Fiscal Management Report - 2012

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President and Minister of Finance and Planning

21st November 2011

Issued under the Fiscal Management (Responsibility) Act No. 3 of 2003, consisting of the *Fiscal Strategy Statement-2012* (in compliance with Sections 4, 5 and 6) and the *Budget, Economic and Fiscal Position Report -2012* (in compliance with Sections 7, 8 and 9) by the Hon. Minister of Finance.

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under the Fiscal Management (Responsibility) Act No. 3 of 2003

Section	Requirement	Required Contents	Compliance
Sections 4, 5 and 6	Submission of the Fiscal Strategy Statement *	Fiscal Strategy Statement to increase public awareness of Government's fiscal policy and establish standards for evaluating the conduct of Government's fiscal strategy.	To be released to the public and laid before the Parliament on the day of the 2nd reading of the Appropriation Bill.
Sections 7, 8 and 9	Submission of The Budget, Economic and Fiscal Position Report *	The Budget, Economic and Fiscal Position Report to set out the basis to evaluate Government's fiscal performance as against its fiscal strategy.	To be released to the public and placed before the Parliament on the day of the 2nd reading of the Appropriation Bill.
Sections 10, 11 and 12	Submission of the Mid-year Fiscal Position Report *	Mid-year Fiscal Position Report to provide updated information of the Government's fiscal performance pertaining to the first four months of the relevant year, to enable an evaluation of the same against Government's fiscal strategy.	To be released to the public by the last day of June or prior to the lapse of 6 months from the date of passing of the Appropriation Act, whichever is later; and to be placed before the Parliament within 2 weeks from the date of such release.
Sections 13, 14 and 15	Submission of the Final Budget Position Report (Annual Report)*	Final Budget Position Report (Annual Report) to provide updated information of the Government's fiscal performance pertaining to the relevant financial year, to enable an evaluation of the same against Government's fiscal strategy.	To be released to the public within five months from the end of the Financial Year and placed before the Parliament within 2 weeks from the date of such release.
Sections 16,17,18 and 19	Submission of Pre-Election Budgetary Position Report **	Pre-Election Budgetary Position Report to provide updated information of the fiscal position of the country.	To be released to the public within three weeks of the publication of proclamation order requiring the holding of a general election for the election of members of Parliament and placed before the Parliament within two weeks of the first sitting of the new Parliament.

* *By the Minister of Finance*

** *By the Secretary to Ministry of Finance*

Compliance - 2011

- **Final Budget Position Report** – **Th**e ***Annual Report - 2010 of the Ministry of Finance and Planning*** stating the fiscal and economic position of 2010 was released to the public by end May 2011 and was soon thereafter placed before the Parliament.

- **Mid Year Fiscal Position Report - 2011** was released to the public by end June 2011 and was soon thereafter placed before the Parliament.

This Fiscal Management Report-2012 contains;

- **Fiscal Strategy Statement** *of the Ministry of Finance and Planning,* setting out Government fiscal strategy statement indicating the broad strategic priorities specifying key fiscal measures which the Government considers important for the overall fiscal policy, to be placed before the Parliament on the day of the 2^{nd} reading of the Appropriation Bill.

- **Budget, Economic and Fiscal Position Report - 2012** *of the Ministry of Finance and Planning* setting out the basis to evaluate Government's fiscal performance as against its fiscal strategy, with estimates relating to Government revenue, expenditure and Government barrowing etc., to be placed before the Parliament on the day of the 2^{nd} reading of the Appropriation Bill.

Fiscal Strategy Statement - 2012

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

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

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

Medium Term Fiscal Strategy

The Thrust

The medium term fiscal strategy of the government has been designed with the objective of reducing the budget deficit and public debt burden on a sustainable basis to complement the achievement of the broad development objectives set out in the *"Mahinda Chintana - Vision for the Future".* In achieving this, the priority is given to revenue enhancing and expenditure rationalization measures which will support the expected higher economic growth in the medium term. In line with this, the improvements achieved in the fiscal front in 2010 are to be further consolidated by containing budget deficit below 7 percent of GDP and debt to GDP ratio at about 78 percent in 2011 and thereafter reducing them further with the reduction of budget deficit and anticipated economic expansion.

Development Friendly Taxation

The medium term fiscal policy framework is designed to phase out the budget deficit to a level conducive to a higher economic growth in a stable economic environment. It targets to achieve a deficit of around 5 percent of GDP by 2014. The realization of a revenue surplus is a key to this direction as the government is also committed to sustain public investment in excess of 6 percent of GDP each year. Towards this end, the Budget 2011 initiated land mark tax reforms, aimed at simplifying and broad-basing the tax system. The new tax system has been designed to be development friendly and equitable with a positive impact on both taxpayers as well as the government revenue in the medium term. It has replaced the operation of multiple taxation and excessive tax exemptions. The impetus of these reforms on the economy could already be seen in the performance of corporates, as well as Small and Medium Enterprises (SMEs) in many areas, including manufacturing, trade, services and agriculture etc. at varying degrees.

In the above context, the personal income tax system has been simplified to be comparable with the rates in the countries in the region. The applicable marginal tax rates were reduced while raising the tax free threshold to Rs 500,000. The pay-as-you-earn (PAYE) tax was made a final tax for those with only employment income to reduce complexities and delays. The threshold was also raised to Rs 600,000. The PAYE tax was extended to government sector employees as well to increase the equity in the tax system while broadening the base for income taxation. Tax on certain terminal benefits was removed, while chargeability of tax on certain other retirement benefits was also reduced. Corporate income tax rates were reduced, particularly by incentivizing the firms that are engaged in export related activities with higher local value addition. The corporate tax has now been reduced to 12 percent for normal export activities and if value addition is more than 65 percent, it is 10 percent. Liquor and tobacco products were subjected to a high income tax rate of 40 percent. This structure is shown in Box 1. In addition, the transfer of 5 percent of the reduction of maximum corporate income tax rate on financial services into an Investment Fund Account (IFA) was made mandatory. Meanwhile, the threshold for the chargeability of the Economic Service Charge (ESC) was increased to Rs. 25 million per quarter mainly for the benefit of the SMEs.

The Value Added Tax (VAT) / Nation Building Tax (NBT) system also has been simplified with a wider base as a key source of revenue. The VAT rates were unified and the VAT system has been modified to avoid complexities and cumbersome refund and setting off mechanisms. Meanwhile, the NBT system has also been simplified with a rate reduction and extended up to the wholesale and retail level by amalgamating the Provincial turnover tax relating to those sectors. Highlights of these changes are given in Box 2.

Box 1 : Corporate Income Tax Rates Applicable on Key Areas

Area/Sector	Tax Rate (%)
Partnerships on divisible profits	8.0
Agriculture, manufacture of any product for export with 65 percent value addition, manufacture of any article or provision of any service with the turnover exceeding Rs. 300 million, operation of storage facilities, development of software, supply of labour, educational services, clubs and associations, remittance tax (N/R.Cos.), Employees Trust Fund and Provident or Pension Funds, charities, any unit trust or mutual fund etc. and dividend income.	10.0
Small companies (taxable income not exceeding Rs. 5 million)	12.0
Venture capital companies, animal produce, livestock & poultry, manufacture of animal feed, tourism, construction, non-traditional exports, petroleum exploration.	12.0
Non-Governmental Organizations	28.0
Business other than Liquor and Tobacco	28.0
Dealing in Liquor and Tobacco	40.0

Source: Department of Fiscal Policy

Box 2 : Key Changes Introduced to VAT and NBT System

VAT

- The applicable rates of 12% and 20%, including VAT on Financial Services, were unified at 12%
- The 85% restriction of claimability of input credit was extended up to 100%
- Unabsorbed VAT input credit as at end December 2010 was allowed to be claimed on a monthly basis against the net tax payable subject to the lower amount of 10% of input credit or 5% of net tax payable.
- The tax savings from the 8% rate reduction from VAT on financial services are to be transferred to the Investment Fund Account (IFA). The funds in IFA are to be utilized for granting loans for specified areas at a lower rate of interest
- A simplified VAT (SVAT) system, which includes an expanded VAT suspension scheme, has been introduced to address the cash flow issues and refund issues of exporters
- Optional VAT system was expanded with a lower rate schedule commencing from 2%, which will increase gradually up to 8% to facilitate the SME sector

NBT

- Rate was reduced from 3% to 2%
- The threshold applicable to certain SME sectors was expanded up to Rs 25 million
- The tax system was simplified by expanding the NBT to the wholesale and retail sector with a threshold of Rs 500,000/- per quarter in lieu of Turnover tax collected by the Provincial Councils other than the sale of;
    - Pharmaceuticals
    - Any article subject to the Special Commodity Levy (SCL) by the importer
    - Gems and jewellery on the payment of foreign currency
- A mechanism was introduced to share the revenue collected by the Central Government with PCs (Box 3).

Source: Department of Fiscal Policy

A revenue sharing mechanism between the central government and the Provincial Councils (PCs) was also introduced to compensate the loss of revenue from the abolition of the Provincial turnover tax. In addition, the percentage of the revenue collected from the motor vehicle registration fees transferred to PCs was also increased to 70 percent from 60 percent with effect from 01 January 2011. The transferring of entire revenue from stamp duty to PCs was also commenced from 2011. Highlights of these arrangements are given in Box 3.

Box 3 : Transfer of Revenue to Provincial Councils by Central Government

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

Source: Department of Fiscal Policy

In order to simplify the taxation on telecommunication sector, a composite Telecommunications Levy has been introduced by removing VAT, NBT, Regional Infrastructure Development Levy, Environment Conservation Levy and the Mobile Subscribers' Levy on this sector. Moreover, responding to public demands for a simpler tax system, certain taxes, such as the Regional Infrastructure Development Levy, Social Responsibility Levy and Debits Tax, were removed altogether. These measures will help reduce the complexity of the tax system.

In the context of international trade related taxes, the customs duties, Cess and Special Commodity Levy (SCL) are being used for local economy safeguards and consumer protection while meeting the desired economic goals. A four band tariff structure, which consists of 0, 5, 15 and 30 percent tariff rates, together with exemptions limited to national security, health, environment considerations and international commitments, is now in place. Also, the import tax burden was eased in support of rapid economic growth, particularly targeting a number of areas including agriculture, domestic industries, SMEs, tourism, telecommunication, construction, information and communication technology (ICT) and business process outsourcing (BPO) etc. Meanwhile, prohibitive tax rates on many items, including motor vehicles, have been simplified and the surcharges on imports have also been eliminated. The import duties and Cess on most of the raw materials were removed and intermediate goods which are necessary to local value added industries have been placed at a low tax regime to support the domestic value addition. The SCL, which is a composite levy in lieu of all applicable indirect taxes, was continued with limited range of goods to maintain the simplicity of taxes on items which are involved small traders. The introduction of SCL by unifying multiple taxes applied on most essential consumer items is an important development, which has enhanced the efficiency of tax administration as well.

It is observed that when the country elevates to a middle income status, there will be a shift from labour intensive, low-paid industries to high value added, high-tech and capital intensive industries. Considering these trends as well as the risks of labour shortages emerging due to the historically low unemployment rate in the country, the taxes on importation of machinery and equipment are being reduced further to encourage mechanization of economic activities. In addition, with the view of developing Sri Lanka as an international trading hub as well as reducing the smuggling and tax evasion, the importation of branded light weight electrical and electronic products, including cameras, watches and cellular phones etc., was brought into a low effective tax regime by reducing/removing their taxes.

Meanwhile, Cess rates have been imposed or increased for the imported items that could be produced in Sri Lanka so that the domestic production will be enhanced. In order to encourage the domestic value addition, the export of items in raw form has brought in to relatively high tax rates. In addition, export ceses have been introduced for a number of items, in which the revenue collected from these sources is utilized for the provision of fertilizer subsidy, promotion of research and development, and provision of necessary infrastructure.

The policy on Excise duty will continue to be in the direction of discouraging the consumption of liquor and cigarettes while taking stringent actions to prevent illicit liquor, drugs and narcotics. This will be implemented through the strict enforcement of laws, and educational and awareness programmes by the respective stakeholders, particularly to prevent the younger generation from these practices.

Reforms in Tax Administration

The tax administration process is also being strengthened to be an efficient one based on compliance promotion to obtain the expected impact of the tax policy changes. In line with this, the Fiscal Management Efficiency Project (FMEP) is implemented under a long term financing arrangement from the Asian Development Bank (ADB). The objective of the FMEP is to create fiscal space through improved revenue collection and better management of reforms and capacity development of those in the Ministry of Finance and Planning, the revenue collecting agencies and the Western PC. Under this project, particular emphasis has been placed on simplification of processes, effective use of information technology, improvement of management information systems and human resource development, which would be a key requirement in enhancing the revenue collection in the future.

Meanwhile, the Sri Lanka Customs has shifted to the newly constructed administration building. This will help provide enhanced facilities for international trade related activities, including the proposed single window system to coordinate activities of all government agencies at the border to ensure expeditious clearance of imports and exports using data submitted to single administrative point, which would pave the way for paperless trade in Sri Lanka.

In order to address the issues related to interpretation of tax laws by the Inland Revenue Department (IRD), which had arisen due to different individuals giving contradicting interpretations with regard to similar matters, an Interpretations Committee, consisting of senior officers of the Inland Revenue Department (IRD), has been formulated to provide interpretations. This will help clear any ambiguities/contradictions on the applicability of tax laws. Also, an autonomous Tax Appeals Commission was appointed to streamline the appeals process and to be an effective appeals mechanism to avoid delays in completing the hearing of appeals. The Commission is responsible for the hearing of all appeals in respect of matters relating to imposition of any tax or levy. These developments in the tax administration also will help improving the tax compliance in the medium term.

With the introduction of the IFA using the funds from the reduction of VAT rate on financial services to 12 percent and maximum corporate income tax rate to 28 percent, now there are funds in the financial sector that could be used for lending at a lower interest rate. These funds will be used for the provision of medium to long term loans for various areas, including cultivation of plantation crops/agriculture crops such as fruits, vegetables, and spices, livestock, fisheries, factory/mills modernization or establishment, SME related activities and infrastructure project financing.

Under the recent tax reform initiatives, the excessive tax concessions, including ad-hoc tax holidays and duty exemptions are being rationalized. In line with this, the Board of Investment (BOI) incentive regime was revisited to move towards a broad based low tax regime and to provide an equitable incentive regime for private investment. Accordingly, the tax regime under the BOI Act was harmonized with the Inland Revenue Act (IRA) in relation to Section 17 of the both Acts and all the tax incentives were brought under the IRA. Under the IRA, tax holidays are provided for specified periods based on the amount of investments and there are many straight forward exemptions as well. Consequently, the BOI plays an investor facilitation role relating to the provision of tax concessions under respective laws depending on the circumstances. Investment of a strategic nature will be treated in terms of the Strategic Development Projects Act (SDPA) No. 14 of 2008 as amended. The BOI facilitates the process of granting concessions under the SDPA. Hence, a clear and transparent incentive regime is now in place for private investments, which will help augment investment in the future. Highlights of these initiatives are given in Box 4.

Box 4: The Investment Regime

The prevailing incentive structure provides tax concessions for investment exceeding Rs. 50 million. The concessions, including tax holidays, vary according to the size of the investment.

Statute	Description
Section 16 of the BOI Law	Investors seeking to bring inward Foreign Direct Investment could get approval of the Board of Investment (BOI) in terms of this section.
Section 17 of the BOI Law	Investors seeking concessions to bring inward Foreign Direct Investment could seek facilitation of the BOI under this Section. The BOI may grant exemptions from the laws referred to in Schedule B of the BOI Act i.e. Inland Revenue Act, Customs Ordinance, Exchange Control Act, Companies Act, Merchant Shipping Act, Finance Act No.65/1961 and Air Navigation Act. With the new reforms, the BOI and the Inland Revenue regimes have been harmonized in relation to Section 17.
Inland Revenue Act No. 10 of 2006, as amended	16 A Fisheries, 16 B Seed and Plant Material, 16 C Medium Scale Investments, 17 A Large Scale Investments, 24 A Cinematographic Films.
Strategic Development Projects Act No. 14 of 2008, as amended	Investment of a strategic nature could be treated in terms of the Strategic Development Projects Act. The BOI can facilitate this process in consultation with the Minister in charge of the subject of Investment and the Minister in charge of the subject of Finance, having followed the process envisaged in the Act.

Source: Department of Fiscal Policy

Public Expenditure Management

On the expenditure front, a strong effort has been made by the government to keep the operational expenditure on check while prioritizing much needed public investment to support the growth momentum of the economy by complementing private sector economic activities. The efforts have intensified to improve the quality of public spending and curtail unproductive expenditures as well.

The gradual decline in the current expenditure has continued in the midst of declined interest cost benefiting from the improved macroeconomic conditions and due to the peaceful environment in the country which has led to reduce defence related procurement. The resettlement of Internally Displaced Persons (IDPs) has been completed with the significant progress made in the de-mining activities in the conflict affected areas. All these developments will help rationalize the current expenditure further in the medium term.

Investment

The medium term deficit reduction path is expected to be realized with the anticipated accelerated economic growth of over 8 percent in the coming years, which needs high level of investments of about 33-35 percent of GDP. While the government will maintain a public investment of 6-7 percent of GDP, the investments by the domestic private sector and Foreign Direct Investments (FDI) are expected to enhance to about 28 percent of GDP from the present level of 22 percent. The government will facilitate the achievement of this by continuation of infrastructure development projects and streamlining/consolidating the tax system while taking measures to improve regulatory arrangements and public sector service delivery.

In line with this, despite many challenges faced in fiscal management, the government will maintain public investment at about 6.0 percent of GDP in 2011 by continuing both the strategically identified mega infrastructure development projects and projects in the emerging regions through both domestic and foreign resources. These were implemented in the areas vital in continuing such investments to spur economic growth and maintaining social standards of the country in the medium to long run. In order to promote economic growth, reduce inefficiencies and achieve a regionally balanced development, high priority has been given to improve the economic infrastructure including road network, transportation, power generation, ports and airports, irrigation and water supply schemes while enhancing social infrastructure facilities such as education and health covering the entire country. The main focus in the regional centric development activities of the government in improving the urban rural connectivity is on development of the rural roads, rural electrification, minor irrigation projects, community water supply facilities and promoting the use of IT in rural sector to diversify the rural livelihood opportunities.

Meanwhile, the impediments and various delays in project implementation that lead to cost overruns are being addressed for cost saving purposes and to ensure the timely completion of planned projects.

With the enhanced public investments, improved macroeconomic conditions and stable political environment, private sector investments also will be facilitated in each area of infrastructure development in the medium term in order to sustain higher economic growth. In particular, the private sector is expected to play the larger role in the growth process with increased investment in new capacity as well as on productivity improvement.

Rural and Backyard Economy

Effective integration of rural economy with emerging economic sectors in urban centers is being established with policies to enhance productivity and competitiveness of SMEs. The recent initiative of promoting household economic activities through the Divi Neguma programme particularly strengthens the backward integration with rural economic base. The Divi Neguma, the one million home economy (backyard economies) programme, has been designed to encourage a wide range of economic activities spanning from vegetable/fruit cultivation, livestock, environment friendly living arrangements, home based industries, services and backyard economic activities. This programme will help insulate households from various market vulnerabilities on their living, promoting healthy family lifestyles and organic agricultural production. In addition, other supporting measures, such as the guarantee prices for paddy and related food crops and fertilizer subsidy, will also be continued to sustain expanded agriculture.

State Owned Enterprises

The government is committed to improve the performance of state owned enterprises (SOEs). Having established the clear policy of non-privatization of SOEs in 2005 in the "*Mahinda Chintana" - Vision for the Future*, the government encourages SOEs to adopt innovative management reforms so that they will become commercially viable entities, which are not depending on the assistance from the government budget but dividend paying entities instead. The improvement in the performance of SOEs will also help generate fiscal space for infrastructure development while freeing resources for the private sector. Accordingly, many initiatives have been taken to enhance the performance of SOEs, including the setting up of the Ministry of State Resources and Enterprise Development for restructuring of 23 SOEs. In addition, private sector entrepreneurs and professionals have been appointed to the boards of strategic SOEs. In the medium term, the improvement of SOEs is expected to achieve through the cost reflective pricing policies, improvement in business practices, productive use of employees and capital assets, improved financial management and internal controls while addressing structural deficiencies.

Inclusive Growth

The medium term fiscal strategy will also ensure the social protection of vulnerable and the needy. In particular, the elderly population and the other needy people, including the differently abled people, will be looked at more responsibly. Enhanced resources will be channeled to achieve the Millennium Development Goals, particularly in the areas of education and health to create a healthy educated workforce in the country. The existing income support programmes will be continued and the emphasis will be shifted from welfare support to community empowerment through infrastructure support. This will be achieved mainly by providing moterable roads, electricity, quality water & sanitation, minor irrigation projects at rural levels through the rural centric development projects, such as Divi Neguma, Gama Neguma, and Pura Neguma to promote productive livelihood development initiatives to empower the poor. In this context, inclusive growth policies, which allow the people to contribute to and benefit from economic growth are followed. Accordingly, the country will gradually move away from pro-poor social welfare based poverty reduction approach to a more inclusive growth based income raising approach so that all the members of the society will be able to participate and contribute to the growth process.

National Security

It is imperative that adequate resources are devoted in the medium term to strengthen the national security to sustain the public safety, preserve law and order and consolidate the peaceful environment of the country. The experience during the three decades of conflict has emphasized the importance of managing security risks in the context of economic management and overall system stability of the country.

Global Environment

The fiscal operations in Sri Lanka in the coming years will have to be conducted in a complex international environment, which has growing uncertainties, unresolved structural fragilities and structural problems faced by the crisis-hit advanced economies and unrest swelled in some oil-producing countries. The recovery of the recession hit global economy still remains fragile. In particular, the US has been struggling with persistent high unemployment as well as fiscal issues and the major financial turbulence encountered by the Euro Zone undermines the medium term economic stability of the European Union and highlights the potential adverse implications thereof. The uncertainty faced by the Japanese economy due to the devastating March 2011 earthquake, the Tsunami, and the Fukushima nuclear power plant accident still prevails. With all these developments, the course of international economic events and their repercussions have become difficult to predict. In this backdrop, two large emerging Asian economies, China and India, have been able to maintain their growth rates at a relatively high level while facing the negative impacts of the global financial crisis. Although these economies need addressing the threats of inflation and real estate bubbles to sustain the growth, Asia is yet projected to be the main driver of the global growth in the medium term.

Impact on Sri Lanka

The uncertainty of the world economy could have both positive and negative impacts on the Sri Lankan economy. The positive impact could mainly come through the potential to dampen international commodity prices, including that of petroleum which would help Sri Lanka to lower the cost on importation and hence to reduce inflation emanating from imports. However, the delayed recovery in advanced economies could reduce the demand for exports and tourism resources from traditional markets and adversely affect capital inflows to emerging economies. In particular, the impact that the adverse developments in Sri Lanka's major trading partners, i.e. the US and the Euro area, could have on the country's exports would mainly provoke exporters to seek markets from emerging countries. Hence, the introduction of appropriate measures, including flexibility in exchange rate and other structural measures, for the diversification of the export base both in terms of products and markets, will have to give high priority. However, the fact that many of the Sri Lankan exports being consumables would have the advantage of sustaining its supplies even to advanced countries.

The oil exploration activities in the Mannar basin have given a positive outlook. This is likely to improve economic outlook by providing a viable import replacement investments. It will be an added advantage to the country's economic performance with multifaceted benefits ranging from the reduction of oil import cost and thereby improving the country's balance of payments (BOP) as well as strengthening of the fiscal situation through revenue sharing arrangements associated with it.

Medium Term Fiscal Strategy

The medium term fiscal strategy will focus more on streamlining and consolidating the measures introduced in the recent past to improve fiscal outlook. In the context of several major challenges faced over the last few years, both externally and internally, the time needed to reach the deficit reduction target stipulated in the Fiscal Management (Responsibility) Act (FMRA) No. 3 of 2003 has become longer. However, the wide ranging policies and measures introduced in the fiscal front will contribute to enhance the country's development prospects thereby helping to sustain fiscal consolidation process to meet the targets in the FMRA.

Major improvement in the overall fiscal position is expected to come in the form of a significant increase in government revenue to around 16 percent of GDP in the medium term, particularly responding to the new tax system, which will adjust and settle down by 2012. Along with this, the improvement of quality of government spending will help generate a revenue surplus so that public investment target of 6-7 percent of GDP will be sustained. With the full impact of the fiscal strategy, the overall budget deficit is expected to reduce to below 5 percent of GDP with debt to GDP ratio declining steadily to below 60 percent by 2016. The composition of the debt portfolio of the country will be mostly on the longer end of the maturity profile with a proper mix of domestic and foreign financing while preserving Sri Lanka's unblemished debt service record. At the same time, as a growing middle income country, Sri Lanka will be able to manage the future challenges effectively with the new found strengths. The medium term fiscal targets stipulated in the Fiscal Management (Responsibility) Act No. 3 of 2003 therefore are required to adjust in line with the Table 1.

Table 1: Medium Term Macro Fiscal Framework : 2011-2014 (As a percentage of GDP)

Indicator	2010	Projections			
		2011	2012	2013	2014
Revenue	**14.6**	**14.1**	**14.7**	**15.0**	**15.5**
Tax Revenue	12.9	12.7	13.3	13.7	14.2
Income Tax	2.4	2.4	2.5	2.7	2.8
VAT	3.9	3.5	3.5	3.8	4.1
Excise Tax	2.3	2.8	3.0	2.9	2.8
Tax on External Trade	2.7	2.9	3.2	3.2	3.2
Other	1.5	1.0	1.1	1.1	1.2
Non Tax Revenue	1.7	1.5	1.4	1.3	1.3
Grants	**0.3**	**0.2**	**0.3**	**0.1**	**0.1**
Expenditure	**22.9**	**21.4**	**21.2**	**20.9**	**20.7**
Current Expenditure	16.7	15.6	14.7	14.6	14.4
Salaries and Wages	5.4	5.3	5.1	5.0	4.9
Interest Payments	6.3	5.4	4.9	4.9	4.8
Subsidies and Transfers	3.5	3.2	3.0	3.0	2.9
Other Goods and Services	1.6	1.7	1.7	1.7	1.7
Public Investment	6.4	6.0	6.6	6.5	6.5
o/*w* Highways	1.5	1.6	1.7	1.5	0.7
Ports and Aviation	0.5	0.4	0.4	0.5	0.2
Electricity	0.5	0.5	0.4	0.5	0.3
Water and Irrigation	0.6	0.8	0.9	1.2	1.1
Education and Health	0.6	0.6	0.6	0.7	0.6
Rural Sector	0.4	0.5	0.6	0.7	0.5
Revenue Deficit (-)/Surplus (+)(% of GDP)	**-2.1**	**-1.5**	**-0.1**	**0.5**	**1.0**
Budget Deficit (-)/Surplus (+)(% of GDP)	**-8.0**	**-7.0**	**-6.2**	**-5.8**	**-5.2**
Government Debt (% of GDP)	**81.9**	**78.2**	**74.2**	**70.3**	**66.4**

Source : Department of Fiscal Policy

Budget, Economic & Fiscal Position Report – 2012

Issued by the Hon. Minister of Finance

under sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act

No. 3 of 2003

The Budget, Economic and Fiscal Position Report is issued in terms of sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act No. 3 of 2003, which requires to provide a basis for the evaluation of the government's fiscal performance as against its Fiscal Strategy Statement and to be placed before the Parliament on the day of the second reading of the Appropriation Bill in Parliament. It includes estimates relating to a number of areas, including gross domestic product, consumer prices, balance of payments as well as assumptions based for estimating revenue and expenditure.

Accordingly, this report contains provisional figures of Government revenue, expenditure and borrowing in the first nine months of 2011. It also provides key macroeconomic developments during this period to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted. This report also refers to the basis of information on economic and other assumptions used in preparation of estimates for 2012 and downside risks associated with these assumptions and other information that may have a material effect on the fiscal performance of the Government.

Fiscal Developments

Overview

The improvement gained in the government fiscal operations by reducing the budget deficit to 8.0 percent of GDP in 2010 from the high deficit of 9.9 percent in 2009 sustained with the impetus from the continued expansion in the domestic economic activity reflecting peace dividends complemented by the strong growth in the external trade. The fiscal performance during the first nine months of 2011 has to be reviewed in the context of comprehensive tax policy measures introduced by the government through the Budget 2011 to simplify and broad-base the country's tax system as well as to improve compliance. In particular, the changes in VAT and NBT came into effect from 01 January 2011 while the remaining changes, including those of Income tax and ESC etc., were effective from 01 April 2011. The import duty concessions granted on petroleum products, LP gas, selected food items and milk powder to mitigate cost of living had a negative impact on the revenue performance during the first nine months of 2011 although it helped containing imported inflation. Meanwhile, the decline in recurrent expenditure from 16.7 percent of GDP in 2010 from 18.2 percent in 2009 benefited mainly from the lower interest rate scenario and the decline in defence related expenditure as a result of the peaceful environment in the country and it is continued in 2011 as well. The momentum gathered in the public investment in the recent past also continued with emphasis on the completion of mega infrastructure development projects while continuing rural/regional development initiatives.

Total revenue during the first nine months of 2011 increased by Rs. 79 billion or 13.6 percent compared to the increase of Rs. 59.5 billion or 11.4 percent in the same period of 2010. Tax revenue increased by 15.5 percent while nontax revenue recorded a marginal decline of 0.2 percent over the previous year. It should be noted that the tax reforms were introduced in such a way that the loss of revenue due to the adjustments in some taxes (i.e. reduction of VAT rate) will be recouped from the corresponding changes introduced to other taxes (i.e. increase in excise duties). Hence, the performance in tax revenue has also to be reviewed by taking the progress in both direct and indirect taxes in to account separately. Accordingly, the revenue from direct taxes increased by 16.8 percent during this period while that from indirect taxes also increased of 15.2 percent, particularly reflecting the overall positive impact of the reforms. However, as far as the performance of the individual taxes is concerned, there was a lower than expected progress in the revenue from domestic VAT and CESS. The revenue from NBT to the central government declined by 25.8 percent during this period. Nevertheless, the total revenue from NBT, including the transfers to PCs, increased by 11.3 percent. A part of the shortfall in revenue was compensated by the enhanced revenue from the excise duty on vehicle imports as well as from the other import related taxes supported by sustained growth in imports.

On the expenditure front, a significant saving in terms of GDP was made in the interest cost on the budget reflecting the positive impact of the lower interest rates in the government debt securities market. The interest payments on government debt during this period declined significantly to 4.4 percent of GDP from 5.0 percent in the previous year. The peaceful environment prevailing in the country also has resulted in a reduction of the defence related procurement expenditure. There was a decline in the resettlement and rehabilitation expenditure on IDPs with the completion of the resettlement process. All these have resulted in a decline in total current expenditure to 12.0 percent of GDP during the first nine months of 2011 from 12.7 percent in the same period of 2010.

The sustained and conscious commitment of the government to continue the public investment programme, considering its utmost importance to facilitate the expansion of economic activities was reflected in its performance during the period under review despite the challenges in fiscal management. The momentum gained with respect to key national infrastructure development projects consisting of roads, bridges, ports, airports, power generation, irrigation and water supply etc., was maintained with the emphasis on their accelerated implementation. The development activities in social infrastructure for human resource development, such as education and health, were also conducted all over the country at a renewed pace. Also, enhanced resources were channeled for development programmes, targeting the rural sector, through various rural development initiatives such as "Gama Neguma", "Maga Neguma", "Uthuru Wasanthaya" and a number of other rural/regional development initiatives. In addition, funds were particularly channeled for the reconstruction of the irrigation facilities and roads, which were damaged due to the severe floods, that occurred in the early part of the year. The expenditure on public investment during the first nine months of 2011 was Rs. 273.2 billion or 4.2 percent of GDP.

Table 2: Summary of the Budget (Jan - Sep) - Economic Classification

Rs. Mn

Item	2010	2011*
Revenue and Grants	**592,484**	**670,869**
Revenue	581,871	661,153
Tax	511,351	590,757
Non Tax	70,520	70,396
Grants	10,613	9,716
Expenditure	**915,818**	**1,051,620**
Current	710,998	780,878
o/w Salaries & Wages	228,597	250,852
Interest	278,456	288,974
Public Investment	207,102	273,187
Other	-2,282	-2,445
Revenue Deficit (-)/Surplus (+)	**-129,127**	**-119,725**
Overall Deficit (-)/Surplus (+)	**-323,334**	**-380,751**
Financing	**323,334**	**380,751**
Net Foreign Financing	44,750	109,592
Net Domestic Financing	278,584	271,159
Revenue/GDP Ratio (%)	10.4	10.1
Current Expenditure/GDP Ratio (%)	12.7	12.0
Public Investment/GDP Ratio (%)	3.7	4.2
Revenue Deficit (-)/Surplus (+)/GDP Ratio (%)	**-2.3**	**-1.8**
Overall Deficit (-)/Surplus (+) /GDP Ratio (%)	**-5.8**	**-5.8**

Source: Department of Fiscal Policy
**Provisional*

During the first nine months of 2011, the government was able to disburse US$ 1,574 million from the foreign sources as gross project related foreign financing including grants. The total commitments made by lenders to Sri Lanka during this period amounted to US$ 1,802 million. In addition, the government was also able to raise a sovereign bond of US$ 1,000 million successfully in the international market at an interest rate of 6.25 percent with a maturity period of 10 years. The issue was oversubscribed by more than 7.24 times reflecting the high levels of investor confidence in Sri Lanka's economy and the robust growth prospects of the country. A part of the proceeds from this sovereign bond issue was utilized to retire high cost debt, including the early retirement of Rupee loans of Rs. 20.3 billion and the payment of a part of Treasury bonds of Rs. 25.9 billion matured on 01 August 2011 as well as for the settlement of outstanding LCs for fertilizer of Rs. 8.1 billion, totaling to Rs. 54.3 billion by end September 2011. These measures will help ease the interest burden on the government budget further.

As a result of the improved revenue performance and the lower growth in current expenditure, the deficit in the revenue account during the first nine months of 2011 declined to Rs. 120 billion from Rs. 129 billion in the same period of the previous year. As a percentage of GDP also, the deficit in the revenue account declined to 1.8 percent from 2.3 percent during this period. The overall budget deficit during the first nine months of 2011, at Rs. 380.8 billion, was 5.8 percent of GDP compared to the same ratio reported in the corresponding period of 2010.

Government Revenue

The government revenue during the first nine months of 2011 increased by Rs. 79,309 million to Rs. 661,153 million, reflecting a 13.6 percent growth. The tax revenue increased by 15.5 percent to Rs. 590,757 million while the non tax revenue indicated a decline of 0.2 percent to Rs. 70,396 million during this period. The continued revival of the domestic economic activity reflecting the peace dividends after ending of the terrorist insurgency, the expansion in the international trade related activities and the revisions introduced to the tax system were attributed to the improved performance in the tax revenue during this period.

Table 3: Revenue Performance (Jan. - Sep.)

Rs.Mn

	2010	2011	Growth (%)
Tax Revenue	**511,322**	**590,757**	**15.5**
Income Tax	101,506	118,590	16.8
VAT[1/]	156,227	157,100	0.6
Excise Tax[1/]	87,313	133,187	52.5
Nation Building Tax[2/]	32,529	24,146	-25.8
PAL	34,732	47,269	36.1
Import Duty	43,087	55,038	27.7
Other	55,928	55,427	-0.9
Non Tax Revenue	**70,522**	**70,396**	**-0.2**
Total Revenue	**581,844**	**661,153**	**13.6**

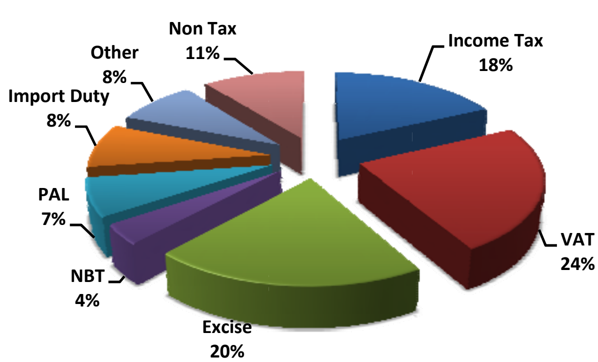
Source : Department of Fiscal Policy

[1/] Several items at 20 percent VAT band, such as liquor and tobacco, were transferred to excise.

[2/] 2011 data is excluding the 33 1/3 percent of the total NBT revenue transferred to Provincial Councils. The total revenue collection from NBT increased by 11.3 percent.

With the contribution from all the sub sectors, the revenue from income taxes grew by 16.8 percent during the first nine months of 2011. Meanwhile, the revenue from import related taxes recorded significant increases (except that from Cess) reflecting the positive impact on significant increase in imports, particularly the import of motor vehicles, responding to the downward adjustment of the applicable excise duty by about 50 percent in June 2010. The revenue from VAT during the period from January to September 2011, on a net basis, increased marginally as a combined outcome of the decline in the revenue from domestic VAT and the increase in the revenue from VAT on imports. Due to the curtailment of illicit liquor upward revisions of the excise duty rates on cigarettes and liquor as well as the opening up of new markets in the Northern and Eastern provinces, the revenue from excise duty was increased significantly during this period.

Chart 1: Composition of Government Revenue (January to September 2011)



Income Taxes

Total revenue from income tax during the first nine months of 2011 was Rs. 118,590 million, a 16.8 percent growth compared to Rs. 101,506 million recorded in the corresponding period of 2010. Amidst the better performance recorded in Personal Income Tax, Corporate Income Tax, Economic Service Charge (ESC) and Withholding Tax (WHT), there was a marginal decline in the revenue from PAYE mainly reflecting the lower taxes on wage income in comparison to the corresponding period of the previous year.

Benefitting from the increased business turnover during this period with the revival of the economic activity, the revenue from corporate and non-corporate income taxes increased by 25.6 percent to Rs. 58,409 million while the revenue from ESC has increased by 21.9 percent to Rs. 15,676 million. The dividend income also rose due to increased declaration of dividend in line with the special audit procedure adopted by the Department of Inland Revenue (IRD). However, the WHT on interest income from individuals declined during the first nine months of 2011 compared to the same period in the previous year owing to lower interest income, higher threshold for taxation and shifting investment to share market transactions from the deposits in the banking sector. This was fully set off by the better performance in the increased WHT on interest income from government securities. The granting of exemption for WHT for ESC payers on specified fees and removal of WHT on specified fees and rent also affected negatively on the revenue from WHT on specified fees and others during this period.

Table 4: Performance of Revenue from Income Tax (Jan - Sep)

Rs.Mn

Tax Base	2010	2011	Growth (%)
Corporate & Non Corporate	46,521	58,409	25.6
PAYE	12,250	12,066	-1.5
Economic Service Charge	12,860	15,676	21.9
Tax on Interest	29,875	32,441	8.6
Total	**101,506**	**118,590**	**16.8**

Source : Department of Fiscal Policy

Value Added Tax (VAT)

The revenue from VAT, on a net basis, increased marginally by 0.6 percent to Rs. 157,100 million during the first nine months of 2011. The revenue from VAT on imports on gross basis rose by 14.3 percent reflecting the increased imports, including motor vehicles as well as other imports, to support domestic economic activity. The revenue from domestic VAT on gross basis declined by 10.9 percent during the period under review reflecting the unification of VAT rate at 12 percent by reducing the 20 percent VAT rate applied on financial services and on selected items, such as liquor & tobacco and motor vehicles, the removal of VAT on telecommunication sector, granting of new exemptions, including the VAT on education, the introduction of Simplified VAT (SVAT) scheme, and revision of VAT refund system with the input credit extending up to 100 percent from 85 percent under the new set-off mechanism to address unabsorbed input credit outstanding as at 31 December 2010. However, the negative impact of these policy changes were partially offset by the positive impact due to the improvement in domestic trade in the post conflict environment and the revitalization of the tourism activities. Meanwhile, there was a 21.5 percent decline in the VAT refunds during this period.

Table 5: Performance of Revenue from VAT (Jan - Sep)

Rs.Mn

Tax Base	**2010**	**2011**	**Growth (%)**
Domestic	**94,210**	**83,975**	**-10.9**
Import	**68,213**	**77,985**	**14.3**
Gross Revenue	162,423	161,961	-0.3
Refunds	6,196	4,861	-21.5
Net Revenue	**156,227**	**157,100**	**0.6**
Refunds as % of Gross Revenue	3.8	3.0	

Source : Department of Fiscal Policy

Excise Taxes

The revenue from excise taxes during the first nine months of 2011 was Rs. 133,187 million compared to the Rs. 87,313 million during the same period of 2010, which is an increase of 52.5 percent. The main sources of excise duty are liquor, cigarettes, petroleum and motor vehicles.

Table 6: Performance of Revenue from Excise Tax (Jan - Sep)

Rs.Mn

Category	Amount 2010	Amount 2011	Growth (%)
Liquor	26,033	40,103	54.0
Cigarettes	29,589	36,557	23.5
Petroleum	19,123	17,722	-7.3
Motor Vehicles	9,920	36,716	270.1
Other	2,648	2,090	-21.1
Total	**87,313**	**133,187**	**52.5**

Source: Department of Fiscal Policy

Due to the curtailment of illicit liquor, increase of excise duty on liquor, opening up of new markets in the Northern and Eastern provinces and the significant growth in tourism industry, the revenue from excise duty on liquor increased by 54 percent to Rs. 40,103 million during the first nine months of 2011 over the same period of 2010. The production of hard and malt liquor also increased by 10.5 percent and 20 percent, respectively during this period.

The revenue from excise duty on cigarettes and tobacco generated Rs. 36,557 million during the first nine months of 2011 compared to Rs. 29,589 million in the same period of 2010. This again reflected the positive impact of the opening up of new markets in the Northern and Eastern provinces coupled with the increase in excise duty on cigarettes in November 2010 and January 2011. The government introduced periodical revisions to the excise duty rates on cigarettes and liquor in line with its policy of discouraging the consumption of liquor and cigarettes.

Table 7: Excise Duty Rate Revisions on Cigarettes

Rs./ 1,000 sticks

Category	2008 Mar	2008 Sep	2009 Jan	2009 Mar	2010 June	2010 Oct	2010 Nov	2011 Jan	2011 Oct	% Increase Mar 2008 - Oct 2011
Cigarettes each not exceeding 60mm in length (eg. CAPSTAN, THREE ROSES)	2,215	2,215	2,289	2,289	2,830	3,425	3,440	3,465	3,465	56.4%
Cigarettes each exceeding 60mm but not exceeding 67mm in length (eg. FOUR ACES)	4,520	5,048	5,215	5,706	6,246	6,893	6,922	6,973	7,540	66.8%
Cigarettes each exceeding 67mm but not exceeding 72mm in length (eg. PALL MALL)	7,219	7,745	7,991	8,485	9,028	9,720	9,751	9,811	10,381	43.8%
Cigarettes each exceeding 72mm but not exceeding 84mm in length (eg. GOLD LEAF)	8,850	9,380	9,681	10,715	11,260	11,988	12,030	12,108	13,243	49.6%
Cigarettes each exceeding 84mm in length	9,870	10,870	11,170	12,170	13,170	14,360	14,400	15,000	16,400	66.2%

Source: Department of Fiscal Policy

The revenue from excise duty on motor vehicles expanded by 270.1 percent to Rs.36,716 million during the first nine months of 2011 over the same period of 2010. This was mainly due to increase of import of motor vehicles during this period and increase in excise duty on motor vehicles of which the engine capacities less than 1,600 and hybrid electric vehicles based on the engine capacity with effect from 24th April 2011. In addition, the age limit of imported motor vehicles was reduced to two years from three and half years. Apart from motor cars, the import of tractors, three wheelers and vehicles for transportation of goods also has increased, particularly reflecting the boost in the economic activities in the country.

Table 8: Import of Vehicles

Category	2010 Jan-Sep		2011 Jan-Sep		Growth	
	Quantity	Value	Quantity	Value	2010/2011	
	No.	Rs. Mn.	No.	Rs. Mn.	Quantity	%
Tractors	11,742	3,659	15,816	5,557	34.7	51.9
Passenger Vans	495	110	380	882	-23.2	701.8
Busses	1,559	4,299	2,114	6,189	35.6	44.0
Motor Cars	9,959	10,315	37,800	51,255	279.6	396.9
Three Wheelers	58,724	10,207	93,854	16,467	59.8	61.3
Ambulances	28	70	18	73	-35.7	4.3
Hearses	7	13	17	30	142.9	130.8
Vehicles for Transport of Goods	14,252	14,788	29,979	33,286	110.3	125.1
Special Purpose Vehicles	186	733	516	1,208	177.4	64.8
Total	**96,952**	**44,194**	**180,494**	**114,947**		

Source: Sri Lanka Customs

Nation Building Tax (NBT)

The NBT was introduced in 2009 to meet the expenditure needed for post-war rehabilitation and reconstructions activities in the country. In 2011, as a step to reduce the complexity of the country's tax system, Provincial turnover tax, collected on wholesale and retail trade, was abolished and the scope of NBT was extended to those sectors replacing it. Further, the NBT rate was also reduced to 2 percent from 3 percent with certain exemptions and concessions for selected areas with effect from 01 January 2011. At the same time, a revenue sharing mechanism between the central government and the PCs was introduced to transfer one third of the revenue collected by the central government from the NBT to PCs to compensate the loss of revenue due to the abolition of the Provincial turnover tax.

During the first nine months of 2011, total revenue from NBT increased by 11.3 percent to Rs. 36,219 million compared to Rs. 32,529 million in the corresponding period of 2010. The revenue from domestic NBT grew by 33.1 percent mainly reflecting the revitalization in domestic wholesale and retail trade, rejuvenating tourism industry related activities and growth in the industrial sector. However, NBT on imports indicated a 5.5 percent decline during the first nine months of 2011 compared to the same period in the previous year mainly reflecting the reduction of applicable rate from the beginning of the year. Out of the total revenue from NBT, Rs. 12,073 million (or 33 1/3 percent of the total) was transferred to PCs as per the revenue sharing arrangement. Hence, the revenue from NBT to the central government amounted to Rs. 24,146 million during this period.

Table 9 : Performance of NBT, TT, Stamp Duty and Motor Vehicles Registration Fee (Jan - Sep)

Rs. Mn.

	2010			2011			% Change - 2011/2010		
Item	CG	PCs	Total	CG	PCs	Total	CG	PCs	Total
NBT[1/]	32,529	-	32,529	24,146	12,073	36,219	-25.8	-	11.3
Domestic	14,211	-	14,211	12,610	6,305	18,915	-11.3	-	33.1
Import	18,318	-	18,318	11,536	5,768	17,304	-37.0	-	-5.5
TT	-	14,893	14,893	-	-	-	-	-	-
Stamp Duty[2/]	2,404	-	2,404	-	5,457	5,457	-	-	-
Motor Vehicle Reg. Fee[3/]	164	245	409	299	697	996	82.3	184.5	143.5
Total	**35,097**	**15,138**	**50,235**	**24,445**	**18,227**	**42,672**	**-30.4**	**20.4**	**-15.1**

Sources: Finance Commission & Department of Fiscal Policy

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

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

3/ 2011 data represents 70 percent of the revenue collected by the central government from Motor Vehicles Registration Fee and transferred to PCs.

Note: CG = Central Government, PCs = Provincial Councils

In addition, the entire revenue of Rs. 5,457 million collected from stamp duties and Rs. 696 million of the revenue from motor vehicle registration fees (which is 70 percent of the total revenue from this source) was also transferred to PCs during the first nine months of 2011. Accordingly, the total revenue transferred by the central government to PCs, including NBT, during the first nine months of 2011 was Rs. 18,227 million.

Import Duty

The revenue collected from import duty during the first nine months of 2011 amounted to Rs. 55,038 million, an increase of 27.7 percent over the corresponding period of the previous year. The increase in motor vehicle imports was the major contributory factor for this improvement. The complete removal of import duty on petroleum products and milk powder imports during this period to contain the increase of domestic prices of these items had a negative impact on the revenue from import duties. Meanwhile, the existence of a significant amount of imports with duty free or normal duty status due to the Free Trade Agreements (FTAs) that have been entered into by Sri Lanka has led those imports to come either duty free or at lower duty rates. The import value in respect of the goods imported under FTAs entered into by Sri Lanka amounted to Rs. 60,700 million during the first nine months of 2011.

Table 10: Value of Imports under Tariff Concessions Offered by Major Free Trade Agreements (Jan – Sep 2011)

Free Trade Agreement	Number of Products Subject to Tariff Concessions	Imports *(Rs. Mn.)*
India –Sri Lanka Free Trade Agreement (ISFTA)	4554	49,875
Pakistan –Sri Lanka Free Trade Agreement (PSFTA)	5305	8,801
South Asia Free Trade Agreement (SAFTA)	4744	1,094
Asia-Pacific Trade Agreement (APTA)	561	930
Total	**15,164**	**60,700**

Source: Department of Trade, Tariff and Investment Policy

Special Commodity Levy (SCL)

The SCL, a single levy on imports of selected special commodities, continued in 2011 with revisions from time to time by publishing Gazette Notifications on the basis of legislative provisions contained in the Special Commodity Levy Act No. 48 of 2007. Regular revisions are particularly done in order to maintain the prices for consumers and also to protect the local producers during the harvesting season. Once a commodity is brought under SCL, all other taxes applicable at the point of import cease to be operative.

Table 11: Special Commodity Levy - Rates Applicable on Selected Commodities

Item		Rate (Rs. per kg.)	
		End October 2010	End October 2011
Sprats		30.00	30.00
Potatoes		10.00	35.00
Red Onions		25.00	25.00
B Onions		10.00	25.00
Garlic		10.00	25.00
Green Gram		15.00	30.00
Lentils -	Whole	10.00	10.00
	Split	15.00	15.00
Chilies -	Not crushed	20.00	20.00
	Crushed	25.00	40.00
Canned fish		85.00	85.00
Sugar		5.00	5.00
Watana -	Whole	10.00	10.00
	Split	15.00	15.00
Chick Peas -	Whole	10.00	10.00
	Split	15.00	15.00
Black Gram		-	90.00
Cowpea		-	75.00
Kurakkan		-	30.00
Millet		-	30.00

Source: Department of Trade, Tariff and Investment Policy

The revenue generated from SCL amounted to Rs. 10,894 million during January-September 2011 compared to Rs. 7,765 million in the corresponding period of 2010, which is an increase of 40.3 percent. This increase in revenue collection from SCL was due to the excessive imports of dhal & sugar as well as the increased rates on B onion and potatoes etc.

Table 12: Variance Analysis of Government Revenue (Jan.-Sep.)			
Items	**2010**	**2011**	**Reason**
Income Tax	101,506	118,590	Income tax from corporate and non corporate has increased with the revival of the economy, while ESC revenue increased due to increased business turnover, benefitting mainly from the importation of vehicles. The dividend income also rose due to increased declaration of dividend in line with the special audit procedure. Even though the total Withholding Tax (WHT) on interest has increased purely due to increased WHT on interest from government securities, a decline could be witnessed in WHT on other areas owing to shifting investment in share transaction from deposits in banking sector and granting of ESC payers with exemption for WHT on specified fees which has caused a decline in WHT on interest on individuals and WHT on specified fees and others.
VAT	156,227	157,100	The revenue from VAT on imports increased reflecting increased imports to support domestic economic activity. Revenue from domestic VAT declined mainly due to reduction in VAT on financial services and new exemptions granted to the Telecommunication and Education sectors etc. This decline was partly offset by the improvement in domestic trade.
Excise Tax	87,313	133,187	The positive impact of the upward rate revisions in November 2010 and January 2011 contributed to increase the excise duty on cigarettes and benefitting from the increase of excise duty on liquor, increased production and opening up of new markets in North and East areas, the excise duty revenue on liquor was increased. Increased motor vehicle imports also contributed for this increase.
Import Duty	43,087	55,038	Increase in the imports, particularly the motor vehicle imports due to the lowering of the effective tax rates, helped achieve this. However, the provision of import duty concessions for a number of items such as petroleum reduced the revenue that would otherwise have been collected from this source.
Ports and Airports Development Levy (PAL)	34,732	47,269	PAL revenue increases was mainly due to the increased imports including Petroleum products, motor vehicles, mechanical appliances etc.
Nation Building Tax (NBT)	32,529	24,146	The 2011 number represent only 2/3 of the revenue from NBT. The overall revenue including the transfers to PCs increased by 11.3 percent in 2011. The increase came from domestic NBT reflecting enhanced trade and tourism related activities. However, the slow progress in registration process of NBT taxpayers, exemption granted to the Telecommunication sector and sub contractors in construction industry affected negatively on the revenue from this source. Meanwhile the revenue from NBT on imports declined mainly due to the lowering of the NBT rate.
Other Taxes	55,928	55,427	Removal of Cess on importation of motor cycles and cycles and items such as bars, rods and wire of iron and stainless steel, polymers and removal of Regional Infrastructure Development Levy and Social Responsibility Levy.
Non Tax Revenue	70,522	70,396	The declined revenue from profit and dividends was the main reason for reduction of non tax revenue. However, this decline was outset by the better performance of interest income, social security contributions, fines and fees etc.

Compiled by the Department of Fiscal Policy

Other Taxes

The revenue generated from Ports and Airports Development Levy (PAL) increased by 36.1 percent to Rs. 47,269 million during the first nine months of 2011 over the corresponding period of the previous year reflecting the growth in the value of imports. The revenue from Cess at Rs. 21,046 million during the first nine months of 2011 indicated a decrease by 6.3 percent over the same period of 2010. This was mainly due to the removal of Cess, particularly on motor cycles, and certain other items, and scaling down of existing Cess rates on some items. Meanwhile, the Telecommunication Levy, which is a composite levy applied on telecom services by removing various taxes on it, generated Rs. 13,410 million during the first nine months of 2011.

Non Tax Revenue

Total non tax revenue collected during the first nine months of 2011 was Rs.70,396 million compared to Rs. 70,522 million recorded in the same period of 2010. Profit transfers from state banks, Telecommunication Regulatory Commission (TRC), Ceylon Electricity Board (CEB) and Airport and Aviation of Sri Lanka Ltd. (AASL) and other surplus funds of government establishments such as National Lotteries Board (NLB) and National Insurance Trust Fund (NITF) etc. as well as the profit transfer of Rs. 13,000 million by the Central Bank were the main contributors to the non tax revenue generated during this period.

Government Expenditure

Total expenditure during the first nine months of 2011 was Rs. 1,052 billion, which is an increase of 14.8 percent over the corresponding period of 2010. However, as a percent of GDP, total expenditure declined to 16.1 percent from 16.4 percent in the previous year.

The recurrent expenditure during this period increased moderately by 9.8 percent to Rs. 781 billion reflecting the efforts made by the government to rationalize recurrent expenditures. The interest cost, in nominal terms, increased only by 3.8 percent during this period.

The expenditure on public investment during the first nine months of 2011 amounted Rs. 273 billion compared to Rs. 207 billion in the corresponding period in the previous year, which is an increase of 30.6 percent. This reflected the commitment of the government to continue the on-going infrastructure development programmes covering roads, ports, highways, power generation, water supply and irrigation while continuing rural development initiatives to reduce regional economic disparities and to improve living conditions of the people in emerging regions.

Table 13: Performance of Government Expenditure (Jan-Sep)

Rs. Mn.

	2010	2011 (Prov.)
Current Expenditure	**710,998**	**780,878**
Salaries & Wages	228,597	250,852
Interest	278,456	288,974
Samurdhi	6,964	6,975
Fertilize Subsidy	12,656	25,558
Pension	64,916	73,892
Other	119,409	134,627
Public Investment	**207,102**	**273,187**

Source: Department of National Budget

Salaries and Pension Cost

Expenditure on salaries for public servants, including those attached to the PCs and security services, stood at Rs. 251 billion, which is an increase of 9.7 percent compared to the same period of the previous year. This increase was mainly due to the provision of all public servants with a special allowance equivalent to 5 percent of their basic salary and the increase of monthly cost of living allowance (COLA) by Rs. 600 for the non staff grade category of public sector employees from January 2011 and for the staff grade category from July 2011.

Meanwhile, the total pension payments increased to Rs. 73.9 billion during the first nine months of 2011, an increase of 13.8 percent compared to the corresponding period in the previous year. The full impact of around 17,850 retirees in 2010 and the partial impact of the new retirees of around 8,500 during the first nine months of 2011 as well as the increase of COLA to pensioners by Rs. 300 to Rs. 2,675 per month contributed to this increase.

Interest Cost

Interest payments on foreign and domestic debt during the first nine months of 2011 amounted to Rs. 289 billion, which is a 3.8 percent increase over the corresponding period of the previous year. More importantly, the interest cost as a percent of GDP continued to decline and reached 4.4 percent during this period from 5.0 percent in the same period of 2010. The positive impact of the relatively low market interest rates on government securities and the initiatives taken by the government to restructure its debt profile by shifting away from high cost domestic debt to low cost domestic and foreign debt were the main reasons for this improvement.

Table 14: Behaviour of Yield Rates

Period	Treasury Bills (%)			Treasury Bonds (%)			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2010 Sep	7.13	6.95	7.40	-	-	-	8.76
2010 Dec	7.24	7.35	7.55	-	8.15	8.60	-
2011 Mar	6.98	7.08	7.30	7.77	7.99	-	-
2011 Jun	7.12	7.23	7.35	-	-	8.20	8.60
2011 Sep	7.11	7.20	7.26	-	-	-	-
Change (Basis Points) (2010 Sep-2011 Sep)	-2	25	-14	-	-	-	-

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

Welfare and Subsidy Payments

The government spent Rs. 50,114 million on continuing social welfare and safety net programmes as well as on subsidy payments ensuring the wellbeing of the vulnerable groups during the first eight months of 2011 compared to Rs. 45,206 million in the same period of 2010.

Samurdhi Social Security programme was continued during this period distributing Rs. 5,166 million as income supplements among 1.6 million families. The amount spent on the provision of family allowance and dry rations for 53,159 IDPs who were resettled in their original places during this period was Rs. 146 million. In addition, Rs. 8,856 million was paid as social security for differently abled soldiers.

The fertilizer subsidy programme was continued during the corresponding period providing Rs. 25,289 million, especially to small scale paddy farmers to get a 50 kg fertilizer bag at Rs. 350. Government expenditure on seed purchasing programme totaled Rs. 232 million. The heavy floods experienced at the beginning of this year caused huge displacement of families and Rs. 467 million was spent in providing cooked meals and dry rations for them.

In order to address the nutritional deficiencies of pregnant and lactating mothers and children, a nutritional food package worth of Rs. 500 and fresh milk worth Rs. 200 were provided at a cost of Rs. 319 million in the first eight months of 2011. In addition, Rs. 919 million was spent on the provision of Thriposha for pregnant and lactating mothers. The utilized amount to provide mid – day meal for the school children from grade one to grade four in less privileged areas by the end of August 2011 was Rs. 1,708 million. Another Rs. 1,904 million was spent to provide school uniforms, text books, free Dhamma school books, school season tickets, and scholarships.

Resettlement of Internally Displaced Persons (IDPs)

With the highest priority given to ensure the welfare of the IDPs, the government was able to resettle almost all the IDPs by end of October 2011 complemented by the strong progress achieved in de-mining activities. Out of the nearly 300,000 persons who were displaced at the time of ending the terrorist insurgency in May 2009, only 7,444 persons were left at the welfare centers by September 2011, reflecting the strong effort taken by the government to resettle them. In order to provide the IDPs with cooked meals and other welfare assistance, including water and health facilities etc., the government spent Rs. 153 million during the first nine months of 2011.

Table 15: Expenditure on Key Welfare Programmes (Jan.-Aug.)

Rs. Mn.

Item	2010	2011 (Prov.)
Mothers and Children		
Infant Milk Food Subsidy & Fresh Milk	79	124
Poshana Malla	225	195
Thriposha Programme	570	919
Free Text Books & Uniforms, Bursaries etc.	1,585	1,833
Dhamma School Text Books & Uniforms	44	71
School Nutritional Foods	1,268	1,708
Agriculture		
Fertilizer Subsidy	11,469	25,289
Welfare Payments		
Samurdhi Relief	6,964	5,166
Assistance to Differently Abled Soldiers	7,388	8,856
WFP Food Assistance	4,055	2,489
Welfare Assistance to IDPs	881	146
Flood and Drought Relief	183	467

Source: Department of National Budget

Public Investment

The total public investment during the first nine months of 2011 amounted to Rs. 273 billion. The momentum gained with respect to key national infrastructure development projects consisting of roads, bridges, ports, power generation, irrigation etc, was maintained during the period under review. The government also continued in channeling enhanced resources for public investment with a commitment to accelerate development programmes, targeting the rural sector, through rural development initiatives such as *"Gama Neguma"* and *"Maga Neguma"* etc.

Table 16: Public Investment - By Key Areas of Investment (Jan.-Sep.)

Rs. Mn.

Sector	2010	2011 (Provisional)
Roads and Bridges	52,333	79,620
Electricity	18,568	21,204
Ports and Aviation	18,028	16,153
Irrigation	5,005	10,753
Agriculture & Products	5,974	9,302
Water Supply	12,428	18,165
Education	8,902	12,894
Health	5,543	8,082
Rural Infrastructure	26,026	27,180
Transport	7,164	24,258
Administration / Judicial/ Security Related and Other	47,131	45,576
Total	**207,102**	**273,187**

Source: Department of National Budget

Rural Development Initiatives

The "Gama Neguma" programme, which is designed to empower the rural population through reconstruction of roads, drinking water, rural electricity and housing etc. continued at a cost of Rs. 690 million at the end of August. However, the total commitment for the period under review was about Rs. 11 billion. The *"Maga Neguma – Connecting Villages Programme"*, the islandwide infrastructure development programme to connect the villages with the centers, continued at a cost of Rs. 2,508 million during the first nine months of 2011 by reconstructing 510 km of rural roads benefiting 65,642 families.

Table 17: "Maga Neguma" Rural Road Development Programme: Jan-Sep -2011

District	No of Projects	Length of Road (km)	Expenditure (Rs. Mn.)	Beneficiary Families
Colombo	200	16	103	6,094
Gampaha	239	22	113	5,005
Kalutara	211	55	106	3,536
Kandy	224	20	104	2,228
Matale	211	16	110	2,352
Nuwara Eliya	24	5	10	198
Galle	119	10	58	1,401
Matara	332	56	425	8,904
Hambanthota	636	68	297	6,340
Jaffna	4	3	3	73
Mannar	3	4	8	126
Vavuniya	2	3	3	70
Mullaitivu	-	4	0	0
Killinochchi	-	4	0	0
Batticaloa	24	7	15	440
Ampara	272	22	119	2,608
Trincomalee	32	7	14	417
Kurunegala	808	48	329	8,645
Puttalam	141	13	71	1,569
Anuradhapura	268	22	84	2,740
Polonnaruwa	382	26	171	3,818
Badulla	151	13	54	1,525
Moneragala	333	23	102	3,407
Ratnapura	178	22	93	2,018
Kegalle	233	21	116	2,128
Total	**5,577**	**510**	**2,508**	**65,642**

Source: Department of National Budget

Table 18: Allocations Provided by Treasury Votes under Budgetary Support Services and Contingent Liability Project up to 30th June, 2011 (Rs.)

Head No.	Ministry/Department	Purpose	Recurrent	Capital
1	His Excellency the President	Purchase of security vehicles, Maintenance, and Services.	24,500,000	267,900,000
2	Office of the Prime Minister	Purchase of Vehicles, Training and Capacity Building, Services, Maintenance and Supplies.	3,000,000	35,800,000
3	Secretariat for Special Functions (Senior Ministers)	Purchase of Vehicles, Refurbishment of Office building, Transport, Maintenance of Vehicles, and Personal Emoluments	23,224,000	94,546,318
4	Judges of the Superior Courts	Expenditure of Commonwealth Secretariat-South Asian Judges Regional Forum 2011, held in Colombo, Foreign Travelling and Vehicle Maintenance	6,000,000	
5	Office of the Cabinet of Ministers	For urgent extension and renovation of the office premises and purchasing of office equipment.		9,650,000
10	Commission to Investigate Allegations of Bribery or Corruption	Purchase of Vehicles		5,200,000
12	National Education Commission	Purchase of Vehicles		6,900,000
13	Human Rights Commission of Sri Lanka	Grant given by the UNFPA to conduct Training and Counseling Programmes		544,100
15	Department of Legal Draftsman	services - Transport, Electricity & water, Maintenance of Vehicles	2,340,000	
16	Parliament	Purchase of Vehicles		33,716,635
17	Office of the Leader of the House of Parliament	Purchase of Vehicles		6,000,000
18	Office of the Chief Govt. Whip of Parliament	Purchase of Vehicles		950,000
20	Department of Elections	Purchase of Vehicles		10,100,000
22	Office of the Parliamentary Commissioner for Administration	Transport Allowance, Taxes and duty of Vehicles	180,000	600,000
101	Minister of Buddha Sasana and Religious Affairs	Purchase of a Vehicle		5,500,000
201	Department of Buddhist Affairs	Transport and vehicle maintenance	1,500,000	450,000
204	Department of Hindu Religious and Cultural Affairs	Personal Emoluments	1,275,000	-
102	Minister of Finance and Planning	Farmers' Pension, Purchase of Vehicles, expenditure of Tax Appeals Commission	476,955,000	103,000,000
237	Department of National Planning	Foreign Travelling, Grants given by UNDP, UNFPA and UNICEF for Strengthening the National Capacities of MDGs, and Planning, Monitoring and Evaluation.	1,000,000	30,000,000
240	Department of National Budget	Building Rent for the PSC office, foreign travelling, Lease Rental of Purchased vehicles under BD Circular 150	21,000,000	136,000,000

Table 18: Allocations Provided Continued . . ..

241	Department of Public Enterprises	Annual charges to be paid by Pugoda Textiles Lanka Limited to the Colombo Municipal Council, and Foreign travelling	1,246,400	
244	Department of Trade, Tariff and Investment Policy	Fuel, Transport and Purchase of office Equipment	481,800	1,000,000
246	Department of Inland Revenue	Services - Other , Travelling Expenses - Foreign	12,000,000	
247	Sri Lanka Customs	Construction and interior works of Office building and Purchase of furniture and office equipment to the same building.		500,000,000
248	Department of Excise	Building rent and Office equipment	39,120,000	3,000,000
249	Department of Treasury Operations	Foreign Loans to SME Sector Development Project, and ADB Grant for flood relief activities		550,000,000
250	Department of State Accounts	Vehicle Maintenance	700,000	685,000
296	Department of Import and Export Control	Services	200,000	-
324	Department of Management Audit	Furniture and Office Equipment, and Cost of Living Allowance	4,454,000	630,000
103	Minister of Defence	Purchase of Vehicles under Indian Line of Credit Scheme, Domestic Travelling, Construction of prefabricated buildings in the North for personnel of the armed forces and police. Services - Rents & Local Taxes ,Personal Emoluments, Purchase of Vehicles, Furniture and office equipment	13,942,025	290,641,162
222	Sri Lanka Army	Purchase of Vehicles under Indian Line of Credit Scheme, Furniture and office equipment, diets and uniforms and other services, Supplies - Fuel.	728,000,000	2,663,159,619
223	Sri Lanka Navy	Travelling Expenses -Domestic ,Maintenance expenses of the "Sangawasa Building " at Katharagma, Purchase of Vehicles under Indian Line of Credit Scheme, maintenance and other services. Supplies - Diets & Uniforms.	1,340,000,000	3,014,081,022
224	Sri Lanka Air Force	Purchase of Vehicles under Indian Line of Credit Scheme, maintenance and other services. Purchase of Vehicles	274,000,000	5,596,452,410
225	Department of Police	Purchase of Vehicles under Indian Line of Credit Scheme, expenditure of the 9th SAARC Conference on Police Activities, Diets & uniforms, maintenance and other services. Purchase of Vehicles	625,650,000	1,618,487,500
226	Department of Immigration and Emigration	Transfers and Personal Emoluments	10,700,000	
227	Department of Registration of Persons	Vehicle Maintenance		150,000

Table 18: Allocations Provided Continued . . ..

325	Department of Coast Guard of Sri Lanka	Purchase of Vehicles		1,000,000
105	Minister of Economic Development	Lease rent of Vehicles, Rehabilitation of damaged infrastructure due to the recent flood / earth slips, North/East Improvement Project (WB), foreign grant for Poverty Reduction and Livelihood Restoration of Resettled of IDPs in the North.		1,697,000,000
106	Minister of Disaster Management	Foreign &domestic grants for Flood & Drought Relief, For conducting detailed investigation for mitigation of landslides, Purchase of vehicles, and Subscription & Contributions Fees	650,000,000	37,000,000
304	Department of Meteorology	Traveling - Foreign , Maintenance Expenditure - Plant, Machinery,& Equipment	3,000,000	
108	Minister of Postal Services	Personal Emoluments, Travelling Expenses - Domestic, Supplies - Diets and Uniforms, Maintenance Expenditure - Vehicles, Services - Postal & Communication Electricity & Water, Rehabilitation and Improvement of capital assets -Building & Constructions. Acquisition of Capital - Furniture & Office Equipments.	11,760,000	3,475,000
308	Department of Posts	Purchase of a bus & foot bicycles for postmen		18,200,000
110	Minister of Justice	Grant given by the UNICEF for the Child Protection Programme, Purchase of Vehicles, Foreign Travelling, Coronal Charges, and other allowances	40,000,000	21,828,200
228	Courts Administration	Purchasing furniture and office equipment for new High Court Building at Kadawatha, Foreign Travelling, transportation allowances for the Judicial Medical Officers, and purchase of Vehicles	11,875,027	7,000,000
234	Registrar of Supreme Court	Rehabilitation and Improvement of capital assets		5,900,000
111	Minister of Health	Purchase of Vehicles, Development of Korea-Sri Lanka Friendship Hospital at Mathara Godagama and Dental Institute of Sri Lanka, Acquisition of Capital Assets		942,500,000
112	Minister of External Affairs	Purchase of Vehicles to the overseas Embassies of Israel, Russia, Pakistan, S/Korea, India, Qatar, Philippine, Tsunami Donations to Japan, accounting parity variation loses, Reopening Sri Lanka Embassy in Iraq and Foreign Travelling. Personal Emoluments, Services - Rents & Local Taxes	193,659,700	50,569,750

Table 18: Allocations Provided Continued . . ..

114	Minister of Transport	Purchase of Vehicles, Financial Assistance to SLTB - Salary revisions as per the Budget Proposals - 2011.	488,000,000	28,100,000
307	Department of Motor Traffic	Arrears of Payments for Printing of Driving licenses	1,100,000,000	
115	Minister of Petroleum Industries	Purchase of vehicles and foreign travelling	1,500,000	8,000,000
116	Minister of Co-operatives and Internal Trade	Purchase of Vehicles and Transfers	25,000,000	35,300,000
117	Minister of Ports & Highways	Priority Roads Rehabilitation and Improvement Project, Maga Naguma Rural Road Development Programme, Improvement of National Road Network In Northern Province - Section From Pinnaduwa to Matara - China ,Purchase of Vehicles		3,204,000,000
118	Minister of Agriculture	Expenses of fifth conference on Biotechnology held by the Council of Agriculture Research and Policy.		2,764,693
285	Department of Agriculture	Purchasing of seeds to distribute free of charge among the farmers who are affected by recent flood.		175,000,000
119	Minister of Power and Energy	Purchase of Vehicles		10,000,000
120	Minister of Child Development and Women's Affairs	Purchase of Vehicles and Services	750,000	7,485,000
217	Department of Probation and Child Care Services	Services	82,440	
121	Minister of Public Administration and Home Affairs	Purchase of Vehicles, Training and Capacity Building - - Kuwait Funded Project (SCAP Programme)		128,759,597
122	Minister of Mass Media and Information	Ratawata Mila Darshaka Programme, Rehabilitation and Improvements of Capital Assets and Services	4,172,000	15,000,000
210	Department of Information	Services & Transfers.	6,300,000	
123	Minister of Construction, Engineering Services, Housing and Common Amenities	Foreign travelling, Supplies and Maintenance of Vehicles	1,076,800	950,000
311	Department of National Physical Planning	Retirements , Gratuities , and Pensions	810,540	200,000
124	Minister of Social Services	Transfers to Public Institutions - Personal Emoluments of Elders Secretariat	5,090,906	
126	Minister of Education	Reconstruction of damaged schools due to heavy rain in recent past, Grants given by UNICEF for Child Friendly School Project		353,509,054
127	Minister of Labour & Labour Relations	Foreign travelling	5,000,000	

Table 18: Allocations Provided Continued . . ..

221	Department of Labour	Construction of "Mehewara Piyasa" new Secretariat Building, Gratuities for the employees of the Kabul Lanka (Pvt.) Ltd., Supplies and Maintenance.	168,000,000	100,000,000
128	Minister of Traditional Industries and Small Enterprises Development	Housing Rent of Hon. Deputy Minister of Ministry. Public Institutions - Improvement of Handicraft Training Project.	8,100,000	2,500,000
130	Minister of Local Government and Provincial Councils	Rehabilitation of damaged provincial roads due to floods in Central and Sabaragamuwa Provinces and provisions for Conflict Affected Area rehabilitation Project, Provincial Road Improvement Project, and purchase of Vehicles.		780,000,000
312	Western Provincial Council	Completion of construction of the school buildings, Cost of Living Allowance, Contributions to Provincial Councils and Criteria Based Grant.	500,000,000	300,000,000
313	Central Provincial Council	Health Sector Development Project		6,700,000
317	North Central Provincial Council	Rehabilitation of flood damaged Provincial Roads and Minor Irrigation Schemes, Criteria Based Grant and Contribution to Provincial councils		600,000,000
133	Minister of Technology and Research	Purchase of Vehicles, transfers to Public institution -National Science foundation		41,516,760
134	Minister of National Languages and Social Integration	Purchase of Vehicles		10,000,000
135	Minister of Plantation Industries	Purchase of Vehicles and other Services	2,856,400	25,277,978
136	Minister of Sports	Initial share capital to bid for hosting the proposed Common Wealth Games in Sri Lanka in 2018, and Purchase of Vehicles		195,464,602
138	Minister of Indigenous Medicine	Write-off the loan given for the Osugovi Company Ltd., Settlement of arrears payable to the Ayurvedic Drugs Corporation purchased under the Community Health Facilities Project, Services, Purchase of Vehicles.	18,700,000	30,000,040
139	Minister of Fisheries and Aquatic Resources Development	Expenses of 15th International Conference on 15th of Indian Ocean Tuna Commission held in Sri Lanka, Purchase of Vehicles, and Services	8,500,000	13,700,000
290	Department of Fisheries and Aquatic Resources	Fisheries Loan Scheme and "Diyawara Diriya" Loan Scheme implemented through Bank of Ceylon	10,000,000	
140	Minister of Livestock and Rural Community Development	Purchase of Vehicles		11,657,435
142	Minister of National Heritage	Expenses for conducting "2600 Sri Sambudhdha Jayanthiya" Anniversary, Purchase of Vehicles, and Transport.C37	6,960,000	13,000,000

Table 18: Allocations Provided Continued . . ..

207	Department of Archaeology	Renovation works of Yudaganawa Dagaba at Badulla, Domestic and Travelling Expenses.	14,000,000	10,000,000
145	Minister of Re-settlement	Grant given by India for purchasing of agricultural equipment supporting the Resettlement activities, Purchase of Vehicles		49,212,800
149	Minister of Industry and Commerce	Initial expenses of the Expansion of Mannar Saltern Project, Public Institutions - Expenses of rents and local taxes of the new premises, due to the shifting of the institution. Purchase of Vehicles	1,000,000	22,984,618
303	Department of Textile Industries	Building Rent and Rates	3,768,000	-
152	Minister of Irrigation and Water Resources Management	Purchase of Vehicles		8,628,597
153	Minister of Lands and Land Development	Purchase of Vehicles		5,300,000
156	Minister of Youth Affairs & Skills Development	Repairing of official quarters of Hon Minister		5,100,000
160	Minister of Environment	Foreign grant given for Formulation of National Climate Change Policy and Mainstreaming Biodiversity Conservation and Sustainable Use for Improved Human Nutrition and Wellbeing and the grant given for Mainstreaming Agro biodiversity Conservation and use in Sri Lankan Agro-Ecosystems for Livelihoods and Adaptation to Climate Change, Training and Capacity Building and purchase of Vehicles		9,800,735
166	Minister of Water Supply and Drainage	Counterpart fund (2KR) given by the Japan for water supply and sanitation facilities for the IDPs welfare centers, Purchase of Vehicles		61,390,800
171	Minister of Higher Education	Foreign grant given by Canada to promote researches of the University of Wayamba		22,414,280
173	Minister of Public Management Reforms	Purchase of Vehicles		25,000,000
174	Minister of Rehabilitation and Prison Reforms	Programme of Rehabilitation of Misguided Youth Surrendered	3,142,720	150,000,000
175	Minister of State Resources and Enterprise Development	Outstanding Liabilities of Hingurana Sugar Industries Ltd, Salary for the employees of Kanthale Sugar Industries Ltd, Ceylon Ceramic Corporation and National Paper Company Ltd.		107,300,000
176	Minister of Civil Aviation	Purchase of Vehicles, and Foreign Travelling	435,477	16,441,692

Table 18: Allocations Provided Continued . . ..

177	Minister of Culture & the Arts	Settlement of expenses of Dayata Kirula Exhibition, 2011 held in Monaragala.	261,840,000	27,400,000
178	Minister of Coconut Development and Janatha Estate Development	Cost of repairing office building and purchasing machinery, equipment, & furniture, Transport, and Supplies.	2,015,200	19,500,000
179	Minister of Agrarian Services & Wildlife	Purchasing of Vehicles and Development Subsidies	476,000	23,899,695
284	Department of Wildlife Conservation	Payment of the commission charged by the Bank of Ceylon for using Credit Cards at National Parks.	311,000	-
180	Minister of Minor Export Crop Promotion	Maintenance of buildings, and Services	907,500	24,200,000
181	Minister of Productivity Promotion	Purchasing of Vehicles, Services, and Foreign Travelling.	1,300,000	43,500,000
328	Department of Man Power & Employment	Investment in Dayata Kirula Programme		10,000,000
182	Minister of Foreign Employment Promotion & Welfare	Purchasing of Vehicles, Building Rents and Fuel	17,800,000	47,000,000
183	Minister of Public Relations and Public Affairs	Building Rent, Supplies, Services & Purchase of a Vehicle.	13,250,000	5,480,228
184	Minister of Private Transport Services	Purchasing of Vehicles, Vehicle Maintenance, and Personal Emoluments.	6,000,000	20,994,000
185	Minister of Telecommunication and Information Technology	Building Rent, Purchase of vehicles, Personal Emoluments, Foreign & Domestic travelling and Diets & Uniforms	50,488,000	19,300,000

Source: Department of National Budget

Treasury Operations

Performance of the Government Cash Flow Operations

Cash inflow to the Government Treasury during the first nine months of 2011 increased by Rs. 79.1 billion or 13.9 percent compared to the same period of 2010. Cash deficit after outflow for recurrent and capital expenditure amounted to Rs. 422.6 billion which is Rs. 125.2 billion higher than the corresponding value for the same period in 2010. This was mainly due to the increases in cash outflows for recurrent and capital expenditure by 11 percent and 72 percent, respectively compared to the same period of the previous year. The overall closing cash balance (deficit) as at end September 2011 was Rs.84.4 billion. However, the over drawn balance with the two state banks was remained at Rs. 53.9 billion.

Table 19: Statement on Government Cash Flow Operations (Jan. - Sep.)

Rs. Bn.

Item	2010 Jan – Sept	2011 Jan - Sept	
	Actual	Estimate	Actual
Total Cash Inflow from Revenue and Other Receipts	571.0	688.8	650.1
Total Cash Outflow for Recurrent Expenditure	-690.2	-757.9	-766.5
Total Cash Outflow for Capital Expenditure*	-178.2	-305.5	-306.2
Net Cash Surplus (Deficit)	-297.4	-374.6	-422.6
Opening Cash Balance as at 1st January	-75.9	-86.8	-86.8
Gross Borrowing*	667.9	850.5	891.5
Debt Repayment	-357.1	-458.6	-470.9
Net Borrowing	310.8	391.9	420.6
Adjustment Account Balance (TEB, RFA, Deposits, etc)	-0.4	-0.2	4.4
Closing Cash Balance as at 30th September	-62.1	-69.7	-84.4

* Includes project/programme loans received by the government and recorded in the CS-DRMS as at 30th September 2011

Source: Department of Treasury Operations

Government Debt Management

The government debt operations indicated a total gross borrowing of Rs. 891.5 billion for the period from January to September in 2011. The repayments of government debt, both domestic and foreign debt, amounted to Rs. 470.9 billion thus limiting the net borrowing to Rs. 420.6 billion. The total gross borrowings during this period were within the approved limit of Rs. 997.0 billion for the year 2011.

Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Bank Guarantees issued and remaining valid as at 31st October 2011, amounts to Rs. 188.1 billion which does not exceed 4.5 percent of GDP as prescribed in the section 3(e) of the Fiscal Management (Responsibility) Act No. 3 of 2003. The list of the Bank Guarantees issued by the General Treasury up to 31st October 2011 is given in Annex III.

Foreign Financing

Commitments

The total commitments made by the donor agencies and lending agencies during the period of January to September 2011 was US$ 1,802 million of which US$ 1,686 million as project loans and US$ 116 million as grants.

Table 20: Foreign Financing Commitments - (Jan. – Sep. 2011)

US$ Mn.

Donor / Lender	Amount
Bilateral	
China	784.72
Japan	520.48
Denmark	54.20
Other	28.44
Multilateral	
ADB	231.16
The World Bank	103.57
UN Agencies	79.52
Total	**1,802.09**

Source: Department of External Resources

Chart 2: Foreign Financing Commitments (Jan. to Sep. 2011)

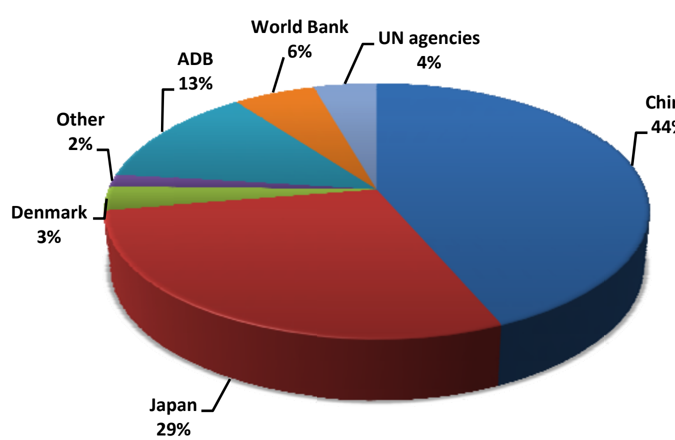


Table 21: Foreign Commitments - List of Agreements Signed (Jan. - Sep. 2011)						
Donor/ Lender	**Project Name**	**In Loan/ Grant Currency**		**Loans in US$**	**Grants in US$**	**Total**
China	Improvement and Rehabilitation of Priority Roads Phase II	US$	500,000,000	500,000,000	-	500,000,000
	Southern transport Development Project Pinnaduwa to Kodagoda (30 KM to 45 KM)	US$	75,140,000	75,140,000	-	75,140,000
	Southern transport Development Project- Kodagoda to Godagama (45 KM to 61 KM)	US$	63,070,000	63,070,000	-	63,070,000
	Rehabilitation and Improvement of 67km Length of Navatkuli-Karaitivu-Mannar Road Package 2	US$	48,367,814	48,367,814	-	48,367,814
	Rehabilitation and Improvement of 113km Length of Puttalam-Marichchikade-Mannar Road Package 3	US$	73,208,841	73,208,841	-	73,208,841
	Procurement of Material for Lighting Sri Lanka Uva Province- Uva Udanaya	US$	24,928,047	24,928,047	-	24,928,047
Government of India	Vocational Training Center Vantharamoolai, Onthachchimadam & Batticaloa	INR	134,700,000	-	3,053,392	3,053,392
	Vocational Training Center at Nuwara Eliya	INR	89,300,000	-	2,016,069	2,016,069
	Women's Trade Facilitation & Community Learning Center Batticaloa	US$	1,850,000	-	1,850,000	1,850,000
	Rehabilitation of Harbour Kankasanthurai	US$	2,200,000	-	2,200,000	2,200,000
Government of Japan	Greater Colombo Urban Transport Development Project Phase 2	JPK	31,688,000	390,978,455	-	390,978,455
	Vavuniya- Kilinichchi Transmission Line Project (II)	JPK	1,422,000	17,545,171	-	17,545,171
	Emergency Natural Disaster Rehabilitation Project	JPK		91,467,188		91,467,188
	Improvement of TV Production Equipment of Sri Lanka Rupavahini Corporation	JPK	41,700	-	505,261	505,261
	The Food Security Project for Underprivileged Farmers	JPK	360,000	-	4,346,366	4,346,366
	Project for Construction of Manmunai Bridge Across the Batticaloa Lagoon	JPK	1,206,000	-	15,660,901	15,660,901
Government of Denmark	Rural Electrification Project 4 Extension (Sweden)	US$	54,163,022	54,163,022	-	54,163,022
Government of Pakistan	Pakistan Grant for Construction of Three Storied School Building	US$	125,000	-	125,000	125,000

Table 21: Foreign Commitments Continued ....

Government of Malaysia	Purchase of 50 units of Terberg Terminal Tractors	US$	4,000,000	4,000,000	-	4,000,000
Government of Netherlands	Importation of Dairy Animals (Netherland)	US$	2,419,566	2,419,566	-	2,419,566
	Importation of Dairy Animals (Netherland & Australia)	US$	10,524,492	10,524,492	-	10,524,492
Asian Development Bank	Jaffna & Kilinochchi Water Supply & Sanitation Project OCR	US$	20,000,000	20,000,000	-	20,000,000
	Jaffna & Kilinochchi Water Supply & Sanitation Project ADF	XDR	44,286,000	69,246,306	-	69,246,306
	Sustainable Power Sector Support Project (OCR)	US$	110,000,000	110,000,000	-	110,000,000
	Sustainable Power Sector Support Project (ADF)	XDR	6,426,000	10,306,017	-	10,306,017
	Secondary Towns & Rural Com-Based Water Supply (Additional Financing)	US$	4,300,000	4,300,000	-	4,300,000
	Secondary Towns & Rural Com-Based Water Supply (Additional Financing)	XDR	8,389,000	13,441,096	-	13,441,096
	Conflict-Affected Region Emergency Project	US$	1,500,000	-	1,500,000	1,500,000
	Improving Community Based Rural Water Supply and Sanitation Post Conflict Areas of Jaffna & Kilinochhi	US$	2,000,000	-	2,000,000	2,000,000
	Provide livelihood support forFood Security for Returning IDPs in Mannar District	US$	370,000	-	370,000	370,000
Food & Agriculture Organization	Urgent provision of essential agricultural inputs for IDPs North	US$	4,999,999	-	4,999,999	4,999,999
	Sustainable Land Management & Climate Change adaptation in South Asia	US$	488,000	-	488,000	488,000
The World Bank	Second Additional Financing for Road Sector Assistance Project	XDR	63,600,000	103,092,824	-	103,092,824
	Local Level Nutrition Interventions for the Northern Province (JSDF) Project-	US$	2,731,700	-	2,731,700	2,731,700
UNIDO	Country Programme of Technical Cooperation 2010 - 14	US$	8,800,000	-	8,800,000	8,800,000
UNHCR	Assistance to Return & Reintegration of IDPs in Sri Lanka	US$	627,661	-	627,661	627,661
WFP	Emergency Operation	US$	8,869,131	-	8,869,131	8,869,131
	Protected Relief & Recovery Operation Sri Lanka	US$	39,755,501	-	39,755,501	39,755,501
	Total			**1,686,198,839**	**115,898,981**	**1,802,097,820**

Source: Department of External Resources

Committed Undisbursed Balance

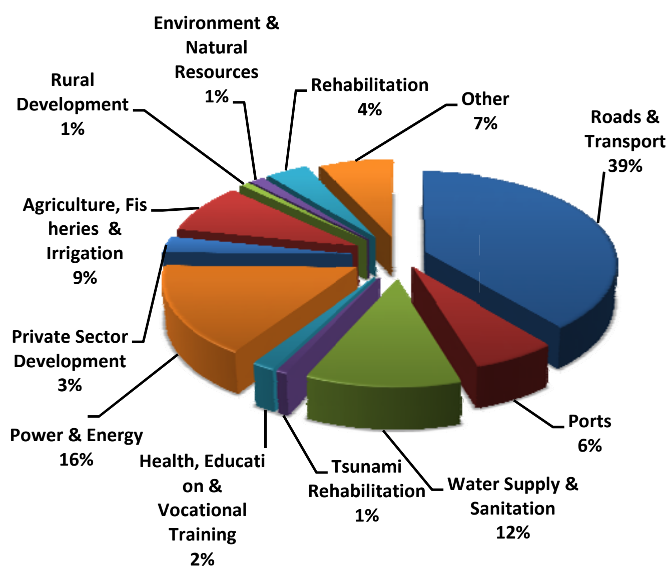
The total undisbursed balance of foreign financing available for the government's development programmes as at 30 September 2011 was US$ 7.4 billion which was approximately Rs. 814 billion. The following table shows the sector wise classification of the committed undisbursed balance.

Table 22: Committed Un-Disbursed Balance - (by sector) as at end September 2011

Sector	*US$ Mn.*	% of Total
Roads & Transport	2,871.4	38.8
Ports	468.2	6.3
Water Supply & Sanitation	854.4	11.5
Tsunami Rehabilitation	62.2	0.8
Health, Education & Vocational Training	127.2	1.7
Power & Energy	1,180.1	15.9
Private Sector Development	210.9	2.9
Agriculture, Fisheries, Irrigation & Land	648.9	8.8
Rural Development	60.5	0.8
Environment & Natural Resources	98.6	1.3
IT, Science & Technology	16.8	0.2
Housing & Urban Development	1.6	0.1
Rehabilitation	290.1	3.9
Other	510.4	6.9
Total	**7,401.3**	**100.0**

Source: Department of External Resources

Chart 3: Committed Un-Disbursed Balance by Sector (Jan. to Sep. 2011)



Foreign Financing Disbursements

The total foreign financing disbursement up to end of September, 2011 was US$ 1,574 million. Of this, project loans accounted for US$ 1,486 million (94 percent) while the balance US$ 88 million (6 percent) was grants.

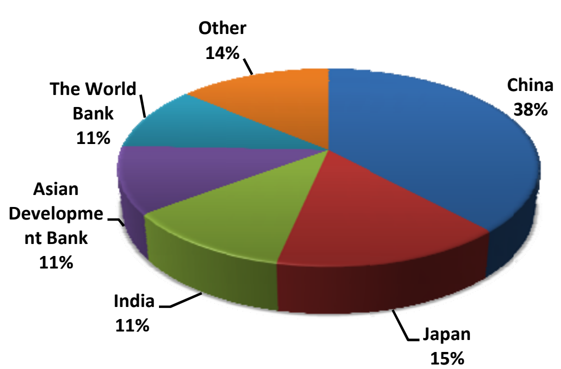
Table 23: Foreign Financing Disbursements Jan. to Sep. 2011

US$ Mn.

	Donor/ Lender	Loans	Grants	Total
Bilateral	China	599.9	-	599.9
	France	26.6	-	26.6
	Germany	2.9	1.2	4.1
	India	179.0	-	179.0
	Japan	227.5	11.9	239.4
	Korea	19.6	-	19.6
	Kuwait	3.7	0.0	3.7
	Saudi Fund	0.4	-	0.4
	UK	5.7	-	5.7
	Iran	12.0	-	12.0
	Denmark	23.8	-	23.8
	Austria	15.6	-	15.6
	Netherlands	10.6	6.4	17.0
	USA	-	9.8	9.8
	Australia	16.2	9.0	25.2
	Sweden	12.6	-	12.6
Multilateral	Asian Development Bank (ADB)	159.4	12.5	171.8
	The World Bank	161.5	4.7	166.2
	Int. Fund for Agricultural Development (IFAD)	8.0	-	8.0
	OPEC Fund for International Development	0.7	-	0.7
	European Community	-	1.7	1.7
	UNDP	-	31	31
	Total	**1,485.7**	**88.2**	**1,573.9**

Source: *Department of External Resources*

Chart 4: Foreign Financing Disbursements (Jan .to Sep. 2011)



The Government of China disbursed US$ 600 million (which is 38 percent of the total disbursement of the nine month period). The government of Japan, India and World Bank the Asian Development Bank were recorded the next highest disbursements, during the first nine months of 2011.

External Debt

The government external debt stock as at 30 September 2011 stood at US$ 18.7 billion. This was an increase of 14.7 percent or US$ 2.4 billion compared to the debt stock at December 2010.

Total debt service payments up to 30 September 2011 amounted to US$ 775.5 million. Of this, US$ 291 million was for interest payments and the balance US$ 484.5 million was for principal payments.

Table 24: Debt Service Forecast: 2011 – 2014

US$ Mn.

	2011	2012[1/]	2013	2014
Principal	637.9	1,273.6	926.4	1,055.5
Interest	380	493.3	476.1	483.9
Total	**1,017.9**	**1,766.9**	**1,402.5**	**1,539.4**

Source: Department of External Resources

1/ The higher debt service payments for 2012 is due to the maturing of US$ 500 million international sovereign bond, issued in 2007.

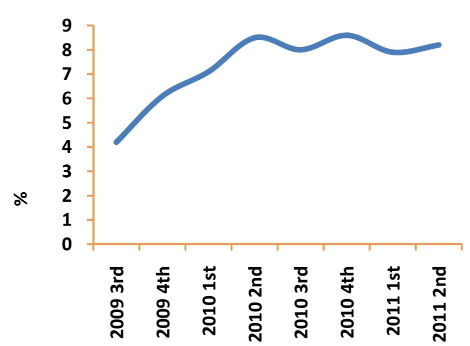
Note: Debt service payments related to the funds disbursed under the IMF Programmes, including the Stand-by Arrangement facility, are not included.

The Economy

Overview

The Sri Lankan economy posted a notable growth of 8.0 percent during the first half of 2011 following 8 percent annual growth in 2010 amidst disturbing economic conditions undergone by many economic powerhouses internationally. Compared with the growth of 7.8 percent recorded for the same period in 2010, performance in the first half of 2011 is impressive particularly after being marred by agricultural losses at the beginning of 2011. Such performance also highlights resilience of the Sri Lankan economy to adverse conditions and features of broad based economy with relatively sound economic fundamentals. Meanwhile, the GDP growth for the full year 2011 is estimated to be about 8.3 percent also reflecting direct dividends of the establishment of long lasting peace, political stability and infrastructure development during 2005-2010 period in the country.

Chart 5: Quarterly Growth of GDP



During the first half of 2011, both industry and services sectors of the domestic economy grew remarkably well exceeding the growth rates reported for the same period of the preceding year. Outstanding performance shown by the industry sector in the first half of 2011 with a growth of 10.3 percent, could mainly be attributed to increased production by domestic market based industries as well as export oriented industries during the reference period. Meanwhile, buoyant performance of the services sector was in the first half of 2011 with 9.1 percent growth was mainly driven by increased trading in both external and domestic fronts. However, performance of the agriculture sector was dismal following heavy rains and recurring floods inflicting significant losses to the main 2011 Maha crop in early 2011 resulting in a negative growth of 1.8 percent vis-à-vis 7.8 percent growth recorded in the first half of 2010.

Agriculture

Agriculture, forestry and fishing sector contracted by 1.8 percent in the first half of 2011 compared to 7.8 percent growth recorded in 2010. The decline in GDP of this sector in the first half of 2011 was mainly caused by the floods experienced by many agriculturally important areas of the country in early 2011 causing damage to paddy cultivations of the Maha season considerably as well as other food crops. Consequently, Agriculture sector contracted by 5.1 percent in the first quarter of 2011, in comparison to the same period of 2010. However, during the second quarter of 2011, a slight growth in agriculture was evident mainly contributed by marine fishing, vegetables and coconut sub sectors.

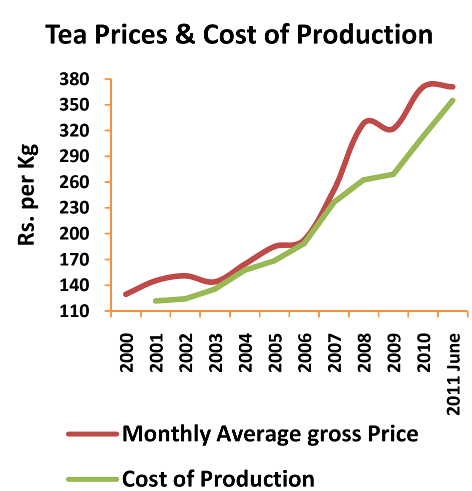
Despite havoc caused by floods, which resulted in a severe damage to Maha harvest of the year, the total paddy production in 2011 is estimated to be 3.83 million metric tons compared to the total production of 4.30 million metric tons recorded in 2010. A bumper harvest expected in Yala season would substantially set off the loss of harvest in the Maha season of 2010/11. It has been estimated that the Yala harvest will be 10 percent more than the previous year, registering a significant growth performance for the consecutive second year whereas in 2010, the growth in Yala harvest was 32 percent. Increased extent of land cultivated, which is 18 percent above the previous Yala season, expected favourable weather conditions and better water availability in major and minor irrigation tanks will jointly contribute for the above growth in the forecast paddy harvest for Yala 2011. The total extent of cultivated land, both in Maha and Yala seasons for 2011, is 1,194,361 hectares, an increase of 12.1 percent over the previous year.

Tea production in the first half of 2011 increased marginally to 170 million kg compared to 169 million kg produced in the same period in 2010. Prevalence of good weather, subsidized fertilizer supply and fair price in peak auction period could be attributed to the performance in tea production for the first six months of 2011.

Similar to last year, contribution by tea small holders to the total tea production remained at 75 percent. In terms of classification by elevation of tea production, low grown tea consisted of 57 percent of total tea production while the shares contributed by medium grown and high grown tea were 16 percent and 26 percent, respectively. The production of high grown tea was increased by 14 percent in the first 6 months of 2011 compared to the same period in 2010. In terms of processing method, manufacturing of all three varieties of tea viz. orthodox, CTC and Green Tea, increased in the first half of 2011. Of these, CTC green recorded the highest growth of 37 percent during the reference period.

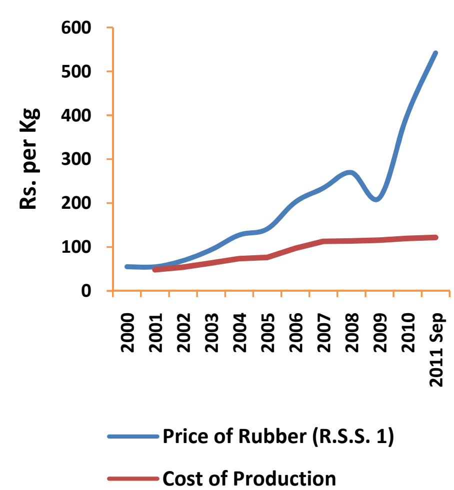
Meanwhile, in spite of the slower than expected growth in the global economy and the turbulent environment in the Middle Eastern countries, Sri Lankan tea exports performed better in terms of total sales during the first 6 months of 2011 compared to the same period of 2010 at Colombo Tea Auction, particularly owing to high volume of exports of low grown tea. In parallel, pure Ceylon tea exports grew by 2.3 percent to 136.7 million kg during the first half year of 2011. Total tea exports taking into account imported tea blended with Sri Lankan tea as well, grew by 2.1 percent to 146.5 million kg. Meanwhile, Sri Lanka's export earnings from tea based products grew by 3.1 percent to US$ 973 million in the first 8 months of 2011.

Chart 6: Tea Prices & Cost of Production



Rubber production during the first half of 2011 was 81 million kg., an increase of 7.4 percent compared to the same period in 2010. Although the world production of rubber too increased by almost the same proportion during the reference period, all the varieties of rubber viz. sheet rubber, crepe rubber and latex crepe rubber, recorded highest ever prices in the reference period owing to increased demand for natural rubber. Prevalence of favorable weather conditions and attractive prices in the markets were the major contributory factors for the satisfactory level of rubber production during this period by all rubber producing countries. In the domestic front, new plantation of 2,500 hectares along with 1,500 hectares of replanting are earmarked for 2011 while average annual yield is expected to be 1,728 kg per hectare of tapped area, reaching highest yield, next to Vietnam among other rubber growing countries. Although rubber prices declined in April to May 2011 in the aftermath of Japanese earthquake and Tsunami, they quickly started to rise in June owing to heavy industrial demand for natural rubber.

Chart 7: Rubber Prices at Colombo Auction and Cost of Production



Responding to prevailing attractive market conditions, rubber exports in the first seven months of 2011 increased by 39.5 percent to US$ 129.2 million compared to the same period in 2010. However, it has been projected that the total exports of rubber in 2011 will decline by 6.3 percent to 48.7 million kg compared to 2010 as domestic consumption would increase by 2.8 percent to 110 million kg.

Coconut production declined significantly by around 14.5 percent to 1,483 million nuts in the first eight months of 2011 compared to 1,734 million and 2,065 million nuts produced in the corresponding period of 2010 and 2009, respectively. The decline in coconut production was mainly attributable to the lag effect of the low rainfall in the major coconut growing areas in 2009 and 2010. Apart from low rainfall, it has also been identified by the Coconut Research Institute that poor nut setting due to *heat stress* (high temperature) at the time of pollination and fall of buttons due to unfavorable climatic conditions along with a few other adverse biological factors have caused a poor yield in coconut production.

The reduction in coconut yield did not reflect fully in the market prices of coconut nuts as the government reduced import taxes on edible oil, that is a substitute for coconut oil. Compared to the same period in 2010, total imports of edible oil during the first six months of 2011 increased by 90 percent to 86,817 metric tons. As a consequence, demand for coconut oil declined in the market leading to use of coconut by oil mills to fall considerably. Accordingly, relatively more coconut nuts were available for cooking during the reference period thereby easing the price pressure in the market. During the first quarter of 2011, coconut oil production declined by more than 50 percent in comparison to the same period in 2010 but increased by 18 percent in the second quarter of the year vis-à-vis same period 2010. Relatively better coconut yield gained in the second quarter of 2011 had contributed for farm gate prices to decline and oil mills to have better supplies during the second quarter of 2011. Though coconut oil industry had volatilities in the recent times, desiccated coconut (DC) industry showed a booming trend in the first half of 2011 as a result of the increase in demand for DC in the international market. During the first eight months of 2011, volume of desiccated coconut exported increased by 40 percent with the total value of exports reaching US$ 74 million, an increase by 178 percent compared to the same period in the previous year.

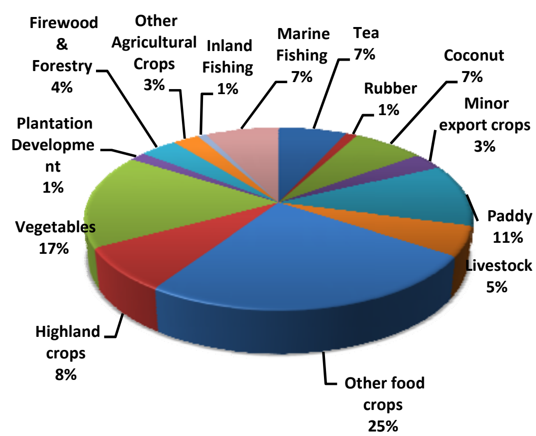
The production of other food crops, that consist of highland crops, vegetables and fruits showed a decline in the Maha season of 2010/11, the main cause being the impact of floods and heavy rains in the early months of 2011. Of the individual crop varieties, red onions, ginger and turmeric indicated higher production volumes during the first half of 2011 while production of kurakkan, maize, Soya bean, black gram, gingerly, ground nuts, potatoes, big onions and green chili declined during the Maha Season of 2010/11 compared to the previous year. Along with the decline in supplies of vegetables due to crop damage, prices of many vegetables rose considerably during the first half of 2011 but were mitigated by continuous supplies, particularly from the Northern Province. The production of some vegetable varieties, such as snake gourd, carrot, cabbage, radish, ash plantains and red pumpkin, recorded a considerable growth during this period mainly owing to commendable contribution made by Northern Province to the agricultural production.

Meanwhile, minor export crops showed satisfactory performance particularly driven by increased global demand complemented by continuation of attractive prices in the world market. Higher production targets have been set for Yala 2011 on other field crops due to favourable water levels in the irrigation tanks. In particular, it is expected that harvest in Yala 2011 of pulses will be remarkably high with particular growth to be observed for green gram, cowpea and black gram with the harvest being doubled compared to Yala 2010 basically due to increased extent of cultivation. Meanwhile, the harvest of Potato and Red Onion too are expected to be increased by around 50 percent compared to the previous Yala season owing to more land being cultivated during the season. In relation to up country vegetables, favourable weather conditions prevailed in the hill country throughout the season which in turn resulted less incidence of fungal infections would bring about higher yields for the Yala season while it is anticipated to have better crop results for low country vegetables as well in Yala 2011.

Of the livestock sub sector, total milk production in the first half of 2011 dropped due to the flood situation prevailed in certain parts of the country in the first few months of 2011. Meanwhile, the collection of milk for processing at large milk processors declined by 8 percent in the first half of 2011. Apart from the effects of floods, such a reduction could also be attributed to increased presence of small scale processing industries thereby affecting supplies to large processors. In the mean time, with a view to boosting the milk production industry, the purchasing price of liquid milk by government owned Milco (Pvt) Ltd was increased to Rs. 50 per litre during the year and was matched by other private sector buyers too.

Compared to first half of 2010, the egg production increased by 12 percent to 534 million during the first half of 2011, while poultry production also increased by 29 percent to 59,370 metric tons. Several policy measures taken by the government, such as the reduction of prices of poultry feed and supply of day old broiler chicks at reduced prices, have brought about anticipated increase in poultry production in the first half of 2011.

Chart 8: Composition of Agriculture Sector (1st Half of 2011)



Fish production in the first three quarters of 2011 increased by 15 percent to 317,760 metric tons of which the share of marine fish production has been 87 percent and the balance contributed by inland and aquaculture fish production. In tandem, GDP of the fishing sector too grew by 14.9 percent for the first six months of 2011. During the nine months period to September 2011, Southern province contributed 25 percent, to the total marine fish production followed by Eastern and Western provinces each sharing 24 percent. Favourable weather conditions and increase in fishing gears and fleet have influenced the growth in marine fish production during the reference period. In addition, continuously maintained attractive producer price levels have also encouraged for more fish production being released to the market. Further, the fees charged for issue of licenses and boat registrations have also been fully relaxed since beginning of 2011. Construction of fishery infrastructure such as harbour development and facilities for storage along with enhanced channels of product distribution are underway in the Northern and Eastern provinces and it can be expected that Northern and Eastern areas would further increase their share of value addition of the fishery sector in the foreseeable future.

Overall, government initiatives such as Gama Naguma, Api Wawamu-Rata Nagamu cultivation drive and Seed Village Programme etc. and the recently introduced Divi Naguma programme have contributed considerably to revive the agriculture in Sri Lanka. The rapid economic growth in general and pro agriculture development policies and measures initiated at village level, especially in the form of infrastructure development, agricultural extension services, provision of agricultural equipment and high yielding seeds, continuation of fertilizer subsidy schemes etc. coupled with tax policy changes to safeguard domestic producers and consumers as well as to help mechanization of the Agriculture sector by importing necessary machinery and equipment etc. have helped to boost agriculture and thereby reach government's broader objective of ensuring food security of the country.

Table 25: Gross Domestic Product- Sectoral Composition (2002) Constant Prices

Rs. Mn.

Sector	2008	2009	2010	First Half 2010	First Half 2011*	Growth (%) 2010	Growth (%) 2011*
Agriculture, Forestry and Fishing	**285,897**	**295,097**	**315,644**	**165,652**	**162,609**	**7.8**	**-1.8**
1. Agriculture, Livestock and Forestry	**258,881**	**266,208**	**283,236**	**150,352**	**145,030**	**7.4**	**-3.5**
1.1 Tea	27,601	25,272	28,592	14,691	14,615	28.0	-0.5
1.2 Rubber	5,743	6,198	6,983	2,297	2,480	7.4	8.0
1.3 Coconut	31,975	33,685	28,883	14,981	15,022	-11.0	0.3
1.4 Minor export crops	10,478	11,028	15,177	7,066	6,561	64.0	-7.1
1.5 Paddy	43,406	41,179	48,377	30,267	23,889	10.3	-21.1
1.6 Livestock	20,495	21,761	22,397	10,405	11,331	3.8	8.9
1.7 Other food crops	89,536	95,799	99,994	54,744	54,241	3.9	-0.9
1.7.1 Highland crops	29,439	31,368	33,117	17,349	16,853	6.4	-2.9
1.7.2 Vegetables	58,197	62,436	64,821	36,361	36,384	2.8	0.1
1.7.3 Fruits	1,900	1,995	2,057	1,034	1,004	3.3	-2.9
1.8 Plantation Development	6,216	6,540	6,895	3,202	3,385	5.0	5.7
1.9 Firewood & Forestry	14,499	15,357	15,832	7,488	7,890	4.5	5.4
1.10 Other Agricultural Crops	8,931	9,390	10,107	5,212	5,618	7.9	7.8
2. Fishing	**27,016**	**28,888**	**32,407**	**15,300**	**17,579**	**11.1**	**14.9**
2.1 Inland - Fishing	3,763	3,960	4,359	1,779	1,800	8.1	1.2
2.2 Marine - Fishing	23,253	24,928	28,048	13,521	15,778	11.5	16.7
Industry	**672,791**	**701,129**	**760,219**	**361,212**	**398,349**	**8.0**	**10.3**
3. Mining and Quarrying	**48,090**	**52,030**	**60,079**	**25,772**	**29,798**	**12.1**	**15.6**
3.1 Gem Mining	13,548	11,220	12,111	7,214	8,169	4.4	13.2
3.2 Other Mining	34,542	40,811	47,968	18,558	21,629	15.4	16.5
4. Manufacturing	**413,681**	**427,334**	**458,660**	**220,402**	**238,790**	**7.3**	**8.3**
4.1 Processing (Tea, Rubber and Coconut)	14,897	14,995	15,868	8,376	8,604	12.3	2.7
4.2 Factory Industry	373,215	385,927	414,925	198,072	215,230	7.2	8.7
4.2.1 Food Beverages	174,794	185,142	197,731	96,606	103,503	6.8	7.1
4.2.2 Textile, Wearing Apparel & Leather	87,215	87,762	92,293	41,305	46,329	3.9	12.2
4.2.3 Chemicals, Petroleum, Coal, Rubber & Plastic	58,650	59,706	66,990	31,573	34,934	11.6	10.6
4.2.4 Non-Metallic Mineral Products except products of Petroleum & Coal	15,306	14,794	16,328	8,355	8,963	11.8	7.3
4.2.5 Fabricated metal Products, Machinery & Equipment	31,702	32,794	35,482	17,410	18,508	7.9	6.3
4.2.6 Other Industries	5,548	5,730	6,101	2,823	2,992	7.3	6.0
4.3 Cottage Industry	25,570	26,412	27,868	13,954	14,957	5.3	7.2
5. Electricity, Gas and Water	**56,847**	**58,974**	**63,567**	**29,106**	**33,112**	**7.4**	**13.8**
5.1 Electricity	50,184	52,017	56,291	25,589	29,424	7.2	15.0
5.2 Gas	4,062	4,280	4,478	2,275	2,365	13.2	4.0
5.3 Water	2,601	2,677	2,798	1,242	1,323	3.4	6.5
6. Construction	**154,173**	**162,790**	**177,912**	**85,932**	**96,649**	**8.9**	**12.5**
Services	**1,406,813**	**1,452,988**	**1,569,569**	**751,717**	**820,402**	**7.6**	**9.1**
7. Wholesale and Retail Trade	**571,911**	**570,698**	**613,320**	**288,344**	**320,123**	**6.8**	**11.0**
7.1 Import Trade	212,651	195,247	213,754	92,147	105,766	8.7	14.8
7.2 Export Trade	104,861	102,578	106,056	49,883	56,715	1.1	13.7
7.3 Domestic Trade	254,400	272,872	293,510	146,313	157,641	7.7	7.7
8. Hotels and Restaurants	**8,741**	**9,901**	**13,845**	**4,767**	**6,374**	**41.5**	**33.7**
9. Transport and Communication	**310,029**	**329,578**	**368,653**	**175,965**	**197,501**	**11.7**	**12.2**
9.1 Transport	256,954	272,086	302,993	145,781	163,085	10.9	11.9
9.1.1 Transport- Railway	2,640	2,754	2,909	1,479	1,566	6.3	5.9
9.1.2 Transport- Passenger and Goods	254,314	269,332	300,084	144,302	161,519	10.9	11.9
9.2 Cargo Handling-Ports and Civil Aviation	15,951	16,017	18,706	8,353	9,177	17.7	9.9
9.3 Post and Telecommunication	37,124	41,475	46,953	21,832	25,239	15.0	15.6
10. Banking, Insurance and Real Estate etc.	**206,048**	**217,819**	**234,255**	**114,907**	**123,681**	**6.9**	**7.6**
11. Ownership of Dwellings	**73,137**	**74,051**	**74,692**	**37,287**	**37,726**	**0.9**	**1.2**
12. Government Services	**181,051**	**191,778**	**202,187**	**99,067**	**100,910**	**6.0**	**1.9**
13. Private Services	**55,896**	**59,164**	**62,617**	**31,381**	**34,088**	**6.0**	**8.6**
Gross Domestic Product	**2,365,501**	**2,449,214**	**2,645,432**	**1,278,580**	**1,381,361**	**7.8**	**8.0**

Source: Department of Census and Statistics

* Provisional

Industry

In the first half of 2011, the Industry sector grew by 10.3 percent compared to 8.0 percent growth recorded for the same period in 2010. The growth in the industry sector was mainly contributed by the manufacturing sector followed by other three subsectors i.e. construction, mining and quarrying and electricity, gas and water, all recording higher growth rates than 2010 reflecting the conducive environment for industries.

Manufacturing

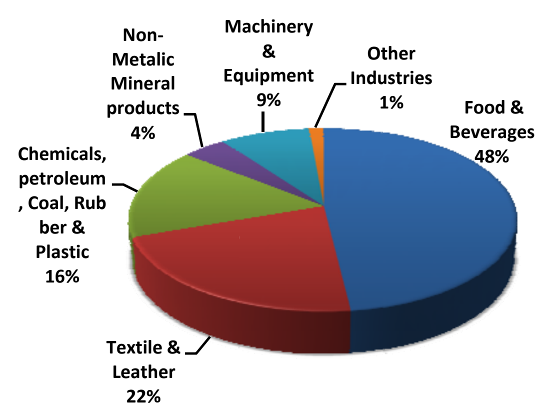
Manufacturing, which held a share of 17.3 percent of the total GDP of the first half of 2011, grew by 8.3 percent compared to 7.3 percent growth recorded in 2010. The major contributory factors for this robust growth for the two continuous years could be attributed to improved global economic conditions and increased demand for various industrial products domestically along with the acceleration of economic development taking place countrywide.

The factory industry sub-sector, which accounts for 90 percent of the total manufacturing sector GDP, recorded 8.7 percent growth in the first half of 2011, and contributed 16.7 percent to the total GDP growth in the same period. Of the factory industry, the food beverages sub sector, which accounts for around 48 percent of total factory industry GDP, grew by 7.1 percent in the first 6 months of 2011. Fast moving consumer goods, beverages, dairy products and poultry feed industries have been identified as the major improved contributory factors for the performance of this sub sector. Along with the expansion of tourist industry and opening up of markets in Northern areas, the food beverages sub sector continued to record a high growth driven by increased demand. Potential for further significant growth in this sub sector has been widely speculated in the medium term.

Of the factory industry, production of the textile, wearing apparel and leather category expanded with 12.2 percent growth in the first six months of 2011. The apparel industry has been able to witness an increase in terms of orders from major international buyers, partly caused by increased relative competitiveness of the Sri Lankan apparel industry in the midst of growing cost of production of competitor producing markets. The export of textile and garments reached US$ 2,779 million in the first eight months of 2011 which is an increase of US$ 597 million from the same period in the preceding year.

The production of chemical, petroleum, coal, rubber and plastic category of factory industry grew by 10.6 percent in the first half of 2011, contributing 3.3 percent to the overall growth of GDP in the same period. The growth of this category is basically demand driven and it has been observed that the major products in this category, viz. chemical products, petroleum products and rubber products, showed a significant increase in export volumes along with improved global conditions during the reference period. It is anticipated that with the settling of rubber prices at relatively lower levels from the prices as the major rubber producing countries are to recover from the raw rubber production downfall, rubber product manufacturing industry will boost in the upcoming months. Meanwhile, in the domestic front, catering the demand created by the growing construction industry, production of the plastic and PVC manufacturing recorded a higher growth and is anticipated to continue the same growth momentum during the rest of the year as well.

Chart 9: Industry Sector Composition (1st Half of 2011)



The non-metallic mineral products category that include cement and cement products, other building materials etc. grew by 7.3 percent in the first half of 2011, particularly driven by the growth in the domestic construction industry. However, as the full demand for cement by the booming construction industry could not be delivered by the local producers, it was required to import cement during the year to prevent any impediment to the construction industry. Meanwhile, the fabricated metal products, machinery and transport equipment category recorded 6.3 percent growth in the first half of 2011 while other industries falling under factory industry grew by 6.0 percent during the same period. In addition, cottage industry sub sector recorded a growth of 7.2 percent in the first half of 2011 contributing 1 percent to the total GDP growth in the first half of 2011. Growth in small scale industries has been basically due to increased demand from the domestic construction industry and the rapid economic integration of the areas in the Northern and Eastern provinces into the rest of the provinces.

Construction

Construction sector grew by 12.5 percent in the first half of 2011 contributing 10.4 percent to total GDP. Increased investment in mega scale public infrastructure development by way of construction of highways, port development, electricity generating installations etc. and private sector investment, particularly in residential and commercial property construction, have been the major drivers for the growth in this sector.

Electricity, Gas and Water

Electricity, gas and water sector of the main Industry domain grew by 13.8 percent in the first six months of 2011. Increased generation of low cost hydro power compared to more costly thermal power generation resulted in a creation of higher value addition from the electricity sector during the review period. Of the total 5,575 Gwh power, generated during the period under review, 58 percent has been derived from hydro power plants while for the same period in the preceding year, the relative contribution from hydro power plants to the national grid was limited to 41 percent. Contribution by mini hydro power stations to the national grid has also been in the rise over the years thereby leading the average cost of power generation to decline resulting release of more value added output from the electricity sub sector.

Mining and Quarrying

Mining and quarrying sector of the Industry domain recorded an impressive 15.6 percent growth during the first half of 2011. Although its share to the total GDP of the first six months is low at 2.2 percent, this sector's contribution for the total economic growth in the first half of 2011 has been 3.9 percent. Mining, other than gem industry, which bore 73 percent of the total value addition in this sector, showed 16.5 percent growth during the reference period which has been driven by increased demand from the booming construction industry of the domestic economy.

There are several initiatives taken by the government towards the Industrial development in a post war setting. In this connection, the "Regional Industrial Estate Development Program" has been introduced to increase value addition from local raw material and to transfer technology to regional areas while creating more employment opportunities in non urban areas. By end June 2011, 25 Industrial Estates have been established spanning different provinces while another 46 such estates are under construction. In particular, the establishment of Industrial Estates in the Northern and Eastern provinces is expected to introduce significant development into those areas and have been integrated with 'Uthuru Wasanthaya" and "Nagenahira Navodaya" development programmes which are presently underway in those areas. Investors have shown greater interest in establishing industries in these provinces with a view of utilizing untapped resources provided basic infrastructure is in place for smooth operation of such industries. Meanwhile, various exercises are being carried out to promote value added export industries by means of market diversification and developing supply value chain and linking foreign buyers with domestic industrialists through trade fares and exhibitions etc.

Table 26 : Structure of Exports

US $ Mn.

	Category	Jan-Aug (a) 2010	Jan-Dec (a) 2010	Jan-Aug (b) 2011
1	Textiles and Garments	2,183	3,372	2,779
2	Tea	944	1,439	973
3	Rubber Products	340	558	575
4	Other Industrial Exports	424	860	503
5	Machinery and Equipment	303	446	418
6	Food, Beverages and Tobacco	350	509	394
7	Petroleum Products	128	207	342
8	Minor Agricultural Products	221	350	272
9	Diamond and Jewellery	217	335	265
10	Rubber	103	173	151
11	Coconut (Other than Kernel Products)	76	115	87
12	Coconut Kernel Products	31	55	81
13	Gems	47	70	65
14	Ceramic Products	25	40	25
15	Other	25	40	36
	Total	**5,416**	**8,570**	**6,966**

(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

Services

The services sector grew by 9.1 percent in the first half year of 2011 while contributing 59 percent to the total GDP of the reference period. The major contributors to the GDP growth from the Services domain during the first half of 2011 have been wholesale and retail trade and transport and communication sectors. Also noticeable is that in terms of growth in output, compared to the first half of 2010, hotels and restaurants sector of the Services domain grew by 33.7 per cent, which is the highest recorded growth rate during the reference period among all the sectors of GDP classification.

Wholesale and Retail Trade

Wholesale and retail trade shared 23 percent of the total GDP of the first half of 2011 having registered a growth of 11 percent in output compared to the growth 6.8 percent in the same period of the preceding year. Both import trade as well as export trade indicated remarkable performance during the reference period by registering 14.8 percent and 13.7 percent growth, respectively in value added terms.

The domestic trade sub sector, that recognizes value added to GDP from both wholesale and retail trading activities on-shore, marked a growth of 7.7 percent in the first six months of 2011 contributing 11 percent to the total GDP growth in the reference period. Continuous expansion of domestic trading activities, particularly resultant from the integration of Northern and Eastern provinces with the rest of the country and prevalence of conducive inflation levels that promote increased trading, could be identified as boosters of domestic trading in the first half of 2011.

Hotel and Restaurants

Hotels and restaurants sector recorded a growth of 33.7 percent in the first half of 2011. In a post war setting, Sri Lanka has been benefiting from a tremendous growth in the tourism industry and available data indicate a thriving tourism sector with the number of tourist arrivals ever increasing considerably. In 2011, the growth in tourist arrivals during the first 9 months was 34.3 percent while in terms of earnings; the corresponding growth rate was 48 percent to US$ 580 million. Having realized the immense potential that Sri Lanka has as an attractive tourist destination, and the relative importance of the tourism sector as a vibrant contributor for the growth in the national economy directly as well as indirectly by means of creating demand for goods and services, the government continues to play an active role to promote tourism in Sri Lanka along with other stakeholders. In this connection, the Ministry of Economic Development has recently launched the Tourism Development Strategy for the next five year period of 2011-2016 which targets to achieve 2.5 million tourist arrivals by 2016, which will significantly enhance the opportunities in the hotel and restaurant sector in the future.

Table 27 : Performance of Tourism Sector

Month	Tourist Arrivals				Tourist Earnings (US$ Mn.)			
	2008	2009	2010	2011	2008	2009	2010	2011
January	56,916	38,468	50,757	74,197	44.4	30.0	44.7	72.0
February	40,551	34,169	57,300	65,797	36.1	26.7	50.4	63.8
March	38,049	34,065	52,352	75,130	29.7	26.5	46.1	72.9
April	29,747	26,054	38,300	63,835	23.2	20.4	33.7	61.9
May	31,140	24,739	35,213	48,943	24.3	19.3	31.0	47.5
June	27,960	30,234	44,730	53,636	21.8	23.5	39.4	52.0
July	32,982	42,227	63,339	83,786	25.7	33.0	55.7	81.3
August	30,672	41,207	55,898	72,463	24.0	32.1	49.2	70.3
September	29,529	37,983	47,339	60,219	23.0	30.2	41.7	58.4
October	35,103	37,571	52,370		27.4	28.7	46.1	
November	36,901	44,311	72,251		28.8	34.6	63.6	
December	48,950	56,862	84,627		38.1	79.1	74.5	
Total	**438,500**	**447,890**	**654,476**	**598,006***	**346.5**	**384.1**	**575.9**	**580.1***

Source: Sri Lanka Tourism Development Authority

* Only up to September 2011.

Transport and Communication

Transport and communication sector grew by 12.2 percent in the first half of 2011 contributing 21 percent to the overall growth of GDP of the same period. Growth in this sector was mainly driven by the transport sub sector that contributed for 16.8 percent of the total GDP growth in the first half year of 2011 followed by the post and telecommunication sub sector with a 3.3 percent contribution to the total GDP growth. Increased goods and passenger transport activities, particularly due to expansion of transport network of goods and passengers to Northern and Eastern provinces could be identified as the key contributor for the growth in the transport industry. Moreover, with the number of vehicles running on the roads in the rise, more value addition could be expected from the transport sub-sector. 292,297 new vehicles have been registered during the first seven months of 2011, that included 143,976 motor cycles, 76,185 three wheelers and 34,221 motor cars. Along with the growth in land transport activities, cargo handling at sea ports and airports too expanded during the first six months of 2011 by 9.9 percent. Corroborative evidence to this effect could be found from the movement of operational statistics of port services, whereas during the first seven months of 2011, total container handling increased by 3.1 percent and total cargo handling increased by 5.9 percent in volume terms compared to the operations in the same period of the previous year.

Meanwhile, posts and telecommunications sector that has been showing continuous growth over the recent years further expanded by 15.6 percent in the first half year of 2011. Such impressive growth performance can be viewed in the light of government's objective of establishing Sri Lanka as a Regional Hub for Asian telecommunication networks. Towards this objective, several pro growth incentives have been introduced by the government for this vital sector of the economy such as removal of duties and VAT on import of high tech equipment and machinery required for provisioning of state of the art telecommunication services. Meanwhile, in comparison to beginning of 2011, total number of fixed telephone lines grew by 0.8 percent to 3.6 million as at the end of first half of 2011 while the number of cellular connections grew by 5.4 percent to 18.2 million during the same reference period. Accordingly, by the end of first half year of 2011, the telephone density including cellular phones per 100 persons reached 104.9, an increase by 4.1 from the position as at the beginning of 2011. Also a notable progression has been made in providing of telecommunication services in the Northern and Eastern areas which is vital for the social and economic reawakening process of these provinces. In this connection, a milestone has been reached in June 2011 with the opening of the reconstructed Kokavil Multi-functional Transmission Tower at a cost of Rs. 330 million under the *"Uthuru Vasanthaya",* Northern revival program.

Banking, Insurance and Real Estate

Banking, Insurance and Real Estate sector expanded by 7.6 percent in the first half of 2011 compared to 6.9 percent growth recorded in the preceding year. Continued expansion of economic activity under a low interest rate regime prevailed throughout the year has been providing ample impetus to the financial sector to grow during 2011. The monthly average credit provided to the private sector by the banking system during the first eight months of 2011 has been Rs. 36 billion compared to an average of Rs 16 billion for the same reference period in the preceding year while the year-on-year increase of credit to the private sector in August 2011 stood at 34.1 percent reflecting expansion of economic activities in a continued pace. Such growth in bank credit has been further complimented when the Central Bank of Sri Lanka reduced Repurchase rate by 25 basis points and Reverse Repurchase rate by 50 basis points to 7.00 percent and 8.50 percent respectively at the beginning of 2011, that prompted market interest rates to fall further thereby providing comfort for new and wider investments to be made in all sectors of the economy. Further, effective from January 2011, the government reduced the value added tax on financial services from 20 percent to 12 percent while several benefits have been introduced to the financial sector through Budget 2011 such as, reducing the corporate income tax on profits of banking and financial institutions from 35 percent to 28 percent thereby opening up avenues for this vital sector of the economy to expand further and encourage lending. Meanwhile, as proposed in Budget 2011, every financial institutions has been required to maintain an Investment Fund Account whereas the utilization of funds would be mainly for lending to private sector on long term in the areas of agriculture, industry including SMEs, information technology, infrastructure development and vocational or tertiary education. As such, when credit schemes come into full effect in months to come, it can well be expected a further growth in the banking industry in the foreseeable future.

Apart from the banking sector, non bank financial institutions that comprise of Registered Finance Companies and Specialized Leasing Companies too performed well during the first six months of 2011. The few Registered Finance Companies that were in distress at the beginning of 2011 started to revive following capital restructuring and management reforms and as a result, public confidence in this sector has been greatly restored during the year as reflected by increased deposit base to Rs. 167 billion by end June 2011, an increase of 14 percent from the beginning of 2011. Meanwhile, leasing companies too performed remarkably well during the preceding months of 2011 particularly being benefited from increased business activity mainly due to removal of VAT on leasing of three wheelers, lorries, trucks and private buses by budget 2011. Accordingly, during the first seven months of 2011, accommodations of the specialized leasing companies have increased by Rs. 20 billion or 19 percent compared to the increase of 1 percent in the corresponding period of 2010.

Government Services and Private Services

Meanwhile, Government services during the first half of 2011 grew marginally by 1.6 percent, reflecting the decline in the growth of recruitment for defence and allied services. Meanwhile, private services grew by 8.6 percent for the same period owing to expansion of such services, particularly in areas of education, health and entertainment.

Table 28: Selected Indicators of Service Sector

Indicator	2008	2009	2010	2010 Jan-July	2011 Jan-July (a)
Port Services					
Vessels Arrived	4,814	4,456	4,067	2,351	2,505
Total Cargo Handled (MT '000)	50,582	48,777	61,240	35,210	37,290
Total Container Handled (TEU '000)	3,687	3,464	4,137	2,375	2,448
Transshipment (TEU '000)	2,785	2,633	3,205	1,774	1,809
Telecommunication Sector					
Fixed Telephone Lines (No. '000)	934	871*	3,571	3523 (c)	3599 (d)
Cellular Phones (No. '000)	11,083	13,950	17,247	15,868 (c)	18,176 (d)
Wireless Phones (No. '000)	2,513	2,560	2,674	2641 (c)	2681 (d)
Internet and E-mail Subscribers ('000) (b)	234	240	430	380 (c)	692 (d)
Health Sector					
Private Hospitals	220	220	172	n.a.	n.a.
Public Hospitals	619	555**	568	n.a.	n.a.
No. of Beds (Government)	65,835	68,897	69,501	n.a.	n.a.
No. of Doctors (Government)	13,026	13,633	14,125 (e)	n.a.	n.a.
No. of Nurses (Government)	22,996	25,549	27,494	n.a.	n.a.
Financial Sector (No.)					
Bank Branches and Other Outlets	5,427	5,703	5,913	90	101
Credit Cards in Use (Active Cards) (f)	917,418	840,509	778,549	829,716	822,153
Registered Finance Companies	34	35	36	36	38
Registered Leasing Companies	78	74	21	21	18
Tourism Sector					
Tourist Arrivals	438,500	447,890	654,476	341,991	465,324
Tourist Earnings (US $ mn)	342	350	576	301	451
Room Occupancy Rate	43.9	48.4	91.1	68.4 (g)	76.0 (g)
Transport Services (New Registration)					
Buses	1180	739	2,491	1,101	2,362
Cars	20,237	5,762	23,072	4,069	34,221
Lorries	14,038	8,202	11,467	7,273	7,092
Motor Cycles	155,952	135,471	204,811	113,953	143,976
Three Wheelers	44,804	37,164	85,648	45,044	76,185
Tractors	26,132	15,278	19,664	10,282	12,056

(a) Provisional
(b) Including mobile broadband connections
(c) As at end June 2010
(d) As at end June 2011
(e) Including intern medical officers
(f) As at end period
(g) January to May

Sources: *Sri Lanka Ports Authority*
Telecommunications Regulatory Commission of Sri Lanka
Ministry of Health
Department of Motor Traffic
Sri Lanka Tourism Development Authority
Central Bank of Sri Lanka

* This decline was due to shift of some users to cellular phones.
** Government hospitals were re-categorized in 2009. As a result, 64 hospitals were re-named as Primary Healthcare Units

Table 29: Sectoral Distribution of GDP Growth (%)					
Sector	2008	2009	2010	First Half	
				2010	2011*
Agriculture	**7.5**	**3.2**	**7.0**	**7.8**	**-1.8**
Tea	4.2	-8.9	13.1	28.0	-0.5
Paddy	23.1	-5.1	17.5	10.3	-21.1
Minor Exports	-2.1	5.2	37.6	64.0	-7.1
Livestock	5.6	6.2	2.9	3.8	8.9
Food Crops	4.7	7.0	4.4	3.9	-0.9
Fisheries	9.9	6.9	12.2	11.1	14.9
Industry	**5.9**	**4.2**	**8.4**	**8.0**	**10.3**
Agri. Processing	5.3	0.7	5.8	12.3	2.7
Factory Industry	5.0	3.4	7.5	7.2	8.7
SMEs	4.5	3.3	5.5	5.3	7.2
Electricity	3.9	3.7	8.2	7.2	15.0
Construction	7.8	5.6	9.3	8.9	12.5
Services	**5.6**	**3.2**	**8.0**	**7.6**	**9.1**
Trade	4.7	-0.3	7.5	6.8	11.0
Hotels	-5.0	13.3	39.8	41.5	33.7
Cargo	8.0	3.4	16.8	17.7	9.9
Post and Telecommunications	22.3	11.7	13.2	15.0	15.6
Financial Services	6.6	5.7	7.5	6.9	7.6
Government Services	5.7	5.9	5.4	6.0	1.9
Private Services	6.5	5.8	5.8	6.0	8.6
GDP	**6.0**	**3.5**	**8.0**	**7.8**	**8.0**

Source: Department of Census and Statistics

** Provisional*

Unemployment

The unemployment rate in Sri Lanka, which has shown a downward trend since 2002, has declined at an accelerated rate since 2005. During the first quarter of 2011, the unemployment rate declined to 4.3 percent, compared to 4.9 percent in the previous year. The implementation of various infrastructure development projects, reconstruction, resettlement and rehabilitation programmes and the enhanced domestic economic activity have contributed to the generation of more employment opportunities in the country thereby lowering the unemployment rate.

Chart 10: Unemployment Rate (2002 - 2011 1st Quarter)

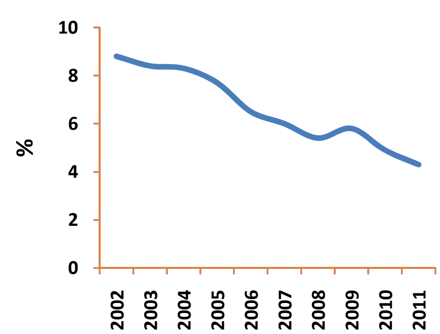


Table 30 : Labour Force Status of the Households: 2002-2011 Q1								
Year	Household Population	Labour Force						Not in Labour Force Number
		Total Labour Force	Labour Force Participation Rate (%)	Employed		Unemployed		
				Number	%	Number	%	
2002	14,201,396	7,145,382	50.3	6,519,415	91.2	625,967	8.8	7,056,014
2003**	15,651,479	7,653,716	48.9	7,012,755	91.6	640,961	8.4	7,997,763
2004***	16,593,431	8,061,354	48.6	7,394,029	91.7	667,324	8.3	8,532,077
2005*	16,870,976	8,141,347	48.3	7,518,007	92.3	623,341	7.7	8,729,628
2006	14,833,801	7,598,762	51.2	7,105,322	93.5	493,440	6.5	7,235,040
2007	15,047,882	7,488,896	49.8	7,041,874	94.0	447,021	6.0	7,558,986
2008**	16,319,065	8,081,702	49.5	7,648,305	94.6	433,397	5.4	8,237,363
2009**	16,578,628	8,073,668	48.7	7,602,414	94.2	471,254	5.8	8,504,961
2010**	16,861,526	8,107,739	48.1	7,706,593	95.1	401,146	4.9	8,753,787
2011 Q1**	16,949,772	8,133,459	48.0	7,783,574	95.7	349,885	4.3	8,816,313

Note: Complete data of Northern & Eastern Provinces are not available and hence not included.
** All the districts are included.*
*** Eastern Province included.*
**** Excluding Mullativu and Kilinochchi districts*
Source: Department of Census & Statistics

Overall unemployment rate for female was 6.7 percent and it was 3.0 percent for male by the first quarter of 2011. The unemployment was severe among females than that of males. Also, the unemployment was high among those who have the qualifications of G.C.E (Advanced Level) or above and it is more acute in the case of educated females than educated males.

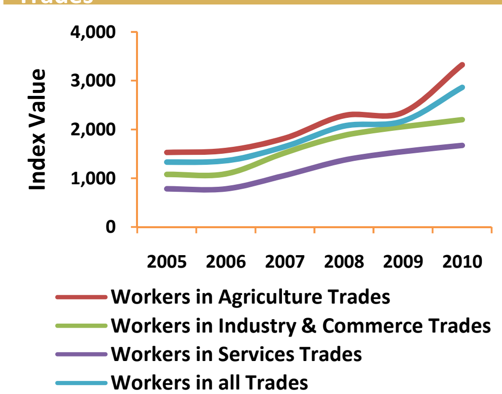
Table 31 : Unemployment Rate by Level of Education – 2011 Q1			
Level of Education	Unemployment Rate (%)		
	Total	Male	Female
Total	4.3	3.0	6.7
Below G.C.E. (O/L)	2.5	2.0	3.5
G.C.E. (O/L)	5.3	4.2	7.5
G.C.E. (A/L) & above	10.0	6.4	14.3

Source: Department of Census and Statistics

Per Capita Income

The per capita income of the country has almost doubled during the last five years to US$ 2,399 in 2010 from US$ 1,241 in 2005. This was mainly due to the average annual growth of about 6.4 percent in the GDP maintained during this period. The per capita income in 2011 is expected to reach about US$ 2,850 with the expected higher GDP growth rate, modest inflation and relatively stable exchange rate.

Chart 11 : Wage Index for Workers in All Trades



Monetary Sector Developments

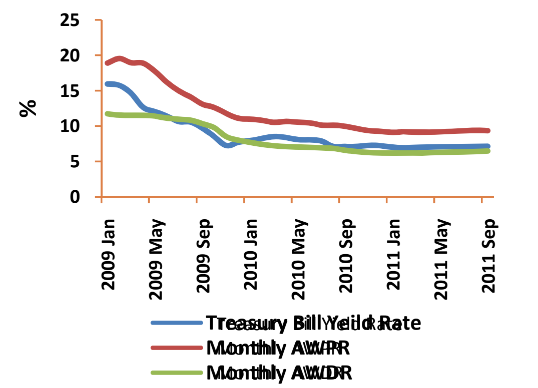
Monetary Policy

The easing off of the monetary policy stance of the Central Bank of Sri Lanka to complement the growth momentum of the economy by creating an environment that would spur the growth of credit to the private sector economic activity continued in 2011. In line with this, the policy interest rates of the Central Bank were reduced further in January 2011 following the favourable developments of the domestic economic activity and the positive outlook. Accordingly, the Repurchase rate was reduced by 25 basis points and the Reverse Repurchase rate was reduced by 50 basis points to 7.00 percent and 8.50 percent, respectively. Meanwhile, the Central Bank remained cautious on the developments in the economy that would create inflationary pressures. In particular, the persistent excess liquidity condition in the domestic money market was monitored closely and its' potential to fuel excessive credit growth and thereby inflation was recognised. In order to address this, with effect from 29 April 2011, the Statutory Reserve Requirement (SRR) on all Rupee deposit liabilities was increased by one percentage point to 8.0 percent. With this measure and the supply of foreign exchange to the domestic money market by the Central Bank, the excess liquidity in the domestic market declined gradually during the first eight months of 2011.

Interest Rates

In line with the gradual decline in policy interest rates, average weighted call money rate (AWCMR) remained at around 8.05 percent by end September 2011. The average weighted deposit rate (AWDR), which reflects the movement of interest rates pertaining to all interest bearing deposits held with commercial banks, remained at 6.48 percent by end September 2011. In line with the reduction in the cost of funds of banks, their lending rates have also declined. Accordingly, the average weighted lending rate (AWLR), which reflects the movement of interest rates pertaining to all lending by commercial banks to the private sector, declined further to 13.7 percent by end June 2011, a decrease of about 108 basis points since end 2010. Meanwhile, the monthly average weighted prime lending rate (AWPLR), which serves as a benchmark for other selected lending rates, remained at 9.36 percent by end September 2011.

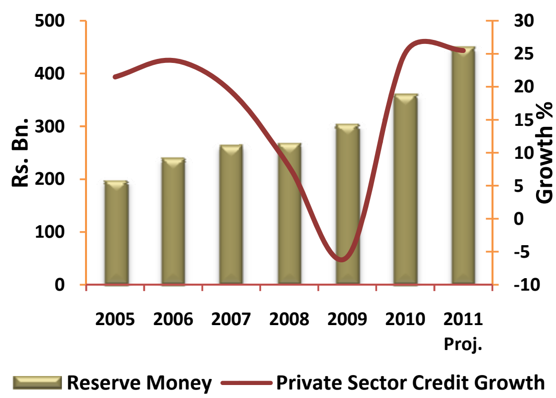
Chart 12: Treasury Bill Yield & Monthly AWPR & AWDR



Money Supply and Private Sector Credit

Reserve money rose by 24.7 percent to Rs. 419.9 billion as at end August 2011. This is mainly due to the increase in currency in circulation, which could be attributed to increased demand for currency by the public on account of expanding economic activity in the domestic economy, including the Northern and Eastern provinces. Meanwhile, reflecting the robust expansion of credit obtained by the private sector, which in turn reflects largely the notable expansion of domestic economic activity, the broad money (M2b) recorded a high year-on-year growth of 20.6 percent to Rs. 2,339.7 billion by the end August 2011. The credit granted to the private sector recorded a remarkable turnaround with an increase of 34 percent to Rs. 1,775.7 billion by end August 2011 mainly due to the lower market interest rates, continued recovery of the economic activity affected by the global recession, sustained expansion in the domestic economic activity and enhanced credit promotion activities by financial institutions. This development is closely being monitored to prevent any excessive growth in the private sector credit, which could eventually threaten the macroeconomic stability.

Chart 13: Expansion of Credit to Private Sector



Inflation

The year on year inflation was 6.4 percent in September 2011. This level of inflation is comparable with a higher level of inflation of 28 percent by mid-2008, which declined rapidly thereafter and remained around mid-single digit levels since 2009[1]. Also, this was a gradual decline mainly due to the improved domestic supply conditions, particularly since April-May period, compared to the peak in this year of 8.9 percent in April, which occurred due to the supply disruption caused by adverse weather conditions that prevailed in major cultivation areas and the upward adjustment of certain administered prices. Meanwhile, the annual average inflation increased gradually to 7.2 percent by September 2011, but continued to remain at single digit levels. Meanwhile, the core inflation, measured by excluding fresh food, energy, transport, rice and coconut from the CCPI, dropped sharply to 6.9 percent in September 2011, on point to point basis. However, the annual average core inflation remained at 7.6 percent in September 2011 indicating the looming demand pressures in the economy emanating from the relaxed monetary policy stance maintained by the Central Bank, which cannot be ruled out in a growing economy with very low unemployment rate and hence would need close monitoring.

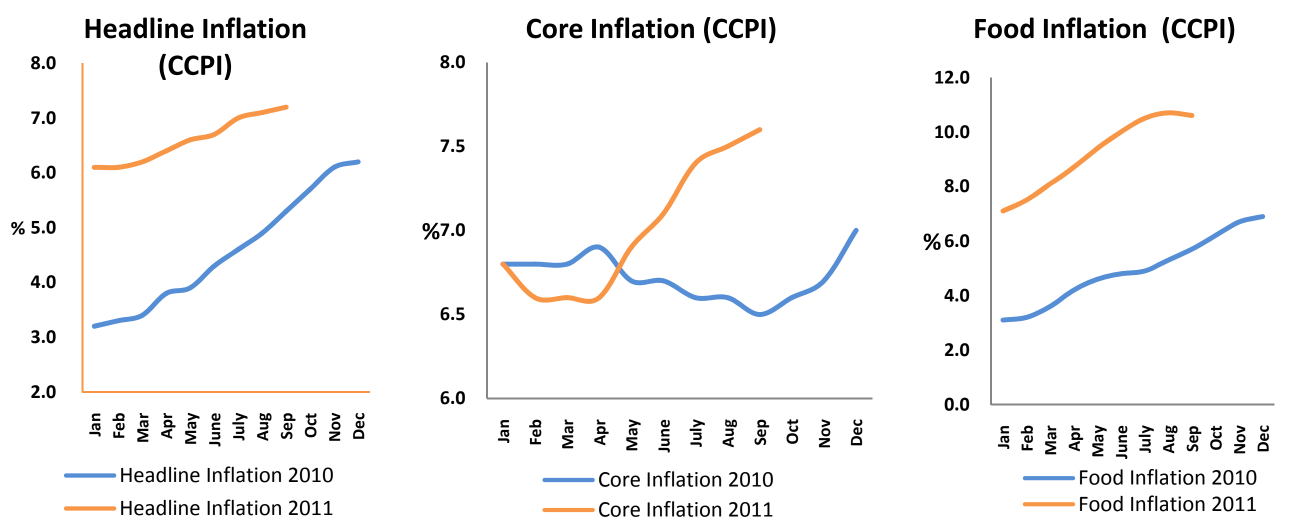
[1]The Colombo Consumer Price Index (CCPI) is the official measure of inflation in Sri Lanka. The CCPI was revised in June 2011 by the Department of Census and Statistics to capture the most recent expenditure and consumption trends. The new practice is to revise weights periodically based on more up-to-date information and most countries adopt a five year rebasing for the consumer price indices. Accordingly, the Index is now computed on weights based on the expenditure patterns of households in the urban areas of the Colombo district as revealed in the Household Income and Expenditure Survey (HIES) 2006/2007 whereas the earlier series was based on the expenditure patterns of the HIES of 2002.

Table 32 : Headline, Core and Food Inflation in Sri Lanka (Base: 2006/07=100)

Month	Headline Inflation (%)				Core Inflation (%)				Food Inflation (%)			
	Point to Point		Annual Average		Point to Point		Annual Average		Point to Point		Annual Average	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
January	7.1	6.2	3.2	6.1	8.0	6.5	6.8	6.8	8.6	10.2	3.1	7.1
February	7.5	7.2	3.3	6.1	8.1	5.7	6.8	6.6	8.1	13.1	3.2	7.5
March	7.2	7.7	3.4	6.2	7.5	6.6	6.8	6.6	7.4	13.7	3.6	8.1
April	6.8	8.9	3.8	6.4	7.1	7.6	6.9	6.6	6.6	14.4	4.2	8.7
May	5.6	8.2	3.9	6.6	5.7	8.4	6.7	6.9	4.4	12.6	4.6	9.4
June	5.1	7.1	4.3	6.7	5.7	8.7	6.7	7.1	3.2	10.1	4.8	10.0
July	4.4	7.5	4.6	7.0	5.5	8.9	6.6	7.4	3.4	9.4	4.9	10.5
August	5.0	7.0	4.9	7.1	6.0	7.8	6.6	7.5	5.3	8.2	5.3	10.7
September	5.7	6.4	5.3	7.2	6.2	6.9	6.5	7.6	7.0	6.6	5.7	10.6
October	6.5		5.7		7.2		6.6		9.3		6.2	
November	6.9		6.1		7.9		6.7		10.1		6.7	
December	6.8		6.2		8.9		7.0		9.9		6.9	

Source: Department of Census and Statistics

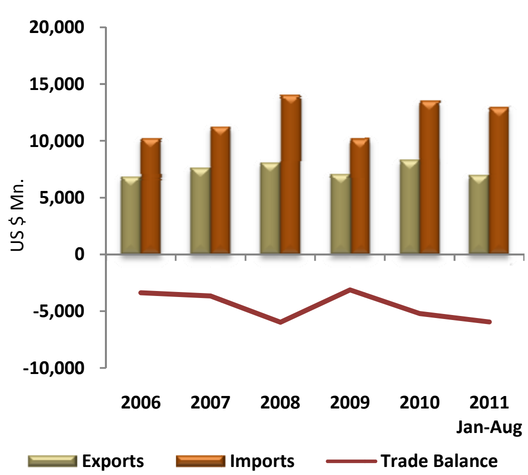
Chart 14: Headline, Core and Food Inflation in Sri Lanka (Base: 2006/07=100)



External Sector

The strengthened performance in the external sector continued in 2011 as well with the increased investor confidence due to stable macroeconomic conditions and peaceful environment of the country, improved financial market conditions, enhanced external trade and gradual recovery of the global economy. The earnings from exports and the expenditure on imports increased significantly during the first eight months of 2011. As the growth in the imports outpaced the growth in the exports, the deficit in the trade account expanded during this period to US$ 5,960 million. In contrast, there was a significant surplus in the services account due to the higher earnings from the rapid expansion in the transportation (which includes passenger fares, freight and port & airport related earnings), export of software and information technology related services and tourism related activities. Meanwhile, the deficit in the income account contracted sharply reflecting the significant increase in interest earnings on foreign exchange reserves and the increase in profits and other charges from various sources. More importantly, the inward workers' remittances increased by 27.2 percent to US$ 3,381 million during first eight months of 2011.

Chart 15: Trade Balance

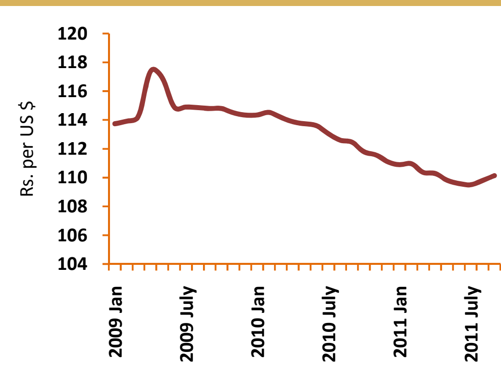


The above developments resulted in a wider deficit of US$ 1,569 million in the current account by end June 2011. This deficit was mainly due to the widened trade balance on account of increase in import expenditure, particularly for the increased oil bill of the country and for larger capital goods imports for ongoing infrastructure development projects. The higher growth in inward workers' remittances and the surplus in the services account helped offset about two thirds of the deficit in the trade account during this period.

Foreign financial inflows to the government increased due to the faster disbursement of foreign loans to finance ongoing major infrastructure development projects. In addition, foreign investment in government securities was also increased due to the enhanced investor confidence, comparably low international interest rates and relatively stable exchange rate in the country. The continuation of the Stand-by Arrangement facility with the International Monetary Fund (IMF) also affected positively on the investor confidence. Meanwhile, the government was also able to complete its fourth international sovereign bond issue of US$ 1,000 million successfully in July 2011. Foreign Direct Investment (FDI) inflows also increased to US$ 352 million during the first six months of 2011. Nevertheless, portfolio investment recorded a net outflow of US$ 67 million during this period while foreign inflows to private sector also recorded a decline.

The Balance of Payments (BOP) generated a surplus of US$ 357 million during the first six months of 2011. Total gross official reserves at end August 2011 stood at US$ 8,051 million which is equivalent to about 5.4 months of imports. The Central Bank utilized a part of these reserves during this period to intervene in the domestic foreign exchange market to maintain a relatively stable exchange rate against US dollar by mitigating its excessive volatility and to ensure adequate foreign exchange liquidity in the market.

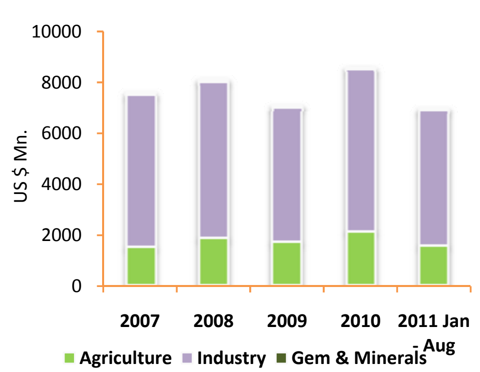
Chart 16: Exchange Rate Movements



Exports

Earnings from exports grew by 28.6 percent to US$ 6,966 million during the first eight months of 2011 compared to the corresponding period of 2010. The agricultural exports recorded a 13.9 percent increase to US$ 1,564 million during this period compared to US$ 1,374 million in the same period of 2010 mainly due to the higher prices in the international market. Earnings from tea exports grew by 3.1 percent to US$ 973 million due to the higher prices coupled with the marginal increase in the volume of tea exports in the midst of the tension in the major markets in the Middle East. The shortages of supply of natural rubber in the world market due to unfavourable weather conditions in the major rubber producing countries and the relatively high oil prices resulted in very attractive prices for rubber. However, export volume of natural rubber dropped since most of the raw rubber was absorbed by the local value added industry benefiting from the conducive environment that promotes domestic value addition. Meanwhile, the earnings from minor agricultural products like cinnamon, pepper, nutmeg & mace, vegetables, fruits and tobacco etc. also increased due to higher international prices. Exports of fishery products also recorded an increase due to the higher global demand of edible fish, prawns and other crustaceans and aquarium fish.

Chart 17: Composition of Exports



Industrial exports, which accounted for nearly 76 percent of total exports, grew by 33.5 percent during the first eight months of 2011, compared to the same period of 2010. The main contributors to this high growth were the petroleum products, gems, leather products, wood products and rubber products. Especially, the export of value added products of rubber, including tyres, gloves and floor coverings, increased sharply during the first eight months of 2011 due to the higher demand in the international market.

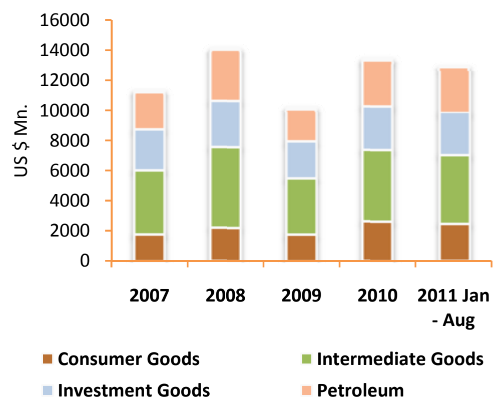
Earnings from textile & garments increased significantly by 27 percent to US$ 2,779 million during the first eight months of 2011 compared to the corresponding period in 2010. Although the EU has withdrawn the GSP+ concession, which provided preferential tariff benefits for Sri Lankan exports, the apparel sector has been able to face that challenge effectively through quality improvements, branding, product diversification and enhancing productivity etc. while also benefiting from the peaceful environment in the country and the improved macroeconomic conditions. Such performance also reiterates the resilience of the Sri Lanka's garments and textile industry and its strong capacity to compete in the global market without favoured treatments. The gradual increase in global demand and the rising cost of production in competitor countries, mainly due to wage pressures, also have helped increase export orders to Sri Lanka in this sector.

Imports

The expenditure on imports increased by 50.6 percent to US$ 12,926 million during the first eight months of 2011 over the same period in 2010. The largest contribution to the increase in expenditure on imports came from the intermediate goods, which recorded a 52 percent growth to US$ 7,571 million during this period. The sharp increase in average international crude oil (Brent) prices by 46 percent during this period was the major reason to increase in the country's petroleum bill by 50.5 percent to US$ 2,981 million during the first eight months period of 2011. The cost on fertilizer and chemicals also increased considerably.

The import expenditure on investment goods, including building materials, machinery & equipment and transport equipment also increased by 56 percent to US$ 2,834 million during the period under review. This was mainly attributable to the expansion in construction activities throughout the country, including the ongoing large scale infrastructure development projects.

Chart 18: Composition of Imports



Expenditure on Importation of consumer goods increased by 48.3 percent to US$ 2,436 million during the first eight months of 2011 compared to the same in 2010. Relatively higher prices in the international market and higher domestic demand on items like sugar, wheat flour and milk, expanded the import bill on food and beverages.

Though the international price of rice increased in 2011, the expenditure on rice import declined by 80 percent during this period due to the self-sufficiency in rice domestically.

The main contribution to the higher import bill on consumer goods came from the non-food consumer goods, which has increased by 91.8 percent during the first eight months of 2011 over the same period in 2010, with main contributors being the import of motor vehicles and electrical items benefiting from the significant reduction of the applicable taxes in the recent past.

Workers' Remittances

Worker's remittances continued to be an important and stable source of external financing to Sri Lanka. The inflows through workers' remittances increased by 27.2 percent to US$ 3,381 million during the first eight months of 2011 compared to the same period in 2010. The initiatives taken by the government to increase the migration of skilled workers and enhancement of the availability of formal channels, including the increased number of bank branches and service offices in the Northern and Eastern provinces, to remit funds to Sri Lanka, were among the major factors that helped this improved performance in workers' remittances.

Table 33: External Trade

Indicator					US $ Mn.
	2008	2009	2010 (a)	2010	2011
				Jan-Aug (a)	Jan-Aug (b)
Exports	**8,111**	**7,085**	**8,570**	**5,416**	**6,966**
Agricultural Exports	**1,855**	**1,690**	**2,132**	**1,374**	**1,564**
Tea	1,272	1,185	1,439	944	973
Other Agricultural Products	583	505	693	430	591
Industrial Exports	**6,158**	**5,305**	**6,343**	**3,980**	**5,313**
Textile and Garments	3,469	3,274	3,372	2,183	2,779
Rubber Products	542	385	558	340	575
Machinery and Equipment	461	330	446	303	418
Diamond and Jewellery	435	330	335	217	265
Food, Beverages and Tobacco	458	406	509	350	394
Petroleum Products	255	135	207	128	342
Other Industrial Products	539	446	916	458	541
Gem and Mineral Products	**98**	**89**	**94**	**63**	**89**
Imports	**14,091**	**10,207**	**13,451**	**8,581**	**12,926**
Consumer Goods	**2,184**	**1,713**	**2,613**	**1,643**	**2,436**
Food and Beverages	1138	987	1,385	955	1,117
Other	1047	726	1,229	688	1,319
Intermediate Goods	**8,720**	**5,928**	**7,753**	**4,973**	**7,571**
Petroleum	3,368	2,167	3,019	1,980	2,981
Fertilizer and Chemicals	938	506	630	417	589
Textiles and Clothing	1,702	1,442	1,732	1,055	1,481
Wheat Grain	375	259	257	189	323
Other	2,337	1,555	2,115	1,332	2,198
Investment Goods	**3,048**	**2,451**	**2,909**	**1,817**	**2,834**
Machinery and Equipment	1,334	1,013	1,206	731	1,271
Transport Equipment	439	436	581	366	572
Building Material	943	715	810	527	694
Other	336	287	312	193	296
Unclassified	**139**	**115**	**176**	**148**	**84**
Trade Deficit	**-5,981**	**-3,122**	**-4,881**	**-3,164**	**-5,960**

(a) Revised *Sources: Sri Lanka Customs*

(b) Provisional *Central Bank of Sri Lanka*

External Environment

The recovery of the world economy continued so far in 2011 at varied paces despite the unwinding and some reversal of fiscal policy stimulus measures, depending on the impact of the financial crisis and the subsequent global economic recession on individual economies. However, the global economic growth has decelerated recently owing to many downside risks. Meanwhile, annual headline inflation has been stabilized in advanced economies. However, in emerging economies, inflationary pressures continue to be more pronounced.

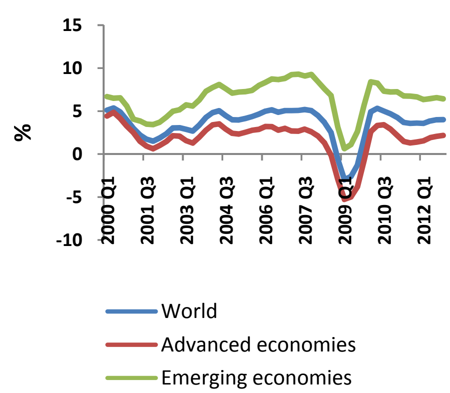
The downside risks about the sustainability of the global recovery process have intensified in the recent past with the growing uncertainties around the world in a number of areas. More importantly, the pace of economic recovery in the advanced economies has slowed down and become uneven due to intensifying debt-related strains in the Euro zone and the US which would adversely affect financial markets, undermine consumer and business confidence and restrain spending. The contagion from the sovereign debt crisis in the Euro zone is contributing to a plunge in growth in the larger European economies. These developments have highlighted the need for fiscal consolidation in the Euro zone as well as in the US. Significant fiscal restraint and the resulting slowdown in domestic demand will keep the UK growth at a lower rate. Although, there are signs of rebound of activity, the devastating March 2011 earthquake, subsequent Tsunami disaster and the associated nuclear accident, coupled with longer-term structural issues, such as less favourable demographic trends and high debt, are expected to restrain the growth in Japan. In addition, the possible increase in oil prices triggered by the political turmoil in North Africa and the Middle East also remains as a risk, although the potential slowdown in the global economy would rule out such a scenario.

However, the emerging market countries, spearheaded by the Asian economies, will continue to lead the global growth in the medium term as they have the fiscal and financial flexibility to underpin solid economic gains in their home markets while facing the challenges associated with capacity constraints and policy tightening.

Economic Growth

In advanced economies, the growth in 2010 was 3.1 percent against the contraction of 3.7 percent in 2009. The US experienced a growth of 3.0 percent in 2010 while that of Japan was 4.0 percent. The growth in Euro Area and the UK was 1.7 and 1.3 percent, respectively. Other advanced economies altogether reported a growth of 5.7 percent. In contrast, the growth in many emerging and developing economies was robust with low unemployment rates. In particular, China expanded by 10.3 percent while India recorded a 10.1 percent growth in 2010. The economic activities of these economies remain robust due to accommodative macroeconomic policies together with increased exports and commodity prices and also due to satisfying levels of capital inflows.

Chart 19: Real GDP Growth - Quarterly Percent Change from One Year Earlier



Quoted from World Economic Outlook (WEO) September 2011 published by IMF

The delayed recovery in advance economies is likely to have a direct and indirect impact on Sri Lanka's economic outlook. In particular, the slow growth in the Western economies and turmoil in Middle East could have an impact on the demand for Sri Lanka's exports from traditional markets. Nevertheless, this could also dampen the international commodity prices, including oil, thereby particularly saving oil importation cost.

The IMF, in its World Economic Outlook (WEO), forecasts the world GDP to grow by 4 percent in 2011 and 2012. The growth rates in advanced economies and emerging and developing economies are projected at 1.6 percent and 6.4 percent, respectively. A relatively higher growth rate of 1.9 percent is projected for advanced economies in 2012 while that of emerging and developing economies has been lowered to 6.1 percent in 2012.

Table 34: GDP Growth Rates - World (%)

	Actual		Projections	
	2009	**2010**	**2011**	**2012**
World GDP Growth	-0.7	5.1	4.0	4.0
Advanced Countries	-3.7	3.1	1.6	1.9
United States	-3.5	3.0	1.5	1.8
Euro area	-4.3	1.8	1.6	1.1
Japan	-6.3	4.0	-0.5	2.3
United Kingdom	-4.9	1.4	1.1	1.6
Canada	-2.8	3.2	2.1	1.9
Other Advanced Countries	-1.1	5.8	3.6	3.7
Emerging and Developing Economies	2.8	7.3	6.4	6.1
Asia	7.2	9.5	8.2	8.0
China	9.2	10.3	9.5	9.0
India	6.8	10.1	7.8	7.5
ASEAN-5*	1.7	6.9	5.3	5.6
Sri Lanka**	3.5	8.0	8.3	8.0
Africa	2.8	5.4	5.2	5.8
Central and Eastern Europe	-3.6	4.5	4.3	2.7
Commonwealth of Independent States	-6.4	4.6	4.6	4.4
Russia	-7.8	4.0	4.3	4.1
Middle East	2.6	4.4	4.0	3.6
Latin American and the Caribbean	-1.7	6.1	4.5	4.0
Brazil	-0.6	7.5	3.8	3.6
Mexico	-6.2	5.4	3.8	3.6

Source: World Economic Outlook (WEO) September 2011 published by IMF

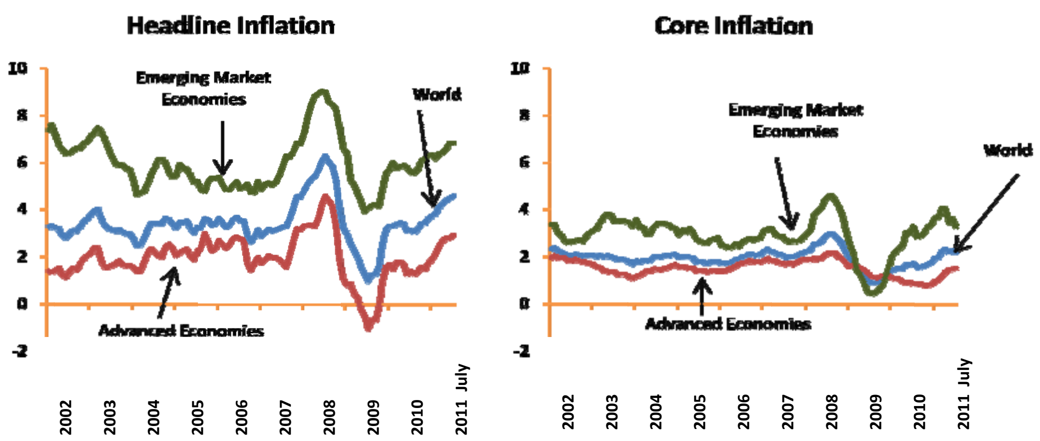
** Includes Indonesia, Malaysia, Philippines, Thailand and Vietnam*

*** For 2011 and 2012, revised projections*

Inflation

The average inflation in advanced economies increased considerably from 0.1 percent in 2009 to 1.6 percent in 2010 and is projected to rise to 2.6 percent in 2011 and remain at around 1.4 percent in 2012. In contrast, the emerging and developing economies experienced an inflation rate of 3.1 percent in 2009 and 5.7 percent in 2010 and the forecast for 2011 is 7.0 percent while for 2012, it is 5.1 percent. The much broadened inflationary pressures in the latter regions are due to the relatively high food and energy prices and the inclusion of these items in the consumer baskets of most of the developing economies giving more possibility to build up inflationary pressures in these economies due to demand for wage hikes. Although some emerging and developing economies have increased their policy rates to respond to emerging inflationary pressures, their real interest rates are still at lower levels than the rates that were prevailed before the crisis.

Chart 20: Inflation (%)



Quoted from World Economic Outlook (WEO) September 2011 published by IMF

Unemployment

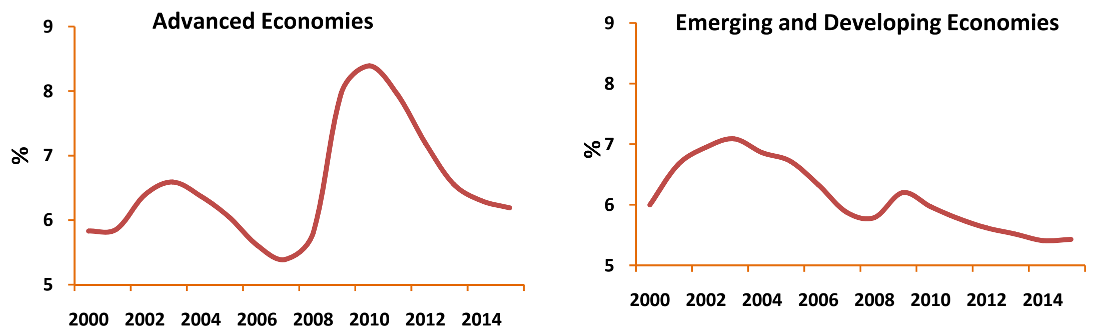
Unemployment remains high, particularly in advanced economies, due to lay-offs in many developed countries as well as the widened output gaps. The unemployment rate increased from 8 percent in 2009 to 8.3 percent in 2010 and is projected to be declined to 7.9 percent in 2011. The prospects for early easing of these levels remain bleak as revealed by the projections, which expects only a slight decline in the unemployment in the US to 9.1 percent from 9.6 percent as well as in the Euro area to 9.9 percent from 10.1 percent.

Table 35: Inflation and Unemployment (%)

	Actual		Projection	
	2009	2010	2011	2012
Consumer Price Inflation				
Advanced Economies	0.1	1.6	2.6	1.4
Developing Asia	3.1	5.7	7.0	5.1
Central and Eastern Europe	4.7	5.3	5.2	4.5
Commonwealth of Independent States	11.2	7.2	10.3	8.7
Latin America and the Caribbean	6.0	6.0	6.7	6.0
Middle East and North America	6.6	6.8	9.9	7.6
Sub-Saharan Africa	10.6	7.5	8.4	8.3
Unemployment Rates				
Advanced Economies	8.0	8.3	7.9	7.9
United States	9.3	9.6	9.1	9.0
Euro Area	9.6	10.1	9.9	9.9
Germany	7.7	7.1	6.0	6.2
France	9.5	9.8	9.5	9.2
Italy	7.8	8.4	8.2	8.5
Spain	18.0	20.1	20.7	19.7
Japan	5.1	5.1	4.9	4.8
UK	7.5	7.9	7.8	7.8
Newly Industrialized Asian Economies	4.3	4.1	3.5	3.5

Source: IMF, World Economic Outlook (WEO) September 2011 published by IMF

Chart 21: Unemployment Rate

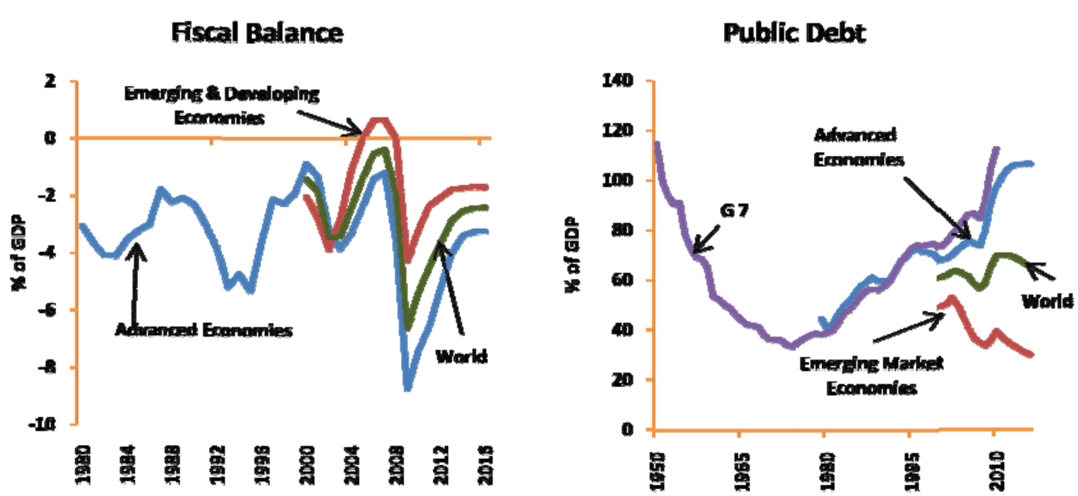


Quoted from World Economic Outlook (WEO) October 2010 published by IMF

Government Debt

In most advanced economies, the level of government debt was increased as a consequence of high fiscal deficits and slow growth resulted from the recession. Hence, fiscal adjustments have become imperative, particularly in advanced economies, to deal with downside risks. The success of the adjustment procedure depends on the credibility of the fiscal consolidation plans and their impact of the market pressures. Many developing countries also experienced high debt levels but not to the extent of the advanced countries. Nevertheless, prudent fiscal measures will have to be implemented in emerging and developing economies as well to strengthen their economies to withstand the spillovers emanating from advanced economies which they have close links with. During the first half of 2011, many economies tightened fiscal policies and it is expected that further tightening will be taken place during 2012.

Chart 22: Fiscal Balance and Public Debt



Quoted from World Economic Outlook (WEO) September 2011 published by IMF

Table 36: Government Debt/ GDP Ratio in Selected Countries (%)				
Country	2009	2010	2011 (Proj.)	2012 (Proj.)
Canada	83.3	84.0	84.1	84.2
France	79.0	82.4	86.9	89.4
Germany	74.1	84.0	82.6	81.9
Greece	127.1	142.8	165.6	189.1
Italy	116.1	119.0	121.1	121.4
Japan	216.3	220.0	233.1	238.4
Korea	33.8	33.4	32.0	30.0
Singapore	105.0	96.3	93.5	90.1
Spain	53.3	60.1	67.4	70.2
United Kingdom	68.3	75.5	80.8	84.8
United States	85.2	94.4	100.0	105.0
India	74.2	67.3	64.9	64.2
Indonesia	28.6	27.4	25.2	24.0
Malaysia	55.4	54.2	55.1	55.9
Thailand	45.2	44.1	43.0	43.5
Pakistan	57.4	56.8	57.6	57.3
Philippines	47.1	44.7	44.4	43.6
Brazil	68.1	66.8	65.0	64.0
Mexico	44.7	42.9	42.9	43.6
Sri Lanka	86.2	81.9	78.2	74.2

Source: Fiscal Monitor-IMF (September 2011). For Sri Lanka, latest official projections.

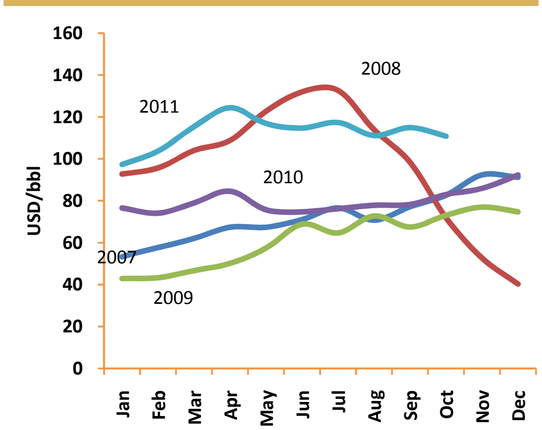
Commodity Prices

The international prices of non-fuel commodities has increased by 26.3 percent in 2010 and it is projected to be expanded by 25.1 percent in 2011. Food prices are forecasted to be increased by 22.1 percent in 2011 which is significantly higher than the 2010 level of 11.5 percent. The change in consumption patterns in developing and emerging economies spurred by the rapid growth, high production costs with slow supply responses, higher demand than expected and supply shocks in food due to unfavourable weather conditions are among the key reasons for relatively high commodity prices. However, the recent developments show that food prices have declined significantly from the earlier predictions, although the upside risks still remain arising from inflationary pressures, especially in the emerging and developing economies.

International Oil Prices

The international oil prices, although at present hovering at a lower level than the highest prices recorded in 2008, remain high compared to those prices recorded in the recent past i.e. 2007, 2009 and 2010.

Chart 23: Monthly Average Crude Oil (Brent) Prices: 2007-2011 (September)

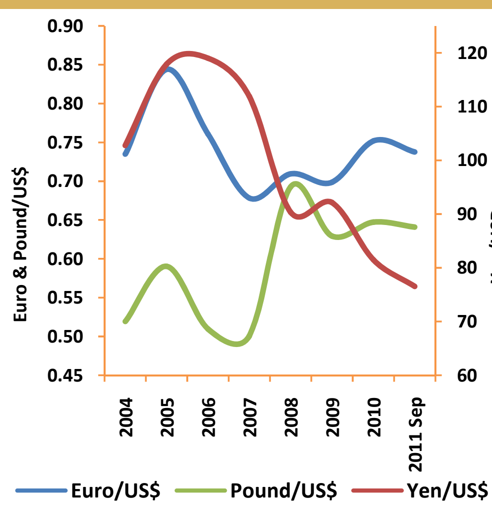


Oil prices, which increased by 27.9 percent in 2010, were earlier projected to be increased further by 35.6 percent in 2011. Nevertheless, during the latter part of the year, oil prices declined to about US$ 105 a barrel from the peak price of about $120 in April 2011 partly due to increased supply of members of the OPEC who are not suffering from the regional unrest and release of stocks by International Energy Agency (IEA). However, risks to low output of petroleum emanating from geo-political turmoil in the Middle East and North African countries still remain. The IMF has predicted that the average oil price will be increased by 30.6 percent in 2011 and will be declined by 3.1 percent in 2012. However, there is a considerable uncertainty in the prediction of the behavior of oil prices.

International Currency Movements

In the international currency markets, the yen continued to appreciate against the US dollar while the Euro also appreciated, but remained relatively stable after 2007. Meanwhile, the UK pound, after depreciating significantly until 2008, remained relatively stable since 2009.

Chart 24: Exchange Rates Against US$



World Trade

The volume of world trade increased by 12.8 percent in 2010 after the contraction of 10.7 percent experienced in 2009. The projected growth of the world trade in 2011 is 7.5 percent. The imports of advanced economies, which is a major factor that affect Sri Lanka's exports, are expected to be increased by 5.9 percent in 2011 and further by 4.0 percent in 2012. The rapid growth of 14.9 percent in imports by developing and emerging economies in 2010 is predicted to be somewhat reduced to 11.1 percent in 2011, but would be performing better, which is an encouraging development in the global economic activity. The exports by emerging and developing economies are predicted to be increased at a lower rate of 9.4 percent in 2011 compared to 13.6 percent recorded in 2010 while in advanced economies; it will be a decline by nearly half of the value of 12.3 percent in 2010.

In the above context, Sri Lanka's exports are expected to increase by 25 percent in 2011 continuing the growth of 21 percent recorded in 2010. The imports are also expected to grow at a faster rate of 45 percent in 2011 mainly reflecting the high level imports of intermediate and investment goods to support the improvement in domestic economic activities complemented by conducive policy measures, including the tariff adjustments and also to meet the requirements in ongoing infrastructure development activities, which are funded through external development assistance. The rising level of per capita income of the country also would drive imports up, particularly the non-food consumer items.

Capital Flows

The capital flows throughout the world remains lower than that before the crisis. The major reasons in advanced economies behind this performance include the slowdown in economic activities and the weakened financial systems. For instance, net private direct investment flows were US$ 325 billion in 2010 compared to US$ 467 billion in 2008 and it is likely that this will be US$ 429 billion in 2011. Nevertheless, some larger emerging economies such as Brazil, China and India still entertain same level or above the pre-crisis levels of capital inflows.

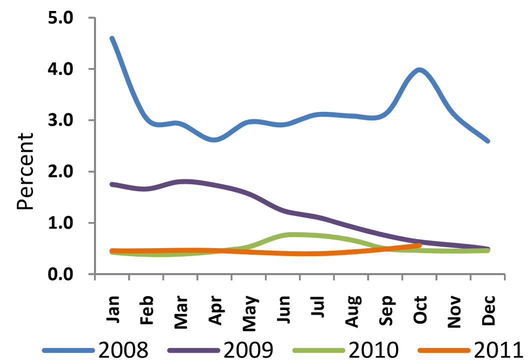
However, uncertainties over the fiscal and monetary policies together with political unrests will cause less than expected capital flows in the rest.

In this context, Sri Lanka has an excellent opportunity to attract higher level of FDI and other capital flows particularly in the peaceful environment in the country conducive for investments due to the ending of the protracted conflict complemented by macroeconomic stability, improved doing business environment and the recently revised incentive scheme for investments, which is more rational and transparent.

Interest Rates

Interest rates in the advanced countries have declined to historically low levels alongside the increased risk aversion and monetary accommodation with yield rates on medium term government securities also remaining relatively stable at lower rates. In many other countries as well, the interest rates continue to remain low. The interest rates in Sri Lanka also remain at a single digit level responding particularly to the reduction of policy interest rates in the midst of lower inflation. With these developments, coupled with the improved investor confidence, the activities in the share market have gained momentum. The successful completion of Sri Lanka's fourth international sovereign bond issue of US$ 1,000 million in July 2011 has reflected the positive sentiment of foreign investors on the country underpinned by improved economic conditions and positive outlook for the economy in the midst of uncertain global economic conditions. It has also helped improve Sri Lanka's presence in the international capital market.

Chart 25: Monthly Movements of Six Months LIBOR



In the overall context, the high level of unemployment coupled with near zero interest rates, high budget deficits and debt levels particularly in advanced countries indicate the level of uncertainty in the external macroeconomic environment in the medium term where Sri Lanka will have to perform. This uncertainty and the associated developments in the international environment will have both positive and discouraging features. Hence, Sri Lanka is continuing its vigilance on external sector developments to identify potential threats on the economy while reaping the benefits of improved domestic conditions. This will enable the country to realize the risks and challenges that will pose by the highly uncertain global economic outlook and obtain the benefits of positive developments in the external sector.

Basis used for the Preparation of 2012 Budget Estimates

Gross Domestic Product (GDP)

The economy is expected to register a growth of about 8 percent in 2012 and the growth is expected to be broad based. A healthy growth is aimed in all the sectors i.e. Agriculture, Industry and Services, benefiting from the continued infrastructure development which will boost aggregate demand and output coupled with higher capacity utilization and improvement in productivity. In particular, the growth in the Agriculture sector is expected mainly through the improved performance in major agriculture crops in both export and domestic agriculture supported by favourable weather as well as revival of economic activities in the Northern and Eastern provinces. The anticipated expansion in the factory industry output with the increase of demand from both domestic and international markets is expected to contribute to the expected expansion in Industry sector. The higher growth anticipated in the Services sector is expected to be contributed by the expansion in port related activities, tourism, transportation, external and domestic trade and financial services. The peaceful environment prevailing in the country, political stability, improved macroeconomic conditions as well as the positive investor confidence are expected to boost private investment complementing the expected growth in 2012.

Consumer Prices

The inflation is expected to remain subdued at 6-7 percent in 2012. The favourable supply side developments, particularly in the Agriculture sector, are expected to continue to help reduce price pressures in the domestic economy. Also, it is expected that the prevailing uncertainties in the global economy and the slowdown in growth in both advanced and emerging economies would lead the demand pressures to remain subdued and hence dampen the international commodity prices.

Employment and Unemployment

It is expected that the unemployment will continue at around 4-5 percent level with the creation of greater employment opportunities, particularly for the new entrants to the labour force, as a result of the government investments in infrastructure development coupled with the expansion in investments by the private sector in all three sectors in the economy. The programmes implemented by the government aiming at human resource and skill development will also help enhance the quality of the work force and their productivity thereby enhancing the employability of the work force in emerging opportunities. It will also help address the issues in driving towards a knowledge-based economy in the future.

Balance of Payments (BOP)

The external sector is expected to improve further in 2012 by creating a surplus in the BOP. It will further increase the country's external reserves. The increase in exports is expected to continue supported by the conducive policies, higher value addition, diversification of export products and markets, complemented by the expected continuation of the global demand for Sri Lankan exports. Higher utilization of the available opportunities under various trade agreements and the deeper regional economic integration will also support the expansion in exports. Meanwhile, imports are projected to grow at a higher rate than the growth in exports mainly reflecting the higher intermediate and investment good imports to support the revival of the economy as well as the increased demand for consumer imports emanating from the increasing income levels of the people.

Although the trade deficit is expected to be widened, the continuous improvement expected in the services account mainly due to the strong recovery in the tourism sector and the improved port related activities etc. and continuation of the increase in inward workers' remittances, will help ease the deficit in the external current account. The anticipated increase in debt and equity investment, reflecting the investor confidence amidst the peaceful environment in the country, is expected to strengthen the capital account.

Exchange Rate

The stable exchange rate is expected to be continued supported by the enhanced external reserves of the country.

Monetary Aggregates

The growth in the money supply in 2012 would be maintained at a level compatible with the expected nominal growth in the GDP. The continuation of the fiscal consolidation process will enable the private sector to obtain an enhanced amount of resources for their investment activities helping to achieve the expected economic growth in 2012.

Government Revenue

Key assumptions used in preparing revenue estimates of the government are given in Annex II.

Government Expenditure

Efforts to keep the operational expenditure on check while prioritizing much needed public investment to support the growth momentum of the economy by complementing private sector economic activities will be continued. The intensified efforts to improve the quality of public spending and curtail unproductive expenditures will be given priority. The resources will be continuously channeled to meet infrastructure development needs in roads, ports, electricity, etc. at national level while implementing provincial and regional level infrastructure projects to provide necessary support for the more inclusive growth based income raising approach to reduce poverty and regional economic disparities. Accordingly, public investment will be maintained at around 6.5 percent of GDP to complement the expected higher economic growth of about 8 percent in the medium term. In preparing the estimates on current expenditure, the need to allocate adequate provisions for payments pertaining to salaries and wages, pensions, utility services, supplies etc. have taken into account.

Borrowings

A proper combination of domestic and foreign borrowings is proposed to be adopted to ensure the continuation of the declining trend of the debt to GDP ratio. The debt management will be continued to focus on ensuring that government's financing needs are met at the lowest possible cost.

Sensitivities to the Estimates

The economic projections could be sensitive to following key challenges;

- Unexpected and sudden developments in the global economy which would adversely affect the economic and geo political conditions globally and regionally
- Price trends in international oil and other commodities. These would affect imports as well as the domestic supply and budgetary costs
- Capacity constrains to the medium term transformation that would affect the use of funds in relation to foreign funded large projects and thereby investment level and growth
- Unfavourable weather conditions that would have an adverse impact on agriculture and hydro-power generation
- Natural disasters
- Administrative and procurement impediments

Major Risks Likely to have a Material Effect on the Fiscal Position

- Higher than expected international oil and other commodity prices that will threaten the macroeconomic stability and growth targets while affecting government expenditure and revenue
- Higher than expected slowdown in the global economy that could affect the international trade related activities. In particular, the export demand could be affected depending on the level of slowdown in the global economy thereby slowing down the Sri Lankan economy.
- New recruitments to the public service in excess of the targeted retirements
- Poor/under performance of the state owned enterprises

Annex 1

Macro Economic Indicators

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

Sector	2010					2011	
	Q_1	Q_2	Q_3	Q_4	Annual	Q_1	Q_2
Tea (Mn kg)	49.8	95.3	76.6	82.3	291.1	76.2	94.2
Growth %	48.7	15.5	2.8	-1.0	13.1	53.0	-1.2
Rubber (Mn kg)	43.2	32.8	37.3	40.6	153.0	44.3	36.3
Growth %	11.7	3.9	15.9	15.1	12.7	2.5	10.6
Coconuts (Mn nuts)	702.6	680.1	517.0	417.3	2317.0	350.6	710.4
Growth %	7.9	-14.4	-7.9	22.1	-14.3	-50.1	4.5
Paddy ('000 mt)* -	-	2 ,629	-	1,671	4,301		1,993
Growth %	-	10.3	-	31.8	17.8	-	-24.2
Fish (Mn kg)	88.5	88.6	97.6	107.9	382.7	99.8	103.4
Growth %	3.7	18.3	14.5	14.5	12.6	12.8	16.7

Source: Department of Census and Statistics

** Q2 = Maha Season, Q4 = Yala Season*

Table 2: Growth in Industrial Sector: 2009 – 2011

%

Description	2009	2010	2011	
			Q_1	Q_2
Food, Beverages and Tobacco products	5.9	6.8	7.1	7.2
Textile, apparel and leather Products	0.6	5.2	11.5	12.9
Apparel	0.6	5.3	13.0	15.1
Textile	0.1	5.2	5.4	3.9
Leather	-1.5	2.7	9.0	8.1
Chemical, petroleum, rubber and plastic products	1.8	12.2	10.4	10.9
Non-metallic mineral products	-3.3	10.4	8.7	5.9
Fabricated Metal products, Machinery & equipment	3.4	8.2	7.0	5.4
Other Industries n.e.c.	3.3	6.5	6.5	5.4
Overall Industrial Growth	**3.4**	**7.5**	**8.6**	**8.7**

Sources: Department of Census and Statistics (DCS), Central Bank of Sri Lanka (CBSL)

Table 3: Performance in Electricity Generation and Services Sector: 2009 - 2011

Category	2009	2010(a)	2010 (a)			2011	2011(b)		
			Q_1	Q_2	1st Half	Proj. (c)	Q_1	Q_2	1st Half
Electricity Generation									
Total Generation (GWh) (Excluding Self Generation)	9,882	10,714	2,587	2,628	5,215	11,400	2,718	2,857	5,575
Growth Rate	-0.2	8.4	9.5	8.2	8.8	6.4	5.1	8.7	6.9
Hydro	3,905	5,636	998	1,126	2,124	5,299	1,773	1,436	3,209
Growth Rate	-5.4	45.2	57.9	36.7	45.9	-6.0	77.7	27.5	51.1
Thermal (Includes Independent Power Plants)	5,974	4,995	1,580	1,490	3,070	6,101	930	1,384	2,314
Growth Rate	3.7	-16.4	-8.7	-7.0	-7.9	22.1	-41.1	-7.1	-24.6
Hydro: Thermal Ratio	40.60	53:47	39:61	43:57	41:59	46:54	65:35	50:50	58:42
Reservoir Water Level % (End Period)	43.2	67.3	64.2	51.6	57.9	-	82.4	46.7	64.5
Port Services									
Total Cargo Handled ('000 MT)	48,777	61,240	14,650	15,232	29,883	67,000	16,124	15,728	31,352
Growth Rate	-3.6	25.6	40.5	26.2	32.8	9.5	10.1	3.3	6.6
Total Container Handled ('000 TEUs)	3,464	4,137	993	1,018	2,011	4,500	1,077	1,017	2,094
Growth Rate	-6.0	19.4	27.4	21.0	24.1	9.8	8.4	-0.1	4.1
Telecommunications Services (No. of Subscribers) (d)									
Fixed Lines ('000)	3,431	3,571	3,465	3,523	3,523	3,690	3,595	3,599	3,599
Growth Rate	-0.5	3.9	3.4	3.9	3.9	3.3	3.7	2.2	2.2
Cellular ('000)	13,950	17,247	15,044	15,868	15,868	20,560	17,820	18,176	18,176
Growth Rate	25.9	20.9	30.9	25.4	25.4	19.2	18.5	14.5	14.5
Total Fixed Lines & Cellular ('000)	17,381	20,818	18,509	19,391	19,391	24,250	21,414	21,775	21,775
Growth Rate	19.6	17.6	24.7	20.8	20.8	16.5	15.7	12.3	12.3
Internet and email ('000) (e)	240	430	250	380	380	n.a.	673	692	692

Sources: Central Bank of Sri Lanka, Ceylon Electricity Board, Telecommunications Regulatory Commission of Sri Lanka

(a) Revised

(b) Provisional

(c) Projections

(d) As at end period

(e) Including mobile broadband connections

Table 4: Export Performance in 2010-2011

US $ Mn.

Item	2010(a)			2011		
	Jan-Jul	Aug-Dec	Total	Jan-Jul (b)	Aug-Dec (c)	Total (c)
Agricultural Products	**1,172.3**	**960.1**	**2,132.4**	**1,333.9**	**1,172.0**	**2,505.9**
Tea	802.4	636.9	1,439.3	832.3	**709.5**	1,541.8
Rubber	92.6	80.7	173.2	129.2	102.2	231.4
Coconut Products	91.0	78.4	169.5	137.8	137.2	275.0
Other Agricultural Products	186.3	164.1	350.4	234.6	223.1	457.7
Industrial Products	**3,390.4**	**2,953.3**	**6,342.6**	**4,606.9**	**3,501.0**	**8,108.0**
Textile and Garments	1,866.4	1,505.1	3,371.6	2,405.0	1,829.3	4,234.3
Petroleum	111.6	95.5	207.1	311.4	195.7	507.0
Other Industrial Products	1,412.3	1,351.6	2,763.9	1,890.6	1,476.1	3,366.7
Gems	**40.3**	**29.9**	**70.3**	**54.6**	**50.9**	**105.5**
Other Exports	**14.2**	**10.1**	**24.3**	**18.9**	**15.3**	**34.2**
Total Exports	**4,617.2**	**3,952.4**	**8,569.6**	**6,014.4**	**4,739.2**	**10,753.6**

Source: Sri Lanka Customs, Central Bank of Sri Lanka
(a) Revised
(b) Provisional
(c) Projections

Table 5: Import Performance in 2010-2011

US $ Mn.

Item	2010 (a)			2011		
	Jan-Jul	Aug-Dec	Total	Jan-Jul (b)	Aug-Dec (c)	Total (c)
Consumer Goods	**1,417.3**	**1,195.8**	**2,613.1**	**2,136.4**	**1,460.0**	**3,596.4**
Rice	57.6	1.4	58.9	9.8	5.3	15.1
Sugar	223.8	139.5	363.3	252.1	168.0	420.1
Other Food Products	571.6	390.7	962.3	272.6	479.9	1,207.4
Other Consumer Goods	564.3	664.2	1,228.5	1,147.0	806.9	1,953.9
Intermediate Goods	**4,367.2**	**3,385.9**	**7,753.2**	**6,473.0**	**4,922.4**	**11,395.4**
Petroleum Products	1,788.4	1,130.3	3,018.7	2,492.6	2,205.8	4,698.4
Wheat	166.4	90.8	257.2	295.8	170.9	466.7
Fertilizer	144.2	96.2	240.5	204.7	161.8	366.5
Textile & Clothing	902.5	829.8	1,732.3	1,290.6	930.6	2,221.2
Other Intermediate Goods	1,365.7	1,138.7	2,504.4	2,189.3	1,453.4	3,642
Investment Goods	**1,553.4**	**1,355.4**	**2908.8**	**2,398.8**	**1,989.1**	**4,388.1**
Other Imports	**139.4**	**36.5**	**175.9**	**80.4**	**24.0**	**104.4**
Total	**7,477.2**	**5,973.7**	**13,450.9**	**11,088.8**	**8,395.5**	**19,484.3**

Sources: Sri Lanka Customs, Central Bank of Sri Lanka
(a) Revised
(b) Provisional
(c) Projections

Table 6: Sri Lanka: Balance of Payments - 2011

US $ Mn

Item	Q1 *	Q2*
A. Trade Balance	-1,793	-2,465
Exports	2,663	2,394
Imports	4,456	4,858
B. Services, net	236	196
Receipts	763	746
Payments	526	550
C. Income, net	-101	45
Receipts	108	241
Payments	209	196
D. Goods, Services and Income, net	-1,657	-2,223
E. Current Transfers, net	1,152	1,160
Private Current Transfers, net	1,141	1,154
Official Current Transfers, net	11	6
F. Current Account	**-505**	**-1,064**
G. Capital Account	**38**	**37**
Private Capital Transfers, net	19	26
Official Capital Transfers, net	20	11
H. Financial Account	**794**	**1,058**
Long-term, net	456	641
Direct Investment	207	145
Foreign Direct Investment, net	207	145
Private Long-term, net	10	-6
Inflows	39	47
Outflows	29	53
Government, Long-term, net	238	501
Inflows	394	648
Outflows	156	146
Short-term:	339	417
Portfolio Investment, net	-64	-3
Private Short-term, net	-123	-38
Commercial Banks, net	447	436
Government Short-term, net	79	21
I. Errors and Omissions	-201	200
J. Overall Balance	**127**	**230**
K. Monetary Movements	-127	-230

Source: Central Bank of Sri Lanka

* Provisional

Table 7: International Reserves

US $ Mn.

Item	End 2009	End 2010 (a)	Jul-2011(b)	Aug-2011(b)
Total External Reserves	6,770	8,035	9,487	9,293
Months of Imports	8.0	7.2	6.7	6.3
Gross Official Reserves	5,097	6,610	8,099	8,051
Months of Imports	6.0	5.9	5.7	5.4

Source: Central Bank of Sri Lanka
(a) Revised

(b) Provisional

Table 8: Government Foreign Currency Debt Outstanding

US $ Mn

Items	End July 2011(a)
Total Outstanding	
Government Foreign Debt	20,142.96
US Dollar Denominated Domestic Debt	
SLDBs	1,614.07
FCBUs	150.00

Source: Central Bank of Sri Lanka, Ministry of Finance & Planning
(a) Provisional

Table 9: Outstanding Domestic Foreign Currency Debt of the Government

US $ Mn

	End 2010 (a)	End Sep 2011 (b)
Outstanding		
FCBUs	154.00	150.00
SLDBs	1,567.12	1,614.07
Receipts		
FCBUs	-	49.50
SLDBs	628.00	547.00
Payments		
FCBUs	60.50	53.50
SLDBs	530.30	500.05

Source: Central Bank of Sri Lanka, Ministry of Finance & Planning
(a) Revised
(b) Provisional

Table 10: Movements in Selected Exchange Rates (Against the US $)

Currency	Appreciation (+)/ Depreciation (-)		Current Account Deficit (-)/ Surplus (+) (as a percentage of GDP)	Inflation (Annual Average)*
	End 2009 - End 2010	End 2010 - Sep 2011	2010	2010
Sri Lanka Rupee	3.09	0.70	-2.9	5.9
Indian Rupee	3.85	-8.61	-2.6	12.0
Bangladesh Taka	-2.13	-5.96	2.2	8.1
Pakistan Rupee	-1.75	-2.06	-2.2	11.7
Singapore Dollar	9.21	-0.77	22.2	2.8
Thailand Baht	10.81	-3.34	4.6	3.3
Taiwan Dollar	10.62	-4.50	9.3	1.0
Indonesian Rupiah	4.92	1.90	0.8	5.1
Philippine Peso	6.05	-0.01	4.2	3.8
Korean Won	3.69	-4.40	2.8	3.0
Japanese Yen	13.05	6.47	3.6	-0.7

Sources: Central Bank of Sri Lanka & IFS, IMF

** Average consumer prices except for India*

Table 11: Central Bank Holdings of Treasury Bills

Rs.Bn.

End Period	Gross (Book Value)	Net of Repos (Book Value)
2007	41.8	41.8
2008	143.7	143.2
2009	36.0	36.0
2010	20.7	2.3
End Sep. 2011	90.2	64.3

Source: Central Bank of Sri Lanka

Table 12: Commercial Banks' Advances to the Private Sector - June 2011 (a)

	Amount (Rs. Mn)	as a % of Total
1. Agriculture & Fishing	**246,285**	**14.3**
of which		
Tea	45,094	2.6
Rubber	18,893	1.1
Coconut	4,635	0.3
Paddy	14,297	0.8
Vegetable and Fruit Cultivation & Minor Food Crops	8,992	0.5
Fisheries	5,626	0.3
2. Industry	**612,683**	**35.7**
of which		
Construction	257,822	15.0
of which		
Personal Housing including purchasing/construction/repairs	151,685	8.8
Food and Beverages	36,382	2.1
Textiles & Apparel	95,727	5.6
Fabricated Metal Products, Machinery and Transport Equipment	52,944	3.1
3. Services	**364,348**	**21.2**
of which		
Wholesale and Retail Trade	118,694	6.9
Tourism	38,702	2.3
Financial and Business Services	91,100	5.3
Shipping, Aviation and Supply, & Freight Forwarding	7,290	0.4
4. Consumption	**466,078**	**27.1**
of which		
Consumer Durables	34,152	2.0
Pawning	206,658	12.0
Credit Cards	32,197	1.9
5. Safety Net Scheme Related (eg. Samurdhi)	**27,524**	**1.6**
6. Total	**1,716,917**	**100**

Source: Central Bank of Sri Lanka

(a) Provisional

(b) Includes loans and advances of Offshore Banking Units

(c) Excludes personal housing loans, which have been included under 'Construction' classified under 'Industry'

Table 13: Interest Rate Movements in 2009 - 2011

Interest Rate	End Dec 2009	End Dec 2010	End Mar 2011	End June 2011	End Sep 2011
Policy Rates of the Central Bank					
Repurchase Rate	7.50	7.25	7.00	7.00	7.00
Reverse Repurchase Rate	9.75	9.00	8.50	8.50	8.50
Weighted Average Call Money Rate (with tax)	9.07	8.03	7.62	8.00	8.05
Weighted Average OMO Auction Rate	8.24	-	-	-	7.08
Treasury Bill Rates					
91 days	7.73	7.24	6.98	7.12	7.15
180 days	8.73	7.35	7.08	7.23	7.23
364 days	9.33	7.55	7.30	7.35	7.31
Lending Rates					
Average Weighted Prime Lending Rate (weekly)	10.91	9.29	9.30	9.41	9.13
Average Weighted Prime Lending Rate (monthly)	11.12	9.27	9.15	9.28	9.36
Average Weighted Lending Rate (Quarterly)	17.41	14.80	14.11	13.72	-
Deposit Rates					
Average Weighted Deposit Rate (AWDR)	8.01	6.23	6.20	6.31	6.48
Average Weighted Fixed Deposit Rate (AWFDR)	10.91	8.20	8.17	8.22	8.11

Source: Central Bank of Sri Lanka

Table 14: CCPI - Changes in Expenditure Values (Base 2006/07=100)

	Rupees			Change		
	Weight	Sep-10	Sep-11	Rupees	%	Contri. to change
Food and Non Alcoholic Beverages	**41.03**	**18,294.04**	**19,496.50**	**1,202.46**	**6.57**	**3.01**
Food	34.32	15,209.53	16,081.32	871.76	5.73	2.19
Bread and Cereals	7.87	3,629.15	3,925.44	296.29	8.16	0.74
Meat and Meat Products	2.29	1,008.53	1,010.10	1.57	0.16	0.00
Fish and Sea Food	5.95	2,700.58	2,864.58	163.71	6.06	0.41
Milk, Cheese and Eggs	6.11	2,628.67	2,749.42	120.75	4.59	0.30
Oils and Fats	1.15	514.74	580.27	65.53	12.73	0.16
Fruit	1.43	628.62	660.82	32.2	5.12	0.08
Vegetables	5.65	2,304.82	2,203.95	-100.87	-4.38	-0.25
Sugar, Jam, Honey, Chocolate and Confectionary	1.54	665.16	725.56	60.4	9.08	0.15
Food Products n.e.c.	2.34	1,128.97	1,361.17	232.2	20.57	0.58
Non - Alcoholic Beverages	**0.87**	**496.31**	**500.74**	**4.43**	**0.89**	**0.01**
Coffee, Tea and Cocoa	0.73	442.81	442.81	0.00	0.00	0.00
Mineral Waters, Soft Drinks, Fruit and Vegetable Juices	0.14	53.5	57.93	4.43	8.28	0.01
Clothing and Footwear	**3.14**	**1,163.44**	**1,328.95**	**165.51**	**14.23**	**0.41**
Housing, Water, Electricity, Gas and Other Fuels	**23.72**	**7,960.57**	**8,413.01**	**452.44**	**5.68**	**1.13**
Furnishing, Household Equipment and Routine Household Maintenance	**3.6**	**1,289.84**	**1,362.26**	**72.42**	**5.61**	**0.18**
Health	**3.16**	**2,087.08**	**2,151.72**	**64.64**	**3.10**	**0.16**
Transport	**12.26**	**4,800.6**	**5,282.13**	**481.53**	**10.03**	**1.21**
Communication	**4.75**	**1,199.92**	**1,119.92**	**0.00**	**0.00**	**0.00**
Recreation and Culture	**1.5**	**565.62**	**592.87**	**27.25**	**4.82**	**0.07**
Education	**3.94**	**1,503.29**	**1,549.64**	**46.35**	**3.08**	**0.12**
Miscellaneous Goods and Services	**2.89**	**1,029.67**	**1,068.95**	**39.28**	**3.81**	**0.10**
All Items	**100.00**	**39,984.08**	**42,445.97**	**2,551.89**	**6.40**	**6.40**

Source: Department of Census and Statistics

Annex II

ASSUMPTIONS FOR REVENUE ESTIMATES - 2012

Key Sectoral Growth Rates %

	2011	2012
Agriculture	2.9	4.5
Industry	9.7	8.5
Services	8.8	8.5
▪ Inflation - GDP Deflator (%)	7.7	6.5
▪ Unemployment Rate (%)	4.5	4.5
▪ Private Investment (% of GDP)	23.0	24.0

Value Added Tax (VAT)

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

Value of Imports

US $ Mn.

	2010 (a)	2011 (b)
Rice	59.0	15.1
Sugar	363.3	420.1
Other Food	962.3	1,207.4
Other Consumable Goods	1,228.5	1,953.9
O/ W Motor Vehicles	544.5	969.8
Petroleum	3,018.7	4,698.4
Fertilizer	240.5	366.5
Wheat Grain	257.2	466.7
Chemicals	389.9	499.5
Textiles	1,732.3	2,221.2
Other Intermediate Goods	2,114.5	3,143.1
Machinery	1,205.9	1,971.4
Transport	581.5	872.6
Building Materials	809.5	1,095.9
Other	487.8	556.6
Total	**13,450.9**	**19,484.3**

(a) Revised
(b) Projections

Composition of Imports

Category	% of Total Imports	
	2010	2011
Consumer Goods	21.2	20.2
Intermediate Goods	55.5	57.0
Investment Goods	23.3	22.8

Customs Duty Structure

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

Value of Imports and Growth

	2010	2011
Value of Imports (US $ Mn.)	13,451	19,484
Growth (%)	32.4	44.9

Selected Items Subject to Excise Duty

	2011	2012
Volume of Hard Liquor (Million Lt.)	50	56
Volume of Malt Liquor (Million Lt.)	86	103
Volume of Cigarettes (Million Sticks.)	4,800	4,970
Volume of Aerated Water (Million Lt.)	155	160
Volume of Petrol (Million Lt.)	750	800
Volume of Diesel (Million Lt.)	2,400	2,600

Cigarettes Excise Duty Structure (Per 1,000 cigarettes as at 31.10.2011)

	Rs. per 1,000
Cigarettes each not exceeding 60mm. in length	3,465
Cigarettes each exceeding 60mm. but not exceeding 67mm in length	7,540
Cigarettes each exceeding 67mm. but not exceeding 72mmin length	10,381
Cigarettes each exceeding 72mm. but not exceeding 84mm in length	13,243
Cigarettes each exceeding 84mm. in length	16,400

Liquor Excise Duty Structure (As at 31.10.2011)

	Rs. Per Proof Liter
Coconut Processed / Molasses Arrack	923.00
Country Made Foreign Liquor	1,063.00
Molt Liquor (Beer) above 5% in strength (per lit)	101.00
Molt Liquor less 5% in strength (per lit)	85.00
Wine containing more than 4% in strength	718.00
Aerated Water	8.00

Petroleum Excise Duty Structure

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

Excise (Special Provisions) Duty: Motor Vehicles Duty Structure

Item/ Engine Capacity	Rate
(i) Cars - Petrol	
Less than 1000 cc	38%
1000 cc - 1600 cc	43%
1600 cc - 2000 cc	47%
Exceeding 2000 cc	58%
Exceeding 3000 cc	78%
(ii) Cars - Diesel	
Less than 1600 cc	73%
1600 cc - 2000 cc	114%
2000 cc - 2500 cc	124 %
Exceeding 2500 cc	138%
(iii) Cars - Hybrid / Electric	
Less than 2000 cc	8%
Exceeding 2000 cc	24%
Exceeding 3000 cc	40%
(iv) Vans	
13 – 17 Persons / Diesel	33%
13 – 17 Persons / Petrol	28%
Less than 13 Persons / Diesel	102%
Less than 13 Persons / Petrol	68%

Ports and Airports Development Levy

General Rate	5%
Imports for Re-export	Exempt

Receipt of Profits/Profit Transfers and Dividends: 2010 – 2012

Rs.Mn.

	2010	2011 Est.	2012 Proj.
1. Bank of Ceylon	2,923	4,346	6,346
2. National Savings Bank	2,312	2,563	5,563
3. People's Bank	3,253	4,202	6,220
4. State Mortgage and Investment Bank	-	50	50
5. Telecommunications Regulatory Commission	13,800	8,000	10,000
6. Sri Lanka Insurance Corporation	-	1,000	1,000
7. Sri Lanka Export Credit Insurance Corporation	-	25	25
8. State Pharmaceuticals Corporation	25	30	30
9. Local Loan & Development Fund	-	5	5
10. State Pharmaceutical Manufacturing Corp.	60	35	37
11. State Timber Corporation	10	150	150
12. De La Rue Lanka Currency & Security Print	-	35	35
13. Lanka Electricity Company	-	50	-
14. Airport and Aviation Services Sri Lanka Ltd.	300	200	-
15. Sri Lanka Telecom	223	223	550
16. Lanka Industrial Estates	31	30	25
17. Lanka Mineral Sands Ltd.	35	100	1,500
18. Lanka Phosphate Ltd.	10	10	15
19. Pussellawa Plantation Ltd.	7	-	-
20. Kotagala Plantation Ltd.	-	15	15
21. Chilaw Plantation Ltd	-	40	40
22. Kurunegala Plantation	-	35	37
23. Kalubovitiyana Tea Factory	22	25	23
24. National Development Bank	-	-	-
25. Paranthan Chemicals Co Ltd.	3	5	6
26. Regional Development Bank	55	200	-
27. Lanka Puthra Development Bank	25	-	2
28. Asian Reinsurance Corp.	3	3	3
29. Independent Television Network	19	10	15
30. Milco (Private) Ltd.	-	40	40
31. National Insurance Trust Fund	2,000	2,000	2,000
32. Geological Survey & Mines Bureau	-	300	300
33. State Institutions Temporary Surplus Fund	6,110	-	-
34. Others	75	312	71
Total Levies & Dividends	**31,301**	**26,039**	**34,103**

Source: Department of Public Enterprises

Rent Income

Rs. Mn.

	2010	2011 Budget	2012 Estimated
Rent on Government Buildings & Housing	697	690	700
Rent on Crown Forests	717	840	875
Rent from Land & Other	17	15	17
Lease Rental from Regional Plantation Companies	544	639	762
Others	73	60	62
Total Rent Income	**2,048**	**2,244**	**2,416**

Fees and Charges

Rs. Mn.

	2010	2011 Budget	2012 Estimated
Service Charges by Government Press	261	237	346
Fees of Passport, Visas and Dual Citizenship	4,076	4,501	7,043
Examination & Other Fees	131	100	150
Fees under the Motor Traffic Act & Other Receipts	3,486	3,500	5,850
From Other Various Sources	14,971	34,829	19,474
Total	**22,925**	**43,168**	**27,013**

Annex III

Statement of Guarantees Issued by the Treasury up to 31.10.2011

No	No	Name of Institution	Name of the Bank or Institution	Purpose	Guaranteed Amount in Foreign Currencies		Guaranteed Amount In Rs. Mn.	Date of Issue	Date of Expiry
					US$ Mn.	Euro			
1	TO/CM 7/298	Co-operative Whole Sale Establishment	People's Bank	Credit facility			207.10	2-Feb-05	31-Dec-11
2	TO/CM 7/302	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	Credit facility			50.00	31-Jul-06	31-Dec-11
3	TO/CM 7/303	Lakdanavi Ltd.	National Savings Bank	Secure the Bonds			2,992.00	22-Feb-07	31-Mar-22
4	TO/CM 7/303	Lakdanavi Ltd.	Employee's Trust Fund Board	Secure the Bonds			2,992.00	1-Mar-07	31-Mar-22
5	TO/CM 7/303	West Coast Power(Pvt)Ltd.	Hongkong & Shanghai Banking Co.Ltd.	Kerawalapitiya Power Project		134,836,834	22,248.08	28-Jun-07	28-Jun-22
6	TO/CM 7/304 & TO/CM 7/311	Ceylon Electricity Board 300MW Kerawalapitiya Combine Cycle Power Plant Project	People's Bank	Credit facility			4,116.00	7-May-08	3-Mar-23
7	SA/CM 7/314	Ceylon Electricity Board	People's Bank	Credit facility	4.2		1,683.00	11-Jun-08	9-Oct-23
8	SA/CM 7/315	Ceylon Petroleum Corporation	Bank of Ceylon	Secure the loan facility	600.0		66,000.00	9-Sep-08	31-Dec-11
9	TO/CM /316	Ceylon Electricity Board	People's Bank	Credit facility		16,133,193	2,661.98	29-Sep-08	31-Dec-11
10	TO/CM /317	People's Bank Pension Trust Fund	People's Bank	Secure the Debentures			2,500.00	17-Dec-08	16-Dec-16
11	TO/CM 7/312	State Trading (Co-operative Wholesale) Company Ltd.	People's Bank	Credit facility			32.00	13-Mar-09	31-Dec-11
12	TO/CM 7/325	Ceylon Electricity Board	People's Bank	Secure Short Loan Credit facility			8,000.00	7-Sep-09	11.Mar 13
13	TO/CM 7/328	Ceylon Petroleum Corporation	Bank of Ceylon	For Securing the Loan			25,000.00	27-Sep-09	27-Mar-12
14	TO/CM7 /321(ii)	Ceylon Petroleum Storage Terminals Ltd.	People's Bank	Credit facility	40.3		4,634.50	9-Oct-09	6-Oct-19
15	TO/CM 7/317	People's Bank Pension Trust Fund	People's Bank	Secure the Debentures			2,500.00	23-Oct-09	22-Oct-17
16	TO/CM 7/320	Cooruwatte Tea Factory	Hatton National Bank PLC	Secure the loan facility			8.00	4-Nov-09	4-Nov-11

17	TO/CM7 /322	Urban Development Authority	National Savings Bank	Secure the loan facility		2,770.00	6-Nov-09	18-Nov-24
18	TO/CM7 /320	Marakanda Tea Factory	Commercial Bank	Secure the loan facility		4.80	6-Nov-09	6-Nov-11
19	TO/CM7 /320	Agarapathana Plantation	Bank of Ceylon	Secure the loan facility		129.06	13-Nov-09	13-Nov-11
20	TO/CM7 /320	Kirimetideniya Thea Kamhala	DFCC Bank	Secure the loan facility		10.45	18-Nov-09	18-Nov-11
21	TO/CM7 /320	Muswanna Tea Factory	Bank of Ceylon	Secure the loan facility		7.00	18-Nov-09	18-Nov-11
22	TO/CM7 /320	Rotuba Tea Factory	Commercial Bank	Secure the loan facility		3.50	20-Nov-09	20-Nov-11
23	TO/CM7 /305	Mihin Lanka (Pvt) Ltd	Bank of Ceylon	Secure the loan facility	13.5	1,552.50	25-Nov-09	24-Nov-12
24	TO/CM7 /320	Karagoda Tea Factory	DFCC Bank	Secure the loan facility		14.00	4-Dec-09	4-Dec-11
25	TO/CM7 /320	Rathnayake Tea Factory	Bank of Ceylon	Secure the loan facility		4.00	11-Dec-09	11-Dec-11
26	TO/CM7 /330	STC General Trading Company Ltd.	Bank of Ceylon	Secure the loan facility		1,100.00	22-Dec-09	31-12-2011
27	TO/CM7 /320	Kelani Valley Plantations PLC	National Development Bank PLC	Secure the loan facility		110.00	24-Dec-09	24-Dec-11
28	TO/CM7 /333	Ceylon Electricity Board	People's Bank	Term Loan Facility		5,000.00	17-Aug-10	31-Jul-16
29	TO/REV/ TG/334	Urban Development Authority	Bank of Ceylon	Issue of Debentures		10,000.00	08-Jul-10	08-Jul-15
30	TO/REV/ TG/335	Lanka Coal Company (PVT) Ltd	People's Bank	Short term Loans		1,000.00	27-Sep-10	27-Sep-13
31	TO/CM7 /305	Mihin Lanka	BOC	Air Bus		252.27	25-Nov-10	25-Nov-12
32	SA/CM7 /291	Corporative Wholesales Establishment	Commercial Bank	Restructuring Bond		287.21	18-Nov-03	14-Nov-16
33	TO/CM7 /320	Nilwala Tea Factory	People's Bank	Secure the loan facility		15.00	24-Dec-09	24-Dec-11
34	SA/CM7 /291	Corporative Wholesales Establishment	People's Bank	Restructuring Bond		625.00	14-Nov-03	14-Nov-16
35	TO/CM7 /322	Urban Development Authority	Bank of Ceylon	Secure the loan facility	64.5	7,095.00	30-May-11	30-Jun-14
36	TO/CM7 /338	Ceylon Petroleum Corporation	Hatton National Bank	Secure the loan facility	100.0	11,000.00	24-May-11	24-Dec-11
37	TO/REV/ TG/340	Road Development Authority	Commercial Bank	Secure the loan facility		1,534.00	01-Sep-11	28-Feb-26
TOTAL						**188,138.45**		

Source: Department of Treasury Operations