

**MID YEAR
FISCAL POSITION REPORT
-2008-**

**Ministry of Finance and Planning
Sri Lanka**



**MID- YEAR
FISCAL POSITION REPORT
2008**

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

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

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 in the year and thereafter lay before the 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 in year 2008. The report also provides updated information, depending on the availability of information, relating to macro economic performance, price development, foreign aid, Government debt, and balance of payments, money and credit development.

Chapter 1

Fiscal Developments

An Overview.

- Fiscal development during the first four months of 2008 recorded a 24 percent growth in Government revenue with tax revenue recording a growth of 22 percent. An accelerated growth in Government expenditure by 24 percent influenced by higher capital expenditure, increased cost of the fertilizer subsidy, higher salaries and pensions and enhanced interest costs is also observed in comparison with the corresponding period of last year.
- During the first four months of the year, 23 percent of the total provision of capital expenditure has been utilized, compared to 21 percent in the same period in 2007. Current expenditure accounted for 32 percent of the total allocation in 2008, compared with 33 percent in the first four months in 2007. Revenue generated during this period accounted for 28 percent of estimated revenue in comparison with the same ratios in the corresponding period in 2007. Reflecting higher recurrent expenditure mainly on fertilizer subsidy and interest revenue deficit amounted to Rs. 18.8 billion during the first four months in 2008 compared to Rs. 15.3 billion in the corresponding period in 2007. The overall deficit increased to Rs. 93.4 billion from Rs. 74.3 billion due to increased public investments.
- As a percentage of GDP, the revenue collected for the first four months was 4.8 percent compared to 4.7 percent in the corresponding period in 2007 while the total expenditure as a percentage of GDP was at 6.9 percent compared to 6.8 last year. With these developments the revenue deficit and budget deficit was 0.4 and 2.1 percent respectively in the first four months of 2008 which were same as the corresponding period in 2007.

- In the context of increased demand for resources, the Treasury Operations gave priority for providing resources to development programs and other essential expenditure while minimizing funding for non priority expenditure programs to make budgetary operations complementing with monetary policy operation of the Central Bank.

Table - 1.1
Summary of the Budget (Jan-April)- Economic Classification
Rs. Mn.

	2007	2008
Revenue	170,374	210,427
Tax	153,945	187,584
Non-Tax	16,429	22,843
Expenditure	244,638	303,847
Current	185,675	229,236
Public Investment	63,775	78,878
Other	-4,812	-4,267
Revenue Account	-15,302	-18,809
Overall Deficit	-74,264	-93,420
Financing	74,264	93,420
Grant	10,878	3,585
Foreign Loans*	25,826	15,170
Domestic Financing	37,560	74,665
Non Bank	64,873	56,276
Bank	-27,313	18,389
Revenue/ GDP(%)	4.7	4.8
Current Expenditure/GDP (%)	5.2	5.2
Public Investment/GDP (%)	1.8	1.8
Revenue Deficit/GDP (%)	0.4	0.4
Overall Budget Deficit/GDP (%)	2.1	2.1

Source: Department of Fiscal Policy
* Includes foreign investment of Treasury Bonds.

Government Revenue

- Government revenue generated Rs. 261.4 billion during January- May 2008, a 23 percent growth over the same period of 2007. Additional revenue collected between the 2 periods amounted to Rs. 49 billion. As a percentage of GDP it increased to 5.9 percent while the tax revenue was 5.4 percent. However, the growth in revenue was not enough and fell short by about Rs. 8 billion to meet cash flow requirements.
- The revenue policy measures taken in the last 3 years to augment revenue coupled with further measures introduced in the 2008 Budget with a view to broaden the tax base and strengthen administration contributed to this revenue enhancement. The timely enactment of the necessary legislations for the forth consecutive year complimented the revenue enhancing effort. This performance in the tax revenue was achieved despite a significant drop in vehicle imports liable for excise taxes, sales declines in liquor and cigarettes in conjunction with Government policies and the impact of the granting of duty concessions for motor vehicles for public servants .

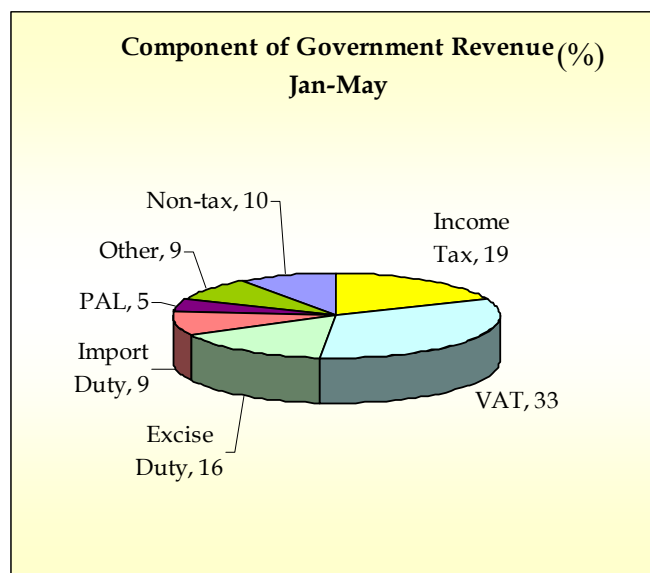
Table 1.2
Revenue Performance - (Jan- May)

	2007	2008	Growth %
Tax Revenue	192,322	235,971	23
Income Tax	39,296	41,143	25
VAT	71,758	85,524	19
Excise Tax	37,375	41,502	11
Cess	5,181	9,315	65
Port & Airport Development Levy	9,850	12,996	32
Import duty	22,807	23,031	1
Other	1,970	10,494*	-
Non Tax Revenue	19,845	25,397	28
Total Revenue	212,167	261,368	23

Source: Department of Fiscal Policy

* Includes Rs 6,311 Million collected as Special Commodity Levy.

Chart 1.1



Income Tax

Total revenue from corporate profits tax, personal income tax, tax on interest income and Economic Service Charge (ESC) at Rs. 49,270 million showed a 25 percent increase during the first five months of 2008 over the corresponding period of 2007. This enhanced performance is noteworthy in the backdrop of the significant achievement of income taxes of reaching 3 percent of GDP in 2007.

In addition to the policy measures implemented in last 3 years several measures were introduced in the 2008 Budget with a view to further broaden the income tax base and its administration while extending concessions and exemptions for development activities to give impetus to the economic growth. The measures include:

To broaden the tax base:

- Tax holidays that are already granted will not be extended further after the expiry of each tax holiday granted.
- A tax holiday which commences after 1.4.2008 will be not be more than three years maximum other than for investments in strategic development and regional development projects.
- Income tax calculation of non citizen individuals employed in Sri Lanka will be same as that of citizen of Sri Lanka.
- If an employer has undertaken to pay income tax on the employment income of an employee, the deduction to the employer will be restricted to the amount of income tax actually payable by the employer in respect of such employment income.
- Any loss from the business of leasing could only be set off against profits from such business.

Tax exemptions/ concessions

- Any profit of a cooperative society will be exempted from income taxes for a period of 5 years and tax on interest was exempted on the interest accruing on the deposits made by such societies, with a view to revive the co-operative system and promote the distribution of essential items at affordable prices.
- Granting of tax relief for new investments under the "Negenahira Udanaya" program to give impetus to the revival of the Eastern Province.
- Increased tax relief granted on investment for production of film from Rs. 25 to 50 million and granting tax concessions up to Rs. 25 million for the construction of a film hall and up to Rs. 10 million for modernization of an existing hall with high tech theaters to boost the local film industry.
- Profits and income from the export of gems after cutting and polishing of gems imported in raw form was exempted while a concessionary rate of 2.5 percent will be applicable for gems sold at the gem auctions with a view to promote the industry to a high foreign exchange earning industry.
- Profits and income earned outside Sri Lanka by any person or partnership in Sri Lanka, and if such profits and income are remitted to Sri Lanka through a bank was exempted for income taxes to boost the inflow of foreign exchange to the country.
- If the turnover of any business comprises of exports or earning in foreign exchange, the applicable ESC rate was reduced to a maximum of 0.25 percent. The concessionary ESC rate of 0.1 percent applicable for apparel exports at present was extended to business of exporting apparels through buying offices with a view to give an impetus to the exports.

Value Added Tax (VAT) Revenue

VAT revenue up to May 2008 amounted to Rs. 85, 524 million, an increase of 19 percent over the corresponding period of last year. Decline in motor vehicles imports, impact of the concessionary duty schemes implemented for public servants, decline in production of hard liquor, drop in cigarette sales and import of essential commodities liable for a VAT coming under a unified tax contributed to the moderate growth in the VAT revenue collection. Also this performance should be viewed with the exemptions granted to import and supply of machines and equipment for thrust industries to boost such industries.

Table 1.3
Performance of VAT - (Jan. - May)

Rs. Mn.

Tax Base	2007	2008	Growth %
Domestic	35,471	46,442	30.9
Import	40,519	42,599	5.1
Gross revenue	75,990	89,041	17.2
Refunds	4,232	3,517	-16.9
Net Revenue	71,758	85,524	19.2
Refunds as % of Gross Revenue	5.6	3.9	

Source: Department of Fiscal Policy

Further to the exemption already in place with respect to sectors several development oriented VAT exemption were granted with effect from 1st January 2008.

- Co-operative societies and co-operative rural banks were exempted as a part of the relief granted on this sector.
- Reduction of VAT rate from 15 percent to 5 percent on certain film and tele-drama related equipments to give an impetus to the industry.

- Importation of plant and machinery for business purposes by enterprises qualified for tax holiday under the "Negenahira Udaynaya" program were exempted to boost investment in the Eastern Province.
- Milk products made out of milk produced in Sri Lanka, locally produced rice products out of rice produced in Sri Lanka, locally manufactured sugar, import of yarn for textile industry were given VAT exemption to encourage local value added production.
- VAT on petrol was reduced from 15 to 5 percent.

Excise taxes

- Revenue from excise taxes on liquor, cigarettes petroleum products, motor vehicles and selected consumer durables increased to Rs. 41,502 million by 11 percent in the first five months in 2008.
- A marginal decline in hard liquor production compared to a 9 percent increase in the corresponding period of last year, cigarette sales volumes reducing by 6 percent, decline in vehicle imports which are liable for excise duties, impact of the concessionary duty scheme for motor vehicles for public servants contributed adversely for the excise duty revenue despite the high excise duty structure that is applicable presently. The motor cars and van imports under the normal excise duty regime has reduced by 20 percent in the first five months of 2008 compared to same period of 2007.

Table 1.4
Excise Tax Performance - (Jan. - May)

	Rs. Mn.		
Item	2007	2008	Growth %
Liquor	9,766	11,411	17
Cigarettes	12,131	14,322	18
Petroleum & Motor vehicles	14,069	12,605	-10
Other	1,409	3,164	125
Total	37,375	41,502	11

Source: Department of Fiscal Policy

Excise duty rate changes

- Duty rates applicable on liquor were increased in October while the rates on cigarettes were revised in October and December in 2007. Duties on cigarettes were further revised in March 2008.

Table 1.5
Excise Duty Rate Revision on Cigarettes

per 1,000 cigarettes

	2007 June	2007 Oct	2007 Nov	2008 March	Increased (*) (%)
Benson	7,588	8,588	8,868	9,840	30
Gold leaf	7,283	8,086	8,314	8,850	17
Viceroy	6,183	6,986	7,219	7,219	17
Other	3,722	3,722	3,722	4,520	21

Source: Department of Fiscal Policy

* Percentage increase of excise duty per 1,000 cigarettes during the period June 2007 to March 2008.

- Excise duty rate applicable on selected non essential imports was increased from 10-15 percent with effect from 8.11.2007.
- Excise duty applicable on motor vehicles was revised between 5-10 percent with effect from 8.11.2007.
- Exemption granting of duty rates on importation of vehicles by public servants was continued up to end March 2008. 7,240 of such vehicles were imported in 2008 where the revenue forgone by the Government was around Rs. 11,000 million.

Import Duty

- Import duty revenue increased marginally to Rs. 23,031 million in the first five months of 2008. The slowdown in motor vehicles imports, application of a unified tax for essential commodities mainly contributed to the slow growth in import duties. The unified tax on essential commodities which includes the custom duty generated Rs. 6,311 million in the first five months of 2008.
- Although a unified tax is applicable on essential commodities this tax rates are not fully compensating the effective duty rates under different taxes previously held. These unified rates have not been revised after their commencement from 1st January 2008 considering the high cost living that prevailed during this period. With the present international prices on these essential items the revenue forgone up to May 2008 is around Rs. 5,000 million.

Table 1.6
Revenue Foregone (Jan-May 2008)

Item	Applicable Duty (Special Commodity Levy per/kg (Rs))	Revenue forgone (Rs. Mn.)
Milk Powder	5	2,635
Potatoes	15	430
B'onions	20	261
Peas	15	269
Chickpeas	15	116
Green gram	13	4
Lentils	6	875
Chilies	30	180
Canned Fish	25	162
White Sugar	14	38
Total		4,970

Source: Department of Trade Tariff and Investment Policy

- Government removed the duty waiver of Rs. 20 on petrol imports effective from 24 May 2008 with a view to cross subsidize the diesel use for public transportation.

Other Taxes

- Revenue from Port and Airport Development Tax (PAL) generated Rs. 12,996 million in Jan-May 2008 period a 32 percent increase, compared Rs. 9,850 million in the same period of 2007, a mainly due to the high turnover of imports. This improvement in PAL collection has taken place despite the exemption granted for imports that are used for export and concessionary rates applicable on certain machinery and medicines.
- Cess revenue amounted to Rs. 9,315 million during the period under review compared to Rs. 5,181 million in the same period of 2007. Scaling up of Cess rates and imposing Cess on certain imports which are effectively manufactured in Sri Lanka.

Non Tax Revenue.

Non tax revenue collected during the first five months of 2008 amounted to Rs. 25, 397 million which include Rs. 8,000 million as Central Bank profit transfers. The increases recorded in sub sectors such as interest, rent, sales and charges, social security contributions contributed to the enhanced non tax revenue collection.

Table 1.7
Fiscal Measures-2008

Import tariff	
08.11.2007	RPO 4/2007 Gazette No.1522/19 of 07.11.2007 -Custom duty changes based on the budget proposals and recommendations made by the Trade and Tariff Cluster
Excise Duty	
07.11.2007	Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1522/17 of 07.11.2007)-Increase of excise duty applicable for certain motor vehicles and upward revision of Excise duty on selected consumer durables
03.12.2007	Excise Ordinance(Gazette Notification No.1526/1 of 03.12.2008) -Reduction of the Excise duty applicable to Ethyl alcohol used for industrial purposes from Rs.200/lt to Rs.100/lt
14.03.2008	Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1540/15 of 14.03.2008)-Increase the Cigarette Duty rates
10.04.2008	Section 32 of Excise Ordinance(Gazette Notification No.1544/17 of 10.04.2008) Increase the liquor Duty rates
Special Commodity Levy	
09.01.2008	Special Commodity levy Act no. 48 of 2007 (Gazette Notification No.1531/13 of 09.01.2008) -Imposition of Special Levy for 10 essential Commodities
01.05.2008	Special Commodity levy Act no. 48 of 2007 (Gazette Notification No.1547/19 of 30.04.2008) -Imposition of Special Levy for 11 essential Commodities including milk powder.

Surcharge	
07.11.2007	Increase of Surcharge rate from 10% to 15%(Gazette Notification No.1522/20 of 07.11.2007)
Value Added Tax	
01.01.2008	Value Added Tax Act No.14 of 2002(Gazette Notification No.1530/14 of 01.01.2008 -Reductions of VAT rates from 15 to 5 percent Import and supply of petrol, imported electric filament or discharge lamps and arc lamp carbon for domestic film industry
Cess	
08.11.2007	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1522/17 of 07.11 .2007) Increase the Cess rates
27.11.2007	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1525/1 of 26.11 .2007) -Imposition of a Cess on non essential commodities
21.12.2007	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1528/23 of 20.12.2007)-Rate reductions.
Income Tax	
22.04.2008	Section 24D(2) of Inland Revenue Act no.10 of 2006(Gazette Notification No.1546/5 of 22.04.2008) -Identifying the backward areas to grant exemptions for 5 years on Income tax for the investments made in such areas.
22.04.2008	Section 23(1) (C) of Inland Revenue Act No.10 of 2006(Gazette Notification No.1546/8 of 22.04.2008) - Exemption of Income tax and profit of the investments in hospital projects.
22.04.2008	Section 212 of Inland Revenue Act No.10 of 2006(Gazette Notification No.1546/10 of 22.04.2008) -Regulations consist of determine the methodology and associated persons with respect to taxations of trans actions under arm's length principle.

Economic Service Charge	
22.04.2008	Section 12 of Economic Service Charge Act No. 13 of 2006(Gazette Notification No.1546/9 of 22.04.2008)-Amendments to the definition of turnover related to gem , garment and for exports on NFE basis.
Other tax measures	
01.01.2008	Stamp Duty (Special Provisions)Act No.12 of 2006(Gazette Notification No.1530/13 of 01.01.2008)-Rate revision
01.01.2008	Finance Act No. 11 of 1963(Gazette Notification No.1530/16 of 01.01.2008) -Land transfer tax exemptions for foreigners who invest not less than US \$ 2 million on IT related training institutions, educational institutions and BPO industry.
01.01.2008	Debit Tax Act No.16 of 2002(Gazette Notification No.1530/17 of 01.01.2008) -Exemptions as mentioned in Budget 2008
01.01.2008	Finance Act No. 11 of 2002(Gazette Notification No.1530/18 of 01.01.2008) -Exemption of PAL on purchase of ships registered under Sri Lankan Flag
22.04.2008	Section 5 of Stamp Duty(Special Provisions)Act No.12 of 2006(Gazette Notification No.1546/7 of 22.04.2008) -Exemption of stamp duty on any deed of mortgage of aircraft and ships
Other Measures	
14.01.2008	Revision of Petroleum Prices
15.03.2008	Revision of Electricity Tariff
01.04.2008	Suspend the scheme on granting duty concessions for import of vehicles for public officers.
25.05.2008	Revision of Petroleum Prices
25.05.2008	Removing of the import duty waiver of Rs. 20 per liter on Petrol
25.05.2008	Increase of bus fare
01.06.2008	Increase of train fare
10.06.2008	Import & Export Control Act No. 01 of 1969-the minimum F.O.B price of a metric ton of rice exported from Sri Lanka should be Rs. 100,000

Box 1.1

Finance & Revenue related Legislations (2007 Nov- 2008 June)

Statute	Objective
Value Added Tax(Amendment)Act No.15 of 2008	To grant the exemptions and rate reductions as mentioned in budget 2008
Finance (Amendment)Act No.7 of 2008	To extend the 10 percent Cellular mobile telephone subscribers levy presently imposed on mobile phones to cover the codeless telephones.
Finance (Amendment)Act No.8 of 2008	To revise the Social Responsibility Levy (SRL) rate from 1 percent to 1.5 percent and remove SRL charged on personal income tax.
Inland Revenue(Amendment)Act No.9 of 2008	To implement proposals in budget 2008.
Stamp Duty(Special Provision)(Amendment)Act No.10 of 2008	To make the tax system simplify and to fall in line with the existing mechanism adopted by Provincial Councils, stamp duty payable on leases and mortgages could be done either by affixing the receipt proving such payment to a bank or affixing the stamp.
Economic Service Charge(Amendment)Act No. 11 of 2008	To enable the ESC rate not to exceed 0.25 percent if the turnover of any business comprises of export earnings in foreign exchange and to increase the rate with respect to the turnover of liquor and motor vehicle sales to 1 percent from 0.5 percent. Also amendments have been done to rectify the existing anomalies.
Regional Infrastructure Development Levy(Amendment)Act No. 12 of 2008	Increase the Regional Infrastructure Development Levy by 2.5 percent.
Butchers Ordinance(Amendment)Act	To prohibit slaughtering of lactating cows and

No.13 of 2008	imposing a fine of Rs 50,000 or an imprisonment for a period not exceeding three years, for not adhering to the prohibition.
Strategic Development Project Act No.14 of 2008	This act will enable to grant tax free period/concessions for identified Strategic Development Projects.
Environment Conservation Levy Act No.26 of 2008	This act will enable imposing a levy on items imported , domestically manufactured and on a service provided within Sri Lanka which is likely to have a harmful impact on the environment.

Policy Thrust to Rationalize Public Expenditure

- Several Policy measures were implemented in line with the fiscal consolidation with a view to rationalize growth in recurrent expenditure while enhance funds were channeled to new rural development initiatives and national infrastructure development program.
- Leave encashment granted to public servants was terminated with effect from 2008 in view of its cost as well as administrative complexities, while the cap on cost of living allowance at Rs. 375 per month for public servants and Rs. 187.50 for pensioners for inflation was continued.
- In the context of rising oil prices, administrated prices of petroleum products were raised by the Ceylon Petroleum Corporation (CPC) in January and May 2008, placing the domestic petrol prices on commercial rates thereby eliminating the subsidy , while diesel and kerosene is sold at a price less than the cost.

Table 1.8
Domestic Petroleum Prices Adjustments.

Item	Domestic Prices		Formula Prices May 2008
	Jan 14	May 25	
Petrol	127.00	157.00	156.83
Diesel	80.00	110.00	130.54
Kerosene	70.00	80.00	127.38
Fuel Oil 1500	61.70	71.70	
Fuel Oil 3500	56.65	66.65	

Source: Department of Fiscal Policy.

- With the Domestic petroleum price adjustments the Sri Lanka Transport Board increased bus fares by 19 percent while a rate revision was introduced on railway fares. The last railway fares revision was in August 2005. It is estimated that with these revision the SLCTB will generate additional revenue of Rs. 719 million while SL Railways Rs 875 million which in turn will reduce the burden on the Budget.
- In line with the petroleum price increases, electricity tariffs were also adjusted in March 2008 with a 40 percent increase in rates.
- Government borrowing program was managed through the use of least cost borrowing instruments through selection of an appropriate mix between domestic and foreign debt. After the successful debut international bond issue the Government was able to raise US \$ 150 million through a syndicate loan from foreign banks. The facility extended to the foreigners to invest in treasury bonds was expanded to treasury bills and capital account has been opened up to 10 percent. These measures helped to ease the pressure on exchange rate and reduced crowding out of domestic funds by the Government.

- With the prudent treasury operation activities the Government was able to reduce the Treasury bill interest rates around 415 basis points during the first five months of 2008. This rate reduction has a direct impact on the commercial lending rates of the banks.
- New rural development initiatives were targeted through "Gama Neguma" programme and "Maga Neguma" programme with the channeling of resources while the construction phase of major infrastructure projects consisting of power generation ports, irrigation, water supply and highways were carried out with renewed momentum.

Government Expenditure

- The overall public expenditure for the first four months of 2008 stood at Rs. 303,847 million which constituted of Rs. 229,236 million of recurrent expenditure and Rs. 74,611 of capital expenditure. The increase disbursements as fertilizer subsidy owing to high international prices, increase in interest cost reflecting the high rates prevailed during second half of 2007, enhanced salary and pension bills, increased costs on fuel and food rations to security forces exerted pressure on the recurrent expenditure resulting in a 23 percent increase over the same period of 2007. Despite the high recurrent expenditure Government commitment to accelerate strategic development programs in areas such as power generation, ports, roads and irrigation activities continued while the rural development initiatives were also carried out with enhanced resources. The public investments increased by 24 percent during the January- April 2008 compared to same period of last year.

Table 1.9
Performance of Government Expenditure- (Jan. – April)

	Rs. Mn.	
	2007	2008 (prov.)
Current Expenditure	185,675	229,236
Salaries and wages	64,435	74,749
Interest	55,476	71,437
Samurdhi	3,051	3,468
Fertilizer subsidy	3,733	11,260
Pension	21,391	25,001
Other expenditure	37,589	43,321
Public Investment	63,775	78,878
Large infrastructure	24,872	30,762
Provincial Councils	3,189	3,944
Small infrastructure and other	35,174	44,172

Source: Department of National Budget

Salaries and Pension Costs

- Expenditure on salaries to public servants increased to Rs. 74,749 million - an increase of 16 percent over the corresponding period of the previous year. Out of the total cost of salaries and wages, Rs. 23,454 million was on account of employees in Provincial Councils. A Government employee received Rs. 2,500 per month as COLA during this period and the cost on this alone was around Rs. 9.3 billion. The full impact of the new recruitments of 36,182 employees to the public sector in 2007 also influenced the increase in the salary bill.
- Total pension payments increased to Rs. 25,001 million recording a 17 percent increase. The full impact of around 29,000 retirees in 2007 and further 4,842 in the first four month of 2008 contributed to the increase. Also during the period pensioner received Rs. 937.50 per month as COLA and the cost during the first four months of 2008 was around Rs. 1,600 million.

Interest Cost

- Interest payments on foreign and domestic debt amounted to Rs. 71,437 million registering a 29 percent increase mainly reflecting the high domestic interest rates that prevailed especially in the second half of 2007. A noteworthy development is the reduction of the treasury bill interest rate by around 410 basis points up to May 2008, from the rates prevailed in December 2007.
- Adopting a better debt management mechanism and alternative financing arrangements has helped to a certain extent to reduce the domestic interest rates.

Table 1. 10
Behavior of Yield Rates (%) - 2008

Year	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2007 May	16.91	16.39	16.57	-	14.10	-	14.22
2007 Dec	21.30	19.99	19.96	15.50	15.99	14.32	15.56
2008 Jan	19.98	19.59	19.55	18.58	16.79	-	15.55
2008 Feb	18.91	19.16	19.29	18.57	17.06	14.32	15.55
2008 Mar	18.40	18.95	19.01	-	17.10	-	15.60
2008 Apr	18.57	18.97	19.01	18.00	17.55	-	15.49
2008 May (4th week)	17.14	18.50	18.65	17.92	17.00	-	15.55
Change Dec-2007- May-2008	-4.16	-1.49	-1.31	2.42	1.01	-	-0.01

Source: Department of Treasury Operations

Welfare payments and social safety net on vulnerable Groups

- The expenditure on welfare assistance provided in support of the poorer segments of the society, displaced persons, differently abled soldiers and vulnerable groups amounted to Rs. million 9,421 up to May 2008 compared to Rs. million 7,827 million in the corresponding period of 2007.
- The programs to provide nutritional food to expectant mothers and school children continued with enhanced cost. School Nutritional Food Program cost Rs. 582 million in the first five months of 2008, other nutritional programs such as infant milk subsidy, Poshana malla, Triposha Programs was continued at a cost of Rs. 379 million.
- The cost on other welfare programs such as free school text books, uniforms, bursaries and scholarships school season tickets and free dharma school text books targeting students was Rs. 1,497.

Table 1.11
Welfare payment and subsidies- (Jan.-May)

Item	Rs. Mn.	
	2007	2008
Children		
Infant Milk Food Subsidy	32	20
Poshana Malla	33	131
Triposha Programme	115	228
Free Text Books & Uniforms	575	1,198
School Season Tickets	190	250
Dharma School Text Books & Uniforms	34	39
School Nutritional Foods	389	582
Agriculture		
Interest Subsidy for Agricultural Loans etc	35	44
Fertilizer Subsidy	6,600	14,900
Welfare Payments		
Samurdhi Relief	3,850	4,330
Assistance to Disabled Soldiers	3,400	3,451
WFP food Assistance	520	1,596
Flood and Drought Relief	57	44

Source: Department of National Budget

- The fertilizer subsidy targeting small holder agriculture with a view to assist low income farmers continued in 2008. Despite the high fertilizer prices in the international markets all varieties of fertilizer were provided at Rs. 350 per 50 kg bag for paddy agriculture.
- The fertilizer subsidy was implemented with the Government bearing 80 percent of the cost and with the new prices the share of the Government has increased to 92-94 percent. With these developments the cost on fertilizer subsidy by May 2008 amounted to Rs. 14,900 utilizing almost the full year allocation, leading to an extra pressure on the budget.
- Other expenditure channeled to agriculture by way of interest subsidy for agricultural loans and provision of agricultural seeds stood at Rs. 44 million by May 2008.

Table 1.12
Fertilizer subsidy - Paddy sector

Fertilizer	Market rate per 50Kg bag (Rs.)	subsidy price per 50kg bag (Rs.)	subsidy per 50kg bag (Rs.)	Subsidy as a percentage of the market prices (%)
Urea	4,200	350	3,850	92
MOP	6,150	350	5,800	94
TSP	6,337	350	5,987	94

Source: Department of Development Finance.

Public Investment Expenditure

- With a commitment to accelerate development programs, more resources were channeled to support enhanced level of development activities especially targeting the rural sector and the newly liberated areas, through rural development initiatives such as "Gama Neguma" and "Maga Neguma " programs, the construction of key national infrastructure development projects consisting of roads and bridges , power generation, ports , irrigation , water supply and human development have gathered momentum during this period. The total public investment expenditure amounted to Rs. 78,878 million during Jan- April 2008 an increase of 24 percent over this same period of last year.

Rural Development Initiatives

- The expenditure on "Maga Neguma" the Island wide rural infrastructure development program amounted to Rs. 531 million as at end May 2008 through which many rural roads were rehabilitated using modern techniques to ensure durability. Under the program further 144 km of rural roads were rehabilitated benefiting around 12,000 families while over 4,300 km of rural roads have been so far rehabilitated at a cost of Rs. 5,186 million.

Table 1.13
Maga Neguma Rural Development Programme
progress as at end of May 2008.

District	No. of Projects	Total Road length completed (Km)	Expenditure (Rs.Mn.)	Beneficiary Families
Colombo	35	3.7	12.7	481
Gampaha	115	25.5	121.9	2,650
Kalutara	40	3.5	12.3	492
Kandy	9	2.0	7.3	160
Matale	8	1.8	7.9	93
Nuwara Eliya	6	0.6	2.7	64
Galle	2	1.6	6.1	90
Matara	55	15	53.5	1,304
Hambantota	92	21	84.3	1,763
Jaffna	3	0.7	0.9	60
Mannar	3	1.4	1.9	60
Vavunia	2	1.2	1.9	50
Mullaitive	2	2.0	3.5	50
Kilinochchi	7	2.1	1.8	100
Batticaloa	3	1.5	4.0	113
Ampara	17	9.5	29.9	760
Trincomalee	6	1.0	3.1	138
Kurunegala	98	25.5	91.6	1,760
Puttalam	9	2.7	11.1	161
Anuradhapura	12	2.1	8.5	119
Polonnaruwa	3	3.3	13.1	121
Badulla	36	9.5	26.3	739
Moneragala	11	1.4	5.1	189
Ratnapura	14	2.6	10.3	245
Kegalle	13	2.8	9.6	282
Total	601	144	531.3	12,044

Source: Department of National Budget.

- "Gama Neguma" the major initiative to empower rural economy further expanded at a cost of Rs. 1,702 million in the first four months of 2008.
- The Gemi Pubuduwa and Jana Pubuduwa programs designed to restore community infrastructure, livelihood development and micro enterprise development among Samurdhi recipients were further strengthened at a cost of around 500 million during Jan-April 2008.
- Under the Dahasak Maha Weve program designed to rehabilitate small tanks and minor irrigation services in the rural areas, 140 such projects were under different stages programming towards completion.

Spending on Development Programs

Human Resource Development.

Health

- Total expenditure on health stood at Rs. 10,540 million by end April 2008. The medical supplies cost was Rs. 1,625 million during the period.
- Construction work of several major health sector infrastructure projects such as Neuro Trauma Unit and Nephrology Unit in Colombo General Hospital and the Oncology Unit at Kurunegala Teaching Hospital were in progress during this period. Further Rs. 245 million has been spent on rehabilitation of hospital buildings. Bio Medical equipment at a cost of Rs. 135 million was added to the health sector.

- To address the human resource shortage, recruitments in the health sector continued in 2008. 1,900 trainee nurses including 200 Tamil nurses were recruited in June while further 1,300 nurses who have completed training were absorbed to the system. 210 post intern doctors were recruited in February while further 758 doctors who have completed the post internship will be absorbed in the near future. The recruitments to the various technical grades were continued during this period. 58 MLTs, 58 pharmacists, 10 physiotherapists, 13 radiographers and 2 occupational therapists were absorbed to enhance the technically qualified personal in the health sector.

Education

- During the first four months of 2008 the total expenditure on education was Rs. 12,223 million.
- Around Rs. 300 million was spent on construction of buildings in national schools.
- 358 computer learning centres have been commissioned under the Secondary Education Modernization Project by end April while construction work on 14 open university regional centres were completed during this period under the Distance Education Modernization Project.

Roads

- The investment on road sector was around Rs. 10,457 million up to April 2008. This included Rs. 1,809 million on express ways development, Rs. 5,484 million on highways development, Rs. 317 million on bridges and flyovers and Rs. 1,530 million on rehabilitation of Tsunami affected roads.

- Improvements to roads - Anuradhapura- Rembewa, Kakirawa-Thalawa, Kebithigollawa-Padaviya, Kandy-Jaffna were carried out during this period.
- Ramboda tunnel and the Kelaniya Flyover were opened for traffic in the first quarter of 2008, while the Arugambay bridge which was affected by Tsunami will be commissioned in the near future.

Water Supply

- The investment on water and sanitation cost amounted to Rs. 5,906 million in the first four months of 2008.
- Implementation work have been accelerated in water supply schemes in areas such as towns south of Kandy, Nuwara Eliya, Galle, Kaluganga, Batticaloa, Hambantota, Nawalapitiya and Ampara. The number of pipe born water connection have increased by 25,145 through completed water supply schemes during this period.
- Rs. 489 million has been utilized for rural water supply schemes covering 13 districts.

Irrigation

- Construction work on Menik Ganga -Weharagala irrigation project continued during this period with main dam, spillway and sluice outlets already been completed and it is expected to be commissioned by September 2008 benefiting 11,000 hectare of farm land and around 11,000 farmer families.
- Government was successful in mobilizing US \$ 392 million from Iran for the Uma Oya irrigation project which would benefit 5,000 hectare

of land and 12,000 families in Hambantota and Moneragala districts. It is expected to generate 100 MW Hydro Power from this project.

- Australian funds have been secured to assist the distribution of drip irrigation system among farmers in Anuradhapura, Polonnaruwa, Hambantota, Kurunegala and Moneragala districts on interest free loan basis.
- The work on Deduru Oya reservoir project was in progress during this period with the construction of the bund and resettlement of the affected parties been nearing completion. Preliminary work such as surveying and geological investigation have been completed while infrastructure development under dam construction and resettlement areas and land acquisition have commenced.

Ports

- Work is in progress in the Hambantota Sea Port Development project as well as the construction of the breakwater in the Colombo South harbour project, where the necessary funds have been mobilized from China and Asian Development Bank respectively.
- Government has also taken steps to revive the Oluwil harbour development project and it is expected to mobilize US \$ 69 million from the Government of Denmark.

Government Treasury Operations

Cash Operations

The net cash outflow from operating activities, by the end of May 2008 amounted to Rs. 23.4 billion, as against the forecasted deficit of 4.7 billion. The main reason for the deviation was the shortfall of the revenue receipts. The Government's cash operations, after investment activities, during the first five months (Jan-May) of 2008 indicated a net cash deficit of Rs. 76.9 billion, compared with Rs. 65.9 billion during the corresponding period of 2007. Cash outflow from investment activities decreased by Rs. 5.9 billion over the original cash flow estimates. The repayments on debt was marginally increased by Rs. 1 billion with the estimates, and gross borrowings were raised to meet the cash deficit of Rs. 77 billion, including the increase on temporary over draft.

The overall closing balance which corresponds to working overdraft balance with the banks increased from Rs. 37.2 billion at the beginning of the year to Rs. 44.1 billion at the end of May 2008.

Table 1.14

**Statement on Government Cash Flow Operations
2007 and 2008 First Five Months.**

Rs. Mn.

Item	Actual Jan-May 2007	2007 Jan-May	
		Original estimate	Actual Cash flow
Total cash inflows from revenue	218,180	284,111	261,521
Total cash outflow from operating activities	(229,802)	(288,819)	(284,961)
Net cash flow from operating activities	(11,622)	(4,708)	(23,440)
Cash flow from investment activities	(54,298)	(59,478)	(53,542)
Net cash surplus (deficit)	(65,920)	(64,186)	(76,982)
Opening cash balance	(31,622)	(37,211)	(37,211)
Gross borrowing	173,650	169,116	170,743
Debt repayment	(87,431)	(102,577)	(103,609)
Net borrowing	86,219	66,539	67,134
Adjustment Account Balance (TEB, RFA, deposits, etc.)	22,094	2,165	2,907
Closing balance	(33,417)	(32,693)	(44,152)

Source: Department of Treasury Operations

Chapter 2

The Economy

- The Sri Lankan economy in the first quarter of 2008 sustained the growth momentum that has been witnessed during past three years amidst the volatile situation in the world economy and the continued challenges encountered in the domestic economy. The GDP registered a 6.2 percent growth in the first quarter in 2008 compared to 6.1 percent in 2007. The Agriculture sector output grew by 6.2 percent a significant improvement compared to first quarter of 2007 while industry and service sectors grew by 5.6 percent and 6.1 percent respectively.
- In the first quarter of 2008 most of the sub sectors in the agricultural sector achieved relatively high growth rates. The quantity of tea produced during the first quarter of 2008 was 82.6 million Kgs., an increase of 30 percent over the corresponding period of 2007 which established an all time record for the first quarter tea production of a year. The favorable weather conditions and absence of labour unrests and work stoppages contributed to the production improvements. Rubber production increased by 14 percent to 37 million Kgs. during this period while the coconut production witnessed a marginal decline. The paddy production in 2007/2008 Maha increased by 7.6 percent to 102 million bushels compared to 2006/2007 Maha while the gross extent harvested increased by 8.2 percent during this period. The attractive producer prices, continuation of the fertilizer subsidy and the improvements in the security conditions in the Eastern Province could be cited as the main contributing factors to the increase in the extent harvested.

- The production of other minor export crops such as cardamoms, cinnamon, pepper, coffee increased and also fetched high producer prices. Crops such as maize, ginger, sweet potatoes, red and big onions, recorded improved production in the first quarter of 2008 while production declines were recorded in crops such as potatoes, cowpea, soya beans and chillies. Livestock sector grew by 5.1 percent with increased production in beef, mutton, pork and poultry , while milk production increased by 2 percent to 51 million litres reflecting impact of the wide range of incentives granted by the Government as well as the better producer prices .
- The manufacturing sector indicated a 4.2 percent growth in the first quarter. Despite the slowdown in the world economy mainly US economy the textile and garment industry sustained its resilience and grew by 3 percent during this period while the construction industry reflecting the increased public investment in infrastructure projects remained buoyant recording a 8.6 percent growth. Production increases in rubber based products, fabricated metal products and mineral products also contributed to sustain the manufacturing sector output. Despite the slowdown in cigarettes sales and hard liquor production the food beverages and tobacco category indicated a 4 percent growth during the first quarter of 2008.
- The value addition in the service sector which accounted for 58 percent of the GDP recorded a buoyant 6.4 percent growth in the first quarter of 2008. Displaying the sustained dynamism of the telecommunication sector, the number of fixed and mobile telephones increased by 42 and 48 percent respectively during this period compared to the corresponding period of 2007. The growth of around 9.5 percent in transshipment cargo and 9.2 percent increase in cargo handling contributed to enhance the port services.

- The growth in trade consisting of domestic as well as external trade accelerated to 5.3 percent, while hotel services recovered marginally from the previous year set back to record growth of 1 percent. Banking and insurance and real sector grew by 5.7 percent compared to 8.6 percent first quarter of last year. This slow down in mainly attributable to the slower growth in banking sector credit accompanied with the tight monetary policy stance adopted by the Central Bank of Sri Lanka.

Chart 2.1

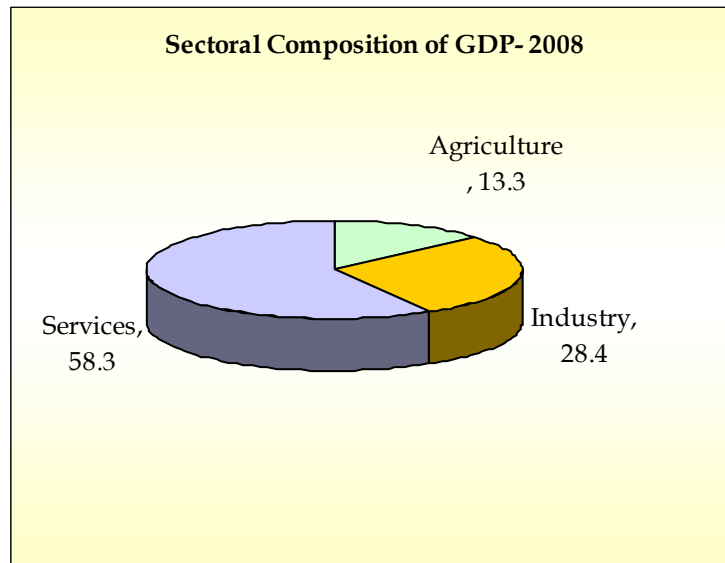


Table 2.1
Gross Domestic Product – Sectoral Composition (2002) Constant Prices
Rs. Mn.

	2007 1 st Q	2008 1 st Q
Agriculture, Forestry and Fishing	73,900	78,260
Agriculture, Livestock and Forestry	67,747	71,822
Tea	5,534	7,173
Rubber	822	911
Coconut	7,161	6,903
Minor export crops	1,774	1,816
Paddy	17,303	18,652
Highland crops	10,174	10,581
Fruits and Vegetables	13,972	14,261
Livestock	4,107	4,316
Other Agriculture	3,779	3,866
Firewood & Forestry	3,121	3,343
Fishing	6,153	6,438
Industry	154,637	163,926
Mining and Quarrying	10,763	12,248
Manufacturing	98,685	103,207
Processing Industries	3,555	3,754
Factory industry	88,553	92,626
Small industries	6,577	6,827
Electricity, gas and water	11,492	11,876
Electricity	9,760	10,082
Gas	1,148	1,188
Water	584	606
Construction	33,697	36,595
Services	327,792	348,894
Wholesale and retail trade	134,403	142,599
Import trade	43,442	47,352
Export trade	23,883	24,480
Domestic trade	67,078	70,767
Hotels and restaurants	1,830	1,845
Transport and communication	71,077	77,855
Transport	60,731	65,589
Cargo handling-Ports and Civil aviation	3,561	3,956
Post and telecommunication	6,784	8,310
Banking , insurance and real estate etc.	49,231	52,037
Ownership of dwellings	18,065	18,264
Government services	40,141	42,309
Private Services	13,046	13,985
Gross Domestic Product	556,329	591,080

Source: Department of Census & Statistics

Inflation.

- Reflecting the domestic price adjustments in petroleum products and related adjustments in electricity , transportation etc. coupled with high international prices on essential commodities, the point to point inflation measured by the CCPI (N) increased to 26.2 percent by end May 2008. Intensified infrastructure development projects have also contributed to demand side pressures thereby fueling inflation. Sri Lanka's core inflation also reached 9.6 percent by May 2008 and from 7.9 percent in May 2007.

Table. 2.2

Headline Inflation and Core Inflation in Sri Lanka

Month	Headline Inflation CCPI(N)		Core Inflation	
	2007	2008	2007	2008
January	13.7	20.8	8.8	6.9
February	15.2	21.6	8.9	8.5
March	15.1	23.8	7.6	9.3
April	14.3	25.0	8.1	9.4
May	13.2	26.2	7.9	9.6
June	13.5		8.0	
July	15.4		7.5	
August	16.5		7.3	
September	16.1		6.8	
October	18.2		6.8	
November	19.3		6.7	
December	18.8		8.1	

Sources: Department of Census and Statistics, Central Bank of Sri Lanka.

External Sector Development.

Exports

- Exports grew by 12 percent during the first 4 months in 2008 earned US \$ 2,498 million. The agricultural exports grew by 37 percent to US \$ 590 million with increased volumes as well as prices. The tea exports volumes grew by 11 percent while the unit prices increased by 32 percent. Reflecting the high demand for natural rubber in the backdrop of high price for synthetic rubber, the unit price per Kg increased by 26 percent US \$ 52 in the first 4 months of 2008. The other agricultural exports earnings also grew to US \$ 91 million compared to US \$ 61 million in the corresponding period of 2007.
- Industrial exports earnings grew by 4 percent to US \$ 1,831 million . Gems and processed diamond exports recorded an increased while textile and garment exports at US \$ 1,033 million reflected a growth of 4 percent despite the slowdown in demand in the US markets. Industrial exports of leather, rubber and paper products also showed improvements with earning reaching US \$ 251 million during the first 4 months of 2008.

Imports

- Imports in the first four months in 2008 at US \$ 4,533 million recorded a 37 percent increase over the first four months of 2007. The surge in international oil prices has resulted in increasing in the petroleum import bill by 76 percent to US \$ 1,115 million from US \$ 632 million during the period. Excluding the petroleum products the expenditure on imports recorded a 28 percent growth in the first four months of 2008. Imports of consumer goods grew by 37 percent with large increases being recorded in respect of several food imports namely, milk powder, wheat and rice reflecting the high international prices that prevailed during this period. Non petroleum intermediate good

imports amounted to US \$ 1,482 million compared to US \$ 1,196 million in the first four months of 2007. Increase in international fertilizer prices the import bill amounted to US \$ 123 million nearly three fold increase over the corresponding period of 2007. Investment goods imports amounted to US \$ 1,013 million, a 31 percent increase over the same period complimenting the growth momentum of the economy. Imports of building materials has increased by 38 percent reflecting the continues expansion of the construction industry in the country.

Trade deficit

- Reflecting these development the cumulative trade deficit by April reached US \$ 2,036 million against the US \$ 1,061 million in the corresponding period of 2007. The import bill on petroleum products contributed to 55 percent of the trade deficit.

Table 2.3
External Trade

	Jan-Apr 2007 Cumulative (US \$ Mn.)	Jan-Apr 2008 Cumulative (US \$ Mn.)
Exports	2,238	2,497
Agriculture	430	590
Tea	282	411
Other	148	179
Industrial	1,756	1,831
Food, Beverages and Tobacco	144	141
Textiles and Garments	996	1,033
Rubber Products	133	175
Diamond and Jewellery	105	113
Other	378	369
Mineral	47	48
Unclassified	5	28
Imports	3,299	4,533
Consumer goods	652	892
Food and Drink	336	532
Other Consumer Goods	315	359
Motor Cars & Cycles	107	152
Intermediate goods	1,828	2,597
Petroleum	632	1,115
Fertilizer	33	123
Chemicals	95	115
Textiles and Clothing	489	532
Diamonds	79	123
Other intermediate Goods	500	588
Investment goods	774	1,013
Machinery and Equipment	356	467
Transport Equipment	124	139
Building Materials	215	297
Other Investment Goods	80	110
Unclassified	45	32
Trade Balance	-1,060	-2,036

Source: Central Bank of Sri Lanka.

Private Remittances

- Reflecting the increase in average earnings by migrant workers and increased transfers through the banking sector, the private remittances increased to US \$ 975 million in the first four months in 2008, compared to US \$ 864 million during the same period of 2007. The worker remittance during this period were sufficient to cover 87 percent of the oil bill.

Overall Balance and Official Reserves

- The balance of Payment (BoP) had generated a surplus of US \$ 292 million by end of May 2008 compared to US \$ 250 million at end May 2007.
- The gross official foreign reserve increased to US \$ 3,562 million by end May 2008 from US \$ 3,508 million at end 2007. Total foreign reserves of the country were US \$ 5 billion by end April 2008. The official reserves were sufficient for about 3.5 months of imports as of end May.

Financial Sector Development .

- Central Bank of Sri Lanka (CBSL) maintained the reserve money within the targeted levels reflecting a growth of 11.7 percent in the first quarter of 2008. To maintain the market liquidity at a level consistent with the light monetary targets, CBSL has engaged in aggressive open market operation. Accordingly, the availability of reverse repurchase facility to a particular bank has restricted only up to 3 times per month and any excessive participation came under a penalty.
- These measures have led to deceleration in broad money supply to 14.7 percent by April 2008 from 22 percent in August 2007.
- Also as a result of the tight monetary policy stance the credit demand declined substantially to 15 percent by April 2008 from high level of around 26 percent recorded in April 2007.

Chapter 3

Foreign Assistance

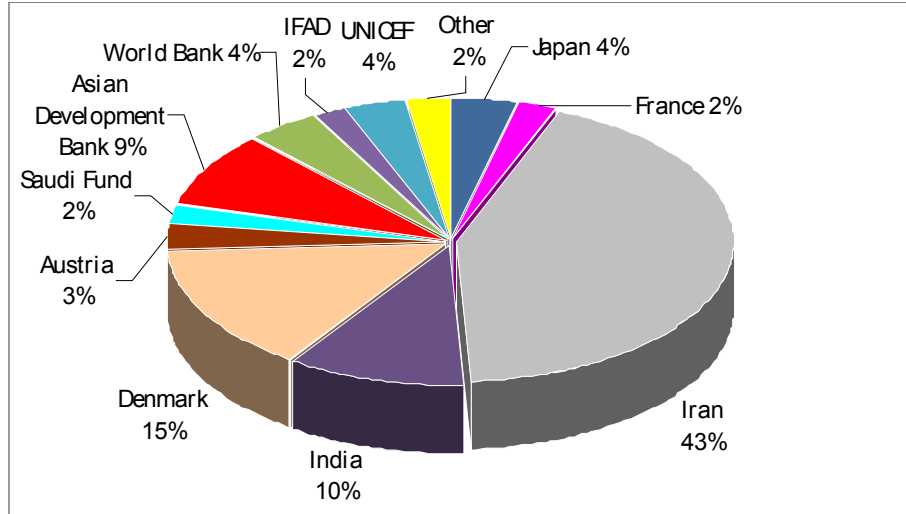
The total commitment made by lenders and donor agencies to Sri Lanka during the period of January to end May 2008 was US\$ 1,049 million, of which project loans accounted for US\$ 959 million and grants accounted for US\$ 90 million.

Table 3. 1
Aid Commitments (Jan- May, 2008)

Donor	US\$ mn.
Japan	42.2
France	23.3
Iran	450.0
India	109.2
Denmark	155.2
Austria	29.6
Saudi Fund	23.0
Asian Development Bank	90.0
World Bank	43.1
IFAD	20.7
UNICEF	39.0
Other	23.8
Total	1049.1

Source: Department of External Resources

Chart 3.1
Aid Commitments (by percentage)



- Government of Iran committed US\$ 450 million for Uma Oya Multipurpose Development Project. This project will provide 100- 150MW of hydro power and irrigate around 4000-5000 hectares of dry lands and facilitate providing drinking water to Monaragala and Hambantota Districts.
- Government of Denmark committed US\$ 155 million for Kelani Right Bank Water Treatment Plant Project and Oluvil Port Development Project. Kelani Right Bank Water Treatment Project will improve the water supply around 350,000 people who are presently experience an unsatisfactory supply and provide new water supply connections around 100,000 people. Danish assistance will be utilised to construct Oluvil Port as a transport and fishery harbour and thereby promoting the development in the Eastern region.
- Government of India committed US \$ 109 million. Of which US\$ 100 million is to finance imports from India and US\$ 8.5 million for the construction of a district hospital in Dickoya, Hatton consisting of 150 beds. The balance US \$ 0.5 million is for the improvement of facilities at Rural Vocational Training Centre at Nagawillu, Puttalam.

- The supplementary funds amounting to US\$ 90 million was committed by the Asian Development Bank for the Southern Expressway Development Project will be utilised to expand the initial two-lane highway to four-lane and provide access road to Galle, as well as to finance the cost overrun in the two-lane highway.
- The World Bank provided US\$ 42 million for Renewable Energy for Rural Economic Development Project and US\$ 1.4 million for Avian Influenza Preparedness and Response Project.

Table 3.2
Commitments from 01.01.2008 to 31.05.2008

(US\$ million)

Sector	Country	Project name	Loan	Grant
Agriculture	Australia	Supply & Installation of 5000 Solar Powered Drip Irrigation & Fertilizing Systems	13.8	
	FAO	Agricultural Assistance in Support of Household Returnees to Batticaloa		0.4
		Improvement of Pepper Production		0.5
Transport	France	Trincomalee Integrated Infrastructure Project	23.3	
	ADB	Southern Expressway Development Project - Supplementary	90.0	
	Austria	Railway Bridges to Extend Rail Tracks	3.3	
Rural Development	India	Setting up of Facilities at Rural Vocational Training Centre, Nagawillu, Puttalam		0.5
	World Bank	Renewable Energy for Rural Economic Development	41.6	

Heath & Social Welfare	India	Establishment of 150 Bed District Hospital at Dickoya, Hatton		8.5
	Japan	Improvement of Anuradhapura Teaching Hospital		1.0
		Improvement of the Curative Healthcare Services at the Teaching Hospital of Anuradhapura.		17.3
	Saudi Fund	Epilepsy Hospital & Health Centers Project	20.0	
		Development of Health Facilities in National Hospital in Colombo	2.9	
	Austria	Supply of Modern Medical Equipments for Teaching Hospital Kurunegala	11.5	
	UNICEF	Country Programme 2008-2012		39.0
Irrigation, Power & Energy	Japan	Ukuwela Power Station Rehabilitation Project	11.4	
	Iran	Uma Oya Hydro Electric and Irrigation Project	450.0	
Cultural	Netherlands	Conservation & Restoration of the Old Dutch Naval Commissioner's House in Trincomalee.		0.5
Environment and Natural Resources	Korea	Integrated Waste Management System in High Level Road		4.3
Water Supply and Sanitation	Austria	Rehabilitation & Augmentation of Kirindi Oya Water Supply Project	14.8	
	Denmark	Kelani Right Bank Water Treatment Plant	82.7	
	ADB	Regulatory Framework-Water Supply/Sanitation		0.04
Ports	Denmark	Oluvil Port Development Project	72.5	

Fisheries	FAO	Assistance for Marine Resources Surveys & Stock Assessments		1.2
Tsunami	IFAD	Post Tsunami Coastal Rehabilitation & Resource Management - II	18.0	
		Post Tsunami Livelihood Support & Partnership Programme- II	2.7	
Livestock Development.	World Bank	Avian Influenza Preparedness and Response Project		1.4
Other	India	Line of Credit -India	100.0	
	Korea	Establishment of the Emergency Response System in Sri Lanka		1.8
	Japan	Japanese Commodity Grant - 2007		12.5
	USA	Improved Integration of Targeted Disadvantaged Groups into the Community		1.3
Total			958.7	90.4

Committed Undisbursed Balance

The total Committed Un-disbursed Balance of foreign financing available for government's development program as at end of May 2008 was US\$ 5.5 billion. The project implementation duration for these commitments will be in the range of 2 -5 years and hence the utilization will be on that basis. Table 3 indicates the sector-wise classification of the committed and un-disbursed balance.

Table 3.3**Committed Un-disbursed Balance (CUB) – (by sector) as of 31st May 2008**

Sector	US\$ Mn	As a % of CUB
Roads, and Transport	922.2	16.8
Ports	746.1	13.6
Water Supply & Sanitation	469.6	8.6
Tsunami Rehabilitation	590.0	10.8
Health, Education & Vocational Training	430.1	7.8
Power & Energy	744.0	13.6
Private Sector Development	142.6	2.6
Agriculture, Fisheries, Irrigation and Land	680.7	12.4
Conflict Affected Areas Rehabilitation	149.5	2.7
Rural Development	127.8	2.3
Environment & Natural Resources	83.6	1.5
IT, Science & Technology	47.4	0.9
Housing & Urban Development	51.1	0.9
Other	301.4	5.5
Total	5,486.1	100

Source: Department of External Resources

Foreign Fund Disbursements

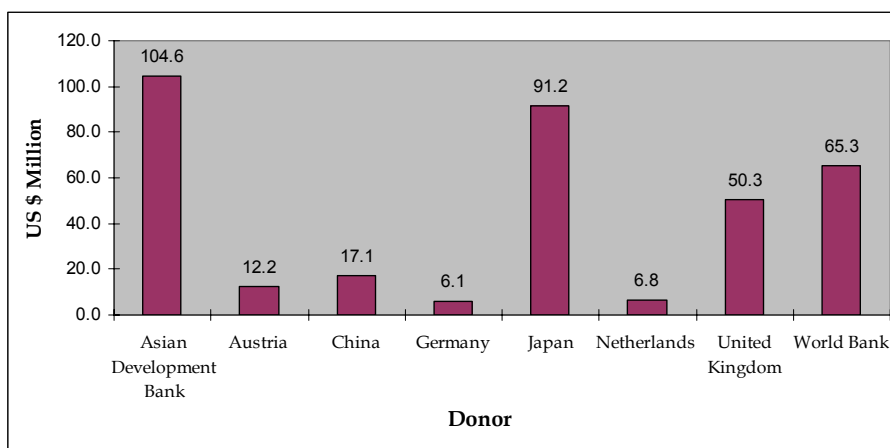
The total foreign fund disbursement up to end of May 2008 was US\$ 368 million. Of the total disbursement, project loans accounted for US\$ 335 million and grants US\$ 33 million.

Table 3.4
Foreign Aid Disbursement

Donor	US\$ million
Japan	91.2
Austria	12.2
China	17.1
Germany	6.1
Netherlands	6.8
United Kingdom	50.3
Asian Development Bank	104.6
World Bank	65.3
Other	14.4
Total	368.0

Source: Department of External Resources

Chart 3.2
Foreign Aid Disbursements by Donors



External Debt

- The total external debt of the government as at end of May 2008 stood at US \$ 15.3 billion. This was an increase of US \$ 180 million compared to the debt stock stood at end 2007.
- The total debt service payment up to 31st May 2008 amounted to US \$ 281.6 million. Of this US \$ 181.1 million was for principal payments and the balance US\$ 100.5 for the interest payments. The total estimated debt service payment for 2008 is US \$ 995 million, of which 28.3 percent has already been paid by 31st May 2008.