3 We increased expenditure on infrastructure development, salaries and pensions payments, *Divi Neguma*, *Samurdi* benefits, the fertilizer subsidy and introduced guaranteed prices for local producers. Around 500,000 public sector employees and a further around 100,000 unemployed graduates were recruited. Instead of reducing the public service to 300,000 we raised it to around 1.3 million. Further, areas liberated from terrorists were demined. The Government spent funds for the

implementation of recommendations of the Lessons Learnt and Reconciliation Commission and to popularize the usage of bilingual practices to promote national reconciliation and for the rehabilitation of misguided youth. We have also been able to provide a monthly living allowance to all parents of our three forces, to disabled soldiers and relief assistance for those affected by natural disasters.

- 5.4 With all these measures that have been taken, the Budget deficit has been reduced to 5 percent of GDP in 2014 and will target 4.6 percent in 2015. We are determined to raise a surplus in the revenue account gradually towards 2.5 percent of GDP and bring down the Budget deficit to 3.8 percent by 2016 and 3 percent by 2017, underscoring our commitment to limit borrowings only for capital formation and not for consumption. We will reduce the Debt /GDP ratio to 65 percent. We have paid back almost half of IMF debt of US\$ 2.5 billion, which we obtained through a Stand By Arrangement in 2009 to stabilize our economy. We will provide a strong National Budget that is capable of servicing all such debt of our country promptly, to maintain the creditworthiness of our nation.
- 5.5 The Government revenue in 2015 is likely to be around Rs. 1,600 billion and current expenditure will be around Rs. 1,400 billion. This will secure payment of salaries, pensions, the fertilizer subsidy, for pharmaceutical drugs, welfare expenditure and interest cost of debt. Further, the Budget will maintain public investments of Rs. 730 billion to expand infrastructure, human resources development and economic activities.
- 5.6 The proper coordination of development programs in each sector in terms of economic priorities is necessary in order maximize benefits from public expenditure. Hence, expenditure programs taking place through line ministries, Provincial Councils and *Pradesiya Sabas* have been sequenced in the 2015 Budget in terms of development priorities of 2015-17 medium term. Provisions have also been made to channel all foreign grant-aided projects through the Consolidated Fund and the National Budget, adhering with the applicable planning and public financial management procedure. I have also directed the Treasury to strictly monitor commitment controls of all Spending Agencies to have smooth cash disbursements and uninterrupted implementation of public expenditure programs.

**06. State Enterprises**

- 6.1 Honorable Speaker, our Government strongly believes that state assets and enterprises are the biggest resource base of our country. The Government through its public investment program has built up the asset base of major State Enterprises to increase their earning capacity and further reduce cost to the people from their services. Following a proposal of last year's Budget, we have commenced to convert all previous loans granted to them by the Treasury - to Government equity, in order to further strengthen their Balance Sheets.
- 6.2 In terms of the strength of SriLankan and Mihin Lanka airlines which are going through capitalization and restructuring, we now operate from our two International Airports a 25 fleet air services to 90 destinations in 44 countries linking them direct to Sri Lanka. For the final phase of capitalization of the two airlines, this Budget has allocated US\$ 150 million in 2015. The Ports Authority and Airports Authority now manage two international ports and airports making a regional attraction and profits. I am pleased to inform this august Assembly that, out of the 54 State Owned Business Enterprises, 47 have been turned around to be profitable entities. I value the contribution made and the guidance provided by the Parliament oversight Committee on Public Enterprises, towards improving governance and accountability of these enterprises.

## **Part II**

### **Proposals**

01. Honourable Speaker, I would like to spell out the Budget proposals for 2015 within 2015-17 medium term budget framework and how the Government will engineer the fiscal policy towards further strengthening public finance, development and welfare of the People.
  
- 02. Government Revenue**
- 2.1 We need to strengthen Government revenue efforts in view of increasingly high commitments of the Government to provide a wide range of public services, welfare programs and public investments. I propose to impose Excise Special Provision tax on motor vehicle imports tax in lieu of all multiple taxes at the point of import. This simplified taxation will generate additional revenue of Rs. 5,000 million. It is proposed to fix the tax-free threshold applicable for VAT and NBT on supermarket scale retail businesses at Rs. 100 million per quarter, while increasing the tax free threshold for VAT and NBT to Rs. 15 million a month to create tax free environment for small business. I have also increased the Excise Tax on cigarettes and liquor to raise Rs. 14,000 million of additional revenue in 2015. I also propose to levy a US\$ 100 per person Entrance Fee to premises where casino entertainment activities take place and raise the Gaming Levy to 10 percent of turnover to raise further revenue of Rs. of 2,500 million.
  
- 2.2 Honourable Speaker, it has become customary among some that tax due to the Government and EPF contributions are disputed to delay or evade such payments. Therefore, I propose to introduce a refinance facility to provide 5-year credit at 6 percent interest from all banks to enable liable taxpayers to pay their tax arrears, in terms of prevailing taxes operational from 2010 and Provident Fund payments up to 31 March 2014 to facilitate them to meet their statutory compliances. I expect to recover Rs. 40,000 million of arrears through this measure. I invite the Judiciary, the Tax Department and default taxpayers to assist to conclude the settlement of disputed tax and EPF payment arrears accordingly within 6 months. I propose to vest in the State, property corresponding to such arrears of default taxpayers who do not make use of this opportunity.

- 2.3 I propose to fix the maximum PAYE tax rate at 16 percent to ease the burden of wage earning employees and professionals. It is proposed to reduce the Value Added Tax to 11 percent.
- 2.4 Foreigners can have access to state and private land only through long lease arrangements subject to payment of a land lease tax. As such, I propose to strictly enforce the payment of 7.5 percent or 15 percent tax and other provisions contained in the Act. I expect Rs. 2,000 million from this new land alienation tax on foreigners next year. I propose to enforce exchange control regulations to prevent foreigners from engaging in illegal land transactions through the use of local names and local companies. I also propose to amend the Finance Act to strictly enforce the transfer all surplus funds other than those committed expenditure of all spending and other agencies of the public sector to have a better control on public financial management.
- 2.5 The Inland Revenue Department is being computerized to link all relevant agencies to improve tax administration and to enable the use of a Personnel Identification Number to co-ordinate all transactions. I am pleased to announce that with effect from tomorrow the Inland Revenue and Customs will go online to simplify income tax registration and export and import transaction related payments.

### **03. Strengthening State Business Enterprises**

- 3.1 Ceylon Petroleum Corporation has contained its losses and has also reduced its debt to banks. The recent reduction of prices of petrol by Rs.5 per litre, diesel by Rs. 3 per liter and kerosene by Rs. 20 per liter, is a reflection of its improved financial position. Therefore the Government will convert Rs. 150 billion of CPC debt to equity and guarantee its financing to rebuild the pipeline network, storage facilities and capacity expansion of the oil refinery to 1,500 MT. The CPC will form a joint venture to protect its interest in the Trincomalee oil tank farm that had been sold to the Indian Oil Company, to develop storage facilities.
- 3.2 I propose to convert previous loans and interest payments of the Water Supply and Drainage Board to the Treasury amounting to Rs.60 billion to government equity, to strengthen operational profits and service their own project financing arrangements. I propose to reduce water charges for households consumption up to 25 units by 10 percent. Following my budget proposal last year, a National Community Water

Supply Department has been established to regulate and develop community water supply schemes. I propose to allocate Rs. 750 million for the rehabilitation of community water supply schemes and develop new schemes under this Department with particular emphasis on villages affected by kidney and waterborne diseases.

3.3 Following the Budget proposal to improve rural transport services, arrangement has been made to deploy 400 small buses. I propose to import further 500 small buses to expand these rural services. In order to strengthen the bus fleet of Sri Lanka Transport Board with a further 2,000 buses, a public investment of Rs.1,000 million has also been provided to SLTB. Salaries of CTB employees were raised to equalize minimum salaries of the public service salary structure. I also propose to allocate Rs. 10 billion over 2015 -17 to rehabilitate the national airports at Rathmalana, Trincomalee, Anuradhapura, Palali, Batticaloa and set up new airports at Kandy and Nuwaraeliya to promote domestic travel and tourism and to ease traffic congestion.

3.4 The government owned Kurunegala and Chillaw plantation companies have performed well and paid dividends to the Treasury. On this success, I propose to set up a separate government owned Plantation Company to develop all JEDB and SLPC plantation lands with a capital infusion of Rs. 1,000 million. In order to strengthen state construction companies, I propose to allocate Rs. 3,000 million to provide the capital contribution to State Engineering Corporation, Central Engineering Consultancy Bureau and State Development and Construction Company. The sugar plantation industry, which had been neglected and used largely to manufacture liquor was taken over by the Government in 2012 and has been revived to increase sugar production. Further, it also helps about 25,000 families in Uva and Eastern Provinces to improve their livelihood earnings. Therefore, I also propose to allocate Rs. 5,000 million to build modern sugar manufacturing plants at Kantale, Hugurana and Pelawatta and develop smallholder plantation under Sri Lanka Sugar Company during 2015-16. I propose to increase the farmgate price of sugar cane to provide a greater incentive to be involved in sugar cultivation, to Rs. 4,500 per MT.

#### **04. Strengthening Banking and Financial Institutions**

4.1 Honourable Speaker, the capitalization of the Central Bank with Rs.50 billion this year laid a solid foundation for the financial system stability in this country. Similarly following the last year budget proposal, consolidation of finance companies



has witnessed progress. As part of financial sector strengthening, the two Development Banks are also being merged to create a strong development bank in the country, next year. I also propose to provide Rs. 10 billion capital to strengthen the Bank of Ceylon. In order to provide greater security to deposit holders of the banks, I also propose to increase deposit insurance by 50 percent.

4.2 Honourable Speaker, the Central Bank manages the Employees Provident Fund, which has an asset base of Rs. 1 trillion. Central Bank in recent years has invested about 10 percent of its assets in income earning commercial assets, which has gained capital appreciation of around Rs. 10 billion this year. I therefore propose to distribute dividend to members of Provident Fund who has over 10 years of active accounts. This is the first ever dividend distribution by the EPF and I see this as a special benefit to members. In addition, the Fund has got stronger to pay all members of the fund an interest income in excess of 10 percent each year.

4.3 Honourable Speaker, Sri Lanka has membership in the IMF, the World Bank and the ADB. This year, we supported the initiative taken by the Peoples Republic of China to set up an Asian Infrastructure Investment Bank to meet infrastructure financing needs of Asia. I am pleased to inform this house that today we signed as a founder member of AIIB with several other member countries to set up this Bank.

## **05. Equity and Debt Market**

5.1 Following the incentives in the 2013 Budget to promote equity and debt market, the market capitalization has surpassed Rs. 3 trillion. Net Foreign inflows have reached nearly Rs. 100 billion. The value of unit trust has increased beyond Rs. 70 billion. Many companies have also listed their debt and total value now stands at around Rs. 100 Billion showing that the market has become a low cost source of raising money for capital formation. In the context of low interest rate regime that we have restored, I am sure that more equity and debt finance will be raised by our business community, for their business development.

## **06. Legal and Judicial Reforms**

6.1 Honourable Speaker, steps have been taken to establish an International Arbitration Center in Colombo and to setup dedicated Courts to deal with tax matters and contract management disputes to expedite early dispensation of cases and prevent

denial of revenue to the Government due to laws delays. As a step towards raising professional attraction to the judicial service, Personal Allowance of judges has also been raised and their residential facilities are being rehabilitated. I propose to allocate extra Rs. 750 million for such rehabilitation expenditure and to provide knowledge enhancement of Judges.

**07. Irrigation Development**

7.1 Improving irrigation systems, providing quality drinking water and the conservation of wild life are priorities in the 2015-17 medium term Budget framework. Accordingly I propose to increase the irrigation budget by further Rs. 15,000 million for the early completion of Yan Oya, Uma Oya and Moragahakanda development programs and to commence work connected with Gin river, Nilwala river, Kelani river, Howpe dam scheme, Ma Oya and Badulu Oya - Ranella, Malwathu Oya, Kalinga Nuwara, Veli Oya, Kalugal Oya, Maha Galgamuwa Weva and Thalpitigala reservoir development and to further develop downstream and livelihood activities associated with Weheragala, Rambaken Oya and Deduru Oya reservoirs. I also propose to allocate Rs. 2,000 million to build small dams across rivers flowing through dry zone plains, to create water reseavours.

**08. Provincial and Rural Roads**

8.1 Honourable Speaker, a new initiative has been undertaken to develop provincial and rural roads and bridges to connect 1000 well populated villages with the assistance of development agencies. In order to accelerate this rural centric development initiative, I propose to raise the Government contribution by Rs. 20,000 million to provincial and national road development authorities to rehabilitate access roads in rural areas.

**09. Sri Lanka Railways**

9.1 Honourable Speaker, the Northern railway infrastructure destroyed by LTTE was fully restored and Yal Devi train service was put back in operation. Matara-Kataragama railway extension is under construction. Further, I propose a medium term development strategy to expand railway infrastructure by introducing double tracks to Vavuniya, Anuradhapura, Polgahawela and Kandy sections as well as to the Kelani Valley section together with connectivity to major townships in the Greater Colombo area to improve commuter transport. I also propose to restore the cadre of Sri Lanka Railways to its 1993 position of 13,000 employees and work out a

rational recruitment and salary structure in terms of new Service Minute to make it a special service. This will correct the longstanding salary anomalies among railway employees. I propose to allocate Rs. 2,000 million of additional provision in 2015.

## **10. Postal Department**

10.1 Honourable Speaker, Postal Department that has a near 25,000 workforce, which was once a heavy financial burden to the Treasury has made significant improvements in recent years. In this background, the rehabilitation of post office building complexes with sufficient client facilities is essential for its expansion. The department also requires new machinery and equipment as well as improvements to its distribution system. Reflecting the unique nature of this service, I propose to establish a Separate Service minute for the Postal Department to develop its human resource skills and service delivery. I propose to allocate Rs. 2,500 million over 2015-17 for the modernization of postal services. I also propose to give motor bicycles to all postmen in 2015, at an affordable cost.

## **11. Wild Life Conservation**

11.1 Honourable Speaker, in order to cultivate animal fodder in reserved areas and the rehabilitation of water tanks and such other facilities to prevent animals from entering villages, I propose to continue to allocate Rs. 10 million to each relevant Divisional Secretariat to expand Wildlife Conservation and Community Protection Schemes taking into consideration the specific needs in such areas. I propose to give a special recognition to such Divisional Secretaries who give leadership to community base conservation programs by giving them priority in foreign training. I also proposed to allocate Rs. 200 million to the Wildlife Conservation Department to purchase required utility vehicles and equipment. I also propose to extend the insurance scheme introduced in the 2013 Budget to compensate losses to human life and property to cover crop damages from elephants as well, from 2015.

## **12. Agrarian Development**

12.1 Honourable Speaker, we consider that our rural centric development strategy must focus on agriculture for food security and a higher income to the rural people. Therefore, I propose to continue with the fertilizer subsidy scheme to provide all varieties of fertilizer at Rs. 350/50 kg bag for paddy cultivation. Since farmers were badly affected by the recent drought, the Government has already decided to give

paddy seeds to all small farmers free of charge in 2014/15 *Maha* season. I propose to increase the guaranteed price of paddy to Rs. 34 - 40 per kilo. I also propose to strengthen the guaranteed price scheme to farmers for potato, onion, dry chili and maize by linking *Divi Neguma and Agrarian Service* purchasing centres with Lanka *Sathosa*, while expanding their storage facilities. It is also proposed that high taxes prevailing at the point of import on these items during harvesting times should be continued.

- 12.2 In keeping with our Government policy, we have begun to implement a three-year rehabilitation program to restore abandoned paddy lands and put them back to use for the cultivation of paddy, fruits, vegetable and floriculture using organic fertilizer. It is proposed that aquaculture, cultivation of grassland for animal feed, water reservoirs, community parks and walking tracks will also be developed along these lands. I propose to allocate additional Rs. 2,300 million in 2015 for these land development initiatives. I propose to extend agricultural credit to those who cultivate in such lands. We have already increased the cadre of Agrarian Service Department, the Department of Agriculture and provincial agricultural divisions to expand extension services while providing required training for the staff.

### **13. Small Holder Plantation**

- 13.1 Honourable Speaker, following the last year budget proposal, I propose to continue the Rs. 5,000 per acre grant assistance to support land preparation towards water retention, soil conservation, the use of organic fertilizer for smallholder tea cultivation to increase production. The subsidized price of Rs. 1,250 per 50/kg bag will also be continued for all these crops. The prevailing high taxes on edible oil, coconut oil and palm oil at the point of customs will be maintained in the long-term interest of coconut plantation. Financial and technical assistance will be provided for the development of Palmyrah and Kitul plantation and associated industries. The CESS applicable on the export of tea, rubber, coconut, cinnamon and pepper in primary form will be further strengthened to channel such revenue to encourage cultivation and related improvements of these crops.
- 13.2 I propose to increase the replanting subsidy to tea small holders from Rs. 142,000 to Rs. 200,000 per acre and the new planting subsidy from Rs. 100,000 to Rs. 160,000 from next year. Financial assistance will be extended to fully modernize smallholder

tea factories with modern machinery and processing equipment. In order to encourage rubber growers, I propose to increase the CESS on rubber imports by Rs.10 per kilo and also implement a guaranteed price of Rs. 300 per kilo for encourage small rubber growers from November 2014. Rainguard instruments will be provided for small rubber growers in the wet zones and lands will be provided in other areas to grow rubber. Therefore, I propose to increase the allocation to the Department of Rubber, by Rs. 3,500 million.

- 13.3 I propose to increase new and replanting subsidy for coconut from Rs. 7,000 to Rs. 10,000 per acre and the subsidy for the rehabilitation of coconut land from Rs. 15,000 to Rs. 20,000 per acre. I also propose to increase Kapruka investment loan up to Rs. 3 million to cover soil improvement and water retention in coconut lands. I propose to allocate Rs. 1,000 million for these initiatives. I propose to increase the planting subsidy for minor export crops by 25 percent and accordingly increase the allocation by Rs. 250 million to the Department of Agricultural Exports. It is proposed to increase the subsidy granted for the cultivation of fruits and vegetables as well as operating dairy farms by 50 percent.

#### **14. Large Scale Plantations**

- 14.1 Large-scale plantations were privatized in 1992 on 50-year lease arrangements. However, only a few plantation companies shown notable development having increased their productivity. Therefore, each plantation company which has not responded to my budget proposal last year will be put on notice for 6 months to enable the Golden Shareholder being the Government to make appropriate decisions regarding the development of plantations under each company, including the cancellation of their lease holding.
- 14.2 I propose to implement a credit scheme with an 8-year maturity at 6 percent interest to all well performing companies that will commit, on an agreed area for planting and replanting, for social development of plantation workers and to increase the volume of value added tea exports. This facility will not be extended to plantation companies, which have not paid due lease rental value to the Government unless they pay such sum with arrears. Companies that have not paid their land lease rentals will not get this facility.

**15. Professional Skills and Research for Plantation**

15.1 I propose to set up a Plantation Academy to develop a new generation of professional planters and smallholder planters, to extend training on best agricultural practices and technology skills. Public investments on Tea, Rubber and Coconut Research Institutes will be doubled to facilitate the private sector to fully benefit from triple deduction tax facility on research and development. I proposed to allocate Rs. 3,000 million to develop Tea Research Institute at Thalawakele and Rubber Research Institute at Agalawatta as state of the art research institutes.

**16. Farmer Pension and Crop Insurance Scheme**

16.1 I implemented a pension scheme to provide a minimum of Rs. 1,250 as a monthly pension for farmers over 63 years of age, from January 2014. I have already made a capital contribution of Rs. 1,000 million by the Government to strengthen this contributory pension fund. This fund will also extend compensation for crop damage arising from the Crop Insurance Scheme that was introduced. Arrangements will be made to allow those who could not contribute to this pension scheme during the time it was inactive, to continue to contribute. I propose to extend farmer pension scheme to all smallholder farmers engaged in all crops to support their old age. Therefore, I propose to increase the capital contribution to the farmer pension scheme by Rs. 5,000 million, over next three years.

**17. Export Industries**

17.1 Honourable Speaker, manufacturers of exports are provided with a low income tax rate of 12 percent, a high depreciation provision for advanced machinery and Custom bonding and free port facilities. In order to further facilitate such exports, a onestop service center providing banking, quarantine, quality standards and other trade services through a computer network will be established at Customs. In order to encourage the modernization of export industries, I propose to grant accelerated depreciation provision and exemption from income tax on dividend provided they undertake over US\$ 2 million investments on machinery and equipment. I also propose to implement a pension scheme for employees in the apparel industry to improve job attraction and security.

17.2 I also propose to expand triple deductions for expenditure on research, innovation and brand promotion for such industries. Export of high value products of tea,

rubber, coconut, cinnamon and spices will be encouraged through increased cultivation of these crops and by maintaining a high level of CESS on primary commodity exports. I also propose to use 50 percent of the special CESS collected by the Tea Board to share with local tea producers to promote high value tea in global markets with a Sri Lankan identity and country image. In this regards, the Free trade agreement with China is expected be operational by mid 2015 that will provide a greater boost for country's exports. I also propose to reduce import taxes of packaging material required for exports suitably without affecting local industries that manufacture such material.

## **18. Fisheries Industry**

18.1 Honourable Speaker, the fish harvest has doubled within the last 5 years and has exceeded 500,000 MT. The production of dried fish and sprats, Maldive-fish, canned fish and fish food has increased while also reducing related imports to less than 70,000 MT. I propose to set up dried-fish processing zones around selected fishery harbours and implement a guaranteed price scheme to purchase the fish harvest of small fishermen. The inland fishery production has increased to 20 percent of total fish production. Aquaculture has gained considerable interest among small and medium term entrepreneurs. Therefore I propose a loan scheme to assist such entrepreneurs to develop their fish farms. I also propose to allocate Rs. 200 million to develop 1,000 inland fish farm villages and Rs. 50 million for the expansion of ornamental fish exports. Fish breeding centers of NARA at Udawalawa, Dambulla, Inginiyagala, and Polonnaruwa will be further developed to help SMEs.

18.2 I also propose to allocate Rs. 1,500 million for the rehabilitation of coldroom facilities and set up of marketing outlets to improve supply and distribution at affordable prices. Import duties on equipment required for the expansion of marketing facilities will be reduced.

## **19. Socio Economic Empowerment of the Fishing Community**

19.1 The improvement of living conditions of the fishing community requires special programs to improve the quality of life especially of women and children. Therefore I propose to implement a dedicated three-year program for pre school children, primary schooling children, livelihood opportunities for women and the elderly, skills development of youth and improvement of housing and sanitation conditions

of the fishing community. I propose to allocate Rs. 750 million each year, from 2015 to the Ministry of Fisheries to implement this in collaboration with respective Provincial Councils.

## **20. Livestock and Poultry Industries**

- 20.1 Honourable Speaker, local milk production has increased to 40 percent of local consumption requirements. Public sector and private sector dairy farms as well as small and medium enterprises have substantially increased their investment in this sector. Funds have been allocated for the expansion of the production of MILCO by doubling its capacity as well as to import 20,000 high quality cows to promote small and medium dairy farms as well as Government farms.
- 20.2 A special loan scheme is being implemented at a low interest rate, in support of SMEs to promote dairy farms, setup milk collection centers and procure equipment, increase animal feed production etc. A CESS of Rs. 150 per kilo on imported milk powder and the high CESS on the importation of butter, yoghurt and dairy products to be maintained, to further support this industry. I now propose to increase the guaranteed price of liquid milk to Rs. 60 per liter to increase local milk production and reduce the price of locally made milk powder by Rs. 100 per kilo and yoghurt by Rs. 5 per yoghurt, to popularize local products. I propose to increase allocations to Provincial Councils to assist small dairy farmers to promote cattle farms, and quality animal feed production at provincial level.
- 20.3 I propose to allocate Rs. 700 million to expand the capacity of training centers at Mahaberitenna, Thalpokuna, Kekunadura, Karandagolla, Sippikulama, Vavuniya, Vannigama, Kotadeniyawa, Udugoda, Uppuveli and Weeravila to increase training programs for field level officers as well as small and medium dairy farmers.
- 20.4 Poultry production has exceeded 155,000 MT eliminating the deficit production that prevailed few years back. The per capita consumption at 7.5 kg is almost double the consumption that prevailed 5 years ago. This industry has also entered export markets. In order to assist small poultry farms, I propose to introduce a supply mechanism to provide maize at Rs. 40 per kg and provide export incentives for chicken and eggs. I also propose to allocate Rs. 200 million to strengthen related



veterinary services with modern facilities and equipment. I propose to recruit 500 Technical Assistants to the field of animal husbandry in 2015, to expand extension work.

## **21. Health Services**

- 21.1 Honourable Speaker, people suffering from kidney diseases have increased in some districts. Therefore, a coordinated effort has been launched on an accelerated basis to provide health care facilities to kidney patients with doctors, medicine and equipment. Preventive care against kidney diseases has been taken through the provision of water purification plants scholl in affected areas. I also propose to grant a monthly living allowance of Rs. 3,000 for those adversely affected by kidney deceases. I also propose to provide Rs. 750 million to expand facilities at the Kidney Hospital at Maligawatta to be able to cater to an increased number of patients and to expand the facilities of the Anuradapura and Hambantota Kidney hospitals.
- 21.2 The Maharagama Cancer Hospital has been developed to be able to manage an increased number of indoor and outdoor patients. Radioiodine treatment and radiotherapy units at Jaffna, Kandy, Badulla, Kurunegala, Batticaloa, Anuradhapura, Karapitiya and Ratnapura hospitals will be expanded. I propose to provide Rs.700 million for a cancer prevention program in women. Following the last year Budget proposal, work is in progress to set up a National Stroke Center to manage stroke related medicare.I propose to allocate Rs. 300 million to set up special stroke centers with modern medical facilities at Anuradapura, Ratnapura, Badulla, Ampara, Matara and Kurunegala hospitals.
- 21.3 As maternity care should be given special attention, I propose to allocate Rs. 1,500 million to develop Karapitiya, Colombo, Kandy and Anuradapura maternity hospitals as super centers in maternity care and develop Badulla and Beliatta hospitals as maternity and child care specialized centers. Steps have also been taken to accelerate the modernization of the two national children's hospitals as centers of excellence capable of providing the next 10 year pediatric care needs of our country as well as medical research on pediatric care. The OPD treatment and ancillary facilities of the Colombo National Hospital expanding its outdoor patient care capacity, will be completed by 2017.

21.4 I propose to allocate Rs. 500 million to implement accelerated medical examinations of all citizens through mobile medical clinics and expand testing related facilities to strengthen preventive health care. I seek the support of all religious places of worship to give leadership in organizing such clinics in each *Grama Niladari* division. I propose to commence a mobile ambulance service in all main hospitals through the National Insurance Trust Fund to provide emergency care at their doorsteps to persons who fall ill suddenly, to be taken to hospital safely.

## **22. Indigenous Medicine**

22.1 I propose to allocate Rs. 500 million for the rehabilitation of Ayurvedic Hospitals and promotion indigenous medical research. I also propose to grant a monthly allowance of Rs. 5,000 for indigenous medical doctors who serve in government Ayurvedic Hospitals. I propose to implement a loan scheme for indigenous medical practitioners be able to draw upto Rs.500,000 at 6 percent interest, to improve their dispensaries and to process required medicinal treatment.

## **23. Pre School Child Development**

23.1 Honourable Speaker, in order to provide greater attention to child development, pre school childhood development must be given special recognition. Therefore, I propose to support all pre schools through the provision of child development apparatus and pre school material. I also propose grant a monthly allowance of Rs.2,500 along with a credit facility of Rs. 10,000 to be used for incidental expenses, by teachers operating such schools. They will be given training facilities on child development and pre school education. I also propose to encourage the setting up of pre schools close to every primary school in areas where no pre school facilities are presently available. I propose to set aside Rs. 300 million for this initiative.

## **24. Education**

24.1 Honourable Speaker, it is proposed to increase the allocation made for 1,000 schools in which *Mahindodaya* laboratories are located covering each divisional secretary area by Rs. 15,000 million, towards an overall improvement of such facilities over 3 years. An allocation of Rs. 1,500 million will be provided for the ongoing initiatives to upgrade sanitation and other facilities in rural schools. I propose to increase the

annual number of year 5 scholarships to 25,000 and to increase the allowance to those who pass the scholarship from Rs. 500 to Rs. 1,500.

24.2 A further Rs. 750 million will be allocated to develop Maharagama Teacher Training College as a well equipped training center with regard to all subjects, while facilities in all other teacher training colleges in the country will also be upgraded. An allocation of Rs. 300 million will be provided for the setting up of Faculty of Management Enterprenureship as well as a Faculty of Technology at the Training College at Meepe, to expand training streams for teachers.

24.3 A new Service Minute for the Teacher Service has been already approved and promotions, salary increments and service related administrative problems of around 240,000 teachers are expected to be managed efficiently. The approval of leave and salary increments for teachers will be delegated to the level of Principals. I also propose to recruit 50,000 teacher assistants to rural schools next year in English, mathematics, science, information technology, aesthetic studies and sports. Once they complete their specialized subject training and leadership training, they will be absorbed to the respective schools. They will be required to complete the Degree in Education within 5 years before absorbtion into Sri Lanka Education Service, after which they will be required to serve in the same school for a further five years. They will be given an Allowance of Rs. 9,500 per month.

## **25. Pirivena Education**

25.1 The *Pirivena* education has been revived to raise the related student population to be expanded by 25 percent by the year 2016. I propose to double the grant of Rs. 500,000 given to each *Pirivena*, in order to upgrade *Pirivena* education facilities. In addition to facilities extended such as distress loans, property loans and *Agrahara* Insurance benefits, I propose to raise the student allowance for monks and other students, by 25 percent.

## **26. Skills Education**

26.1 Honourable Speaker, the intent of the fast-track skills development program for our youth is to develop 100,000 Diploma Holders and Certificate Holders each year. For this purpose, Diploma Awarding Technical Colleges, Government technical training

institutes and joint programs with private training institutes and work places are being expanded to accommodate a larger student intake.

- 26.2 In order to incentivize vocational education, I propose to implement a new student scholarship scheme for 50,000 students per year from low income families who pass ordinary level and advance level examinations but are unable to enter universities or other advance institutes for further studies. Each student will be given a Rs. 3,000 monthly student allowance. This scheme will bring about Diploma and Certificate holders above level V of the National Vocational Qualification, in employable fields. I also propose to increase the number of student scholarships to 50,000 per year and grant a student allowance of Rs. 3,000 per month to those studying at technical university colleges.

**27. Higher Education and Research**

- 27.1 Honourable Speaker, creating a higher education system that provides critical knowledge and analytical skills to our children, to place the country on an advanced research drive, is our vision.
- 27.2 Therefore, we have implemented a hostel construction program for 25,000 students on an accelerated basis. Financial incentives will also be provided to house owners in the surrounding university township area to provide student accommodation facilities. I also propose to increase the Mahapola Scholarship monthly allowance to Rs. 4,000 per student from January next year. I propose to further raise incentive payments of academic and non academic staff, to ensure a successful transformation of the higher education system.
- 27.3 Within the medium term development program, funds have been provided for the establishment of an Engineering and Technology Faculty at the Jayawardanapura University, an Information Technology Center at the Kelaniya University, an Advanced Medical Faculty at the Peradeniya University and Electronics, Petroleum and Aeronautical Engineering Faculties at the Moratuwa University, to broaden subject streams. The capacity expansion to broaden subject streams in management, food technology, veterinary science and agriculture at Colombo, Wayamba, Jaffna, Rajarata, Eastern, Uva - wellassa, Sabaragamuwa and Ruhuna universities. The expansion of advanced degrees in indigenous medicine, research on non

communicable diseases through Ayurveda Teaching Hospitals, is also a recognized priority.

27.4 I propose to allocate Rs. 1 billion to develop the necessary residential and research environments at the Post Graduate Institute for Pali and Buddhist Studies, to attract our scholarly monks, historians and research students to work together with foreign students and researchers to be able to share our cultural and Buddhist values around the world.

27.5 As part of broadening horizons of our higher education, I propose to set up a school of Economics and Development Engineering that offers arts, commerce and science students qualifying from GCE A/L exam to learn multi disciplinary subjects such as economics, law, engineering, science and mathematics being subject options in a single degree. Further, I propose to allocate Rs. 500 million for research on cancer by the Colombo University, on kidney diseases by the Peradeniya and Rajarata universities and on diabetics by the Ruhuna University and another Rs. 500 million to the National Research Council for research on other fields.

## **28. *Nanasala***

28.1 Honourable Speaker, I propose to allocate Rs. 1,000 million to set up a fully equipped *Nanasala* center at each such Grama Niladari division in 2015 to mark our journey towards a knowledge centric economy by 2020.

28.2 I also propose to allocate Rs.500 million for research lab facilities, equipment and research work at field level by universities located at provinces, with successful ventures in dairy, poultry, aquaculture, food technology and handloom designing, household décor and gift item designing, to be provided to small entrepreneurs at village level through the *Nanasala* network.

## **29. *Art and Culture***

29.1 Honourable Speaker, with the widespread development witnessed across regions it is necessary that the Government expands modern infrastructure facilities for performing arts and culture. In this context, as I have proposed in my last Budget, the work of the two performing arts and cultural centers in Kandy and

Anuradhapura is being completed. Further, steps have been taken to modernize the cultural centers in Jaffna, Trincomalee and Galle. The modernization of the Lionel Wendt Art Center and the Lumbini Theater is in progress. I propose to allocate Rs. 300 million for the improvement of parking facilities, sanitation and waste management at each of our cultural and heritage sites. I propose to expand the concessionary loan scheme that was extended to media personnel to purchase motor vehicles, to cover expenditure connected with facilities required to cover their professional development. .

**30. Holiday Bungalows for Artists**

30.1 I proposed in my last Budget Speech, to build 5 holiday bungalows exclusively designed for artists. The Sri Lanka Tourism Development Authority has commenced the construction of these bungalows to be ready next year. I also propose to provide a half-tax holiday for a period of 5 years and financial assistance, to film and play producers to promote the production of films and plays capable of winning awards and recognition at international festivals, to elevate this industry to international repute.

**31. *Divi Neguma***

31.1 Honourable Speaker, *Divi Neguma* initiative has attracted over 2.5 million households and has now embraced almost all villages in Sri Lanka. I propose to provide loans up to Rs. 50,000 at an interest rate of 3 percent without requiring any collateral to the best 5 home gardens in each *Grama Niladari* division developed with the participation of the entire family, to put up green houses, poultry farms, livestock sheds, fish farms, handloom or small industries. I also propose to implement a five year credit facility at a 3 per cent interest rate to 5 cottage industries in each *Grama Niladari* Division, to be developed to commercial enterprise scale.

31.2 An allocation of Rs. 1,000 million will be provided to set up a Revolving Fund to provide loans up to Rs. 100,000 to pensioners' associations, senior citizen clubs and death relief societies to promote social development activities. I propose that an amount between Rs. 5,000 and Rs. 250,000 not exceeding a maximum of 50 per cent of their savings in Banks, be used to give small loans to them at a low rate of interest on the strength of a group security, to empower them economically. I also propose to increase the *Divineguma* monthly allowances, in the case of a family with 4 or more

members to Rs. 3,000, in the case of a 3 member family to Rs. 2,500 and for the rest to Rs. 1,000 - per month.

**32. Child Nutrition**

32.1 Honourable Speaker, I propose to allocate Rs. 500 million for the provision of nutritious food for children, to improve nutritional standards of mothers and children by engaging nutritional specialists in each district and to carry out community level mobile clinics to distribute Threeposha and Samaposha nutrition supplements to all lactating and pregnant mothers and for the provision of meals to children attending pre schools. The *Divi Neguma/Samurdi* programs are directed to popularize consumption of homegrown vegetables, milk and eggs towards improving nutrition. I promoting breast feeding through these initiatives. I also propose to give infant milk food at concessional prices through Lanka Sathosa outlets. Since infant milk food is totally free from taxes, I request all super markets and traders to reduce the price of infant milk food.

**33. Rataviru Empowerment**

33.1 Honourable Speaker, as of now nearly 2 million of our people, a relatively large number being engaged in high earning skilled jobs, are working in overseas destinations. Therefore I propose to allocate further Rs.500 million to develop 5 dedicated vocational schools in Badulla, Kurunegala, Hambantota, Vavuniya and Ampara districts to increase skills of those seeking foreign employment. I also propose to introduce a pension scheme for overseas employees, similar to the Farmer's Pension Scheme.

33.2 I propose to grant dual citizenship or 5 year work visas to young Sri Lankans living abroad and do not have a Resident Visa to that permits them to serve their motherland. I also propose to grant concessionary duty permits similar to those given to public servants to high income earning Sri Lankans working overseas for the importation of a motor vehicle to the value of 60 percent of foreign exchange they remit to Sri Lankan banks.

**34. Women Enterpreneuers**

34.1 The Regional Development Bank, which is dedicated for Women Enterprise Development implemented a Women Enterprise Credit Scheme to provide working

capital loans up to Rs. 250,000 without requiring any security to 25 women entrepreneurs from each divisional secretary area under the coordination of the Ministry of Child Development and Women's Affairs, this year. I propose to extend this facility to a further 25 women entrepreneurs each year, during 2015 -17, those who have successfully developed their businesses through the *Divi Neguma* initiative or on their own strength will be assisted under this scheme. Industrial Development Board and Export Development Board will provide technical and marketing assistance for their development.

**35. Land Ownership of the General Public**

35.1 Honourable Speaker, to ease the burden of small land owners specially in urban areas in having to pay a heavy lease rentals to the State, I propose to exempt those earning less than Rs. 25,000 per month or Rs. 300,000 per year from having to pay any such lease rentals. Further, I propose that introduce a sliding scale ranging from 0.5 percent to 4 percent for each income slabs of Rs. 100,000 in excess of Rs. 300,000. The 4 per cent slab will only if the income is in excess of Rs. 600,000 per year.

35.2 The value of land alienated in terms of the State Land Ordinance will be based on the underdeveloped valuation as at the date of alienation. No arrears will be imposed when implementing this new structure. They will also be permitted to use such lands for small business, in addition to residential use. This will relieve over 100,000 land owners who are expecting state land ownership. I also propose an additional allocation of Rs. 500 million to the Ministry of Lands and Land development to accelerate the implementation of above initiatives and to survey lands to issue proper title registration to ensure ownership.

**36. Small Businesses**

36.1 Honourable Speaker, small restaurants, shops, tailorshops, saloons, groceries, traders using pavements, weekly fairs etc. provide a large number of self employment opportunities in our economy, at least cost. A large number of consumers also benefit from these widespread service providers. I propose to exempt small traders engaged in businesses with a monthly turnover that is less than Rs.50,000 from all levies imposed by local authorities. They need a tax and levy free environment. Arrangements will be made to provide suitable space facilities to payment hawkers and small traders involved in mobile businesses along new roads and weekly fairs in



metropolitan areas. I propose to provide loans up to Rs. 50,000 at 6 percent interest to small tailorshops and saloons to introduce sewing machines and saloon equipment and tool kits to modernize those services. Floating Market City in Pettah has already accommodated 85 small pavement traders of Petta. I also propose to allocate Rs. 1,200 million to build a mega market with parking and other community facilities in the 9 acre Chalmers Grannery Land in Pettah to provide trading facilities to around 1,500 small traders in Colombo Fort, to improve their livelihood and business environment.

**37. Wooden Furniture and Home Décor**

37.1 Sri Lanka has a unique advantage in developing its traditional wooden furniture manufacturing industry for exports, considering the skills of craftsmen who are engaged in this industry, particularly from well known places such as Moratuwa. In order to assist this industry for exports, outsourcing arrangements will be made to enable small and medium scale manufacturers to supply larger orders with the National Timber Corporation and other reputed manufacturers. The process on the importation of advanced machinery and equipment will be made easier for the industry, to facilitate production for export.

37.2 I propose to set up a credit scheme to promote small craftsmen engaged in the manufacturing of unique artifacts, home décor, designer fabrics, embroidery work, pottery and production of items using precious metals to enable them to acquire material and machinery needed. The restriction on the importation of household and office furniture will be strictly enforced to encourage the local furniture industry. Hotels and property developers will be encouraged to use locally manufactured furniture to the maximum extent possible, by placing a condition in investment approvals.

**38. Gem and Jewelry Industry**

38.1 Honourable Speaker, I propose to reduce the duty on importation of gold by exporters using their foreign currency accounts for the purpose of exports to 3.5 percent by way of a 50 percent duty waiver, to encourage jewelry exports. I also propose to reduce the service fee imposed by the Gem and Jewelry Authority to 0.25 percent of FOB value of exports. Bringing a new dimension to the industry, I propose

to set up a gem and jewelry processing zone and a gem trading center in Ratnapura as a global attraction to Magampura Ruhuna development.

**39. The New Wave of Industrialization**

39.1 Honourable Speaker, I propose to provide lands on long term leases to set up 300 factories in every divisional secretary area in the background of improved prospects for export and import competing industries. Provisions will be made to permit lump sum depreciation for the importation of plant and machinery in addition to exempting them from dividend tax and providing a half tax holiday for a period of 3 years. I also propose to provide modern machinery and equipment for small and medium handloom industries to expand this industry to cater global markets. Investors undertaking new investments in excess of Rs. 500 million will be given a 7 year half tax holiday provided such investments are registered with the Inland Revenue Department before end of 2015.

**40. Recognition of Pioneering Enterprises**

40.1 Honourable Speaker, the entrepreneurs who started industries in Sri Lanka even before the opening of the economy in 1977, have made impressive performance by sustaining their capacity to compete with imports as well as entering export markets. Therefore, I propose to give a 10 percent discount on taxes payable by them.

**41. Environment and Waste Management in Greater Colombo**

41.1 Honourable Speaker, I propose to increase the allocation granted to the Land Reclamation and Development Corporation by Rs. 1,500 million for the acceleration of the development of Weras Ganga, Kalu Oya, the Beire Lake and the Hamilton Canal for the promotion of bio diversity and environmental development in the Greater Colombo area and to improve flood protection systems. As solid waste management in the Greater Colombo area is equally an important priority to ensure proper sanitation and a healthy living environment, I propose to allocate Rs. 10,000 million over 2015-17 to complete this initiative parallel with other urban development programs in the Greater Colombo area to the relevant implementing agencies.

**42. Township Development Program**

42.1 Honourable Speaker, I propose to allocate Rs. 3,000 million for the development of modern urban *Sati Polas* and related community facilities in townships and semi townships connected with urban development programs to transform Kandy, Badulla, Kurunegalla, Galle, Ratnapura, Anuradhapura, Jaffna, Batticaloa and Trincomalee, as modern environments.

42.2 As proposed in the 2014 Budget, with regard to housing schemes being built to meet requirements of nearly 50,000 families who are living in Colombo City areas without proper housing, one third has already been completed. It is expected that these new housing schemes will be completed in 2015, so that all shanty dwellers would have decent housing and living facilities. I propose to increase the allocation by Rs. 750 million for the accelerated development of housing schemes, including *Zoysapura, Elvitigala, Andorson* housing complexes, Jayawadanagama, Maththegoda, Andarawathta and 34 other housing schemes that commenced in terms of a 2012 Budget initiative. I also propose to provide a further Rs.750 million to double the housing improvement program of the National Housing Development Authority, for low income people.

**43. Plantation Community Housing and Sanitation**

43.1 Honourable Speaker, the construction of 50,000 housing units has already commenced, to replace the poor quality housing presently available in the plantation sector, over the next three years. I also propose to allocate Rs. 2,000 million to the Plantation Trust to improve existing houses with sanitation and toilet facilities. In order to increase the number of housing units jointly developed by the owner and Cooperative Societies on housing loan schemes a further Rs. 750 million is proposed to be allocated.

**44. Social Security**

44.1 I propose to increase the Rs.1,000 allowance granted to elderly people to Rs. 2,000 from January 2015. Elderly clubs will be set up in all Grama Niladari areas to create an enabling environment for elderly people to spend their leisure time watching TV, reading and being engaged in other facilities available at day centers. Medical clinics will also be organized at these centers. An accelerated program will be carried out to ensure eye care as well as primary health care of the elderly. I also propose to

allocate Rs. 250 million to provide financial assistance to reputed social organizations, which promote elderly care in our society. Rs. 200 million will be allocated to rehabilitate elderly homes at Saliyapura, Katharagama, Mirigama and Jaffna. I also propose to allocate Rs.100 million to provide financial grants to film producers and artists to make films and telegrams promoting success stories of traditional family values towards elders.

44.2 I propose to extend a Rs. 3,000 monthly living allowance to all differently abled people and a monthly transport allowance of Rs. 750 to children with disabilities to help attend school. I propose to provide Rs. 100 million to modernize vocational training schools located all over the country to improve such facilities. I also propose to give railway season tickets, festival advances, Agrahara insurance benefits to teachers in these schools.

#### **45. Protection to Children and Women**

45.1 Honourable Speaker, the coordinated effort of Sri Lanka Women's Bureau, Child Protection Authority and Sri Lanka Police have reduced child abuse and violence against women, considerably. I propose to allocate Rs.300 million to strengthen field level officers at Divisional Secretariats to expand awareness programs in schools through parents - teachers associations, *Divi Neguma* community based organizations and to engage retired public servants in family counseling.

#### **46. Sports**

46.1 Honourable Speaker, our country is privileged to host the 3rd Asian Youth Games - an international multi-sports event. We must make every effort to mobilize our youths from all corners of Sri Lanka to take part in this international event, particularly from rural schools. This is a good background to popularize multi sports at school level from next year in addition to developing our youth with multi skills. Therefore, I propose to allocate Rs. 750 million to appoint sport instructors from the Sports Ministry, to all schools that do not have such instructors, from next year. I also propose to provide Rs.2,250 million to extend financial assistance for the preparation of our school children, athletes, youth and sport clubs to take part in multi-sports events by utilizing the already built sports related infrastructure around the country and to rehabilitate Sugathadasa and Keththarama Stadiums and related facilities in Colombo. As our country move well in the area of sports, I propose to set

up a state of the art Academy for sports to train instructors and professionals in sports.

**47. Empowerment of Pradeshiya Sabhas**

47.1 Recognizing the inadequate income sources available to many *Pradeshiya sabas* to provide basic community facilities such as sanitation, waste management, maintenance of drainage systems, access roads, children's parks etc., the Government in the 2014 budget provided tractors, small construction equipment and machinery to every *Pradeshiya Sabha* to strengthen their maintenance units. I propose to increase the grant aid being given to low income *Pradeshiya Sabhas* to maintain such community facilities in an orderly manner, to Rs. 2 million a month in 2015. As per the recent review of cadre of these agencies to operate their maintenance and sanitation units, an additional sum of Rs. 600 million is allocated to recruit 15,000 field level employees to engage in such work, instead of having to contract-out such work.

**48. Development Expenditure of Provincial Councils**

48.1 Honourable Speaker, I am very pleased that the Finance Ministry was able to engage with each of the 9 Provincial Councils for the first time since Provincial Councils were set up, to formulate a well coordinated expenditure programs in accordance with priorities in the context of 2015 - 17 Medium Term Budget Framework.

48.2 In this context, the transformation of provincial schools to be child friendly environments with sanitation, teacher facilities and accommodation as well as strengthening provincial hospitals and dispensaries, strengthening provincial services on agriculture, livestock, fisheries and small industries, the improvement of commuter transport facilities, access roads, market facilities and sanitation, need to be done. Therefore I propose to augment the allocations provided in the budget estimates to provincial councils by Rs. 7,000 million to expand these activities. I also propose to provide motor bicycles to schools teachers in semi urban and rural schools, at a concessional price of Rs. 50,000 each.

**49. Private Transport**

49.1 Honourable Speaker, I propose to set up a Transport Training Academy to expand facilities to train drivers and conductors of the private bus service to improve the

quality of such service as it provides 60 percent of commuter transport. The pre paid card scheme in operation will be exempted from taxes. I propose to allow duty concessions to import new buses, an engine and a gearboxes for any bus that has operated at least for five years. I also propose to introduce a credit scheme at 6 percent interest to encourage investments in new buses by private bus owners who have operated for at least for 5 years. I also propose to exempt income tax from the sale of used buses by private bus owners.

49.2 In order to facilitate the transportation of school children, tourists, small entrepreneurs and goods, the taxes at the point of imports on vans, small buses and truck will also be reduced with effect from today. I also propose to introduce a new insurance and pension scheme through the social security arm of the *Divineguma* Development Department for those engaged in self - employment, with a re-insurance by the National Insurance Trust Fund.

## **50. Electricity Tariff**

50.1 This rich power generation and distribution asset base with its efficiency gain in management, enabled us to reduce the cost of electricity to household consumers by 25 percent in September this year. I propose to create a separate tariff band for those industries and services consuming below 300 units a month to extend a 25 per cent cost reduction to encourage economic activities of SMEs, restaurants and small shops. The charges on KV connections will also be reduced to facilitate such business development and improve competitiveness of their economic activities. I also propose a tariff reduction of 15 percent for all other industries from November 2014.

50.2 In order to reduce fuel imports and promote environmental friendly living, the customs based taxes on all electric cars will be reduced to 25 percent

## **51. Ranaviru Parent Gratitude**

51.1 In appreciation of the blessings of parents for their children to join our security forces to liberate our motherland from the terrorism, this government granted a monthly allowance of Rs. 750 for each of the parents of our security personnel. I propose to increase this allowance to Rs. 1,000 per month. I also propose to extend this allowance to parents of the police and civil security service personnel, from January 2015.

**52. July Strikers**

52.1 Honourable Speaker, in my 2013 Budget I provided a monthly retirement payment of Rs. 5,000 to each of the victims from both the private and public sectors who have passed 65 years of age and who became helpless due to requesting Rs. 10/- salary increase in 1980 July Strike. I propose to increase this allowance to Rs. 6,000 from January 2015 and reduce the aconnected age limit to 63 years. I also propose to extend this to any surving spouse of such Striker, to assist their living.

**53 The Sri Lanka Police Service**

53.1 The Sri Lanka Police service has made an admirable progress in dealing with high traffic volumes, crimes, tax and financial frauds, illicit liquor and drugs business and civil security responsibilities in liberated areas. We took steps to extend a special allowance to strengthen this service. Modern technical equipment and mobile vehicles have been provided to make traffic police services more efficient and effective. Steps have been taken to expand facilities at the Police Academy to develop professional skills and to construct three new housing complexes in the greater Colombo area, to solve housing problems of police officers working in Colombo.

53.2 I now propose to grant a non-resident living allowance to any police officer who is attached to a Police Station outside his residential districts, if such police stations does not have sufficient residential facilities. I propose to give a motorcycle at a concessional price of Rs. 50,000 to each police constables and sergeants. I also propose to introduce a separate service minute to formulate a service specific salary structure and strength the administration of the Police Service.

**54. Tri Services**

54.1 Sri Lanka Tri Services have performed well in providing national security as well as in maintaining high standards of conduct. The devotion of human and financial resources for nearly 30 year to counter terrorism did not enable the tri services to develop their infrastructure and other resources required to provide peace time security and to manage a verity of risks that can be seen in the modern environment. The capacity development in tri services to address security at sea, air and ground is essential for economic development and peace. Therefore, I propose to commit Rs. 10

billion of capital expenditure in 2015-16 to develop required infrastructure, logistics and professional skills of the tri services conducive for a upper middle income economy by 2020. I propose to increase foreign training facilities for the tri services and implement a new salary and allowance structure from January 2015. I propose to extend the grant of Rs. 100,000 which is given at the birth of the third child to those in the tri services to promote their family environment, for a further 3 years. This grant will also be extended to those serving in the Police Service.

**55. Stable Interest Income for Elderly People**

55.1 Honourable Speaker, I propose to offer a 12 percent annual interest rate for deposits of pensioners and elders, who maintain their deposits in State Banks. In order to enable State Banks to pay this interest rate on such deposits, I propose to issue Rs. 30 billion worth of Government Bonds at 12 per cent to subsidize the elderly. Central Bank will exempt the statutory reserve requirement on individual deposits maintained by the elderly people in all commercial banks. Central Bank has also permitted Finance Companies to pay 11 percent interest on such deposits. I propose to exempt interest income of deposits held by elders and reduce the withholding tax on interest to 2.5 per cent from next year.

**56. Market Facilities**

56.1 Honourable Speaker, the revival of the Paddy Marketing Board and market outlets of Lanka *Sathosa*, *Osu Sala*, Fisheries Corporation, MILCO and *Laksala* have assisted producers as well as consumers by providing stable prices. Therefore, I propose to expand market outlets and storage facilities of all these institutions and set up a Lanka *Sathosa* People's Super Market chain covering the entire country, to provide infant milkpowder, pharmaceutical products, milkfood, chicken, egg, fish and essential food items under one roof, to ensure fair competition in the market. The dedicated economic centers and *Sathi Polas* in urban areas will also be expanded to promote market competition. I propose to provide Rs. 3,000 million for these initiatives.

56.2 Organized super markets and large retail traders have excessively expanded their own inhouse brand products along with excessive margins being imposed for products of other suppliers affecting local SME producers and suppliers unfairly. Therefore, I propose to amend the consumer protection law to ensure that super



markets will provide equal treatment to all suppliers in their outlets and to limit charges imposed by them, not to exceed more than 25 percent of the maximum retail price marked on such domestically supplied products. I request super markets and the business community to reduce prices of all essential goods by at least 10 percent in view of the reduction in VAT by 1 percent, electricity by 15 to 25 percent and lending rates of banks by significant margins.

**57. A new Salary Structure for Public Servants**

57.1 Honourable Speaker, the new Pay Commission, which I appointed last year, has recommended some changes to the salary structure introduced in 2006. Therefore, I propose to introduce a new pay structure with effect from January 2015. Accordingly, the special allowance given to public servants will be absorbed to the salary structure and raise the minimum salary to Rs. 15,000 per month. I propose to maintain a salary ratio of 1: 4.25 between minor employees and Secretaries to accommodate higher annual increments. I also propose to raise the Cost of Living Allowance by Rs. 2,200 to Rs. 10,000 per month from January 2015 to all public servants. Accordingly, the minimum monthly income of a public servant will increase to Rs. 25,000.

57.2 It is proposed to clear anomalies of those in the lower rank categories in the public services. The new salary structure will recognize specialized services such as education, health, police, railway and postal and service specific allowances will be incorporated accordingly. Service specific allowances of University Lecturers, Doctors and Judicial Officers will be raised appropriately. The professional allowance granted to professional categories will be extended to class 1 and above officers of the Sri Lanka Administrative Service, and all other All Island Services and any public servant with 20 years of service with a recognized professional qualification, by paying a professional allowance of Rs. 15,000 per month. The Uniform Allowance of Nurses and Midwives will be increased by Rs. 500. The Uniform Allowance of other services will be increased by Rs. 300. I also propose to create the required cadre positions to absorb all casual employees who have been in employment for over 180 days in public corporations and statutory agencies.

57.3 Honourable Speaker, the new salary structure, allowances and other salary related benefits will provide public servants a pay increase of Rs.3,500 to 15,000 per month

from January 2015 with a minimum monthly income of Rs. 30,000 to lowest rank employees. I also propose to allow public servants to borrow up to 40 percent from of their gross salary, including all allowances. Grade 5 and Mahapola Scholarships will be extended to children of public servants as well. All public servants will be given a bank card with a credit limit of Rs. 10,000 on interest free basis to be paid in 10 installments, to meet festival advances. This credit facility will be guarantee by the National Insurance Trust Fund. I also propose to increase the insurance coverage under Agrahara Scheme for surgical operations from Rs. 350,000 to Rs. 500,000.

57.4 I propose to permit public servants particularly serving in transferable services such as education and health who have served in several places during their services, to be able to draw 75 percent of their last drawn salary from a bank of their choice, immediately after their retirement. Upon retirement, the Department of Pensions will make necessary arrangement to transfer related to the respective divisional secretariat to be able to expeditiously process the pension entitlement with a maximum period of 3 months. I propose to secure pension rights of members of the civil security service as well.

## **58. Pensioners**

58.1 Honourable Speaker, I propose to place pensioner's salaries not on the 2006 salary structure as was requested by all pensioners but on the proposed 2015 salary structure to once and for all correct the inherent anomalies affecting pensioners when salaries of public servants are revised. All pension payments will be adjusted in accordance with the 2015 new salary structure and hence there will be no pension anomalies hereafter.

58.2 I also propose to grant a loan of Rs. 50,000 each, to at least 100,000 retirees from public services to develop their own backyard economies and for them to generate self-employment income in addition to their pension income. Such loans could be drawn from bank branches from which they draw their monthly pension without sureties.

58.3 Since all these conversions of salaries and pension payments would take time, I propose to grant an interim allowance of Rs. 2,500 per month to all pensioners and Rs. 3,000 to all public servants with effect from November 2014, in addition to their

salaries and allowances. Full salaries and pensions will be paid with arrears in July 2015 to all those in the non staff categories and to all those in the staff categories in September 2015, once the conversion of individual salaries and pensions are adjusted.

**59. Minimum Wages of the Private Sector**

59.1 Honourable Speaker, the National Salaries Commission has drawn my attention to the minimum wages of the private sector employees guided by the Minimum Wages Board. While the overall emoluments of private sector employees have increased satisfactorily, such increases have taken place through variety of allowances and not in the minimum wage itself. However, in the context of declining trend in unemployment and with the economy growing at around 8 percent per annum with diversified economic activities, I believe it is time to consider a revision of minimum wages in our country to provide incentives to the labour force itself through better remuneration.

59.2 Therefore, I propose to raise the minimum wage of the private sector employees to Rs. 10,000 per month from January 2015 and to increase all minimum wages above that threshold at least by Rs. 500 per month. As new sectors have been emerged in the economy, I propose to extend Minimum Wage Boards to those sectors within a rational economic cluster arrangement. I also propose to increase the employer contribution to EPF by 2 percent to 14 percent so that each employee will have 22 percent savings from their salaries.

**60. Youth Employment in Public Service**

60.1 Honourable speaker, in the background of vacancies in particularly in the provincial and rural centric services, a large number of retirements from the public service is also witnessed. I propose to recruit 50,000 youths as trainees who have GCE A/L qualification but have not been able to secure university admission for technical services of provincial services and management and accounting assistants to serve in rural areas. They will undergo professional and leadership training at the professional training institutes for selected jobs for a period of 6 months. They will be paid an allowance of Rs. 8,000 during the training period and will be confirmed after a successful completion of the training. Therefore, I propose to allocate Rs.7,000 million for this program. This program which has been initiated on the suggestion

made by representatives of youth organizations and will be coordinated by the National Youth Services Council and the National Youth Corps.

**61. Parliament**

61.1 Honourable Speaker, you have brought to my notice, the need for a salary revision of the staff of the Parliament. Therefore along with public service salary revision I propose to raise minimum salary of parliament employees including the special allowance given to public servants to Rs.16,500 per month and place the salary scale of Secretary General on par with Ministry Secretaries. Parliament specific allowance for attending the sessions will be increased by 10 percent. Allocations have been provided to refurbish the parliament and build new housing facilities to members of Parliament.

61.2 The underlying fiscal framework incorporating the impact of these budget proposals is presented in annex I to this budget speech. The relevant amendments to borrowing limits to the Appropriation Act 2014 on account of bond issue to the state enterprises and for accounting of disbursement of foreign finance and revised borrowing limit for the 2015 Appropriation Bill are given in technical notes.

**62. Conclusion**

62.1 Honourable Speaker, having restored security and peace during the first five years and having got important infrastructure and economic activities in place during the last 9 years to satisfy basic needs of the people, our next phase will be to double our efforts towards strengthening education, skills and human resource development so that our economic progress will be driven by knowledge and skills. For all these, it is essential to further consolidate hard won peace and national security. That is the prime responsibility of all of us.

62.2 Let us commit to give a better life to all our children. Let us devote all our efforts towards their betterment. This budget within 2015-17 has laid the foundation to enable our people to cross their boundaries beyond US\$ 7,500 by 2020 on the strength of human resource development. It is a valuable opportunity for our children, to enjoy the transition to an advanced economy.

62.3 Our resolute in this budget is also to address the remaining facets of poverty and prevent people from developing noncommunicable diseases. The creation of an awareness in the people on the importance of consuming quality food and priority attention on mother and childcare as well as a good education for the new generation while creating new livelihood opportunities for our people must be given special emphasis by public servants, health sector employees and teachers. The vulnerabilities to droughts in dry zone districts can be addressed only by water conservation, advance technology and diversion of water from wet zone rivers to dry zone lands.

62.4 Let your vote for this budget be a vote to drive poverty out of our nation. Let that vote be a vote to enable our people to go from strength to strength as a truly integrated community free from religious or language differences. Let all Sri Lankans enjoy equal opportunities through human resource development and have equal opportunities in economic advancements as well. We being true representatives of our people, cannot let these be compromised. Let us make Sri Lanka the Emerging Wonder of Asia.

Thank You !

May the Triple Gem Bless You!

# **BUDGET SPEECH**

**2015**

**Technical Notes  
and  
a List of Reports/Documents  
Submitted to Parliament**

## LIST OF REPORTS & DOCUMENTS

### Documents:

1. Fiscal Management Report 2015  
The Ministry of Finance and Planning (The Department of Fiscal Policy)
2. Budget Estimates (Volume 1, 2, 3) 2015  
The Ministry of Finance and Planning (The Department of National Budget)
3. Recent Economic Developments: Highlights in 2014 and Prospects for 2015  
Central Bank of Sri Lanka

### TECHNICAL EXPLANATIONS:

4. **Statistical Tables**-(Department of Fiscal Policy and the Department of National Budget)
  - i. Revenue Proposals - 2015 (Table I)
  - ii. Balance Sheet Restructuring of State Enterprises - 2015 (Table II)
  - iii. Gross borrowing requirements - 2015 (Provisioning for Accounting Transactions) (Table III)
  - iv. Expenditure Proposals - 2015 (Table IV)
  - v. Budget Out Turn (Table V)
5. **Technical Notes to the Budget Proposals**  
Ministry of Finance and Planning(The Department of Fiscal Policy)(Annex 1)
  - (1) Income Tax- Amendments to Inland Revenue Act No 10 of 2006
  - (2) Value Added Tax -Amendments to Value Added Tax Act No 14 of 2002
  - (3) Nation Building Tax- Amendments to Nation Building Tax Act No 09 of 2009
  - (4) Betting and Gaming Levy No.40 of 1988
  - (5) Cess
  - (6) Customs Duty
  - (7) Special Commodity Levy (SCL)
  - (8) Ports & Airports Development Levy (PAL)
  - (9) Excise ( Special Provisions) Act No 13 of 1989
  - (10) Measures to improve tax collection and tax administration
  - (11) Technical rectifications
  - (12) Effective dates of proposals

**Table I: Revenue Proposals- 2015**

<b>New Revenue Proposals</b>		<b>Rs. Million</b>
1	Consolidation of motor vehicle taxes into Excise special Provision Tax	5,000
2	Consolidation of Excise Special Provision Tax - Cigarettes	6,000
3	Consolidation of Excise Ordinance - Liquor	8,000
4	Refinance facility for payment of tax arrears	40,000
5	Gaming Levy and Entrance Fee for casino entertainment	2,500
6	Land Lease Tax under Land (Restriction) Alienation Act for foreigners	2,000
7	Revision of Import Duty / CESS	1,500
8	CESS on rubber imports	500
	<b>Total</b>	<b>65,500</b>

Compiled by the Department of Fiscal Policy

**Table II: Balance Sheet Restructuring of State Enterprises - 2015**

		<b>Rs. Million</b>		
		<b>2015</b>	<b>2016</b>	<b>2017</b>
		<b>Capital</b>	<b>Capital</b>	<b>Capital</b>
1	Ceylon Petroleum Corporation	100,000	50,000	
2	Water Supply and Drainage Board	60,000		
4	State Construction Agencies	3,000		
5	Farmers Pension Scheme - Agriculture Insurance Board	1,500	2,000	2,000
6	Bank of Ceylon	5,000	5,000	
7	Inventors Fund	500		
	<b>Total</b>			

Compiled by the Department of Public Enterprise

**Table III: Gross Borrowings Requirements -2015  
(Provisioning for Accounting Transactions)**

<b>Item</b>	<b>Rs. Billion</b>
Total Revenue Receipts and Grants	1,689
Total Payments including Debt Repayments	3,155
Provision for Advanced Accounts Operations	4
Risk Provision on account of variation in receipts and payments	60
Issue of bonds for the Balance Sheet restructuring for SOEs	170
Contingent liability	30
Adjustments for book/cash value of government securities	50
Total Gross Borrowings Requirement to be recorded in Government Accounts	1,780
Of which, total Debt Repayments	840



**Table IV : Expenditure Proposals**  
**Allocations to be made from Treasury Votes for medium term 2015-17 Provisions**

Proposals		Rs. Million			
		2015		2016	2017
		Current	Capital	Capital	Capital
1	Community Water Supply Projects - Department of Community Water Supply		750		
2	Legal Reforms and facilities for Judges		750		
3	Acceleration of major irrigation schemes		10,000	5,000	
4	River reservoir development		2,000		
5	Supplementary provision for Provincial and Rural road Development - (I- Project)		15,000	5,000	
6	Strengthening of Sri Lanka Railway	2,000			
7	Modernization of the Postal Department		750	750	
8	Community based Wild life Conservation		150		
9	Strengthening of Wild Life Conservation Department		200		
10	Rehabilitation of abandon agrarian and paddy lands		1,900	400	
11	Ministry of Planation - Productivity improvement initiative of Tea small holders		1,000		
12	Rubber price guarantee scheme and development - Rubber Development Department		3,000	500	
13	Development of coconut plantation		750	250	
14	Export Agriculture development - Department of export agriculture		300		
15	Modernization of Rubber Research Institute and Tea Research Institute		1,000	2,000	
16	Promotion of dry fish processing zones		200		
17	Aquaculture and inland fisheries		200		
18	Promotion of ornamental fish exports		50		
19	Expansion of market network of fisheries Corporation		750	750	
20	Empowerment of fishing community		300	250	200
21	Contribution to MIIICO for the supply of low price milk products	300			
22	Development of livestock training centers		400	300	
23	Strengthening of Department of Animal Production and Health		200		
24	Recruitment of Technical Assistance for Livestock Development	160			
25	Contribution to kidney patients	100			
26	Expansion of facilities for Kidney patient hospitals		500	250	
27	Prevention of cancer among women		300	400	
28	Expansion of Stroke care facilities		300		
29	Special hospitals for women and children		750	750	
30	Mobile clinics for medical examinations		300	200	
31	Modernization of Ayurveda hospital and development of research		300	200	
32	Indigenous medical doctors allowance	300			
33	Incentives for Pre-school development		300		
34	3 year modernization program for 1000 Mahindodaya schools		5,000	5,000	5,000

35	Sanitation facilities for rural schools		1,500		
36	Increasing scholarships for Grade 5 students	300			
37	Development of Teacher Training Colleges		750		
38	Expansion of Meepe teacher training College		300		
39	Recruitment of 50,000 teachers	4,000			
40	Assistance to Pirivena Education	100			
41	Skills Education Scholarships	900			
42	Higher Education Scholarships	300			
43	Postgraduate Institute of Pali and Buddhist Studies		500	500	
44	University Research and Development Initiatives		750	250	
45	National Research Council's initiatives		500		
46	Nenasala Centre Development Programme		1,500	4,000	3,000
47	Common facilities at Cultural Centers		300		
48	Development of 25,000 model Divi Neguma villages		2,000	1,000	
49	Child Nutrition Programme	500			
50	Promotion of Skills development for foreign employment		500		
51	Issuance of land titles		500		
52	Market Complex at Charmers Granary		1,000	200	
53	Greater Colombo flood protection and environment development		1,000	500	
54	Colombo Waste Management Project		4,000	4,000	2,000
55	Rehabilitation of Depleted Housing Schemes		750		
56	Low income housing		750		
57	Sanitation and toilet facilities for plantation housing		1,000	1,000	
58	Owner driven housing for plantation community		750		
59	Payment for elderly persons	1,000			
60	Financial assistance for recognized social organizations for elderly care		250		
61	Rehabilitation of elderly homes		200		
62	Promotion of teledramas and films production on social values of elderly care		1,500		
63	Assistance for differently abled people	300			
64	Vocational education for differently abled people	100			
65	Protection of women and children		300		
66	Recruitment of Sports Instructors	250	500		
67	Rehabilitation of Sugathadasa National Stadium		2,250		
68	Assistance to Local Government		1,500		
69	Recruitment of Technical Assistants to Local Authorities		600		
70	Development expenditure of Provincial Councils		4,000	3,000	
71	Ranaviru Parents Assistance Programme	500			
72	Allowances for July Strikes	100			
73	Allowances for third child birth (Tri services and Police)	500			
74	Expansion of people's supermarket chain		1,500	1,500	
75	Public servants salaries and allowance	50,000			
76	Correction of pension anomalies	35,000			
77	Youth employment programme	7,000			

Compiled by the Department of National Planning and the Department of National Budget

**Table V: Summary of the Budget (2009-2015)<sup>1</sup>**

**Rs. Billion**

	2009	2012	2013	2014	2015 Budget
<b>Total Revenue &amp; Grants</b>	<b>758</b>	<b>1,118</b>	<b>1,204</b>	<b>1,422</b>	<b>1,689</b>
<b>Total Revenue</b>	<b>733</b>	<b>1,102</b>	<b>1,188</b>	<b>1,394</b>	<b>1,654</b>
<b>Tax Revenue</b>	<b>619</b>	<b>909</b>	<b>1,006</b>	<b>1,189</b>	<b>1,416</b>
Income Tax	140	173	206	258	322
Taxes on Goods & Services	316	520	572	672	774
Taxes on External Trade	163	217	228	260	321
<b>Non-Tax Revenue</b>	<b>81</b>	<b>143</b>	<b>132</b>	<b>149</b>	<b>174</b>
<b>Provincial Councils Tax Sharing and Devolved Revenue</b>	<b>33</b>	<b>50</b>	<b>51</b>	<b>56</b>	<b>64</b>
<b>Grants</b>	<b>25</b>	<b>16</b>	<b>16</b>	<b>28</b>	<b>35</b>
<b>Total Expenditure</b>	<b>1,326</b>	<b>1,607</b>	<b>1,720</b>	<b>1,922</b>	<b>2,210</b>
<b>Recurrent</b>	<b>913</b>	<b>1,181</b>	<b>1,256</b>	<b>1,386</b>	<b>1,525</b>
Salaries & Wages including Provincial Councils	296	386	432	478	558
Other Goods & Services including Provincial Councils	117	135	108	152	163
Interest	310	408	446	443	425
Subsidies & Transfers	190	251	270	313	379
<b>Public Investment</b>	<b>331</b>	<b>444</b>	<b>481</b>	<b>553</b>	<b>696</b>
Education and Health	31	46	56	78	120
Infrastructure	300	398	425	475	576
Other	(08)	(18)	(17)	(17)	(11)
<b>Revenue Surplus(+)/Deficit (-)</b>	<b>(180)</b>	<b>(80)</b>	<b>(68)</b>	<b>8</b>	<b>129</b>
<b>Primary Surplus (+)/Deficit(-)</b>	<b>(168)</b>	<b>(80)</b>	<b>(70)</b>	<b>(57)</b>	<b>(96)</b>
<b>Budget Surplus (+)/deficit(-)</b>	<b>(478)</b>	<b>(489)</b>	<b>(516)</b>	<b>(500)</b>	<b>(521)</b>
<b>Total Financing</b>	<b>478</b>	<b>489</b>	<b>516</b>	<b>500</b>	<b>521</b>
<b>Total Foreign Financing</b>	<b>84</b>	<b>181</b>	<b>80</b>	<b>260</b>	<b>251</b>
Foreign Borrowings-Gross	194	365	179	370	453
Foreign borrowings	137	235	179	173	258
Foreign Commercial	57	130	-	197	195
Debt Repayments	(110)	(184)	(99)	(110)	(202)
<b>Total Domestic Financing</b>	<b>393</b>	<b>308</b>	<b>436</b>	<b>240</b>	<b>270</b>
Non-Bank Financing	197	71	83	120	160
Foreign Investment in T-Bills and T-Bonds	147	106	56	39	40
Bank borrowings	49	132	297	81	70
<b>Revenue and Grants/GDP (%)</b>	<b>15.7</b>	<b>14.7</b>	<b>13.9</b>	<b>14.4</b>	<b>14.9</b>
<b>Revenue/ GDP (%)</b>	<b>15.4</b>	<b>14.5</b>	<b>13.7</b>	<b>14.1</b>	<b>14.6</b>
Tax Revenue GDP (%)	12.8	12.0	11.6	12.0	12.5
Non-Tax Revenue /GDP (%)	1.9	1.9	1.5	1.5	1.5
PCs Tax Sharing and Devolved Revenue /GDP(%)	0.7	0.7	0.6	0.6	0.6
Grants	0.3	0.2	0.2	0.3	0.3
<b>Expenditure/GDP (%)</b>	<b>25.6</b>	<b>21.2</b>	<b>19.8</b>	<b>19.4</b>	<b>19.5</b>
Recurrent Expenditure/ GDP (%)	18.8	15.6	14.5	14.0	13.5
Non-Interest /GDP(%)	12.4	10.2	9.3	9.5	9.7
Interest/GDP(%)	6.4	5.4	5.1	4.5	3.8
Public Investment/GDP(%)	6.8	5.9	5.5	5.6	6.2
Revenue Surplus (+)/Deficit (-)/ GDP (%)	(3.7)	(1.0)	(0.8)	0.1	1.1
Primary Surplus (+)/Deficit (-)/ GDP (%)	(3.4)	(1.1)	(0.8)	(0.6)	(0.9)
<b>Budget Surplus (+)/Deficit (-)/ GDP (%)</b>	<b>(9.9)</b>	<b>(6.4)</b>	<b>(5.9)</b>	<b>(5.0)</b>	<b>(4.6)</b>

<sup>1</sup> Including revenue and expenditure transfers to Provincial Councils

## Technical Notes

### Budget Proposals 2015 - Taxation

#### 1 Income Tax (Amendments to the Inland Revenue Act No.10 of 2006)

##### 1.1 Exemptions/Taxation at Concessionary Rates

###### 1.1.1 Exemptions

**1.1.1.1** Profits and income arising or accruing to any Unit Trust from investments made on or after January 1, 2015, in US Dollar deposits or US Dollar denominated securities listed in any foreign Stock Exchange.

**1.1.1.2** Profits and income arising or accruing to any company, partnership or body of persons outside Sri Lanka from any payment made by way of royalty as a specific requirement of any IT/BPO Company in Sri Lanka for a period of 2 years from the commencement of such IT/BPO Company.  
*(Section 13 of the Inland Revenue Act will be amended)*

**1.1.1.3** The interest or discount accruing or arising to any person from any investment made on or after January 1, 2015 in any Corporate Debt Security, issued by the Urban Development Authority.  
*(Section 9 of the Inland Revenue Act will be amended)*

###### 1.1.2 Concessionary Rates

###### 1.1.2.1 Pioneering Industry Allowance

A deduction of 10% of income tax payable by any local manufacturer who has commenced the business of manufacturing during 1970's and sustained competitiveness with imports, on the profits and income from the sale of such manufactured products in the local market.

**1.1.2.2** The concessionary tax rate of maximum 16% applicable for certain categories of employment (Professionals) will be expanded to cover the other employment categories as well.

**1.1.2.3** Concessionary tax rate of 12% applicable for agricultural sector will be extended to the local sugar industry

**1.1.2.4** The annual turnover limit of Rs. 500 Mn referred to in section 59B will be increased to Rs. 750 Mn.

**1.1.2.5** One half of the profits and income from the production of films or dramas of any individual who produces an award winning cinema or a drama at an international film/drama festival will be exempt for a period of 5 years from the year in which such award is received.

*(Relevant sections and the Rate Schedule will be amended)*

## **1.2 Tax concessions for new investments**

**1.2.1** The time limit to complete investments and to commence the commercial operations by new undertakings which have been approved under Section 17A of the Act, prior to 01.04.2014 and which would not be able to complete their investments prior to 01.04.2015 and commence commercial operations prior to 01.04.2016, will be extended to 01.04.2017.

The tax holiday period will be rationalized depending on the nature of the activity approved to carry out by such undertaking.

**1.2.2** Any new undertaking with an investment of not less than US\$ 2 Mn will be granted a frontloaded depreciation allowance, on the acquisition of any fixed asset on which depreciation allowance is claimable within the provisions of Section 25, where such undertaking engaged in manufacture of products for export and the exemption will be granted on the dividend distributed out of such profits or from deemed dividend tax, for a period of 5 years from the commencement of commercial operations of the new undertaking.

*(Sections 10, 25 and 61 of the Inland Revenue Act will be amended)*

**1.2.3** The applicable tax rate on the profits and income of an existing enterprise carrying on a business of manufacture of products (other than liquor or tobacco), will be reduced by 50% up to a maximum not exceeding Rs.500 Mn for a period of 5 years, if such enterprise is liable for income tax at the rate of 28% and expands such enterprise in any province other than the Western Province by investing not less than Rs.300 Mn on or after 01.04.2015 but prior to 01.04.2017 by the acquisition of any fixed asset on which depreciation allowance is claimable within the provisions of Section 25.

**1.2.4** Any company which registers with the Inland Revenue Department for tax purposes on or before December 31, 2015 with a committed investment in excess of Rs.500 Mn, to be made in any manufacturing business (other than liquor or tobacco) within a specified period as approved by the Commissioner General of Inland Revenue will be entitled for a reduction of 50% of the applicable tax rate for a period of 7 years from the commencement of commercial operations.

### **1.3 Withholding Tax on Interest Income from Deposits**

The present withholding tax regime applicable to individuals and charitable institutions will be revised by introducing a single withholding tax rate of 2.5% irrespective of the amount of interest.

Exemption on interest income of senior citizens will be expanded by removing the exempt threshold presently applicable on interest income.  
*(Sections 9 and 133 of the Inland Revenue Act will be amended)*

### **1.4 Deductibility of Expenses**

A triple deduction will be granted, to any person registered with the Tertiary Vocational Education Commission (TVEC) on expenditure incurred on standard skill development training (eg. NVQ Level) provided to trainees.  
*(Section 25 of the Inland Revenue Act will be amended)*

## **2 Value Added Tax (VAT) [Amendments to Value Added Tax Act No.14 of 2002]**

### **2.1 Reduction of Tax Rate**

The present rate of VAT of 12% will be reduced to 11%.

### **2.2 Exemptions**

**2.2.1** Import of machinery, equipment and spare parts by Sri Lanka Ports Authority (SLPA) to be used exclusively within specified ports  
*(Paragraph (c) of PART II of the First Schedule will be amended)*

**2.2.2** Current limit of the sample value for the exemption from VAT of Rs.25,000/- will be expanded to Rs.50,000/-  
*(item (xxx) of Paragraph (c) of PART II of the First Schedule will be amended)*

### **2.3 VAT on wholesale and retail trade**

The present threshold of value of supplies for a consecutive period of three months of any calendar year of any person or partnership carrying on a business of wholesale or retail trade for the chargeability to VAT will be reduced to Rs.100 Mn.

## **2.4 Registration Threshold**

Threshold of liable supplies for the registration for VAT purpose will be increased to Rs.15 Mn per annum.

## **3 Nation Building Tax (NBT) [Amendments to NBT Act No.9 of 2009]**

### **3.1 Exemptions**

**3.1.1** Threshold of liable turnover of NBT will be increased to Rs.3.75 Mn per quarter.

**3.1.2** Import of machinery, equipment and spare parts by SLPA to be used exclusively within specified ports

**3.1.3** Current limit of the sample value for exemption from NBT of Rs.25,000/- will be expanded to Rs.50,000/-

## **4 Betting and Gaming Levy (Amendments to Betting and Gaming Levy Act No.40 of 1988)**

**4.1** Tax rate applicable for gross collection will be revised to 10%

**4.2** An entry fee of US\$ 100 will be charged per person who enters casino entertainment.

## **5 Other Amendments**

**5.1** To encourage the modernization, disposal of machinery used for more than 10 years in a BOI Company will be exempt from duty.

**5.2** Cess and Customs Duty rates will be revised to strengthen the domestic value addition.

**5.3** Consolidation of taxes to further simplification of tax system-

**5.3.1** Excise (Special Provisions) Duty will be charged in lieu of VAT, NBT, Cess, Customs Duty and Ports and Airport Development Levy (PAL) on certain articles specified under Chapter 87 of the Customs Tariff Guide;

**5.3.2** In lieu of VAT and NBT:-

(a) Excise (Ordinance) Duty will be charged on the manufacture of liquor,

(b) Customs Duty and Cess will be charged on the import of liquor, and

(c) Excise (Special Provisions) Duty will be charged on the manufacture or import of cigarettes,

at the rates and in the manner specified in the relevant Gazettes, published for that purpose.

*(Relevant provisions of the VAT Act and NBT Act will be amended with immediate*

*effect)*

## **6 Recovery of Tax in Arrears**

A special refinance facility scheme which is re-payable within 5 years will be provided at 6% interest rate to facilitate the settlement of arrears in EPF/ETF and arrears in taxes up to 31.12.2010.

*(Default Tax Recovery (Special Provisions) Act No.16 of 2010 will be amended)*

## **7 Technical Rectifications and Administrative provisions**

Necessary amendments will be made to the respective provisions of the Inland Revenue Act No 10 of 2006, Value Added Tax Act No.14 of 2002, Nation Building Tax Act No 9 of 2009, Economic Service Charge Act No 13 of 2006, Finance (Amendment) Acts, Betting and Gaming Levy Act No.40 of 1988, Default Tax (Special Provisions) Act No 16 of 2010, Telecommunication Levy Act No 21 of 2011, Ports and Airports Development Levy Act No 18 of 2011, Tax Appeals Commission Act No 23 of 2011, Imports and Exports (Control) Act No. 1 of 1969 and Strategic Development Projects Act No.14 of 2008 in order to streamline the revenue administration and to rectify certain ambiguities and unintended effects (including differences in translations).

## **8 Amendments to Appropriation Act No.36 of 2013 for the Financial Year 2014**

The maximum borrowing limit specified in the Appropriation Act No.36 of 2013 is increased by Rs.200 Bn., which includes the bonds issued for the capitalization of state enterprises and recording foreign debt disbursements. Consequential amendments will be made to Section 2(1) and Section 2(2) of the said Act. These amendments are incorporated in the Printed Estimates for 2015 which are now under submission to Parliament. The required amendments will be introduced at the Committee Stage of the Appropriation (Amendment) Bill.



## 9 Bonds Issued for Capital Infusion, Liquidity Improvements and Debt Capitalization of State Owned Business Enterprises

Rs. Mn

	2014		2015
Ceylon Petroleum Corporation	30,690.49	Ceylon Petroleum Corporation	150,000.00
Bank of Ceylon	28,713.00	Bank of Ceylon	5,000.00
Sri Lankan Airlines	25,927.06	National Water Supply and Drainage Board	60,000.00
Mihin Lanka	6,528.23	CECB, SD&DC, SEC	3,000.00
Fisheries Corporation	208.22	Sri Lankan Airlines	19,500.00
State Trading Corporation	494.70	Agrarian Insurance Board	1,500.00
Paddy Marketing Board	5,388.64	Inventors' Fund	500.00
BCC	294.15		
Lanka Salusala	35.02		
Co-operative Wholesale Establishment	370.30		
STC Wholesale Co. Ltd.	44.48		
SL. Consumer Co-operative Socialists Federation Ltd.	65.94		
Ceylon Fertilizer Co. Ltd	2,161.00		
Colombo Commercial Fertilizer Ltd	667.00		

**Further allocation of Rs.60 Bn recording of foreign debt disbursements is also included in 2014 figures.**

## 10 Effective Dates of Proposals

Unless stated otherwise, the proposals in relation to:-

- (i) Income Tax will take effect commencing from April 1, 2015,
- (ii) Value Added Tax and Nation Building Tax will be implemented with effect from January 1, 2015,
- (iii) Cess, Ports and Airport Development Levy, Custom Duty, Excise (Special Provisions) and Special Commodity Levy will take effect immediately.

