FISCAL MANAGEMENT REPORT
2013

8TH NOVEMBER 2012

MINISTRY OF FINANCE AND PLANNING

SRI LANKA

FISCAL MANAGEMENT REPORT 2013

Mahinda Rajapaksa
President and Minister of Finance and Planning

8TH NOVEMBER 2012

Issued under the Fiscal Management (Responsibility) Act No. 3 of 2003, consisting of the Fiscal Strategy Statement-2013 (in compliance with Sections 4, 5 and 6) and the Budget, Economic and Fiscal Position Report-2013 (in compliance with Sections 7, 8 and 9) by the Hon. Minister of Finance.

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Reporting Requirements
Under the Fiscal Management (Responsibility) Act No. 3 of 2003

Section	Requirement	Required Contents	Compliance
Sections 4, 5 and 6	Submission of the Fiscal Strategy Statement *	Fiscal Strategy Statement to increase public awareness of the Government's fiscal policy and establish standards for evaluating the conduct of the Government's fiscal strategy.	To be released to the public and laid before the Parliament on the day of the second reading of the Appropriation Bill.
Sections 7, 8 and 9	Submission of The Budget, Economic and Fiscal Position Report *	The Budget, Economic and Fiscal Position Report to set out the basis to evaluate the Government's fiscal performance as against its fiscal strategy.	To be released to the public and placed before the Parliament on the day of the second reading of the Appropriation Bill.
Sections 10, 11 and 12	Submission of the Mid-year Fiscal Position Report *	Mid-year Fiscal Position Report to provide updated information of the Government's fiscal performance pertaining to the first four months of the relevant year, to enable an evaluation of the same against the Government's fiscal strategy.	To be released to the public by the last day of June or prior to the lapse of 6 months from the date of passing of the Appropriation Act, whichever is later; and to be placed before the Parliament within two weeks from the date of such release.
Sections 13, 14 and 15	Submission of the Final Budget Position Report (Annual Report)*	Final Budget Position Report (Annual Report) to provide updated information of the Government's fiscal performance pertaining to the relevant financial year, to enable an evaluation of the same against the Government's fiscal strategy.	To be released to the public within five months from the end of the Financial Year and placed before the Parliament within two weeks from the date of such release.
Sections 16, 17, 18 and 19	Submission of Pre-Election Budgetary Position Report **	Pre-Election Budgetary Position Report to provide updated information of the fiscal position of the country.	To be released to the public within three weeks of the publication of the proclamation order requiring the holding of a general election for the election of Members of Parliament and placed before the Parliament within two weeks of the first sitting of the new Parliament.

** By the Minister of Finance*
*** By the Secretary to Ministry of Finance*

Compliance - 2012

- **Final Budget Position Report – The Annual Report - 2011 of the Ministry of Finance and Planning** stating the fiscal and economic position of 2011 was released to the public by end May 2012 and was soon thereafter placed before the Parliament.

- **Mid Year Fiscal Position Report - 2012** was released to the public by end June 2012 and was soon thereafter placed before the Parliament.

This Fiscal Management Report-2013 contains:

- **Fiscal Strategy Statement** of the Ministry of Finance and Planning, setting out the Government's fiscal strategy statement indicating the broad strategic priorities specifying key fiscal measures which the Government considers important for the overall fiscal policy, to be placed before the Parliament on the day of the second reading of the Appropriation Bill.

- **Budget, Economic and Fiscal Position Report - 2013** of the Ministry of Finance and Planning setting out the basis to evaluate the Government's fiscal performance as against its fiscal strategy, with estimates relating to Government revenue, expenditure and Government borrowing etc., to be placed before the Parliament on the day of the second reading of the Appropriation Bill.

Fiscal Strategy Statement - 2013

Issued by the Hon. Minister of Finance
Under sections 4, 5 and 6 of the Fiscal Management (Responsibility) Act No. 3 of 2003

This report is issued under the sections 4, 5 and 6 of the Fiscal Management (Responsibility) Act No. 3 of 2003 where the Minister of Finance is required to present the Fiscal Strategy Statement of the Government to the public and also lay before the Parliament on the day of the second reading of the Appropriation Bill in Parliament.

This report explains the broad strategic priorities on which the budget is based while specifying key fiscal measures which the Government considers important in view of the strategy and the overall fiscal policy to be implemented.

Medium Term Fiscal Strategy

Overview

The overall policy strategy of the Government, enunciated in the *Mahinda Chinthana - Vision for the Future*, the Development Policy Framework of the Government, aims at attaining a rapid economic transformation to a modern, environmentally-friendly and well-connected rural-urban economy consolidating Sri Lanka as a competitive emerging economy that can create employment opportunities and greater social advancement. To achieve this, the importance of making a constant refinement in policy strategies to tackle immediate term problems to address downside risks and to sustain medium-term prospects of high investment and growth momentum with economic stability has been recognised.

In line with this, the fiscal strategy of the Government has been designed to reduce the budget deficit and public debt on a sustainable basis to maintain them well within the level required to support public spending without crowding out private sector expansion. Accordingly, priority has been assigned in the fiscal management to further consolidate the deficit reduction path achieved in the recent past by reducing the deficit from a high level of 9.9 percent of GDP in 2009 to 6.9 percent in 2011 and to around 6.2 percent in 2012. A further improvement is expected in the fiscal operations with the reduction of the budget deficit and anticipated economic expansion over the medium term.

Fiscal Strategy in the Medium Term

The Government will continue to protect public investment in the medium term to expand the infrastructure facilities necessary to stimulate the economy. The reduction in fiscal deficit is to be achieved in a framework of maintaining public investment at around 6 percent of GDP. These adjustments are aimed at the revenue account to phase out its underlying deficit. Consequently, revenue deficit has been reduced from 3.7 percent of GDP in 2009 to 1.1 percent in 2011 and it is expected to reduce further to 0.8 percent in 2012. The medium term adjustments are expected to generate a surplus in the revenue account in support of further reduction in the overall budget deficit below 5 percent of GDP.

Given the several major challenges that the country had to face over the last few years, both externally and internally, the reaching of the fiscal targets outlined in previous Fiscal Management Report in terms of the Fiscal Management (Responsibility) Act (FMRA) No. 3 of 2003 has taken a longer than expected time. The ongoing tax reforms, tax administration reforms, and improvements in the public expenditure management are expected to provide a greater fiscal consolidation in the medium term.

The medium term fiscal policy framework envisages phasing out the budget deficit gradually to encourage private sector participation in economic activities towards stable high economic growth with stability of around 8 percent. Hence, the strategy envisages to:

- Achieve a surplus in the revenue account over the medium term by improving revenue buoyancy and effective management in current expenditure.
- Reduce the budget deficit to below 5 percent of GDP by 2015 without compromising public investment.
- Reduce the outstanding Government debt to around 65 percent of GDP by 2015 and lower it further thereafter.
- Ensure the welfare expenditure to protect vulnerable sectors in society.

In achieving the medium term adjustments, the transformation is expected to come from the revenue account through the creation of a revenue surplus in the medium term. Accordingly, a combination of growth-friendly, revenue enhancing and expenditure rationalization measures is being implemented to strengthen the fiscal consolidation process. In line with this, comprehensive tax reforms have been introduced in the 2011 Budget to simplify and broadbase the country's tax system and to make it more investment-friendly. The fiscal policy strategy also encompasses the development of infrastructure in the country to create an enabling environment to facilitate the private sector investment while promoting inclusive growth and food security.

This strategy has to be implemented in the context of an uncertain world economic and financial outlook. The continued uncertainties and risks in the Euro Zone, macroeconomic imbalances in many countries, risks from aggressive fiscal tightening in advanced economies, political unrest in the Middle Eastern countries and the slow progress in the US economy impose unfavourable impact on the Sri Lankan economy in sustaining its adjustments. The medium term macro fiscal framework is given in Table 1.

Table 1: **Medium Term Macro Fiscal Framework 2012-2015 (As a percentage of GDP)**

Indicator			Projections		
	2011	2012	2013	2014	2015
Revenue	**14.3**	**14.0**	**14.4**	**14.8**	**15.1**
Tax Revenue	12.4	12.2	**13.1**	13.4	13.6
Income Tax	2.4	2.4	**2.5**	2.7	2.8
VAT	3.3	3.0	**3.3**	3.4	3.6
Excise Tax	2.8	2.7	**2.9**	2.9	2.9
Tax on External Trade	2.9	2.9	**3.3**	3.3	3.3
Other	1.0	1.1	**1.1**	1.1	1.1
Non Tax Revenue	1.9	1.8	**1.3**	1.4	1.5
Grants	**0.2**	**0.3**	**0.2**	**0.1**	**0.1**
Expenditure	**21.4**	**20.4**	**20.4**	**20.0**	**19.8**
Current Expenditure	15.4	14.7	**14.4**	14.0	13.8
Salaries and Wages	4.9	4.8	**4.5**	4.5	4.4
Interest Payments	5.5	5.2	**5.1**	4.8	4.6
Subsidies and Transfers	3.3	3.1	**3.0**	3.0	3.0
Other Goods and Services	1.7	1.6	**1.8**	1.8	1.8
Public Investment	6.2	5.8	**6.2**	6.2	6.2
o/w Highways	1.5	1.7	**1.4**	1.4	1.1
Ports and Aviation	0.2	0.4	**0.2**	0.2	0.2
Power and Energy	0.4	0.4	**0.3**	0.4	0.4
Water and Sanitation	0.4	0.5	**0.4**	0.5	0.4
Irrigation	0.3	0.5	**0.5**	0.6	0.6
Education and Health	0.4	0.6	**0.6**	0.7	0.7
Rural Sector	0.4	0.4	**0.3**	0.3	0.4
Revenue Deficit (-) / Surplus (+) (% of GDP)	**-1.1**	**-0.8**	**0.1**	**0.8**	**1.4**
Budget Deficit (-) / Surplus (+) (% of GDP)	**-6.9**	**-6.2**	**-5.7**	**-5.2**	**-4.7**
Government Debt (% of GDP)	**78.5**	**78.0**	**74.3**	**68.2**	**64.2**

Source: Department of Fiscal Policy and Department of National Budget

The major domestic economic parameters used in preparing the medium term forecasts are given in Table 2.

Table 2: **Major Economic Parameters in the Domestic Economy: 2012-2015**

Item	Unit	2011	2012 Revised Estimate	Projections		
				2013	2014	2015
Economic Growth	%	8.3	6.8	7.5	8.0	8.3
Inflation (GDP Deflator)	%	7.8	8.2	7.0	6.0	5.0
Nominal GDP Growth	%	16.7	15.6	15.0	14.5	13.7
Nominal GDP	Rs. Bn.	6,543	7,561	8,697	9,956	11,321

The available projections on the global economy for the medium term, are given in Table 3. Major improvement in the overall fiscal position in the medium term is expected to come in the form of a considerable increase in Government revenue to above 15 percent of GDP, responding to the new tax system introduced in 2011. The revenue is expected to be back on track through a large base to maximize yield over the medium term. In this context, the major revenue sources to be consolidated would be the Income tax, VAT, NBT, Excise Taxes and trade-based taxes. The increases in tax revenues are mainly expected from the improvement in domestic economic activities. The expected adjustments in imports are also expected to contribute positively on the revenue growth once the transitional impact of the high motor vehicle tax is stabilized. The improvement in the tax administration and expected reforms in Revenue Administration Management Information System (RAMIS) is expected to facilitate greater self-compliance and efficiency gain in tax administration in achieving these targets. The buoyancy of the tax system reflecting the combined impact of the consolidated growth in tax base and improved compliance is expected to be improved in the medium term.

Table 3: Projected GDP Growth and Consumer Prices of the World

Item	2011	Projections		
		2012	2013	2017
GDP Growth (%)				
World	3.8	3.3	3.6	4.6
Advanced Economies	1.6	1.3	1.5	2.6
Emerging Markets & Developing Economies	6.2	5.3	5.6	6.2
Consumer Prices (%)				
Advanced Economies	2.7	1.9	1.6	1.9
Emerging Markets & Developing Economies	7.2	6.1	5.8	4.6

Reform Initiatives

In order to achieve the medium term fiscal targets, a series of focused legislative, administrative, institutional, social development and capacity improvement measures have been implemented by the Government throughout the last few years. These initiatives covered reforms in the areas of taxation, public enterprises, procurement, institutional and social capacity development and legal, regulatory and policy improvements.

Tax Reforms

The tax reforms introduced in Budget 2011 and further consolidated in 2012, constitute an important step in the fiscal consolidation process (Box 1). In line with this, the personal income tax system has been simplified to be comparable with the rates in the countries in the region. The reduction of applicable marginal tax rates while raising the tax free threshold, making the pay-as-you-earn (PAYE) tax a final tax and extending the PAYE tax to Government sector employees are the key changes introduced in the personal income tax front. The present income tax regime is given in Box 2.

Box 1

Tax Reforms in 2011 and 2012

The landmark tax reforms introduced in 2011 to simplify and broadbase the tax system, were further consolidated in 2012. Tax reforms introduced in 2011 have been designed to eliminate weaknesses such as complexities, wide range of exemptions, high and multiple tax rates and cumbersome refund/setting off mechanisms in the country's tax system. These are also expected to create an investment-friendly environment in the country while providing support to small and medium enterprises to prosper. The enhancement of the valued added exports and the encouragement of the items that could be produced in the country are also being encouraged through the tax system.

Accordingly, the Government has introduced appropriate amendments to the relevant legislations to bring the country's taxation in line with other emerging economies. To promote predictability and improve level-play in relation to investment, concessions and tax holidays were rationalized under three categories - SMEs, large scale investments and strategic investments. The VAT rate was unified and VAT concessions were expanded to cover targeted sectors, specific activities and certain local manufacturing. The Nation Building Tax and Provincial Turnover Tax were combined. Debit Tax, Social Responsibility Levy and Regional Infrastructure Levy, were removed, to simplify taxation. Corporate and personal tax rates were further rationalized and simplified.

The new system also includes a single unit for the interpretation of the laws at the Department of Inland Revenue, Independent Tax Appeals Commission headed by a retired Supreme Court Judge and an Investment Fund Account which is created by using the 8 percent savings from the VAT on financial services and 5 percent of the reduction of the maximum corporate income tax rate for the provision of medium to long-term loans for agriculture, industry and SME related activities.

Box 2

Income Tax Regime

Description	Tax Rate (%)
Individuals	
Up to Rs.500,000	Exempted
On the Balance	
First Rs.500,000 (of the taxable income)	4.0
Second Rs.500,000	8.0
Third Rs.500,000	12.0
Fourth Rs.500,000	16.0
Fifth Rs.1,000,000	20.0
Balance	24.0
Pay-As-You-Earn (PAYE) Tax is not applicable on employment income upto Rs. 600,000	
Corporate Income Tax	
Agriculture	10.0
Manufacture of any product for export with 65 percent value addition	
Manufacture of any article or provision of any service with the turnover exceeding Rs. 300 million	
Operation of storage facilities	
Development of software	
Supply of Labour	
Educational services	
Clubs and associations	
Remittance tax	
Any unit trust or mutual fund etc.	
Dividend income	
Small companies (taxable income not exceeding Rs. 5 million)	12.0
Non-traditional exports	
Animal produce	
Livestock & poultry	
Manufacture of animal feed	
Tourism	
Construction	
Healthcare services	
Manufacture of handloom products	
Venture capital companies	
Petroleum exploration	
Manufacturing Business	28.0
Business of Liquor, Tobacco and Gaming	40.0
Other	
Partnerships on divisible profits	8.0
Employees' Trust Fund and Provident or Pension Funds	10.0
Charitable Institutions	10.0
Non-Governmental Organizations	28.0

On the corporate income tax side, the reduction of tax rates while incentivizing the firms that are engaged in export-related activities with higher local value addition, creation of an Investment Fund Account (IFA) and the increase of the threshold for the chargeability of the Economic Service Charge (ESC), mainly for the benefit of the SMEs, are among the key changes.

The unification of the VAT rate at 12 percent, including that on financial services, modification of the VAT system to avoid complexities and cumbersome refund and setting off mechanisms, introduction of a simplified VAT (SVAT) system (Box 3), which includes an expanded VAT suspension scheme to address the cash flow issues and refund issues of exporters are the key measures introduced to the VAT system.

Box 3

Simplified Value Added Tax (SVAT) Scheme

The SVAT Scheme was introduced in 2011 to address the issue of cash refunds mainly to exporters and other categories of VAT registered persons who are entitled to obtain refunds of VAT paid as input tax. A scheme of suspension of VAT for exporters was introduced in 2006 through the Export Development Board and the Textile Quota Board. However, under that scheme, only the issue of refunds to exporters was addressed and the same issue arose with regards to deemed exporters and the other categories of registered persons who are entitled to obtain refunds. The SVAT scheme intended to Address the following issues:

i. Generating cash refunds involving risk.
ii. Refunds to other categories such as deemed exporters and other categories of refunds such as Government Special projects, Strategic Development projects, persons in the project implementation period etc.
iii. The claim of bogus refunds through tax invoices generated.

The SVAT Scheme facilitates the following:

i. Cash flow issues of purchasers who are entitled to refunds, as the VAT is suspended on purchases.
ii. The area of suspension was expanded to other areas where the refund could be shifted, such as the suppliers to exporters and other projects such as Government Special Projects and Strategic Development projects.
iii. Minimizes the risk involved in issuing cash refunds and avoid bogus claims.
iv. Monitors the activities of exporters, deemed exporters and other areas of refunds to ascertain the accuracy of the records and to maintain the proper record keeping.

Under the SVAT Scheme, both purchasers and suppliers eligible to be registered in the Scheme are identified. The local purchases are suspended and imports are deferred subject to the conditions specified. Accordingly, there is no cash involvement, which results in a refund.

Actions taken for the Purpose of Implementation

- Specific guideline has been issued.
- Registration under the simplified VAT scheme is to be obtained.
- Registered Identified Purchasers (RIP) can purchase any goods including capital goods and any service under suspended term from any Registered Identified Supplier (RIS).
- The above persons who are eligible to purchase goods and services without paying VAT are given credit vouchers by the Commissioner General of Inland Revenue to be given to their respective suppliers. Now under this scheme, the VAT component is paid by a credit voucher instead of cash payments.
- Requirements for issuing and collecting credit vouchers have specifically been mentioned.
- Reports have to be submitted manually as well as electronically on or before the stipulated time.

In addition, the NBT system was also simplified with a rate reduction and extending it up to the wholesale and retail level by amalgamating the Provincial turnover tax relating to those sectors with a revenue sharing mechanism between the central Government and the Provincial Councils (PCs) to compensate the loss of revenue due to the abolition of the Provincial Turnover Tax. Under this arrangement, 70 percent of the revenue from motor vehicle registration fees and 100 percent of the revenue from stamp duties are also transferred to PCs. The legislative arrangements regarding the revenue sharing arrangement is given in Box 4 and the performance under the new system in 2011 in comparison to 2010 is given in Table 4.

Box 4

Transfer of Revenue to Provincial Councils by Central Government

Type of Tax / Fee	Percentage	Relevant Provisions
Nation Building Tax (NBT)	33.33%	Section 10 of the NBT (Amendment) Act No. 11 of 2011, which amends the NBT Act No. 9 of 2009
Motor Vehicles Registration Fee	70%	Motor Vehicles Act No. 14 of 1951, as amended
Stamp Duty	100%	Provincial Councils (Transfer of Stamp Duty) Act No.13 of 2011

Source: Department of Fiscal Policy

Table 4: **Performance of NBT, TT, Stamp Duty and Motor Vehicle Registration Fee**

Amounts in Rs. Mn.

Item	2010			2011			% Change 2011/2010		
	CG	PCs	Total	CG	PCs	Total	CG	PCs	Total
NBT*	46,022	-	46,022	35,667	17,834	53,501	-22.5	-	16.3
Domestic	19,310	-	19,310	19,040	9,520	28,560	-1.4	-	47.9
Import	26,712	-	26,712	16,627	8,314	24,941	-37.8	-	-6.6
Turnover Tax	-	19,983	19,983	-	-	-	-	-	-
Stamp Duty**	4,439	-	4,439	-	6,859	6,859	-	-	54.5
Motor Vehicle Reg. Fees***	237	356	593	510	1,191	1,701	-	234.6	186.8
Total	**50,698**	**20,339**	**71,037**	**36,177**	**25,884**	**62,061**	**-28.6**	**27.3**	**-12.6**

Sources: Finance Commission, Department of Fiscal Policy

** Since 2011, 33 1/3 percent of the revenue collected from the NBT by the central Government is transferred to Provincial Councils.*

***Since 2011, 100 percent of the revenue collected from the stamp duty by the central Government is transferred to Provincial Councils.*

****Data represent 70 percent of the revenue collected by the central Government from Motor Vehicles Registration Fee and transferred to Provincial Councils.*

Note: CG = Central Government, PCs = Provincial Councils

The introduction of a composite Telecommunication levy by removing VAT, NBT, Regional Infrastructure Development Levy, Environment Conservation Levy and the Mobile Subscriber's Levy on the telecommunications sector, the removal of the Regional Infrastructure Development Levy, Social Responsibility Levy and Debit Tax to reduce the complexity of the tax system were among the other key changes.

The maintenance of a four band tariff system, simplification of the prohibitive tax rates on many items, including the motor vehicles, elimination of the surcharges on imports, placement of intermediate goods which are necessary to local value added industries at a low tax regime, removal of import duties and cess on most of the raw materials to support the domestic value addition, further reduction of taxes on importation of machinery and equipment to encourage mechanization of the economic activities, the introduction/scaling up of Cess on products that Sri Lanka has a comparative advantage to have a fair competition, continuation of the Special Commodity Levy (SCL), which has unified the multiple taxes applied on most essential consumer items and bringing the export of items in raw form to relatively high tax rates to encourage the domestic value addition are the key measures introduced in international trade-related taxes. Meanwhile, the discouragement of the consumption of liquor and cigarettes with stringent measures to prevent illicit liquor, drugs and narcotics with periodic revisions to relevant excise duty rates will continue to be the policy direction on such items in the future as well.

Further improvements in the tax system, which are necessary to achieve the fiscal sector objectives, will be introduced in the medium term while ensuring the credibility of the tax policy. Accordingly, the tax system will be consolidated further while keeping the 2011 tax reforms as the base.

Reforms in Tax Administration

The Government has clearly identified the necessity of improving tax administration to realize the expected outcome from tax policy reforms. In line with this, tax policy reforms are being complemented by the introduction of measures to improve tax administration. As Sri Lanka is gradually being consolidated as a middle income country with a rapidly expanding service sector, the introduction of an automated system in tax administration while linking all the revenue and related agencies has become a strong necessity. The development of the human resources in these institutions to manage such a system to address tax administration related issues and application of information technology is also given priority. Accordingly, a major institutional reform drive is in place targeting the Department of Inland Revenue, Department of Customs and Department of Excise. This process is managed through the Fiscal Management Efficiency Project (FMEP) under a long term financing arrangement from the Asian Development Bank (ADB). The project focus is on two distinct but interrelated components i.e. the introduction of Information Technology Systems at the Inland Revenue Department, namely Revenue Administration Management Information System (RAMIS) and the Ministry of Finance and Planning namely Integrated Treasury Management Information System (ITMIS), and institutional and social capacity development (Box 5).

In addition, the Tax Interpretation Committee and Tax Appeals Commission which were established in 2011 (Box 6) and the measures introduced to simplify the systems and procedures are expected to encourage tax compliance with uniform treatment while avoiding administrative discretions.

Box 5

Institutional and Social Capacity Development

Fiscal Management Efficiency Project

The recent efforts of the Government's fiscal and revenue management reform endeavours, facilitated by the Asian Development Bank, focus on the following;

- The introduction of Information Technology Systems at the Inland Revenue Department (IRD) and the Ministry of Finance and Planning (MOFP); and
- Institutional and social capacity development.

RAMIS – Introduction of a Revenue Administration and Management Information System

The process is ongoing to automate all the business processes of the IRD primarily to address inefficiencies in revenue management. The proposed automation will facilitate and increase revenue collection and provide access to timely and accurate information.

The core functions of the IRD will be IT - enabled after implementation of RAMIS – including registration, filing of returns, making tax payments, appeals, collections, cancellations, directions, clearances and other online taxpayer services. Once all the functions of RAMIS are developed, tested and made operational, RAMIS will be expanded to provincial revenue offices.

Progress

Following an initial study of the IRD business processes and operations done in early 2011, bids have been called under the International Competitive Bidding Process. Having completed the evaluation and the post evaluation due diligence, the matter is being perused in line with procurement guidelines.

Meanwhile, the implementation of the Local and Wide Area Network (LAN/WAN) Project of the IRD was successfully completed which inter alia provided the following necessary computer infrastructure for the IRD:

- Construction of a state-of-the-art Data Center in Colombo - as the main infrastructure facility that houses all key servers, storage equipment and network equipment of the IRD LAN, and proposed to house both the RAMIS and ITMIS systems, being operational 24 hours.
- Construction of a Disaster Recovery Facility in Kurunegala, which is an identical facility to the primary Data Center in Colombo which will function as the backup Data Centre to be used in an event of a failure at the Colombo site.
- Installation of a Local Area Network (LAN) in IRD Head office
- New Computers for the IRD - nearly 400 new computers and 50 new printers were installed at the IRD Head office networked through the LAN across all 15 floors of the IRD Head Office. Another 100 new computers have been distributed among the 19 IRD branch offices islandwide.
- An Islandwide Wide Area Network (WAN) introduced for the IRD, all 19 IRD branch offices islandwide, have now been interconnected with the IRD Head office.
- A new telephony system was installed for the IRD head-office and its branches, with interconnections.
- New E Mail Facilities - 700 new email accounts have been provided to IRD staff.
- Internet Facilities for all senior staff of the IRD was made available.

ITMIS – Integrated Treasury Management Information System

The ongoing process to introduce an Integrated Treasury Management Information System which will automate key departments of the Treasury/MOFP is underway, which will facilitate the automation of various functions of the General Treasury, ensuring proper and effective management in revenue administration and integrated Treasury operations.

The functions of the General Treasury which are proposed to be automated include budget preparation, commitment control, cash flow management, debt management, fiscal planning and reporting. It will also facilitate the preparation of variable-based and query-based reports etc., ITMIS will be interfaced with RAMIS to ensure that there is fiscal /revenue consolidation, having accounted for, and having reconciled, all aspects on a more frequent basis.

Progress

Following an initial study of the Treasury business processes and operations, Bids were called under the International Competitive Bidding Process. The evaluation of the Bids has been completed, and the award will be made in terms of procurement guidelines.

Social Capacity Development / Training

The setting up of a modern state-of–the–art Training Centre was completed having renovated and refurbished the Times Building, which is due to be opened shortly.

This Academy of Financial Studies (AFS), will facilitate the training of officers of the MOFP, including officers of Accountancy and Planning Services, Officers of the Inland Revenue Department, the Customs Department, the Excise Department, Import and Export Control Department, Census and Statistics Department and Valuation Department etc.

Capacity development was also facilitated through this Project, covering several fields:

The capacity development of the officers of the IRD included the following:

- 'Business English Language Training' - 1,100 staff completed thr training conducted by the British Council.
- IT Training for 1,000 IRD staff to facilitate the use of Office Applications, Internet and email facilities, networking, PABX and computer troubleshooting.
- Overseas training for technical staff and system administrators on data centre technologies and maintenance activities in Seoul Korea.
- Overseas systems studies to selected groups on an automated Inland Revenue Systems - Seoul, South Korea and Singapore.
- Overseas systems studies to selected staff on the operations of a Tax Appeals Commission and a Tax Interpretations Committee in Singapore.

Capacity Development of the officers of the MOFP included the following;

- 'Business English Language Training' for 320 selected staff of the Ministry of Finance and Planning, conducted by the British Council.
- Two Executive Training Programmes for 40 senior staff of the MOFP on Strategic Management and Public Finance, completed at the Lee Kuan Yew School of Public Policy, National University of Singapore.

An international competitive bidding process is being followed to conduct foreign training on Public Finance, Strategic Management and E-Governance, Change Management and Business Process Re-engineering and awards are due to be made in due course.

In addition, the Tax Interpretation Committee and Tax Appeals Commission which were established in 2011 (Box 6) and the measures introduced to simplify the systems and procedures are expected to encourage tax compliance with uniform treatment while avoiding administrative discretions.

Box 6

Summary of Progress in Tax Administration Reforms

Tax Appeals Commission

The Tax Appeals Commission (TAC), which was established in March 2011, has the key mandate of providing for a more efficient and effective system of fair and unbiased hearing of tax appeals. The TAC is involved in the work related to the appeals transferred from the Boards of Review and new appeals received by the Commission. The progress of these two appeals attended by TAC is given in the following Tables.

No. of Appeals Transferred from the Boards of Review

Tax Category	No. of Appeals	Appeals Withdrawn	Appeals Settled	No. of Appeals Fixed for Hearing	Appeals Being Heard	Fully Heard and Order Reserved
Income Tax	48	1	3	44	10	4
VAT	22	-	-	22	13	8
Economic Service Charge	4	-	-	4	1	2
Withholding Tax	1	-	-	1	-	1
Stamp Duty	1	-	-	1	-	1
Total	**76**	**1**	**3**	**72**	**24**	**16**

Source: Tax Appeals Commission

Of the 76 total appeals which were transferred from the Boards of Review to the TAC, one appeal was withdrawn and another three have been settled by end October 2012. The remaining 72 appeals are in the process of hearing, in which 16 appeals have been fully heard and determinations are to be issued.

In addition to the above appeals, 59 new appeals have been received by the TAC after its establishment in which the details are given in the following Table. Of the 59 intention of appeals, only 46 appeals have been received properly. One appeal has been withdrawn.

No. of New Appeals Received by the Tax Appeals Commission

Tax Category	Intentions to Appeal (No.)	No. of Appeals Received	Withdrawn	Fully Heard & Order Reserved (No.)	Determinations Issued (No.)
Income Tax	35	29	1	12	4
VAT	21	15	-	9	-
Economic Service Charge	3	2	-	-	-
Total	**59**	**46**	**1**	**21**	**4**

Source: Tax Appeals Commission

Committee on Interpretation of Tax Laws

A Committee on Interpretation of Tax Laws, comprising senior officers of the Department of Inland Revenue, has been appointed by the Commissioner General of Inland Revenue (CGIR), as proposed in the Budget 2011, to interpret the provisions of all Acts administered by CGIR, notwithstanding anything to the contrary in any such Act. This committee is also empowered to issue all necessary guidelines and instructions as required, to ensure uniformity with regard to such interpretation (Section 108A of the Inland Revenue Act).

The appointment of this Committee is aimed at providing assistance to taxpayers to clear their doubts and barring officials giving different interpretations, to facilitate taxpayer compliance. This facility of seeking interpretation is available to tax officials as well.

After the appointment, 125 requests for interpretation were received by the Committee and the Committee commenced the process of interpretation thereon. As at the end of October 2012, decisions in relation to 44 of such requests have been conveyed to the respective parties.

Public Expenditure Management

On the expenditure front, improvement of public expenditure management, by improving the quality of expenditure with appropriate prioritization, is being encouraged. Necessary reforms and policy initiatives to address structural and institutional issues will be introduced in this direction. Commitment control is being emphasized in order to ensure the management of the activities of the line Ministries within the available financial resources. It will improve the fiscal discipline, ensure the allocation of resources in line with Government policy priorities and enable the Government's financial resources to be managed prudently. Also, line Ministries are being encouraged to work in a medium term framework to effectively manage the available resources. In this context, the estimation and budget making process is being improved with a wider participation of the stakeholders and the general public (Box 7). Through this process, it is expected to inculcate the culture of working within the available resource envelope of the Government.

Box 7

Stakeholder Consultation Process for the Annual Budget Preparation

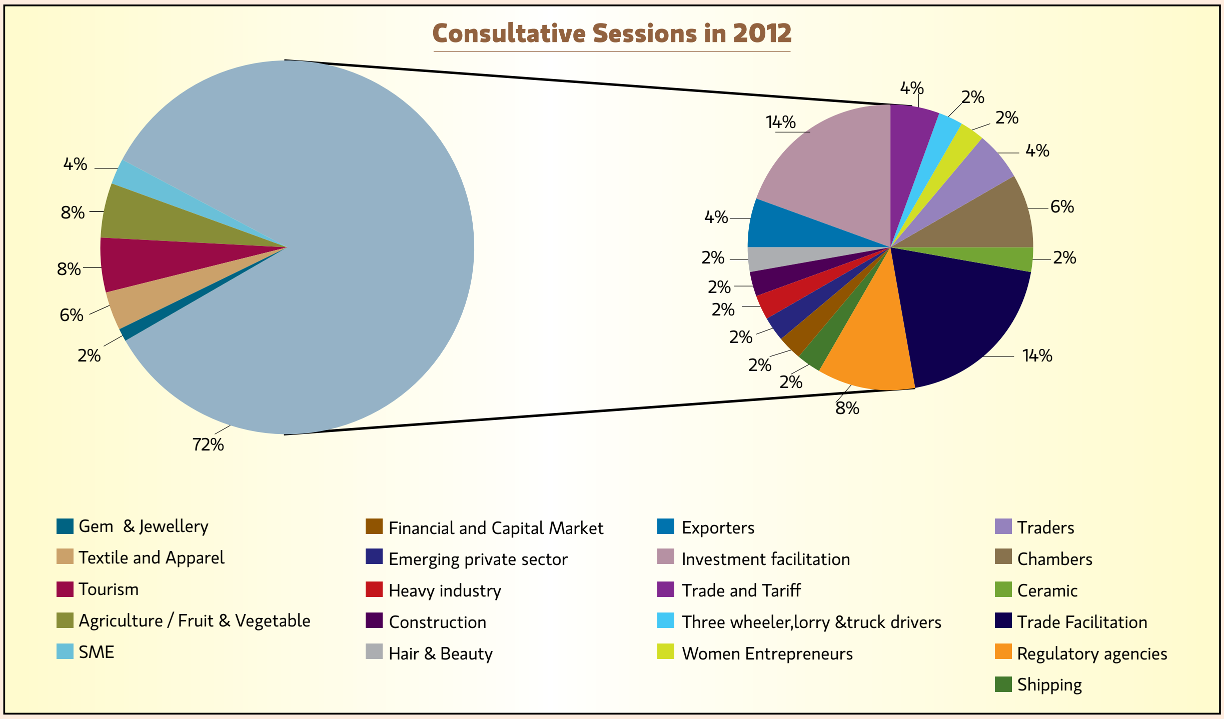
The National Budget preparation process involves a wider consultations within Ministries, Agencies and as well as with other stakeholders. The Budget Call is issued by the National Budget Department after the initial Cabinet approval to Secretaries of line Ministries, Chief Secretaries of Provincial Councils and Heads of Departments, giving guidelines and directions for the preparation of the Annual Budget. The Treasury also releases the resources available for allocation and the allocation process is set in motion through budget discussions towards sectors, Ministries / other Institutions, programmes and projects within Ministries and other Institutions, after having prioritized within the overall development framework of the Government.

His Excellency the President and the Secretary to the Treasury, engages in the pre-budget consultative and review process, as the Government believes in a participatory approach in achieving the development goals of the economy and promoting development through collective efforts of all stakeholders, Ministries, line agencies, the private sector, trade unions and donors. Several consultative sessions were carried out by His Excellency the President and in addition the Secretary to the Treasury and the Treasury Officials also carried out several follow up sessions with the private sector representatives from national and regional levels in following sectors:

- Heavy industry sector comprising Steel, Cement, Plastic manufacturing, Ceramic and Sanitary ware
- Women entrepreneurs from regions
- The Construction sector
- Emerging Private Sector cluster including Plantation, Manufacturing, Apparel, Agriculture and Food processing, Handloom, Construction, Cosmetic, Spices, Rice millers, Soya/maize producers, Leather manufacturing, poultry, IT/BPO, Pharmaceutical and Gem and Jewellery.
- Tourism
- Apparel & Textile
- Telecommunication
- SMEs
- Handicraft Manufacturers and Artisans
- Printing and Packaging
- Professional Associations
- Chambers and Trade Associations
- Hair, Beauty Care and Cosmetic Manufacturing Sector
- Poultry, Soya and Maize Producers
- Exporters (Tea; Spices; Cut flowers and Foliage; Fruits and vegetables; Diamonds, Gem and Jewellery; Rubber and rubber products; Leather and Leather Products; Petroleum Products; Paper and Paper Products; Transport Equipment and Parts; Other Engineering Products; Fisheries Products; Essential Oil; Electrical and Electronics Products; Food and Beverages; Coconut and Coconut Products; Handlooms and handicrafts; Ship manufacturers and Roof tiles).
- Three-wheeler, Truck and Lorry Drivers

These consultative sessions help in formulating an improved Budget. As a part of the consultations extended, there were number of pressing needs identified such as greater improvement in the business environment, further consolidation of a low tax regime, simplification and fast track approval and clearance processes at Government Agencies, etc.

There were 30 meetings held with public and private sector stakeholders with the participation of about 14,725 personnel, chaired by His Excellency the President. In addition, 113 follow-up meetings were chaired by the Secretary to the Treasury with a participation of 6,220 persons, including relevant officials and private sector participants. Out of the private sector sessions, 4% was on SME's, 16% was on Textile and Apparel, Gem and Jewellery and Tourism, 8% was for the Agriculture sector and 72% was for other sectors. The issues raised by the participants mainly related to the regulatory issues, investments and tax issues.



In addition, financial regulations are also being revisited to introduce necessary updates/revisions to make them suitable for financial management in an emerging middle income country. The activities of the public expenditure oversight committees, namely the Committee on Public Enterprises (COPE) and Committee on Public Accounts (COPA), are becoming stronger thereby helping to ensure better management of public expenditure in the future. The necessity of introducing new systems and regulations to improve expenditure management has also been recognized by the Government and work is in progress in this direction and cardre management and assessment activities are also done with a renewed effort (Box 8).

Box 8

Public Sector Cardre Management and Cardre Assessment

The Government has taken actions for the proper management of public sector human resources to meet the demands of line Ministries, Departments, Provincial Councils, Local authorities, Statutory Bodies and development projects. In this context, attention is paid to maintain optimum level of staff in the public service. The creation of new posts is done by giving due consideration on productivity of the posts already approved, commensurable with the statutory functions of the relevant institutions and on a need basis.

Creation of New Posts: 2009-2012 August

Institution	2009	2010	2011	2012 Upto Aug.
Ministries	1,769	1,095	1,498	21,463*
Departments	40,095	828	1,140	2,618
Provincial Councils	1,641	2,811	523	286
Statutory Boards	1,027	568	534	541
Development Projects	-	-	255	562
Total	**44,532**	**5,302**	**3,950**	**25,470**

** Includes 18,128 of new posts for recruitment of graduates to public service.*

Source: Department of Management Services

Suppressions of Posts: 2009-2012 August

Institution	2009	2010	2011	2012 Upto Aug.
Ministries	466	12	35	72
Departments	1,208	177	512	107
Provincial Councils	165	329	131	49
Statutory Boards	250	24	66	7
Development Projects	17	4	3	16
Total	**2,106**	**546**	**747**	**251**

Source: Department of Management Services

In order to maintain an optimum level of cadre for public service, granting approval for filling of vacant posts, creation of new posts and revision of designations, as well as the suppression of unnecessary posts, is being done with the recommendations of the relevant institutions and researchers as and when necessary, to ensure a better public sector service delivery. Making necessary recommendations for the formulation of service minutes and schemes of recruitments, while granting approval for scheme of recruitments of statutory bodies in an appropriate manner are also being done. Also, the instructions relating to granting approval for essential staff required for development projects operating within the country are given considering the necessity of completing the projects in time, in close collaboration with the relevant institutions.

The ITMIS, which is being developed in line with the introduction of technology to improve the fiscal management process, will provide support in many areas including commitment controls, Treasury operations, improving project preparations for funding and productivity-focused expenditure planning. The use of techniques such as time slicing is also being emphasized to ensure the productive and efficient management of public expenditure. Efforts to keep the operational expenditure on check while prioritizing much needed public investment to support the growth momentum of the economy are being made. The curtailment of unproductive expenditure is also given priority. Steps are being taken to strengthen the planning, improving cost benefit analysis and proper sequencing of the projects etc. A number of measures have also been taken to improve accountability for best practices in the public sector, particularly in relation to Government procurements (Box 9).

Box 9

Measures to Promote Accountability for Best Practices

The Government has introduced a number of measures in the recent past to promote accountability in the public sector service delivery, particularly in procurement-related issues. In line with this, a number of Special Committees have been appointed in which the details are given below. Several initiatives have also been identified as important to introduce in the future.

- **Procurement Steering Committee (PSC):** This is an Advisory Committee to advise on formulation of policies and guidelines and make recommendations to improve the procurement system of the Government.

- Standing Cabinet Appointed Review Committee (SCARC): This is a committee that has been appointed to recognize and make assessments of unsolicited/stand-alone development proposals that are beneficial to the country, in a structured manner.

- **Standing Cabinet Appointed Procurement Committees (SCAPCs):** Under this, 28 Committees have been appointed for 17 Ministries to facilitate the procurements over Rs. 150 million in a more methodical and expeditious manner.

- **Procurement Planning Committees:** These have been appointed for procurements related to Pharmaceuticals and Fertilizer to ensure the effective planning of procurements related to those areas.

- **Committee for Examination of Cost Escalations:** This Committee has been set up to examine the cost escalations and make recommendations on revision of cost estimates.

In addition, amendments to the Procurement Guidelines issued in 2011 have also been made to ensure that non-strategic projects and procurements of a general nature should not be evaluated through the SCARC process. Following is the summary of the changes introduced:

- Guidelines applicable in dealing with unsolicited/stand-alone development proposals (SCARC) - Supplement 23, PFD 444(i) – this includes the instructions on submission evaluation and recommendations on processing of development proposals received under unsolicited or standalone status.
- Revision of Limits of Authority for Contract Awards (For Works, Goods and Other Services) Supplement 20 & 21 – this facilitates the procurement committees to make procurement decisions/determinations under enhanced value limits in order to expedite development activities.
- Direct Contracting to Community Based Organizations PFD 12/01 – Supplement 22 for project sustainability and to achieve specific social objectives.
- Procurement Appeal Procedure – Supplement 24, to ensure the transparency and fairness of the procurement process.

In addition, the following have been identified as areas that need to be addressed: capacity development, proper application of procurement guidelines, transparency improvement, revision of guidelines, strengthening of construction contract supervision, collection of procurement expenditure data, introduction of E – procurement initiatives and improvement of procurement audits.

Investment

The Government has been able to implement an infrastructure development drive within a short period of time to create an enabling environment to provide a major impetus to the economic activities of the country. The Government is committed to maintain public investment at around 6-7 percent of GDP in the medium term to improve the infrastructure facilities further to complement the accelerated economic growth of over 8 percent in the medium term as well as to maintain social standards. This will support the overall requirement of investment of about 33-35 percent of GDP to support the achievement of this higher growth, in which the balance of about 28 percent is expected from the private sector including the Foreign Direct Investments (FDIs). The Government will facilitate the achievement of this by continuation of the infrastructure projects, both the strategically identified mega infrastructure development projects and projects in the emerging regions through both domestic and foreign resources. The improvement of the service delivery while improving the regulatory arrangements and public sector service delivery, are also being done to improve the achievement of this target.

In this process, high priority has been given to improve the economic infrastructure including road networks, transportation, ports and airports, power generation, irrigation and water supply schemes. Social infrastructure facilities such as education and health covering the entire country are also being developed. Improving urban-rural connectivity through the development of rural roads, rural electrification, minor irrigation projects, community water supply facilities and promoting the use of IT in the rural sector to diversify rural livelihood opportunities are among the main focus areas in the activities related to regional development. Meanwhile, priority has also been given by the Government to address issues related to various delays and other impediments related to project implementation that lead to cost overruns. This will help save costs and ensure the timely completion of projects.

State-owned Enterprises

The Government has clearly established the policy of non-privatization of State-owned Enterprises (SOEs). Instead, SOEs are encouraged to adopt innovative management reforms to become commercially viable entities, which do not depend on assistance from the Government budget but become dividend paying entities instead. In particular, the productive capacity of State-owned Business Enterprises (SOBEs) is expected to increase with new capital infusion, which is currently taking place. With this move, these enterprises are expected to generate significant profits, which will be transferred to the Government as non-tax revenues. The issues that have been highlighted by the Committee on Public Enterprises (COPE) of the seventh Parliament are also to be addressed to phase out the phenomenal losses of SOBEs.

Reform initiatives related to such areas as cost reflective pricing, financial and business management, systems and procedures, internal controls and productive use of employees and capital assets while addressing structural deficiencies etc., should be implemented in SOBEs, which will enable them to generate return on investments. In this context, the domestic energy price revisions introduced in 2012 have contributed to make a significant positive impact on the Ceylon Petroleum Corporation (CPC). However, to get the full impact of this positive development, the performance of the Ceylon Electricity Board (CEB) is also expected to be improved through the introduction of low-cost energy sources to change the country's energy mix. With these improvements, the performance of state banks is also expected to be improved thereby enabling them to expand their activities in the banking and financial sector. It will release additional funds for private sector investment activities. The details on the public enterprise reforms facilitated by the MOFP and the revival of underperforming enterprises or underutilized assets are given in Boxes 10 and 11, respectively.

Box 10

Public Enterprises Reforms Facilitated by the Ministry of Finance and Planning

Having examined 229 Public Enterprises, the final report of the Committee on Public Enterprises (COPE) presented by Hon. Dew Gunasekera, Chairman of the Committee, dated December 1, 2011 made several observations and stated that the Treasury and Auditor General should *inter alia* take notice of same. The areas of concern include the need to prepare and submit corporate plans and action plans / procurement plans in line with applicable guidelines, the need to monitor such plans, the need to improve the quality of audit and management committees, the need to table in Parliament in a timely manner the Annual Reports, unsatisfactory recovery of debts and receivables, the negative impact of prolonged legal issues, the impact of excess staff on the financial stability of institutions, cadre revisions necessary in view of unfilled vacancies, the need to respond to audit queries in a timely manner, the need to revise outdated procedures, the need for greater supervision by the Treasury, the consequences of appointing unqualified personnel as Chairmen/ Board members, the need to take cognizance of underutilized funds, the consequences of there being abandoned / partly completed projects and projects which have ended up as failures and the need to update / amend related statutes.

The Treasury has been continuously engaged in an attempt to improve its overall supervision of Public Enterprises and to improve the quality of Public Enterprises by the grant of greater flexibility to them.

The concerns relating to Public Enterprises have been discussed continuously at the Secretaries' meetings chaired by the Secretary to the President and attended by the Secretary to the Prime Minister, Secretary to the Cabinet and all line Ministry Secretaries. By way of follow-up action, the attention of Secretaries was repeatedly drawn to the issues raised by the COPE with emphasis placed on the need to ensure required improvements, at the development work follow-up meetings and Budget preparation /review meetings chaired by the Secretary to the Treasury.

The Treasury representatives have been specifically reminded about the role they ought to play in Boards and Audit and Management Committees, with a view to upgrading the state of Public Enterprises. In fact the following Guides, which are simple and concise, were published, to be used as reference guides:

- "A Guide for Chairmen and Boards of Directors of Public Enterprises" – October 2010, spells out the legal and regulatory provisions applicable and the duty of care etc., expected from Board members.
- "A Guide for Treasury Representatives" – July 2010, spells out the applicable legal and regulatory provisions and the duty of care etc., expected from the perspective of a Treasury Representative on a Board.
- "A Guide for the National Budget Making Process" – August 2011 spells out the procedural and legal and regulatory compliances applicable to the National Budget Making Process.

Consequent to a concerted effort, there is also a marked improvement shown in the preparation and submission of Annual Reports. In an endeavour to improve the overall compliance relating to Annual Reports and the quality of such reports, at the point of Cabinet observations, the Ministry of Finance and Planning (MOFP) peruses such reports and draws the attention of the Cabinet of Ministers on any drawbacks and improvements necessary, by way of observations by the Minister of Finance.

In line with observations made in the COPE Report, the Treasury is also of the view that outdated procedures applicable to Public Enterprises need to be revisited to ensure greater efficiency. In this backdrop, there should be a policy consensus to move away from the supervisory methods adopted continuously after having been introduced many decades ago, especially in relation to recruitment and management, by empowering the Public Enterprises to take their own decisions with flexibility, having adopted internal procedures to ensure good practices and accountability.

The Treasury is in the process of finalizing simplified and updated circular instructions. A new circular is being finalized to replace around 50 circulars issued from time to time, covering a variety of areas.

As per the new circular, all entities of a Departmental nature are:

i. exempted from having to prepare such Plans since related aspects are anyway addressed by virtue of them being part of the annual National Budget;
ii. required to follow a given simple Annual Report;
iii. required to follow a given standardized Accounting format stipulated in terms of the regulatory requirement, in the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995;
iv. Be subject to audit by the Auditor General;
v. Required to follow either the Government Procurement Guidelines or an enterprise-specific procurement framework, pre-approved by the Cabinet of Ministers, in relation to procurement;
vi. Required to operate within a salary/ remuneration structure, as approved by the Salaries and Cadre Commission;
vii. Governed by applicable laws and regulations in relation to taxation.

As an initial step to commence this shift, all state entities were re-classified in terms of the nature of their activities, the economic and commercial environment within which they operate, the extent of their dependency on the National Budget, and the legal and regulatory environment within which they function that justify a simpler operational environment.

The entities currently under the oversight of COPE are classified as follows:

Regulatory Agencies

Entities entrusted with regulatory functions in terms of an Act of Parliament are deemed to be Regulatory Agencies. Since regulatory functions cover both the public and private sector entities, and most regulatory agencies have their own income sources through fees levied and sectoral Cess so as to ensure that they do not have to rely on Treasury funding, and since the respective Acts specify the regulatory functions and manner in which funds generated by them should be used, the Treasury is of the view these Regulatory Agencies should be treated separately with greater operational freedom, while ensuring that such entities respect public sector norms on salaries, cadre, recruitment/engagement of consultants, investments, procurements etc., that are important to ensure that the ultimate liability consequent to adopting a too liberal approach could fall on the National Budget. In the backdrop of this wider interest, the Treasury recommends that each Regulatory Agency would submit its operational model that will facilitate accountability and best practices, and make representations to the Treasury to establish that there will be no contingent liabilities to the National Budget. Further, attention is drawn to the fact that the use of surplus funds needs careful treatment - similar to the arrangements provided in the Monetary Law Act pertaining to Central Bank profits.

Accounting of all State Business Enterprises (SBEs) should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line ministry Secretary as the Chief Accounting Officer, will be answerable.

Promotional Agencies

Entities associated with promotional activities are deemed to be Promotional Agencies. While such agencies too have been established as corporate entities under their respective Acts of incorporation, they perform responsibilities that are aligned to the Government and often depend on the Budget. Although Promotional Agencies such as the Board of Investment have their own revenue sources by way of rent and service fees, such revenue are generated from government assets. However, Promotional Agencies need a separate accountability and best practice structure and Treasury control and supervision, considering the synergies that exist among such agencies. Accounting of all SBEs should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, they should be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line Ministry Secretary, as the Chief Accounting Officer, will be answerable.

Research and Development Agencies

Entities engaged in research and development activities for the benefit of the national economy or in the interest of the public are classified separately since this group also requires a separate framework of accountability and best practices, a human resource management, incentive structure, procurement procedure etc., while there would have to be a certain degree of Treasury involvement in terms of the Budget. Accounting of all SBEs should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, they should be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line Ministry Secretary, as the Chief Accounting Officer, will be answerable.

Educational Agencies

Entities involved in tertiary and higher education, vocational and other training, and in furtherance of knowledge of professionals are deemed to be Educational Agencies for the purpose of this classification. Since these agencies are established under separate statues of incorporation, function under different line Ministries and the appointments of their Chairmen and Board of Directors are made based on different considerations, as treating such agencies in general with others is likely to compromise the common interest. The Treasury recognizes that the approach to deciding their capital budget should be different, that they must have professional freedom and a separate accountability and best practice framework. However, considering that there is also a heavy non-research staff in these agencies and the high recurrent and non-core Budget expenditure incurred by such agencies due to the unduly liberal approach taken by the members of their respective Boards of Directors, a separate set of circular instructions appears desirable so as to ensure that ultimate fiscal responsibly is not compromised. Accounting of all SBEs should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, they should be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line Ministry Secretary, as the Chief Accounting Officer, will be answerable.

State (Business) Enterprises (SBEs)

Entities engaged in commercial activities, having been established by separate statutes of incorporation or under the Companies Act No. 7 of 2007, in which the Government owns the total or majority shares, with guaranteed direct or indirect Government capital contributions are deemed to be State-owned (Business) Enterprises. This cluster consists of enterprises that are small to large in terms of turnover, the scale of operations, their strategic role in the national economy, the dependency on the National Budget particularly with regard to capital investments in infrastructure, the number of employees and the extent of unionization, their asset base, associated business complexities, pricing policies, the welfare goals of the Government having a bearing on the enterprises etc. Enterprises in this cluster need to be treated on a case by case approach, with regard to certain accountability issues, Government commitments towards capital infusion and the consequent Treasury controls warranted, salary-related matters in terms of Collective Agreements, the procurement autonomy depending on the commercial and competitive nature of the business being carried on and recruitments/cadre management necessities, so that the National Budget will not be directly or indirectly vulnerable to unknown financial risks consequent to state business failures. Accounting of all SBEs should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further, they should be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line Ministry Secretary, as the Chief Accounting Officer, will be answerable.

SBEs are sub - categorized as follows:

Considering the market, institutional and policy developments in recent years, it is the considered view that further simplification of Treasury controls and supervision could be done, within the following broad categories:

i. Entities that are subject to a well established regulatory supervision mechanism, with or without the existence of Collective Agreements (banking, finance and insurance sectors);
ii. Entities to which Collective Agreements exist (Ceylon Electricity Board (CEB), Ports Authority, National Water Supply and Drainage Board (NWSDB), Ceylon Petroleum Corporation (CPC) and State Banks);
iii. Entities to which a legal framework applies such as the Companies Act, that spells out the Director's duties, solvency requirements and a structured accountability and best practice framework etc., in addition to them being subject to regulatory supervision(the fully or partially Government-owned companies);
iv. Entities that are desirous of formulating and adopting, with the concurrence of the Treasury, entity-specific best practice framework that is capable of addressing the broader concerns of the Treasury, covering procurement, human resource management, cadre management, financial controls and management, accountability delegation arrangements and treasury relations, that will form a separate category.

Other Enterprises

All other Public entities not falling into any one of the aforementioned categories, to which general circulars issued by the Treasury and the Ministry of Public Administration, would apply.

Other Suggestions to Improve SBEs:

i. **SBEs should focus on their Core Activities:** The Treasury proposes that in the interest of being able to remain competitive, while being mindful of public welfare and Government budget management, SBEs must focus on development / core activities. Considering the important role played by SBEs towards national economic development, a broad outline of core activities of SBEs will be stipulated through a circular guideline.
ii. **SBEs should be vested with greater commercial freedom:** In order to promote commercial freedom, the Treasury also proposes to exempt SBEs from the following subject areas, so that the respective Chairman/ Board of Directors/ CEO, could assume full responsibility and accountability on related matters.

    In this backdrop the exempt areas are:

    a) Decisions on a wage structure / personal emoluments

    The respective Chairman/ Board of Directors/ CEO, to decide on a wage structure and personal emoluments on a basis that is in line with any undertaking, time frame or incentives plan in terms of an existing collective agreement.

    b) Cadre related decisions

    Cadre related approvals to be obtained by the Chairmen/ Boards of Directors/ CEOs in a framework of a three year business model that has been drawn up with regard to the entity.

iii. SBEs to have an enterprise-specific Procurement Framework

The Treasury proposes to permit an enterprise-specific procurement framework for SBEs.

i. In this process, the related SBE should be able to demonstrate;

a) that the suggested procurement framework would ensure best practices and accountability;

b) that such enterprise specific procurement framework would ensure greater efficiency and competitiveness, as opposed to having to follow Government Procurement Guidelines.

ii. The Cabinet of Ministers should grant approval for the adoption of an enterprise-specific procurement framework, on the basis that the ultimate accountability with regard to procurement activities will vest with the related Chairman/ Board of Directors/ CEO and the line Ministry Secretary as the Chief Accounting Officer.

iii. All such procurement activities carried out in terms of a enterprise specific procurement framework will also be subject to audit by the Auditor General.

iv. Accounting and Auditing

Accounting should be done in conformity with the regulatory requirement stipulated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. Further it be subject to audit by the Auditor General to whom the Chairman/ Board of Directors/ CEO and the line Ministry Secretary as the Chief Accounting Officer, will be answerable.

It is pertinent to note that the following challenges pose a direct impact on the efficient performance of SBEs:

i. Rundown capital, inadequate capital infusions due to budgetary constraints, overreliance on debt financing and a weak Balance Sheets.

ii. Administered pricing policies, particularly affecting utility service-providing enterprises such as the CPC, CEB and the NWSDB.

iii. The active presence of unionized forces at all levels of work, and consequent balancing acts, which in turn curtail the management freedom to take business decisions that ensure optimum results.

iv. There being excess employees in less important categories of the cadre, while there being shortages in the managerial and technical grades.

v. Rigidities that impact effective human resource management, financial management and procurement. It is pertinent to note that many enterprises operate at sub optimum level, since they do not follow a business model that recognizes the need to engage a multi-disciplinary senior management team that can be given freedom to carry out delegated authority.

vi. Rigid administrative/ legal framework that places less emphasis on the long term business viability of the enterprises.

vii. A change from the traditional post-audit emphasis to a performance / management audit and a riskbased audit emphasis.

viii. Resistance from both the staff and management to separately identify development / core activities from operational activities. As a result, a substantial amount of time and effort of the Board of Directors/ CEOs/ Senior Management are devoted to operational activities at the cost of timely implementation of development / core activities – such as the implementation of infrastructure development projects etc., that almost all major State enterprises have been entrusted with.

ix. Inadequate relations between Secretaries as Chief Accounting Officers of line Ministries and Chairmen and Boards of Directors, which has made oversight responsibilities of Secretaries, somewhat non- effective and meaningless.

Box 11

Revival of Underperforming Enterprises or Underutilized Assets

The 2011 Budget referred to the importance of taking appropriate measures to revive certain enterprises that have continuously failed in its operations or underperformed, warranting intervention at the highest level, in order to maximize growth and economic activity in the public interest. Revival of Underperforming Enterprises or Underutilized Assets Act No. 43 of 2011 was introduced in November 2011, vesting with the State, 01 Underperforming Enterprise and 37 Underutilized Assets, listed in its Schedules.

Revival of Underperforming Enterprises or Underutilized Assets Act No. 43 of 2011
(Effective date – November 11, 2011)

Salient Features

- The Underperforming enterprises (listed in Schedule I of the Act) and Underutilized Assets (listed in Schedule II of the Act) were vested in the Secretary to the Treasury for and on behalf of the Government.
- As approved by the Cabinet of Ministers, a competent Authority either by name or by office, were appointed in respect of one or more of such enterprise or asset. The Competent Authority is required to control, administer and manage or ensure the revival of such Enterprise or Asset through alternate utilization.
- In the exercise of its powers, functions and duties, the Competent Authority is subject to general and special directions of the Cabinet of Ministers, to ensure effective management and administration etc.
- A dedicated Compensation Tribunal was appointed, comprising of the Chief Valuer and two other persons who have wide experience and who have shown capacity in commercial valuation, to ensure the payment of prompt, adequate and effective compensation.
- The Compensation Tribunal is required, after inquiry as may be necessary, to make its award on such claim within a period of 12 months from the date on which the claim was received by it. Compensation is to be charged to a special account to be operated by the Government with a Licensed Commercial Bank. This Account was opened by the Treasury. Any party aggrieved in relation to compensation may appeal within 14 days from the date of such award, to the Court of Appeal.

Progress

Hotel Developers (Lanka) plc.

- State Land leased to HDLL on a 99 year Lease – Hotel Block, 5 Years – Pool Block.
- A new Management Contract was signed with Hilton International Worldwide on terms more favorable to the Government. Payment of compensation being finalized with the assistance of the Government Chief Valuer.

Sevanagala and Pelwatte Sugar Industries Limited.

- Merged and formed as a new company under the Companies Act No. 7 of 2007, to be fully owned/ administered by the Government. The new Board of Directors is progressing with the management towards commercial viability. Payment of compensation is being finalized with the assistance of the Government Chief Valuer.

Ceylinco Leisure Properties Ltd. - Colombo 3

- The partly constructed building is being transformed into a multi-faceted hotel complex, through a consortium of private/ public entities. • Payment of compensation is being finalized with the assistance of the Government Chief Valuer.

Assets transferred to the Urban Development Authority, to be developed under the overall Urban Development Plan:

- Chalmers Granaries Ltd.
- Intertrade Lanka (Pvt) Ltd.
- Lanka Tractors Ltd.
- Suchir Neb Projects (Private) Ltd.
- Former Cashew Corporation.

Assets released to Investors:

- Sinotex (Lanka) Ltd.
- Jaqalanka Ltd.
- Plymouth Industries (Pvt) Ltd.
- D.C. Apparel (Pvt) Ltd.
- Hy Fashion Garments (Pvt) Ltd.
- Adamjee Extractions (Pvt) Ltd.
- Tendon Lanka (Pvt) Ltd.
- Rican Lanka (Pvt) Ltd.
- Composite Tower Solutions (Pvt) Ltd.
- Health Food Products (Pvt) Ltd.
- Sri Chirag (Pvt) Ltd.
- Continental Vanaspathi (Pvt) Ltd.

Assets released to be used for a public purpose:

- Macfa Apparel (Pvt) Ltd.
- Collins Garment (Pvt) Ltd.
- Needle Crafts (Pvt) Ltd.
- Colombo Commercial Badulla Properties

Debt Management

Over the years, the structure of the Government debt has moved towards more marketable instruments and foreign investments in Government securities have been allowed with a cap. Also, with the country graduating into middle income status, access to concessional financing has declined significantly requiring borrowings from the international market through international sovereign bonds and the increase of export credit financing. The areas which will be given priority in the medium term debt management operations of the government are given in Box 12.

Box 12

Priorities in the Government's Medium-term Debt Management Operations

- Maintaining an optimal mix of domestic and foreign debt.
- Giving due consideration on foreign exchange needs and other internal and external developments.
- Maintaining a balance between the borrowings from bilateral sources, multilateral lending agencies and international market borrowings.
- Looking into the foreign currency denominated debt management to lower the impact of exchange rate variation.
- Maintaining a proper currency mix to reduce risks.
- Maintaining an appropriate maturity structure to avoid bunching of maturities.
- Expanding the benchmark yield curve beyond 10 years.
- Improving the secondary market operations.

The Global Environment and its Impact on Sri Lanka

The global economic recovery remains weak with heightened uncertainties, particularly with regard to the fragility of the economy and the financial sector in advanced economies. As a result, the Sri Lankan economy will have both positive and negative impacts. A major positive effect will be the potential to dampen international commodity prices, including that of petroleum, which would help Sri Lanka to lower the import cost as well as the inflation emanating from the imports. Nevertheless, the weak performance in advanced economies could reduce the demand for exports from Sri Lanka thereby highlighting the need for diversifying exports to emerging market economies. Hence, the continuation of more flexibility in the exchange rate and introduction of other structural measures has to be in place to encourage exports.

Medium Term Strategic Priorities of the Fiscal Policy

- Augmentation of the revenue with greater emphasis on the expansion in the tax base.
- Strengthening tax administration to support the enforcement.
- Rationalization of the non interest current expenditure, while curtailing unproductive expenditure.
- Encouraging the line Ministries to work on a medium-term framework to effectively manage available resources.
- Improving stakeholder consultation in the budget-making process.
- Improving the quality of operational expenditure through the improvement of Treasury management and procurement.
- Consolidation of public security to ensure a peaceful environment in the country.
- Continuation and completion of the strategic infrastructure development projects with due consideration for regional/rural centric infrastructure development initiatives to improve lagging regions.
- Continuation of livelihood development activities to empower the poor while providing social protection to the needy.
- Improvement of the human capital resource base to improve the productivity of the Labour force.
- Strengthening public financial management through the introduction of necessary changes/reforms to systems and procedures.
- Maintaining public debt at prudent levels with strengthened fiscal consolidation and improved management of public debt.
- Taking measures to further improve the fiscal transparency and accountability.

Key Fiscal Measures for Overall Fiscal Policy Implementation

- Streamlining and consolidation of tax policy reforms introduced in 2011 to broaden the tax base and simplify the tax system.
- Introduction of information technology to revenue institutions and the Treasury along with initiatives for institutional and human capacity building.
- Taking measures to contain tax evasion and avoidance through the strengthening of the legal and regulatory framework.
- Taking measures to ensure the efficient allocation of resources and productive use of public funds.
- Continuing the support to SMEs and micro enterprises to create employment opportunities while engaging in import replacement economic activities.
- Continuation of the income support programmes to vulnerable people and the needy in the society.
- Revising/updating financial regulations to suit the fiscal management of a middle-income country.
- Continued improvement of the Government cash management operations.
- Infusing capital to State-owned Business Enterprises to make them financially viable entities.
- Ensuring a proper mix of domestic and foreign debt in the Government borrowing programme.
- Ensuring the effective utilization of foreign resources.

Budget Economic and Fiscal Position Report - 2013

Issued by the Hon. Minister of Finance
Under Sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act No. 3 of 2003

This Report is issued under sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act No. 3 of 2003, which requires the provision of a basis for the evaluation of the Government's fiscal performance as against its fiscal strategy statement and to be placed before the Parliament on the day of the second reading of the Appropriation Bill. It includes estimates relating to gross domestic product, consumer prices, balance of payments, and assumptions based for estimating revenue and expenditure.

Accordingly, this Report contains provisional figures of Government revenue, expenditure and borrowing in the first eight months of 2012. This Report also provides key macro economic developments during this period to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted. This Report also refers to the basis of information on economic and other assumptions used in preparation of estimates for 2013 and downside risks associated with these assumptions and other information that may have a material effect on the fiscal performance of the Government.

Fiscal Developments
Overview

The fiscal performance during the first eight months of 2012 has to be reviewed in the context of comprehensive tax policy measures introduced by the Government through the 2011 and 2012 Budgets to broadbase and simplify the country's tax system as well as the impact of the policy measures introduced by the Government in February/March 2012 to address the imbalance which emerged in the external sector towards end 2011, reflected in the widening trade balance which needed immediate policy adjustments. The external sector performance so far in 2012 indicates that the greater flexibility in the exchange rate has helped stabilize the external reserves of the country. The new fiscal and monetary adjustments have also slowed down the imports expenditure, helping positively on the trade balance and the balance of payments. Nevertheless, these measures, together with the depreciation of the Rupee in line with the exchange rate flexibility, had a mixed impact on the Government fiscal operations during the first eight months of 2012.

As a consequence of the above measures, there was a pressure on the fiscal sector with lower revenues mainly as a result of the declined imports, particularly motor vehicles, as well as the increased debt repayments and interest payments consequent to the exchange rate depreciation and the increase in market interest rates for Government securities in response to monetary policy tightening. In the meantime, the exchange rate depreciation increased the rupee value of the imports thereby helping to recoup a part of the revenue loss due to the decline in imports. The above mentioned policy measures, as well as the slowdown in global economic activities together with the drought conditions which prevailed in the country, slowed down the domestic aggregate demand which resulted in a decline in the domestic tax revenue. Nevertheless, the measures taken to provide support for local industries such as the reduction of duty waiver on milk powder imports and increase of the Special Commodity Levy (SCL) on sugar in the wake of declining prices in the international market that required local economy safeguards were conducive for fiscal consolidation efforts.

The total revenue during the first eight months of 2012 increased by Rs. 60 billion or 10.4 percent compared to the same period in the previous year. Tax revenue increased by 9.8 percent while non-tax revenue increased by 11.6 percent over the previous year. The revenue from direct taxes increased by 20.8 percent during this period while that from indirect taxes also increased by 7.2 percent, partly reflecting the overall positive impact of the tax policy reforms. As far as the individual taxes are concerned, there was a lower than expected progress in the revenue from Value Added Tax (VAT). The performance of some import related taxes was also below expectations, reflecting the impact of declined imports. Nevertheless, the significant increases in the revenue from SCL and income tax etc., helped compensate a part of the shortfall in the revenue during this period. Meanwhile, the total revenue from the Nation Building Tax (NBT), including the transfers to Provincial Councils (PCs), increased by 22.2 percent while the NBT revenue to the central Government also increased by 22.2 percent in comparison to the same period in the previous year.

Total current expenditure during the first eight months of 2012 increased by 13.2 percent mainly due to higher and front-loaded interest payments that amounted to Rs. 38 billion. The increase in non-interest expenditure mainly reflected high wage and welfare related expenditures. Nevertheless, total current expenditure as a percent of Gross Domestic Product (GDP) declined to 10.4 percent during the first eight months of 2012 compared to 10.6 percent recorded in the same period in 2011.

The capital expenditure and net lending increased at a higher rate of 32.8 percent mainly due to the higher utilization of foreign funds related to the development projects. This indicated the continuation of the momentum gathered in public investment in the recent past despite the challenges in fiscal management reflecting the sustained and conscious commitment of the Government to continue public investment to facilitate the expansion of economic activities. The emphasis was on completion of mega infrastructure development projects while continuing rural/regional development initiatives. The work related to key national

1 The measures introduced by the Government and the Central Bank of Sri Lanka included the pursuance of greater exchange rate flexibility by limiting the Central Bank intervention only to finance a part of the obligations related to petroleum related bills, and introducing measures to reduce the demand pressure on imports and domestic economy through the upward revision of the policy interest rates of the Central Bank, introduction of a ceiling on the provision of credit to the private sector by commercial banks, increase in the taxes on imported motor vehicles, trishaws and motor cycles and the revision of petroleum, transport and electricity prices with targeted subsidies to mitigate the impact on vulnerable groups due to fuel price revisions.

infrastructure development projects consisting of roads, bridges, ports, airports, power generation, irrigation and water supply etc., was continued. The improvement of social infrastructure such as education and health for human resource development was also sustained. Various rural development initiatives such as Gama Neguma, Maga Neguma, and a number of other rural/regional development initiatives were implemented by channeling enhanced resources. Total expenditure on public investment during the first eight months of 2012 amounted to Rs. 328 billion, which was 4.3 percent of GDP.

The Government was able to disburse USD 1,499.7 million from the foreign sources as gross project related foreign financing, including grants, during the first eight months of 2012. During this period, lenders to Sri Lanka made total commitments amounting to USD 2,898 million. In addition, a sovereign bond of USD 1,000 million was successfully raised in the international market at an interest rate of 5.875 percent with a maturity period of 10 years, which was oversubscribed by more than 10 times. This was an overwhelming success which reflected the strong investor confidence in the robust prospects in the Sri Lankan economy. A part of the proceeds from this sovereign bond issue was utilized to retire high cost debt which will help ease the interest burden on the Government budget in the future.

Reflecting the above developments, the revenue deficit during the first eight months of 2012 reached Rs. 149 billion and was 2 percent of GDP compared to Rs. 115 billion or 1.8 percent of GDP in the same period of the previous year. The overall budget deficit, in nominal terms, was Rs. 454.6 billion, which amounted to 6 percent of GDP compared to 5.3 percent in the same period of the previous year. The fiscal performance during the first eight months indicates the impact of revenue lags and expenditure leads. Hence, with the higher revenue and moderation of expenditure expected in the remaining part of the year, the fiscal operations in the year as a whole are expected to remain consistent with the targeted deficit of 6.2 percent of GDP.

Table 5: **Summary of the Budget (Jan - Aug): Economic Classification**

Rs. Mn

Item	2011	2012*
Revenue and Grants	**580,679**	**645,456**
Revenue	574,588	631,983
Tax	512,413	562,589
Non Tax	62,175	69,395
Grants	6,091	13,473
Expenditure	**930,299**	**1,100,040**
Current	689,963	780,965
o/w Salaries & Wages	222,300	228,819
Interest	255,871	294,270
Public Investment	248,744	328,356
Other	-8,438	-9,281
Revenue Deficit (-)/Surplus (+)	**-115,375**	**-148,982**
Overall Deficit (-)/Surplus (+)	**-349,620**	**-454,584**
Financing	349,620	454,584
Net Foreign Financing	101,775	151,924
Net Domestic Financing	247,846	302,660
Revenue/GDP Ratio (%)	8.8	8.4
Current Expenditure/GDP Ratio (%)	10.6	10.3
Public Investment/GDP Ratio (%)	3.8	4.3
Revenue Deficit (-)/Surplus (+)/GDP Ratio (%)	**-1.8**	**-2.0**
Overall Deficit (-)/Surplus (+) /GDP Ratio (%)	**-5.3**	**-6.0**

Source: Department of Fiscal Policy

** Provisional*

Government Revenue

The total revenue of the Government during the first eight months of 2012 increased by 10 percent to Rs. 631,984 million compared to the same period in 2011. The tax revenue increased by 9.8 percent to Rs. 562,589 million while the non-tax revenue increased by 11.6 percent to Rs. 69,395 million during this period. This performance should be viewed in the backdrop of domestic policy measures to curtail import expenditure which had a dampening impact on import trade, thus affecting the trade related taxes while a slowdown in global economic activities, coupled with prolonged drought, had a negative impact on the domestic aggregate demand resulting in a slowdown in the revenue from domestic taxes.

Table 6: **Revenue Performance (Jan - Aug)**

Rs. Mn

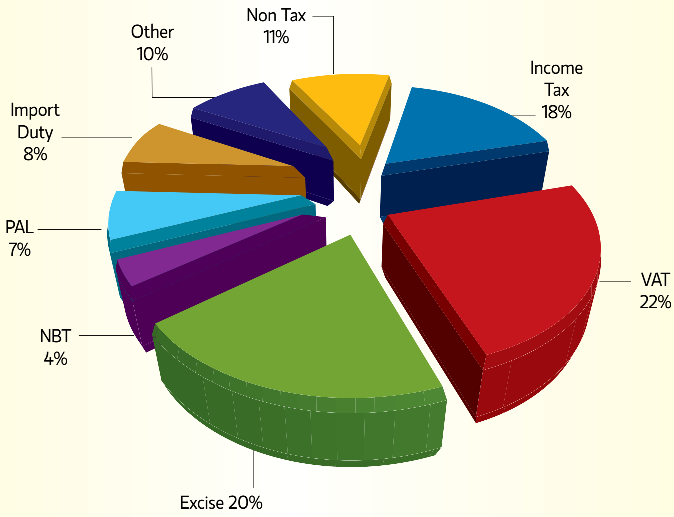
	2011	2012	Growth (%)
Tax Revenue	**512,426**	**562,589**	**9.8**
Income Tax	96,975	117,149	20.8
VAT (Net)	138,167	138,642	0.3
Excise Tax	117,743	124,700	5.9
Nation Building Tax*	21,158	25,865	22.2
PAL	41,066	46,523	13.3
Import Duty	48,276	48,911	1.3
Other	49,029	60,799	24.0
Non Tax Revenue	**62,175**	**69,395**	**11.6**
Total Revenue	**574,588**	**631,984**	**10.0**

Source: Department of Fiscal Policy

**Excludes the 33 1/3 percent of the total NBT revenue transferred to Provincial Councils.*
The total revenue collection from NBT increased by 18.2 percent

The revenue from income tax grew by 20.8 percent during the first eight months of 2012. Increase of revenue from corporate and non-corporate income tax and withholding tax has contributed to this growth. Meanwhile, revenue from import duty increased marginally by 1.3 percent during this period while the revenue from cess and special commodity levy increased at higher rates of 15.4 percent and 122.6 percent, respectively. The VAT revenue (Net Basis) during the January – August period of 2012 increased marginally by 0.3 percent as a combined effect of the performance of domestic VAT and VAT on imports. Despite the rate revisions on cigarettes, liquor and motor vehicles, the revenue from excise duty increased only by 5.9 percent due to a slowdown in sales and production volume of cigarettes and liquor respectively coupled with lower import volumes of motor vehicles. The non-tax revenue also increased by 11.6 percent mainly due to the increase of Central Bank profit transfers and sales and charges.

Chart 1: **Composition of Government Revenue (Jan - Aug 2012)**



Income Tax

The revenue generated from income tax during the first eight months of 2012 increased by 20.8 percent to Rs. 117,149 million compared to the same period of 2011. Corporate and non-corporate income tax and Withholding Tax (WHT) performed well during this period while revenue from PAYE tax and Economic Service Charge (ESC) declined.

Due to the increased business turnover during January - August period of 2012, the revenue from corporate and non-corporate income tax increased by 14.8 percent to Rs. 48,322 million. The period under review is a transitional period after the introduction of a series of tax reforms in 2011 with a view to simplifying the country's tax system, broadening the tax base and improving compliance to generate a positive impact on the Government revenue in the medium term. These performances in income taxes should be analysed in this background. The teething issues were evident in PAYE and ESC taxes. But the income tax revenue from tobacco and alcoholic businesses increased significantly due to the higher rate of 40 percent while WHT on interest recorded a sharp increase during this period due to the high interest rate structure that prevailed in this period compared to the previous year.

Table 7: **Performance of Revenue from Income Tax (Jan - Aug)**

Rs. Mn

Tax Base	2011	2012	Growth (%)
Corporate & Non Corporate	42,082	48,322	14.8
PAYE	11,366	10,275	-9.6
Economic Service Charge	15,475	12,879	-16.8
Withholding Tax	28,052	45,674	62.8
Total	96,975	117,149	20.8

Source : Department of Fiscal Policy

Value Added Tax (VAT)

The revenue from VAT, on a net basis, increased marginally by 0.3 percent to Rs. 138,642 million during the first eight months of 2012 compared to the same period in 2011 reflecting the decline in vatable imports and slowdown in certain domestic activities. The revenue from VAT on both domestic economic activities and imports on gross basis slightly declined by 1.9 percent and 0.6 percent, respectively. The food, tobacco and beverages, mineral products, hotels, restaurant and catering service, electricity and insurance sub sectors were favourably affected to increase the net revenue from VAT. The contraction of revenue from imports, leasing and other financial services and educational service and slowdown in credit in commercial banks had a negative impact on VAT collection. Allowing the setting off of unabsorbed VAT input against the payable VAT and other taxes subjected to the limit of 10 percent of the unabsorbed VAT input balance as at December 31, 2010 and allowing to claim 100 percent of current VAT input from the output tax with effect from January 1, 2012, also had a negative impact on revenue from VAT.

Table 8: **Performance of Revenue from VAT (Jan - Aug)**

Rs. Mn

Tax Base	2011	2012	Growth (%)
VAT - Domestic	73,494	72,090	-1.9
VAT - Import	69,197	68,751	-0.6
Gross VAT Revenue	142,691	140,841	-1.3
VAT Refunds	4,523	2,200	-51.4
Net VAT Revenue	138,167	138,642	0.3
Refunds as % of Gross Revenue	3.2	1.6	-

Source: Department of Fiscal Policy

Excise Taxes

Revenue from excise tax during the first eight months of 2012 was Rs. 124,700 million compared to Rs.117,743 million during the same period in 2011. This is an increase of 5.9 percent over the January – August period of 2011. The main sources of excise duty are liquor, cigarettes/tobacco, petroleum, motor vehicles and selected consumer durables.

As the main source of excise duty, revenue on liquor increased by 11.4 percent to Rs. 39,798 million during the first eight months of 2012 compared to the same period in 2011. The excise duty revenue from hard liquor and malt liquor increased by 7.3 percent and 21.5 percent, respectively, during this period over the same period of the previous year. However, production

Table 9: **Excise Tax Performance (Jan - Aug)**

Category	Rs. Mn		Growth (%)
	2011	2012	
Liquor	35,715	39,798	11.4
Cigarettes/Tobacco	32,089	35,421	10.4
Petroleum	16,233	11,633	(28.3)
Motor Vehicles	31,730	35,095	10.6
Other	1,977	2,753	39.3
Total	**117,743**	**124,700**	**5.9**

Source: Department of Fiscal Policy

of hard liquor decreased by 3.4 percent while production of malt liquor increased by 14.3 percent in Jan – Aug period of 2012 compared to 2011.

Meanwhile, revenue from excise duty on cigarettes and tobacco increased by 10.4 percent generating Rs. 35,421 million during the first eight months of 2012 compared to the same period in 2011. The positive impact of the periodical upward revision of excise tax rates on liquor, cigarettes and tobacco was the main reason for this increase of revenue.

During the first eight months of 2012, revenue from excise duty on motor vehicles generated Rs. 35,095 million compared to the Rs. 31,730 million in the same period in 2011. Compared to the over 300 percent increase of revenue from excise duty on motor vehicles in January to August 2011 over the same period in 2010, this year the revenue has been increased by 10.6 percent. The upward revision of excise duties in motor vehicles, excluding goods and passenger vehicles in March 2012, with a view to reducing the pressure on high oil imports and foreign exchange drain, contributed to the decline in excise tax revenue from motor vehicles. The importation of motor cars and three wheelers declined by 40.7 and 34.7 percent, respectively, during this period compared to the corresponding period in the previous year.

Table 10: **Excise Duty Rate Revisions on Cigarettes Rs./ 1,000 sticks**

Category	2009 Mar	2010 June	2010 Oct	2010 Nov	2011 Jan	2011 Oct	2012 Mar	2012 Oct	% Increase from 2009 Mar to 2012 Oct
Cigarettes each not exceeding 60mm in length (e.g. CAPSTAN, THREE ROSES)	2,289	2,830	3,425	3,440	3,465	3,465	4,037	4,612	101.5%
Cigarettes each exceeding 60mm but not exceeding 67mm in length (e.g. FOUR ACES)	5,706	6,246	6,893	6,922	6,973	7,540	8,112	9,258	62.3%
Cigarettes each exceeding 67mm but not exceeding 72mm in length (e.g. PALL MALL)	8,485	9,028	9,720	9,751	9,811	10,381	10,953	12,100	42.6%
Cigarettes each exceeding 72mm but not exceeding 84mm in length (e.g. GOLD LEAF)	10,715	11,260	11,988	12,030	12,108	13,243	13,815	14,963	39.6%
Cigarettes each exceeding 84mm in length	12,170	13,170	14,360	14,400	15,000	16,400	17,100	18,500	52.0%

Source: Department of Fiscal Policy

Table 11: **Vehicle Imports**

Category	2011 Jan - Aug		2012 Jan - Aug		Growth % 2012/2011	
	Quantity	Value (Rs. Mn.)	Quantity	Value (Rs. Mn.)	Quantity	Value
Tractors	15,685	5,117	16,614	9,254	5.9	80.8
Passenger Vans	370	845	433	1,128	17.0	33.5
Busses	2,114	6,177	2,723	9,674	28.1	56.6
Motor Cars	38,280	50,173	22,716	38,220	(40.7)	(23.8)
Three Wheelers	94,065	16,518	61,460	12,219	(34.7)	(26.0)
Ambulance/Prison Van	14	60	53	183	278.6	205.4
Hearses	16	29	18	32	12.5	10.7
Vehicles for Transport of Goods	30,589	33,893	36,048	47,744	17.8	40.9
Motorcycles	159,978	12,424	125,278	11,273	(21.7)	(9.3)

Source: Department of Customs

Import Duty

The revenue collected from import duties increased marginally by 1.3 percent to Rs. 48,911 million during the first eight months of 2012 compared to 27.7 percent growth recorded during the same period in 2011. This was mainly due to the measures taken by the Government to address the widening trade deficit which resulted in a decline in motor vehicle imports. Further, granting of partial duty waivers on petrol and diesel to curb rising oil prices also contributed to the slower growth in import duties.

Meanwhile, duty free or low duty rate imports under the bilateral and regional and multilateral free trade agreements (FTAs) of Sri Lanka amounted to Rs. 39,459 million during the first eight months in 2012 while imports under the India-Sri Lanka Free Trade Agreement (ISFTA) amounted to Rs. 24,813 million during this period.

Table12: **Value of Imports under Tariff Concessions Offered by Major Free Trade Agreements (Jan - Aug 2012)**

Free Trade Agreement	Number of Products Subject to Tariff Concessions	Imports (Rs. Mn.)
India-Sri Lanka Free Trade Agreement (ISFTA)	4,004	24,813
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	4,683	13,560
South Asia Free Trade Agreement (SAFTA)	4,182	195
Asia-Pacific Trade Agreement (APTA)	499	891
Total	**13,368**	**39,459**

Source: Department of Customs, Department of Commerce

Special Commodity Levy (SCL)

The revenue generated from SCL, which is a composite tax on selected special commodities, amounted to Rs. 22,175 million during January – August 2012 period compared to Rs. 9,963 million in the corresponding period in 2011. This improvement was supported with the increase in the number of items coming under SCL and SCL rates revisions implemented periodically to protect domestic agriculture as well as to relieve the price pressures in the domestic market, during this period.

Table 13: **Special Commodity Levy Rates**

Rs. Per Kg

Item	End August 2011	End August 2012
Sprats	30	10
Potatoes	35	30
Red Onions	25	25
B' Onions	25	50
Garlic	25	40
Watana - Whole	10	20
- Split	15	25
Chickpeas - Whole	10	10
- Split	15	15
Green gram	15	100
Lentils - Whole	10	18
- Split	15	22
Chillies - Not Crushed or Ground	20	25
- Crushed or Ground	25	40
Canned Fish	85	75
Sugar	05	20
Black gram	-	100
Cowpea	-	100
Kurakkan	-	100
Millet/Other	-	100
Maldives fish	-	250
Dried fish	-	75
Orange	-	60
Grapes	-	120
Apples	-	45
Coriander – Not Crushed	-	45
– Crushed	-	90
Cumin	-	150
Fennel	-	50
Turmeric - Not Crushed	-	200
- Crushed	-	300
Mathe seeds	-	50
Kurakkan flour	-	150
Black gram flour	-	200
Ground nuts	-	100
Mustard seed	-	50
Palm oil - Crude	-	80
- Refined	-	90
Fish	-	10% or Rs.10 per Kg, The amount of levy Whichever is higher

Source: Department of Trade, Tariff and Investment Policy

Nation Building Tax (NBT)

The total revenue generated by NBT which was introduced to meet the post-war rehabilitation expenditure and reconstruction expenditure in the country, increased by 22.2 percent to Rs. 38,796 million during the first eight months of 2012 compared to the Rs. 31,735 million generated in the corresponding period in 2011. The revenue from domestic NBT grew by 34.9 percent reflecting the expansion in several economic activities such as retail trade, wholesale trade, distribution and hotels, restaurants and catering services. Similarly, revenue from NBT on imports grew by 8.3 percent due to the increase in import of investment goods, medical and pharmaceuticals and petroleum products.

Table 14: **Performance of NBT, Stamp Duty and Motor Vehicle Registration Free (Jan - Aug)**

Amounts in Rs. Mn.

	2011			2012			% Change 2012/2011		
Item	**CG**	**PCs**	**Total**	**CG**	**PCs**	**Total**	**CG**	**PCs**	**Total**
NBT*	21,158	10,577	31,735	25,864	12,932	38,796	22.2	22.3	22.2
Domestic	11,062	5,547	16,643	14,972	7,486	22,458	35.3	35.0	34.9
Import	10,062	5,030	15,092	10,892	5,446	16,338	8.2	8.3	8.3
Stamp Duty**	-	4,421	4,421	-	5,085	5,085	-	15.0	15.0
Motor Vehicle Reg. Fees***	274	640	914	532	1,242	1,774	94.2	94.1	94.1
Total	**21,432**	**15,638**	**37,070**	**26,396**	**19,259**	**45,655**	**23.2**	**23.2**	**23.2**

Sources: Finance Commission & Department of Fiscal Policy

** Since 2011, 33 1/3 percent of the revenue collected from the NBT by the central government is transferred to Provincial Councils.*

***Since 2011, 100 percent of the revenue collected from the stamp duty by the central government is transferred to Provincial Councils.*

****Data represent 70 percent of the revenue collected by the central government from Motor Vehicles Registration Fee and transferred to PCs.*

Note: CG = Central Government, PCs = Provincial Councils

According to the revenue sharing mechanism between the Central Government and the Provincial Councils (PCs), one third of the total NBT amounting to Rs. 12,932 million was transferred to PCs as at August 2012 to compensate the loss of revenue due to the abolition of the provincial turnover tax. Hence, the revenue from NBT to the central government amounted to Rs. 25,864 million during this period.

In addition, the entire revenue of Rs. 5085 million collected from stamp duties and Rs. 1,242 million of the revenue from motor vehicle registration fees (which is 70 per cent of the total revenue from this source) was also transferred to PCs during the first eight months of 2012. Accordingly, the total revenue transferred by the central government to PCs including NBT during the aforementioned period of 2012 was Rs. 19,259 million. It was 23 per cent higher than the revenue which was transferred to PCs in the same period of 2011.

Other Taxes

The revenue from Ports and Airports Development Levy (PAL) during the first eight months of 2012 was increased by 13.3 percent to Rs. 46,523 million compared to the Rs. 41,066 million in the same period of 2011 as it was applicable for most of the capital and investment goods. The total revenue generated from Cess on imports and exports amounted to Rs. 20,985 million and indicated an increase of 15.4 percent compared to the revenue of Rs. 18,185 million collected in 2011. The imposition of Cess of all inclusive tax of Rs. 75 per kg for imported fabric by exempting VAT and NBT coupled with other rate revisions boosted the revenue from Cess. Revenue from the Telecommunication Levy has increased by 23.8 percent to Rs. 14,495 million during the first eight months of 2012 compared to the same period in 2011. Expansion of telecommunication services in Northern and Eastern provinces and high demand for data transmission services from business enterprises supported this sharp increase in the Telecommunication Levy.

Non Tax Revenue

Total non tax revenue increased by 11.6 percent to Rs. 69,395 million during the first eight months of 2012 compared to Rs. 62,175 million recorded in the same period in 2011. The non tax revenue accounted for 10.9 percent of the total government revenue during this period. This was mainly contributed by the transfer of Rs. 25,000 million of profits from the Central Bank which accounted for 36 percent of the total non tax revenue and also the Rs. 15,600 million received

Table 15: **Variance Analysis of Government Revenue (Jan - Aug)**

Rs. Mn.

Items	2011	2012	Reasons
Income Tax	96,975	117,149	The revenue from corporate and non-corporate income tax increased owing to the increased business turnover in contrast to the teething issues that were evident in PAYE and ESC taxes. WHT on interest recorded a sharp increase during this period due to a high interest rate structure that prevailed in this period compared to last year.
VAT	138,167	138,642	The decline in VAT liable imports and slowdown in certain domestic activities negatively affected the revenue from VAT. The food tobacco and beverages, mineral products, hotels, restaurant and catering services, electricity and insurance sub sectors were favourably affected to increase the net revenue from VAT. The contraction of revenue from imports, leasing and other financial services and educational services and slowdown in credit by commercial banks had a negative impact on the VAT collection.
Excise Tax	117,743	124,700	Periodical upward revision of Excise Duty rates on liquor, cigarettes and tobacco is the main reason for the increase of revenue from Excise Duty. The upward revision of Excise Duties in motor vehicles excluding goods and passenger vehicles in March 2012 with a view to reducing the pressure on the trade balance and foreign exchange drain, contributed to the decline in Excise Duties from motor vehicles.
Import Duty	48,276	48,911	The measures taken by the government to address the widening trade deficit which resulted in a decline in motor vehicles together with granting of partial duty waivers on Petrol and Diesel to curb rising oil prices contributed to the slower growth in revenue from import duties.
Port and Airport Development Levy (PAL)	41,066	46,523	The revenue from PAL was increased significantly as it was applicable for most of the capital and investment goods.
Nation Building Tax (NBT)	21,158	25,865	Expansion in several economic activities such as retail trade, wholesale trade, distribution and hotels, restaurant and catering service was mainly attributed for the growth of revenue from NBT.
Other Taxes	49,029	60,799	Expansion of telecommunication services in Northern and Eastern provinces and high demand for data transmission services from business enterprises supported the increase in revenue from the telecommunication levy. Improvement of SCL was supported with the increase of a number of items coming under SCL, and SCL rate revisions implemented periodically to protect domestic agriculture as well as to relieve the price pressures in the domestic market, during this period.
Non Tax Revenue	62,175	69,395	Transfer of Rs. 25,000 million of profits from the Central Bank, the Rs. 15,600 million received as revenue from profit and dividends and revenue from sales and charges of Rs. 13,820 million were the major reasons for this increase.
Total Revenue	**574,588**	**631,984**	

Source: Department of Fiscal Policy

as revenue from profits and dividends during the first eight months of 2012. Profits and dividends have been transferred to the Government mainly from State Banks, Telecommunication Regulatory Commission (TRC), and other Government establishments such as National Insurance Trust Fund (NITF) etc. During this period, the revenue from sales and charges generated Rs. 13,778 million and recorded a 7.4 percent growth over the same period in 2011.

Government Expenditure

Total Government expenditure amounted to Rs. 1,100 billion during the first eight months of 2012, with an increase of 18.2 percent over the corresponding period in 2011. The current expenditure increased by 13.2 percent and stood at Rs. 781 billion. However, the current expenditure as a percentage of GDP declined to 10.1 percent during this period compared to from 10.6 percent in the same period of the previous year.

Table 16: **Performance of Government Expenditure (Jan - Aug)**

Rs. Mn

	2011	2012 (Prov.)
Current Expenditure	**689,963**	**780,965**
Salaries & Wages	222,300	228,819
Interest	255,871	294,270
Samurdhi	6,200	7,025
Fertilizer Subsidy	25,500	35,465
Pension	66,659	75,047
Other	113,433	140,341
Public Investment	**248,774**	**328,356**

The Government committed to the continuation of public investment during this period by spending Rs. 328 billion which is an increase of 32 percent over last year's spending of Rs. 249 billion. The high investment in areas like roads and railway networks, highways, ports, electricity generation and transmission lines, water supply and irrigation that require rapid progress to cater to higher economic growth, especially the projects which were implemented in the Northern and Eastern regions of the country in the aftermath of the conflict had an immense contribution towards this.

Salaries and Pension Cost

The Government spent Rs. 229 billion on salaries for public servants, including the employees attached to the provincial public service and other fields like education, health and national security, recording an increase of 3 percent over the corresponding period in 2011. This is followed by the cumulative effect of the increase in the special non pensionable allowance to public officers, effective from January and July 2012 as proposed in Budget 2012. This allowance was increased by 10 percent of the basic salary of public officers serving in posts to which a monthly salary scale with an initial salary step below Rs. 22,935 from January 2012. For the officers who are serving in posts with an initial salary step of Rs. 22,935 and above, the said allowance was increased by 5 percent from January 2012 and by another 5 percent from July 2012.

Pension payments increased by 14.3 percent during the period of January - August 2012 to Rs. 75 billion from Rs. 65.7 billion of the same period of last year. The full impact of around 23,447 retirees in 2011 and the partial impact of the new retirees of around 14,033 during the first eight months of 2012 as well as the increase in allowance to the pensions of public servants who retired on or before December 31, 2003 by Rs. 500 from January and by another Rs. 500 from July 2012 and an increase in the above allowance to those who retired during the period between January 1, 2004 and December 31, 2005 by Rs. 250 from January and by another Rs. 250 from July also contributed to this increase.

Table 17: **Behavior of Yield Rates (%) 2011 - 2012**

Period	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2011 Sep	7.11	7.20	7.26	-	-	-	-
2011 Dec	8.43	8.60	9.14	-	-	-	-
2012 Mar	10.42	10.41	10.79	10.61	-	10.83	-
2012 Jun	11.00	12.36	12.72	-	13.50	-	14.00
2012 Sep	11.40	12.93	13.26	13.62	-	4.10	-
Change (Basis Points) (2011-Sep - 2012 Sep)	429	573	600	-	-	-	-

Source: Central Bank of Sri Lanka and Department of Treasury Operations

Interest Cost

The interest cost on domestic and foreign debt during the first eight months of 2012 was Rs. 294 billion and this was an increase of 15.0 percent over the corresponding period in 2011. The interest cost as a percent of GDP has remained at 3.9 percent as in the previous year. The tightening of the monetary policy by the Central Bank in the early part of the year to address the widening trade deficit and the resultant increase in the domestic market interest rates were the main reasons for this increase. In addition, the depreciation of the rupee against major foreign currencies also increased the interest cost on foreign currency denominated debt.

Table 18: **Expenditure on Key Welfare Programmes (Jan - Aug)**

Rs. Mn

Item	2011	2012 (Prov.)
Mothers and Children		
Infant Milk Food Subsidy & Fresh Milk	124	104
Poshana Malla	195	155
Thriposha Programme	916	751
School Text Books	848	1,207
School Uniforms	822	1,640
Bursaries, etc.	164	182
Dhamma School Text Books & Uniforms	71	77
School Nutritional Food Programme	1,708	1,911
Agriculture		
Fertilizer Subsidy	25,500	35,465
Welfare Payments		
Samurdhi Relief	6,200	7,025
Assistance to Differently Abled Soldiers	8,856	9,770
WFP Food Assistance	2,489	1,901
Welfare Assistance to IDPs	146	29
Flood and Drought Relief	1,665	1,693

Source: Department of State Accounts and Department of National Budget

Welfare and Subsidy Payments

The Government's commitment to ensure the well being of vulnerable groups in society by addressing various facets of poverty was reflected in the expenditure on social welfare and safety net programmes which amounted to Rs. 61,910 million during the first eight months of 2012. This reflected an increase of 24.6 percent over the Rs. 49,704 million recorded in the corresponding period in 2011.

The revisions introduced in Budget 2012 to increase the Samurdhi allowance to low income small, general and large families in slabs of Rs. 750, Rs. 1200 and Rs. 1500, respectively resulted in an increase in the total Samurdhi Social Security payments to Rs. 7,025 million with an increase of 36 percent over same period in the previous year. About 1.54 million families benefit from this programme, improving their social needs and livelihood/income generation activities. The assistance to differently abled soldiers continued with a total spending of Rs. 9,770 million addressing the economic and social needs of security forces who strived to establish democracy, development and social reconciliation in the country. This was a 10.3 percent increase over the assistance given in the previous year.

The expenditure on the fertilizer subsidy programme was Rs. 35,465 million during this period with an increase of 39.1 percent compared to the corresponding period of the previous year following the government policy decision to extend the subsidy programme to any crop with effect from May 2011. About 1 million farmers benefitted from this programme during the period under review.

Several subsidy programmes were implemented under the Ministry of Education to strengthen and expand the free education system. Free textbooks were provided at an expense of Rs. 1,207 million and this is an increase of 42.3 percent over the amount of Rs. 848 million recorded in the first eight months of 2011. The Government expenditure on the provision of free school uniforms was Rs. 1,640 million compared to Rs. 822 million incurred in the same period in the last year. The amount spent on the scholarships of various categories, including financial support given to handicapped students and Grade 5 scholarship holders, was Rs. 182 million.

Paying special attention to children and women, the Government spent Rs. 1,010 million on the provision of Thriposha, the nutritional food package for infants and for pregnant and lactating mothers, infant milk subsidy and fresh milk programme, Poshana Manpetha and Poshana Malla programme in the first eight months of 2012. The cost of the school nutritional food programme was Rs. 1,911 million, an increase of 11.9 percent over the corresponding period of the previous year.

Public Investment

The total public investment during the first eight months of 2012 was Rs. 328 billion. The Government's objective for facilitating the achievement of a high economic growth through spending on higher investment in infrastructure development projects on highways, roads, ports, telecommunication and electricity etc., was continued during this period. Rural development programmes like Gama Neguma and Maga Neguma also progressed as articulated in the development strategy of the Government.

Table 19: **Public Investment - By Key Areas of Investment (Jan - Aug) Rs. Mn.**

Sector	2011	2012 (Prov.)
Roads and Bridges	72,505	94,765
Electricity	19,309	39,784
Ports and Aviation	14,709	15,382
Irrigation	9,792	13,505
Agriculture & Products	8,471	9,308
Water Supply	16,542	17,450
Education	11,742	13,764
Health	7,360	10,126
Rural Infrastructure	24,751	26,011
Transport	22,090	31,356
Administration / Judicial/ Security Related and Other	41,503	56,905
Total	**248,774**	**328,356**

Table 20: **Allocations Provided by Treasury under Budgetary Support Services and Contingent Liability Project (Jan - Sep 2012)**

Rs.

Head No.	Ministry/Department	Purpose	Recurrent	Capital
1	His Excellency the President	Initial expenses of Petroleum Resources Development Secretariat, Account the grant given for setting up the National Nutritional Secretariat, Coordinating programmes to maintain international image of Sri Lanka, E-Sri Lanka Development Project, Purchase of vehicles, Supplies, Maintenance and Services.	550,000,000	491,155,000
2	Office of the Prime Minister	Purchase of a vehicle.	-	9,500,000
3	Secretariat for Special Functions (Senior Ministers)	Purchase of vehicles, Transport, Traveling expenses, Service and Vehicle maintenance.	2,500,000	91,800,000
4	Judges of the Superior Courts	Vehicle maintenance and Fuel.	2,370,000	-
5	Office of the Cabinet of Ministers	Purchase of vehicles.	-	830,000
6	Public Service Commission	Purchase of a vehicle, Transport and Other allowances.	4,500,000	11,000,000
7	Judicial Service Commission	Charges for examinations on Efficiency Bar, Salaries and Wages for new recruitments to the Judicial Services, and Maintenance of building and machinery.	2,242,000	-
8	National Police Commission	Purchase of vehicles.	-	4,000,000
10	Commission to Investigate Allegations of Bribery or Corruption	Purchase of vehicles, Building maintenance, Fuel and Travelling expenses.	3,393,000	8,000,000
11	Office of the Finance Commission	Personal emoluments.	1,306,935	-
12	National Education Commission	Printing of Research Report 2011	281,000	-
13	Human Rights Commission of Sri Lanka	Electricity and water, Travelling expenses, Rents and Local taxes.	15,700,000	-
14	Department of the Attorney General	Other allowances, Electricity and water, Purchase of furniture and Office equipment, and Building renovation.	45,000,000	2,200,000
16	Parliament	Purchase of vehicles.	-	48,000,000
18	Office of the Chief Govt. Whip of Parliament	Purchase of vehicles, Fuel, Diets and uniforms, Foreign travel and Vehicle maintenance.	1,660,500	6,271,223

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
19	Office of the Leader of the Opposition of Parliament	Fuel	800,000	-
20	Department of Elections	Purchase of vehicles, and Expenditure for three Provincial Council Elections in Sabaragamuwa, North Central and Eastern Provinces.	250,000,000	600,000
21	Auditor General	Purchase of vehicles, Other allowances, Fuel, Services, and Property loan interest to public servants.	77,300,000	1,397,309
22	Office of the Parliamentary Commissioner for Administration	Printing of Annual Report 2010, Fuel, Personal emoluments, Maintenance, and Services.	593,700	-
101	Ministry of Buddha Sasana and Religious Affairs	Purchase of a vehicle, Renovation of Dutugemunu Rest at Lumbini in Nepal, and State Patronage for Cremation of the Chief Incumbent of Ramanna Maha Nikaya.	3,000,000	16,500,000
201	Department of Buddhist Affairs	Printing of Dhamma school textbooks, Uniforms for Dhamma school teachers, Cost of All Island Dhamma School Competition, Expenditure for Dhamma Sarasaviya, Property loan interest to public servants, and Increased cost of living as per the Budget Proposal 2012.	137,800,000	2,000,000
102	Ministry of Finance and Planning	To Account the grant given to Institute of Policy Studies for conducting a study on developing a Comprehensive Social Protection Scheme and support for analysis of children and women, Establishment of the Academy of Financial Studies, Fiscal Management Reforms Project, and Farmer's Pension.	12,500,000	210,113,270
237	Department of National Planning	Implement Emergency Natural Disaster Rehabilitation Project.	-	2,250,000
239	Department of External Resources	Grant to construct a road in Maldives.	-	500,000,000
240	Department of National Budget	Lease rent of purchased vehicles under BD Circular No. 150 for all government institutions.	-	500,000,000
241	Department of Public Enterprises	Arbitration fees.	6,000,000	-
246	Department of Inland Revenue	Renovation of office building, Foreign travel, Personal emoluments, Services, and Maintenance expenditure.	154,000,000	110,000,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
247	Sri Lanka Customs	Construction of office building and Taxes of vehicles released to Government institutions from 2008 by Customs.	-	654,700,000
248	Department of Excise	Building rent.	16,416,000	-
249	Department of Treasury Operations	Increase the limit of the Paddy Purchasing Revolving Fund, Global Loan Project implemented through the DFCC Bank, Increasing loan disbursement capacity of the Poverty Alleviation Micro Finance Project, Loan Administrative Expenses and Small and Medium Scale Enterprises Sector Development Project.	4,200,000,000	4,330,000,000
250	Department of State Accounts	Foreign Travel.	500,000	-
251	Department of Valuation	Expenditure of the Compensation Tribunal, appointed in 2012 and Enrolment fee of the Master Programme of the University, UK for developing professionals of the Department.	2,260,000	1,400,000
252	Department of Census and Statistics	Provisions for completion of Census of Population and Housing of 2011 and Account the grant given for National and Local Information Collection.	-	502,033,000
296	Department of Import and Export Control	Foreign Training.	1,200,000	-
323	Department of Legal Affairs	Stationery and office requisites, Travel expenses, Services, and Vehicles maintenance.	942,000	-
324	Department of Management Audit	Foreign Training.	2,020,000	-
103	Ministry of Defence and Urban Development	Relocation of Defence Headquarters Complex and Flood Mitigation Work, Purchase of Authentic Reference Standards for the National Dangerous Drugs Control Board, Rehabilitation and improvement of buildings and structures, Purchase of vehicles, Construction of the International Convention Centre in Hambantota, Construction of Headquarters of Special Task Force at Gonahena Camp, Providing bus passes, Compensation, Establishment of communication network for the Special Task Force, Other capital and recurrent expenditure.	25,950,000	1,431,300,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
222	Sri Lanka Army	Settle outstanding bills of the Uthuru Wasanthaya Project, Purchase of vehicles, Plant, machinery and equipment, Development of permanent quarters, Implementation of Budget Proposal 2012 and settlement of dues of other capital and recurrent expenditure.	3,118,000,000	4,535,920,000
223	Sri Lanka Navy	Settle outstanding bills of 2010, Vehicle maintenance, Transport, Acquisition of buildings, Machinery and equipment, Development of permanent quarters, Implementation of Budget Proposal 2012, Settle outstanding bills on recurrent expenditure and Rehabilitation and improvement of capital assets.	640,000,000	1,945,000,000
224	Sri Lanka Air Force	Development of permanent quarters, Implementation of Budget Proposal 2012, Rehabilitation and Improvement of Plant, machinery and equipment, Vehicle maintenance, Rehabilitation and improvement of machinery and equipment and Rehabilitation and improvement of capital assets.	438,000,000	1,296,203,842
225	Department of Police	Supplies, Fuel, Rehabilitation and improvement of buildings, Diets and uniforms.	724,000,000	20,000,000
226	Department of Immigration and Emigration	Introducing an electronic payment system for Online Visa Application Processing Charges and Purchase of vehicles.	-	20,600,000
227	Department of Registration of Persons	Purchase of protective covers and laminating roll for preparation of National Identity Cards, Fuel, and Vehicle maintenance.	1,100,000	15,000,000
291	Department of Coast Conservation	Participatory Coastal Zone Restoration and Sustainable Management Project and Security service.	7,500,000	65,000,000
320	Department of Civil Security	Diets and uniforms.	50,000,000	-
105	Ministry of Economic Development	To Account the grant given for the Conflict-affected Region Emergency Project, Salary increase as per the Management service Circular No. 46, Implementation of Budget Proposal on upgrading 5,000 primary and 1,000 Secondary Schools and implementation of Cash for Work Programme in drought affected Districts for rehabilitating small-scale infrastructure facilities.	-	1,340,000,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
106	Ministry of Disaster Management	To Account the grant given for Disaster relief, Purchase of vehicles, Recover administrative expenses of issuing the building approval certificate for 2011 by National Building Research Organization, Project of Mitigation and Stabilization of Slopes in High-risk Landslides and Rock Fall Sites in Nuwara Eliya, Kandy and Badulla Districts.	16,400,000	69,580,000
304	Department of Meteorology	Fixing of a Doppler Weather Radar System.	-	10,000,000
108	Ministry of Postal Services	Fuel and Other allowances.	1,750,000	-
308	Department of Posts	Shifting of the Stamps safe from the Department of Inland Revenue to the Department of Posts, Foreign travel, Postal and Communication expenses, Overtime and Holiday payments.	103,460,000	10,000,000
110	Ministry of Justice	Purchase of vehicles, and Implementation of Budget Proposal on Legal Aid to low-income families.	20,000,000	207,000,000
228	Courts Administration	Installation of a lift in the Superior Courts Complex, Training programmes of Judges, Renovating official quarters of Judges, and Electricity and water.	30,000,000	70,069,360
233	Department of Government Analyst	Completion of construction of office building, Fuel and Services.	3,100,000	150,000,000
111	Ministry of Health	To account the grant given for improvement of Maternal and Child Health Units in Hospitals, Infrastructure and Human Resource Development of the National Drugs Quality Assurance Laboratory, Equipment to improve the capacity of Triposha production, Rehabilitation of existing buildings in Provincial Hospitals and basic equipment under the Islandwide Hospital Development Programme, Fuel, Purchases of vehicle, Postal and communication, Electricity and water, Plant and machinery, Stationery and office requisites and Property loan interest to public servants.	273,000,000	695,000,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
112	Ministry of External Affairs	Purchase of vehicles for Sri Lankan Embassies in New York, Netherlands, Singapore, Doha, New Delhi, Jordan, Vienna, Beijing, Frankfurt, Guangzhou, Canberra, Riyadh, Pretoria, South Dubai, Sydney, Bangkok, Ankara, Turkey and the High Commission in Chennai, Construction of office buildings of Sri Lankan Embassy in Canberra and Purchase of a generator, Expenditure on 19th and 20th Sessions of Human Rights Councils in Geneva, Foreign Travel, Salaries and wages, Other allowances, Fuel, Vehicle maintenance, Recurrent and capital expenditure for establishment of Sri Lanka Mission in Ankara,and Electricity and water.	888,020,000	262,968,900
114	Ministry of Transport	Increased allowances as per the Budget Proposal 2012 and Salary revision for the employees of Sri Lanka Transport Board, Grants for operating un-remunerative routes and subsidy for school and higher education season tickets, Supplies, Maintenance and Services.	1,787,000,000	-
307	Department of Motor Traffic	Production of number plates of newly registered vehicles.	392,000,000	385,000,000
115	Ministry of Petroleum Industries	Purchase of vehicles.		3,000,000
116	Ministry of Co-operatives and Internal Trade	Purchase of vehicles, Subsidy for purchasing plastic crates to minimize the Post-Harvest Losses of Vegetables and Fruits, and Settlement of Losses which occurred in the importation of rice in 2009 by State Trading Corporation Ltd .	425,000,000	3,814,000
302	Co-operative Employees Commission	Purchase of two Air Conditioners.	-	350,000
117	Ministry of Ports and Highways	Purchase of vehicles, Funds shortfall in improvement of National Road Network in Northern Province, Road Sector Assistant Project and Road Maintenance Trust Fund, National Highway Sector Project, Regional Bridge project and Purchase of 50 Tractors for the Jaya Container Terminal.	-	4,048,400,000
118	Ministry of Agriculture	Foreign travel, and Promotion of rice exports by establishing four Rice Export Zones.	3,703,584	25,000,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
119	Ministry of Power and Energy	Advance for payment of contract value of the Nagenahira Navodaya Project and Removing of disposable radioactive material of the Atomic Energy Authority.	-	707,000,000
120	Ministry of Child Development and Women's Affairs	Purchase of vehicles, Personal emoluments, Property loan interest of public servants, Implement the Budget Proposals 2012 on Early Childhood Care and Development, Account the grant given to conduct workshops, Allowances under the UNFPA Work Plan, and Payment of VAT for 50 motorbikes granted by UNFPA.	19,550,387	46,347,108
121	Ministry of Public Administration and Home Affairs	Purchase of vehicles, Induction Training Programme for the Officers of the Sri Lanka Administrative Service and their Personal emoluments, Purchase lengthier bags for all Grama Niladharis, Travel to District and Division Secretariats, Increased salaries and allowances of employees of Translators service, Property loan interest to public servants, Services, and Provision for Knowledge Enhancement Programme for Non-staff Public Servants.	21,643,000	118,500,000
253	Department of Pensions	Completion of construction work of Circuit bungalow at Ramboda	-	10,000,000
255	District Secretariat, Colombo	Allowances for Graduate trainees.	67,730,000	-
256	District Secretariat, Gampaha	Allowances for Graduate trainees.	157,600,000	-
257	District Secretariat, Kalutara	Allowances for Graduate trainees.	62,010,000	-
258	District Secretariat, Kandy	Allowances for Graduate trainees and Construction of a new Auditorium for the District Secretariat.	167,860,000	40,000,000
259	District Secretariat, Matale	Allowances for Graduate trainees.	66,030,000	-
260	District Secretariat, Nuwara-Eliya	Allowances for Graduate trainees.	63,510,000	-
261	District Secretariat, Galle	Allowances for Graduate trainees.	191,200,000	-
262	District Secretariat, Matara	Allowances for Graduate trainees.	151,500,000	-
264	District Secretariat, Jaffna	Property loan interest of public servants and Allowances for Graduate trainees.	112,380,000	-
263	District Secretariat, Hambantota	Allowances for Graduate trainees.	164,220,000	-
265	District Secretariat, Mannar	Allowances for Graduate trainees and Fuel.	5,260,000	-

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
266	District Secretariat, Vavuniya	Allowances for Graduate trainees.	6,440,000	-
267	District Secretariat, Mullaitivu	Allowances for Graduate trainees.	2,620,000	-
268	District Secretariat, Killinochchi	Allowances for Graduate trainees.	2,260,000	-
269	District Secretariat, Batticaloa	Allowances for Graduate trainees.	44,000,000	-
270	District Secretariat, Ampara	Allowances for Graduate trainees, Preparation for Deyata Kirula Exhibition Site 2013 and Repair and renovate the Government quarters of District Secretariat.	53,930,000	150,000,000
271	District Secretariat/ Kachcheri - Trincomalee	Allowances for Graduate trainees.	24,800,000	-
272	District Secretariat, Kurunegala	Construction of office building of the Divisional Secretariat at Kuliyapitiya, Nikaweratiya, Maspotha and Kurunegala, and Allowances for Graduate trainees.	258,670,000	12,279,040
273	District Secretariat, Puttalam	Allowances for Graduate trainees.	33,040,000	-
274	District Secretariat, Anuradhapura	Expenditure of Dayata Kirula Exhibition 2012 and Allowances for Graduate trainees.	65,260,000	476,600,000
275	District Secretariat, Polonnaruwa	Allowances for Graduate trainees and Construction of Quarters of District Secretary, Polonnaruwa.	25,290,000	11,200,000
276	District Secretariat, Badulla	Allowances for Graduate trainees.	58,150,000	-
277	District Secretariat, Monaragala	Allowances for Graduate trainees.	67,580,000	-
278	District Secretariat, Ratnapura	Allowances for Graduate trainees.	98,240,000	-
279	District Secretariat, Kegalle	Allowances for Graduate trainees and Property loan interest of public servants.	178,290,000	-
122	Ministry of Mass Media and Information	Recurrent and capital expenditure for Sri Lanka Television Training Institute and Operational cost of Sri Lanka Broadcasting Corporation.	40,000,000	7,000,000
210	Department of Information	Foreign Travel.	500,000	-
211	Department of Government Printing	Increased price of imported printing papers.	242,000,000	-
123	Ministry of Construction, Engineering Services, Housing and Common Amenities	Purchase a vehicle, Vocational training programmes for youth in Tsunami-affected areas in Eastern Province, Implement the Budget Proposal on Housing Development, Settle the Bill of Sinhapura Housing Development Programme, and Renovate sewerage system of multi-storey housing project at Nupewela.	-	173,400,253

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
309	Department of Buildings	Property loan interest to public servants, Allowances for Engineers as per the Budget Proposal and other allowances, and Diets and uniforms.	30,870,000	-
310	Government Factory	Purchase of equipment.	-	17,000,000
311	Department of National Physical Planning	Settlement of payment for preparation of a local level Development Plan and Property loan interest of public servants.	400,000	3,100,000
124	Ministry of Social Services	Purchase of vehicles, Implementation of Budget Proposal on Rs. 1,000 monthly allowance for persons who are over 70 years in low income groups, Personal Emoluments, and Property loan interest to public servants.	388,608,000	1,070,000
126	Ministry of Education	Education for Knowledge Society Project, Project of Defence Services Schools, Personal emoluments, Property loan interest to public servants, School uniforms, Mobilization advance for construction of Mahindodaya Technological Labs, and School Library Networking Programme.	1,769,000,000	1,350,000,000
212	Department of Examinations	Domestic travel, Transport, Postal and communication for conducting Grade 5 Scholarship Exam and A/L Exam 2012.	20,000,000	-
127	Ministry of Labour and Labour Relations	Foreign travel, Building rent for the Workmen's Compensation Unit, and Purchases of vehicles.	7,880,000	10,000,000
221	Department of Labour	Construction of the District Labour Office in Jaffna.	-	10,000,000
128	Ministry of Traditional Industries and Small Enterprises Development	Purchase of a vehicle, Re-establishment of the Palmyrah Research Institute, Implementation of Budget Proposal on Development of Traditional Handicraft Villages, and Fuel.	1,217,500	124,117,500
130	Ministry of Local Government and Provincial Councils	Emergency Natural Reconstruction Project, Establishment of Operating and Monitoring Support Unit under Human Capital Foundation Project for a Knowledge Economy, Purchase of vehicles and Vehicle maintenance.	3,000,000	909,500,000
312	Western Provincial Council	Increased salary allowance as per the Budget Proposal 2012, and Construction of School Buildings in the Western Province.	687,000,000	400,000,000
313	Central Provincial Council	Increased salary allowance as per the Budget Proposal 2012, and Basic Social Services Targeting Emerging Region Project.	397,000,000	3,500,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
314	Southern Provincial Council	Increased salary allowance as per the Budget Proposal 2012.	344,000,000	-
315	Northern Provincial Council	Increased salary allowance as per the Budget Proposal 2012.	220,000,000	-
316	North Western Provincial Council	Increased salary allowance as per the Budget Proposal 2012, and Basic Social Services Targeting Emerging Region Project.	357,000,000	11,000,000
317	North Central Provincial Council	Deyata Kirula Development Exhibition 2012, Criteria-based Grant for Rehabilitation of flood damaged Provincial roads and Minor irrigation schemes, Rehabilitation of flood damaged roads, and Increased salary allowance as per the Budget Proposal 2012.	166,000,000	1,350,000,000
318	Uva Provincial Council	Increased salary allowance as per the Budget Proposal 2012	226,000,000	-
319	Sabaragamuwa Provincial Council	Increased salary allowance as per the Budget Proposal 2012 and Basic Social Services Targeting Emerging Region Project.	313,000,000	8,000,000
321	Eastern Provincial Council	Rural road development, Increased salary allowance as per the Budget Proposal 2012, and Basic Social Services Targeting Emerging Region Project.	890,000,000	1,047,500,000
133	Ministry of Technology and Research	To account the grant given for organizing a Global Forum of Sri Lankan Scientists through National Science Foundation, Purchase of vehicles, Implement Nano Tech phase-11, Nano Technology in South Asia Building Capabilities and Governing the Technology through International Development Research Center, and Renovation of Minister's Quarters.	-	11,298,887
134	Ministry of National Languages and Social Integration	Implementation of Budget Proposal on Bilingual Public Activity and Purchase of vehicles.	7,000,000	30,500,000
135	Ministry of Plantation Industries	Purchase of vehicles, and Surveying land which are not yet cultivated by plantation companies.	-	8,500,000
136	Ministry of Sports	Purchase of vehicles.	-	6,500,000
138	Ministry of Indigenous Medicine	Purchase of land for Ayurvedic Drugs Corporation and Purchase of vehicles.	4,650,000	80,650,000
220	Department of Ayurveda	Account the grant given for National Ayurvedic Research Conference.	-	23,123,600

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
139	Ministry of Fisheries and Aquatic Resources Development	Completion of Post-Tsunami Coastal Rehabilitation and Resources Management Programme and Post-Tsunami Livelihood Support and Partnership Programme, Foreign Travel, and Implementation of Budget Proposal on Development of Ornamental fish industry.	3,643,227	580,000,000
290	Department of Fisheries and Aquatic Resources	Settle outstanding bills for providing fuel subsidies to fishermen.	220,000,000	-
140	Ministry of Livestock and Rural Community Development	Reimbursement of losses borne by Milco due to the increase in buying price of fresh milk, Purchase of machinery to enhance the capacity of milk production.	-	280,000,000
292	Department of Animal Production and Health	Compensation paid under the Project for Immediate Assistance for Highly Pathogenic Avian Influenza.	-	7,000,000
142	Ministry of National Heritage	Purchase of vehicles, Propagation of National Heritage, Recurrent expenditure of Art Center, and Increased salary allowance.	7,800,000	3,090,900
207	Department of Archaeology	Supplies, Maintenance, Services and Fuel.	20,000,000	-
209	Department of National Archives	Other allowances.	4,000,000	-
145	Ministry of Resettlement	Account the grant given for Purchase of Agricultural Equipment supporting the resettlement activities, and Grant for Shelter for resettled refugee families, and Grant for implementation of the final stage of the Project for Durable Solutions for the Internally Displaced Persons in Northern Province, Purchase of vehicles, and Construction of 500 houses under the Welioya Resettlement Programme.	-	215,830,401
149	Ministry of Industry and Commerce	Purchase of vehicles.	4,500,000	15,500,000
152	Ministry of Irrigation and Water Resources Management	Payment of 10% mobilization advance of the Project for Prefabricated Buildings for Government Agencies, and Rehabilitation of irrigation schemes.	-	1,200,000,000
282	Department of Irrigation	Increased salary allowance and Rs. 15,000 allowance for Engineers as per the PA Circular No 28/2011.	75,000,000	-
153	Ministry of Lands and Land Development	Rehabilitation and improvement of buildings and structures, Purchase of vehicles, Property loan Interest to public servants, Land acquisition for state purposes, and Foreign travel.	2,200,000	347,300,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
288	Department of Surveyor General	Transport.	1,455,000	-
327	Department of Land Use and Policy Planning	Property loan interest of public servants.	1,000,000	-
156	Ministry of Youth Affairs and Skills Development	Self-employment Promotion Initiative Programme, Purchase of vehicles, Rehabilitation of Minister's office building and Purchase of office equipment.	-	27,900,000
160	Ministry of Environment	To account the grant given for the Technology Need Assessment Project, Purchase of a vehicle, Allowances for Graduate trainees, and Mitigate environmental issues of the sunken ship in the sea off Panadura.	9,300,000	31,329,000
283	Department of Forests	Building rent and Local taxes.	3,000,000	-
166	Ministry of Water Supply and Drainage	Purchase of vehicles, Expenditure for Water and Sanitation Trust Fund, Shortfall of funds for the projects in Ruhunupura, Greater Dambulla and Kolonna-Balangoda and Kelani right bank Water Treatment plant, and Allowance for Graduate trainees.	15,800,000	6,404,440,000
171	Ministry of Higher Education	Account the grant given to promote research conducted by the University of Wayamba, Purchase of vehicles, account the grant given to conduct A Feasibility Study for development of the Castor Seed Industry in Sri Lanka.	-	24,400,000
214	University Grants Commission	Security expenditure.	215,000,000	-
174	Ministry of Rehabilitation and Prison Reforms	Purchase of a vehicle, Renovation of office quarters of the Minister and rehabilitation of ex-combatants.	-	49,800,000
232	Department of Prisons	Provisions for diets and uniforms, Vehicles maintenance, Electricity and water and Property loan interest to public servants.	100,000,000	-
175	Ministry of State Resources and Enterprise Development	Purchase of a vehicle and increased Salary allowance.	3,850,000	3,643,217
176	Ministry of Civil Aviation	Capitalization of Sri Lankan Airlines and Mihin Lanka Airlines, Purchase of a vehicle, and Initial cost of developing a regional airport in Batticaloa.	-	2,822,175,000
177	Ministry of Culture and the Arts	Purchase of a vehicle.	-	12,100,000
203	Department of Christian Religious Affairs	Fuel and Other recurrent and capital expenditure.	1,075,000	2,200,000

Table 20 Continued...

Head No.	Ministry/Department	Purpose	Recurrent	Capital
206	Department of Cultural Affairs	Completion of Chapter VI of the Mahawansha, Preliminary construction of the John De Silva Performing Art Theatre and the National Arts Gallery, Security services, Salaries and wages and Property loan interest to public servants.	11,891,750	15,000,000
178	Ministry of Coconut Development and Janatha Estate Development	Purchase of vehicles, Overtime and Holiday payments, and Other allowances.	2,536,000	4,885,900
179	Ministry of Agrarian Services and Wildlife	Fertilizer subsidy, Maintenance of buildings and structures and Acquisition of machinery and equipment.	3,200,400,000	480,000
281	Department of Agrarian Development	Rehabilitation of minor tanks and agro wells in drought-affected Districts of Anuradhapura, Polonnaruwa, Kurunegala and Puttalam	-	250,000,000
289	Department of Export Agriculture	Assisting farmers for export crop development.	-	150,000,000
181	Ministry of Productivity Promotion	Purchase of a vehicle and Recurrent expenditure of Pelawatta and Sewanagala Sugar Industries.	560,000,000	7,000,000
182	Ministry of Foreign Employment Promotion and Welfare	Other allowances.	2,000,000	-
183	Ministry of Public Relations and Public Affairs	Renovation of office building.	1,028,000	-
184	Ministry of Private Transport Services	Purchase of a vehicle, Renovation of buildings, Traveling, and Property loan interest to public servants and Services.	2,275,000	18,775,000
185	Ministry of Telecommunication and Information Technology	Construction of school computer lab buildings and provision of furniture and equipment for same and Computerization of three Hospitals in Anuradhapura District, Construction of Information Technology Parks in Mannar and Jaffna, Establishment of Information Technology Park in Hambantota, and Expenditure for preparation of Deyata Kirula Programme 2013.	-	412,700,000
Total			**27,194,211,583**	**44,156,191,710**

Source: Department of National Budget

Treasury Operations

Performance of the Government Treasury Cash Flow

Cash inflows to the Government Treasury during the first eight months of 2012 have increased by 10 percent compared to the same period in 2011. Cash deficit after outflow for current and capital expenditure amounted to Rs. 476.4 billion which is higher than the corresponding figure for the same period in 2011 by Rs. 73.3 billion. This was mainly due to the increase in cash outflows for current and capital expenditure by 11 percent and 20 percent, respectively, compared to the corresponding period of the previous year. The overall closing cash balance (deficit) as at the end August 2012 was Rs. 103.4 billion which is higher than the cash deficit which prevailed at the end of August 2011 by Rs. 10.1 billion.

Table 21: **Statement on Government Treasury Cash Flow Operations**

Rs. Bn

Item	2011 Jan - Aug	2012 Jan - Aug	
	Actual	Estimate	Actual
Total cash inflow from revenue and other receipts	565.1	767.8	621.1
Total cash outflow for recurrent expenditure	(684.2)	(810.5)	(757.0)
Total cash outflow for capital expenditure*	(284.0)	(335.2)	(340.5)
Net cash surplus (deficit)	(403.1)	(377.9)	(476.4)
Opening cash balance as at 1st January	(86.8)	(97.8)	(97.8)
Gross borrowing *	818.7	794.1	967.6
Debt repayment	(423.7)	(477.4)	(441.5)
Net borrowing	395.0	316.7	526.1
Adjustment account balance (TEB, net deposits, etc.)	1.6	0.1	(55.3)
Closing cash balance as at 31st August	(93.3)	(158.9)	(103.4)

Source: Department of Treasury Operations.

** Includes project/programme loans received by the Government and recorded in the CS-DRMS as at August 31, 2012*

Management of Government Debt

The Government debt operations indicated a total gross borrowing of Rs. 967.6 billion during the first eight months of 2012. The repayments of Government debt, both domestic and foreign, amounted to Rs. 441.5 billion thus limiting the net borrowings to Rs. 526.1 billion during this period.

Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Bank Guarantees issued and remaining valid as at September 30, 2012 amounts to Rs. 289 billion which does not exceed 4.5 percent of GDP as prescribed in the section 3(e) of the Fiscal Management (Responsibility) Act No. 3 of 2003. The list of Bank Guarantees issue by the General Treasury upto September 30, 2012 is given in Annex III.

Foreign Financing

Since 2005, a large number of economic infrastructure development projects covering sectors such as roads, expressways, bridges, power, ports, airports, water supply, irrigation, and railways have been implemented by the Government using foreign financing to facilitate rapid economic development in the country. Aligned with the above development initiatives, the annual foreign financing commitments obtained from development partners and lending agencies have gradually increased at an annual average rate of 24 percent from 2006 to 2012.

Foreign Financing Commitments – 2012, up to 31st August

The total commitments made by donor agencies and lending agencies for development projects during the period of January to August 2012 was USD 2,897.95 million, of which USD 2,548.56 million as project loans and USD 349.07 million as grants.

Compared to the total grant commitments made at the end of August 2011 (USD 139.6 million), remarkably higher grant commitments were recorded by end of August 2012. This was mainly due to the grant assistance extended by the Government of India for the construction of 49,000 housing units in Northern, Eastern, Central and Uva provinces.

Table 22: **Foreign Financing Commitments: Jan-Aug 2012**

USD Mn.

Development Partner	Committed Amount		
	Loan	Grant	Total
Bilateral	**2,202.07**	**275.26**	**2,477.33**
India	443.06	257.28	700.34
China	1,055.00	0.16	1,055.16
Japan[1]	508.77	12.56	521.33
Netherlands	102.50	-	102.50
Germany	34.43	5.26	39.69
Other	58.31	-	58.31
Multilateral	**346.86**	**73.76**	**420.62**
World Bank[2]	324.83	7.00	331.83
United Nations Agencies	22.03*	66.76	88.79
Total	**2,548.88**	**349.07**	**2,897.95**

Source: Department of External Resources

1 Includes the loan obtained by Sri Lanka Airport and Aviation Services Ltd., under Government guarantee

2 Includes commitments made with International Development Association and International Bank for Reconstruction and Development

**Loan obtained from International Fund for Agricultural Development*

Chart 2: **Foreign Financing Commitments – 2012 up to 31st August**

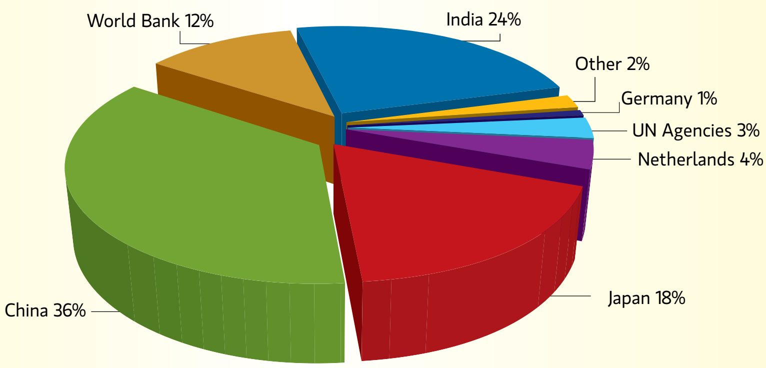


Table 23: **Foreign Financing Commitments made for Development Projects initiated by the Government from 1st January to 31st August 2012**

Development Partner	Project Name	Committed Amount (in USD Mn.)		
		Loan	Grant	Total
India	Restoration of Northern Railway Services	382.37	-	382.37
	Grant for 49,000 housing units in Northern, Eastern, Central and Uva provinces	-	257.28	257.28
	Greater Dambulla Water Supply Project 1	60.69	-	60.69
China	Hambantota Port Development Phase II	808.00	-	808.00
	Moragahakanda Development Project	214.20	-	214.20
	Finance Material required for Lighting Sri Lanka Eastern Province Project	32.49	-	32.49
	Provision of Sports goods for youth in Jaffna, Kilinochchi and Mullaitivu	-	0.15	0.15
Japan	*Bandaranaike International Airport Development Project	346.00	-	346.00
	Habarana-Veyangoda Transmission Line Project	115.32	-	115.32
	Improvement of Basic Social Services Targeting Emerging Regions	47.40	-	47.40
	Rehabilitation of Kilinochchi Water Supply Scheme	-	8.31	8.31
	Provision of Industrial Products	-	3.68	3.68
	Improvement of Japanese Language Learning Equipment of the University of Kelaniya and Sabaragamuwa University	-	0.59	0.59
Netherlands	Development of Nuwara Eliya District General Hospital	46.98	-	46.98
	Development of Hambantota District General Hospital	55.51	-	55.51
Germany	Construction of the Mahamodara Maternity Hospital, Galle	34.41	-	34.41
	Vocational Training Institute in the North of Sri Lanka	-	5.26	5.26
United Kingdom	Construction of 210 Permanent rural steel bridges	44.14	-	44.14
Spain	Veyangoda Railway Crossing Flyover Project	14.14	-	14.14
World Bank	Metro Colombo Urban Development Project [MCUDP]	213.00	-	213.00
	Transforming the School Education System as the Foundation of a Knowledge Hub Project	100.82	-	100.82
	Additional Financing for E-Sri lanka Development Project	11.00	-	11.00
	Global Food Crisis Response Programme -[GFCRP]	-	6.50	6.50
	IBRD-Strengthening Institute of Charted Accountants Sri Lanka [ICASL]	-	0.50	0.50
World Food Programme	Protected Relief and Recovery Operation Sri Lanka	-	27.96	27.96
United Nations Children's Fund	Country Programme 2008-2012 UNICEF	-	26.00	26.00
International Fund for Agricultural Development	Iranamadu Irrigation Development Project	22.03	-	22.03
Food and Agricultural Organization	Irrigation and Agricultural Livelihood Development in Kilinochchi and Mullaitivu.	-	4.38	4.38
	Integrated Management of Weligama Coconut Leaf Wilt Disease.	-	0.30	0.30
United Nations Development Program	Sri Lanka Community Forestry Programme	-	4.79	4.79
	Local Governance Project (Enhancement)	-	3.22	3.22
	Capacity Building through South-South Cooperation (Enhancement)	-	0.04	0.04
	Strengthening Plan Implementation Capability Phase II (Enhancement)	-	0.01	0.01
United Nations High Commission for Refugees	Assistance to Return and Reintegration of IDPs in Sri Lanka	-	0.04	0.04
Grand Total		**2,548.88**	**349.07**	**2,897.95**

Source: Department of External Resources
**Loan obtained by Sri Lanka Airport and Aviation Services Ltd under Government guarantee*

Foreign Financing Disbursements

The total foreign financing disbursements up to end of August 2012 was USD 1,499.54 million. Of which, project loans accounted for USD 1,396.76 million (93.14 percent) and grants amounted to USD 102.81 million (6.86 percent). Japan, India, China, the Asian Development Bank (ADB) and the World Bank were the main development partners who made the highest disbursements during the period of January to August 2012. These five development partners contributed USD 1,229.30 million or 81.97 percent of the total disbursements of the period.

Japan disbursed mainly for the Greater Colombo Urban Transport Development Project Phase I and II – Outer Circular Highway Project (USD 101.66 million), Southern Highway Construction Project (USD 48.08 million) and Upper Kotmale Hydro Power Project (USD 35.67 million).

India disbursed USD 214.7 million during the period mainly for the railway lines of Omanthai-Pallai, Madhu-Tallaimannar and Medawachchiya (USD 51.7 million), Restoration of Northern Railway Services (USD 44.3 million), Greater Dambulla Water Supply Project 1 (USD 27.6 million), Upgrading of Railway Line Colombo-Matara Phase I (USD 15.7 million) and Phase II (USD 24.7 million) and Rehabilitation of the Harbour at Kankasanthurai (USD 19.5 million).

China disbursed USD 443.7 million which includes USD 179.7 million for Priority Road Projects, USD 74.5 million for Puttalam Coal Power Project, USD 35.8 million for Mattala International Airport project, USD 33.36 million for Northern Roads Rehabilitation Project and USD 26.26 million for Katunayake Expressway Project.

ADB disbursed a total of USD 174.6 million during the period. These were mainly disbursed for Northern Road Connectivity Project (USD 24.49 million), Clean Energy and Access Improvement Project (USD 24.9 million) and Conflict-affected Region Emergency Project (USD 17.4 million).

During this period, the World Bank has disbursed US$ 106.3 million to implementing mainly the second and third additional financing for Community Livelihood in Conflict Affected Areas (USD 20.4 million), Provincial Roads Project (USD 15.7 million), additional financing for Road Sector Assistance Project (USD 12.9 million), North East Local Services Improvement Project, Pura Neguma (USD 10.7 million) and Emergency Northern Recovery Project (USD 10.3 million).

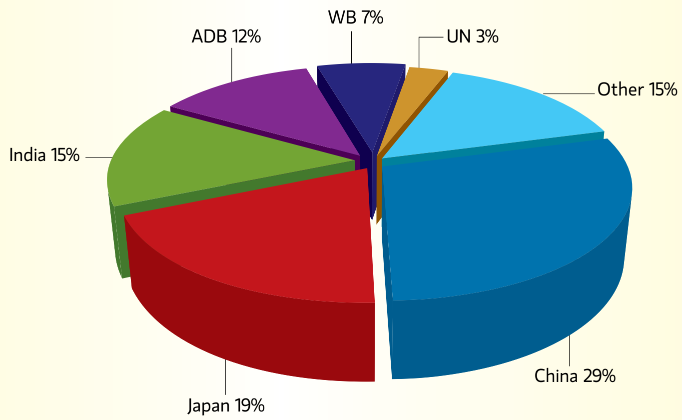
Table 24: **Disbursements of Foreign Financing - From 1st January to 31st August 2012**

USD Mn.

Development Partner		Grant	Loan	Total
Bilateral				
	Japan	9.8	280.2	290.0
	India	34.8	179.9	214.7
	China	-	193.7	193.7
	Korea	-	27.6	27.6
	USA	18.0	-	18.0
	France	-	5.9	5.9
	Kuwait	-	1.5	1.5
	Germany	-	1.0	1.0
	Saudi	-	0.1	0.1
Export Credits				
	China	-	249.9	249.9
	Iran	-	38.4	38.4
	Sweden	-	24.9	24.9
	Australia	-	17.1	17.1
	Netherlands	-	19.7	19.7
	France	-	10.9	10.9
	Austria	--	9.6	9.6
	Denmark	-	6.3	6.3
	Malaysia	-	4.0	4.0
	Belgium	-	2.9	2.9
	United Kingdom	-	0.5	0.5
Multilateral				
	Asian Development Bank	4.0	170.6	174.6
	World Bank	1.5	104.8	106.3
	United Nations Agencies	34.8	10.7	45.5
	European Investment Bank	-	32.0	32.0
	OPEC Fund	-	4.5	4.5
Total		**102.8**	**1,396.9**	**1,499.7**

Source: Department of External Resources

Chart 3: **Disbursements made by Development Partners from 1st January to 31st August 2012**



External Debt and Debt Service Payments

External Debt Stock

The amount of external debt of the Government consisting of outstanding loans obtained from various Development Partners to finance development projects was USD 16,432.7 million as at August 31, 2012.

External Debt Service Payments

The total external debt service payments* made for loans obtained to finance development projects up to August 31, 2012 amounted to USD 603.3 million, of which USD 430.4 million was for principal payment and the balance USD 172.9 million for interest payments. The total estimated external debt service payments for 2012 is USD 927.3 million.

Table 25: **The Debt Service Payment Forecast from 2012 to 2017****

USD Mn.

	2012	2013	2014	2015	2016	2017
Principal	678.6	858.0	977.2	1,221.4	1,258.8	1,317.7
Interest	148.7	317.2	348.3	345.4	325.8	300.4
Total	**927.3**	**1,175.2**	**1,325.6**	**1,566.8**	**1,584.6**	**1,618.1**

Source: Department of External Resources

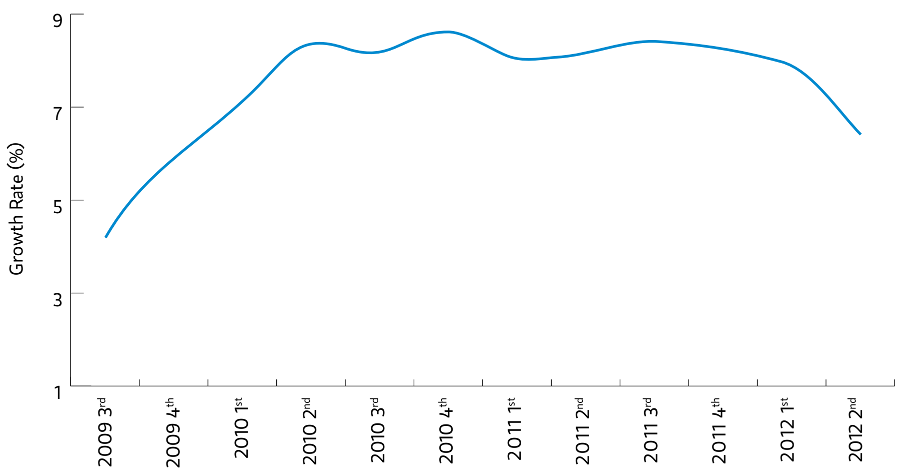
***Forecast is made based on the exchange rates as of 31st August 2012*

The Economy

Overview

The Sri Lankan economy recorded a 7.2 percent growth, in real terms, during the first half of 2012 compared to 8.1 percent during the corresponding period in 2011, despite the difficult global environment. The adverse conditions in the global economy and instability in the international financial markets had a negative impact on the country's exports while policies to address high credit expansion and high trade deficit to improve macroeconomic stability decelerated the domestic activities. Further, the prolonged drought had an adverse impact on power generation and agricultural production.
The agriculture sector which faced setbacks primarily due to floods in the first half of 2011 bounced bank strongly in the first half of 2012 recording a growth

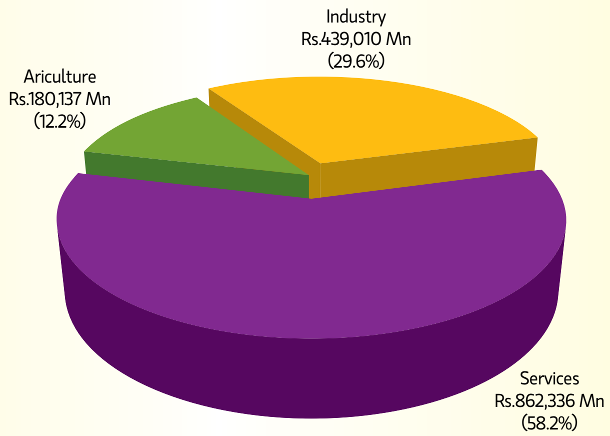
Chart 4: **Quarterly Growth of GDP**



of 10.3 percent compared to the negative growth in the first half of 2011. The main contributory factor for this growth was the bumper paddy harvest in the Maha season and the enhanced fish production. Government policies such as the Divi Neguma Programme which seeks to strengthen food security, boosted the agricultural production. The drought that prevailed in the second quarter of 2012 will have an impact on the output of plantation agriculture as well as the Yala harvest of 2012. During the first half of 2012, the industry sector which accounts for 29.6 of GDP recorded a steady growth of 10.2 percent corresponding to 10.3 percent during the respective period in 2011, due to the better performance in the factory and construction industries. The continuing slowdown of global economic activities is likely to affect industrial production during the latter part of the year. However, the services sector which accounts for 58.2 of GDP recorded a slower growth of 5.1 percent compared to 9.1 percent during the respective period in 2011, stemming from the depressed performance in world trade, and domestic policy measures to address the widening trade deficit dampened imports, curtailing the wholesale and retail trade activities. During the first half of 2012, agricultural exports and industrial exports declined by 5.8 percent to USD 1,143 million and 3.7 percent to USD 3,699 million, respectively, compared to the same period in 2011. A notable development in imports was recorded during the review period in 2012. Import of investment goods and intermediate goods increased by 24.7 percent to USD 2, 272 million and 2 percent to USD 5,755 million, respectively.

Taking into account global and domestic economic development, the Sri Lankan economy is projected to grow at around 6.8 percent in real terms in 2012.

Chart 5: **Compostion of Gross Domestic Product**
(First Half of 2012)



Agriculture

The agriculture, forestry and fishing sector expanded by 10.3 percent growth in real terms during the first half of 2012 contributing for 12.2 percent of GDP, compared to the 1.4 percent decline recorded in the same period in 2011. Greater improvement in this sector was mainly attributed to the increased production in food crops, especially the 35.5 percent increase in paddy production, 13.9 percent increase in vegetable production and 7.6 percent increase in coconut production. This improvement is a benefit of the Government commitment to develop the agriculture sector through channeling resources for investment on irrigation, provision of agricultural machinery, equipment, seeds and fertilizer at subsidized prices for all varieties of crops, extension services coupled with agricultural credit facilities and interest subsidies and better farm gate prices thus creating a conducive environment to improve this sector, implementation of favorable tax structure to safeguard the domestic producers as well as consumers. However, during the first half of 2012 the tea subsector which accounts for 7.8 percent of the agriculture sector contracted by 4.9 percent compared to 1.5 percent slower growth during the same period in 2011 mainly due to the adverse impact of the unusual rainfall pattern resulting in a decrease in tea production by 4.3 percent. The rubber subsector also recorded a slower growth of 1.3 percent compared to 8 percent recorded in the same period in 2011 resulting from unfavourable weather conditions in the first quarter of 2012.

The fishing subsector recorded a 9.8 percent growth compared to 14.9 percent recorded in the same period in 2011 and contributed to the recorded expansion of this sector. The inland fishing subsector recorded a significant growth of 21.9 percent compared to 1.2 percent during the same period in 2011 while the marine fishing subsector expanded by 8.4 percent. Development of required infrastructure in the fishing industry, resumption of fishing industry in the Mullaitivu District, breeding rehabilitation and extention activities to improve inland fishing and other facilities granted by the Government to encourage the domestic fish production by providing fuel subsidies helped growth in this sector.

Table 26: **Gross Domestic Product - Sectoral Composition (2002) Constant Prices**

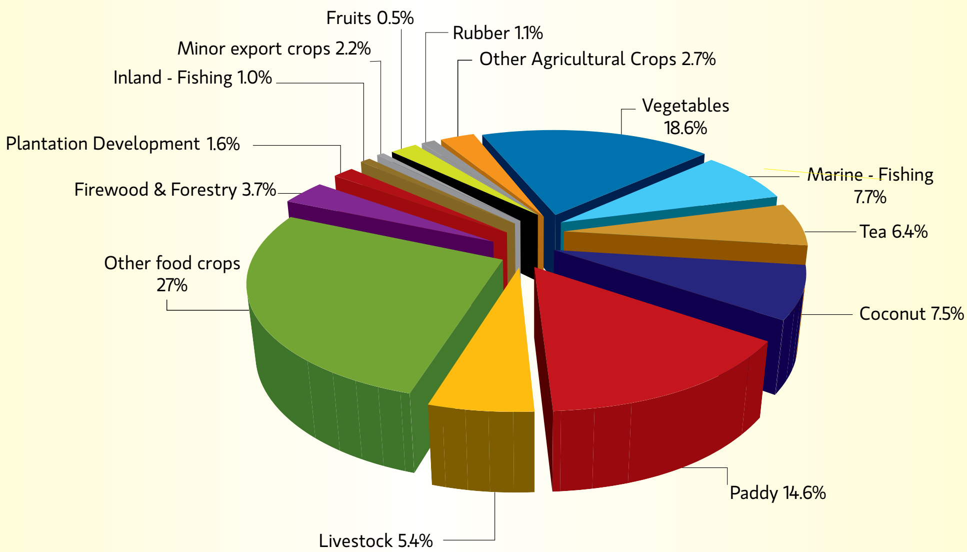
Rs Mn.

Sector	2009	2010	2011	First Half 2011	First Half 2012*	Growth 2011	Growth 2012*
AGRICULTURE, FORESTRY AND FISHING	**295,097**	**315,610**	**320,346**	**163,267**	**180,137**	**- 1.4**	**10.3**
1. Agriculture, Livestock and Forestry	**266,208**	**283,203**	**282,916**	**145,688**	**160,841**	**- 3.1**	**10.4**
1.1 Tea	25,272	28,770	28,504	14,911	14,173	1.5	-4.9
1.2 Rubber	6,198	6,983	7,109	2,480	2,512	8.0	1.3
1.3 Coconut	33,685	28,855	29,720	15,481	16,660	3.3	7.6
1.4 Minor Export Crops	11,028	14,955	12,114	6,471	5,004	- 8.4	-22.7
1.5 Paddy	41,179	48,377	44,325	23,965	32,475	- 20.8	35.5
1.6 Livestock	21,761	22,397	24,029	11,384	12,096	9.4	6.3
1.7 Other food crops	95,799	99,994	102,526	54,094	60,078	- 1.2	11.1
1.7.1 Highland crops	31,368	33,117	33,655	16,706	17,611	- 3.7	5.4
1.7.2 Vegetables	62,436	64,821	66,832	36,384	41,449	0.1	13.9
1.7.3 Fruits	1,995	2,057	2,039	1,004	1,018	- 2.9	1.4
1.8 Plantation Development	6,540	6,895	7,287	3,385	3,566	5.7	5.3
1.9 Firewood and Forestry	15,357	15,832	16,481	7,885	8,305	5.3	5.3
1.10 Other Agricultural Crops	9,390	10,146	10,820	5,632	5,972	8.1	6.0
2. Fishing	**28,888**	**32,407**	**37,431**	**17,579**	**19,296**	**14.9**	**9.8**
2.1 Inland - Fishing	3,960	4,359	5,054	1,800	2,195	1.2	21.9
2.2 Marine - Fishing	24,928	28,048	32,377	15,778	17,102	16.7	8.4
INDUSTRY	**701,129**	**760,334**	**838,932**	**398,446**	**439,010**	**10.3**	**10.2**
3. Mining and Quarrying	**52,030**	**60,079**	**71,191**	**30,291**	**3,6531**	**17.5**	**20.6**
3.1 Gem Mining	11,220	12,111	14,212	8,133	8,929	12.7	9.8
3.1 Other Mining	40,811	47,968	56,980	22,158	27,601	19.4	24.6
4. Manufacturing	**427,334**	**458,660**	**494,990**	**238,403**	**253,785**	**8.2**	**6.5**
4.1 Processing (Tea, Rubber and Coconut)	14,995	15,868	16,006	8,604	9,164	2.7	6.5
4.2 Factory Industry	385,927	414,925	449,177	214,843	228,836	8.5	6.5
4.2.1 Food Beverages	185,142	197,731	211,848	103,345	109,959	7.0	6.4
4.2.2 Textile, Wearing Apparel & Leather	87,762	92,293	102,263	46,223	49,240	11.9	6.5
4.2.3 Chemicals, Petroleum, Coal, Rubber & Plastic	59,706	66,990	73,203	34,835	37,517	10.3	7.7
4.2.4 Non-Metallic Mineral Products except products of Petroleum & Coal	14,794	16,328	17,670	8,964	9,582	7.3	6.9
4.2.5 Fabricated Metal Products, Machinery & Equipment	32,794	35,482	37,733	18,484	19,389	6.2	4.9
4.2.6 Other Industries	5,730	6,101	6,459	2,991	3,150	6.0	5.3
4.3 Cottage Industry	26,412	27,868	29,808	14,957	15,784	7.2	5.5
5. Electricity, Gas and Water	**58,974**	**63,682**	**69,547**	**33,112**	**34,758**	**13.8**	**5.0**
5.1 Electricity	52,017	56,291	61,722	29,424	30,790	15.0	4.6
5.2 Gas	4,280	4,593	4,855	2,365	2,539	4.0	7.4
5.3 Water	2,677	2,798	2,970	1,323	1,429	6.5	8.0
6. Construction	**162,790**	**177,912**	**203,204**	**96,640**	**113,937**	**12.5**	**17.9**
SERVICES	**1,452,988**	**1,569,598**	**1,704,576**	**820,255**	**862,336**	**9.1**	**5.1**
7. Wholesale and Retail Trade	**570,698**	**613,258**	**676,565**	**320,104**	**337,035**	**11.0**	**5.3**
7.1 Import Trade	195,247	213,477	243,963	105,760	110,428	14.8	4.4
7.2 Export Trade	102,578	106,279	117,064	56,715	57,862	13.7	2.0
7.3 Domestic Trade	272,872	293,602	315,538	157629	168,745	7.7	7.1
8. Hotels and Restaurants	**9,901**	**13,845**	**17,501**	**6,374**	**7,814**	**33.7**	**22.6**
9. Transport and Communication	**329,578**	**368,643**	**410,402**	**197,383**	**209,478**	**12.2**	**6.1**
9.1 Transport	272,086	302,983	337,088	162,976	172,743	11.8	6.0
9.1.1 Transport - Railway	2,754	2,899	2,980	1,566	1,653	5.9	5.6
9.1.2 Transport- Passenger and Goods	269,332	300,084	334,108	161,410	171,090	11.9	6.0
9.2 Cargo Handling-Ports and Civil Aviation	16,017	18,706	20,060	9,177	9,987	9.9	8.8
9.3 Post and Telecommunication	41,475	46,953	53,254	25,230	26,748	15.6	6.0
10. Banking, Insurance and Real Estate and etc.	**217,819**	**234,255**	**252,677**	**123,680**	**132,150**	**7.6**	**6.8**
11. Ownership of Dwellings	**74051**	**74,692**	**75,607**	**37,726**	**38,265**	**1.2**	**1.4**
12. Government Services	**191,778**	**202,187**	**204,704**	**100,906**	**102,053**	**1.9**	**1.1**
13. Private Services	**59,164**	**62,617**	**67,119**	**34,083**	**35,541**	**8.6**	**4.3**
Gross Domestic Product	**2,449,214**	**2,645,542**	**2,863,854**	**1,381,968**	**1,481,483**	**8.1**	**7.2**

Source: Department of Census and Statistics

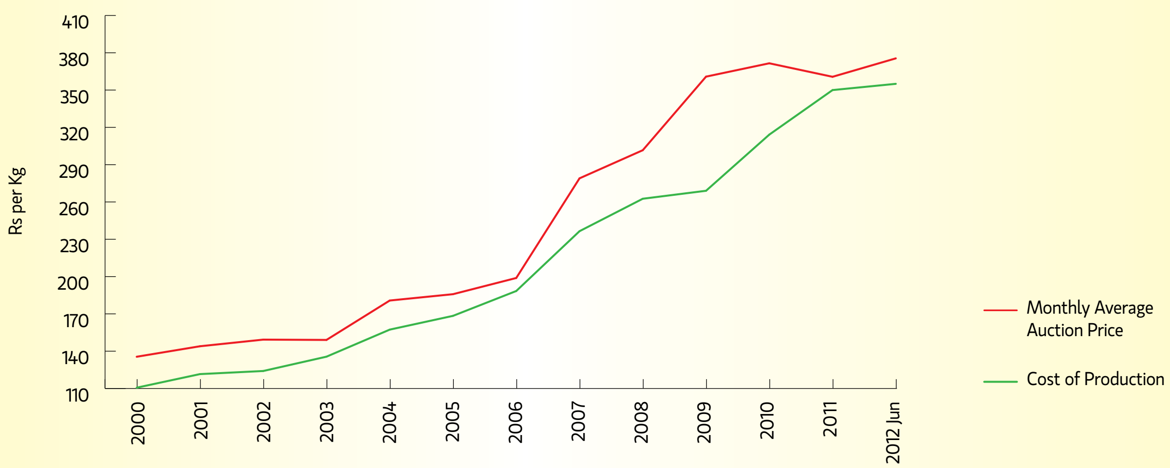
** Provisional*

Chart 6: **Compostion of Agriculture Sector**
(First Half of 2012)



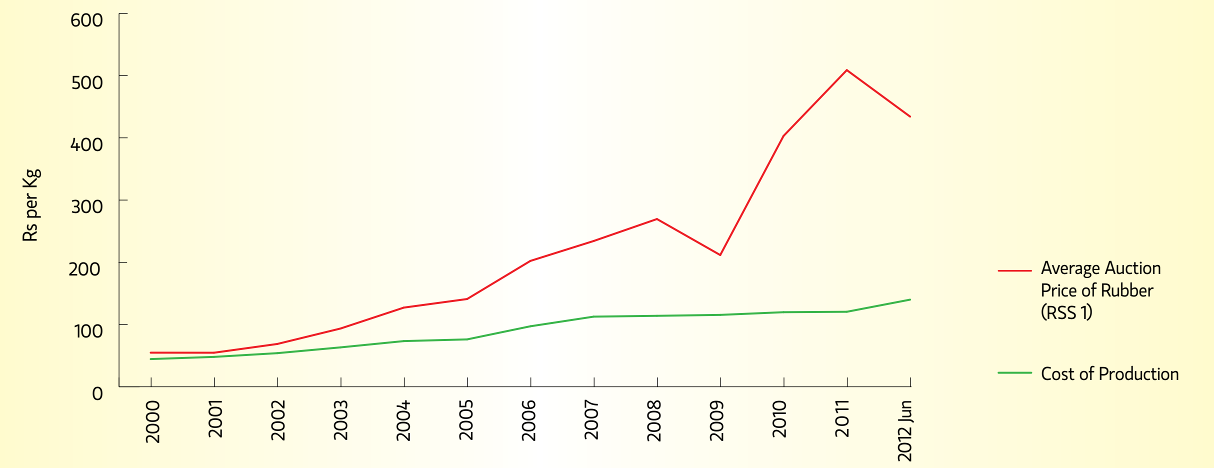
Contraction of the tea subsector by 4.9 percent compared to 1.5 percent slower growth during the same period in 2011, mainly caused by the adverse impact of the unusual rainfall pattern and hence decreasing tea production by 4.3 percent in the first half of 2012 to 163.2 million kg compared to 170.7 million kg produced in the same period in 2011. Average yield of tea is estimated to be around 1,493 kg / hectare in 2012 against the estimated yield of 1,476 kg / hectares in 2011. Being the major contributor for tea production, tea small holders contributed 70 percent of total tea production compared to 74 percent during the review period in 2011. The extent cultivated by small holdings increased by 6 percent during the first six months in 2012. Meanwhile, low grown tea production contributed around 59 percent of tea production in the first half of 2012. Further, during the first half of 2012, tea exports dropped by 4.3 percent to USD 682 million. The prices at the Colombo Tea Auction continued to remain high in the first half of 2012 with average price increase of 0.6 percent to Rs. 376 per kg during the first half of 2012 compared to Rs. 373 per kg in the first half of 2011.

Chart 7: **Tea Prices at the Colombo Auction and Cost of Production**



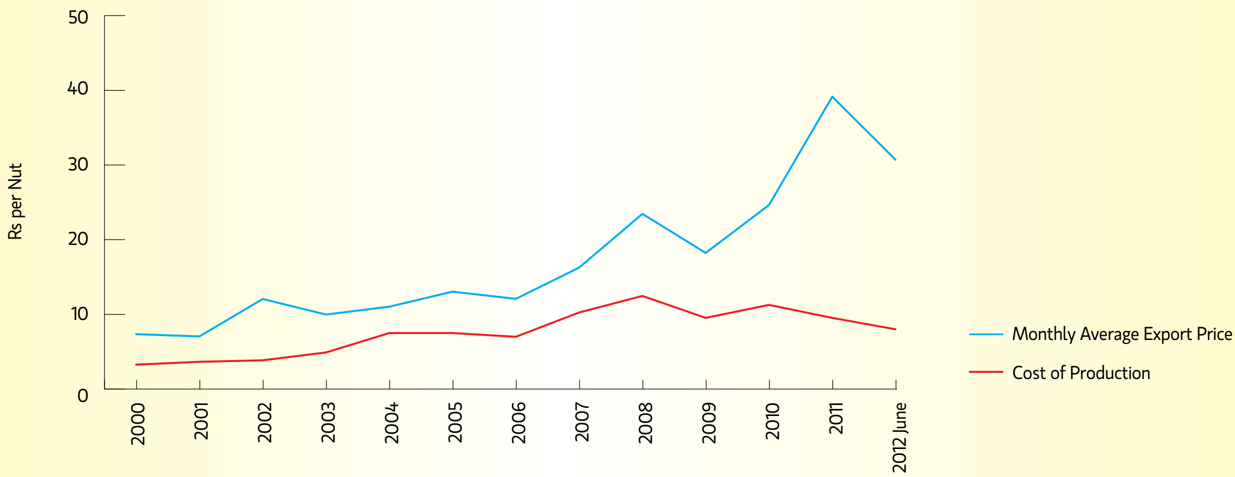
During the first quarter of 2012, rubber production declined by 5.5 percent due to lower rainfall and decreasing prices. However, it rebound in the second quarter, recording a 7 percent growth benefiting from the increasing world prices in the backdrop of rising oil prices and improved tapping activity in new plantations. Rubber production increased marginally to 80.8 million kg in the first half of 2012. The average prices of both RSS No. 1 and No. 2 decreased by 23 percent and 21 percent to Rs. 435 per kg and Rs. 430 per kg respectively, in the first half of 2012 .The average price of crepe rubber decreased by 23 percent to Rs. 392 per kg in the first half of 2012. The export of rubber products increased by 5.3 percent to USD 433 million during the first half of 2012 compared to the same period in 2011.

Chart 8: **Rubber Prices at the Colombo Auction and Cost of Production**



The coconut subsector recorded a significant growth of 7.6 percent compared to 3.3 percent recorded in review period in 2011. The increase in coconut production resulted from the favourable weather conditions that prevailed in the latter part of 2010 and beginning of 2011 and hence a decline in insect and pest deseases. Coconut production increased by 12 percent to 1,496 million nuts in the first six months of 2012 compared to 1,336 million nuts recorded in the same period in 2011. Export of coconut kernel products decreased by 6 percent to USD 47 million and other coconut products increased by 14 percent to USD 66 million during the review period in 2012 compared to same period in 2011.

Chart 9: **Coconut Prices and Cost of Production**



The paddy subsector registered a 35.5 percent significant growth during the first half of 2012 compared to a 20.8 percent decline during the same period in 2011 reflecting a revival from the damage caused to paddy production in 2011 due to unexpected severe floods. Recovery of paddy production was helped by the prompt actions of the Government to rebuild the required infrastructure, favorable weather for paddy production and continuation of the fertilizer subsidy. Recording the highest-ever paddy production and paddy extent harvested in a Maha season since 1952, paddy production in the 2011/2012 Maha season amounted to 130.5 million bushels and paddy extent harvested in the 2011/2012 Maha season was recorded as 1,704,100 acres which is a 12.4 percent increase compared to the 2010/2011 Maha season. Paddy production in the Northern Province recorded a remarkable growth of 91.0 percent and 86.7 percent contributing for 11.2 percent and 10.8 percent share of the total paddy production during the first and second quarters in 2012, respectively, compared to the same period in 2011. Further, the average yield of paddy production increased by 23.7 percent, recording 88.9 bushels per acre and by 25 percent recording 88.9 bushels per acre during the first and second quarters in 2012, respectively, compared to the same periods in 2011.

During the first half of 2012, other food crops sub sector grew by 11.1 percent compared to a 1.2 percent drop during the respective period in 2011 which was mainly driven by the 13.9 percent growth of vegetables compared to 0.1 percent in the same period in 2011 and also the 5.4 percent and 1.4 percent growth of highland crops and fruits compared to 3.7 percent and 2.9 percent drop in the first half of 2011, respectively. The Government policy to extend the fertilizer subsidy to all food crops since May 2011 and Government initiatives such as Divi Neguma programme to promote home gardening, tax policy measures targeting an increase in domestic production and financial assistance coupled with better farm gate prices and favourable weather in the 2011/2012 Maha season are attributed for the better performance in the first half of 2012. The production of maize increased by 59 percent to 165,999 metric tons in the 2011/12 Maha season compared to 104,491 metric tons recorded in the previous Maha season. The extent of cultivation of Red onion has increased by 459 hectares during the 2011/2012 Maha season and the production of Red onions increased by 37 percent to 46,385 metric tons in the 2011/12 Maha season compared to 33,944 metric tons recorded in the previous year's Maha season. The production of Chilies increased by 71 percent to 44,193 metric tons in the 2011/12 Maha season compared to 25,776 metric tons recorded in the previous Maha season and the extent of cultivation of Chilies has increased by 1,757 hectares during the 2011/2012 Maha season. The production of Potatoes increased by 45 percent to 32,229 metric tons in the 2011/2012 Maha season compared to 22,283 metric tons recorded in the previous Maha season and the extent of cultivation of Potatoes has increased by 518 hectares during the 2011/2012 Maha season. The resumption of agricultural production in the North and East and the increase in the extent of cultivation also supported by the peaceful environment which prevailed in the Northern and Eastern Provinces. The Government's tax policy measures introduced to maintain healthy producer prices and other assistance, including financial assistance and extension of provision of fertilizer subsidy to all crops since May 2011, have supported this improvement.

The output of the livestock sector grew by 6.3 percent during the first half of 2012 relative to the 9.4 percent registered in the same period in 2011. Livestock production grew by 5.6 percent and 6.8 percent during the first and second quarters, respectively in 2012 with increases in production of poultry, eggs and milk. During the first half of 2012, local milk production increased by 56 percent to 115 million litres. The progress of actions taken to round up displaced cattle in the conflict affected areas and handing over such animals to farmers, expansion of dairy villages coupled with Government setting higher prices for milk also helped to boost the milk production. The egg and broiler meat production increased by 43 and 17 percent, respectively to 1,112 million and 68,400 metric tons in the first half of 2012 compared to the corresponding period in 2011, benefiting mainly from Government policy initiatives to boost backyard economic activities related to these products.

Overall, the initiatives taken by the Government to promote agriculture, fishing and livestock farming in the country are yielding results as evident from the recent developments in the production and productivity in these vital sectors of the economy.

As a continuation of the strong commitment for the revival of the agriculture sector in all spheres, the Government has initiated various pro-agriculture development policies and measures at village level to boost agriculture and thereby reach the Government's broader objective of ensuring the food security of the country. These initiatives mainly include regional/rural infrastructure development, agricultural extension services, provision of agricultural equipment and high yielding seeds for better yields, continuation of fertilizer subsidy scheme and special loan schemes etc. In addition, tax policy changes have also been introduced to safeguard the domestic producers and consumers as well as to help mechanization of the agriculture sector by importing necessary machinery and equipment. The promotion of food production and home gardening in backyard economies targeting 2.5 million households is also in progress under the Divi Neguma programme to sustain the momentum in food production, to ensure food and economic security of the country.

Industry

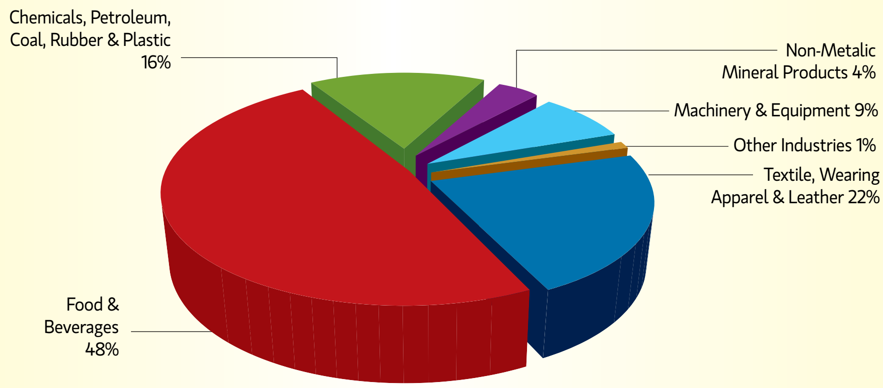
The industry sector which accouned for 29.6 of GDP during the first half of the 2012, recorded a steady growth of 10.2 percent in real terms corresponding to 10.3 percent during the same period in 2011, benefiting from the 17.9 percent higher growth in the construction industry which accounts for 7.7 percent of the GDP and 6.5 percent robust growth of the manufacturing subsector which contributed for 17.1 percent of GDP compared to 12.5 percent and 8.2 percent growth recorded in the same period in 2011, respectively. Contributing to this industry sector performance was the 20.6 percent higher growth in the mining and quarrying subsector which accounted for 2.5 percent of GDP, compared to 17.5 percent growth during the same period in 2011. During the review period in 2012 electricity, gas and water sub sectors which accounts for 2.3 percent of GDP recorded a slower growth of 5 percent compared to 13.8 percent growth recorded in the same period in 2011.

Manufacturing

During the review period in 2012, the manufacturing sub sector which accounts for 57.8 percent share of the industry sector grew by 6.5 percent compared to 8.2 percent growth in the first half of 2011. The factory industries, which account for 52.1 percent share of industry sector and 15.4 percent of the total GDP, recorded a 6.5 percent growth compared to 8.5 percent growth in the first half of 2011. Out of that, food and beverage products which account for 25 percent of the industry sector recorded a 6.4 percent growth. This was supported by the revival in economic activities with the expansion of the tourism industry and increased market potential including developing new markets in Northern and Eastern Provinces, the Government strategies including tax concessions for raw materials and machinery to reduce the upfront cost of production.

Despite the challenging global environment and withdrawals of the GSP+ scheme, textile, wearing apparel and leather products which account for 11.2 percent of the industry sector recorded a 6.5 percent growth during the first half of 2012, compared to 11.9 percent during the same period in 2011. The fabricated metal products, machinery and equipment subsector which accounts for 4.4 percent of the industry sector recorded a 4.9 percent growth during the first half of 2012, compared to 6.2 percent during the same period in 2011. Further, chemicals, petroleum, coal, rubber and plastic production which accounts for 8.5 percent of the industry sector recorded a 7.7 percent growth compared to 10.3 percent during the same period in 2011.

Chart 10: **Manufacturing Sector Composition**
(First Half of 2012)



The tea, rubber and coconut processing industries which accounts for 2 percent of the industry sector recorded a 6.5 percent higher growth compared to 2.7 percent growth in the first half of 2011. Cottage industries which accounts for 3.5 percent share of the industry sector recorded a 5.5 percent growth compared to 7.2 percent growth recorded in the first half of 2011. Government development initiatives towards empowering the SME sector and investment in village level market places helped the performance of this sub sector.

Construction

Construction services, which accounts for 25 percent of the industrial sector, recorded a remarkable growth of 17.9 percent during the first half of 2012 compared to 12.5 percent recorded in the same period in 2011, reflecting the improvements in public investment as well as private sector investment in economic activities. Public sector construction activities continued in the first half of 2012 in tandem with the Government's commitment in developing much needed infrastructure in the areas of port development, electricity generation, roads, irrigation and water supply and sanitation.

Electricity, Gas and Water

During the review period in 2012, the electricity, gas and water sub sector which accounts for 7.9 percent of the industrial sector recorded a slower growth of 5 percent compared to 13.8 percent recorded in the same period in 2011 mainly due to the adverse impact of unfavourable weather resulting in a decline in hydropower generation by Ceylon Electricity Board (CEB). In terms of power generation, the total power generated by both the public and private sector increased by 4.4 percent to 6,869 Gwh during the Jan-July period of 2012. The hydropower generated by the CEB decreased by 69 percent and 51.5 percent during the first and second quarters due to non-availability of adequate rain in the catchment areas. As a result, the thermal power generation by the CEB increased by 157.9 percent and 56.8 percent during this period. The total power generation by the private sector also increased by 41.4 percent during first half of 2012.

Mining and Quarrying

The mining and quarrying subsector which accounts for 8.3 percent of the industrial sector recorded a higher growth of 20.6 percent during the first half of 2012 compared to 17.5 percent recorded in the same period in 2011, reflecting the increased supply of raw materials for the expanding construction sector and expanding gem industry coupled with improvements in the tourism sector. During the first half of 2012, gem mining and mining of other items grew by 9.8 percent and 24.6 percent respectively, compared to 12.7 percent and 19.4 percent recorded in the same period in 2011. The export of gems grew by 39 percent to USD 67 million and export of mineral products increased by 79 percent to USD 29 million.

Table 27: **Structure of Exports**

USD Mn.

Category	Jan-June 2011	Jan - Dec 2011	Jan - June 2012 (a)
Textile and Garments	2,015	4,191	1,982
Tea	712	1,491	682
Rubber Products	411	885	433
Seafood	89	185	102
Other Industrial Exports	441	908	365
Machinery and Equipment	265	537	228
Food, Beverage and Tobacco	169	348	139
Petroleum products	295	553	232
Minor Agricultural Products	191	380	165
Gem, Diamonds and Jewellery	226	532	302
Rubber	116	206	82
Coconut(other than Kernel products)	58	130	66
Coconut Kernel Products	50	136	47
Mineral	16	33	29
Ceramic products	18	38	17
Other	4	7	94
Total	**5,076**	**10,560**	**4,965**

Source: Central Bank of Sri Lanka

(a) Provisional

Services

The services sector which accounts for 58.2 of GDP during the first half of 2012 recorded a slower growth of 5.1 percent compared to 9.1 percent growth during the respective period in 2011. This decline resulted from the slower growth of the main subsectors viz., 5.3 percent reduced growth in wholesale and retail trade services which accounts for 39 percent of the services sector compared to 11 percent growth recorded in the same period in 2011 and 6.1 percent reduced growth in transport and communication services which accounts for 24.2 percent of the services sector compared to 12.2 percent recorded in the same period in 2011. However, banking, insurance and real estate services which accounts for 15.3 percent of the services sector recorded a 6.8 percent growth compared to 7.6 percent recorded in the same period in 2011, reflecting the slower credit expansion and declaration in leasing activities stemming from slower import demand.

Chart 11: **Services Sector Composition (First Half of 2012)**

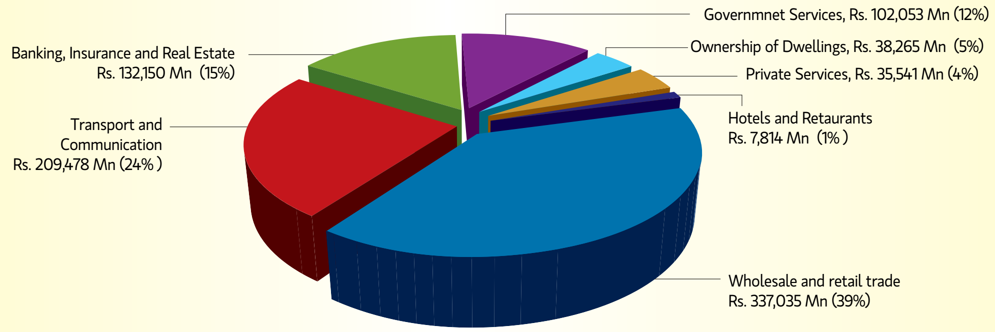


Table 28: **Selected Indicators of Service Sector**

Indicator	2009	2010	2011	2011 Jan-June	2012 Jan-June(a)
Port Services					
Vessels arrived	4,456	4,067	4,358	2,148	2,068
Total Cargo Handled (MT '000)	48,777	61,240	65,096	31,793	32,541
Total Container Handled (TEU '000)	3,464	4,137	4,263	2,044	2,083
Transshipment (TEU '000)	2,633	3,205	3,216	1,555	1,498
Telecommunication Sector					
Fixed Telephone Lines (No. '000)	3,435	3,534	3,608	3,553(b)	3,430(c)
Cellular Phones (No. '000)	13,950	17,247	18,319	18,176(b)	19,272(c)
Wireless Phones (No. 000)	2,563	2,638	2,667	2,635(b)	2,461(c)
Internet and E-mail Subscribers ('000)	240	430	322	646(b)	1,145(c)
Health Sector					
Private Hospitals	220	172	183	n.a.	n.a.
Public Hospitals	555	568	592	n.a.	n.a.
No. of Beds (Government)	68,905	69,501	69,731	n.a.	n.a.
No. of Doctors (Government)	13,633	14,125	17,199	n.a.	n.a.
No. of Nurses (Government)	25,549	27,494	29,234	n.a.	n.a.
Financial Sector					
Bank Branches and other Outlets	5,703	5,921	6,121	5,386	5,429
Credit Cards Issued	840,509	778,549	862,352	822,153	910,008
Registered Finance Companies	35	36	39	38	44
Registered Leasing Companies	21	21	16	18	13
Tourism Sector					
Tourist Arrivals	447,890	654,476	855,975	381,538	452,867
Tourist Earnings (USD Mn.)	350	576	830	370.1	459.4
Room Occupancy Rate	48.4	70.2	77.1	72.9	66.9
Transport Services (New Registration)					
Buses	649	2,766	3,838	1,983	2,012
Cars	5,762	23,072	57,886	29,883	21,886
Lorries	8,225	11,845	14,818	6,036	7,423
Motor Cycles	135,421	204,811	253,331	123,148	117,689
Three Wheelers	37,364	85,648	138,426	63,386	50,815
Tractors	13,951	17,363	20,073	10,296	12,506

Sources: Central Bank of Sri Lanka, Ministry of Finance and Planning
(a) Provisional. (b) As at end June 2011   (c) As at end June 2012

Wholesale and Retail Trade

The wholesale and retail trade subsector which accounts for 39 percent of the services sector and 22.7 percent share of the total GDP recorded a lower growth rate of 5.3 percent during the first half of 2012 compared to 11 percent growth recorded in the same period in 2011, with the slow growth in import and export trade. During the period from end 2011 and early 2012, the Government introduced several policy measures to discourage the consumption of imported goods in order to manage the widening trade gap. Accordingly, during the first half of 2012, import trade which accounts for 12.8 percent of the services sector and 7.5 percent share of the total GDP recorded only 4.4 percent growth compared to 14.8 growth percent in the same period in 2011. The import of consumption goods dropped by 9 percent while intermediate goods increased by 2 percent and investment goods imports grew at a higher rate of 25 percent during this period. Export trade which accounts for 6.7 percent of the services sector and 3.9 percent share of the total GDP recorded only 2 percent growth compared to 14.8 percent growth recorded in the same period in 2011 due to adverse developments in international markets. However, domestic trade which accounts for 19.5 percent of the services sector and 11.4 percent share of the total GDP recorded a growth rate of 7.1 percent compared to 7.7 percent recorded in the same period in 2011 reflecting the increased trading activities in line with an increase in income levels and with the expansion of market potential throughout the country including the Northern and Eastern Provinces due to the increased connectivity and mobility with the development of road networks. The satisfactory performance in domestic agriculture and industry subsectors also contributed to this performance.

Hotels and Restaurants

The hotels and restaurants sub sector which accounts for 0.5 percent share of the total GDP recorded a 22.6 percent growth during the first half of 2012 compared to 33.7 percent recorded in the same period in 2011, reflecting the revival of the tourism sector as the country is being developed as an attractive tourist destination benefiting from the peaceful situation in the country. During the first eight months in 2012, tourist arrivals increased by 18.7 percent to 452,367 and tourist earnings by 24.3 percent to USD 459.9 million compared to the same period in 2011. During the first quarter of 2012, room occupancy and guest nights increased by 4.1 percent and 7.0 percent, respectively, compared to the first quarter in 2011. During the second quarter in 2012, room occupancy and guest nights decreased by 25 percent and 8 percent respectively, compared to the second quarter in 2011. Tourist arrivals from Western Europe and South Asia increased by 20.3 percent and 4.6 percent, respectively. The objective of attracting 2.5 million tourists by 2016 has created many opportunities in a number of areas, including the construction industry, domestic agriculture, recreation and the food and beverages industry.

Table 29: **Performance of Tourism Sector**

Month	Tourist Arrivals				Tourist Earnings (USD Mn.)			
	2009	2010	2011	2012	2009	2010	2011	2012
January	38,468	50,757	74,197	85,874	30.0	44.7	70.5	88.5
February	34,169	57,300	65,797	83,549	26.7	50.4	62.5	86.1
March	34,065	52,352	75,130	91,102	26.5	46.1	76.2	93.8
April	26,054	38,300	63,835	69,591	20.4	33.7	61.9	71.7
May	24,739	35,213	48,943	57,506	19.3	31.0	47.0	59.3
June	30,234	44,730	53,636	65,245	23.5	39.3	52.0	60.6
July	42,227	63,339	83,789	90,338	33.0	55.8	81.3	100.5
August	41,207	55,898	72,463	79,456	32.1	49.1	70.3	81.4
September	37,983	47,339	60,219	-	30.2	41.7	58.4	-
October	37,571	52,370	69,563	-	28.7	46.1	67.5	-
November	44,311	72,251	90,889	-	34.6	63.6	88.1	-
December	56,862	84,627	97,517	-	79.1	74.4	94.6	-
Total	**447,890**	**654,476**	**855,975**	**622,661**	**385.3**	**575.9**	**830.3**	**641.8**

Source: Sri Lanka Tourism Development Authority

Transport and Communication

The transport and communication subsector which accounts for 24.3 percent of the services sector and 14.1 percent share of the total GDP recorded only 6.1 percent growth during the first half of 2012 compared to 12.2 percent growth recorded in the same period in 2011. This was mainly due to the slower growth in transport services. Passenger and goods transport services, which accounts for 99 percent of transport services, grew only by 6 percent compared to 11.9 percent growth in the first half of 2011. During the first quarter in 2012, the registration of buses, three wheelers and goods transport vehicles increased by 5.2 percent, 13.7 percent and 34.9 percent, respectively and total number of new registration of motor vehicles increased only by 15 percent compared to 65.1 percent growth in the same period in 2011. However, during the second quarter in 2012, registration of buses and three wheelers decreased by 3.4 percent and 52.0 percent, respectively and total number of new registration of motor vehicles dropped by 25.4 percent compared to 61.7 percent growth in the same period in 2011, resulting from the policy measures adapted to curtail imports in early 2012. The Government continued its efforts in upgrading the transport service by adding 120 new buses funded from Treasury grants and 138 new buses under the leasing facility to the existing fleet of the Sri Lanka Transport Board (SLTB) and by adding 9 trains with Indian assistance and 7 trains with Chinese assistance to the railway transportation. Sri Lanka Railways is also moving forward with the rehabilitation and reconstruction of Colombo to Matara, Medawachchiya to Madhu, Omanthai to Palai, Madhu Road to Talai Mannar, Pallai to Kankasanthurai railway lines with assistance from India.

The cargo handling, ports and civil aviation sub sector which accounts for 4.8 percent of transport and communication sector grew by 8.8 percent compared to 9.9 percent growth in the first half of 2011. Although, the total vessels arriving at Sri Lankan Ports dropped by 3.7 percent to 2,068 and transshipments dropped by 3.7 percent to 1.5 million TEUs during the first half in 2012 compared to same period in 2011, total container and total cargo handling increased by 0.5 percent to 2.1 million TEUs and 2.4 percent to 33 million MTs, respectively, during the first seven months of 2012 compared to same period in 2011. The decline in world trade volumes was mainly attributable to the slower growth in this sub sector.

The post and telecommunication sector also expanded only by 6 percent in the first half of 2012 compared to 15.6 percent growth in the same period in 2011. This was supported by the initiatives taken by the service providers in terms of value added products, competitive rates and expansion of the services. Accordingly, even though the fixed line telephone connection dropped by 3.5 percent to 3.4 million and wireless connections declined by 6.6 percent to 2.4 million during the first half in 2012 compared to the same period in 2011, cellular phone connections increased by 6 percent to 19.2 million during the first half in 2012 compared to the same period in 2011. Internet and e-mail subscribers also increased by 77.3 percent to 1.1 million during the review period. This paved the way to increase telephone density (telephone per 100 persons) to 106.7 in the first quarter and to 112 in the second quarter of 2012 from 102 and 104 registered in the respective periods in 2011.

Table 30: **Sectoral Distribution of GDP Growth (%)**

Sector	2009	2010	2011	2011 First Half	2012 First Half*
Agriculture	**3.2**	**7.0**	**1.5**	**-1.4**	**10.3**
Tea	-8.4	13.8	-0.9	-3.1	10.4
Paddy	-5.1	17.5	-8.4	-20.8	35.5
Minor Exports	5.2	35.6	-19.0	-8.4	-22.7
Livestock	6.2	2.9	7.3	9.4	6.3
Food Crops	7.0	4.4	2.5	-1.2	11.1
Fisheries	6.9	12.2	15.5	14.9	9.8
Industry	**4.2**	**8.4**	**10.3**	**10.3**	**10.2**
Agri. Processing	0.7	5.8	0.9	2.7	6.5
Factory Industry	3.4	7.5	8.3	8.5	6.5
SMEs	3.3	5.5	7.0	7.2	5.5
Electricity	3.7	8.2	9.6	13.8	5.0
Construction	5.6	9.3	14.2	12.5	17.9
Services	**3.3**	**8.0**	**8.6**	**9.1**	**5.1**
Trade	-0.2	7.5	10.3	11.0	5.3
Hotels	13.3	39.8	26.4	33.7	22.6
Cargo	0.4	16.8	7.2	9.9	8.8
Post and Telecommunications	**11.7**	**13.2**	**13.4**	**15.6**	**6.0**
Financial Services	5.7	7.5	7.9	7.6	6.8
Government Services	5.9	5.4	1.2	1.9	1.1
Private Services	5.8	5.8	7.2	8.6	4.3
GDP	**3.5**	**8.0**	**8.3**	**8.1**	**7.2**

Source: Department of Census and Statistics
** Provisional*

Banking, Insurance and Real Estate

The banking, insurance and real estate sector, which accounts for 15.3 percent of the services sector and 8.9 percent share of the total GDP, recorded 6.8 percent growth during the first half of 2012 compared to 7.6 percent growth recorded in the same period in 2011 reflecting the healthy performance in commercial banking activities during this period. The number of bank branches and other outlets increased by 0.8 percent to 5,489 and number of credit cards issued increased by 10.7 percent to 910,008. Meanwhile, the number of registered leasing companies dropped by 27.7 percent to 13 and the number of registered finance companies increased by 15.7 percent to 44 during the first half in 2012 compared to the same period in 2011. Market interest rates increased gradually in response to the tight monetary policy stance adopted by the Central Bank of Sri Lanka, particularly since early 2012. Consequently, the interest income of banks increased by about 34 percent and net income of non financial institutions increased by 0.8 percent during the first seven months in 2012.

Government Services and Private Services

Government services, which accounts for 11.8 percent of the services sector and 6.9 percent share of the total GDP, grew marginally by 1.1 percent during the first half of 2012 compared to 1.9 percent recorded in the same period in 2011. Private services, which accounts for 4.1 percent of the services sector and 2.4 percent share of the total GDP, also recorded a slower growth of 4.3 percent during the first half of 2012 compared to 8.6 percent recorded in the same period in 2011.

Unemployment

Government initiatives on employment generation in the public sector as well as in the private sector through implementation of development projects to build the required infrastructure projects, reconstruction, resettlement and rehabilitation program, expanding service sectors especially the tourism sector, and creation of self-employment opportunities have contributed to the continuous decline in unemployment. Accordingly, the unemployment rate in Sri Lanka has sharply declined over the period from 2005 and it has reached the level of 3.9 percent by the third quarter of 2011 compared to 4.9 percent recorded in the same period in 2010 and 10.6 percent recorded in the third quarter of 2004.

Chart 12: **Unemployment Rate: 2004 3rd Quarter - 2011 3rd Quarter**

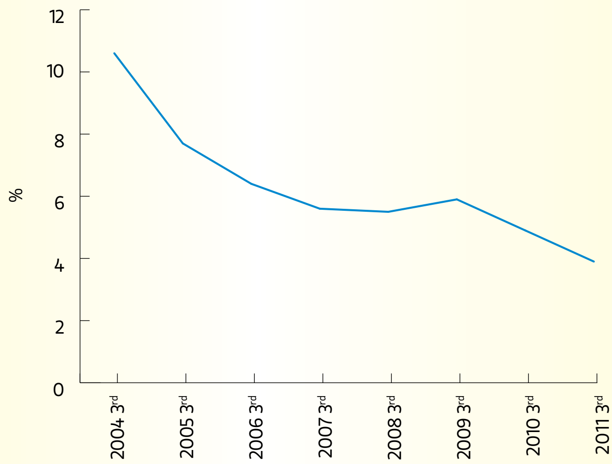
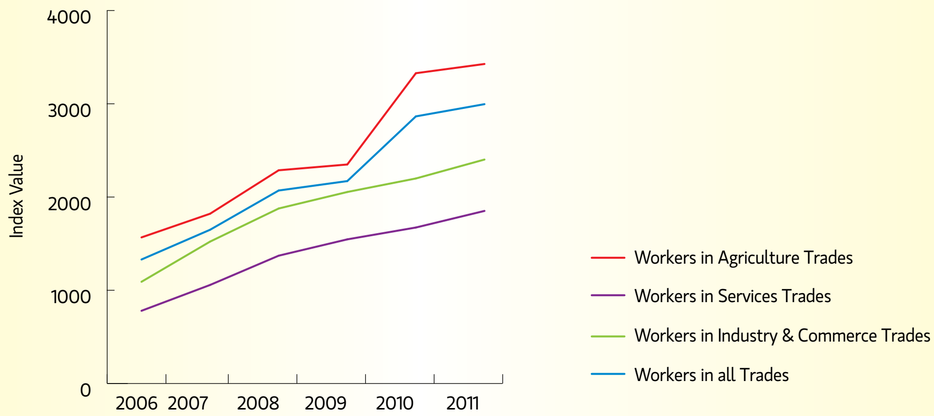


Chart 13: **Wage Index for Workers in All Trades**



Per Capita Income

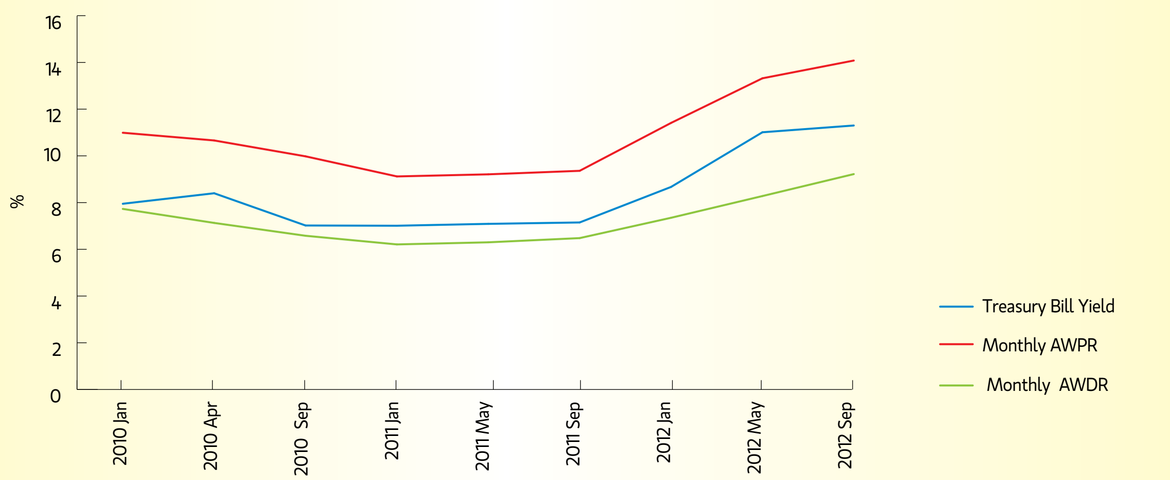
The per capita income of the country has increased from USD 1,241 in 2005 to USD 2,836 in 2011 and it is expected to reach USD 3,000 by end 2012.

Monetary Sector Developments

The Central Bank tightened the monetary policy stance in the background of emerging imbalances in the external sector and to contain inflationary pressures arising from excessive credit and monetory expansion. Accordingly, the Central Bank raised its policy interest rates twice during the year. Reverse Repurchase rate and Repurchase rate were each increased by 50 basis points in February 2012 and further in April 2012. The Repurchase rate was increased by 25 basis points and Revenue Repurchase rate by 75 basis points to bring the Reverse Repurchase rate to 9.75 percent and Repurchase rate to 7.75 percent. To curtail credit expansion, the Central Bank imposed a ceiling on rupee lending restricting credit growth to 18 percent while it was extended to 23 percent for the banks that raise funds from abroad. Consequently, the growth in credit to the private sector decelerated to 3.4 percent in the second quarter of 2012 from 7.7 percent in the first quarter of 2012.

With the tightening of the monetary policy stance and volatility in the liquidity in the money markets coupled with market expectations, market interest rates increased considerably in 2012. The average weighted call money rate which was close to the lower bound of the policy interest rate corridor increased to the upper bound during the period while yields on Government securities were also increased. The yield rate on 91 days Treasury bills were increased by 273 basis points, 182 days Treasury bills by 436 basis points and 364 days Treasury bills by 400 basis points by end August 2012. With these developments, the interest rate on deposits held by the public with commercial banks also increased to 8.95 percent from 7.24 in December 2011 while the average fixed deposit rate increased by 259 basis points to 11.54 percent by end August 2012.

Chart 14: **Treasury bill yield and Monthly AWPR and AWDR**



Money Supply and Private Sector Credit

Reserve money rose by 12.2 percent to Rs. 463.4 billion as at end of July 2012. This is mainly due to higher circulation of currency as a result of increasing demand for currency by the public in a background of expanding activities in the domestic economy, including development projects in the Northern and Eastern Provinces. Reflecting the impact of the policy measures taken, the credit obtained by the private sector has decelerated since the second quarter of 2012, and the policy measures in place are expected to ensure that the growth of credit will be within the desired level at the end of the year. Compared to the average monthly credit expansion of about Rs. 52 billion in the first three months, the average monthly credit has decelerated to around Rs. 27 billion during the period from April-July. Benefiting from this moderation, the growth of broad money (M2b) has also decelerated to below 20 percent in July for the first time this year.

Inflation

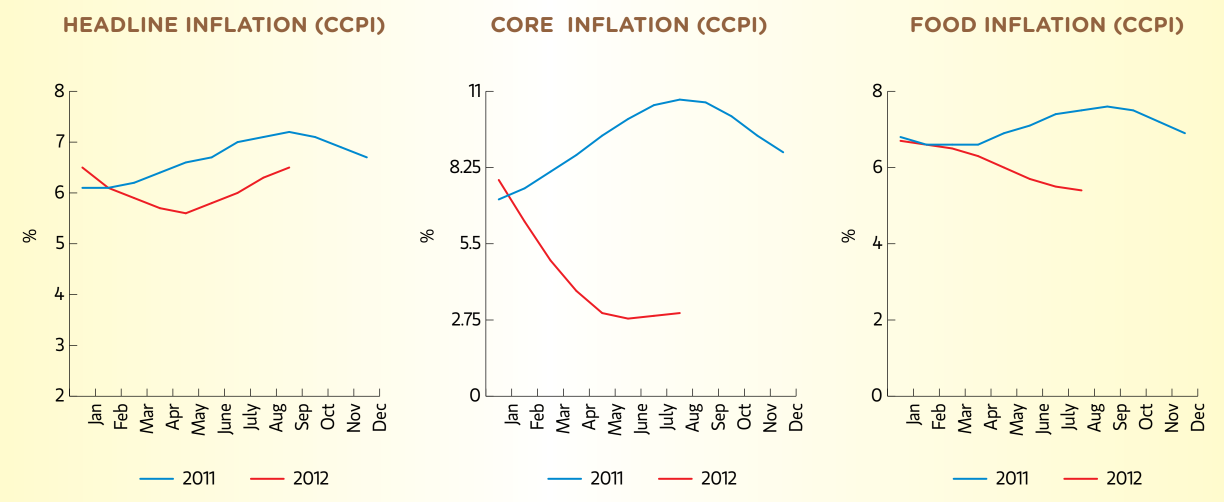
The adjustments carried out in energy prices in February to reflect the rising international oil prices affecting the energy, transport and petroleum sector related prices, supply side disruptions arising from drought conditions and the adjustments carried out in the exchange rate policy to counter the high trade balance had an impact on domestic prices and resulted in the year on year inflation which was moderated to 2.7 percent by February 2012 to increase to 9.8 percent by July 2012 but has eased to 9.5 percent by August 2012. The Core inflation which had remained broadly stable since 2011 increased to 6 percent in July 2012, but has also eased to 5.9 percent in August while the annual average change increased to 6.3 percent by August 2012.

Table 31: **Headline, Core and Food Inflation in Sri Lanka (Base: 2006/07=100)**

	HEADLINE INFLATION				CORE INFLATION (%)				FOOD INFLATION (%)			
	Point to Point		Annual average		Point to Point		Annual average		Point to Point		Annual average	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
January	6.2	3.8	6.1	6.5	6.5	4.7	6.8	6.7	10.2	-0.2	7.1	7.8
February	7.2	2.7	6.1	6.1	5.7	4.7	6.6	6.6	13.1	-4.1	7.5	6.3
March	7.7	5.5	6.2	5.9	6.6	4.9	6.6	6.5	13.7	-2.5	8.1	4.9
April	8.9	6.1	6.4	5.7	7.6	5.2	6.6	6.3	14.4	0.2	8.7	3.8
May	8.2	7.0	6.6	5.6	8.4	4.8	6.9	6.0	12.6	2.2	9.4	3.0
June	7.1	9.3	6.7	5.8	8.7	5.8	7.1	5.7	10.1	7.1	10.0	2.8
July	7.5	9.8	7.0	6.0	8.9	6.0	7.4	5.5	9.4	9.8	10.5	2.9
August	7.0	9.5	7.1	6.3	7.8	5.9	7.5	5.4	8.2	9.4	10.7	3.0
September	6.4	9.1	7.2	6.5	6.9	6.2	7.6	5.3	6.6	8.9	10.6	3.2
October	5.1	-	7.1	-	5.6	-	7.5	-	3.8	-	10.1	-
November	4.7	-	6.9	-	4.9	-	7.2	-	2.1	-	9.4	-
December	4.9	-	6.7	-	4.7	-	6.9	-	2.5	-	8.8	-

Source: Department of Census and Statistics

Chart 15: **Headline, Core and Food Inflation in Sri Lanka (Base: 2006/07=100)**



External Sector

Consequent to the rise in imports and to overcome any risk to the Balance of Payments (BoP) and macroeconomic stability, the Government implemented a policy package in February 2012. This package included measures such as the pursuance of greater exchange rate flexibility by limiting the Central Bank intervention only to finance a part of petroleum-related bills and increase in import tariff on motor vehicles to curb imports, while encouraging commercial banks to attract long-term foreign financing. The impact of these measures were observed since February 2012 with a gradual reduction in the trade deficit and increased inflows to the financial account of BoP.

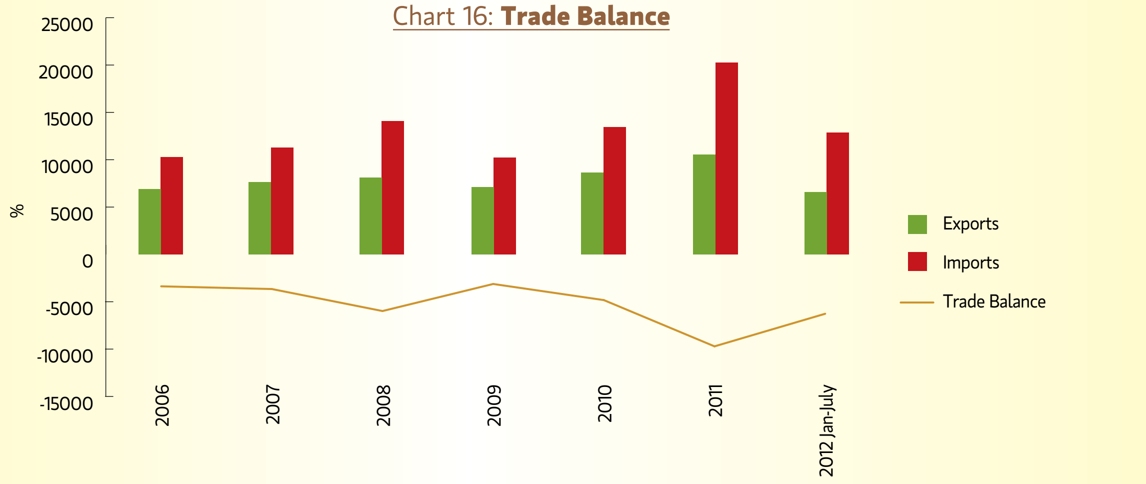
The trade deficit narrowed in the second quarter of 2012 with the slowing down of imports despite the decline in export earnings. The slowing down of economic activities mainly in Europe and USA, which are the key export destinations of Sri Lanka, coupled with a fall in prices of commodities, especially rubber in the world market, resulted in a drop in export earnings by 5.7 percent to USD 6,592 million in the first eight months of 2012 compared to the corresponding period of the previous year.

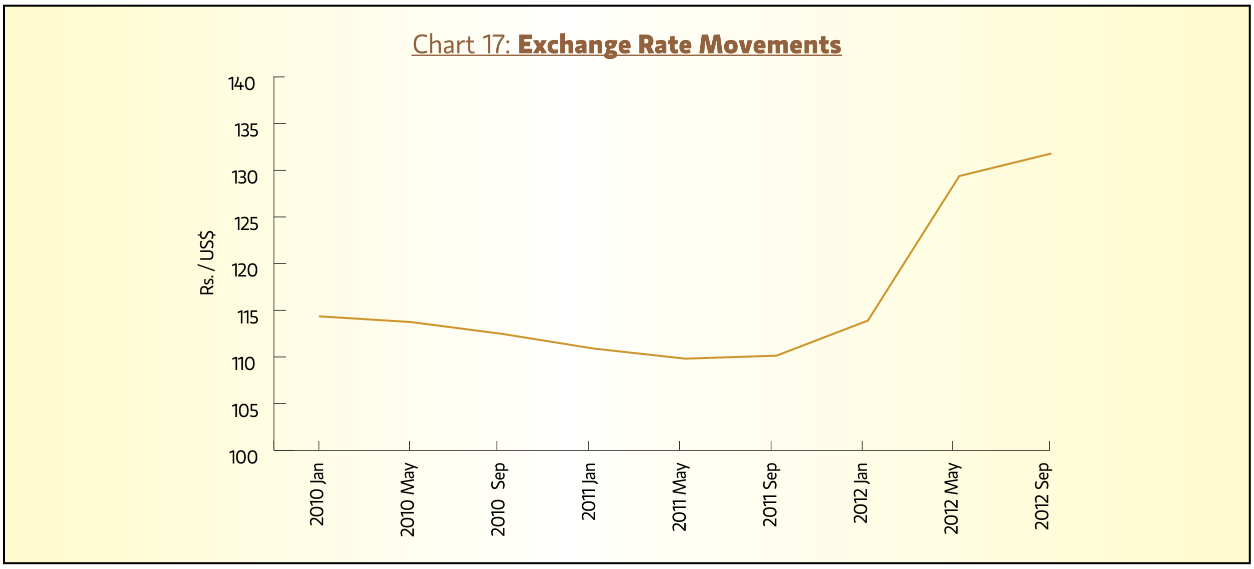
Meanwhile, the imports also slowed down responding to the policy measures carried out in credit, exchange rate, and the import tariffs. The import expenditure in the first eight months of 2012 at USD 12,859 million recorded a marginal decline over the same period last year. These developments helped to reduce the trade deficit to 6.3 percent during the first eight months of 2012 over the growth of 88.4 percent recorded during the first eight months of 2011.

Inflows to service account continued to increase with the expansion in transportation, travel, and communication subsectors. Tourist arrivals in the first eight month of 2012 amounted to 622,661 and generated USD 642 million, an increase of 23 percent over the same period last year. Worker remittances continued to be a main source of foreign exchange, earning USD 3,907 million, an increase of 15.6 percent reflecting more earnings from skilled workers.

Foreign currency inflows to the financial market continued to strengthen the capital and financial account of the BoP during the first eight months of 2012. Foreign investments at the Colombo Stock Exchange increased by USD 227 million, on a net basis, by end August 2012, while there has been a significant increase in foreign investments in Government securities, with net foreign inflows to Treasury bills and Treasury bonds during the first eight months of 2012 amounting to USD 810 million. Further, long-term inflows to the Government amounted to USD 2,292 million during the first eight months of 2012. This includes the proceeds from the Sovereign Bond of USD 1,000 million raised in the international market. In addition, USD 842 million was received by the Government as the final instalments under the successfully completed IMF-SBA program during this period. In addition, long-term borrowings by commercial banks during January-August 2012 amounted to USD 927.5 million. Meanwhile, Foreign Direct Investment (FDI) inflows, including foreign loans of Board of Investment (BOI) companies, recorded an inflow of USD 452 million during the first six months of 2012. With these developments, the BoP recorded a surplus of USD 306 million during the first eight months of the year. With this, gross official reserves amounted to USD 7,053 million by end August 2012, which was equivalent to 4.3 months of imports. Total international reserves, which include gross official reserves and foreign assets of commercial banks, amounted to USD 8,694 million by end August 2012 and was equivalent to 5.3 months of imports.

Chart 16: **Trade Balance**



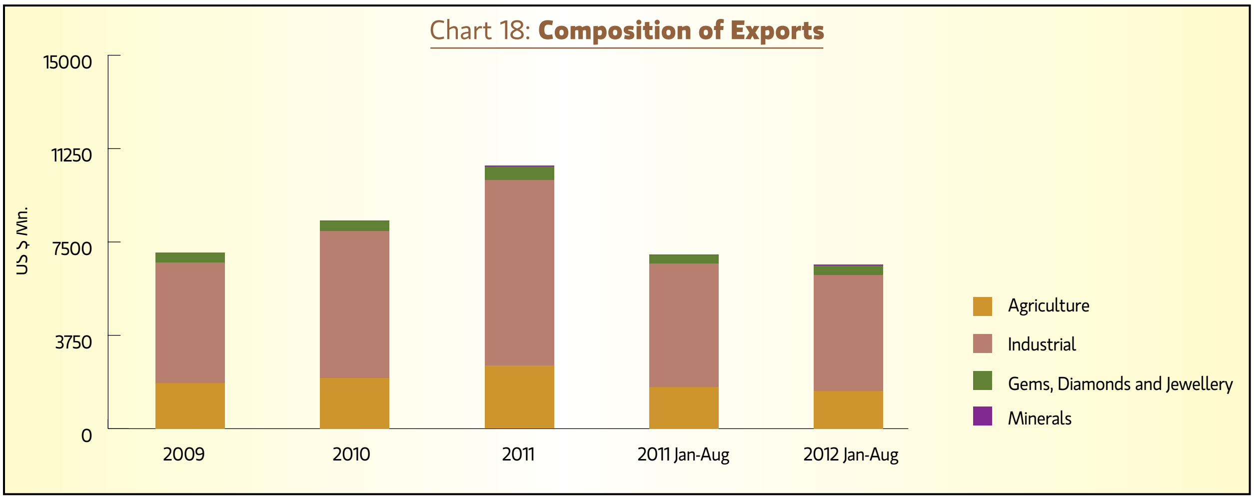


Exports

Total earnings from exports declined by 5.7 percent to USD 6,592 million during the first eight months of 2012 compared to the corresponding period in 2011 due to the decline in agriculture as well as industrial exports. Agricultural exports reported a 10 percent drop to USD 1,511 million during this period compared to USD 1,678 million in the same period in 2011. A drop in export earnings, mainly from Tea, contributed to the decline in export earnings from agriculture on a year on year basis during this period. Lower earnings from minor agricultural products such as spices, vegetables and fruits also impacted the considerable decline in export earnings. A marginal decrease in both export volume and export prices of agricultural products due to weak global demand during the first eight months of 2012, resulted in a negative growth of export earnings.

Industrial exports accounted for almost 75 percent of total exports during this period. However, earnings from industrial exports declined by 6.3 percent to USD 4,952 million in the first eight months of 2012 compared to the same period in 2011. This decline was led by lower earnings from the export of textiles and garments, which recorded a decline of 3.7 percent to USD 2,669 million. This was mainly due to the lower global demand stemming from the slowing down of global economic activity. The export of food, beverages and tobacco products also declined by 23.3 percent to USD 178 million.

However, earnings from the export of rubber-based products and gems, diamonds and jewellery increased by 2 percent and 20 percent, respectively, during this period in comparison to the previous year. Among the minor industrial exports, earnings from mineral products recorded a rapid growth of 48 percent to USD 34 million compared to USD 23 million in the same period in 2011.



Imports

The expenditure on imports which increased significantly in 2011 has shown a deceleration in 2012 with policy measures in place to address the widened trade deficit of the country. Accordingly, the expenditure on imports has decreased by 0.2 percent to USD 12,858.7 million during the first eight months of 2012 over the same period in 2011. Even though the expenditure on import of industrial goods and investment goods have increased by considerable amounts, import expenditure on consumer goods has declined. As a result, the import value of consumer goods amounted to USD 2,085.6 million indicating a 12.5 percent drop in comparison to USD 2,383 million recorded in the corresponding period in 2011. The increase in Excise (Special Provisions) duty on import of motor vehicles as well as the depreciation of the rupee were the major reasons for the decline in import expenditure. The import of motor vehicles has declined by 28.1 percent in the first seven months of 2012 compared to the relevant period in 2011. Similarly, import expenditure on food and beverages has declined by 14.1 percent to USD 902.7 million during the first eight months of 2012 compared to USD 1,051.3 million in the same period of 2011. However, the import cost of medical and pharmaceuticals and non food consumables increased by 11.2 percent and 4 percent, respectively, while the import of vegetables and sugar decreased by 42 percent and 18 percent, respectively during the first seven months of 2012.

The import expenditure on investment goods, mainly including machinery and equipment, transport equipment and building material increased by 15.7 percent to USD 3,025.4 million during the first eight months in 2012. This was mainly attributable to the continuous expansion in construction activities throughout the country, including the ongoing large scale infrastructure development projects. In line with this, import expenditure on transport equipment and building material increased by 23.3 percent to USD 766.3 million and 18.4 percent to USD 798.9 million, respectively.

The main contribution to the higher import bill on intermediate goods comes from petroleum products, which increased by 9.9 percent during the first eight months of 2012 over the same period in 2011. It was USD 3,395 million in the first eight months in 2012 compared to USD 3,088.5 million in the same period in 2011.

Workers' Remittances

Workers' remittances continued to be an important and stable source of external financing to Sri Lanka. The inflows through workers' remittances increased by 15.6 percent to USD 3,907 million during the first eight months of 2012 compared to the same period in 2011. Further actions have been taken by the Government to increase the migration of skilled workers and to enhance the availability of formal channels.

Chart 19: **Composition of Imports**

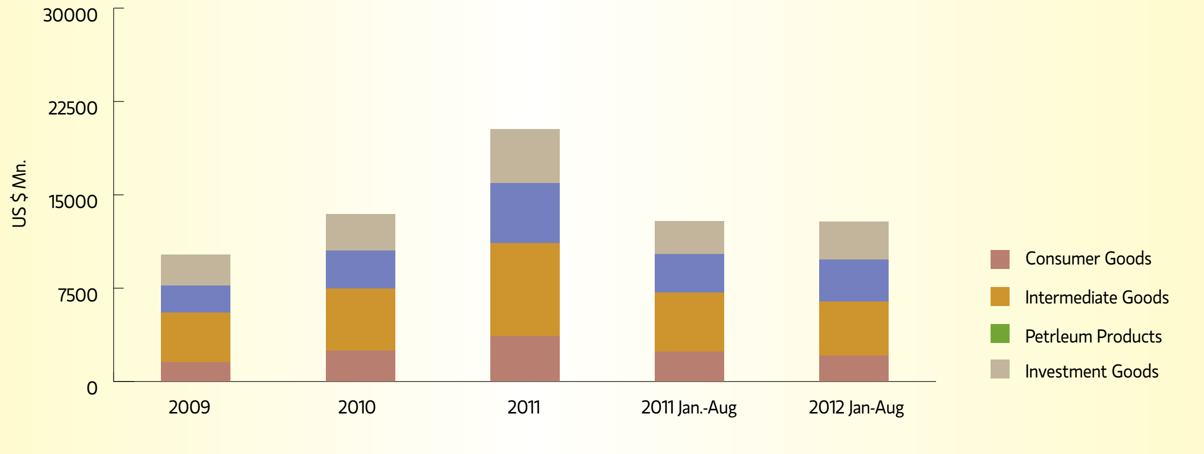


Table 32: **External Trade**

USD Mn.

Indicator	2009	2010	2011	2011 Jan-Aug. (a)	2012 Jan-Aug.(b)
Exports	**7,085**	**8,626**	**10,559**	**6,992**	**6,592**
Agricultural Exports	**1,828**	**2,306**	**2,528**	**1,678**	**1,511**
Tea	1,185	1,441	1,491	983	891
Other Agricultural Products	643	866	1,037	695	620
Industrial Exports	**5,228**	**6,096**	**7992**	**5,287**	**4,952**
Textile and Garments	3,261	3,356	4,191	2,771	2,669
Rubber Products	385	558	885	575	587
Machinery and Equipment	187	259	312	202	203
Gem Diamonds and Jewellery	402	409	532	334	401
Food, Beverages and Tobacco	184	245	348	232	178
Petroleum Products	134	263	553	368	315
Other Industrial Products	675	1,007	1171	804	599
Mineral Products	**20**	**24**	**33**	**23**	**34**
Unclassified	**8**	**199**	**7**	**5**	**95**
Imports	**10,207**	**13,451**	**20,269**	**12,887**	**12,859**
Consumer Goods	1,565	2,476	3,654	2,383	2,086
Food and Beverages	933	1,322	1,567	1,051	903
Other	632	1,155	2,087	1,332	1,183
Intermediate Goods	**6,158**	**8,054**	**12,275**	**7,857**	**7,728**
Petroleum	2,184	3,041	4,795	3,088	3,395
Fertilizer and Chemicals	613	761	1,109	688	656
Textile and Clothing	1,529	1,812	2,321	1,538	1,465
Wheat Grain	259	257	419	323	254
Other	1,573	2,184	3,631	2,220	1,957
Investment Goods	**2,093**	**2,758**	**4,286**	**2,615**	**3,025**
Machinery and Equipment	1,077	1,339	2,141	1,317	1,457
Transport Equipment	357	593	1,065	621	766
Building Material	656	822	1,076	675	799
Other	3	3	4	2	3
Unclassified	**390**	**162**	**54**	**31**	**20**
Trade Deficit	**-3,122**	**-4,825**	**-9710**	**-5,895**	**-6,267**

Source: Central Bank of Sri Lanka
(a) Revised (b) Provisional

External Environment

The recovery of the global economy is facing renewed headwinds. The global growth prospects have deteriorated and growth projections for all major regions have been adjusted downward. Only a gradual strengthening of activity is expected in the medium term. Inflationary pressures have been declining and high unemployment in many parts of the world brings huge costs to individuals and societies. The implementation of a credible medium-term fiscal consolidation plan, particularly in some of the major advanced economies, has been highlighted as an important element in restoring sentiment and confidence. The need to intensify the efforts to safeguard the financial stability has been recognized. The challenges facing the advanced economies are having a negative impact on emerging market economies and low-income countries, as they spill over through both trade and financial channels. In this background, the emerging market and developing economies are also experiencing a moderation in their growth. The global slowdown, together with volatile capital flows, is making macroeconomic management difficult in emerging market and developing countries.

Economic Growth

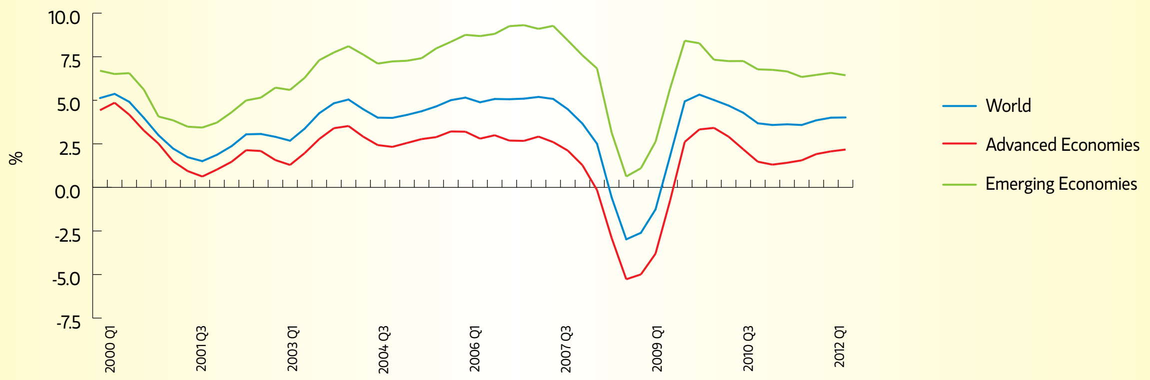
World economic growth is expected to be 3.3 percent in 2012 compared to 3.8 percent recorded in 2011. As projected by the IMF's "World Economic Outlook" (October 2012), the growth of both advanced and emerging markets and developing economies will be at 1.3 and 5.3, respectively. The growth in advanced economies is too low due to fiscal consolidation efforts taken by the Governments and weak financial systems. The low growth in advanced economies has spillovers to developing economies through trade and financial flows. The Euro Zone countries will suffer from negative growth of 0.4 percent compared to 1.4 percent growth recorded in the previous year, indicating the severity of the crisis. The growth in the United States and Japan is expected to be stronger than the previous year at 2.2 percent. The estimated growth in Asia for 2012 is 6.7 percent, largely owing to lowered growth projections in China and India at 7.8 percent and 4.9 percent, respectively. The growth in the Latin American and Caribbean region is lowered to 3.2 percent, mainly due to low growth expectations for Brazil at 1.5 percent.

Table 33: **GDP Growth Rates - World (%)**

	Actual		Projections	
	2010	**2011**	**2012**	**2013**
World GDP Growth	**5.1**	**3.8**	**3.3**	**3.6**
Advanced Countries	**3.0**	**1.6**	**1.3**	**1.5**
United States	2.4	1.8	2.2	2.1
Euro Zone	2.0	1.4	-0.4	0.2
Japan	4.5	-0.8	2.2	1.2
United Kingdom	1.8	0.8	-0.4	1.1
Canada	3.2	2.4	1.9	2.0
Other Advanced Countries	5.9	3.2	2.1	3.0
Emerging and Developing Economies	**7.4**	**6.2**	**5.3**	**5.6**
Asia	9.5	7.8	6.7	7.2
China	10.4	9.2	7.8	8.2
India	10.1	6.8	4.9	6.0
ASEAN-5*	7.0	4.5	5.4	5.8
Sri Lanka**	8.0	8.3	6.8	7.5
Africa	5.0	3.3	5.3	3.6
Central and Eastern Europe	4.6	5.3	2.0	2.6
Commonwealth of Independent States	4.8	4.9	4.0	4.1
Russia	4.3	4.3	3.7	3.8
Middle East	5.0	3.3	5.3	3.6
Latin America and the Caribbean	6.2	4.5	3.2	3.9
Brazil	7.5	2.7	1.5	4.0
Mexico	5.6	3.9	3.8	3.5

Source: World Economic Outlook (WEO) October 2012 published by IMF
** Includes Indonesia, Malaysia, Philippines, Thailand and Vietnam*
*** For 2011 and 2012, revised projections*

Chart 20: **Real GDP Growth (quarterly percent change from one year earlier)**



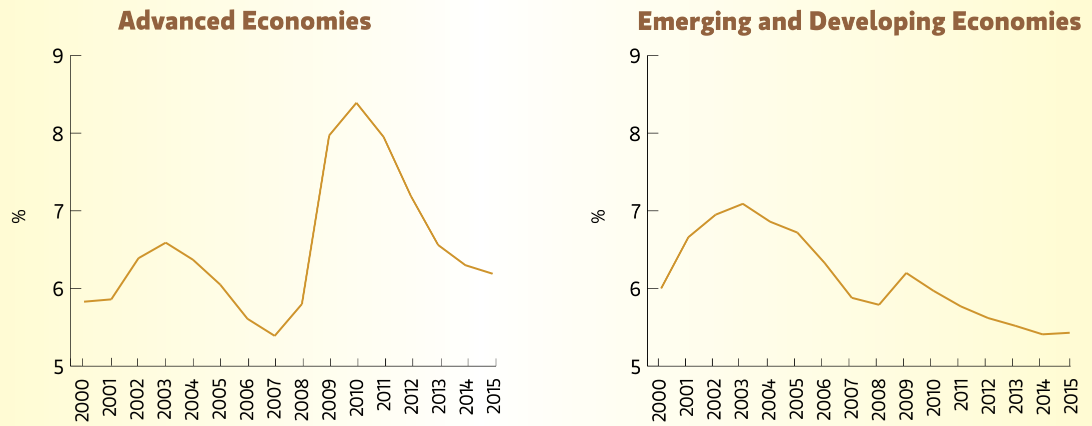
Quoted from World Economic Outlook (WEO) October 2012 Published by IMF

Unemployment

According to the IMF's World Economic Outlook, October 2012, the world unemployment rate for the period of 2012 and 2013 is projected at 6.25 percent. The unemployment in developing Asia and emerging economies in Latin America remain lower than advanced economies and that of newly industrialized Asian economies are lower than the world average. However, the unemployment rate in Middle East and North African economies are elevated due to political unrest, social issues arising from high population and declining revenue from the tourism industry.

From a fiscal policy perspective, policies for a better tax system together with a proper expenditure maintenance system will boost employment. On the other hand, labour market reforms also play a major role in creating employment opportunities.

Chart 21: **Unemployment Rate**



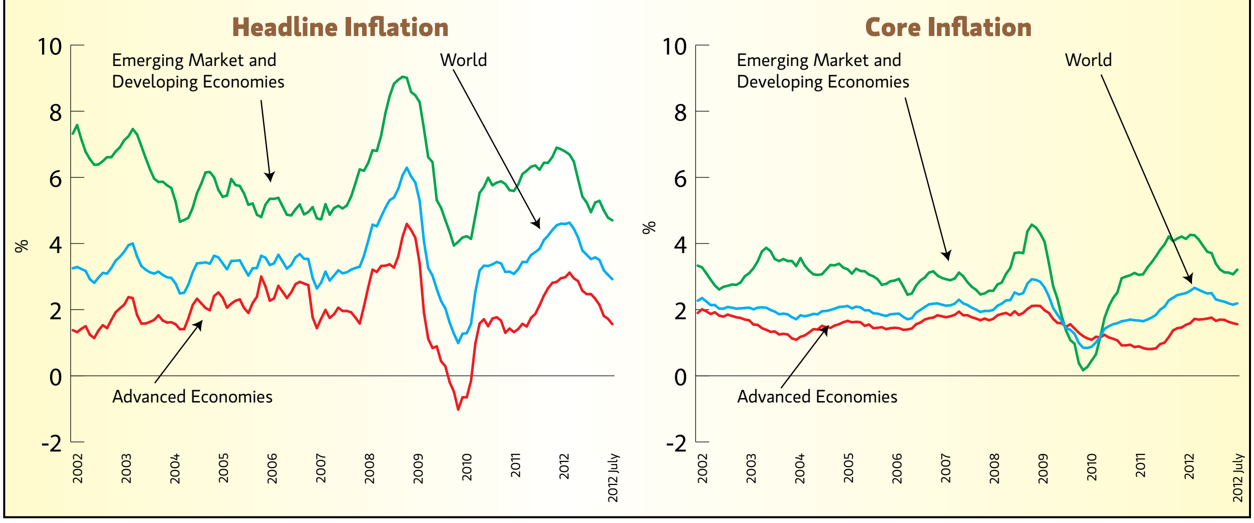
Quoted from World Economic Outlook (WEO) October 2012 Published by IMF

Inflation

As a result of the slowdown in global activities, reduced commodity prices and maintaining accommodative monetary policies, the inflation in the advanced economies are declining. The inflation in advanced economies is projected to be at 1.9 percent in 2012 with the expectation of a further reduction to 1.6 percent in 2013. In Japan, it is forecast to stay near zero in both years. The increased consumer tax may push Euro Zone inflation upward slightly. The inflationary pressures in developing and emerging economies, except Middle East and North America and Central and Eastern

Europe, are also reduced by 1.5 percent to 5.0 percent due to lower commodity prices and inflation is projected to further decline to 4.9 percent in 2013 assuming the prices remain unchanged. However, there are concerns over food price hikes as prices started to pick up in mid-June and proper monetary and fiscal policy measures must be taken by economies to address inflationary pressures that could arise.

Chart 22: **Inflation**



Quoted from World Economic Outlook (WEO) October 2012 Published by IMF

Table 34: **Inflation and Unemployment**

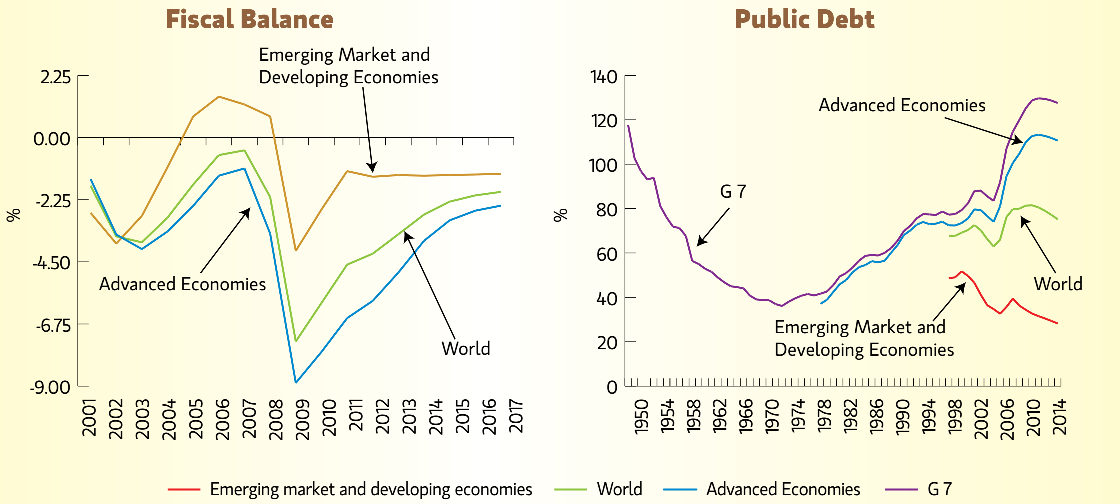
	Actual			Projections	
	2009	2010	2011	2012	2013
Consumer Price Inflation					
Advanced Economies	0.1	1.5	2.7	1.9	1.6
Developing Asia	3.0	5.7	6.5	5.0	4.9
Central and Eastern Europe	4.7	5.3	5.3	5.6	4.4
Commonwealth of Independent States	11.2	7.2	10.1	6.8	7.7
Latin America and the Caribbean	6.0	6.0	6.6	6.0	5.9
Middle East and North America	6.6	6.9	9.7	10.4	9.1
Sub-Saharan Africa	9.4	7.5	9.7	9.1	7.1
Unemployment Rates					
Advanced Economies	8.0	8.3	7.9	8.0	8.1
United States	9.3	9.6	9.0	8.2	8.1
Euro Area	9.6	10.1	10.2	11.2	11.5
Germany	7.7	7.1	6.0	5.2	5.3
France	9.5	9.8	9.6	10.1	10.5
Italy	7.8	8.4	8.4	10.6	11.1
Spain	18.0	20.1	21.7	24.9	25.1
Japan	5.1	5.1	4.3	4.3	4.2
UK	7.5	7.9	8.0	8.1	8.1
Newly Industrialized Asian Economies	4.3	4.1	3.6	3.5	3.5

Source: World Economic Outlook (WEO) October 2012, published by IMF

Government Debt

The debt-to-GDP ratios are increasing in large advanced economies including the United States, Japan, Italy, the United Kingdom and France in which the debt level in the first three countries exceeds 100 percent of the GDP. The differential in real interest rate on public debt and real GDP growth rate, primary deficits and stock flow adjustments have contributed to the pushing up of debt ratios. However, the debt-to-GDP ratios of emerging economies are at lower levels than the pre-crisis levels.

Chart 23: **Fiscal Balance and Public Debt**



Quoted from World Economic Outlook (WEO) October 2012 Published by IMF

Table 35: **Government Debt/ GDP Ratio in Selected Countries**

Country	2009	2010	2011	2012	2013
Canada	83.3	85.1	85.4	87.5	87.8
France	79.2	82.3	86.0	90.0	92.1
Germany	74.7	82.4	80.6	83.0	81.5
Greece	129.0	144.5	165.4	170.7	181.8
Italy	116.1	119.0	121.1	121.4	127.8
Japan	210.2	215.3	229.6	236.6	245.0
Korea	33.8	33.4	34.2	33.5	31.6
Singapore	103.3	101.2	107.6	106.2	103.4
Spain	53.9	61.3	69.1	90.7	96.9
United Kingdom	68.0	75.0	81.8	88.7	93.3
United States	89.7	98.6	102.9	107.2	111.7
India	74.2	68.0	67.0	67.6	66.7
Indonesia	28.6	26.9	24.5	23.9	22.2
Malaysia	52.8	51.0	52.9	53.0	53.5
Thailand	45.2	42.6	41.7	44.2	46.2
Pakistan	61.5	61.6	60.2	62.4	63.0
Philippines	44.3	43.5	41.9	41.5	39.7
Brazil	66.9	65.2	64.9	64.1	61.2
Mexico	44.5	42.9	43.8	43.1	43.2
Sri Lanka	86.2	81.9	78.5	78.0	74.3

Source: Fiscal Monitor-IMF (October 2012). For Sri Lanka, the latest official projections are shown.

Government debt reduction needs prudent fiscal consolidation with strengthened financial and monetary sectors. It is more effective to implement structural reforms, rather than temporary measures, to address structural weaknesses in the economy while there is a supportive monetary policy.

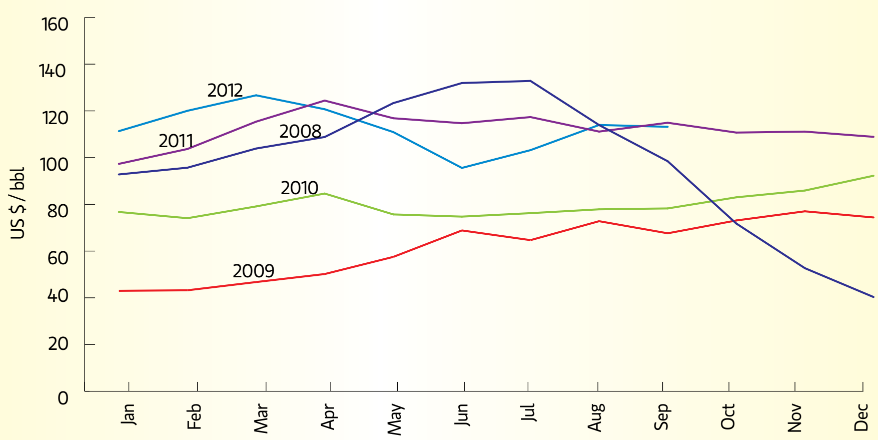
Commodity Prices

The non-energy commodity prices declined in the first half of 2012 owing to the slowdown of global economic activities. However, food prices went up by about 10 percent after mid-June especially in crops like wheat, corn and soybeans, due to supply shocks related to unfavourable weather conditions in the absence of sufficient stocks. The supply shortages in the above grains also has a spillovereffect on other food markets, like meat and ethanol. Although rice markets suffered slightly from a weaker Indian supply caused by monsoon disruptions, only a marginal increase was observed in the prices. Prices of sugar and beverages also declined in the first two quarters of 2012 from the peak prices recorded in 2011. Food demand, mostly from emerging and developing economies, remained elevated during the year. Metal prices peaked during the first quarter and decreased again by about 20 - 30 percent in the second quarter owing to deceleration of the industrial activities in advanced economies as well as policy-driven slowing down in China.

International Oil Prices

The Average Petroleum Spot Price (APSP) picked up to USD 120 per barrel in March 2012 and decelerated during the second quarter following a hike in the third quarter. This is a simple average of major crude oil varieties from Brent, Dubai and West Texas Intermediate (WTI). The oil supply of the members of the Organization of Petroleum Exporting Countries (OPEC) increased by 2.1 million barrels a day during the first six months of the year due to favourable supply conditions in Libya and Saudi Arabia. Non-OPEC supply comes from the Unites States and Canada, averaged at 1 million barrels a day, mainly owing to increased unconventional oil production. Overall expansion during this period was at an annual rate of 3.2 percent. The oil demand from the advanced economies went down during the second quarter compared to the last quarter of the previous year, but demand from Asian and Pacific countries, especially that of Japan, China, India and Middle East, grew due to an increase in vehicle usage, power generation and other economic activities. Even though there are indications of a decline in the Brent crude oil price to less than USD 100 per barrel, upside risks such as geopolitical turmoil in oil producing areas, market disruptions in the North Sea region and expected stimulus in China, the United States and Europe make the predictions more difficult.

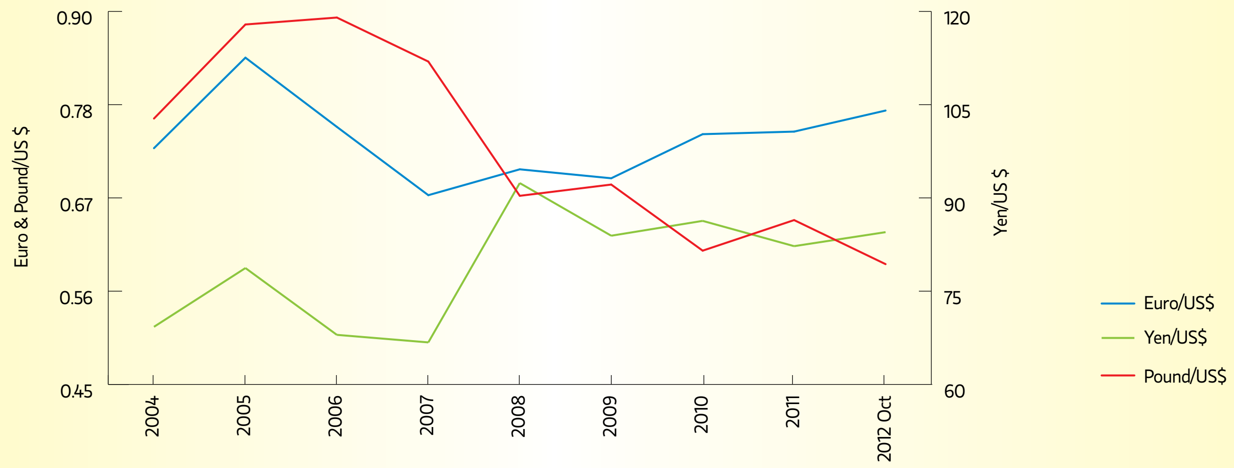
Chart 24: **Monthly Average Crude Oil (Brent) Prices**



International Currency Movements

In the international currency markets, the US dollar continued to depreciate against the Euro, while appreciating against the Yen. The Sterling pound appreciated against the US dollar during the first three quarters of the year.

Chart 25: **Exchange Rates against USD**



World Trade

The volume of world trade grew by 5.8 percent in 2011 following a significant growth of 12.6 percent in 2010 after a 10.4 percent contraction in 2009. The world trade volume is projected to increase by 3.2 percent in 2012. Imports of advanced economies are projected to be grown by 1.7 percent compared to the 4.4 percent growth in the previous year. This will have negative spillovers to export-oriented economies that have trade links with those economies. If the Euro Zone crisis and the slowdown in the US economy continue throughout the year, export-oriented economies in Asia, including Sri Lanka, will suffer by lower external demand and related issues. The forecast for the increase in export trade volume in emerging market and developing economies is 4 percent, relative to the growth of 6.5 percent in 2011. The import trade volume of these economies will be 7 percent in 2012 which is a satisfactory level comparing to the growth of 8 percent of 2011. The exports of advanced economies are projected to go up by 2.2 percent but this is a much lower value considering the increase of 5.3 percent seen in 2011.

Rising fuel prices have a negative effect on Sri Lanka's trade balance as the country is highly dependent on oil imports for transportation as well as power generation. After the resurrection of the Northern and Eastern Provinces with the end of the internal conflict, the country is achieving self-sufficiency in rice and this makes her less vulnerable to shocks in global rice markets. The international sugar prices are also declining while the rising oil and wheat prices may adversely affect the trade balance by increasing import expenditure to a considerable level.

Capital Flows

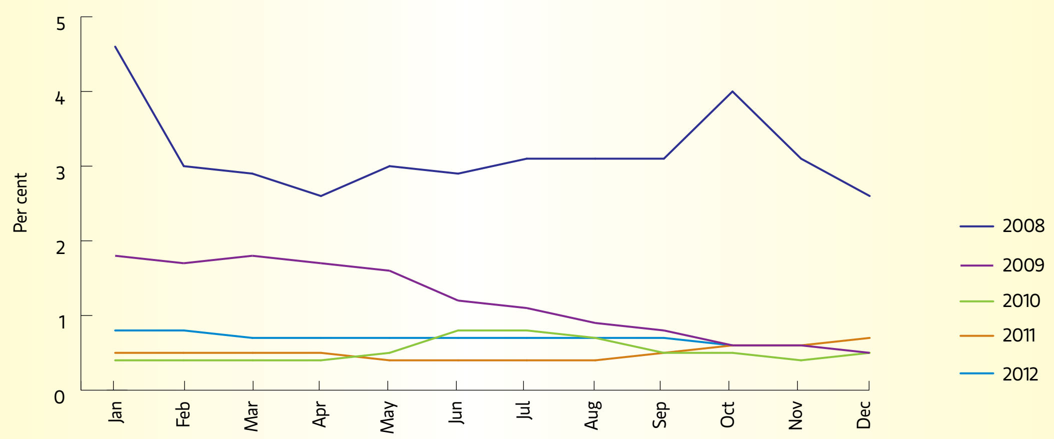
The net private financial flows to the emerging market and developing economies are expected to be USD 268 billion in 2012, a much lower amount compared to USD 503 billion recorded in 2011. The projected amount to developing Asia is USD 113 billion following USD 303 billion reached in the last year. The expected net private financial flows to Latin America and the Caribbean region is USD 131 billion. These two regions remain stronger than other developing economies and are not subjected to reversal of flows although faced with temporary reductions as a consequence of spillovers from advanced economies. As pointed out in the World Economic Outlook published by IMF in October 2012, the reduction in capital flows started before the onset of the global financial crisis – in early 2007 for developing Asia and in late 2007 for Latin American and Caribbean economies. Then the flows increased again in 2009 until the situation become more volatile in 2011. Emerging markets suffered from capital outflows owing to the decline in equity markets and widened risk spreads. The slowing down of the recovery of Euro Zone and the US will make capital flows to emerging markets and developing economies which have stronger links with those economies, more volatile.

Interest Rates

Interest rates in both advanced and emerging markets and developing economies reached low levels during the first six months of 2012 due to accommodative monetary policies adopted by central banks. Further actions were taken to decrease policy rates in selected markets targeting certain categories of borrowers in order to reduce borrowing costs, especially by the European Central Bank. The Federal Reserve extended low interest guidance from late 2014 to mid 2015 while advanced economies like Australia, Czech Republic, Korea and Israel cut policy rates or postponed further increases. Emerging markets and developing economies like Brazil, China, Columbia, Hungary, the Philippines and South Africa cut their policy rates during this period. Therefore credit growth is still very high among these economies.

The decreased economic activities in advanced economies have an impact on Sri Lanka's external sector with a deceleration in exports, especially to European countries. Any increase in oil prices and food prices will likely increase import expenditure. High dependence on oil is another key area that should be addressed by introducing and developing alternate energy sources, promoting energy conservation together with appropriate pricing policies. The Government has already implemented a domestic food production drive which will help protect the country from price escalations in major agricultural produce in the international market.

Chart 26: **Monthly Movement of Six Month LIBOR**



Basis used for the Preparation of 2013 Budget Estimates

Gross Domestic Product

The economy is expected to register a growth rate of around 7.5 - 8 percent in 2013 and the growth is projected to be broad based with a positive contribution from all the major sectors of the economy. The agriculture sector is expected to perform well with the contribution of major agricultural crops with fertilizer support programs in both export and domestic agriculture with the prevalence of favourable weather and the revival in the North and Eastern Provinces. The industry sector would also expand in 2013, particularly with the expanded contribution that's expected from the factory industry output with the increase in demand emanating from both domestic and international markets. Implementation of several planned mega projects in the country is likely to boost aggregate demand and output. Meanwhile, the service sector is projected to expand on a higher growth path with positive contributions coming mainly from port-related services, tourism, transportation, financial services and external and domestic trade. The projected growth momentum is expected to be supplemented by investment expenditure by the private sector in an environment of positive investor confidence.

Consumer Prices

Inflation is expected to remain subdued at around 6 - 7 percent in 2013. The supply side improvements in domestic agricultural production are expected to impact favourably on price developments. Globally, the demand pressures are also expected to remain subdued in 2013, reflecting the slower recovery of the world economy. However, the gradual recovery of the world economy is expected to lead to utilization of excess capacities in major economies, which is likely to exert pressure on commodity prices, especially on petroleum.

Employment and Unemployment

Greater employment opportunities are expected to be created through the Government's strategies towards improved production and commitment to speed up infrastructure development. The emphasis placed on human resource and skills development is also expected to create a better skilled and productive labor force capable of being gainfully employed in new openings in micro-entrepreneurship categories. These measures, coupled with the expansion in the private sector investments and production and related expansion in all sectors of the economy, are expected to reduce unemployment to around 4.5 percent of the labour force.

Balance of Payment (BoP)

Sri Lanka's external sector is expected to improve further in 2013, recording an overall BoP surplus and thereby the country's external reserves. In spite of weakening external demand and lower prices, exports are expected to recover in 2013 around 10 percent (in USD terms) with higher value addition, diversification of export products as well as the expected gradual recovery of the global economy. The positive impact of free trade agreements and deeper regional economic integration will also favourably influence the exports.

Imports are projected to grow by around 8 - 10 percent in 2013, mainly due to higher import demand arising from expected regain in domestic economic activities. Even though the trade deficit is expected to be widened, envisaged improvements in services account through enhanced tourism, port and airport related services etc., and continuous improvement in inflows of foreign worker's remittances are expected to ease and offset the deficit of the external current account to a significant extent. As a percent of GDP, the current account deficit is projected to narrow down to around 3.6 percent in 2013. Worker's remittances, which grew at a rapid pace in 2012, are expected to generate around USD 6,900 million in 2013. Renewed foreign investor confidence in debt and equity investment would help to strengthen the capital account as well.

Exchange Rate

The flexibility in the exchange rate would be continued while maintaining the country's external reserves at a satisfactory level.

Monetary Aggregates

Money supply would be maintained at a level compatible with the expected growth in the nominal GDP in 2013. The envisaged fiscal consolidation in the Government's fiscal operations would help to allow sufficient resources to be channeled to the private sector to achieve the expected economic growth.

Revenue

Assumptions used for the revenue estimate are given in Annex II.

Expenditure

A concerted effort is made for managing the operational expenditures of the Government and mobilizing and directing resources to meet infrastructure development needs in areas including roads, ports, electricity generation etc., at a national level and supporting infrastructure of provincial and local level to ensure spreading the high economic growth across the regions benefiting lower income groups as well. Public investment would be maintained around 6-7 percent of GDP to complement over 8 percent economic growth in the medium term. Current expenditure estimates have taken into consideration the need to allocate adequate provisions for payments pertaining to wages, pensions, utility services and supplies.

Borrowings

A proper combination of domestic and foreign borrowings will be adopted to ensure that the debt to GDP ratio would continue to decline. The restructuring of the debt portfolio will be done to convert high cost short term debt to low cost long term debt to minimize the interest cost of the Government budget.

Sensitivities to the Estimates

Economic Projections could be sensitive to the following challenges:

- A faster recovery of the global economy than envisaged which could effect the price trends in international oil and other commodities. This would affect imports as well as the domestic supply and budget costs.
- Unfavorable weather conditions would have an impact on agriculture and hydro power generation.
- Natural disasters.
- Adjustment costs to external shocks which would have an impact on the domestic production and economic growth.
- Administrative and procurement related impediments.
- Capacity constraints to the medium term transformation may affect the use of funds in relation to foreign funded large projects and thereby investment level and economic growth

Risks likely to have a material effect on the fiscal position

- Higher than expected oil and commodity prices in international markets which could threaten the macroeconomic stability and growth targets while affecting Government expenditure and revenue.
- Deterioration of global imbalances resulting in a lower than expected global economic growth which could adversely affect external demand for Sri Lankan goods and services which will result in a slowing down of the Sri Lankan economy.
- New recruitments to the public service in excess of the targeted retirements.
- Poor/under performance of state and public enterprises.
- Need to provide duty concessions/exemptions and subsidies to contain cost of in the wake amidst significant fluctuations of oil and commodity prices in the international market.

Annex 1

Macro Economic Indicators

Table 1: **Quarterly Growth Rates of Key Sub-Sectors of Agriculture**

Sector	2011					2012*	
	Q_1	Q_2	Q_3	Q_4	Annual	Q_1	Q_2
Tea (Mn kg)	78	93	74	82	328	73	90
Growth %	5.9	-2.1	-5.6	-1.2	-0.9	-6.7	-3.5
Rubber (Mn kg)	44	37	38	39	158	42	39
Growth %	4.7	10.8	2.2	- 3.6	1.8	-5.5	7.0
Coconut (Mn nuts)	603	733	727	684	2,727	719	776
Growth %	-2.1	7.9	5.1	-1.8	3.0	9.8	6.0
Paddy ('000 mt)	1,484	395	395	1,497 499	3,875	2,150	572
Growth %	-20.0	-23.3	12.4	12.4	-8.4	35.2	36.4
Fish (Mn kg)	101,840	103,490	114,530	122,750	442,610	107,990	116,800
Growth %	12.8	16.7	17.3	1 4.8	15.5	6.1	12.9

Source: Department of Census and Statistics

** Provisional*

Table 2: **Performance in Industrial Sector: 2010 - 2012**

%

Description	2010	2011	2012*	
			Q1	Q2
Food, Beverages and Tobacco Products	6.8	7.1	6.5	6.3
Textile, Apparel and Leather Products	5.2	10.8	7.4	5.5
Apparel	5.3	12.4	8.7	6.1
Textile	5.2	4.3	1.8	2.3
Leather	2.7	7.2	3.8	5.2
Chemical, Petroleum, Rubber and Plastic Products	12.2	9.3	8.1	7.3
Non-metallic Mineral Products	10.4	8.2	7.7	6.1
Overall Industrial Growth	**7.5**	**8.3**	**6.8**	**6.2**

Source: Department of Census and Statistics

** Provisional*

Table 3: **Performance in Electricity Generation and Services Sector: 2010 - 2012**

Category	2010	2011	2011			2012	2012		
			Q1	Q2	1st Half	Proj	Q1	Q2	1st Half
Electricity Generation									
Total Generation (GWh) (Excluding Self Generation)	10,714	11,527	2,718	2,862	5,580	11,926	2,943	2,933	5,876
Growth Rate	8.4	7.6	5.1	8.9	7.0	3.5	8.3	2.5	5.3
Hydro	5,636	4,623	1,773	1,442	3,215	2,673	535	714	1,249
Growth Rate	45.2	-18.0	77.7	28.1	51.4	-42.2	-69.8	-50.5	-61.2
Thermal (includes Independent Power Plants)	4,995	6,785	930	1,384	2,314	9,253	2,391	2,172	4,563
Growth Rate	-16.4	35.8	-41.1	-7.1	-24.6	36.4	157.1	56.9	97.2
Hydro:Thermal Ratio	53:47	40:60	65:35	50:50	58:42	22:78	18:82	24:76	21:79
Reservoir Water Level % (Period Average)	67.3	48.6	82.4	46.7	64.5	-	44.0	32.9	38.4
Port Services									
Total Cargo Handled ('000 MT)	61,240	65,059	16,124	15,674	31,798	66,360	16,372	16,173	32,545
Growth Rate	25.5	6.2	10.1	2.9	6.4	2.0	1.5	3.2	2.3
Total Container Handled ('000 TEUs)	4,137	4,263	1,077	1,017	2,094	4,329	1,027	1,055	2,082
Growth Rate	19.4	3.0	8.4	-0.1	4.1	1.5	-4.6	3.7	-0.6
Telecommunications Services (No. of Subscribers)									
Fixed Lines ('000)	3,535	3,608	3,550	3,553	3,553	3,660	3,616	3,431	3,431
Growth Rate	2.9	2.1	2.5	0.9	0.9	1.4	1.9	-3.4	-3.4
Cellular ('000)	17,267	18,319	17,727	18,176	18,176	20,019	18,866	19,272	19,272
Growth Rate	21.1	6.1	17.8	14.5	14.5	9.3	6.4	6.0	6.0
Total Fixed Lines and Cellular ('000)	20,802	21,927	21,277	21,729	21,729	23,679	22,482	22,703	22,703
Growth Rate	17.5	5.4	15.0	12.1	12.1	8.0	5.7	4.5	4.5
Internet and email ('000) (a)	502	844	589	646	646	n.a.	1,086	1,146	1,146

Source: Central Bank of Sri Lanka

(a) Including mobile broadband connections

Table 4: **Export Performance in 2011-2012**

USD Mn.

Item	2011(a)			2012		
	Jan-Jul	Aug-Dec	Total	Jan-Jul(b)	Aug-Dec (c)	Total (c)
Agricultural Products	**1,432**	**1,095**	**2,528**	**1,336**	**978**	**2,313**
Tea	841	650	1,491	795	551	1,346
Rubber	129	77	206	86	39	125
Coconut Products	135	131	266	128	103	231
Other Agricultural Products	327	237	565	326	285	611
Industrial Products	**4,582**	**3,409**	**7,992**	**4,301**	**3,228**	**7,529**
Textile and Garments	2,398	1,793	4,191	2,310	1,679	3,989
Petroleum	335	218	553	276	168	445
Other Industrial Products	1,849	1,398	3,248	1,714	1,381	3,095
Mineral Exports	**19**	**14**	**33**	**32**	**14**	**46**
Other Exports	**4**	**2**	**7**	**95**	**4**	**99**
Total Exports	**6,038**	**4,521**	**10,559**	**5,763**	**4,224**	**9,987**

Source: Central Bank of Sri Lanka

(a) Revised

(b) Provisional

(c) Projected

Table 5: **Import Performance in 2011-2012**

USD Mn.

Item	2011(a)			2012		
	Jan-Jul	Aug-Dec	Total	Jan-Jul (b)	Aug-Dec (c)	Total (c)
Consumer Goods	**2,091**	**1,562**	**3,654**	**1,861**	**999**	**2,860**
Rice	10	9	18	17	11	28
Sugar	252	174	426	207	111	318
Other Food Products	672	450	1,122	582	323	904
Other Consumer Goods	1,158	929	2,087	1,056	554	1,610
Intermediate Goods	**6,719**	**5,556**	**12,275**	**6,649**	**4,873**	**11,521**
Petroleum Products	2,596	2,199	4,795	2,899	2,515	5,414
Wheat and Maize	301	128	429	227	109	335
Fertilizer	205	203	407	156	153	309
Textile and Clothing	1,340	981	2,321	1,297	866	2,163
Other Intermediate Goods	2,278	2,045	4,323	2,070	1,230	3,300
Investment Goods	**2,211**	**2,075**	**4,286**	**2,581**	**1,563**	**4,143**
Other Imports	**28**	**26**	**54**	**18**	**7**	**25**
Total	**11,050**	**9,219**	**20,269**	**11,109**	**7,441**	**18,550**

Sources: Sri Lanka Customs, Ceylon Petroleum Corporation, Lanka IOC PLC, Serandib Flour Mills (Pvt) Ltd, Central Bank of Sri Lanka.

(a) Revised
(b) Provisional
(c) Projections

Table 6: **Balance of Payments – 2012**

USD Mn.

Item	Q1 (a)	Q2 (a)	Annual Projection
A. Trade Balance	**-2,690**	**-2,125**	**-8,564**
Exports	2,659	2,310	9,987
Imports	5,349	4,434	18,550
B. Services	**342**	**303**	**1,162**
Receipts	930	888	3,507
Payments	587	586	2,345
C. Income, Net	**-197**	**-318**	**-1,067**
Receipts	212	-67	252
Payments	409	250	1,319
D. Goods, Services and Income, Net	**-2,545**	**-2,140**	**-8469**
E. Current Transfers, Net	**1,362**	**1,341**	**5,436**
Private Current Transfers, Net	1,356	1,324	5,389
Official Current Transfers, Net	5	17	47
F. Current Account	**-1,183**	**-799**	**-3,033**
G. Capital Account	**15**	**43**	**173**
Private Capital Transfers, Net	5	12	85
Official Capital Transfers, Net	10	31	88
H. Financial Account	**1,103**	**1,117**	**3,120**
Long-Term, Net	470	761	2,243
Direct Investment	205	190	800
Foreign Direct Investment, Net	205	190	800
Privatization Proceeds	0	0	0
Private Long-term, Net	-15	67	-88
Inflows	38	119	274
Outflows	53	51	362
Government Long-term, Net	280	504	1,531
Inflows	464	645	2,850
Outflows	184	142	1,319
Short-Term, Net	634	356	876
Protfolio Investment, Net	164	22	450
Private Short-term, Net	-399	-116	-974
Commercial Banks, Net	462	415	600
Government Short-term, Net	406	35	800
I. Errors and Omissions	**-300**	**-431**	**0**
J. Overall Balance	**-251**	**-69**	**260**
K. Monetary Movements	**251**	**69**	**-260**

Source: Central Bank of Sri Lanka

(a) Provisional

Table 7: **International Reserves**

USD Mn.

Item	End 2010	End 2011	Jul-12	Aug-12
Total External Reserves	8,035	7,199	8,744	8,694
Months of Imports	7.17	4.26	5.19	5.27
Gross Official Reserves	6,610	5,958	7,099	7,053
Months of Imports	5.9	3.53	4.22	4.28

Source: Central Bank of Sri Lanka

Table 8: **Government Foreign Currency Debt Outstanding**

USD Mn.

Items	End Aug 2012
Total Outstanding	47,204.9
Government Foreign Debt	22,630.4
Dollar Denominated Domestic Debt	
Sri Lanka Development Bonds (SLDBs)	1,614.1
Borrowings from Offshore Banking Units (OBUs)	150.0

Source: Central Bank of Sri Lanka

Table 9: **Outstanding Domestic Foreign Currency Debt of the Government**

USD Mn.

	End 2011	End Aug. 2012
Outstanding		
OBUs	154.0	150.0
SLDBs	1,567.1	1,614.1
Receipts		
OBUs	49.5	0.0
SLDBs	547.0	456.6
Payments		
OBUs	53.5	0.0
SLDBs	500.1	317.0

Source: Central Bank of Sri Lanka

Table 10: **Movements in Selected Exchange Rates (against the USD)**

Currency	Appreciation(+)/ Depreciation(-)	
	End 2010 - End 2011	End 2011 - Sep 2012
Sri Lanka Rupee	-2.58	-12.24
Indian Rupee	-15.30	-0.10
Bangladesh Taka	-13.75	-0.02
Parkistan Rupee	-4.64	-5.25
Singapore Dollar	-0.97	6.15
Thailand Bhat	-5.18	2.95
Taiwan Dollar	-3.59	3.30
Indonesian Rupiah	-0.79	-5.48
Philippine Peso	-0.09	5.03
Korean Won	-2.46	3.96
Japanese Yen	4.98	0.14

Source: Central Bank of Sri Lanka

Table 11: **Central Bank Holdings of Treasury Bills**

Rs. Mn.

End Period	Gross (Book Value)	Net of Repos (Book value)
2007	41.8	41.8
2008	143.7	143.2
2009	36.0	36.0
2010	20.7	2.3
2011	161.9	167.3
End Sep. 2012	203.3	211.1

Source: Central Bank of Sri Lanka

Table 12: **Commercial Banks' Loans and Advances to the Private Sector- June 2012 (a)(b)**

	Amount (Rs. Mn) (c)	As a % of Total
1. Agriculture and Fishing	**307,082**	**13.6**
of which...		
Tea	43,861	1.9
Rubber	17,169	0.8
Coconut	4,418	0.2
Paddy	12,543	0.6
Vegetable and Fruit Cultivation and Minor Food Crops	11,807	0.5
Livestock and Dairy Farming	9,667	0.4
Fisheries	6,790	0.3
2. Industry	**756,167**	**33.6**
of which...		
Construction	303,218	13.5
of which...		
----Personal Housing including Purchasing/Construction/Repairs	149,121	6.6
----Staff Housing	43,591	1.9
Food and Beverages	52,094	2.3
Textiles and Apparel	100,066	4.4
Wood and Wood Products Including Furniture	6,176	0.3
Paper and Paper Products	5,498	0.2
Chemical, Petroleum, Pharmaceutical and Healthcare, and Rubber and Plastic Products	38,022	1.7
Non-metallic Mineral Products	7,139	0.3
Basic Metal Products	9,958	0.4
Fabricated Metal Products, Machinery and Transport Equipment	67,561	3.0
Manufactured Products not specified elsewhere	6,158	0.3
3. Services	**523,112**	**23.2**
of which...		
Wholesale and Retail Trade	188,172	8.4
Tourism	51,758	2.3
Financial and Business Services	119,047	5.3
Transport	12,876	0.6
Communication and Information Technology	22,792	1.0
Printing and Publishing	8,496	0.4
Education	3,605	0.2
Health	9,438	0.4
Shipping, Aviation and Supply, and Freight Forwarding	7,646	0.3
4. Personal Loans and Advances (d)	**634,706**	**28.2**
of which...		
Consumer Durables	59,305	2.6
Pawning	326,100	14.5
Credit Cards	39,398	1.7
Personal Education	716	0.0
Personal Healthcare	642	0.0
5. Safety Net Scheme Related	**30,682**	**1.4**
(e.g., Samurdhi)		
6. Total	**2,251,749**	**100.0**

Source: Central Bank of Sri Lanka
(a) Includes loans and advances of Offshore Banking Units (OBUs)
(b) Loans and advances include overdrafts, bills discounted and exclude cash items in the process of collection
(c) Provisional
(d) Excludes personal housing loans, which have been included under 'Construction', classified under 'Industry'

Table 13: **Interest Rate Movements: 2010 - 2012 (%)**

Interest Rate	End Dec 2010	End Dec 2011	End Mar 2012	End June 2012	End Sep 2012
Policy Rates of the Central Bank					
Repurchase Rate	7.25	7.00	7.50	7.75	7.75
Reverse Repurchase Rate	9.00	8.50	9.00	9.75	9.75
Weighted Average Call Money Rate (with tax)	**8.03**	**8.24**	**9.20**	**10.39**	**10.56**
Weighted Average OMO Auction Rate (Repo)		-	**8.21**	**9.28**	-
Weighted Average OMO Auction Rate (Reverse Repo)		**8.07**	**-**	**-**	**9.70**
Treasury Bill Rates					
91 days	7.24	8.68	11.00	11.12	11.30
180 days	7.35	8.71	11.06	12.61	12.57
364 days	7.55	9.31	11.32	12.88	13.02
Lending Rates					
Average Weighted Prime					
Lending Rate (weekly)	9.29	10.77	12.80	13.39	14.15
Average Weighted Prime					
Lending Rate (monthly)	9.27	10.49	12.42	13.60	14.08
Average Weighted Lending Rate	14.80	13.44	14.09	14.88	15.14*
Deposit Rates					
Average Weighted Deposit Rate					
(AWDR)	6.23	7.24	7.88	8.38	9.22
Average Weighted Fixed Deposit Rate					
(AWFDR)	8.20	8.95	9.84	10.78	11.92

Source: Central Bank of Sri Lanka

** As at end August 2012*

Table 14 : **CCPI - Changes in Expenditure Values**

		Rupees		Change		
	Weight	Sep-11	Sep-12	Rupees	%	Contri. to Change (%)
Food and Non Alcoholic Beverages	**41.03**	**19,496.50**	**21,233.09**	**1,736.59**	**8.91**	**4.09**
Food	**34.32**	**16,081.32**	**17,590.23**	**1,508.91**	**9.38**	**3.55**
Bread and Cereals	7.87	3,925.44	4,419.81	494.37	12.59	1.16
Meat and Meat Products	2.29	1,010.10	980.13	-29.97	-2.97	-0.07
Fish and Seafood	5.95	2,864.58	3,121.73	257.15	8.98	0.61
Milk, Cheese and Eggs	6.11	2,749.42	3,141.70	392.28	14.27	0.92
Oils and Fats	1.15	580.27	565.41	-14.87	-2.56	-0.04
Fruit	1.43	660.82	691.64	30.81	4.66	0.07
Vegetables	5.65	2,203.95	2,434.09	t230.14	10.44	0.54
Sugar, Jam, Honey, Chocolate and Confectionary	1.54	725.56	802.71	77.15	10.63	0.18
Food Products n.e.c.	2.34	1,361.17	1,433.01	71.84	5.28	0.17
Non - Alcoholic Beverages	**0.87**	**500.74**	**527.86**	**27.11**	**5.41**	**0.06**
Coffee, Tea and Cocoa	0.73	442.81	456.63	13.82	3.12	0.03
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	0.14	57.93	71.22	13.30	22.95	0.03
Clothing and Footwear	**3.14**	**1,328.95**	**1,446.98**	**118.02**	**8.88**	**0.28**
Housing, Water, Electricity, Gas and Other Fuels	**23.72**	**8,413.01**	**9,125.25**	**712.24**	**8.47**	**1.68**
Furnishing, Household Equipment and Routine Household Maintenance	**3.60**	**1,362.26**	**1,451.73**	**89.47**	**6.57**	**0.21**
Health	**3.16**	**2,151.72**	**2,214.37**	**62.65**	**2.91**	**0.15**
Transport	**12.26**	**5,282.13**	**6,357.87**	**1,075.75**	**20.37**	**2.53**
Communication	**4.75**	**1,119.92**	**1,199.92**	**0.00**	**0.00**	**0.00**
Recreation and Culture	**1.50**	**592.87**	**606.41**	**13.54**	**2.28**	**0.03**
Education	**3.94**	**1,549.64**	**1,556.17**	**6.53**	**0.42**	**0.02**
Miscellaneous Goods and Services	**2.89**	**1,068.95**	**1,115.75**	**46.81**	**4.38**	**0.11**
All Items	**100.00**	**42,445.97**	**46,307.54**	**3,861.58**	**9.10**	**9.10**

Source: Department of Census and Statistics

Annex II

Assumptions For Revenue Estimates – 2013

Key Sectoral Growth Rates %

	2010	2011	2012
GDP	8.0	8.3	6.8
Agriculture	7.0	1.5	5.6
Industry	8.4	10.3	10.0
Services	8.0	8.6	5.4
Inflation - GDP Deflator (%)	7.3	7.8	8.2
Unemployment Rate (%)	4.9	4.2	4.5
Private Investment (% of GDP)	21.4	23.7	24.8

Value Added Tax (VAT)

Rate	Item
Zero Rate	Export Goods
Standard Rate (12%)	General Items
Exemptions	Goods and Services which are listed in the VAT exemption list of the VAT Act.

Value of Imports

USD Mn.

	2011	2012(a)
Rice	18	28
Sugar	426	318
Other Food	1,122	904
Other Consumable Goods	2,087	1,610
o/w Motor Vehicles	881	505
Petroleum	4,795	5,414
Fertilizer	407	309
Wheat and Maize	429	335
Chemicals	702	588
Textiles	2,321	2,163
Other Intermediate Goods	3,621	2,712
Machinery and Equipment	2,141	1,917
Transport Equipment	1,065	1,046
Building Materials	1,076	1,167
Other	58	38
Total	**20,269**	**18,550**

(a) Revised

(b) Projections

Composition of Imports

Category	% of Total Imports	
	2011	2012(a)
Consumer Goods	18.1	15.4
Intermediate Goods	60.6	62.2
Investment Goods	21.3	22.4

(a) Projections

Customs Duty Structure

Zero	Essential commodities, Basic raw materials and Machinery
5.0%	Semi processed items (Lowest level of protection for domestic industry)
15.0%	Intermediate products (Medium level of protection for domestic industry)
30.0%	Finished products (Highest level of protection for domestic industry)

Value of Imports and Growth

	2011	2012(a)
Value of Imports (USD Mn.)	20,269	18,550
Growth (%)	50.7	-8.5

(a) Projections

Selected Items Subject to Excise Duty

Volume of Hard Liquor (Million Lt.)	52	53
Volume of Malt Liquor (Million Lt.)	101	112
Volume of Cigarettes (Million Sticks.)	4,400	4,600
Volume of Aerated Water (Million Lt.)	160	165
Volume of Petrol (Million Lt.)	700	850
Volume of Diesel (Million Lt.)	2,000	2,400

Cigarettes Excise Duty Structure (Per 1,000 cigarettes as at October 6, 2012)

	Rs. per 1,000
Cigarettes each not exceeding 60mm. in length	4,612
Cigarettes each exceeding 60mm. but not exceeding 67mm in length	9,258
Cigarettes each exceeding 67mm. but not exceeding 72mmin length	12,100
Cigarettes each exceeding 72mm. but not exceeding 84mm in length	14,963
Cigarettes each exceeding 84mm. in length	18,500

Liquor Excise Duty Structure (As at October 6, 2012)

	Rs
Coconut Processed / Molasses Arrack (per proof liter)	1,043.00
Country Made Foreign Liquor (per proof liter)	1,183.00
Malt Liquor (Beer) above 5% in Strength (per bulk liter)	116.00
Malt Liquor Less Than 5% in Strength (per bulk liter)	100.00
Wine Containing More Than 4% in Strength (per proof liter)	898.00
Aerated Water (per proof liter)	8.00

Petroleum Excise Duty Structure

Petrol	Rs. 25.00 per liter
Diesel	Rs. 2.50 per liter

Excise (Special Provisions) Duty: Motor Vehicles Duty Structure

Item/ Engine Capacity	Rate (%)
(i) Cars - Petrol	
Less than 1000 cc	85.0
1000 cc - 1600 cc	85.0
1600 cc - 2000 cc	85.0
Exceeding 2000 cc	114.0
Exceeding 3000 cc	129.0
(ii) Cars - Diesel	
Less than 1600 cc	114.0
1600 cc - 2000 cc	129.0
2000 cc - 2500 cc	143 .0
Exceeding 2500 cc	173.0
(iii) Cars - Hybrid / Electric	
Less than 1000 cc	14.0
1000 cc - 1600 cc	14.0
1600 cc - 2000 cc	14.0
Exceeding 2000 cc	40.0
Exceeding 3000 cc	57.0
(iv) Vans	
13 – 20 Persons / Diesel	41.0
13 – 20 Persons / Petrol	41.0
Less than 13 Persons / Diesel	114.0
Less than 13 Persons / Petrol	85.0

Ports and Airports Development Levy

General Rate	5%
Imports for Re-export	Exempt

Receipt of Profits/ Profit Transfers and Dividends: 2011 – 2013

Rs. Mn.

	2011	2012 Budget	2013 Estimated
1. Bank of Ceylon	4,020	6,346	6,846
2. National Savings Bank	4,560	5,563	6,063
3. People's Bank	4,500	6,220	6,720
4. State Mortgage and Investment Bank	-	50	50
5. Telecommunications Regulatory Comm.	9,050	11,200	12,000
6. National Insurance Trust Fund	3,495	4,000	2,300
7. Sri Lanka Insurance Corporation	1,750	1,000	2,000
8. Geological Survey & Mines Bureau	740	450	500
9. Sri Lanka Telecom	536	560	670
10. Sri Lanka Export Credit Insurance Corp.	-	25	20
11. State Pharmaceuticals Corp.	39	30	30
12. Local Loan & Development Fund	-	4	5
13. State Pharmaceutical Manufacturing Corp.	20	37	35
14. State Timber Corp.	75	100	150
15. De La Rue Lanka Currency & Security Print	68	35	35
16. Ceylon Electricity Board	2000	-	-
17. Lanka Electricity Company	-	75	80
18. Airport and Aviation Services (Sri Lanka) Ltd.	2,406	-	-
19. Lanka Industrial Estates	31	25	25
20. Lanka Mineral Sands Ltd.	500	2,000	2,200
21. Lanka Phosphate Ltd.	20	50	40
22. Pussellawa Plantation Ltd.	28	23	25
23. Kotagala Plantation Ltd.	34	15	15
24. Chilaw Plantation Ltd.	75	75	75
25. Kurunagela Plantation	70	37	40
26. Kalubovitiyana Tea Factory	-	10	-
27. National Development Bank	2	-	4
28. Paranthan Chemicals Co Ltd.	2	6	7
29. Regional Development Bank	0	-	
30. Lanka Puthra Development Bank	6	2	2
31. Board of Investments	210	-	
32. Asian Reinsurance Corp.	6	-	3
33. Independent Television Network	49	24	30
34. Sri Lanka Rupavahini Corporation	0	40	42
35. Milco (Private) Ltd.	-	40	40
36. Others	59	61	92
Total Levies & Dividends	**34,351**	**38,103**	**40,144**

Source: Department of Public Enterprises

Rent Income

			Rs. Mn.
	2011	2012 Budget	2013 Estimated
Rent on Government Buildings & Housing	663	700	665
Rent on Crown Forests	1399	875	974
Rent from Land & Other	29	17	35
Lease Rental from Regional Plantation Companies	826	762	1021
Others	662	62	240
Total Rent Income	**3,579**	**2,416**	**2,935**

Fees and Charges

			Rs. Mn.
	2011	2012 Budget	2013 Estimated
Service Charges by Government Press	210	346	300
Fees of Passport, Visas and Dual Citizenship	3,764	7,043	5,773
Examination & Other Fees	166	150	165
Fees under the Motor Traffic Act & Other Receipts	6,272	5,850	6,800
From Other Various Sources	26,881	16,824	21,222
Total	**37,293**	**30,213**	**34,260**

Annex III

Statement of Guarantees Issued by the General Treasury up to 30.09.2012

No	File No.	Name of Institution	Name of the Bank or Institution	Purpose	Guaranteed Amount in Foreign Currencies USD Mn.	Guaranteed Amount in Foreign Currencies Euro	Guaranteed Amount (Rs Mn.)	Date of Issue	Date of Expiry
1	TO/ CM7/298	Co-operative Wholesale Establishment	People's Bank	Credit facility	-	-	207.10	2Feb-05	1-Dec-12
2	TO/ CM7/302	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	Credit facility	-	-	50.00	31-Jul-6	-
3	TO/ CM7/303	Lakdanavi Ltd.	National Savings Bank	Secure the Bonds	-	-	2,992.00	22-Feb-07	31-Mar-22
4	TO/ CM7/303	Lakdanavi Ltd.	Employee's Trust Fund Board	Secure the Bonds	-	-	2,992.00	1-Mar-07	31-Mar-22
5	TO/ CM7/303	West Coast Power (Pvt)Ltd.	Hongkong & Shanghai Banking Co.Ltd.	Kerawalapitiya Power Project	-	134,836,834	22,767.20	28-Jun-07	28-Jun-22
6	TO/ CM7/304 & TO/ CM7/311	Ceylon Electricity Board 300MW Kerawalapitiya Combine Cycle Power Plant Project	People's Bank	Credit facility	-	-	4,116.00	7-May-08	3-Mar-23
7	SA/ CM7/314	Ceylon Electricity Board	People's Bank	Credit facility	Rs.1.2Bn + US$ 4.2Mn	-	1,762.59	11-Jun-08	9-Oct-23
8	SA/ CM7/315	Ceylon Petroleum Corporation	Bank of Ceylon	Secure the loan facility	700	-	93,765.00	9-Sep-08	31-Dec-12
9	TO/ CM/316	Ceylon Electricity Board	People's Bank	Credit facility	-	2,885,813	487.27	29-Sep-08	31-Dec-12
10	TO/ CM/317	People's Bank Pension Trust Fund	People's Bank	Secure the Debentures	-	-	2,500.00	17-Dec-08	16-Dec-16
11	TO/ CM7/312	State Trading (Co-operative Wholesale) Company Ltd.	People's Bank	Credit facility	-	-	32.00	13-Mar-09	-
12	TO/ CM7/325	Ceylon Electricity Board	People's Bank	Secure Short Loan Credit facility	-	-	7,000.00	7-Sep-09	11-Mar-13
13	TO/ M7/321(ii)	Ceylon Petroleum Storage Terminals Ltd.	People's Bank	Credit facility	40.3	-	4,634.50	9-Oct-09	6-Oct-19
14	TO/ CM7/317	People's Bank Pension Trust Fund	People's Bank	Secure the Debentures	-	-	2,500.00	23-Oct-09	22-Oct-17
15	TO/ CM7/322	Urban Development Authority	National Savings Bank	Secure the loan facility	-	-	2,770.00	6-Nov-09	18-Nov-24
16	TO/ CM7/305	Mihin Lanka (Pvt)Ltd	Bank of Ceylon	Secure the loan facility	13.5	-	1,552.50	25-Nov-09	24-Nov-12
17	TO/ CM7/330	STC General Trading Company Ltd.	Bank of Ceylon	Secure the loan facility	-	-	1,100.00	22-Dec-09	31-Dec-12
18	TO/ CM7/333	Ceylon Electricity Board	People's Bank	Term Loan Facility	-	-	5,000.00	17-Aug-10	31-Jul-16
19	TO/REV/ TG/334	Urban Development Authority	Bank of Ceylon	Issue of Debentures	-	-	10,000.00	8-Jul-10	08-Jul-15
20	TO/REV/ TG/335	Lanka Coal Company (PVT) Ltd	People's Bank	Short term Loans	-	-	1,000.00	27-Sep-10	27-Sep-13
21	TO/ CM7/305	Mihin Lanla (Pvt) Ltd.	Bank of Ceylon	Air Bus	-	-	252.27	25-Nov-10	25-Nov-12
22	TO/ CM7/322	Urban Development Authority	Bank of Ceylon	Secure the loan facility	64.5	-	8,639.78	30-May-11	30-Jun-14
23	TO/REV/ TG/340	Road Development Authority	Commercial Bank	Secure the loan facility	-	-	1,534.00	1-Sep-11	28-Feb-26
24	TO/REV/ TG/346	General Sir John Kotelawala Defence University	Bank of Ceylon	Secure the loan facility	-	-	85.00	29-Aug-11	31-Dec-26

No	File No.	Name of Institution	Name of the Bank or Institution	Purpose	Guaranteed Amount in Foreign Currencies		Guaranteed Amount (Rs Mn.)	Date of Issue	Date of Expiry
					US$ Mn.	Euro			
25	TO/REV/ TG/347	Ceylon Petroleum Corporation	People's Bank	Secure the loan facility	32	-	4,286.40	1-Nov-11	-
26	TO/REV/ TG/353	Road Development Authority	Bank of Ceylon	Secure the loan facility	-	-	2328.36	14-Mar-12	31-Dec-26
27	TO/REV/ TG/354	Road Development Authority	Bank of Ceylon	Secure the loan facility	-	-	2472.36	12-Mar-12	31-Dec-26
28	TO/REV/ TG/355	Road Development Authority	Bank of Ceylon	Secure the loan facility	-	-	2,750.00	12-Mar-12	31-Dec-26
29	TO/REV/ TG/350	Road Development Authority	People's Bank	Secure the loan facility	-	-	1,400.00	21-Mar-12	31-Dec-26
30	TO/REV/ TG/351	Road Development Authority	People's Bank	Secure the loan facility	-	-	7,995.68	21-Mar-12	31-Dec-26
31	TO/REV/ TG/352	Road Development Authority	People's Bank	Secure the loan facility	-	-	2,861.81	21-Mar-12	31-Dec-26
32	TO/REV/ TG/349	Ceylon Petroleum Corporation	People's Bank	Secure the loan facility	200	-	26,790.00	10-Apr-12	30-Apr-13
33	TO/REV/ TG/344	Ministry of Defence and Urban Development	Hatton National Bank	Secure the loan facility	-	-	3,550.00	24-Apr-12	31-Dec-30
34	TO/REV/ TG/344	Ministry of Defence and Urban Development	Commercial Bank	Secure the loan facility	-	-	2,000.00	24-Apr-12	31-Dec-30
35	TO/REV/ TG/344	Ministry of Defence and Urban Development	People's Bank	Secure the loan facility	-	-	1,000.00	24-Apr-12	31-Dec-30
36	TO/REV/ TG/344	Ministry of Defence and Urban Development	DFCC Bank	Secure the loan facility	-	-	1,000.00	24-Apr-12	31-Dec-30
37	TO/REV/ TG/356	Sri Lankan Airlines	Mashreqbank Psc - Dubai	Secure the loan facility	175	-	23,441.25	1-Jun-12	-
38	TO/REV/ TG/357	Road Development Authority	Bank of Ceylon	Secure the loan facility	-	-	2,647.63	6-Jun-12	31-Dec-26
39	TO/REV/ TG/361	Ceylon Petroleum Corporation	Bank of Ceylon	Secure the loan facility	200	-	26,790.00	27-Jun-12	27-Oct-12
Total							**289,052.70**		