

**MID - YEAR
FISCAL POSITION REPORT
2014**

**MINISTRY OF FINANCE AND PLANNING
SRI LANKA**



**MID-YEAR
FISCAL POSITION REPORT - 2014**

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

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

30th June 2014

Mid-Year Fiscal Position Report

Issued by the Hon. Minister of Finance

Under Section 10 of the Fiscal Management (Responsibility) Act No. 03 of 2003

In terms of Section 10 of the Fiscal Management (Responsibility) Act No. 03 of 2003, the Minister of Finance is requested to present the Mid-Year Fiscal Position Report to the public by the last day of June of the year and thereafter lay before Parliament.

The purpose of this report is to provide updated information on the Government's fiscal performance as per the fiscal strategy of the Government.

The report contains the performance of government revenue, expenditure, cash flow operations and borrowings during the first four months of the year 2014. The report also provides provisional budget outturn for the first four months of 2014, updated information, depending on the availability of information, relating to macroeconomic performance, price developments, foreign financing, government debt and official reserves as well as the performance of state owned business enterprises.

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Key Economic Indicators

Indicator	Period	Unit	Value	
			2013	2014
REAL SECTOR				
Economic Growth	First Quarter	%	6.1	7.6
Agriculture	First Quarter	%	3.4	0.2
Industry	First Quarter	%	10.7	12.6
Services	First Quarter	%	4.3	6.5
Inflation (Point to Point)	End June	%	6.8	2.8
Inflation (Average)	End June	%	8.6	4.9
Unemployment Rate	2013 (Annual)	%	4.4	n.a
Labour Force Participation Rate	2013 (Annual)	%	53.8	n.a
FISCAL SECTOR				
Budget Deficit	Jan-April	Rs. Mn.	-343,531	-347,018
Budget Deficit	Jan-April	% of GDP	-3.9	-3.5
Total Revenue	Jan-April	Rs. Mn.	309,378	345,056
Tax Revenue	Jan-April	Rs. Mn.	286,194	310,578
Non Tax Revenue	Jan-April	Rs. Mn.	23,184	34,478
Recurrent Expenditure	Jan-April	Rs. Mn.	468,380	498,998
Public Investment	Jan-April	Rs. Mn.	194,437	203,673
Government Debt	End March	Rs. Mn.	6,322,487	7,184,625
EXTERNAL SECTOR				
Exports	Jan-April	US\$ Mn.	3,055	3,571
o/w Agriculture Exports	Jan-April	US\$ Mn.	727	861
Industrial Exports	Jan-April	US\$ Mn.	2,318	2,666
Textile and Garments	Jan-April	US\$ Mn.	1,325	1,602
Other	Jan-April	US\$ Mn.	993	1,065
Imports	Jan-April	US\$ Mn.	6,036	6,192
Consumer Goods	Jan-April	US\$ Mn.	984	1,044
Intermediate Goods	Jan-April	US\$ Mn.	3,528	3,873
o/w Petroleum Products	Jan-April	US\$ Mn.	1,441	1,762
Investment Goods	Jan-April	US\$ Mn.	1,520	1,271
Trade Balance	Jan-April	USD Mn.	(2,981)	(2,621)
Trade Balance	Jan-April	% of GDP	(4.3)	(3.5)
Tourist Arrivals	Jan-May	No.	493,294	624,178
Earnings From Tourism	Jan-May	US\$ Mn.	663.9	901.8
Workers' Remittances	Jan-May	US\$ Mn.	2,511	2,775
Portfolio Investments (Net)	Jan-April	US\$ Mn.	72	(51)
Overall Balance of Payments (BOP)	Jan-April	US\$ Mn.	352.5	1,544.6
Gross Official Reserves	End April	US\$ Mn.	7,104	8,897
Exchange Rate (End Month)	End June	Rs. Per US\$	129.96	130.33
Exchange Rate (Monthly Average)	Jan- June	Rs. Per US\$	126.75	130.59
MONETARY SECTOR				
Standing Deposit Facility Rate (SDFR)	End June	%	7.0	6.5
Standing Lending Facility Rate (SLFR)	End June	%	9.0	8.0
Statutory Reserve Requirement (SRR)	End June	%	6.0	6.0
Commercial Bank Average Weighted Prime Lending Rate (AWPR)	End June	%	12.37	7.91
Commercial Bank Average Weighted Lending Rate (AWLR)	End April	%	16.45	14.18
Sri Lanka Inter Bank Offer Rate (SLIBOR) (1 Month)	End June	%	10.05	7.72
W.A. Yield Rate of Treasury Bills (91 Days)	End June	%	8.66	6.51
W.A. Yield Rate of Treasury Bills (364 Days)	End June	%	10.66	6.99
Growth in Money Supply (M _{2b})	Apr 2014/Apr 2013	%	15.2	13.2
Growth in Credit to the Private Sector	Apr 2014/Apr 2013	%	10.2	3.3

Sri Lanka: Selected Indicators

Indicator	Period	Unit	Value
Electricity			
Electrification Level	2013	% of Households with Access to Electricity	96
Water			
Access to Safe Drinking Water	2013	% of Population	88.7
Access to Pipe Borne Water	2013	% of Population	44.6
Roads			
Paved Roads in National Road Network	2013	%	85
National Roughness Index (IRI) less than 5mm/km of National Roads	2013	%	62
Road Density	2013	km ²	1.76
Total Road Length	2013	km	115,425
Communication			
Telephone Density including Cellular Phones	2013	Per 100 Persons	112.4
Access to Internet	2013	Per 100 Persons	9.8
Education			
Primary School Enrolment Ratio	2013	%	98.4
Student/Teacher Ratio (Government Schools)	2013	Number	18
Literacy Rate (Average)	2012	%	95.6
Computer Literacy Rate	2013	%	40
Health			
No of Hospitals	2013	Number	813
No of Beds	2013	Number	79,820
Hospital Beds Per 1,000 persons	2013	Number	3.6
Persons per Doctor	2013	Number	1,167
Population			
Density of Population	2013	Persons Per sq. km	327.0
Growth of Population	2013	%	0.8
Life Expectancy	2012	Years	75.1
Infant Mortality Rate	2009	Per 1000 Live Births	9.7
Maternal Mortality Rate	2013	Per 1000 Live Births	0.3
Crude Birth Rate	2012	Per 1000 Persons	17.5
Crude Death Rate	2012	Per 1000 Persons	6.0
Dependency Ratio	2013	%	49.4
Poverty			
Poverty Head Count Index	2012/2013	%	6.7
Gini Coefficient of Household Income	2012/2013	%	0.48
Poverty Gap	2012/2013	%	1.1
Average Daily Calorie Intake	2012	Kilocalories	2,145
International Rankings			
Human Development Index	2012	Rank out of 186 Countries	92
Doing Business Index	2013	Rank out of 189 Countries	83
Global Competiveness Index	2013	Rank out of 148 Countries	65
The A.T. Kearney Global Services Location Index	2011	Rank out of 50 Countries	21
Infrastructure Index	2013	Rank out of 148 Countries	73
Economic Freedom Index	2013	Rank out of 185 Countries	81
Global Peace Index	2013	Rank out of 162 Countries	110
Basic Requirements Index	2013	Rank out of 148 Countries	77
e-Government Development Index	2013	Rank out of 193 Countries	74

CHAPTER 1

The Economy

1.1 Economic Growth

The Sri Lankan economy recorded a 7.6 percent growth, in real terms, during the first quarter of 2014 in comparison to 6.1 percent growth in the same period in 2013. The growth was supported mainly by the strong growth in the Industry and Services sectors, but lagged by a relatively lower growth in the Agriculture sector due to draught conditions. Achieving a growth rate of this magnitude following the growth rates of around 8 percent during the last two quarters in 2013 is notable. This reflected a continuation of the increase in the domestic economic activities from the second half of 2013 with the gradual recovery in the global economy and exports.

This growth performance was mainly contributed by the industry sector which grew by 12.6 percent during this period in comparison to 10.7 percent in the same period in 2013 with continued expansion in the manufacturing sector and construction activities. The Services sector improved recording a growth rate of 6.5 percent during the first quarter of this year. However, Agriculture sector recorded a slower growth of 0.2 percent during the first quarter in

2014 in comparison to 3.4 percent growth recorded during the same period in 2013.

The growth rate of agriculture, livestock and forestry sub sector which contributed for 10.3 percent of Gross Domestic Product (GDP), decreased by 1.2 percent in the first quarter in 2014 compared to the 2.3 percent growth recorded in the same period in 2013 owing to adverse weather conditions. The significant contraction in production of tea by 2.3 percent, production of paddy by 5.7 percent and plantation by 7.4 percent mainly contributed to this decline in the Agriculture Livestock and Forestry sub sector. The rubber and minor export crop sectors also contracted by 1.1 percent and 3.1 percent, respectively. However, the value additions by coconut sub sector and vegetable sub sector increased by 6.7 percent and 4.7 percent, respectively. Showing continuous potential, fishing industry recorded a 13.3 percent growth in this quarter in comparison to 13.9 percent growth in the same period in 2013.

The industry sector recorded a 12.6 percent growth and contributed to 32.7 percent of GDP with the continuous expansion in all the sub sectors, including manufacturing and construction activities, except electricity sub sector. The improved external demand mainly helped the improvement recorded in the manufacturing sector. The growth in factory industry was mainly supported by the improvement in the food and beverages, textile and wearing apparel industries benefiting from the recovery in advanced economies and increase in domestic demand due to enhanced economic activities. Meanwhile the negative growth in the electricity, gas and water sub sector was mainly due to the declined hydro power generation owing to unfavorable weather conditions.

Chart 1.1 >Quarterly GDP Growth

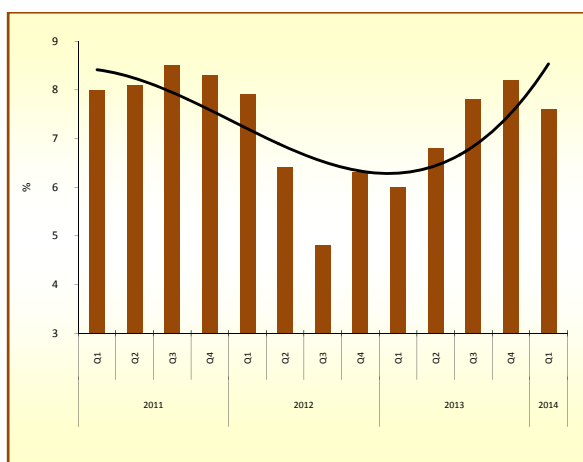


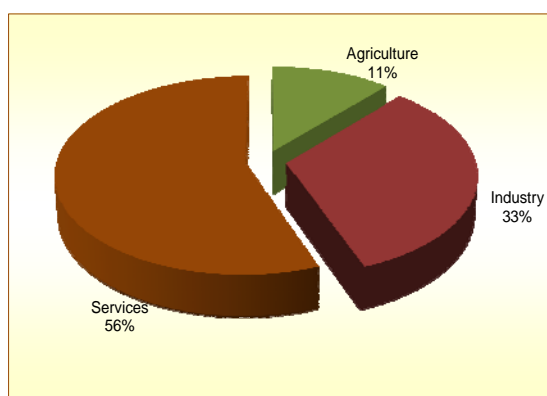
Table 1.1 > Sectoral Composition of GDP (2002 Constant Prices) - First Quarter

Rs. Million.

Item	2013	2014 (Prov.)	% Change
Agriculture, Forestry and Fishing	98,718	98,909	0.2
Agriculture, Livestock and Forestry	89,078	87,982	-1.2
Tea	7,089	6,926	-2.3
Rubber	845	836	-1.1
Coconut	6,792	7,248	6.7
Minor Export Crops	3,050	2,955	-3.1
Paddy	26,337	24,836	-5.7
Highland Crops	11,256	10,941	-2.8
Fruits and Vegetables	18,140	18,998	4.7
Livestock	5,825	6,006	3.1
Other Agriculture	5,390	5,140	-4.6
Firewood & Forestry	4,353	4,096	-5.9
Fishing	9,641	10,927	13.3
Industry	249,167	280,509	12.6
Mining and Quarrying	23,837	27,505	15.4
Manufacturing	139,646	152,035	8.9
Processing Industries	4,279	4,449	4.0
Factory Industry	126,665	138,772	9.6
Cottage Industry	8,702	8,814	1.3
Electricity, Gas and Water	17,487	17,428	-0.3
Electricity	15,450	15,280	-1.1
Gas	1,261	1,322	4.8
Water	776	825	6.3
Construction	68,198	83,452	22.4
Services	448,834	478,078	6.5
Wholesale and Retail Trade	171,993	186,352	8.3
Import Trade	52,458	54,866	4.6
Export Trade	25,797	30,010	16.3
Domestic Trade	93,737	101,476	8.3
Hotels and Restaurants	4,806	5,923	23.2
Transport and Communication	116,776	125,245	7.3
Transport	97,771	104,481	6.9
Port and Civil Aviation	4,638	5,014	8.1
Telecommunication	14,367	15,750	9.6
Banking, Insurance and Real Estate etc.	69,560	73,125	5.1
Ownership of Dwellings	19,831	20,073	1.2
Government Services	47,335	47,761	0.9
Private Sector Services	18,533	19,598	5.7
Gross Domestic Product	796,720	857,496	7.6

Source: Department of Census and Statistics

Chart 1.2>Sectoral Composition of GDP–
First Quarter 2014



Service sector recorded a significant growth of 6.5 percent in comparison to 4.3 percent growth during the same period in 2013 and contributed to 55.8 percent of the GDP during the first quarter of 2014. This growth was mainly supported by improved performance in wholesale and retail trade, hotels and restaurant and transport and communication sub sectors which grew by 8.3 percent, 23.2 percent and 7.3 percent, respectively in comparison to first quarter in 2013. Further, the moderate growth in domestic trade and banking, insurance and real estate services by

8.3 percent and 5.1 percent, respectively also had an impetus for the growth of the services sector. There was a strong recovery in the external trade activities, led by exports, due to the improvements in the global demand since mid last year.

1.2 Inflation

The annual average inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100), declined to 4.9 percent in June 2014 reflecting a continuous decline from the peak of 8.8 percent recorded in May 2013. The inflation on a year-on-year basis (YoY) declined to 2.8percent in June 2014 from 3.2percent in the previous month. The core inflation, which measures the price movements excluding fresh food, energy, transport, rice and coconut in the CCPI basket was 3.5percent in June in comparison to a peak level of 7.6 percent in December 2012 on aYoY basis while annual average core inflation decreased to 3.0 percent in June from 6.6percent in May 2013.

Table 1.2 > **Headline and Core Inflation (Point to Point)**

Year	Month	Headline Inflation	Core Inflation
		(%)	(%)*
2013	January	9.8	7.3
	February	9.8	7.4
	March	7.5	6.8
	April	6.4	6.1
	May	7.3	5.7
	June	6.8	4.3
	July	6.1	3.1
	August	6.3	3.1
	September	6.2	3.0
	October	6.7	2.6
	November	5.6	2.4
	December	4.7	2.1
2014	January	4.4	3.5
	February	4.2	3.1
	March	4.2	3.4
	April	4.9	3.4
	May	3.2	3.3
	June	2.8	3.5

Source: Department of Census and Statistics

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

1.3 Money and Credit

During the first four months of 2014, the growth in both reserve money and broad money decelerated. The year-on-year growth in the reserve money was 3.0 percent in April 2014. The broad money (M2b) grew by a moderate rate of 13.2 percent in April 2014 on a year-on-year basis, moving towards the projected average growth of 14 percent in 2014. During the first four months of the year, a greater proportion of domestic credit was absorbed by the public sector within the overall monetary

expansion as against the credit extended to the private sector by commercial banks. The private sector credit growth, which was 10.2 percent in April 2013, moderated to 3.3 percent in April 2014 on a year-on-year basis. The significant decline in pawning advances contributed largely to the continued low growth of credit to the private sector. The growth in the private sector credit is expected to increase during the remaining period of the year with the downward adjustment of market lending rates as well as the expected improvement in the domestic economic activities.

Table 1.3 > Money and Private Sector Credit

	2013				2014				<i>Rs. Billion</i>
	January	February	March	April	January	February	March	April	2014 April/ 2013 April
									Growth (%)
Reserve Money	484.1	486.7	512.4	500.3	485.2	494.6	521.6	515.3	3.0
Broad Money (M2b)	2,984.6	3,048.1	3,089.7	3,132.7	3,460.8	3,495.4	3,538.1	3,546.5	13.2
Private Sector Credit	2,368.1	2,386.1	2,395.6	2,403.2	2,491.6	2,490.7	2,498.3	2,481.6	3.3

Source: Central Bank of Sri Lanka

1.4 Stock Market

The stock market activities continued its gradual recovery during the first four months of 2014. All Share Price Index (ASPI) increased by 4.5 percent to 6,224 by end April 2014 in comparison to end April 2013. The S&P SL 20 Index recorded a 1.5 percent increase by the end April 2014. The turnover remained unchanged at Rs.74 billion in the period of January to April 2014, compared to the same

period of 2013. Market capitalization increased by 14 percent to Rs.2,606 billion in comparison to the 13 percent growth recorded during the corresponding period of 2013. Foreign purchases recoded a 37 percent decline in the period of January to April 2014 against the 11 percent growth recorded in the same period of 2013 while foreign sales increased by 10 percent to Rs 30,268 million in this period.

Table 1.4 > Movements in the Capital Market

Indicators	2008	2009	2010	2011	2012	2013	End April	
							2013	2014
All Share Price Index (1985=100)	1,503	3,386	6,636	6,074	5,643	5,913	5,953	6,224
Milanka Price Index/ S&P SL 20 Index*	1,631	3,849	7,061	5,229	5,119	3,264	3,366	3,418
Market Capitalization (Rs. Bn.)	489	1,092	2,210	2,214	2,168	2,460	2,281	2,606
No. of Listed Companies in Trading	235	232	242	272	287	289	286	293
Annual Turnover (Rs. Bn.)	110	142	570	546	214	200	74	74
Foreign Sales (Rs. Mn.)	52,682	43,899	118,761	68,854	33,972	60,873	27,608	30,268
Foreign Purchases (Rs. Mn)	66,632	43,253	92,426	49,875	72,653	83,657	36,394	23,074
Net Purchases (Rs. Mn)	13,950	(646)	(26,335)	(18,979)	38,681	22,784	8,787	(7,194)

Sources: Colombo Stock Exchange and Central Bank of Sri Lanka

1.5 External Sector Developments

The external sector performance continued to improve during the first four months of 2014. Exports increased by 16.9 percent to US\$ 3,571 million during this period while imports also increased albeit at a lower rate of 2.6 percent to US\$ 6,192.3 million. Hence, the trade deficit declined by 12.1 percent to US\$ 2,621.2 million during the first four months of 2014 in comparison to US\$ 2,981.0 million during the same period in 2013. The remittances from overseas employment increased by 11 percent to US\$ 2,109.3 million resulting from the continuous improvements in skill levels of the workforce engaged in such employment and remittances through the formal channels while earnings from tourism also increased by 37 percent to US\$ 771.7 million strengthening the external sector performance. Meanwhile, the international reserve position also improved as reflected by the increase in gross official reserves to US\$ 8.9 billion by end April 2014, which is equivalent to 5.9 months of imports and total reserves of to US\$ 10.2 billion, which is equivalent to 6.8 months of imports.

Exports

The healthy growth of exports by 16.9 percent to US\$ 3,571 million during the first four months of 2014 in comparison to the same period in 2013 was mainly due to the 15 percent growth in industrial exports to US\$ 2,666 million. The significant increase of the export of textiles and garments by 20.9 percent to US\$ 1,602 million helped achieve this improvement. The export of petroleum products declined by 15.7 percent to US\$ 128 million during this period while the other industrial products recorded a 11.3 percent increase to US\$ 936 million. Healthy performance in coconut product exports mainly contributed to the growth in primary agricultural products exports by 50.2 percent to US\$ 126 million during this period. Export earnings from tea also increased by 14.5

percent to US\$ 504 million as a result of the increase in the price, volume and better valued tea exported.

Imports

Total imports increased by 2.6 percent to US\$ 6,192.3 million during the first four months of 2014 in comparison to the same period in 2013. This was a combined outcome of the 6.1 percent growth in consumer goods imports, 9.8 percent growth in the intermediate goods imports and the 16.4 percent decline in the import of investment goods. The import of foods and drinks declined by 2.2 percent to US\$ 447 million partly reflecting the positive impact of government policy of encouraging domestic production of certain food items. The import of petroleum products increased by 22.3 percent to US\$ 1,762 million due to the decline in hydro power generation owing to unfavorable weather conditions prevailed in the country.

Textiles and clothing imports increased by 8.9 percent to US\$ 708 million in line with the increase in export of textiles and garments. However, import of other intermediate goods declined by 31.6 percent to US\$ 958.3 million. Investment goods imports declined by 16.4 percent to US\$ 1,271 million mainly due to decline in import of transport equipment by 34 percent to US\$ 163.6 million and the machinery and equipment to US\$ 701 million during this period. The import of building materials also declined by 17.5 percent to US\$ 406 million due to lower imports of insulated wires and cables, cement and aluminium articles partly reflecting the domestic production of such items. The decline in the import of foods and drinks highlights the importance of appropriate policies to substitute domestic food production to continue this trend while the increased expenditure on petroleum imports highlights the necessity of promoting energy saving measures and renewable energy to reduce the trade deficit

Table 1.5 > External Trade (January - April)

US\$ Million

Category	2013	2014 Prov.	% Change
Exports	3,054.9	3,571.1	16.9
Agricultural Products	726.8	860.8	18.4
Tea	440.0	503.8	14.5
Primary Products (Rubber and Coconut products)	83.8	125.9	50.2
Other Agricultural Products	203.0	231.1	13.8
Industrial Products	2,318.1	2,666.2	15.0
Textile and Garments	1,325.0	1,601.6	20.9
Petroleum Products	152.2	128.3	-15.7
Other Industrial products	840.9	936.3	11.3
Mineral	6.0	39.5	558.3
Other	4.1	4.7	14.6
Imports	6,035.9	6,192.3	2.6
Consumer Goods	983.9	1,044.3	6.1
Food and Drinks	456.9	446.7	-2.2
Other Consumer Goods	527.1	597.6	13.4
Intermediate Goods	3,528.3	3,872.6	9.8
Petroleum	1,440.9	1,761.7	22.3
Fertilizer	36.9	95.4	158.5
Textiles and Clothing	650.4	708.0	8.9
Other Intermediate Goods	1,400.1	958.3	-31.6
Investment Goods	1,520.0	1,271.1	-16.4
Machinery and Equipment	778.7	700.8	-10.0
Transport Equipment	247.9	163.6	-34.0
Building Material	491.8	405.7	-17.5
Other Investment Goods	1.6	1.0	-37.5
Other	3.6	4.3	19.4
Trade Balance	-2,981.0	-2,621.2	-12.1

Source: Department of Customs and Central Bank of Sri Lanka

CHAPTER 2

Global Economic Trends

2.1 Economic Growth

The projections for global economic growth slightly moderated as the United States experienced adverse weather condition with abnormally harsh winter, and political unrest in Ukraine. According to the World Bank, the projected world GDP growth rate for 2014 has been reduced to 2.8 percent in June from 3.2 percent in January. The expansion of world GDP in 2015 and 2016 is projected at 3.4 and 3.5 percent, respectively.

During the first quarter of 2014, the United States economy contracted by 1.0 percent, despite the growth of 2.6 percent in the final quarter of last year mainly due to adverse effects of unusually cold weather. The economic growth in the Euro area in the first quarter of 2014 showed a mixed performance as they are in the early stages of recovery after the exit from recession in the first quarter of 2013. The growth rate of the area was slightly lowered to 0.8 percent in the 2014 first quarter from 1.0 percent recorded in the third quarter of 2013. Germany's GDP expanded with the accelerated construction activities supported by mild weather conditions while Netherland's GDP contracted with a significant decline gas production which was affected by warm weather. However, improvements in labour market, investment spending and reduced fiscal drag will help to accelerate the growth in the United States and euro zone in the second half of the year.

During the quarter 1 of 2014, the United Kingdom grew by 3.3 percent compared to 2.7 percent in the previous quarter as the Japanese GDP expanded significantly at a rate of 6.7

percent compared to the increase of 0.3 percent in the final quarter of the previous year. This was mainly due to the purchases ahead of the consumption tax increase on April 1.

The growth in developing economies is still crawling up amidst advanced economy policy tightening measures and possible slowdown in Chinese economy. The political unrest between Russia and the European Union adversely affects the growth forecast of some European and Central Asian countries. The economic activities in North Africa and Middle-East region and Sub-Saharan Africa are showing positive signs despite the domestic political tensions and policy normalization in the advanced economy financial markets. Steady global demand and favorable domestic conditions in South Asian economies are expected to offset the effects of such policy tightening on their economic activities.

2.2 Inflation

According to the World Bank, global inflation eased during the first three months of 2014 due to low commodity prices and related subdued price pressures in developing economies. However, global inflation accelerated by 3.6 percent in April largely contributed by the acceleration of inflation in advanced economies by 1.8 percent due to recovery in economic activities. This increase in inflation in advanced economies is broad based and was except the Euro area. Quarterly inflation in East Asia Pacific region, excluding China eased during this period. This easing was mainly due to price moderation in Indonesia. But price pressures in China are increasing due rising cost of production. Inflation in Kazakhstan, Ukraine and Turkey reached double digit levels in April, because of the currency depreciation.

Table 2.1> A Snapshot of the World - 2013

Country	GDP Growth (Annual percent change)	Inflation (Percent)	Unemployment (Percent)	Fiscal Deficit (Percent of GDP)	Gross Debt (Percent of GDP)
Argentina	4.3	10.6	5.4	-3.5	44.9
Australia	2.4	2.4	5.7	-3.7	27.2
Brazil	2.3	6.2	5.4	-1.9	68.5
Canada	2.0	1.0	7.1	-3.0	85.6
Chile	4.2	1.8	5.9	-0.7	11.2
China	7.7	2.6	4.1	-1.9	22.8
France	0.3	1.0	10.8	-4.2	90.3
Germany	0.5	1.6	5.3	0.0	82.0
Greece	-3.9	-0.9	27.3	-2.6	158.5
India	4.4	9.5	-7.3	66.8
Indonesia	5.8	6.4	6.3	-2.1	24.0
Italy	-1.9	1.3	12.2	-3.0	127.0
Japan	1.5	0.4	4.0	-8.4	237.9
Korea	2.8	1.3	4.0	1.0	33.7
Malaysia	4.7	2.1	3.1	-4.6	55.5
Mexico	1.1	3.8	4.9	-3.8	43.5
Russia	1.3	6.8	5.5	-1.3	10.9
Singapore	4.1	2.4	1.9	6.9	111.0
South Africa	1.9	5.8	24.7	-4.3	42.3
Spain	-1.2	1.5	26.4	-7.2	84.1
Sri Lanka	7.3	6.9	4.4	-5.9	78.3
Thailand	2.9	2.2	0.7	-0.2	44.3
United Kingdom	1.8	2.6	7.6	-5.8	90.3
United States	1.9	1.5	7.4	-7.3	106.5
Vietnam	5.4	6.6	4.4	-7.1	52.1

Source: World Economic Outlook, IMF, October 2013 and April 2014

Fiscal Monitor, IMF, April 2014

Annual Report 2013, Central Bank of Sri Lanka

2.3 Interest Rates

IMF has projected that LIBOR on six-month U.S. dollar deposits for 2014 and 2015 will be averaged at 0.4 and 0.8 percent, respectively. LIBOR on three-month Euro deposits averaged at 0.2 percent in 2013 and expected to be averaged at 0.3 and 0.4 percent in 2014 and 2015, respectively. LIBOR on six-month Japanese yen deposits which was averaged at 0.2 percent in 2013 is projected to be at the same level in 2014 and 2015 as well.

2.4 Exchange Rates

Euro and US dollar strengthened during the first part of the year due to rebound of economic

activities in Euro zone and the United States. However, Euro fell by 2.5 percent against the U.S. dollar compared to May, with the announcement on June 5 of monetary easing measures by European Central Bank. Japanese yen stabilized mainly due to monetary stimulus, following the sharp depreciation in the previous year. Currencies of large developing economies appreciated after sharp fluctuations recorded in January 2014, with the decline of financial tensions. India, South Africa and Turkey tightened their monetary policies while easing financial tensions and current account positions in India, Indonesia and South Africa and policy reforms in Mexico helped to stabilize the

respective exchange rates. However, downward pressures remain for South African Rand due to strikes in the platinum industry and Indonesian Rupiah owing to widening trade deficits resulting from ban on mineral ore exports and weak commodity exports.

2.5 Fiscal Deficits

The average fiscal balance of advanced economies showed a significant strengthening as it declined sharply to 4.9 percent from 6.2 percent in 2012 and expected to be reduced further to 4.3 percent in 2014. On the contrary, emerging market economies experienced a slight increase in the average fiscal balance from 2.1 percent in 2012 to 2.4 percent in 2013 and projection for 2014 is at 2.5 percent as most of the economies are postponing fiscal consolidation measures.

2.6 Government Debt

The gross debt of advanced economies in terms of GDP declined marginally from 108.3 percent to 107.1 percent while emerging market economies recorded it as 34.9 percent in 2013. The projections for 2014 are 107.1 percent and 33.7 percent in advanced and emerging economies respectively. The gross government debt in terms of GDP in emerging market economies is relatively low. The public debt ratio in India is declining. The gross debt ratios in terms of GDP in Middle East and North Africa are significantly higher than other emerging market economies and likely to remain high.

2.7 International Trade

Global trade rebounded in the first quarter due to the recovery of advanced economies and strong import demand in developing economies including Europe and Central Asia, Latin America and Caribbean and South Asia, but suddenly contracted in April in consequence with the reduced imports from developing economies as a result of the domestic adjustments, policy tightening measures, currency depreciations and political tensions together with downward movements in advanced economy imports.

Exports by China dropped sharply in April 2014. However, as the economic outlook in advanced economies is strengthening, a pick-up in trade is projected for the second half of 2014.

2.8 Commodity Prices

Commodity prices as a whole remained stable and relatively low while the prices of beverages increased during the first few months of 2014. The prices of oil, grains and sugar declined during this period. Dry weather in South America and South East Asia created upward pressure on the food prices. According to the World Bank, wheat and maize prices gained 10.9% and 6.2%, respectively in March 2014 on continuing supply concerns but dropped in May following U.S. Department of Agriculture (USDA)'s first assessment for 2014/15 season. Accordingly, there is a 60-70 percent possibility for occurring an El Nino condition in 2014 and hence, upside risks are projected for prices of wheat, rice, soybean, palm oil and coffee. However, rice prices declined 8.1 percent in March and by 6.5 percent in April on abundant Thai and Indian stocks. Coffee (Arabica) prices increased by 4.5 percent in April due to dry and hot weather conditions in Brazil.

Low demand from slow economic activities in China resulted in a drop in metal prices further. Aluminum and iron prices declined due to oversupply while nickel prices rose consecutively for six months because Indonesia banned export of unprocessed ore in January 2014. Prices of precious metals continued with the declining trend in consequence with monetary policy normalization in the United States and reduced demand for safe-haven investments.

Crude oil prices averaged at 105/bbl in April, but increased to 106/bbl in May influenced by geo-political tensions in Ukraine and Russia and supply outages in Libya. Security concerns in Iraq further aggravated the price by escalating to 109.5/bbl in mid-June 2014.

Table 2.2 > **Commodity Price Indices**
(Base Year = 2010)

Item	2011	2012	2013	2014 Q1
Energy	128.7	127.6	127.4	128.3
Coal, Australia	122.7	97.4	85.4	77.9
Crude oil, average	131.6	132.9	131.7	131.1
Nat. gas, Europe	126.9	138.4	142.2	135.8
Non-energy	119.8	109.5	101.7	99.2
Agriculture	121.6	114.5	106.3	105.5
Beverages	116	92.6	83.3	94.5
Cocoa	95.1	76.3	77.8	94.2
Coffee, arabica	138.3	95.2	71.2	88.5
Coffee,robusta	138.7	130.6	119.6	122.3
Food	122.5	124.5	115.6	111.9
Fats and Oils	120.5	126.1	115.9	120.1
Palm oil	124.9	110.9	95.1	101.2
Soybean meal	105.2	138.5	144.1	153.7
Soybeans	120.2	131.5	119.7	122.8
Grains	138.2	141.3	128.2	110.1
Maize	156.9	160.5	139.5	112.9
Rice, Thailand, 5%	111.1	115.2	103.5	90.7
Wheat, US, HRW	141.5	140.1	139.7	132.9
Other food	111.1	107.1	103.9	102.8
Sugar, world	122.1	101.2	83.1	78.5
Raw materials				
Cotton	145.8	86.1	87.3	90.7
Rubber, Singapore	132	92.4	76.5	61.6
Sawnwood, Malaysia	110.7	103.3	100.5	106.3
Fertilizers	142.6	137.6	113.7	102.5
Triple superphosphate	140.9	121	100	95.8
Metals and Minerals	113.5	96.1	90.8	85.7
Aluminum	110.5	93.1	85	78.7
Copper	117.2	105.7	97.3	93.3
Gold	128.1	136.3	115.3	105.6
Nickel	105.1	80.5	68.9	67.2

Source: World Bank, *Global Economic Prospects, June 2013, June 2014*

CHAPTER 3

Fiscal Developments

3.1 Overview

Overall revenue performance continued to improve during the first four months of 2014. Total revenue during this period increased by 11.5 percent to Rs. 345 billion in comparison a 3.9 percent decline to Rs. 309 billion recorded during the same period in 2013. Tax revenue increased by 8.5 percent to Rs. 311 billion in comparison to 2.6 percent drop experienced in the same period of the previous year while non tax revenue also increased by 48.7 percent to Rs. 34 billion in comparison to 16.9 percent contraction in the first four months of 2013.

Tax revenue from indirect taxes on domestic activities showed a positive movement. The revenue from VAT on domestic consumption at Rs. 46,369 million recorded an increase of 8.4 percent, reflecting the system improvement under single rate VAT of 12 percent as against dual rate structure of 12 and 20 percent prevailed prior to 2011 as well as the gradual consolidation of the expansion of the VAT base to wholesale and retail trade. The Nation Building Tax (NBT) on domestic activities also increased by 5.0 percent reflecting the enhanced economic activities. Excise duty on liquor and cigarettes recorded 8.0 percent and 4.0 percent growth, respectively during this period due to higher prices despite the drop in production.

Meanwhile, the VAT revenue from imports increased by 3.9 percent and NBT revenue from imports also increased by 3.5 percent. The revenue from Excise (Special) Provision Tax, primarily imposed on motor vehicles, increased by 49.4 percent in comparison to the decline of 36.9 percent recorded in the corresponding period in 2013. Special Commodity Levy (SCL) collected at the point of imports showed 7.4 percent increase mainly reflecting the higher tax rate imposed in support of maintaining a stable remunerative domestic producer margins in

agriculture commodities. The revenue from Ports and Airports Development Levy (PAL) increased by 31.2 percent reflecting the increase in imports including motor vehicles, home appliances, textiles and chemical products and a fewer number of exemptions under this levy. The total increase in the revenue from import based taxes amounted to Rs. 20.4 billion in the first four months of 2014. The increase is a reflection of the enhanced domestic economic activities benefiting from the expansion in domestic demand recovering from the impact of corrective measures adopted from February/March 2012 to reduce imports and stabilize Balance of Payments.

In the context of direct taxes, the revenue from corporate and non-corporate income and profit tax increased by 9.2 percent due to a gradual completion of tax holiday period by many companies and buoyant performance of banking and financial institutions, food and beverages, manufacturing and tourism and services despite the impact of relatively lower private sector credit growth. The tax revenue from wage income (PAYE) also increased by 1.6 percent due to higher wage income and employment liable to such taxes, collection of such tax at source as final tax and improved compliance from employers despite lower rate structure and higher threshold inbuilt in the post 2010 tax system. However, tax on interest imposed at source as final tax recorded a decline of 20.2 percent mainly reflecting the relatively lower yield rates and lower turnover of government securities. Due to this decline in the revenue from tax on interest income the revenue from income taxation was Rs. 57,013 million in the first four months of 2014 in comparison to Rs. 62,220 million recorded during the corresponding period of the previous year reflecting a decline of 8.4 percent.

Non tax revenue from profits and dividends from State Owned Enterprises and state banks as well as social security contribution from public servants showed strong positive growth

while profit transfers from Central Bank of Sri Lanka (CBSL) and interest income showed a decline during the first four months of 2014.

Table 3.1 > Summary of the Budget: January - April

Item	Rs. Million	
	2013	2014 Provisional
Revenue and Grants	310,239	345,755
Revenue	309,378	345,056
Tax	286,194	310,578
Non Tax	23,184	34,478
Grants	861	699
Expenditure	653,770	692,773
Current	468,380	498,998
Interest Payments	176,099	157,855
Other	292,281	341,143
Public Investments	194,437	203,673
Other	(9,047)	(9,897)
Revenue Deficit (-)/Surplus (+)	(159,002)	(153,942)
Overall Budget Deficit (-)/Surplus (+)	(343,531)	(347,018)
Financing	343,531	347,018
Foreign Financing	41,780	151,891
Domestic Financing	301,751	195,127
Non Bank	65,168	85,770
Bank	172,628	84,755
Foreign Investments in Treasury Bills and Treasury Bonds	63,955	24,602
Revenue Deficit/GDP (%)	-1.8	-1.6
Overall Budget Deficit/GDP (%)	-3.9	-3.5

Source: Department of Fiscal Policy

Total government expenditure amounted to Rs. 692,773 million reflecting a 6 percent increase in comparison to Rs. 653,770 million in the same period of the previous year. This consisted with recurrent expenditure of Rs. 498,998 million and capital expenditure and net lending of Rs. 193,776 million. The current expenditure increased by 6.5 percent while capital expenditure grew by 4.5 percent during this period.

The total government expenditure in excess of government revenue produced an overall deficit

of Rs. 347,018 million or 3.5 percent of GDP during January-April 2014 in comparison to Rs. 343,531 million or 3.9 percent of GDP in the corresponding period of 2013.

The provisional data for the first four months with comparable figures for 2013 is presented in Table 3.1. The expected improvement in income taxation, full impact of VAT coverage extension to retail trade, continued improvement in domestic economic activities complemented by gradual recovery of global economy, adjustment of lending rates in line with lower market

interest rates as well as improvement in banking liquidity are expected to increase government revenue at a higher rate during the second half of the year. This improvement together with a closer monitoring of public expenditure management within the overall budgetary ceilings is expected to be conducive to maintaining annual budget deficit at 5.2 percent of GDP as announced in Budget 2014.

There was a mixed performance in the key State Owned Business Enterprises (SOBEs) during the first four months of 2014. The Ceylon Petroleum Corporation (CPC) recorded a profit of Rs. 2 billion during this period and is expected to strengthen its financial position further with the benefit of administered price revisions in respect of petroleum products together with relatively modest movements in international oil prices and exchange rate. The delays and/or lack of rainfall as expected in the catchment areas resulted in a substantial drop in hydro power generation of Ceylon Electricity Board (CEB) by 19.5 percent in the first four months of 2014 compared to 50 percent in 2013. As the CEB provided an uninterrupted power supply throughout the country amidst this situation, it incurred an operational loss of Rs. 18.6 billion during the first four months of 2014. However, with the diversified coal friendly generation mix complemented by the positive impact of electricity tariff revision would reduce the operational losses of CEB. Consequent to these positive developments, the overall liquidity in the economy is expected to improve while enhancing lending to the private sector in supporting economic activities thereby strengthening fiscal performance in the remaining period of the year.

The economy expanded at 7.6 percent during the first quarter of 2014 following an equally higher growth in the last two quarters of 2013. Many emerging sectors, including livestock, manufacturing, construction, tourism, pharmaceutical and other services contributed positively despite the slowdown in credit growth amidst relatively low interest rate regime. The inflation as measured by Colombo Consumer Price index (CCPI-2006/07 base year) recorded a year on year inflation rate of 2.8 percent at the end of June 2014 in comparison to 6.8 percent in June 2013. The average inflation by end June 2014 was 4.9 percent in comparison to 8.6 percent in the same period in 2013.

The trade deficit declined by 12.1 percent to US\$ 2,621 million during the first four months of 2014 from US\$ 2,980.9 million in 2013 as a result of a significantly higher growth in exports than the growth in imports. All the major categories of exports recorded a healthy growth except petroleum products. In particular, exports of tea and garments, the country's biggest export activities accounting for about 60 percent of total exports increased significantly reflecting the strong resilience in the wake of global slowdown, particularly in advanced economies in Europe and the US. The Balance of Payments strengthened with the continued improvement in remittances from overseas employment to US\$ 2,217 million and income from tourism to US\$ 772 million during first four months of 2014. Nevertheless, the increased import expenditure on petroleum products underscored the importance of domestic substitution of energy in addition to taking measures to enhance exports to overcome Balance of Payments difficulties.

Table 3.2 > Estimated and Actual Revenue & Expenditure:
January to April 2014

Item	Rs. Billion		
	Estimated	Actual	Deviation
Total Expenditure	695.8	692.8	-3.1
Current Expenditure	486.5	499.0	12.5
Capital Expenditure	209.4	193.8	-15.6
Total Revenue	398.6	345.1	-53.6
Tax Revenue	368.0	310.6	-57.4
Non Tax Revenue	30.7	34.5	3.8

Sources: Department of Treasury Operations and Department of Fiscal Policy

3.2 Government Revenue

The tax revenue of the government of Rs. 345 billion during the January-April 2014 period was supported by the increases in both domestic consumption based taxes as well as

the import based taxes, although there was an overall decline in income taxes due to the low revenue from tax on interests. There was a considerable increase in the non tax revenue contributing to the improvement in the total revenue of the government.

Table 3.3 > Estimated and Actual Tax Revenue: January - April 2014

Item	Rs. Billion	
	Est.	Act.
Inland Revenue Department		
Tax on Income and Profit	63.3	57.0
VAT - Domestic	51.2	46.4
NBT - Domestic	11.3	8.2
Sub Total	125.8	111.6
Customs Department		
Import Duties	28.4	24.0
VAT - Imports	42.3	38.6
NBT - Imports	6.5	4.9
Ports and Airports Development Levy	21.3	19.8
Import/Export Cess	14.6	12.2
Special Commodity Levy & Other	20.3	16.0
Excise Special Provisions	70.9	49.1
Excise on Cigarettes	19.7	17.5
Petroleum Products	13.8	1.3
Motor Vehicle & Other	37.4	30.3
Sub Total	204.3	164.6
Excise Department		
Liquor	24.7	22.5
Sub Total	24.7	22.5
Other		
Telecommunication Levy	9.5	9.7
Licence Tax & Other	3.7	2.2
Sub Total	13.2	11.9
Total Tax Revenue	368.0	310.6

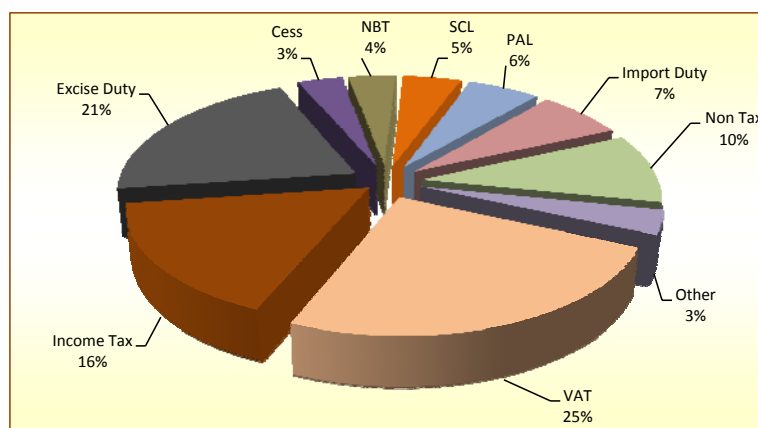
Source: Department of Fiscal Policy

Table: 3.4 > Summary of Performance of Government Revenue (January - April)

Rs. Million			
Item	2013	2014	Growth %
Tax Revenue	286,194	310,578	8.5
Income Tax	62,220	57,013	-8.4
Domestic Consumption Based Tax	88,805	95,369	7.4
VAT	42,757	46,369	8.4
Excise	38,253	40,815	6.7
Nation Building Tax	7,795	8,185	5.0
Import Based Tax	125,980	146,334	16.2
Customs Duty	22,125	23,964	8.3
VAT	37,159	38,597	3.9
Nation Building Tax	4,759	4,924	3.5
PAL	15,083	19,784	31.2
SCL	14,930	16,030	7.4
Excise Tax	19,732	30,836	56.3
Cess	12,192	12,199	0.1
Licence Taxes and Other	9,189	11,863	29.1
Non Tax Revenue	23,184	34,478	48.7
Total Revenue	309,376	345,056	11.5

Source: Department of Fiscal Policy

Chart 3.1: Composition of Government Revenue (Jan- April 2014)



Income Tax

During the first four months of 2014, the revenue from Corporate and Non Corporate income tax increased by 9.2 percent to Rs. 19,703 million. The banking, financial and insurance, food and beverages, import and export trade and manufacturing sectors contributed to this growth. The revenue of Rs. 7,441 million from PAYE tax during the first four months compared to Rs. 7,324 million generated during the same period of 2013 was supported by the increase in employment in

high earning categories in sectors such as tourism, construction, information technology and professional services.

However, the revenue from tax on interest declined by 20.2 percent to Rs. 26,959 million mainly due to the relatively lower issuance of domestic debt securities in the first few months of the year and the relatively low interest rates. The tax on ESC has declined by 5.0 percent to Rs. 2,912 million during the period of 2014 compared to Rs. 3,065 million for the same period in 2013. While the ESC threshold has

increased and the liability on the turnover of any business of which the profit are subject to income tax has removed, the ESC revenue had a positive contribution from sectors like export & import, manufacturing, and construction.

Consequently, the total revenue from income taxes declined by 8.4 percent to Rs. 57,013 million during the first four months of 2014 compared to the Rs. 62,220 million generated during the same period of 2013.

Table 3.5>Performance of Revenue from Income Tax (January - April)

Tax Base	2013	2014	Rs. Million
			% Change
Corporate and Non Corporate	18,043	19,701	9.2
PAYE	7,324	7,441	1.6
Tax on Interest Income	33,788	26,959	-20.2
Economic Service Charge	3,065	2,912	-5.0
Total	62,220	57,013	-8.4

Source: Department of Fiscal Policy

Value Added Tax

During the first four months of 2014, total revenue from Value Added Tax (VAT) increased by 6.3 percent to Rs. 84,966 million in comparison to the Rs. 79,916 million in the corresponding period of 2013. The revenue from VAT on domestic activities increased by 8.4 percent to Rs. 46,369 million during this period. Improved domestic economic activities the imposition of VAT on wholesale and retail trade with a quarterly turnover more than Rs. 500 million in 2013 and the reduction of the tax exempted quarterly turnover to Rs. 250 million

in 2014 thereby broadening the VAT base contributed positively to this increase. The increases in the VAT revenue from alcoholic beverages by 22 percent, construction works by 23 percent, and commercial banking activities by 68 percent in comparison to the corresponding period of 2013 also helped achieve this improvement. However, the contraction of VAT revenue from petroleum products by 87 percent, machinery and equipments by 30 percent, and insurance by 10 percent, had a negative impact on domestic VAT revenue.

Table 3.6> Performance of Revenue of VAT (January - April)

Tax Base	2013	2014	Rs. Million
			Growth (%)
Domestic	42,757	46,369	8.4
Imports	37,329	38,896	4.2
Gross Revenue	80,086	85,265	6.5
Refunds	170	299	75.9
Net Revenue	79,916	84,966	6.3
Refunds as % of Gross Revenue	0.2	0.4	

Source : Department of Fiscal Policy

Meanwhile, the revenue from VAT on imports also increased by 3.9 percent to Rs. 38,597 million during the first four months in 2014 in comparison to the corresponding period of 2013. This was mainly supported by the increase in imports of motor vehicles and intermediate goods, including fuel, textiles, and fertilizers.

Excise Taxes

Total excise tax revenue generated from liquor, cigarettes and tobacco, petroleum, motor vehicles and other items, increased by 23.6 percent to Rs. 71,651 million during the first

four months of 2014 compared to the Rs. 57,984 million in the same period of 2013.

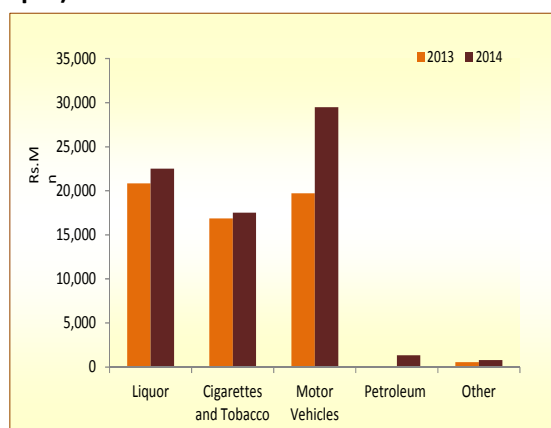
Revenue from hard liquor increased by 8.0 percent despite the decline in the production of hard liquor by 0.3 percent compared to same period of 2013 as a result of the increased excise duty on country made foreign spirits and coconut and processed arrack. The revenue from malt liquor increased significantly by 20.9 percent during the first four months in 2014 compared to same period in 2013 with the increase in production by 8.3 percent and the increase in excise duty.

Table 3.7 >Performance of Excise Duty (January - April)

Tax Base	Rs. Million		
	2013	2014	Growth (%)
Liquor	20,845	22,504	8.0
Cigarettes and Tobacco	16,854	17,524	4.0
Motor Vehicles	19,732	29,490	49.5
Petroleum	0	1,346	
Other	554	787	42.1
Total	57,985	71,651	23.6

Source : Department of Fiscal Policy

Chart 3.2: Performance of Excise Duty (Jan-April)



The revenue from cigarettes and tobacco increased by 4 percent to Rs. 17,524 million during the first four months of 2014 benefiting from the increase in excise duty on cigarettes despite the decline in the production of tobacco by 11.3 percent during this period. Meanwhile, the revenue from excise special provisions duty on motor vehicles amounting to Rs. 29,490 million during the first four months in 2014 recorded a significant 49.5 percent growth in comparison to the same period in 2013 as a result of the increase in the value of motor vehicle imports during this period.

Table 3.8> Motor Vehicle Imports and New Registration of Vehicles - January to April

Unit: Number

Item	Imports				New Registrations			
	2013	2014	Change	% Change	2013	2014	Change	% Change
Buses	454	684	230	50.7	654	706	52	8.0
Motor Cars	5,896	9,013	3,117	52.9	7,177	8,737	1,560	21.7
Three Wheelers	32,382	31,226	-1,156	-3.6	30,117	24,193	-5,924	-19.7
Motor Cycles	51,400	59,407	8,007	15.6	54,971	64,207	9,236	16.8
Goods Transport Vehicles(a)	8,851	6,118	-2,733	-30.9	10,530	7,158	-3,372	-32.0
Land Vehicles (b)	4,744	1,814	-2,930	-61.8	4,565	2,728	-1,837	-40.2
Other	172	128	-44	-25.6	257	217	-40	-15.6
Total	103,899	108,390	4,491	4.3	108,271	107,946	-325	-0.3

Source: Department of Customs and Department of Motor Traffic

(a) Lorries and Other Goods Transport Vehicles.

(b) Tractors, Hand Tractors and Other Land Vehicles.

Import Duty

The revenue from import duties increased by 8.3 percent to Rs. 23,964 million during the first four months of 2014 in comparison to Rs. 22,125 million during the same period of 2013. This was mainly due to the increase in the import value of consumer and intermediate goods although there was a decline in investment goods imports, including transport equipments, machinery and equipment and building materials, which are largely free from taxes or lower tax is charged. In particular, the 13.4 percent increase in other consumer goods, including motor vehicles, which has a bearing on the tax revenue at the point of import, to US\$ 597.6 million, mainly helped achieve this increase. In addition, wheat grain, Lubricants, undenatured ethyl alcohol etc. were among the major items that generated higher import revenue during this period. Further, the duty free items, consisting of pharmaceuticals, fertilizer, textiles etc. and imports under FTA with India and Pakistan as well as duty free imports under investment agreements etc. caused a decline in the revenue from import duty.

Special Commodity Levy

Special Commodity Levy (SCL) generated a revenue of Rs.16,030 million in January – April

period of 2014 showing a 7.4 percent increase over the same period of 2013. The commodities that generated high revenue under SCL included Sugar, Potatoes, B'onions and vegetable oils contributed to this increase. The government continued to use SCL, which is a single tax on selected commodities, as a mechanism to provide remunerative prices to domestic farmers during the harvesting seasons and adjust appropriately during the off season to stabilize domestic consumer prices.

Nation Building Tax

During the first four months of 2014, the total NBT revenue increased by 4.4 percent to 13,108 million in comparison to Rs. 12,555 million in the same period in 2013. NBT revenue from import activities increased by 3.5 percent to Rs. 4,924 million while that revenue from domestic activities increased by 5.0 percent to 8,185 million. The contraction in imports of several items such as intermediate goods including diamonds and precious stones and materials, gold, mineral products, all categories in investment goods including machinery and equipments, building materials, transport equipments, consumer goods including sugar and confectionery, seafood and, oil and fats mainly affected to slower growth of NBT revenue from imports. The improvement in

construction activities, growth in domestic trade services, improvements in the hotel and restaurant services and introduction of NBT on the banking and financial activities supported the growth in NBT revenue from domestic activities. The loss of NBT revenue due to increase of NBT threshold of all businesses carried out by any person or partnership to Rs. 3 million per quarter or Rs. 12 million per year was made effective from 01 January 2013 to facilitate the SMEs as well as simplify the tax administration has been partly restored through the introduction of NBT on financial services.

One third of the revenue generated from the NBT is being transferred to Provincial Councils

(PCs) under the revenue sharing mechanism introduced to consolidate NBT and the Provincial Councils Turnover Tax (PTT) as a part of the simplification of taxation. Accordingly, NBT revenue of Rs. 6,556 million was transferred to PCs during the first four months of 2014. It was Rs. 6,279 million in the same period of 2013. This increase is mainly a reflection of higher collection from NBT on domestic activities including financial services. In addition, 70 percent of revenue amounting to Rs. 475 million collected from motor vehicle registration fees and entire revenue of Rs. 3,624 million collected from stamp duty were also transferred to PCs during the first four months in 2014 in support of devolved activities.

Table 3.9> Revenue Transferred to Provincial Councils (January-April 2014)

Month	NBT		Motor Vehicle Registration Fees	Stamp Duty	Total
	Inland Revenue Department	Customs			
	<i>Rs. Million</i>				
January	1,075	650	129	1,260	3,114
February	930	555	103	827	2,415
March	839	648	125	274	1,886
April	1,249	610	118	1,263	3,240
Total	4,093	2,463	475	3,624	10,655

Source: Department of Fiscal Policy

Other Taxes

The revenue from Ports and Airports Development Levy (PAL) increased by 31.2 percent to Rs. 17,784 million during the first four months of 2014 compared to the same period of 2013 reflecting the improved performance in imports and as a result of the relatively fewer number of exemptions under this levy. However, total revenue collected from Cess on import and export amounted to Rs. 14,956 million and remained unchanged in comparison to the same period in 2013. In order to protect the local industry and encourage the domestic value creation export industry, Cess was imposed on selected imports and low value added exports. Meanwhile, the revenue collected from Telecommunications Levy

increased by 36.5 percent to Rs. 9,664 million in first four months of 2014 compared to Rs. 7,082 million in the same period in the previous year.

Non Tax Revenue

Total non tax revenue during the first four months of 2014 increased by 48.7 percent to Rs. 34,478 million compared to Rs. 23,184 million collected in the same period in 2013 and made a contribution to 9 percent of the total revenue. The significant increase in the profit and dividend transfers from state banks, Telecommunications Regulatory Commission (TRC) and other SOBEs in comparison to 2013 mainly contributed to this increase in the non tax revenue during this period.

Table 3.10 > **Fiscal Measures (June 2013 - May 2014)**

Excise (Special Provisions)	
29.07.2013	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1821/1 of 29.07.2013) – To increase the excise duty on cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes and to increase excise duty to 27% from 12% for vehicles with separate bodies for cabin and cargo area (crew cabs), to 29% from 15% for vehicles exceeding 5 tons but not exceeding 20 tons and to 35% from 20% for vehicles exceeding 20 tons mainly to minimize the anomalies of tax rates of motor vehicles for transport of goods and to ensure more contribution from those vehicles to maintain the national road network.
21.11.2013	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1837/29 of 21.11.2013) - To implement budget proposals – 2014 with regards to introduce national sub headings and revise descriptions of identified HS Codes revise excise duty rates of HS Codes, 2710.12.20, 2710.19.40, 8704.21.51, 8704.21.52, 8704.31.41 and 8704.31.42 and to adjust excise duty rates of chapter 87 to make revenue neutral with the down ward revision of custom duty rates.
20.01.2014	Excise (Special Provisions) Act, No. 13 of 1989 (Gazette Notification No. 1846/7 of 20.01.2014) – To identify both lorries and trucks separately and to introduce new national sub-headings and keep minimized tax rates on those national sub-headings (as total tax value at 38% and 55%), to ensure that the existing tax rate for single cabs is remained, to introduce new customs codes for gully bowsers and garbage trucks which are mostly used by the local government authorities and to reduce tax rates of those items, to introduce new customs codes for vehicles chassis fitted with engine and cabin and to impose tax rates for that item to promote local value additions and to revise tax rates on packing films of pharmaceuticals, sanitary towels and tampons.
Cess	
21.11.2013	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1837/31 of 21.11.2013) – To introduce a Cess on the export of Pepper, Cinnamon, Clove and Nutmeg in order to encourage local value added exports.
21.11.2013	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1837/30 of 21.11.2013) - To revise Cess on Dairy Products, Vegetables and Fruits, Food items, Steel Products, Furniture etc. to promote local value additions and to remove Cess on Designer pens and tiles and bows in order to promote branded items for international shopping.
20.01.2014	Export Development Act, No. 40 of 1979 (Gazette Notification No. 1846/6 of 20.01.2014) – To remove the Import Cess rates on laminated packaging materials of pharmaceuticals to encourage domestic pharmaceuticals manufacturing industry using imported laminated packaging materials and In order to encourage local industries, Cess has been increased or imposed on imports of wet cleansing tissues to 30% or Rs.350/kg and sanitary towels and tampons to 30% or Rs.300/kg.
Excise Ordinance	
29.07.2013	Excise Notification No. 958 (Gazette Notification No. 1821/3 of 29.07.2013) - To increase the Excise Duty charged for the supply of locally manufactured or import of Spirits (Ethyl

Alcohol) up to 20,000 liters per month to be used by Government approved research and educational institutions, hospitals and Government Departments and supply of locally manufactured or imported Spirit (Ethyl Alcohol) up to 20,000 liters per month to be used in the production of medical preparations and industrial products, which are final products that are not subject to payment of Excise Duty and the Excise Duty charged for the supply of locally manufactured or import of Impure Ethyl Alcohol Spirits (Technical Spirits/ Weak Spirits) for each liter as specified in the schedule to this gazette notification.

29.07.2013 Excise Notification Nos. 959, 960 and 961 (Gazette Notification No. 1821/4 of 29.07.2013) – To increase the Excise Duty charged for Molasses, Palmyra, Coconut and Processed Arrack from Rs. 1,043.00 to Rs. 1,110.00 per proof liter, to increase the Excise Duty on Country Made Foreign Spirits manufactured in Sri Lanka from Rs. 1,183.00 to Rs. 1,250.00 per proof liter, to increase the Excise Duty on Malt liquor of less than 5% of absolute strength from Rs. 100.00 to Rs. 110.00 per every liter and to increase the Excise Duty on Malt liquor of more than 5% of absolute strength from Rs. 116.00 to Rs. 130.00 per every liter with effect from 31.07.2013.

20.01.2014 Excise Notification No. 962 (Gazette Notification No. 1846/8 of 20.01.2014) – To revise the Excise Ordinance in order to collect the duty payable on or before the last date of a month in respect of production in first 15 days of a particular month and on or before the 15th day of the succeeding month in respect of the production after 15th day of a particular month.

20.01.2014 Excise Notification No. 963 (Gazette Notification No. 1846/9 of 20.01.2014) – To impose a duty free limit up to 10,000 liters of Spirit (Ethyl Alcohol) to be used by Government or Government approved Research and Educational Institutions, Pharmaceutical Manufacturing Institutions, Hospitals and Government Departments and to minimize the anomalies of the excise duty rates for imported sprits (Ethyl Alcohol) used for liquor production.

Inland Revenue Act

12.08.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1823/5 of 12.08.2013) - To amend the regulations of Transfer Pricing Regulations on International Transactions and Transfer Pricing Regulations on Transactions other than International Transactions.

17.09.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1828/9 of 17.09.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and India

20.11.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1837/13 of 20.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Belarus

20.11.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1837/14 of 20.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Seychelles.

26.11.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1838/8 of 26.11.2013) - To published Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Palestine.

26.11.2013 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1838/19 of

26.11.2013) - To publish Agreement for Affording Relief from Double Taxation and Prevention of Fiscal Evasion between Sri Lanka and Luxembourg.

09.04.2014 The Inland Revenue Act No. 10 of 2006 (Gazette Notification No. 1857/8 of 09.04.2014) – Adjustments/Information required to be made or provided for tax purpose in complying with the respective provisions of the Inland Revenue Act, as consequential to the adoption of Sri Lanka Accounting Standards which consist of Sri Lanka Financial Reporting Standards (SLFRS)/ Lanka Accounting Standards (LKAS) in the presentation of financial statements, in relation to any year of assessment commencing on or After 1, 2012.

Ports and Airports Development Levy

22.11.2013 Ports and Airports Development Levy Act, No.18 of 2011 (Gazette Notification No. 1837/46 of 22.11.2013) - To exempt the payment of Ports and Airports Development Levy on importation of Petroleum oils and obtained from bituminous minerals, goods under the specified HS Codes, other products including glands and other organ for organ therapeutic uses, dried, whether or not powdered; extracts of glands or other organs or of their secretions for organo-therapeutic uses, human blood: animal blood prepared for therapeutic, prophylactic or diagnostic uses, immunological products, medicaments (excluding goods of heading 30.02,30.05 or 30.06) and on importation of Pharmaceutical goods and exemption of Aircraft launching gear; deck arrestor or similar gear etc

Economic Service Charge Act

09.04.2014 Economic Service Charge Act No. 13 of 2006 (Gazette Notification No. 1857/9 of 09.04.2014) - The methodology of computation of turnover of a person or partnership engaged in any trade or business according to the section 2 of the act and to used the relevant schedule for the new economic service charge tax rate of 0.25%.

Fiscal Management (Responsibility) Act

02.07.2013 Order made under Section 10 of Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1817/27 of 02.07.2013) – To publish the Mid Year Fiscal Position Report - 2013

21.11.2013 Order made under Sections 4 and 7 of Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1837/32 of 21.11.2013) - To publish the Fiscal Management Report - 2014

29.05.2014 Order made under Section 13 of Fiscal Management (Responsibility) Act, No. 3 of 2003 (Gazette Notification No. 1864/45 of 29.05.2013) – To publish the Final Budget Position Report – 2013

Finance Act

11.07.2013 The Finance Act No. 12 of 2012 (Gazette Notification No. 1818/30 of 11.07.2013) - To provide the followings, in respect of the implementation of proposal, in Budget 2013.

- a) to publish regulations to form the basis in which the guideline and approval would be granted
- b) to determine the scope of the exemption to be granted and
- c) to declare the relevant areas to be brought under the Acts

The main aim of this is to extend business activities in Free Ports and Bonded Areas and to promote foreign investments.

Provisions relating to the agreements to be entered into by enterprises with the BOI, the approved business activities for such enterprises, the investment criterion and provisions to exempt the imposition of taxes as well as the provisions in respect of free port and designated bonded areas specified in this Gazette

23.08.2013 Finance Act, No. 12 of 2013 (Gazette Notification No. 1824/23 of 23.08.2013) - To introduce One per centum of Crop Insurance Levy on profit after tax, of Banks, Financial Agencies and Insurance Agencies. The income of this fiscal levy is used for payment of compensation to farmers on damaged crops due to drought, floods and wild elephants

Stamp Duty (Special Provisions) Act

26.05.2014 Stamp Duty (Special Provisions) Act No. 12 of 2006 (Gazette Notification No. 1864/20 of 26.05.2014) – To charge stamp duty at the “market value” at the event of any share certificate issued consequent to the issue, transfer or assignment of any number of shares of any company and for this purpose to amend schedule of the Gazette Notification No. 1465/19 of 05.10.2006 as last amended by the Gazette Notification No. 1809/19 of 10.05.2006).

Special Commodity Levy Act

11.07.2013 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1818/36 of 11.07.2013) - To increase the prevailing Special Commodity Levy on Bonions from Rs. 15 to 30 per KG with a view to offer a better and reasonable price to local farmers of B-onions

31.07.2013 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1821/32 of 31.07.2013) – Having observed a declining trend in respect of prices of sugar in the international market and considering the possibility of further decreasing of prices of sugar in international market, prevailing levy on a kilo gram of Sugar was increased from Rs. 20 to Rs. 27

22.08.2013 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1824/22 of 22.08.2013) - Having considered the supply of local production to the market, the existed tax on a kilo gram of Potatoes was increased from Rs. 25 to 40 and B’ onions from Rs. 30 to 35 in order to ensure a better and reasonable price for local cultivators of Potatoes and B’onions

16.11.2013 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1836/41 of 16.11.2013) – To reduce the SCL rate on Potatoes from Rs. 40 per Kg to 10 per Kg. B’onions from Rs. 35 per Kg To Rs. 10 per Kg and Red Onions from Rs. 15 per Kg to Rs. 5 per Kg.

21.11.2013 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1837/26 of 21.11.2013) - To revise the SCL rates according to 2014 Budget proposals and introduced 4 new items to the SCL. (Salt, Yoghurt, Butter and Margarine)

05.02.2014 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1848/12 of 05.02.2014) - To reduce the duty on Spilt lentils Rs. 22 to 05 per Kg for 05 months

06.02.2014 Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1848/30 of 06.02.2014) - To increase the duty rate on potatoes Rs. 10 to Rs, 25 per Kg

07.03.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1852/91 of 07.03.2014) - To reduce the duty on Whole lentils Rs. 18 to 10 per Kg for 05 months
14.03.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1853/45 of 14.03.2014) - To extend the validity period for Red Onion and B'Onion for 5 months
09.04.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1857/10 of 09.04.2014) - To introduce SCL for Rice Rs. 5 per Kg with effect from 09.04.2014 for 03 months
11.04.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1857/34 of 11.04.2014) - To introduce SCL for Maize & Sorghum 10% per Kg with effect from 11.04.2014 for 02 months
21.05.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1863/13 of 21.05.2014) - To extend the validity period for 31 items for 7 months and reduced the duty rate on potatoes on Rs. 25 to 15 per Kg and Sugar Rs. 30 to 25 per Kg
23.05.2014	Special Commodity Levy Act No 48 of 2007 (Gazette Notification No. 1863/28 of 23.05.2014) - To reduce the duty on Whole lentils Rs. 10 to 05 per Kg for 05 months
Revenue Protection Act	
21.11.2013	Revenue Protection Act No. 19 of 1972 (Gazette Notification No. 1837/25 of 21.11.2013) - To introduce new tariff bands on CID as 0%, 7.5%, 15% and 25%, Reduced the CID rate for IT supportive printers, Optical fiber cables, Solar control films, Change the CID rate for Branded items for up market development. Local value addition and backward integration with domestic value creation - Machinery and heavy industry - Tea machinery, Tractors, steel, Cement, Ayurvedic industry, fisheries industry, Confectionary industry, Flavours, Cocoa beans, gold, Boat manufacturing industry, Wheel barrows and Gauze. Created new HS codes for Diesel hybrid vehicles. Under SAFTA and ISFTA, 208 and 10 items are removed respectively from the negative list of Sri Lanka
20.01.2014	Revenue Protection Act No. 19 of 1972 (Gazette Notification No. 1846/10 of 20.01.2014) - To identify both lorries and trucks separately and to introduce new national sub-headings and keep minimized tax rates on those national sub-headings (as total tax value at 38% and 55%), to ensure that the existing tax rate for single cabs is remained, to introduce new customs codes for gully bowlers and garbage trucks which are mostly used by the local government authorities and to reduce tax rates of those items, to introduce new customs codes for vehicles chassis fitted with engine and cabin and to impose tax rates for that item to promote local value additions and to revise tax rates on packing films of pharmaceuticals, sanitary towels and tampons
Customs Ordinance (Chapter 235)	
20.06.2013	Customs Ordinance (Chapter 235) (Gazette Notification No. 1815/15 of 20.06.2013) – To apply a surcharge of 100% on Customs Duty (5%) on Gold
21.11.2013	Customs Ordinance (Chapter 235) (Gazette Notification No. 1837/28 of 21.11.2013) – To remove the surcharge on imported Gold

07.04.2014 Customs Ordinance (Chapter 235) (Gazette Notification No. 1857/3 of 07.04.2014) – Declared in order that the value of motor vehicles imported and classifiable within the headings 87.01, 87.02, 87.03, 87.04, 87.05 and 87.11 of the Harmonized Commodity Description and Coding System shall be set out as specified in the gazette and all Customs duties and other levies payable at the time of importation shall be calculated on the basis of such value and this shall be in force for a period of two years from 8th of April 2014.

Customs Amendment Act

21.11.2013 Customs Amendment Act No 2 of 2013(Gazette Notification No. 1837/27 of 21.11.2013)
– To revise the method of Calculation of value of used Motor Vehicles

The Licensing of Shipping Agents, Freight Forwarders, Non-Vessel Operating Common Carriers and Container Operators Act

27.12.2013 The Licensing of Shipping Agents, Freight Forwarders, Non-Vessel Operating Common Carriers and Container Operators Act, No. 10 OF 1972(Gazette Notification No. 1842/16 of 27.12.2013) - Regulations made under Section 10 of the Licensing of Shipping Agents, Freight Forwarders, Non-Vessel Operating Common Carriers and Container Operators Act, No. 10 of 1972 read with Article 44(2) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

3.3 Government Expenditure

Total government expenditure during the first four months of 2014 amounted to Rs. 692,773 million. The recurrent expenditure amounted to Rs. 498,998 million while capital expenditure was Rs. 193,776 million. There was a lower increase of 6.5 percent in recurrent expenditure

during this period mainly benefiting from the declined interest payments while major development projects in the areas such as roads, irrigation, rural development, health and education contributed to the increase in expenditure on capital expenditure by 4.5 percent in this period.

Table 3.11 > Performance of Government Expenditure: January - April

	Rs. Million	
	2013	2014(Provisional)
Recurrent Expenditure	468,380	498,998
Salaries	126,950	144,750
Pension	41,732	43,578
Interest Payments	176,099	157,855
Other	123,599	152,815
Capital Expenditure	185,390	193,776
Total	653,770	692,773

Source: Department of National Budget, Department of State Accounts and Department of Treasury Operations

Salaries and Pension

Expenditure on salaries for public servants stood at Rs.144,750 million, with an increase of 14 percent over the corresponding period of the previous year, mainly due to the increase of cost of living allowance by Rs.1,200 and the full impact of the special allowance made in 2013.

Total pension payments amounted to Rs. 43,578 million during the first four months of 2014 in comparison to Rs. 41,732 million in the same period in 2013. The full impact of retirees in 2013 as well as the increase of cost of living allowance by Rs.500 for pensioners who retired

before 2006 and Rs.350 for other pensioners per month contributed to this increase.

Interest Cost

Total interest payments on foreign and domestic debt amounted to Rs.157,855million during the first four months of 2014 with a 10.4 percent decrease over the corresponding period of last year. The positive impact of the relatively low interest rates on government securities mainly contributed for lowering the interest expenditure during this period.

Table 3.12 > Behaviour of Yield Rates (%) on Government Securities and Exchange Rate : 2013-2014 June

Period	Treasury Bills			Treasury Bonds				Exchange Rate	
	91 Days	182 Days	364 Days	2 Years	3 Years	4 Years	5 Years		
2013	Jan	9.63	10.41	11.25	-	10.98	-	10.90	126.85
	Feb	9.10	10.08	11.10	-	-	-	10.74	127.70
	Mar	9.26	0.00	11.35	-	-	-	-	126.81
	Apr	9.23	10.23	11.34	-	-	-	11.45	126.03
	May	8.73	9.90	10.86	-	-	-	-	126.31
	Jun	8.66	9.70	10.66	-	-	-	-	127.81
	July	9.60	10.75	11.79	-	-	-	11.17	131.00
	Aug	9.57	10.72	11.72	-	10.87	-	11.17	131.82
	Sep	9.56	10.71	11.74	-	-	-	-	132.46
	Oct	8.57	9.44	10.38	-	-	-	-	131.09
	Nov	8.08	8.89	9.77	-	-	-	10.64	131.08
	Dec	7.77	8.29	8.86	-	-	-	-	130.82
2014	Jan	6.98	7.15	7.36	-	-	-	8.65	130.72
	Feb	6.74	6.90	7.08	-	-	-	-	130.82
	Mar	6.67	6.84	7.05	-	-	-	-	130.62
	Apr	6.61	6.79	7.03	-	-	-	-	130.62
	May	6.56	6.76	7.02	-	-	-	8.9	130.45
	Jun	6.51	6.69	6.99	-	-	-	-	130.33

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

Welfare Expenditure

Total expenditure on welfare payments and subsidies during the first four months of 2014 increased by 37percent to Rs. 30,592 million in comparison to the corresponding period of the last year. The welfare assistance provided to support poorer segments of the society including Samurdhi cash supplements, payments to elderly, parents of security personnel as well as flood and drought relief to affected families amounted to Rs. 11,512 million. The service compensation for differently able and dead soldiers amounted to Rs. 5,663 million during the first four months of 2014 compared to Rs. 5,240 million in the same period of 2013.

The government continued national nutritional programmes, such as PhoshanaMalla,Thriposha programme, fresh milk and School Nutritional Programmes spending Rs. 1,213

million in the first four months with the intention of improving maternal and child healthcare. This amount included, Rs. 539 million for Thriposha Programme, and Rs. 38 million for provide fresh milk for children between 2-5 years of old.

The welfare programmes implemented for the benefit of school children by providing free school text books, uniforms, season tickets, free dhamma school text books and bursaries were continued at a cost of Rs. 3,816 million. The priority has been given by the government to provide free medicine for all without any disruption spending Rs. 8,368million during the first four months of the year.Under the fertilizer subsidy programme, the government incurred Rs. 14,256million during this period to provide all varieties of fertilizer for paddy farmers and other crop small holders.

Table 3.13 > Welfare Expenditure: January – April

Item	Rs. Million	
	2013	2014
Mothers and Children		
Thriposha Programme and Infant Milk Food Subsidy/Poshanamalla	631	617
Free Text Books & Uniforms	1,234	3,131
School Season Tickets	549	565
School Nutritional Foods	737	596
Agriculture		
Fertilizer Subsidy	6,397	14,256
Welfare Payments		
Samurdhi Relief	6,898	5,700
Assistance to Differently able Soldiers	5,240	5,663
Food Assistance, Flood and Drought Relief	647	64

Source: Department of National Budget

Public Investment Expenditure

During the first four month in 2014, the government has invested Rs. 203,673 million on regional and national infrastructure developments such as, roads, water supply, irrigation, electricity, ports, airports, urban and townships and human resource developments such as health, primary education, vocational education, higher education, sports and youth affairs to accelerate the development and to achieve higher living standards of people.

(A) Rural Development Initiatives

The government continued the improvement of rural infrastructure facilities such as, rural and provincial roads, rural water supply, new constructions of minor irrigation schemes, rehabilitation of tanks and irrigation schemes incurring Rs. 5,951million during the period. While improving of rural infrastructure facilities, several livelihood development programmes such as, “DiviNeguma” household backyard economy development programme, cottage

industry programme, livestock and fishery sector livelihood programmes have also been implemented spending Rs. 565million. The need based improvement programme of “One project for one village” has been continued under “GamaNeguma” Programme spending Rs. 5,487 million.

(B) Human Resource Development

(1) Education

During the first four month of the year, Rs. 44,898million was spent as service delivery cost by the government by way of improvement of physical infrastructure development. This was a 17.5 percent increase compared to the first four months of last year. Out of the total expenditure, Rs. 2,275 million on school development, Rs. 4,469 million for universities and higher educational institutions and Rs. 998 million on vocational education has been spent, mainly for infrastructure development and improvements in these institutions.

Table 3.14 > Expenditure on Major Activities of Education Sector

Description	Rs. Million	
	2013	2014
	Jan - April	Jan - April
Total Recurrent Expenditure	38,805	44,898
Salaries for school Teachers and other support staff	6,349	6,978
Other service delivery expenditure	2,195	669
Welfare Programmes	1,216	3,786
Evaluation of Examination	935	1,271
Provincial Education	19,511	21,600
Service delivery expenditure of Universities and other higher education Institutes	5,787	7,105
Salaries for vocational Training and other support staff	381	1,262
Other service delivery expenditure	895	2,103
Bursaries, Scholarships, Bursaries and stipend	5	124
Public Investment Expenditure	6,151	7,945
Primary school development	37	38
Defence Services Schools	55	39
Secondary School Development	509	254
Education for Knowledge Society Project	237	294
Provincial Education	1,190	1,320
Higher Education for 21st century Project	238	218
Development of Universities and other Higher Educational Institutions	3,134	4,251
Vocational Training Institutes	614	998
Other Development	101	203

Source: Department of National Budget

(2) Health

Free health policies implemented by Sri Lanka over the past several decades contributed in achieving an outstanding progress in health sector. The government has annually maintained a significantly higher amount of investment in this sector in order to maintain and improve the high quality health service and also to ensure equitable access to quality health services. The expenditure on the health sector

during the first four months of 2014 was Rs, 30,063 million. Out of this, Rs. 8,368 million for free medicine for all, Rs. 26,872 million for service delivery and personal emoluments of health services, Rs. 3,191 for improvement of health infrastructure including Polonnaruwa, Hambanthota, NuwaraEliya, Monaragala, Jaffna district hospitals was spent by the government.

Table 3.15 > Expenditure on Major Activities of Health Sector

Description	Rs. Million	
	2013	2014
	January - April	January - April
Total Recurrent Expenditure	28,521	26,872
Service Delivery Expenditure	16,126	18,504
<i>of which</i> Salaries of Medical Personnel and Support Staff	12,323	14,368
Provision of Medicine	12,395	8,368
Public Investment Expenditure	4,037	3,191
Development of District Hospital, Polonnaruwa	41	28
Epilepsy unit at National Hospital, Colombo	210	245
Korea- Sri Lanka Friendship Hospital at Matara, Godagama and other Hospitals	12	26
Development of DGH Hambantota and DGH Nuwaraeliya	26	1
Construction of OPD and Ward at Monaragala Hospital	43	9
Improvement of Central Functions at Teaching Hospital, Jaffna	9	-
Development of Dental Institute of Sri Lanka	18	34
Thousand Hospital Development Programme	224	24
Provision of 250 Ambulances (Payment of Lease)	97	163
Other Development	3,454	2,661

Source: Department of National Budget

(C) Infrastructure

(1) Irrigation and Water Management

The government has invested Rs. 9,671 million for the development of irrigation schemes through rehabilitation and construction of new reservoirs, during the period from January to April in 2014. It was an increase of 11 percent compared to the same period in the previous year. The expenditure on inter provincial and multipurpose ongoing irrigation schemes such as, Moragahakanda and Kaluganga projects amounted to Rs. 4,584 million during the first four month of this year. Major and medium size irrigation schemes received Rs. 3,702 million and Rs.144 million was invested on Mahaweli Irrigation Development Project to expand the scheme to Walioya, Maduruoya and Rideemaliyadda.

(2) Water Supply and Sanitation

During the first four months of 2014, the government invested Rs. 3,013 million in water supply and sanitation. Out of this, Rs. 1,721 million was spent on large scale water supply and sanitation schemes in Jaffna-Kilinochchi, Badulla – Haliela, Ella, Ruhunupura, Chilaw, Vavunia, Mannar, Puttalam, Colombo, Negombo, Kelaniya, Kolonna, Balangoda, Dhambulla, Kurunagala, Polonnaruwa, Anuradhapura, Hambantota, Batticaloa, Monaragala and Gampaha. In addition, Rs. 826 million and Rs. 57 million was spent on small township water supply schemes and community water supply schemes, respectively.

Table 3.16 > Water Supply & Sanitation: Jan - April 2014

Category	Rs. Million		
	Foreign Financing	Domestic Financing	Total
Large Scale Water Supply & Sanitation Schemes:	222	1,499	1,721
Emerging Small Townships Water Supply Schemes	-	826	826
Tsunami Water Supply Projects	-	158	158
Sewerage Schemes	211	40	251
Community Water Supply and Sanitation Schemes	43	14	57
Total	476	2,537	3,013

Source : Department of National Budget

(3) Highways and Bridges

During the first four months in 2014, total investment on development of road network in the country increased by 72 percent to Rs. 55,039 million, over the expenditure of

Rs.31,986 million in the same period in 2013. Out of the total investment for national roads, Rs. 6,114 million was for the development of expressways and Rs. 27,083 million was invested on development of highways.

Table 3.17 > Expenditure on Major Activates of Road Sector

Rs. Million

Description	2013			2014		
	January-April			January-April		
	Domestic Funds	Foreign Loans	Total	Domestic Funds	Foreign Loans	Total
Service Delivery Expenditure	87	-	87	121	-	121
Personal Emoluments	31	-	31	65	-	65
Salaries and Wages	18	-	18	37	-	37
Overtime and Allowances	13	-	13	28	-	28
Operational and Maintenance Expenditure	56	-	56	56	-	56
Investments						
National Roads	23,451	8,535	31,986	25,423	29,616	55,039
Expressways Development	2,083	2,034	4,117	1,766	4,348	6,114
Southern Transport Development Project	289	1,736	2,025	167	506	673
Colombo - Katunayake Expressway	317	253	570	445	-	445
Outer Circular Highway	1,000	46	1,046	819	3,843	4,662
<i>Other Expressways Development</i>	477	-	477	335	-	335
Highways Development	6,774	6,008	12,782	6,358	20,725	27,083
Maintenance of Roads and Bridges	3,200	-	3,200	3,465	-	3,465
Road Network Development for Hambantota International Hub	1,040	-	1,040	610	-	610
Improvement of National Road Network in Northern Province	131	2,304	2,435	207	6,375	6,581
Rehabilitation & Improvement of Priority Road Projects Phase II	792	1,587	2,379	1,254	10,236	11,490
National Highway Sector Project Supplementary Loan	881	608	1,489	224	908	1,132
<i>Other Highways Development</i>	730	1,509	2,239	598	3,206	3,804
Widening & Improvement of Roads	8,293	-	8,293	11,661	-	11,661
Construction of Bridges and Flyovers	398	84	482	950	3,706	4,656
Reconstruction of Damaged/ Weak Bridges on National Highways	205	-	205	223	-	223
Reconstruction of 5 Bridges in Eastern Province	80	84	164	-	-	-
<i>Other Construction of Bridges and Flyovers</i>	113	-	113	727	-	727
Natural Disaster Affected Road Rehabilitation	113	408	521	76	833	909
Emergency Natural Disaster Rehabilitation		408	408	70	833	903
<i>Other Natural Disaster Affected Road Rehabilitation</i>	113	-	113	6	-	6
Institutional Support	3,039	-	3,039	4,606	3	4,609
MagaNeguma-Connecting Villages	2,749	-	2,749	4,016	-	4,016
Other Capital Expenditure	43	531	574	7		7

Source: Department of National Budget

(4) Transport

The investment in the transport sector in the period under review was Rs. 10,164 million. The expenditure on this sector was mainly for infrastructure development and fleet expansion of public transport in order to have efficient and modern public transport system in the country. Out of the total expenditure, Rs. 3,016 million was for the Sri Lanka Transport Board (SLTB),

which provides for 18 percent of the passenger transportation in the country. The balance Rs. 7,148 million was for the projects including construction of Matara- Beliatta – Kataragama new railway line project, Omanthai – Pallai railway line, Medawachchiya – Madu, and Pallai – KKS railway lines.

Table 3.18 > Railway Sector Development Expenditure : January - April 2014

Name of the Project	Domestic Financing	Foreign Financing	Rs. Million
			Total Expenditure
Matara – Beliatta – Kataragama New Rail Line	21.7	-	21.7
Omanthai – Pallai Line	70.1	2,815	2885.1
Madu – Talaimannar Line	104.8	706	810.8
Pallai – KKS Line	77.9	2,449	2526.9
Installation of New Railway Signaling & Telecommunication System from ANP/TLM/KKS	68.3	835	903.3
Total Investment	343	6,805	7,148

Source: Department of National Budget

(5) Power and Energy

Public investment in the power sector during the first four months in 2014 was Rs. 949 million. A major share of this was for the electricity generation. An amount of Rs. 534 million was incurred to make payments to the Upper Kothmale Hydropower Project and also

for rehabilitation of hydropower stations such as old Lakshapana, New Lakshapana and Wimalasurendra. The balance Rs. 415 million was for the projects for distribution of electricity such as Uva Udanaya, Rural Electrification Project (RE-8) and Eastern distribution improvement project.

Table 3.19 > Power Sector Development Expenditure: January - April 2014

Name of the Project	Domestic Financing	Foreign Financing	Rs. Million
			Total Expenditure
Service Delivery Expenditure	59.38	-	59.38
Personal Emoluments	19.99	-	19.99
Operational Expenditure	39.39	-	39.39
Travelling	2.32	-	2.32
Supplies	8.47	-	8.47
Maintenance	5.64	-	5.64
Contractual Services	22.57	-	22.57
Transfers to Institutions	0.39	-	0.39
Administration Related Capital Expenditure	0.36	-	0.36
Major Development Initiatives	402.45	554.13	956.58
Electricity Generation		534.82	534.82
Upper Kotmale Hydro Power Project (GOSL/JICA)	-	432.60	432.60
Energy Diversification Enhancement Project (GOSL/JICA)	-	102.22	102.22
Electricity Transmission	-	6.61	6.61
Habarana - Veyangoda 220kv Transmission Line(GOSL/JICA)		6.61	6.61
Electricity Distribution	402.45	12.70	415.15
UvaUdanaya (GOSL/China EB)	50.00	-	50.00
Rural Electrification Project- RE- 08 (GOSL/Iran)	339.89	-	339.89
Eastern Distribution Improvement Project - SPSS II (GOSL/ADB)	12.56	12.70	25.26
Total	462.19	554.13	1,016.32

Source: Department of National Budget

The Use of Budgetary Support Services and Contingent Liability Project (Treasury Miscellaneous Vote – TMV)

Budgetary allocations provided from the TMV from January to April 2014 as per the section 6(1) of the Appropriation Act No. 36 of 2013, were Rs. 15,925 million of which Rs. 535 million was for recurrent expenditure and Rs. 15,390 million was for capital expenditure. The details of these allocations provided are given in Table 3.20.

Table 3.20 >Allocations Provided from the Budgetary Support Services and Contingent Liability Project January - April, 2014 to Supplement Budgetary Provisions

Rs.				
Head No.	Ministry/ Department	Purpose	Recurrent	Capital
1	His Excellency the President	Repair and maintenance of electrical installations and Completion of e- Sri Lanka Development Project and security related expenditure	100,000,000	246,464,210
2	Office of the Prime Minister	Electrical installations, Repair and maintenance of buildings of the Prime Minister's Office, Installation of a Solar Power Energy System for new building of Prime Minister's Office	13,000,000	5,700,000
3	Secretariat for Special Functions (Senior Ministers)	Purchase of vehicles		33,000,000
6	Public Service Commission	Purchase of a mail delivery vehicle		480,000
13	Human Rights Commission of Sri Lanka	Purchase of a vehicle		6,500,000
14	Department of Attorney General	Training programmes for officers of the Department of Attorney General		11,000,000
16	Parliament	Purchase of a vehicle		6,800,000
19	Office of the Leader of the Opposition of Parliament	Purchase of new vehicles, Rehabilitation and improvement of office premises of the Leader of the Opposition of Parliament		42,208,000
20	Department of Elections	Staff training programmes		1,500,000
21	Auditor General	Staff training programmes, Purchase office equipments for the use of newly recruited officers		46,000,000
101	Ministry of Buddha Sasana and Religious Affairs	Purchase of a new vehicle, Asgiriya Temple Restoration Programme based on the 700th Year Anniversary as per the budget proposal 2012		27,191,236
102	Ministry of	Agriculture and Agrarian Insurance	180,200,000	13,296,037

	Finance and Planning	Board for the payments of farmers' pension, Provisions for the grant funded by United Nations Children's Fund (UNICEF) to the project handled by Institute of Policy Studies.		
237	Department of National Planning	Publications by the Department of National Planning to be submitted at the Parliament and other institutions inline with National Budget 2014	7,750,698	
239	Department of External Resources	Bilateral assistance to construct a road in Addu City in Maldives under the Bilateral Co-operation between the two countries.		310,769,000
246	Department of Inland Revenue	Settlement of bills to Sri Lanka Telecom Ltd under Financial Management and Reform Project	51,000,000	
251	Department of Valuation	Payment of compensation for the underperforming enterprises vested to the government under the Act No 43 2011 as per the Cabinet decision made on 19th December 2012		500,000,000
252	Department of Census and Statistics	Initiate census on damaged property and humans due to civil war as per the recommendations by Lessons Learnt and Reconciliation Commission (LLRC)		110,000,000
323	Department of Legal Affairs	Maintenance of vehicles	200,000	
103	Ministry of Defence and Urban Development	Development of SathiPola at Padukka, Delkanda, Ambilipitiya and Maintenance of staff quarters	6,000,000	272,150,000
222	Sri Lanka Army	Basic facilities for Sri Lanka Army, Purchase of an Ambulance and medical equipments	85,000,000	43,463,853
224	Sri Lanka Air Force	Purchase of a new vehicle		6,000,000
105	Ministry of Economic Development	Implementation of development programmes in line with the DeyataKirula Exhibition - 2014 as per the cabinet decision made on 18.07.2013, Training of Frontline Officers in Community Development in North East areas, settle the commitments of the development programmes in DeyataKirula 2013 and to meet the expenditure of the DeyataKirula Development Programme		6,635,350,000

in 2013 /2014 and Other Development Works				
106	Ministry of Disaster Management	Accounting the grant given by The United Nations Human Settlement Programme for the development of the Early Disaster Warning System		5,617,938
108	Ministry of Postal Services	Purchase of vehicles, Transport expenses and Buildings rent	8,300,000	43,200,000
110	Ministry of Justice	Purchase of a vehicle		2,743,000
112	Ministry of External Affairs	Purchase of new vehicles for the Sri Lankan Missions in Tokyo, Paris, Chennai, Warsaw and Baghdad		37,275,000
115	Ministry of Petroleum Industries	Purchase of vehicles		22,000,000
116	Ministry of Co-operatives and Internal Trade	Accounting provision to absorb the grant given by the World Bank to build up the capacities of the Institute of Chartered Accountants of Sri Lanka, Purchase of new vehicles	6,700,000	17,500,000
117	Ministry of Highways, Ports and Shipping	Implementation of the Provincial Road Development Project, Purchase and repair of vehicles.	2,398,000	1,684,152,000
118	Ministry of Agriculture	Purchase and repair of vehicles.		60,500,000
119	Ministry of Power and Energy	Purchase of a vehicle		11,500,000
120	Ministry of Child Development and Women's Affairs	Accounting of financial grant given by the SAARC for "South Asia Initiatives to End Violence Against Children"- project being implemented under National Child Protection Authority		1,300,000
265	District Secretariat, Mannar	Losses arising on the Paddy Purchasing Programme conducted by the District Secretariat, Mannar with the coordination of Presidential Task Force for Resettlement, Construction of office complex for the District Secretariat, Mannar	1,950,000	36,000,000
266	District Secretariat, Vavuniya	Resettlement activities conducted by the District Secretariat, Vavuniya with the coordination of Presidential Task Force for Resettlement		10,000,000
269	District Secretariat , Batticaloa	Regional development programmes implemented in line with the DeyataKirula Development Programme 2013		200,000,000

272	District Secretariat, Kurunegala	Initial infrastructure development at the DeyataKirula 2014		25,000,000
274	District Secretariat, Anuradhapura	Promotion of traditional rice varieties for prevention of Kidney Diseases		35,000,000
275	District Secretariat - Polonnaruwa	Operational cost and losses of the paddy purchasing programme, Regional development programmes implemented in line with the DeyataKirula Development Programme 2013	36,000,000	38,900,000
277	District Secretariat, Monaragala	Construction of the new office complex for District Secretariat, Monaragala		7,000,000
122	Ministry of Mass Media and Information	Renovation of buildings of the Sri Lanka Broadcasting Corporation, Expenditure for local and international media campaign of the Commonwealth Heads of Government Meeting		335,000,000
210	Department of Information	Purchase of camera and other related equipments for the media unit		3,340,000
126	Ministry of Education	Implementation of development activities of the Polonnaruwa Royal Central College in line with the DeyataKirula Development Exhibition, Operational expenses to be settled to local agents for vehicles purchased for the use of Ministry of Education, Assistance for the differently abled students, Educational programmes implemented by the United Nations Children's Fund	10,000,000	39,832,000
127	Ministry of Labour & Labour Relations	Purchase of a vehicle		35,500,000
130	Ministry of Local Government and Provincial Councils	Purchase of a vehicle, Purchase of bowsers and garbage collectors to ensure the smooth functions of garbage collecting of Local Authorities		290,000,000
313	Central Provincial Council	Implementation of the Emergency Natural Disaster Rehabilitation Project		180,000,000
317	North Central Provincial Council	Implementation of the Emergency Natural Disaster Rehabilitation Project		66,200,000

321	Eastern Provincial Council	Implementation of the Emergency Natural Disaster Rehabilitation Project, Eastern and Uva Provincial Roads Project, Eastern Province Rural Roads Development Project (GOSL & JICA), Eastern Province Rural Water Supply Development Project (GOSL & JICA)	1,400,800,000
133	Ministry of Technology and Research	National Science Foundation for the implementation of Nanotech Phase 11 Project	5,392,776
134	Ministry of National Languages and Social Integration	Recurrent expenditure of the National Institute of Language Education and Training for the maintenance of vehicles and buildings, repairing of machinery and equipments, fuel, electricity and water, postal and telecommunication	13,200,000
135	Ministry of Plantation Industries	Purchase of a vehicle	6,687,965
136	Ministry of Sports	Purchase of ambulance for the use of the Institute of Sports Medicine	15,600,000
219	Department of Sports Development	Purchase of a vehicle	7,970,000
139	Ministry of Fisheries and Aquatic Resources Development	Development programmes implemented under Post Tsunami Coastal Rehabilitation, Resources Management Programme and Post Tsunami Livelihood Support and Partnership Programme	17,200,000
140	Ministry of Livestock and Rural Community Development	Purchase of vehicles	13,000,000
142	Ministry of National Heritage	Purchase of a vehicle	11,500,000
145	Ministry of Re-settlement	Accounting the grant given by the United Nations High Commissioner for Refugees (UNHCR) for resettled families in Mulativu District, Rehabilitation and improvement of building and structures	6,052,500
149	Ministry of Industry and Commerce	Purchase of vehicles, Implementation of Small and Micro Industries Leaders and Entrepreneur Promotion Project	536,000,000

152	Ministry of Irrigation and Water Resources Management	Purchase of vehicles		20,500,000
282	Department of Irrigation	Purchase of a Prime Mover with Low Bed Trailer		25,285,000
166	Ministry of Water Supply and Drainage	Settle the outstanding payments in development programmes of the North and East Pilot Water, Sanitation and Hygiene Project		50,000,000
171	Ministry of Higher Education	Accounting provisions to absorb the grant given by Germany to promote quality education, Researches and training of the University of Peradeniya, construct 60 university hostels as per the budget proposal 2013, Accounting of grant provided by the International Research Centre of Canada to promote the Researches of the University of Peradeniya under the Project of Building Research Excellence in Wildlife and Human Health in Sri Lanka		1,008,703,263
174	Ministry of Rehabilitation and Prison Reforms	Purchase of new vehicles		37,500,000
232	Department of Prisons	New buildings for the relocation of Tangalle Prison to Eraminiyaya, Angunukolapellessa		403,000,000
175	Ministry of State Resources and Enterprise Development	Salaries and wages for the employees of the National Paper Company Ltd, Sri Lanka State Plantation Corporation and Janatha Estate Development Board		60,000,000
178	Ministry of Coconut Development and Janatha Estate Development	Purchase of vehicles		21,000,000
180	Ministry of Minor Export Crops Promotion	Transport expenses, purchase of new vehicles	4,640,000	34,902,205
184	Ministry of Private Transport Services	Purchase of a vehicle		6,900,000

187	Ministry of Investment Promotion	Purchase of a vehicle, maintenance of vehicles and Transport expenses	5,000,000	34,760,000
188	Ministry of Botanical Gardens and Public Recreation	Purchase of a vehicle		6,682,951
322	Department of National Botanical Gardens	Renovation of the Administration Building at JanakalaKendraya		50,000,000
189	Ministry of Education Services	Library Promoting Programmes, Water, Sanitation and Hygienic Programme for schools located in Uva, Eastern, North Central and Central Provincial Councils	4,000,000	98,050,000
190	Ministry of Law and Order	Purchase of a new vehicle		6,510,000
Total			535,338,698	15,389,428,934

3.4 Treasury Operations

Performance of the Government Treasury Cash Flow

Cash inflows to the Treasury during the first five months of 2014 increased by 7 percent in comparison to the same period in 2013. Cash deficit after outflow for recurrent and capital payments amounted to Rs 440 billion which is higher than the corresponding figure for the

same period in 2013 by Rs. 73 billion. This was mainly due to the increase in cash outflows for recurrent and capital payments by 7 percent and 30 percent, respectively, compared to the corresponding period of the previous year. The overall closing cash balance (deficit) as at end May, 2014 was Rs 177 billion, which is higher than the cash deficit which prevailed at the end of May 2013, by Rs. 46 billion.

Table 3.21 > Statement on Government Treasury Cash Flow Operations: January to May

Item	Rs. Billion		
	2013 Actual	Estimate	2014 Actual
Opening cash balance as at 1st January	(144.5)	(165.7)	(165.7)
Total cash inflow from revenue and other receipts	371.6	522.2	398.9
Total cash outflow for recurrent payments	(521.6)	(562.3)	(557.5)
Total cash outflow for capital payments*	(216.3)	(246.2)	(281.0)
Net cash surplus / (deficit)	(366.3)	(286.3)	(439.6)
Gross borrowing *	646.4	596.0	770.4
Debt repayment	(253.8)	(351.8)	(330.7)
Net borrowing	392.6	244.2	439.7
Adjustment account balance (TEB, net deposits, etc.)	(12.7)	-	(11.3)
Closing Cash balance as at 31 st May	(131.0)	(207.8)	(176.9)

Source: Department of Treasury Operations

*Includes project/programme loans received by the government and recorded in the CS-DRMS as at April 31, 2014.

Management of Government Debt

The government debt operations indicated total gross borrowing as Rs. 770 billion during the first five months of 2014. Out of the total, Rs. 553 billion was domestic borrowings and balance was the foreign borrowings. The repayments of government debt both

domestic and foreign amounted to Rs 331 billion while the net borrowing was Rs 440 billion during this period. The table below summarizes the government gross domestic borrowings during January - May, 2014.

Table 3.22 > **Gross Domestic Borrowings by Instruments (January to May 2014)**

Gross Domestic Borrowings by Instruments	Amount (Rs. Billion)
Treasury Bonds	437.7
Treasury Bills	30.4
Sri Lanka Development Bonds	47.9
CBSL Provisional Advances	36.9
Total	552.9

Source: Department of Treasury Operations

**Chart 3.3 > Gross Domestic Borrowings
by Instruments (January to May 2014)**

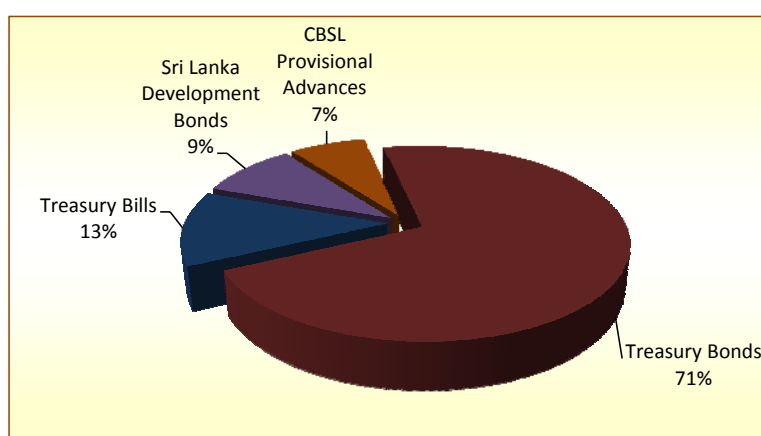


Table 3.23 > **Sri Lanka Development Bonds (SLDB) Auctions:
Jan - May 2014**

Issue Date	Maturity Date	Series	Amount (US\$)
17/03/2014	17/03/2017	2017A	187,000,000.00

Source: Central Bank of Sri Lanka

Table 3.24 > **Treasury Bond Auctions up to May 2014**

Series	Settlement Date	Maturity Date	Bid Accepted (Rs. Mn.)	Weighed Average Yield (After Tax) (%)
10.60%2019A	16/01/14	01/07/19	2,000	8.65
13.00%2029A	16/01/14	01/01/29	3,500	10.61
11.20%2022A	03/03/14	01/07/22	1,050	9.90
11.40%2024A	03/03/14	01/01/24	1,000	10.00
13.00%2029A	03/03/14	01/01/29	1,000	10.76
11.20%2022A	01/04/14	01/07/22	1,000	10.00
13.25%2034A	01/04/14	01/01/34	2,000	11.32
13.50%2044B	01/04/14	01/01/44	2,000	11.75

Source: Central Bank of Sri Lanka

Table 3.25 > **Weekly Treasury Bill Auctions up to May 2014**

Issue Date	Amount Accepted (Rs. Mn.)			Weighted Average Yield Rates (a) (%)		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
3/01/2014	1,031.00	3,943.00	15,440.00	7.42	7.53	7.95
10/01/2014	2,000.00	3,000.00	13,579.00	7.00	7.20	7.42
17/01/2014	5,340.00	11,662.00	20,084.00	6.86	7.02	7.15
24/01/2014	1,105.00	6,443.00	2,656.00	6.84	7.02	7.15
31/01/2014	7,163.00	12,426.00	8,232.00	6.82	7.00	7.14
7/02/2014	0.00	0.00	15,446.00	0.00	0.00	7.10
14/02/2014	5,972.00	11,067.00	3,790.00	6.77	6.92	7.10
21/02/2014	3,050.00	5,390.00	10,457.00	6.75	6.90	7.08
28/02/2014	1,000.00	8,756.00	12,900.00	6.72	6.89	7.07
7/03/2014	1,000.00	7,793.00	18,280.00	6.71	6.88	7.07
14/03/2014	500.00	4,306.00	13,446.00	6.69	6.85	7.06
21/03/2014	700.00	2,878.00	8,500.00	6.66	6.83	7.05
28/03/2014	1,815.00	957.00	5,510.00	6.65	6.82	7.05
4/04/2014	380.00	516.00	1,287.00	6.64	6.81	7.05
11/04/2014	500.00	500.00	9,350.00	6.63	6.80	7.04
18/04/2014	500.00	5,337.00	4,656.00	6.61	6.79	7.03
25/04/2014	500.00	2,000.00	12,361.00	6.58	6.79	7.02
2/05/2014	0.00	3,982.00	7,410.00	0.00	6.78	7.02
9/05/2014	0.00	2,254.00	12,397.00	0.00	6.76	7.02
16/05/2014	1,105.00	2,145.00	13,006.00	6.57	6.76	7.02
23/05/2014	1,511.00	3,209.00	6,282.00	6.57	6.75	7.02
30/05/2014	1,400.00	2,964.00	14,223.00	6.56	6.75	7.02

(a) After tax weighted average yield rate

Source: Central Bank of Sri Lanka

Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Treasury Guarantees issued and remaining valid as at May 31, 2014 amounts to Rs.492 billion which is within the limit of 7 percent of GDP as prescribed in the section 2(a)

of the Fiscal Management (Responsibility) (Amendment) Act No. 3 of 2003. The details of Treasury Guarantees issued by the General Treasury as at May 31, 2014 are given in Table 3.26.

Table 3.26 >Details of Guarantees Issued by the General Treasury as at 31.05.2014

S.No	Name of the Bank or Institution	Name of Institution	Guaranteed Amount (Rs. Mn)
1	Bank of Ceylon	Ceylon Petroleum Corporation	118,692
		General Sir John Kotelawala Defence University	835
		Mihin Lanka (Pvt)Ltd	367
		National School of Business Management Limited	8,600
		Paddy Marketing Board	3,137
		Road Development Authority	34,600
		State Development and Construction Corporation	400
		STC General Trading Company Ltd.	460
2	Commercial bank	Urban Development Authority	18,506
		Ministry of Defence and Urban Development	2,000
3	DFCC Bank	Road Development Authority	5,085
		Ministry of Defence and Urban Development	1,000
4	Employee's Trust Fund Board	Road Development Authority	1,329
		Lakdanavi Ltd.	2,992
5	Hatton National Bank	Ministry of Defence and Urban Development	3,550
		Road Development Authority	28,262
6	Hongkong& Shanghai Banking Co.Ltd.	West Coast Power(Pvt.)Ltd.	24,302
7	MashreqbankPsc - Dubai	Sri Lankan Airlines	23,079
8	National Development Bank	Road Development Authority	7,863
9	National Savings Bank	General Sir John Kotelawala Defence University	26,591
		Lakdanavi Ltd.	2,992
		Paddy Marketing Board	1,031
		Road Development Authority	41,533
		Urban Development Authority	2,770
10	People's Bank	Ceylon Electricity Board	17,991
		Ceylon Petroleum Corporation	85,722
		Ceylon Petroleum Storage Terminals Ltd.	4,635
		Co-operative Whole Sale Establishment	157
		Lanka Coal Company (PVT) Ltd	3,000
		Ministry of Defence and Urban Development	1,000
		Paddy Marketing Board	2,325
		People's Bank Pension Trust Fund	5,000
		Road Development Authority	12,257
		Sri Lanka Consumer Co-operative Societies Federation Ltd.	50
State Trading (Co-operative Wholesale) Company Ltd.	32		
11	Regional Development Bank	Paddy Marketing Board	106
Total			492,251

Source: Department of Treasury Operations

CHAPTER 4

Performance of State Owned Business Enterprises

4.1 Overview

The State Owned Business Enterprises (SOBES) continued their contribution towards economic growth and stability supported by several initiatives mooted by the Government during the past few years. Restructuring of SOBES by way of strengthening the balance sheets of the major SOBES is already underway with several entities being recapitalized as proposed in the 2014 National Budget. Conversion of outstanding debts to Treasury to Government Equity, settlement of long outstanding debts of Government departments and agencies to SOBES and buy back of non-performing investments in SOBES are some of the other measures identified to strengthening the financial position of the SOBES.

During first four months of 2014, seven SOBES contributed towards government's non-tax revenue by way of paying dividends and levies to the Consolidated Fund totalling Rs9.7 billion. Meanwhile, the Treasury released a total of Rs 4.5 billion and Rs 1.9 billion to meet recurrent and capital expenditure, respectively, of selected SOBES to meet their short, medium and long term financial requirements. Outstanding debts to banks of SOBES declined by 1 percent to Rs. 500 billion while the state banks were encouraged to diversify channelling of funds to the development initiatives of the private sector as well as the fast growing sectors of the economy.

4.2 Brief Review of the Ten Major SOBES

Bank of Ceylon

Bank of Ceylon (BOC), positioning itself to be a premier bank in the region, established a new branch in Seychelles in January 2014. In order to be competitive and to improve efficiency, BOC

has identified technological transformation as a key strategic priority and is in the process of upgrading its core banking system. As part of the Government's initiatives to strengthen the balance sheet of state banks as proposed in the 2014 Budget, BOC's investments in Sri Lankan Airlines (SLA) was bought back by GOSL. Several long outstanding debts to BOC from SOEs, Government departments & agencies are being settled by GOSL, so that BOC's lending portfolio can be diversified rapidly into fast growing sectors such as exports, high value agriculture, construction, tourism, SME sector and leisure related activities. The asset base of the Bank recorded a marginal increase of 2.9 percent by the end of April 2014 from Rs.1,193 billion as at end 2013. The lending portfolio decreased marginally to Rs. 749 billion compared from Rs. 755.4 billion as at end 2013 mainly due to the decline in pawning advances by 16.5 percent or Rs.21.7 billion. The non-performing loan ratio of the Bank increased to 5.85 percent during the period in comparison to 4.3 percent in 2013.

People's Bank

People's Bank strengthened its human resources by recruiting 1000 customer service assistants during the first four months of 2014. With the repositioning of its SME banking business, PB expects to accommodate financial and non-financial requirements of SMEs in a more prudent manner. As part of the Government's initiatives to strengthen the balance sheet of state banks, PB's non-performing investment in SLA was bought back by GOSL. Moreover several long outstanding debts to PB from SOEs, Government departments & agencies are being settled by GOSL. The asset base of the Bank recorded a decrease by the end of April 2014 to Rs. 905 billion from Rs.930 billion as at end 2013 mainly due to reduction in loans and advances by 18

percent or Rs.125 billion. The deposit base recorded a marginal decrease. However, the CASA ratio of the Bank improved to 41.5 percent from 38 percent in 2013 contributed by the deposit campaigns carried out during the period. Although the net interest margin declined from 4.1 percent in 2013 to 2.5 percent, the Bank recorded a net interest income of Rs.7.6 billion during the period. PB reduced its exposure to pawning by 30 percent reducing the pawning portfolio to Rs.138 billion by the end of April 2014 from Rs.197 billion in 2013. However, the non-performing loan ratio rose to 6.6 percent from 5.3 percent in 2013.

National Saving Bank

The Bank recorded a profit before tax of Rs2.3 billion during the first four months of 2014, as the interest margin increased from 1.67 percent (December 2013) to 2.38 percent (April 2014). However, non-performing advances (NPA) of the Bank increased to 8.90 percent from 6.66 percent in 2013 as the pawning portfolio contracted. NSB's non-performing investments in SLA were also bought back by GOSL in March 2014. During the period NSB opened a new branch at Ragala in NuwaraEliya district in 2014, and introduced several new products and services; "NSBBuddhi" a higher education loan, "DiriyaDiyanee" a scheme of loan for women entrepreneurs, the "DiviSurekum" pension plan and personal loan scheme for SMEs facilitating micro financing to the priority sectors. Further, NSB is moving into project financing associated with Sri Lankan corporates by financing many pioneering projects in several sectors including agriculture, apparels, food & beverages, hotels & tourism, infrastructure, manufacturing, property development, renewable energy and telecommunications.

Sri Lanka Insurance Corporation

During the first quarter of the year the Sri Lanka Insurance Corporation (SLIC) achieved a total revenue of Rs. 6.96 billion which is a marginal

decline compared to Rs.6.98 billion during the corresponding period in 2013. Initiatives have been taken to split Life and General insurance businesses into two companies as required under the, Regulation of the Insurance Industry (Amendment) Act No. 03 of 2011. During the period, SLIC introduced several new products in order to consolidate its position as the market leader in the insurance industry. A new product, i.e., Motor Plus Global Emergency Assistance, partnered with "Assist America" was introduced to provide medical emergency services with a 24 hour - 365 days a year Operations Center equipped with trained, multilingual medical personnel, including nurses and doctors, to provide medical advice and assist quickly and professionally in a medical emergency. The new SLI Annual Medical Plan (GI) Cover provides a range of health insurance needs at an affordable price and comes with a special "No Claim Bonus" which increases the sum insured for every claim free year. A Motor Plus Loyalty Rewards scheme was also introduced during the year 2014. Further, SLIC is planning to introduce a range of pension products with the aim of becoming the "Pension Provider to the Nation". In addition, the company is also initiating action to move in to Group Pension Products.

Ceylon Electricity Board

Due to the delays and/or lack of rainfall as expected in the catchment areas, hydro power generation substantially dropped to 19.5 percent in the first four months of 2014 compared to 50 percent in 2013. Accordingly, the generation cost per unit increased to Rs. 24.37 against Rs. 17.70 in 2013. However, the diversified coal friendly generation mix enabled CEB to mitigate the adverse effects to some extent. CEB's operational loss for the first four months of 2014 was Rs. 18.6 billion while providing an uninterrupted power supply throughout the country. The third phase of the Lakvijaya Coal Power Plant (300MW) is

scheduled to be commissioned in the second half of 2014 which would increase the total volume of coal powered electricity provided to the national grid to 900MW. With the shift towards using coal, the weighted average generation cost is expected to further decline. CEB's long term generation plan for 2011-2025 has been prepared taking in to consideration the necessity to meet the increasing demand for electricity with a diversified low cost generation mix with more weight towards coal. However in order to ensure energy security, CEB should strategically add Non-Conventional Renewable Energy (NCRE) sources such as wind, biomass and solar to its generation mix to establish a sustainable energy platform.

Ceylon Petroleum Corporation

Considering the contribution of the petroleum sector to national economic development and with a view to ensuring energy security, the Government has initiated several measures to facilitate infrastructure development related to importation, refining, storing and distribution of petroleum products. The Ceylon Petroleum Corporation (CPC) recorded a profit of Rs. 2 billion during the first four months in 2014 compared to the loss of Rs. 8 billion recorded in 2013 supported by the cost effective pricing policy introduced in 2013 and the fairly stable oil prices in the world market during the period. CPC's outstanding borrowings from state banks decreased from Rs. 419 billion at the end of 2013 to Rs. 378 billion as at 30th April 2014. In order to improve the liquidity position of CPC, Treasury bonds amounting to Rs. 30.69 billion were issued in February 2014 by the General Treasury to settle long outstanding dues to CPC by Government institutions. Further, the outstanding debts totalling Rs. 26.11 billion to CPC by Sri Lankan Airlines and Mihin Lanka Ltd were also settled during the first quarter of 2014. In line with the Government's policy for a green economy, CPC introduced environment

friendly 92 octane petrol in place of 90 octane petrol with effect from 1st January 2014. Action has also been initiated to introduce an environment friendly alternative to super diesel.

Sri Lanka Ports Authority

In 2014, the Sri Lanka Ports Authority (SLPA) initiated the Colombo Port City Development Project under which 233 hectares of land will be reclaimed. The Port City will consist of luxury hotels, apartment complexes, shopping malls, space for modern offices and leisure and recreation activities providing a large space for foreign direct investments. In order to maintain the competitiveness among the other terminals within the Colombo Port and in the region, SLPA is taking steps to introduce a new tariff structure for its services. Further, SLPA introduced new promotional tariff rates at the MagamRuhunupuraMahindaRajapaksha (MRMR) Port in order to encourage and expand the transshipment of vehicles as well as bunkering trade. Fuel bunkering at the MRMR Port commenced operations in June 2014. SLPA recorded a profit (before tax) of Rs. 3.7 billion during the first four months of the year. However, the total expenditure was Rs. 8.5 billion of which 41 percent or Rs. 3.5 billion consisted of financing costs during the period.

National Water Supply and Drainage Board

During the first four months of 2014, a total of 36,340 connections were provided all over the island, with a significant number of connections provided in the Eastern and Western provinces. Among them Kandy and Ampara were the areas where the most number of new connections were provided. The total revenue of the National Water Supply and Drainage Board (NWSDB) during the first four months of 2014 improved to Rs. 7,894 million, which is a 28 percent growth in comparison to the revenue during the first four months of 2013. With the total operating cost of Rs. 7,892 million during the period NWSDB earned a marginal profit of Rs. 2 million.

During the period, several remedial measures were taken to reduce the level of non-revenue water. Some defective meters and pipe lines were replaced, several illegal connections were disconnected, several new bulk meters and valves were installed, leaks were repaired and meter reading audits were conducted.

Airport and Aviation Services (Sri Lanka) Ltd

Airport and Aviation Services (Sri Lanka) Ltd (AASL) handled a total of 2,595,842 passenger movements including 414,307 transit passengers recording an increase of 7 percent during the period of first four months. In addition, the total cargo handled by AASL amounted to 47,994 MTs. However, AASL's profit before tax for the period decreased by 33 percent to Rs. 1.4 billion compared with the previous year. Total foreign borrowings of AASL as at 31.04. 2014 stood at Rs 37 billion while the debt servicing cost for the period was Rs. 378 million. AASL is expected to commence the servicing of USD 189 million loan obtained for the construction of the Mattala Airport and thereafter obtain the 2nd phase of the loan of USD 120 million for further development of the Mattala Airport. AASL is preparing to commence the phase II (2) of the BIA development project with the assistance of USD 346 million from JICA to increase the passenger handling capacity from 6 million to 15 million by 2015. Further, a credit facility of USD 105 million from domestic finance will be utilized to overlay the existing run-way of BIA by a local contractor.

Sri Lankan Airlines

Sri Lankan Airlines (SLA) has entered into the One World Alliance to expand its global presence by linking over 800 new destinations worldwide. In accordance with the Government's policy to position Sri Lanka as an aviation and a tourism hub, SLA was recapitalized in line with the 2014 Budget Proposals to strengthen its financial position enabling it to make an effective contribution to the aviation and tourism sectors. In 2014, the Government infused Rs 19.81 billion by way of Treasury Bonds in part fulfilment of the Cabinet decision of 2011 to infuse capital to SLA totalling USD 500 million (or Rs. 60 billion) over a five year period commencing 2012. By end April 2014, the Government has provided capital amounting of Rs 46.69 billion to SLA. In addition, SLA obtained a syndicated loan of USD 150 million in April 2014 for a period of five years (with a government guarantee of USD 50 million) the proceeds of which were used to settle USD 112.5 million outstanding loan obtained from Meshreq Bank UAE. In June 2014, SLA successfully issued an International Bond of USD 175 million with a 100% sovereign guarantee for the purpose of raising funds for working capital requirements and re-fleeting purposes. SLA's revenue for the first four months of 2014 increased by 2 percent to Rs. 27.8 billion compared to Rs. 27.4 billion in same period 2013. However, SLA's operating loss for the period was Rs 8.4 billion and the accumulated loss amounted to Rs 82 billion. With the re-fleeting programme expected to be carried out over the next 7 years period and the marketing and promotional strategies to be launched, SLA expects to breakeven by 2020.

**Box 1 >The Latest International Bond Issue – Sri Lankan Airlines
US\$175million at 5.3%**

The Sri Lankan Airlines (SLA) was able to raise a 5 year bond guaranteed by the sovereign of US\$ 175 million at 5.3 percent. The Bond was oversubscribed by 17 times at US\$ 3 billion with 85 participants. In terms of investor type, the issuance was allocated 85% to Institutional Investors and 15% to Private Banks. In terms of geographic allocation, 60% of the issuance was allocated to Asia, 25% to Europe and 15% to Middle East. The Bond's performance was commendable for many reasons:

- the issuance was Reg S only (cannot be marketed in the US)
- the airline industry globally is not perceived well
- the issuance was less than US\$ 500 million whereby was not eligible for EMBI inclusion.

The oversubscription by a record 17 times with significant demand from the institutional investors in spite of the issuance being excluded from the US indicate that there is a strong appetite for issuances from Sri Lanka in the international financial markets.

The strong macroeconomic fundamentals of being able to sustain an average economic growth of 7 percent during 2010-2013, along with the consistent improvement in government fiscal operations and a robust external reserves position complemented by strong growth prospects has allowed Sri Lanka to consistently access the market at relatively low interest rates.

This was evident when the government accessed the market in January 2014 with a 5 year Bond for 1,000 million, the interest rate at 6 percent was around 435 bps wide of the US 5 year Treasuries. However, when the government accessed the market in April 2014, US\$ 500 million through a 5 year bond the interest rate at 5.125 percent was only 351 bps wide of the US 5 year Treasuries. The decline in the spreads relative to the US Treasuries by almost 90 bps or 20 percent decrease is an indication of the trust the international investors have in the country's economic growth trajectory and a reiteration of the Sri Lanka's credit standing in the financial world.

**Table B1 > Performance of the Sri Lankan Bonds (Sovereign and Corporate):
Trading Levels of Sri Lankan Bond Issuances as at 26.06.2014**

	Price	Yield (%)	UST Spr (bps)	Benchmark
Sri Lanka 7.4% 2015	102.88	2.187	170	2yr UST
Sri Lanka 6% 2019	105.87	4.553	287	5yr UST
Sri Lanka 5.125% 2019	102.06	4.637	295	5yr UST
Sri Lanka 6.25% 2020	106.28	5.066	338	5yr UST
Sri Lanka 6.25% 2021	106.13	5.203	264	10yr UST
Sri Lanka 5.875% 2022	103.18	5.384	283	10yr UST
Bank of Ceylon 6.875% 2017	107.01	4.228	374	2yr UST
Bank of Ceylon 5.325% 2018	101.75	4.812	313	5yr UST
National Savings Bank 8.875% 2018	114.05	5.122	344	5yr UST
Sri Lankan Airlines 5.3% 2019	100.65	5.15	347	5yr UST

Source: Barclays Capital

4.3 Reform Initiatives for Major SOBEs

Institution	Reform Initiatives
State Banks (BOC, PB & NSB)	<ul style="list-style-type: none"> – Encourage to move towards IT empowered, highly efficient and productive, innovative banks to effectively facilitate inclusive growth in the economy. – Diversifying the lending portfolio by directing funds to emerging and fast growing sectors of the economy. – Implement strategies to achieve operational efficiency. – Focus on creating new entrepreneurs and facilitating their growth through SME centers. – Improve the HR capacities in areas such as customer relationships, risk management, IT and communication. – Raise low cost funds in the international market through capitalization of the strengths of the banks. – Optimal utilization of the financial sector consolidation process initiated by the Central Bank of Sri Lanka.
SLIC	<ul style="list-style-type: none"> – Introduce pension products to the nation considering the increasing population of senior citizens. – Implement measures to increase the rate of insurance penetration in the country.
CEB	<ul style="list-style-type: none"> – Continue the implementing measures to minimize system losses in the distribution system. – To ensure energy security and affordability, formulate a low cost generation mix incorporating coal and non-renewable energy sources. – Conversion of Treasury loans to equity to strengthen CEB’s financial position, facilitating CEB to raise future funds independently. – Move towards cost reflective pricing policies while prioritized emerging industries are subsidized.
CPC	<ul style="list-style-type: none"> – Expansion and modernization of the Refinery by increasing its capacity to 100kbpd from 50kbpd to maximize diesel production and other petroleum products to meet the future demand at affordable prices. – Installation of pipeline connections between the main storage facilities of Kolonnawa and Muthurajawela installations and Colombo harbor to cater to the present and future demand of the country and to minimize leakages and losses. – Establishment of new bulk depots at Northern and Eastern provinces to facilitate the development activities and emerging industries. – Explore economically viable alternative suppliers of crude oil rather than depending on a few countries for oil supply.
SLPA	<ul style="list-style-type: none"> – Improve infrastructure facilities and enhance capacity through introduction of modern technology. – Introduce sector specific marketing and business development programmes with medium term focus on income generation activities to match the rising finance costs. – Facilitate private sector investments by attracting Foreign Direct Investments to develop port related activities and new ventures, such as ship building and catering, marine resource management and emerge opportunities in maritime tourism.

	<ul style="list-style-type: none"> – Explore new ventures with the exploration of oil and gas, marine minerals and archaeological sites.
NWS&DB	<ul style="list-style-type: none"> – In order to ensure safe drinking water and mitigate health issues such as the chronic kidney disease, measures have been initiated to prevent water pollution and to establish treatment facilities in the existing community based water supply projects. – The ADB funded project aimed at reducing non-revenue water to 20% in 2018 will enable NWSDB to progress to a commercially viable entity with the ability to source necessary funds on its own in the future. – In order to improve collection efficiency, water bill payments have been made more convenient to the public – It is projected to implement 35 water supply projects catering to 265,520 households with local investment of Rs.42.1 billion provided by local banks.
AASL	<ul style="list-style-type: none"> – Commencement of the Phase II stage 2 of BIA development project to increase passenger handling capacity from 6 million to 15 million by 2016. – Overlay of the runway of BIA by local contractors to enhance the capacity of the run-way. – Setting up an aircraft maintenance repair and overhauling facility to service the region at MRIA.
SLA	<ul style="list-style-type: none"> – Embarked on a re-fleeting programme to replace the entire wide body fleet with a new fleet to improve operational efficiencies and provide modern passenger comforts with a view to attracting around 55 percent of the passengers flying in to Sri Lanka while increasing its revenue to be a commercially viable entity.

4.4 Outstanding Debts to Banks of Non-Financial State Owned Business Enterprises

A summary of the outstanding debts to banks of non-financial SOBEs is given in Table 4.1.

Table 4.1 >Outstanding Debt to Banks of Non-Financial State Owned Business Enterprises

		Rs. Million		
Institution		2012	2013	2014 April
1	Ceylon Electricity Board	39,788	44,404	44,340
2	Ceylon Petroleum Corporation	402,517	419,000	389,000
3	Sri Lanka Ports Authority	5,435	7,151	5,897
4	National Water Supply and Drainage Board	-	-	-
5	Airport and Aviation Services (SL)Ltd	-	-	-
6	Sri Lankan Airlines Ltd	27,684	19,600	30,172
7	Mihin Lanka (Pvt) Ltd	351	264	248
8	Sri Lanka Transport Board	627	660	660
9	State Engineering Corporation of Sri Lanka	695	368	385
10	Central Engineering Consultancy Bureau	-	-	-
11	State Development and Construction Corporation	629	777	733
12	Milco Ltd	642	581	1,232
13	National Livestock Development Board	1,005	1,738	1,683
14	Ceylon Fisheries Corporation	145	209	208
15	Ceylon Fishery Harbour Corporation	54	44	25
16	State Pharmaceuticals and Manufacturing Corporation	148	282	266
17	Sri Lanka Ayurvedic Drugs Corporation	60	56	55
18	State Pharmaceuticals Corporation	7,897	6,200	4,101
19	Sri Jayawardenapura General hospital	-	-	-
20	Independent Television Network Ltd	-	-	1
21	Sri Lanka Rupavahini Corporation	-	-	54
22	Sri Lanka Broadcasting Corporation	-	-	-
23	Ceylon Fertilizer Company Ltd	-	-	17,728
24	Colombo Commercial Fertilizer Company Ltd	-	-	11
25	State Timber Corporation	-	-	-
26	STC General Trading Company	-	-	780
27	Hotel Developers Lanka PLC	-	598	481
28	Lanka Sugar Company Ltd	-	-	118
29	Lanka Sathosa Ltd	-	-	-
30	Development Lottery Board	-	-	-
31	National Lottery Board	-	-	-
32	Lanka Mineral Sands Ltd	-	-	48
33	Lanka Phosphate Ltd	-	-	-
34	State Printing Corporation	308	443	420
35	Sri Lanka Insurance Corporation	-	-	960
36	Sri Lanka Export Credit Insurance Corporation	-	-	-
37	National Insurance Trust Fund	-	-	-
38	Agriculture and Agrarian Insurance Board	-	-	-
39	Sri Lanka State Plantations Corporation	180	46	32
40	Kurunegala Plantations Ltd	-	-	-
41	Janatha Estates Development Board	607	285	213
42	Chilaw Plantations Ltd	-	-	-
43	Kalubovitiyana Tea Factory Ltd	-	-	7
44	Sri Lanka Cashew Corporation	-	-	-
45	Sri Lanka Handicraft Board	160	200	571
46	Kahatagaha Graphite Lanka Ltd	-	-	-
Total		488,932	502,906	500,429

Source: Department of Public Enterprises

CHAPTER 5

Foreign Financing

5.1 Foreign Financing Commitments

The total value of the commitments made by Development Partners and lending agencies for development projects and programmes in Sri Lanka during the period from 1st January to 30th April 2014 was US\$ 683.1 million (Rs.89,236.2 million), of which, project loans amounted to US\$ 678.2 million (Rs.88,604.6 million) and grants amounted to US\$ 4.9 million (Rs 631.6

million). In addition, two international bonds amounting to US\$ 1,500 million with a maturity period of 5 years were issued during the first 4 months of this year.

A full list of Agreements signed during the first four months in 2014 is shown in Table 5.1 below.

Table 5.1> List of Foreign Financing Agreements Signed during January – April, 2014

Development Partner/ Lending Agency	Loan / Grant	Agreement Date	Project	Instrument Currency	Original Amount (Million)	SL Rs. (Million)	USD (Million)
Bilateral							
Japan	Loan	28/03/2014	New Bridge Construction over the Kelani River	JPY	35,020	44,808.1	342.8
	Grant	3/11/2014	Medical Equipment and Welfare Apparatus Package - 2014	JPY	500	631.6	4.9
China Development Bank Corporation (CDB)	Loan	3/11/2014	Improvement and Rehabilitation of Priority Road Project 3 (Phase 1)	USD	300	39,166.4	300.0
Kuwait Fund for Arabic Economic Development (KFAED)	Loan	30/01/2014	Reconstruction of 25 Bridges	KWD	10	4,630.1	35.4
International Bond Issuance	Loan	1/06/2014		USD	1,000	130,562.4	1,000.0
International Bond Issuance	Loan	4/07/2014		USD	500	65,340.6	500.0
Total						285,139.2	2,183.1

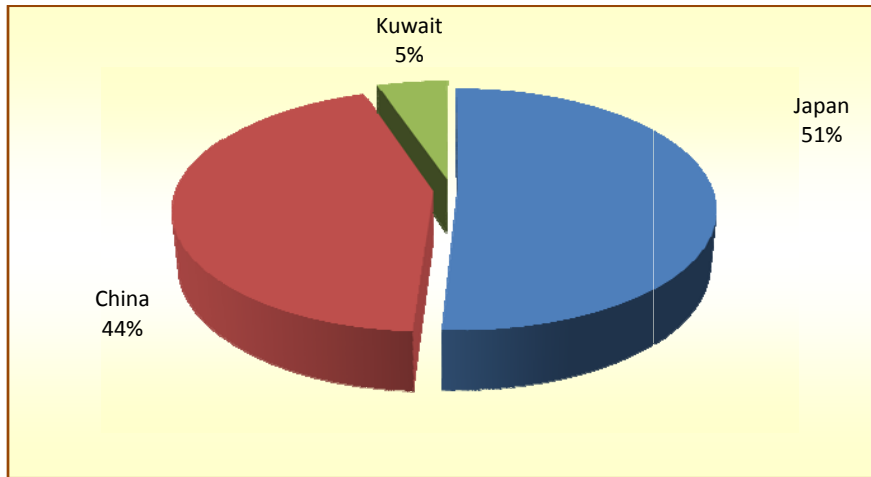
Source: Department of External Resources

Note: The conversion rates used for the report were the exchange rates prevailed for different currencies at the date where the Agreement was signed

Of the total commitments during the period under review, 51 per cent of funds have been

committed by Japan followed by 44 per cent from China and 5 per cent by Kuwait.

Chart 5.1
Foreign Financing Commitments by Development Partner (January –April, 2014)

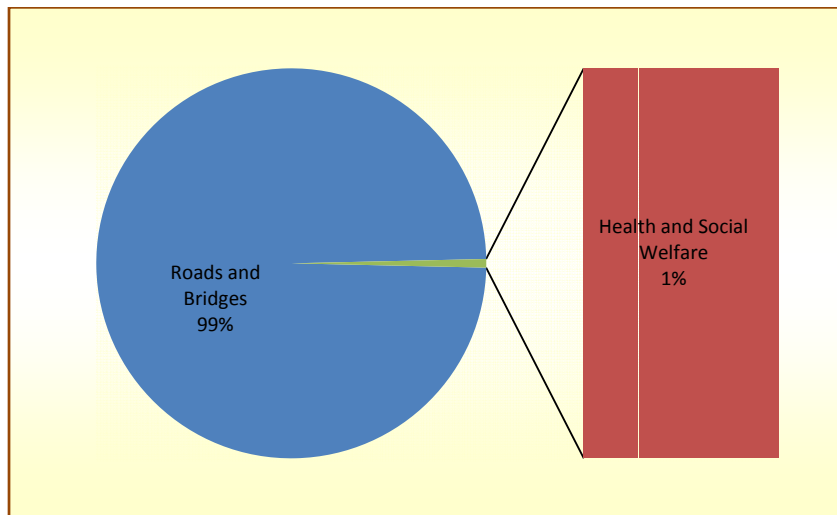


Source: Department of External Resources

Apart from a grant received for development of health and social welfare (1 per cent), all other commitments recorded during the period under

review for infrastructure development consisted construction/ reconstruction of roads and bridges (99 percent).

Chart 5.2: Foreign Financing Commitments by Sector (January –April, 2014)



Source: Department of External Resources

Project loans finalized during the period of January –April 2014 with their financial terms are depicted in Table 5.2.

Table 5.2 > List of Loan Agreements Signed from January to April 2014 with Financial Terms

Development Partner/ Lending Agency	Agreement Date	Project	Amount Committed		Interest Rate per Annum			Commitment Fee (from the undisbursed balance)	Other Payments	Grace Period (Years)	Maturity (Including Grace Period)	
			Original Amount million	Rs. million	US\$ million	Interest Type	Rate					Margin (100 basis points)
			Currency							(Years)		
						Bilateral						
Japan	28/03/2014	New Bridge Construction over the Kelani River	JPY	44,808.10	342.8		Fixed	0.10%	N/A		10.00	40
								Front- End Fee (0.2% of the loan amount, payable one time)				
China Development Bank Corporation (CDB)	11/03/2014	Improvement and Rehabilitation of Priority Road Project 3 (Phase 1)	USD	39,166.40	300.0		Variable	LIBOR 6 Months for USD	2.95%		3.00	15.5
								Management Fee (0.5% of the loan amount, payable one time)				
Kuwait Fund for Arabic Economic Development (KFAED)	30/01/2014	Reconstruction of 25 Bridges	KWD	4,630.10	35.4		Fixed	0.20%	N/A		5.25	24.75
		Total		88,604.60	678.2							

Source: Department of External Resources

- Notes: 1. The conversion rates used for the report were the exchange rates prevailed for difference currencies at the dates where the Agreement was signed.
2. LIBOR - London Inter Bank Offered Rate (Average LIBOR 6 months rate from January to April 2014 was 0.3350 percent)

5.2 Foreign Financing Disbursements and Utilization

The total disbursements recorded in development projects from January to April 2014 was US\$ 541.3 million (Rs.70,739.9 million). Of the total, project loans accounted

for US\$ 536.3 million (Rs. 70,081.0) and grants accounted for US\$ 5.0 million (Rs.658.9 million).

Disbursements made during the period under review by each creditor are depicted in Table 5.3 below.

Table 5.3 > Foreign Financing Disbursements in Development Projects from 1st January –30th April, 2014 by Development Partner

Development Partner/ Lending Agency	Million					
	Loan		Grant		Total Amount	
	Rs.	USD	Rs.	USD	Rs.	USD
Bilateral	47,118.4	360.5	468.5	3.6	47,586.9	364.1
Japan	13,766.7	105.3	468.5	3.6	14,235.2	108.9
China	18,549.8	141.9	-	-	18,549.8	141.9
India	7,013.4	53.7	-	-	7,013.4	53.7
United kingdom	2,879.1	22	-	-	2,879.1	22
Netherlands	2,581.9	19.7	-	-	2,581.9	19.7
South Korea	706.4	5.4	-	-	706.4	5.4
Hungry	175.9	1.3	-	-	175.9	1.3
Sweden	318.5	2.5	-	-	318.5	2.5
Spain	182.3	1.4	-	-	182.3	1.4
France	29.6	0.3	-	-	29.6	0.3
Austria	43.2	0.3	-	-	43.2	0.3
Belgium	82.7	0.6	-	-	82.7	0.6
Denmark	285.5	2.2	-	-	285.5	2.2
Germany	16.7	0.2	-	-	16.7	0.2
Kuwait	57.8	0.4	-	-	57.8	0.4
Saudi Fund	428.9	3.3	-	-	428.9	3.3
Multilateral	22,962.6	175.8	190.4	1.4	23,153.0	177.2
Asian Development Bank	9,569.2	73.3	125.7	0.9	9,694.9	74.2
World Bank - International Development Association	11,142.1	85.4	62.1	0.4	11,204.2	85.7
World Bank - International Bank for Reconstruction and Development	1,319.8	10.1	-	-	1,319.8	10.1
International Fund for Agricultural Development (IFAD)	212.9	1.6	-	-	212.9	1.6
UNHCR			2.6	0.1	2.6	0.1
OPECFund for International Development (OFID)	718.6	5.5	-	-	718.6	5.5
Total	70,081.0	536.3	658.9	5	70,739.9	541.3

Source: Department of External Resources

Note: The conversion rates used for the report were the exchange rates prevailed for different currencies at the date where the disbursement was made. Disbursements made from foreign loans obtained by SOEs are not included.

Table 5.4 >Disbursements with Financial Terms : January - April 2014

Development Partner	Instrument Type	Project	Amount Disbursed			Annual Interest Rate			Commitment Fee	Other Payments	Grace Period (Years)	Maturity (Including Grace Period) (years)
			Currency	Amount	Rs.	USD	Interest Type	Rate				
China Development Bank Corporation	Loan	Rehabilitation and Improvement of Priority Road Project	USD	10.89	1,424.89	10.89	LIBOR -6 Month for USD	2.90%	Mgt. Fee 0.5%, Risk Premium 5%	3	15	
	Loan	Improvement and Rehabilitation of Priority Roads	USD	68.88	8,829.98	67.69	LIBOR -6 Month for USD	2.90%	Mgt. Fee 0.5%, Risk Premium 3.26%	4	15	
	Loan	Moragahakanda Development Project	USD	3.50	458.09	3.50	LIBOR -6 Month for USD	2.90%	Mgt. fee 0.5%, Risk Premium 5.9%	4	16	
India	Loan	India Dollar Credit Line Agreement	USD	1.29	169.38	1.29	LIBOR -6 Month for USD	0.50%	Mgt. Fee 0.5%	5	18	
	Loan	Railway Line Omanthapallai, Madhurai, Tallaimannar&Medawachchiya	USD	20.05	2,621.70	20.05	LIBOR -6 Month for USD	0.50%	Mgt. Fee 0.5%	5	23	
	Loan	Greater Dambulla Water Supply Project 1	USD	2.02	263.75	2.02	LIBOR -6 Month for USD	2.00%	Mgt. fee 0.5%, Insurance Fee 6.5%	3	14	
Japan	Loan	Restoration of Northern Railway Services	USD	30.29	3,958.56	30.29	LIBOR -6 Month for USD	0.50%	Mgt. Fee 0.5%	6	21	
	Loan	Vavuniya-Kilinochchi Transmission Line Project	JPY	69.81	87.81	0.67	Fixed	N/A	-	10	40	
	Loan	Greater Colombo Transport Development Project.	JPY	1,048.87	1,336.23	10.22	Fixed	N/A	-	10	30	
	Loan	Water Sector Development Project	JPY	440.64	560.58	4.28	Fixed	N/A	-	10	30	
	Loan	Water Sector Development Project (II)	JPY	446.51	570.49	4.36	Fixed	N/A	0.10%	10	30	
Loan	Poverty Alleviation Micro Finance Project -	JPY	93.31	119.07	0.91	Fixed	N/A	0.10%	10	40		

II												
Loan	Energy Diversification Enhancement Project (Engineering services)	JPY	180.43	229.47	1.75	Fixed	0.01%	N/A	0.10%	10	30	
Loan	Provincial/Rural Road Development Project (Central Province and Sabaragamuwa Province)	JPY	1,450.18	1,840.97	14.09	Fixed	1.40%	N/A	0.10%	10	30	
Loan	Eastern Province Water Supply Development Project	JPY	337.28	429.52	3.28	Fixed	0.65%	N/A	0.10%	10	40	
Loan	Kandy City Wastewater Management Project	JPY	381.21	487.15	3.72	Fixed	0.65%	N/A	0.10%	10	40	
Loan	Upper Kotmale Hydro Power Project (I)	JPY	320.41	409.02	3.13	Fixed	0.20%	N/A	0.10%	10	40	
Loan	Greater Colombo Urban Transport Development Project Phase 2	JPY	4,331.03	5,524.88	42.31	Fixed	0.20%	N/A	0.10%	10	40	
Loan	Vavuniya- Kilinochchi Transmission Line Project (I)	JPY	19.80	25.29	0.19	Fixed	0.65%	N/A	0.10%	10	40	
Loan	Emergency Natural Disaster Rehabilitation Project	JPY	1,007.91	1,289.01	9.95	Fixed	0.01%	N/A	0.10%	10	40	
Grant	Project for Construction of Mannunai Bridge Across the Batticaloa Lagoon.	JPY	87.50	115.57	0.85				N/A			
Grant	Human Resource Development Scholarship	JPY	8.28	10.51	0.08				N/A			
Loan	Habarana-Veyangoda Transmission Line Project	JPY	13.71	17.51	0.13	Fixed	0.30%	N/A	0.10%	10	40	
Loan	Improvement of Basic Social Services Targeting Emerging Regions	JPY	529.95	673.05	5.15	Fixed	0.20%	N/A	0.10%	10	40	
Grant	Improvement of Japanese Language Learning Equipment of University of Kelaniya and Sabaragamuwa University	JPY	30.15	38.57	0.29				N/A			
Grant	Human Resource Development Scholarship	JPY	35.03	44.36	0.34				N/A			
Loan	Greater Colombo Transmission and Distribution Loss Reduction Project	JPY	7.87	10.01	0.07	Fixed	0.30%	N/A	0.10%	10	40	

Loan	Major Bridges Construction Project of the National Road Network	JPY	73.99	94.46	0.72	Fixed	0.20%	N/A	0.10%	10	40
Loan	Landslide Disaster Protection Project of the National Road Network	JPY	3.76	4.78	0.04	Fixed	1.40%	N/A	0.10%	7	25
Loan	Anuradhapura North Water Supply Project	JPY	19.09	24.47	0.18	Fixed	1.40%	N/A	0.10%	7	25
Grant	Procurement of a self Propelled Grab Hopper Dredger	JPY	181.00	226.39	1.73						
Grant	The Project of for the development of Intelligent Transport System for Expressways in Sri Lanka.	JPY	15.00	19.06	0.14						
Grant	Human Resource Development Scholarship Programme (JDS)	JPY	36.77	46.61	0.35						
Loan	Bridges Reconstruction & Rehabilitation Pj	KWD	0.03	13.93	0.11	Fixed	2.50%	N/A	-	5	29
Loan	Strengthening of Tertiary Education & Administrative Infrastructure in Tsunami Affected Areas.	KWD	0.08	37.89	0.29	Fixed	1.00%	N/A	0.5	7	27
Loan	South Eastern University of Sri Lanka development Project Phase 1 "B"	KWD	0.01	5.95	0.05	Fixed	2%	N/A	-	5	25
Loan	Ruhunupura Water Supply Development Project	KRW	2,027.05	248.52	1.90	Fixed	1.50%	N/A	-	11	30
Loan	Hatton-NuwaraEliya Road Improvement Project	KRW	3,747.68	457.82	3.50	Fixed	0.10%	N/A	-	11	40
Loan	Construction of the Mahamodara Maternity Hospital, Galle.	EUR	0.09	16.74	0.13	Fixed	2.20%	N/A	0.25%	2	12
Loan	Epilepsy Hospital & Health Centres Project	SAR	4.38	147.64	1.13	Fixed	2%	N/A	-	5	25
Loan	Road Network Development Project	SAR	8.36	281.32	2.15	Fixed	2%	N/A	-	5	20
Export Credit											

Banco Bilbao Vizcaya Argentaria S.A. (Spain)	Loan	Implementation of the Greater Rathnapura Water Supply Scheme.	EUR	1.01	182.23	1.39	Variable	EURIBOR-6 Month	2.10%	0.35%	Mgt. Fee 0.5%	2	12
Calyon Credit Agricole CIB (France)	Loan	Rehabilitation of Wimalasurendra and New Laxapana Power Stations (France)	USD	0.23	29.63	0.23	Fixed	4.95%	N/A	0.50%	Mgt. Fee 0.4%	5	15
Co-op Centrale Raiffeisen (Netherlands)	Loan	Importation of Dairy Animals (Australia)	USD	0.39	52.19	0.39	Variable	LIBOR-6 Month for USD	1.95%	-		2	4
Boerenleenbank (Netherlands)	Loan	Importation of Dairy Animals (Netherlands & Australia)	USD	0.19	25.01	0.19	Variable	LIBOR-6 Month for USD	1.35%			1.5	12
	Loan	Development of NuwaraEliya District General Hospital (Netherlands)	EUR	1.62	290.19	2.22	Fixed	4.94%	N/A	-		3	12
	Loan	Development of Hambantota District General Hospital (Netherlands)	EUR	3.23	578.07	4.42	Fixed	4.94%	N/A	-		3	12
	Loan	Upgrading of the National Blood Transfusion Services of SL	USD	7.59	992.20	7.59	Fixed	4.94%	N/A	0.25%	Mgt. Fee 0.25%	3	13
	Loan	Upgrading of the National Blood Transfusion Services	USD	3.59	644.87	4.94	Fixed	5%	N/A	0.25%	Mgt. Fee 0.25%	3	3
Export Development Bank of Hungary	Loan	Rehabilitation of Kalatuwawa water Treatment Plant	USD	0.98	175.92	1.35	Fixed	1.03%	N/A	0.13%		8	20
Fortis Bank NV/ Fortis Banque SA (Belgium)	Loan	Implementation of Kolonna and Balangoda Water Supply Projects (Belgium)	EUR	0.46	82.70	0.63	Fixed	0.80%	N/A	0.25%	Upfront Fee 0.5%, Insurance Fee 0.12%	3	12
HSBC Bank PLC (UK)	Loan	Constructions of 210 Permanent Rural Steel Bridges	USD	11.07	1,447.49	11.07	Variable	LIBOR-6 Month for USD	2%	0.20%		5	15
	Loan	Modernization of Processing Factories of MILCO (Pvt) Ltd.	USD	4.34	567.89	4.34	Variable	LIBOR-6 Month for USD	2%	1.00%	Structuring fee 0.5% EKN Premium 7.96%	1	9
	Loan	Regional Bridges Project - Phase II Buyer's Credit Facility	USD	6.61	863.77	6.61	Variable	LIBOR-6 Month for USD	2%	0.25%	Structuring fee 0.24%	4	14
Nordea Bank Denmark A/S (Denmark)	Loan	Kelani Right Bank Water Treatment Plant (Denmark)	EUR				Interest Free	N/A	N/A	0.25%		3	12

Loan	Oluvil port Development Project (Denmark)	EUR	1.59	285.52	2.18	N/A	0.10%	Management Fee 0.15%	3	12
Loan	Rural Electrification Project 4 Extension (Sweden)	USD	2.44	318.47	2.44	LIBOR -6 Month for USD	0.25%		1	10
Loan	Bunkering Facility & Tank Farm Project at Hambantota	USD	0.97	127.21	0.97	Fixed	0.30%	Management Fee 0.3% Exposure fee 6%	5	15
Loan	Procurement of Material for the Northern Province Power Sector Development Programme	USD	2.12	276.74	2.12	Variable	0.70%		3	15
Loan	Northern Road Rehabilitation Project (A009) From Galkulama to 230 Km Post)	USD	3.02	395.20	3.02	Variable	0.70%		3	15
Loan	Northern Road Rehabilitation Project-11B	USD	3.89	509.86	3.89	Variable	0.70%		3	15
Loan	Northern Road Rehabilitation Project-(AB020)	USD	5.19	678.65	5.19	Variable	0.70%		3	15
Loan	Highway Section from Pinnaduwa to Kodagoda (30 KM to 45 KM)	USD	2.75	360.11	2.75	Variable	0.70%		4	15
Loan	Highway Section from Kodagoda to Godagama (45 KM to 61 KM)	USD	5.89	770.16	5.89	Variable	0.70%		4	15
Loan	Re. & Imp. of 67km Length of Navatkuli-Karaliivu-Mannar Road	USD	8.20	1,072.56	8.20	Variable	0.70%		3	15
Loan	Reh. & Imp. of 113km Length of Puttalam-Marichchikade-Mannar Road	USD	7.31	955.95	7.31	Variable	0.70%		5	16
Loan	Procurement of Materials for Lighting Uva Province	USD	0.02	3.65	0.02	Variable	0.50%		3	12
Loan	Finance Material Required for Lighting Sri Lanka Eastern Province Project	USD	5.07	663.16	5.07	Variable	0.25%	Management Fee 0.25% Exposure fee 5.50%	3	15
Loan	Greater Kurunegala Water Supply and Sewerage Project	CNY	93.62	2,023.96	15.48	Fixed	0.25%	Management Fee 0.25%	4.5	19

UniCredit Bank Austria AG (Austria)	Loan	Supply of 2 Nos Cardiac Catheterization System to Cardiology Dep. Of the NHSL	EUR	0.23	43.18	0.33	Fixed	0.4% and Handling Fee 1%	N/A	0.40%	Management fee 0.45% Guarantee fee 0.18% Handling Fee 0.06%	7	19
Multilateral													
Asian Development Bank	Loan	TA Loan-Road Project Preparatory Facility	XDR	0.22	44.15	0.33	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		8	32
	Loan	Secondary Towns & Rural Community Water/Sanitation (OCR)	USD	0.40	53.07	0.40	Variable	LIBOR -6 Month for USD	0.60%	0.75%		5	24
	Loan	Education for Knowledge Society Project	XDR	1.37	274.91	2.10	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		8	32
	Loan	Clean Energy and Access Improvement Project	USD	3.93	511.26	3.91	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		5	24
	Loan	Clean Energy and Access Improvement Project	XDR	0.73	147.41	1.12	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		8	24
	Loan	Dry Zone Urban Water and Sanitation Project	XDR	3.62	728.89	5.58	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		8	32
	Loan	Eastern & North Central Provincial Road Project	XDR	0.18	37.21	0.28	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-		8	32
	Loan	Greater Colombo Wastewater Management Project	USD	3.45	451.12	3.45	Variable	LIBOR -6 Month for USD	0.60%	0.15%		5	25

(OCR)

Loan	Greater Colombo Wastewater Management Project (ADF)	XDR	0.19	40.29	0.31	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-	8	32
Grant	Dry Zone Urban Water and Sanitation Project	USD	0.96	125.71	0.96			N/A			
Loan	ADB Funded Fiscal Management Efficiency Project	USD	0.95	124.67	0.95	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	25
Loan	Conflict-Affected Region Emergency Project	USD	14.18	1,837.19	14.05	Variable	LIBOR -6 Month for USD	0.60%	0.15%	8	32
Loan	Northern Road Connectivity Project (OCR)	USD	6.50	855.37	6.54	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	25
Loan	Northern Road Connectivity Project (ADF)	XDR	0.45	91.03	0.69	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-	8	32
Loan	Jaffna & Kilinochchi Water Supply & Sanitation Project OCR	USD	0.13	18.07	0.13	Variable	LIBOR -6 Month for USD	0.60%	0.15%	6	24
Loan	Jaffna & Kilinochchi Water Supply & Sanitation Project ADF	XDR	0.29	59.49	0.45	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-	8	32
Loan	Sustainable Power Sector Support Project (OCR)	USD	13.69	1,774.48	13.67	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	24
Loan	Sustainable Power Sector Support Project (ADF)	XDR	0.26	52.92	0.40	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-	8	32
Loan	Secondary Towns & Rural Com-Based Water Supply Add	USD	0.06	8.28	0.06	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	25

Loan	Secondary Towns & Rural Com-Based Water Supply Add (XDR)	XDR	0.17	34.98	0.26	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	-	8	32
Loan	Local Government Enhancement sector Project	XDR	0.89	180.47	1.38	Fixed	1% During Disbursing Period, 1.5% During Repaying Period			8	32
Loan	National Highways Sector Project	USD	5.36	694.79	5.31	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	24
Loan	Additional Finance OCR Northern Road Connectivity Project - Add. Financing	XDR	3.33	665.62	5.09	Fixed	1% During Disbursing Period, 1.5% During Repaying Period			8	32
Loan	Northern Road Connectivity Project - Add. Financing	USD	2.01	261.16	1.99	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	25
Loan	Clean Energy and Network Efficiency Improvement Project	USD	0.10	13.49	0.10	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	20
Loan	Dry Zone Urban Water and Sanitation Project Additional Finance	XDR	2.66	535.69	4.10	Fixed	1% During Disbursing Period, 1.5% During Repaying Period	N/A	0	8	32
Loan	Grater Colombo Water Wastewater Management Improvement Pj I	USD	0.05	6.86	0.05	Variable	LIBOR -6 Month for USD	0.60%	0.15%	5	25
Loan	Grater Colombo Water Wastewater Management Improvement Pj I	XDR	0.33	67.25	0.51	Fixed	1% During Disbursing Period, 1.5% During Repaying Period			8	32
Loan	Metro Colombo Urban Development Project [MCUDP]	USD	10.10	1,319.79	10.10	Variable	LIBOR -6 Month for USD	0.80%	0.50%	5	24
Loan	Smallholder Plantations Entrepreneurship Dev.	XDR	0.69	140.64	1.07	Fixed	0.75%	N/A	-	8	38

Agricultural Development	Loan	Post Tsunami Coastal Rehabilitation & Resource Mgt II	XDR	0.10	20.41	0.15	Fixed	0.75%	N/A	-	8	38
	Loan	Iranamadu Irrigation Development Project	XDR	0.26	51.82	0.39	Fixed	0.75%	N/A	-	11	25
World Bank - International Development Association	Loan	Second North-East Irrigated Agriculture Project	XDR	0.64	129.19	0.98	Fixed	0.75%	N/A	0.50%	10	39
	Loan	Road Sector Assistance Project	XDR	0.11	21.61	0.16	Fixed	0.75%	N/A	0.50%	10	39
	Loan	Dam safety and water resources planning	XDR	3.62	734.30	5.62	Fixed	0.75%	N/A	0.50%	10	20
	Loan	Additional Financing for Road Sector Assistance Project	XDR	0.28	56.65	0.43	Fixed	0.75%	N/A	0.50%	10	20
	Loan	Second Community Development and Livelihood Improvement Project	XDR	7.20	1,446.73	11.07	Fixed	0.75%	N/A	0.50%	10	20
	Loan	Provincial Roads Project	XDR	6.13	1,235.21	9.45	Fixed	0.75%	N/A	0.50%	10	19
	Loan	Higher Education for the Twenty First Century Project	XDR	1.34	268.83	2.05	Fixed	0.75%	N/A	0.50%	10	19
	Loan	North East Local Services Improvement Project (PuraNeguma)	XDR	5.26	1,056.02	8.07	Fixed	0.75%	N/A	0.50%	10	19
	Loan	Small and Medium enterprise Development Facility Project	XDR	0.64	130.38	0.99	Fixed	0.75%	N/A	0.50%	10	19
	Loan	Second Additional Financing for Road Sector Assistance Project	XDR	6.49	1,311.18	10.02	Fixed	0.75%	N/A	0.50%	10	19
	Loan	2nd & 3rd Additional Financing for Community Livelihood in Conflict Affected Areas	XDR	3.39	683.86	5.23	Fixed	0.75%	N/A	-	9	19
	Grant	Local Level Nutrition Interventions for the Northern Province (JSDP) Project-	USD	0.15	19.59	0.15				N/A		
	Grant	AusAid+IDA Grant North East Pilot WASH Project for Post-conflict Resettlements (NEP WASH)	USD	0.16	21.76	0.16				N/A		
	Grant	IBRD- Global	USD	0.02	3.12	0.02				N/A		

	Partnership on Output-based Aid Project										
Loan	Transforming the School Education System as the Foundation of a Knowledge Hub Project	XDR	5.89	1,195.24	9.15	Fixed	0.75%	N/A	0.50%	5	24
Grant	DiriSawiya' Assisting People with Disabilities through Cash Transfers and Training Project	USD	0.22	29.09	0.22				N/A		
Loan	Second Health Sector Development Project	XDR	14.17	2,862.45	21.99	Fixed	2.00%	N/A	0.50%	5	24
Loan	Road Network Development Project	USD	5.11	664.49	5.08	Fixed	4.10%			5	20
Loan	Colombo National Highways Project	USD	0.42	54.15	0.41	Fixed	4.60%			5	20
	Grand Total			70,739.90							541.30

Source: Department of External Resources

Note: 1. LIBOR = London Interbank Offered Rate (Average LIBOR 6 Months rate from January to April 2014 was 0.3310 per cent)

2. EURIBOR = Euro Interbank Offered Rate (Average EURIBOR 6 months rate from January to April 2014 was 0.4050 percent)

3. The conversion rates used for the report were the exchange rates prevailed for different currencies at the date where the disbursement was made

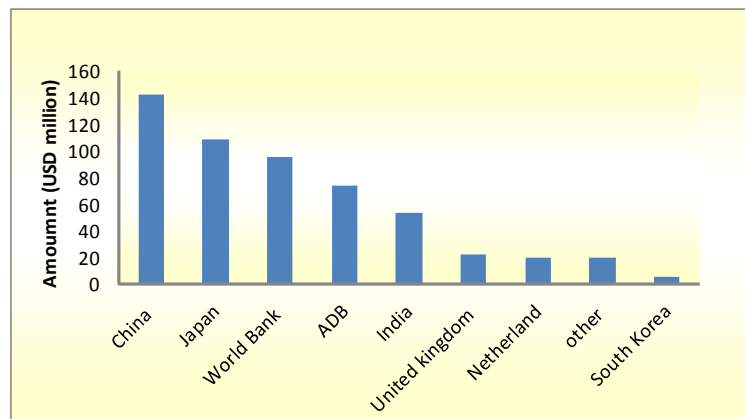
4. Disbursements made from foreign loans obtained by SOEs are not included

5. N/A = Not Applicable

Out of the total disbursements recorded during the period January –April 2014, 26 percent or US\$ 141.9 million was reported under the development projects funded by China and 20 per cent or US\$ 108.9 million was from the Japanese-

funded projects. The total disbursements recorded in the projects financed by multilateral agencies such as the World Bank, Asian Development Bank and IFAD was 33 per cent or US\$ 177.2 million.

Chart 5.3 > Foreign Financing Disbursements by Development Partner

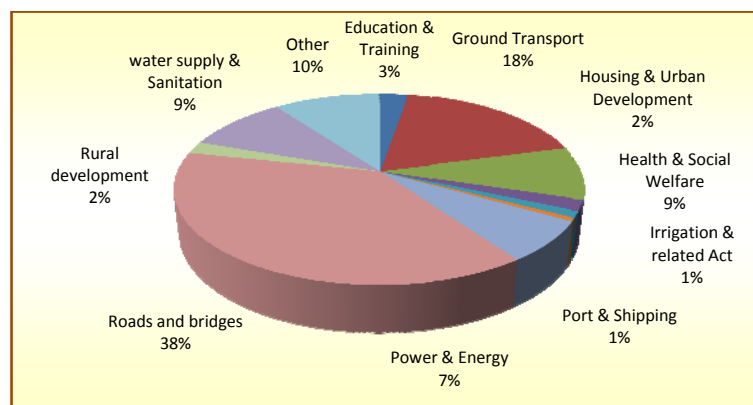


Note: Other = Hungary, Sweden, Spain, France, Austria, Belgium, Denmark, Germany, Kuwait, IFAD, UNHCR and OFID

Out of the total disbursements recorded during the period January – April 2014, 38 percent was disbursed for the construction / rehabilitation of roads and bridges and 7 percent, 9 percent and 18

percent were disbursed for the power sector development, water supply and ground transport projects, respectively.

Chart 5.4 Foreign Financing Disbursements by Sector



Note: Other = Agriculture, Defense, Environment, Finance-Insurance-etc, Fisheries, Humanitarian Assistance, Livestock Development, Management and Institutional Development, Private Sector Development, Rehabilitation, Rural Development

5.3 Committed Undisbursed Balance (CUB)

The total undisbursed balance of foreign financing available to utilize in development projects as at end of April 2014 was US\$ 6,929.4 million (Rs.904,953 million). The project implementation

duration for these commitments will be in the range of 2-5 years and hence the utilization will be on the same basis. Table 5.5 and Chart 5.6 indicate the sector and development partner-wise classification of the committed undisbursed balance.

Table 5.5 > **Committed Undisbursed Balance by Sector:**
As at the end of April 2014

million

Economic Sector	CUB Amount	
	USD	Rs.
Agriculture	594.9	77,691.7
Agriculture	45.6	5,955.2
Fisheries & Aquatics Resources	10.7	1,397.4
Livestock Development	15.3	1,998.1
Land & irrigation	523.3	68,340.9
Economic Infrastructure	3,936.4	514,078.0
Transport	693.1	90,516.2
Ports & Shipping	141.4	18,466.3
Power & Energy	732.1	95,609.5
Science & Technology	7.0	914.2
Water Supply and Sewerage	883.6	115,394.8
Road and Bridges	1,479.2	193,177.9
Social Infrastructure	1,172.2	153,084.9
Education & Vocational Training	330.2	431,122.9
Health & Social Welfare	393.6	51,402.7
Housing & Urban Development	317.1	41,412.1
Rehabilitation	131.3	17,147.3
Regional & Rural Development	6.3	822.7
Financing & Banking	28.8	3,761.2
Institutional & Industrial Development	0.3	39.2
Environment	156.9	20,490.5
Other	1,033.6	134,984.2
Total	6,929.4	904,953.3

Source: Department of External Resources

Note: Rupee values were calculated based on the exchange rates as at 30th April 2014

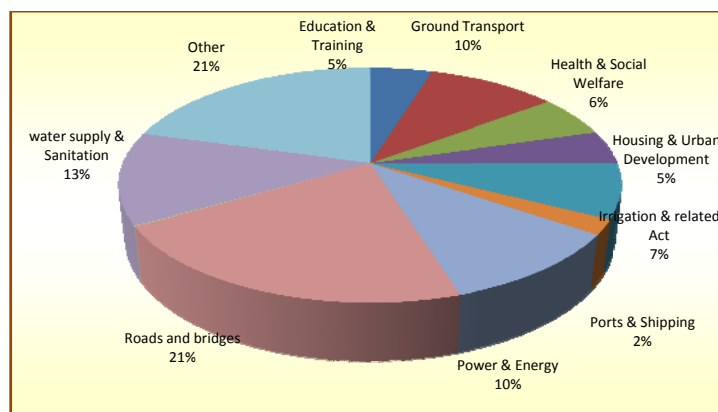
Other = Defense, Humanitarian Assistance, Private Sector Development, Cultural, Media, Plantation, Tourism & Hotel Industry,

Table 5.6 > **Committed Undisbursed Balance by Development Partner:
As at the end of April 2014**

Development Partner	CUB Amount	
	USD	Rs.
Japan	1,609.4	210,181.5
China	1,084.9	141,683.8
India	620.9	81,087.2
Russia	134.7	17,591.3
South Korea	125.3	16,363.7
Asian Development Bank	1,169.1	152,680.0
World Bank	550.6	71,906.3
Iran	399.4	52,160.1
Saudi Arab	110.8	14,470.1
Other	1,124.3	146,829.3
Total	6,929.4	904,953.3

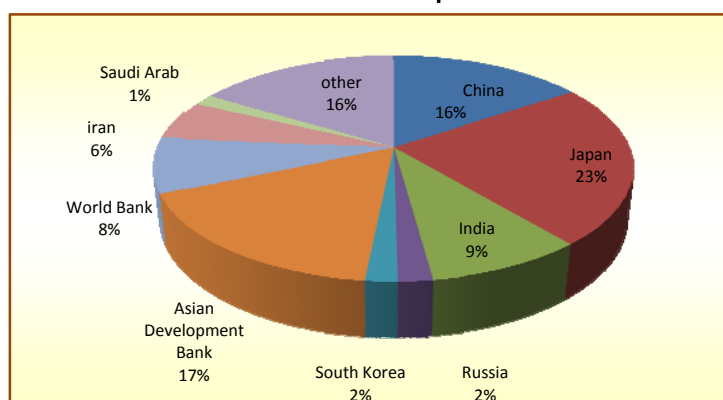
Source: Department of External Resources

Chart 5.5>**Committed Undisbursed Balance by Sector –As at end April 2014**



Note: Other = Defense, Environment, Humanitarian Assistance, Private Sector Development, Cultural and Industrial Development, Media, Plantation, Tourism & Hotel Industry, SME Development, Youth & Sports

Chart 5.6>**Committed Undisbursed Balance by Development Partners:
As at end April 2014**



Note: Other = Hungary, Sweden, Switzerland, Spain, France, Austria, Belgium, Denmark, Germany, Kuwait, UN Agencies, OFID

5.4 Outstanding External Debt and Debt Service Payments

At the end of April 2014, the total outstanding external debt of the Government amounted to US\$ 21.1 billionⁱ (Rs.2, 755.5 billion).

Total debt service paymentsⁱⁱ from January to April 2014 amounted to US\$ 390.5 million (Rs.

50,996.6 million). Of this, US\$ 244.1 million (Rs.31,878.5 million) was for principal payments and the balance US\$ 146.4 million (Rs.19,119.3 million) was for the interest payments.

Total estimated debt service payments for 2014 are US\$ 1,279.3ⁱⁱⁱmillion (167,071.7million), of which 31percent has already been made by 30th April 2014.

ⁱ This includes outstanding external debt for loans obtained to finance development projects and International Bond Issuances. Loans obtained by State Owned Enterprises (SOEs) and foreign investments on Treasury Bonds and Treasury Bills are not included.

ⁱⁱ Debt Service Payments = Principal Payments + Interest Payments

ⁱⁱⁱ Includes the Debt Service Payments of International Bond Issues. US\$ estimations are based on the exchange rates as at 30th April 2014.