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MINISTRY OF FINANCE, ECONOMIC STABILIZATION AND NATIONAL POLICIES

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திகதி } 12.08.2024
Date }

National Budget Circular No: 02/2024

All Secretaries to Ministries
Chief Secretaries of Provincial Councils
Heads of Departments,
Chairpersons of State Corporations, University Grants Commission and Statutory Commissions

Budget Call - 2025

Guidelines for the Preparation of Annual Budget Estimates - 2025 within the Medium Term Fiscal Framework 2025-2027

The 2025 Budget is expected to be prepared in line with the Public Financial Management Act No. 44 of 2024 (PFM Act) and the 2025-2027 Medium-Term Fiscal Framework (MTFF). The 2025 Budget will be framed to ensure fiscal discipline and prudent fiscal management, whilst ensuring that adequate public funds are strategically deployed towards optimizing efficiency and ensuring value for money. The purpose of this Circular is to provide necessary guidelines to spending agencies in preparation of expenditure estimates.

Following the deep and unprecedented economic crisis that peaked in 2022, the government has implemented a comprehensive, coordinated macroeconomic reform programme during the last two years. Fiscal reforms have been at the forefront of this effort. Through these reforms, it has been possible to convert a primary budget deficit of 5.7% of GDP in 2021 into a primary budget surplus of 0.6% of GDP in 2023. The government revenue is gradually increasing and the Central Bank financing (loosely termed as money printing) has been terminated since mid-September 2023. Through these measures, along with other macroeconomic reform processes, a degree of stability has now been established in the economy. These positive outcomes are the result of disciplined fiscal practices, which in turn have been made possible by the sacrifices and difficulties endured by the citizens of Sri Lanka.

Whilst the fiscal position has stabilized considerably compared to the past two years, this is by no means a time for complacency. The prevailing economic stability is intrinsically connected to the maintenance of fiscal discipline and the continuity of the macroeconomic reform path. Any

deviation from this path could easily push the country into a vicious cycle towards rapid economic downturn.

The Treasury is building up cash buffers and fiscal resilience keeping in mind the potential headwinds in the future, which may arise from both domestic and exogenous challenges. Hence, it is essential to maintain vigilance regarding these risks, and the associated threats to Sri Lanka's nascent economic recovery. In this context, fiscal management and public expenditure must continue to embody the principles of prudence and discipline while ensuring value for money, and optimal public return for every Rupee that is expended.

02. 2025-2027 Medium-Term Fiscal Targets and Strategies

- i. Increasing the government revenue up to 15.1 percent of GDP in 2025 and then up to 15.3 percent in 2027 through new revenue enhancing measures, together with strengthening tax administration, broadening the tax net, enhancing compliance and digitalization.
- ii. Maintaining the government expenditure within 20 percent of GDP from year 2025 onwards through prudent expenditure management, whilst improving expenditure allocation to optimize public returns of government spending.
- iii. Gradually increasing the capital expenditure to over 4 percent of GDP from 2025 onwards.
- iv. Maintaining the primary expenditure below the legislated limit of 13 percent of GDP.
- v. Maintaining a primary budget surplus at a level of 2.3 percent of GDP during the medium term from 2025 onwards.
- vi. Maintaining the budget deficit at a level below 5 percent of GDP from year 2025 onwards.
- vii. Implementation of recent and upcoming legislative and institutional reforms in order to strengthen fiscal management with responsibility, discipline and transparency.
- viii. Increasing the revenues of State Owned Enterprises and expenditure rationalization.

03. Preparation of Expenditure Estimates for year 2025 within the Medium-Term Framework 2025 - 2027

Pursuant to the expenditure estimates received from the spending agencies, the General Treasury prepares the final expenditure estimates after making adjustments in compliance with the directives given under the above referred fiscal targets. Therefore, the foremost attention of the spending agencies should be directed to the formulation of budget estimates in a compatible manner, accordingly. In addition to the provisions of this circular, expenditure estimates for year 2025 should be prepared by appropriately applying the provisions of the paragraph 03 of the National Budget Circular No. 04/2023. Further, attention should be paid for the implementation of the recommendations made by the Public Expenditure Review Committees (PERC) that are specifically applicable to certain institutions and have already received the approval of the Cabinet of Ministers.

03.1 Capital Expenditure

i. Development Expenditure

Recent studies highlight that a significant percentage of capital expenditure projects have failed to be completed within the expected timeframe and within the original Total Estimated Cost. Even a significant number of projects having lower cost and less complexity show weak progress and implementation delays. Such delays are unacceptable given the resultant cost escalation and sub-optimal usage of extremely limited public resources. Therefore, strong attention should be paid to complete ongoing projects efficiently-and to fully utilize the potential/capacity of completed projects. The Chief Accounting Officers are responsible to achieve expected progress during the year.

Allocations for new projects must be justified by clear evidence of viability and direct contribution to economic growth and social value creation.

In addition to this, expenditure estimates for the year 2025 should be prepared in adherence to the following instructions.

- (a) It is mandatory to provide information requested in relation to the development expenditure to be included in the Budget 2025, in the formats contained in Annexures 1, 2 and 3.
- (b) Actions should be taken to request allocation appropriately after consulting the External Resources Department pertaining to the foreign funded development projects for which fund availability has been/had been suspended in connection with the debt restructuring process. It is mandatory to provide the information requested in Annex 3 for the allocation of provisions regarding such projects.
- (c) Recent studies have revealed that capital assets generated by public investments are not appropriately recorded. Non-use of standard object codes in the proper manner is one reason for this. Therefore, provisions should be split up in terms of the standard object codes under each sub-project when preparing the estimates of development projects. For instance, if a sub-project consists of building construction, purchase of machineries, software development etc., budgetary provisions of the relevant sub-project should be split up under the respective standard object code.
- (d) In case of new projects to be commenced upon the government's policy guidance, provisions should be included only for new projects approved by the Cabinet of Ministers with the recommendations of the Department of National Planning and "National Development Committee" under the methodology outlined in the National Budget Circular No. 03/2023.

However, as per the PFM Act, selection, prioritization and allocation for all new and ongoing public investment projects are decided by "Public Investment Committee".

- (e) Close attention should be paid to the recommendations made by the "National Operation Room (NOR)" or "Re-strategizing and Acceleration of Mega Projects Committee (RAMP)" previously established, regarding the ongoing projects as well as the decisions made by the Cabinet of Ministers based on those recommendations.
- (f) Projects initiated as Budget Proposals should be completed expeditiously within the relevant year. No provisions should be included to continue any Budget proposal beyond the relevant year, unless specifically indicated. Furthermore, as per the Public Financial Management Act, any new capital expenditure related proposal should follow the due process of the Public Investment Committee.
- (g) Except for the instances mentioned in (b) above, provisions should not be included for the continuation of projects commenced upon the financial assistance of foreign development partners using domestic funds after the project period has ended. If there are any operational and maintenance cost pertaining to such projects, provisions should be included in the expenditure estimates of the institution, under the relevant standard object code.
- (h) Calling for business proposals for projects in the form of direct investment from the private sector or projects having potential for Public-Private-Partnerships is encouraged. In that respect, business models should be developed in a manner with the capacity to cover the expenditure as far as possible through revenue generated from the projects and without creating contingent liabilities for the government.
- (i) Public-Private-Partnerships Projects subject to settlement of the total cost of a project through annuity payments made to the relevant private parties by the Government, should not be commenced.
- (j) Special attention should be paid for the use of renewable energy, the use of modern technology and digitalization in development projects.
- (k) Block allocation for the new development projects will not be provided unless the respective projects are recommended by the Department of National Planning and included in the Public Investment Program. As per the paragraph (d) in section 03.1.i above, these proposals are unable to be submitted to the Public Investment Committee.
- (l) As per the decision taken by the Cabinet of Ministers on 05.08.2024 to "Enhance the efficiency and the quality of the public service", special attention should be paid to upgrade the existing information systems and plan the future information systems to adhere to uniquely identify individuals and entities to facilitate better service delivery via data sharing/systems integration.

ii. Institutional capital expenditure

- (a) The restrictions imposed on the purchase of vehicles by the National Budget Circular No. 03/2021 will remain in effect for the year 2025 as well.
- (b) No provision shall be included under capacity development for foreign training that have to be paid from the Consolidated Fund. Such training requirements should be fulfilled through virtual methods and local institutions.
- (c) Provision for local trainings should be included only in instances where such trainings are required under Service Minutes, recruitment procedures and provisions of circulars, or such trainings are directly relevant for the duties of the officer.

iii. Maintenance, Rehabilitation and Improvements

While utilizing the maximum capacity of the existing assets, it is required to pay due attention to getting allocated the required provisions for maintenance, rehabilitation and improvement of existing assets, in order to ensure sustainability. Accordingly, when preparing capital estimates, priority should be given to deliver proper public services while safeguarding existing assets and getting maximum productive use of them.

Especially, it is necessary to specify and get allocated the provisions required for the maintenance of highways, railways, hospitals, schools, main dams and reservoirs, anicuts, and canals under a proper maintenance plan.

iv. Utilization of Provincial Council Mechanism with Maximum Efficiency

Provisions should not be included under line Ministries or Departments for the functions that are directly assigned to Provincial Councils. In order to avoid duplications of programmes/projects carried out by line ministries and departments at regional level with Provincial Council programmes / projects, plans should be prepared in coordination with Provincial Councils.

Further, since an institutional system exists under the Provincial Councils with a substantial deployment of staff, the Provincial Council structure should be used whenever possible to deliver services of line ministries/departments/institutions with the agreement of Provincial Councils, as much as possible.

03.2 Recurrent Expenditure

The following matters should be considered when estimates for recurrent expenditure are prepared.

i. Salaries, Wages, Overtime and Other Allowances

- (a) Provisions for new recruitments should not be included except in cases where it is confirmed that recruitments will definitely take place at the beginning of 2025, for which examinations and /or interviews have already been conducted.
- (b) Salaries, wages and other allowances for the year 2025 should be calculated separately for each officer based on the actual number of employees as at 30.06.2024, whereas the details should be prepared at institutional level and submitted in line with the format in Annexure 4. Details of the officials whose personal emoluments are budgeted under object code 1503 should be submitted separately, in this format by each institution.
- (c) Provisions required for filling up essential vacancies, as per the decisions of the Cabinet of Ministers, pursuant to the recommendations of the Officials' Committee appointed by the Cabinet of Ministers under the Chairmanship of the Secretary to the Prime Minister to review the recruitment process in the public service, should be obtained by consulting the Department of National Budget in terms of the progress of such recruitment.

ii. Development Subsidies and Welfare Expenditure

No provision should be included for any subsidy or welfare programme implemented on decisions taken at institutional level, except for those programmes implemented by virtue of any law or with the approval of the Cabinet of Ministers.

03.3 Advance Account Activities

Estimates pertaining to Public Officers' Advance Accounts should be submitted in the format given in Annexure 5. Institutions maintaining commercial advance accounts should submit estimates related thereto, in an appropriate format containing adequate information.

03.4 Responsiveness to Climate Change

Climate change-induced fiscal risk can be identified as one of the main issues that has recently gained global attention. As Sri Lanka is a country with an increasing trend of being vulnerable to the impacts of climate change, it has become essential to be responsive in terms of enhancing resilience to and management of such disasters. Accordingly, when preparing the 2025 budget, sufficient attention should be paid to properly identifying such risks, taking necessary measures

to mitigate them, enhancing responsiveness to risks, and increasing resilience. Particularly, strategies for climate change resilience should be included when implementing development projects.

03.5 Sustainable Development Goals

The Sustainable Development Council has issued classification guidelines containing the necessary guidance and instructions to tag expenditure estimates according to 17 Sustainable Development Goals and 169 objectives. The guidelines can be downloaded from the Sustainable Development Council Website <https://sdc.gov.lk/>. According to those guidelines, all the budgeted expenditure programs and projects should be aligned with the Sustainable Development Goals and objectives through the Focal Point Officers already identified for this purpose in your institutions with the technical support of the Sustainable Development Council. Soft copy of budgetary information so compiled should be submitted to the Sustainable Development Council through info@sdc.gov.lk with a copy to the Department of National Budget as soon as expenditure estimates are submitted.

03.6 Gender Responsiveness

Special attention should be paid to gender responsiveness in preparing the annual budget since goal No. 5 of the Sustainable Development Goals aims at gender equality and empowerment of all women and girls.

03.7 Order of priority for provision of allocations

Provisions will be provided in the following order of priority.

- (a) Provisions required to maintain essential public services and maintenance activities
- (b) Provisions required for accounting or settling of liabilities / commitments
- (c) Provisions for projects implemented under foreign assistance that are supposed to be recommenced with the completion of debt restructuring process.
- (d) Completing the work that has been almost completed
- (e) Provisions for the next stage of projects / programmes that have commenced.
 - I. Completing only critical tasks of partially completed projects and making those projects operational.
 - II. Making arrangements for ensuring the safety of the works which have been completed so far in relation to the projects that have been decided to be suspended.
 - III. Carrying out further steps of projects.
- (f) New projects that are qualified as per the 03.1.i (d) above.

All the institutions for which provisions are made through budget estimates should follow these instructions.

03.8 Submission of Expenditure Estimates

Considering the above, you are kindly requested to submit all the duly prepared Annexures on or before **28 August 2024**.

The submission of estimates should be carried out through the Integrated Treasury Management Information System (ITMIS), using the version 2025 EXP_ES for expenditure estimates and the version 2025 ADV_ES for Advance Account estimates. It is mandatory to enter the Annual Budget Estimates for the year 2025 and projection of Budget Estimates for the years 2026 and 2027 within the Medium Term Budgetary Framework for 2025-2027.

In addition, hard and soft copies of expenditure estimates and all the annexures should be submitted to the relevant staff officer of the Department of National Budget. If any assistance is required while entering data in to the ITMIS, please contact ITMIS helpdesk officers on 011-2484999.

04. Submission of Revenue Estimates

The Department of Fiscal Policy will issue a separate Circular containing guidelines on the submission of revenue estimates for the year 2025 in due course, when necessary.

05. Clarifications

If any further clarification is required, please contact the relevant staff officer of the Department of National Budget, who is in charge of the subject holding responsibility over your Ministry/ Department/ Institution.



K.M. Mahinda Siriwardana
Secretary to the Treasury

- Copies to:
- i. Secretary to the President
 - ii. Secretary to the Prime Minister
 - iii. Secretary to the Cabinet of Ministers
 - iv. Auditor General
 - v. Secretary, Finance Commission