

# MID-YEAR FISCAL POSITION REPORT 2022



Ministry of Finance, Economic Stabilization and National Policies, Sri Lanka



# MID-YEAR FISCAL POSITION REPORT – 2022

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

Ranil Wickremesinghe, M. P.  
Hon. Minister of Finance, Economic Stabilization and National Policies

30<sup>th</sup> June 2022



# MID-YEAR FISCAL POSITION REPORT

issued by the

Hon. Minister of Finance, Economic Stabilization & National Policies

Under sections 10 of the Fiscal Management (Responsibility) Act, No. 3 of 2003

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

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

The report contains the performance of government revenue, expenditure, cash flow operations and borrowings during the first four months of the year 2022. The report also provides provisional budget outturn for the first four months of 2022, updated information, depending on the availability of information, relating to macroeconomic performance, price developments, foreign financing, government debt and official reserves as well as the performance of state owned business enterprises.



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## Key Economic Indicators

Indicator	Period	Unit	Value	
			2021	2022 (Provisional)
<b>REAL SECTOR</b>				
Economic Growth	First Quarter	%	4.0	-1.6
Agriculture	First Quarter	%	6.4	-6.8
Industry	First Quarter	%	6.0	-4.7
Services	First Quarter	%	3.5	0.7
Inflation (Point to Point)	End May	%	4.5	39.1
Inflation (Average)	End May	%	3.9	14.2
Unemployment Rate	Annual	%	5.1	n.a
Labour Force Participation Rate	Annual	%	49.9	n.a
<b>FISCAL SECTOR</b>				
Budget Deficit	Jan-April	Rs. Mn	-520,543	-524,100
Total Revenue	Jan-April	Rs. Mn	481,722	630,908
Tax Revenue	Jan-April	Rs. Mn	427,261	543,649
Non Tax Revenue	Jan-April	Rs. Mn	54,461	87,259
Recurrent Expenditure	Jan-April	Rs. Mn	890,085	1,016,810
Public Investment	Jan-April	Rs. Mn	114,227	140,999
Government Debt	End Dec	Rs. Bn	17,589	n.a.
<b>EXTERNAL SECTOR</b>				
Exports	Jan-April	USD Mn	3,800.3	4,219.1
o/w Agriculture Exports	Jan-April	USD Mn	829.4	783.5
Industrial Exports	Jan-April	USD Mn	2,949.4	3,416.9
Textile and Garments	Jan-April	USD Mn	1,699.5	1,924.6
Other	Jan-April	USD Mn	1,249.9	1,492.3
Imports	Jan-April	USD Mn	6,748.1	7,350.2
Consumer Goods	Jan-April	USD Mn	1,276.5	1,176.6
Intermediate Goods	Jan-April	USD Mn	4,065.7	4,806.6
o/w Petroleum Products	Jan-April	USD Mn	1,390.3	1,922.4
Investment Goods	Jan-April	USD Mn	1,403.1	1,365.2
Trade Balance	Jan-April	USD Mn	-2,947.8	-3,131.1
Tourist Arrivals	Jan-May	No.	15,294	378,521
Earnings From Tourism	Jan-May	USD Mn	39.9 <sup>(a)</sup>	680.7
Workers' Remittances	Jan-May	USD Mn	2,845.9	1,335.6
Portfolio Investments – Equity (Net)	Jan-April	USD Mn	-107	92
Overall Balance of Payments (BOP)	Jan-April	USD Mn	-929	-2,569
Gross Official Reserves	End April	USD Mn	4,471	1,812
Exchange Rate (End Month)	End May	Rs. Per USD	199.50	360.76
Exchange Rate (Monthly Average)	Jan- May	Rs. Per USD	199.58	358.93
<b>MONETARY SECTOR</b>				
Standing Deposit Facility Rate (SDFR)	End May	%	4.50	13.50
Standing Lending Facility Rate (SLFR)	End May	%	5.50	14.50
Statutory Reserve Requirement (SRR)	End May	%	2.00	4.00
Commercial Bank Average Weighted Prime Lending Rate (AWPLR)	End May	%	5.65	22.11
Commercial Bank Average Weighted Lending Rate (AWLR)	End April	%	9.73	11.31
Sri Lanka Inter Bank Offer Rate (SLIBOR ) (1 Month)	End June	%	6.05	6.05
W.A. Yield Rate of Treasury Bills (91 Days)	End May	%	5.13	23.65
W.A. Yield Rate of Treasury Bills (364 Days)	End May	%	5.18	24.30
Growth in Money Supply (M2b)	Apr 2022/Apr 2021	%	20.4	20.0
Growth in Credit to the Private Sector	Apr 2022/Apr 2021	%	8.2	20.3

<sup>(a)</sup> Revised based on survey results of SLTDA on average stay period and average spending per day estimates for 2021



## Sri Lanka: Selected Indicators

Indicator	Period	Unit	Value
<b>Electricity</b>			
Electrification Level	2016	%	99.3
<b>Water</b>			
Access to Safe Drinking Water	2021	% of Population	94.4
Access to Pipe borne Water	2021	% of Population	54.3
<b>Roads</b>			
Road Density	2021	Km <sup>2</sup>	0.19
Total Road Length	2021	Km	12,537
<b>Communication</b>			
Telephone Density including Cellular Phones	2021	Per 100 persons	148.1
Access to Internet	2021	Per 100 persons	100.4
<b>Education</b>			
<b>General Education</b>			
Primary Net Enrolment Ratio	2021	%	94.4
Student/Teacher Ratio (Government Schools)	2021	Number	16.0
Literacy Rate (Average)	2020	%	93.0
Computer Literacy Rate (First 06 months)	2021	%	35.0
<b>University Education</b>			
Student/Teacher Ratio	2021	Number	19.7
Age Specific Enrolment Ratio (Age 19–23 yrs) <sup>(a)</sup>	2021	%	8.7
<b>Health</b>			
Hospitals (Practicing Western Medicine) <sup>(b)</sup>	2021	Number	618
Beds <sup>(b)</sup>	2021	Number	78,228
Hospital Beds	2020	Per 1000 persons	3.5
Persons per Doctor	2020	Number	1,167
<b>Population</b>			
Population Density	2021	Persons per sq. km	353
Growth of Mid Year Population	2021	%	1.1
Life Expectancy at Birth	2017	Years	75.5
Infant Mortality Rate	2015	Per 1000 live births	7.5
Maternal Mortality Rate	2013	Per 1000 live births	26.8
Crude Birth Rate	2021	Per 1000 persons	12.9
Crude Death Rate	2021	Per 1000 persons	7.4
Dependency Ratio	2021	%	49.4
<b>Poverty</b>			
Poverty Head Count Index	2019	%	14.3
Gini Coefficient of Household Income	2019	Coefficient	0.46
Poverty Gap Index	2019	%	0.6
Average Daily Calorie Intake	2019	Kilocalories	2,120
<b>International Rankings</b>			<b>Rank</b>
Human Development Index	2020	Rank out of 189 Countries	72
Doing Business Index	2020	Rank out of 190 Countries	99
Global Competitiveness Index	2019	Rank out of 141 Countries	84
Economic Freedom Index	2021	Rank out of 177 Countries	132
Global Peace Index	2021	Rank out of 163 Countries	95
e-Government Development Index	2020	Rank out of 193 Countries	85

(a) Only includes internal enrolment of students

(b) Government

## CHAPTER 1

### Economic Perspectives

#### Overview

Sri Lanka is currently undergoing an unprecedented economic crisis with historically high levels of inflation, shortages of essential commodities, and disruptions in energy supply. A combination of adverse domestic developments and global supply factors have contributed to the prevailing crisis. Persistent current account deficits in the Balance of Payments (BoP), rising commodity prices and low foreign reserves have caused the rupee to depreciate drastically. Usable foreign reserves have declined to near zero levels due to the usage of reserves to settle external debt maturities and to meet essential import needs. Public debt has reached an unsustainable level as the fiscal position has weakened significantly. As a result of these factors, the Government announced a temporary debt standstill for the repayment of selected foreign debt, pending an orderly and consensual restructuring of those obligations in a manner consistent with an economic adjustment program supported by the International Monetary Fund (IMF).

Fiscal weakness has been a root cause of much of Sri Lanka's macroeconomic instability, therefore the Government has adopted a new framework for fiscal consolidation, primarily based on revenue enhancement along with expenditure rationalization. The Government issued a new circular in April 2022 for controlling public expenditure by postponing non-urgent capital expenditure and project spending and rationalizing recurrent expenditure including more stringent controls on overtime payments. On May 31, 2022, the Cabinet of Ministers approved several tax reforms to help restore fiscal consolidation and formula-based cost reflective fuel pricing was also re-introduced.

Monetary policy was tightened to reduce the inflationary pressures that could further intensify in the period ahead and to ease the imbalances in the external sector of the economy. Accordingly, Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased significantly by 700 basis points to 13.50 percent and 14.50 percent, respectively, effective from

April 08, 2022. Consequently, the interest rates on deposit and lending products of financial institutions recorded notable upward adjustments while correcting some anomalies that prevailed in the market interest rate structure. Government securities also saw rising yields in response to the policy tightening measures, whilst the stock market saw a decline from previous record high levels as rising interest rates and weaker economic sentiment took hold.

Meanwhile, the headline inflation as measured by Colombo Consumer Price Index (CCPI, 2013=100) on year-on-year (Y-o-Y) basis increased to 54.6 percent in June 2022 from 39.1 percent in May, 2022, mainly driven by increases of both Food and Non-Food categories. Food inflation (Y-o-Y) also increased to 80.1 percent in June 2022 from 57.4 percent in May 2022, while Non-Food inflation (Y-o-Y) increased to 42.4 percent in June 2022 from 30.6 percent in May 2022.

The external sector continued to face numerous challenges during the first four months of 2022 as key inflows, including remittances, were subdued and earnings from tourism declined from the second quarter, whilst imports remained elevated mainly due to spiraling global commodity prices. The rupee has recorded a depreciation of 44.3 percent against the US dollar during the year up to May 13, 2022. The rise in commodity prices including fuel prices in the global market, with the COVID-19 induced supply and demand shocks and geopolitical tensions has resulted in the external sector experiencing heightened vulnerabilities.

Earnings from exports increased by 11 percent to USD 4,219 million in the first four months of 2022, compared to USD 3,800 million recorded in the same period of 2021 benefiting from the higher earnings from industrial exports. Expenditure on imports grew by 8.9 percent to USD 7,350 million in the first four months of 2022 compared to USD 6,748 million in the same period of 2021 mainly due to the rise in commodity prices in the global market. As such, the trade deficit widened to USD 3,131 million in the first four months of 2022 from a deficit of USD 2,948 million recorded in the same period of

**Table 1.1: Movements in Inflation (%)**

Year	Month	CCPI (2013=100)				NCPI (2013=100)			
		Headline Inflation		Core * Inflation		Headline Inflation		Core * Inflation	
		Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average
2021	January	3.0	4.3	2.7	3.1	3.7	5.8	4.2	4.2
	February	3.3	4.1	2.6	3.0	4.2	5.5	4.1	4.2
	March	4.1	4.0	3.1	3.0	5.1	5.3	4.3	4.3
	April	3.9	3.9	3.0	3.0	5.5	5.3	4.1	4.4
	May	4.5	3.9	3.2	3.0	6.1	5.4	4.2	4.4
	June	5.2	4.1	3.2	3.0	6.1	5.4	4.1	4.4
	July	5.7	4.2	3.7	3.1	6.8	5.4	4.4	4.4
	August	6.0	4.3	4.1	3.2	6.7	5.5	4.7	4.4
	September	5.7	4.5	5.0	3.3	6.2	5.5	4.8	4.4
	October	7.6	4.8	6.3	3.6	8.3	5.7	7.2	4.6
	November	9.9	5.3	7.0	4.0	11.1	6.2	8.8	5.0
	December	12.1	6.0	8.3	4.4	14.0	7.0	10.8	5.5
2022	January	14.2	6.9	9.9	5.0	16.8	8.1	12.9	6.2
	February	15.1	7.9	10.9	5.7	17.5	9.3	14.1	7.1
	March	18.7	9.1	13.0	6.5	21.5	10.6	17.3	8.2
	April	29.8	11.3	22.0	8.1	33.8	13.0	27.9	10.2
	May	39.1	14.2	28.4	10.2	45.3	16.3	37.7	13.0

Source: Department of Census and Statistics

\*CCPI Core Inflation, NCPI Core Inflation(2013=100) – Excluding Volatile Food, Energy and Transport

2021. The workers' remittances, which have been the second largest source of foreign currency earnings, declined significantly by 53.1 percent to USD 1,335.6 million in the first five months of 2022 compared to USD 2,845.9 million recorded in the same period of 2021. Although the earnings from tourism increased to USD 680.7 million in the first five months of 2022, compared to USD 39.9 million recorded in the same period of 2021, it is well below the pre-pandemic levels. The near-term outlook of the tourism sector is likely to remain unfavorable due to both global and domestic factors. The country's reserve position as of end April 2022 was provisionally estimated at USD 1.8 billion,

including the swap facility from the People's Bank of China equivalent to around USD 1.5 billion, which is subject to conditionalities on usability.

The ongoing negotiations with the International Monetary Fund (IMF) towards a Fund-supported macroeconomic programme along with the debt restructuring process is expected to help the country to restore stability, improve credibility and Sri Lanka's sovereign ratings and regain access to global capital markets gradually.

**Table 1.2: External Trade January – April 2022**

Category	USD Million		
	2021	2022 (Prov.)	% Change
<b>Exports</b>	<b>3,800.3</b>	<b>4,219.1</b>	<b>11.0</b>
Agricultural Products	829.4	783.5	-5.5
Tea	417.4	367.2	-12.0
Primary Products (Rubber and Coconut Products)	139.0	156.6	12.7
Other Agricultural Products	273.0	259.7	-4.9
Industrial Exports	2,949.4	3,416.9	15.9
Textile and Garments	1,699.5	1,924.6	13.2
Petroleum Products	122.1	238.0	94.9
Other Industrial Products	1,127.8	1,254.3	11.2
Mineral	16.0	12.3	-23.1
Other	5.6	6.4	14.3
<b>Imports</b>	<b>6,748.1</b>	<b>7,350.2</b>	<b>8.9</b>
Consumer Goods	1,276.5	1,176.6	-7.8
Food and Beverages	628.8	660.6	5.1
Other Consumer Goods	647.7	516.0	-20.3
Intermediate Goods	4,065.7	4,806.6	18.2
Petroleum	1,390.3	1,922.4	38.3
Fertilizer	82.2	42.1	-48.8
Textiles and Clothing	938.6	1,161.7	23.8
Other Intermediate Goods	1,654.6	1,680.4	1.6
Investment Goods	1,403.1	1,365.2	-2.7
Machinery and Equipment	913.0	874.8	-4.2
Transport Equipment	107.7	71.2	-33.9
Building Material	381.8	417.4	9.3
Other Investment Goods	0.6	1.8	200.0
Other	2.8	1.8	-35.7
<b>Trade Balance</b>	<b>-2,947.8</b>	<b>-3,131.1</b>	<b>-6.2</b>

Source: Central Bank of Sri Lanka

## Global Economy and looking forward within the Sri Lankan Context

The impacts of the Russia-Ukraine conflict have deepened economic vulnerabilities in Sri Lanka, adding to high inflation and BoP pressures. As Russia, together with Ukraine, are major suppliers of agricultural products, natural gas and crude oil to European countries and United States of America (USA), sanctions coupled with supply disruptions have severely affected on elevated food and fuel prices across the globe. As global disposable incomes are stressed, there could be adverse impacts on demand for exports from Sri Lanka in products such as apparel. Rising commodity prices have also contributed to higher price levels and inflationary pressure in Sri Lanka as well.

To counter these adverse developments in the external sector, it is important for Sri Lanka to continue to invest in the export sector, supporting both exports of goods and services exports, such as IT, tourism, and logistics. In the short term, Sri Lanka will need to support its external balance by entering into a programme with the IMF which will be the first step in unlocking fresh financing from development partners towards rebuilding reserves, strengthening fiscal consolidation and regaining access to global capital markets.



## CHAPTER 2 Fiscal Developments

### Overview

The fiscal sector continued to face setbacks during the first four months of 2022. The rigid and predominantly non-discretionary recurrent expenditure continued to significantly exceed revenue, even though revenue was boosted by the one-off Surcharge Tax collection in 2022. As such, the fiscal deficit increased to Rs. 524.1 billion in the first four months of 2022 compared to Rs. 520.5 billion in the same period of 2021. Financing the fiscal deficit continued to be challenging given the limited access to external financing sources, and therefore monetary financing of the deficit was required, contributed to inflationary pressures and risks to the balance of payments.

The overall revenue performance of the Government improved during the first four months of 2022 benefiting from the mobilization of both tax and non-tax revenue, compared to the subdued revenue performance of the same period in 2021. The total government revenue including grants increased by 30.9 percent to Rs. 631.1 billion in the first four months of 2022 from Rs. 482.3 billion in the same period of 2021, which was a realization of 28.4 percent of the annual estimate of Rs. 2,223.0 billion. Tax revenue significantly increased by 27.2 percent to Rs. 543.6 billion in the first four months of 2022 from Rs. 427.3 billion in the same period of 2021 reflecting the receipts of the first installment of Rs. 59.6 billion from one-off Surcharge Tax in April 2022. The realization of tax revenue as against the annual estimated revenue of Rs. 1,987.0 billion was 27.4 percent in the first four months of 2022. In the same vein, reflecting the receipts of Central Bank's profit transfers, non-tax revenue increased significantly by 60.2 percent to Rs. 87.3 billion in the first four months of 2022 from Rs. 54.5 billion in the same period of 2021, which is an achievement of 38.6 percent of the annual estimate of Rs. 226.0 billion.

Tax revenue from income taxes, taxes on goods and services, excise duties, Ports and Airports Development Levy (PAL) and Commodity Exports Subsidy Scheme (CESS) Levy exhibited an improved performance in the first four months of 2022. Income tax revenue increased by 170

percent to Rs. 149.2 billion in the first four months of 2022 from Rs. 55.2 billion in the same period of 2021. The realization of revenue from income tax as against the annual estimated revenue of Rs. 496.0 billion was 30.1 percent in the first four months of 2022.

Revenue from domestic-based consumption taxes increased by 23.9 percent to Rs. 180.1 billion in the four months of 2022 from Rs. 145.3 billion in the same period of 2021. The revenue from Value Added Tax (VAT) on domestic activities increased by 36.6 percent to Rs. 85.3 billion in the first four months of 2022 from Rs. 62.4 billion while revenue collected from excise duty on domestic activities increased by 14.6 percent to Rs. 94.7 billion in the first four months of 2022.

Revenue generated from import-based taxes such as VAT on imports, CESS and PAL increased by 1.4 percent to Rs. 203.6 billion in the first four months of 2022 from Rs. 200.7 billion in the same period of 2021. However, revenue collection from Customs Import Duties (CID) and Special Commodity Levy (SCL) declined by 44.7 percent to Rs. 17.5 billion and 22.9 percent to Rs. 15.8 billion, respectively due mainly to the import restrictions and downward revisions of SCL rates. Meanwhile, the revenue from excise duty on petroleum products noticeably declined by 20.4 percent to Rs. 16.4 billion during the first four months of 2022 from Rs. 20.7 billion in the same period of 2021 owing to the decline in the quantity imported to 2.9 million metric tons in the first four months of 2022 from 3.4 million metric tons in the period of 2021.

Total Government expenditure amounted to Rs. 1,155.2 billion reflecting a 15.2 percent increase in the first four months of 2022 compared to Rs. 1,002.8 billion in the same period of 2021. This consisted of Rs. 1,016.8 billion of recurrent expenditure and Rs. 138.4 billion of capital expenditure and net lending. Recurrent expenditure increased by 14.2 percent to Rs. 1,016.8 billion in the first four months of 2022, compared to Rs. 890.1 billion in the same period of 2021 owing to the continuation of additional livelihood support for "Samurdhi" and other welfare recipients and payment of an additional Rs. 5,000 for public servants and pensioners together with

**Table 2.1: Summary of the Budget from January to April 2022**

Item	Rs. Million	
	2021	2022 (Provisional)
<b>Revenue and Grants</b>	<b>482,289</b>	<b>631,129</b>
Revenue	481,722	630,908
Tax Revenue	427,261	543,649
Non Tax Revenue	54,461	87,259
Grants	567	221
<b>Expenditure</b>	<b>1,002,832</b>	<b>1,155,229</b>
Recurrent	890,085	1,016,810
Interest Payments	366,240	426,786
Other	523,844	590,023
Public Investment	114,227	140,999
Other	-1,480	-2,580
<b>Revenue Surplus (+)/Deficit (-)</b>	<b>-408,362</b>	<b>-385,902</b>
<b>Overall Budget Surplus (+)/Deficit (-)</b>	<b>-520,543</b>	<b>-524,100</b>
<b>Financing</b>	<b>520,543</b>	<b>524,100</b>
Foreign Financing	16,994	-126,985
Borrowing	127,077	111,742
Repayments	-110,083	-238,727
Domestic Financing	503,549	651,085
Borrowing	1,397,680	3,564,527
Repayments	-894,131	-2,913,443

Source: Department of Fiscal Policy

**Table 2.2: Estimated and Actual Revenue and Expenditure from January to April 2022**

Item	Rs. Billion		
	Estimated (Annual)	Provisional (Jan-Apr)	Achievement (%)
<b>Total Revenue</b>	<b>2,213</b>	<b>631</b>	<b>28.5</b>
Tax Revenue	1,987	544	27.4
Non Tax Revenue	226	87	38.6
<b>Total Expenditure</b>	<b>3,851</b>	<b>1,155</b>	<b>30.0</b>
Recurrent Expenditure	2,935	1,017	34.6
Capital Expenditure and Net Lending	916	138	15.1

Source: Department of National Budget, Department of Treasury Operations and Department of Fiscal Policy

the increase in expenditure on interest payments, subsidies and transfers, salaries, and pensions.

In the first four months of 2022, the government expenditure surpassed Government revenue by 83.0 percent resulting in a budget deficit of Rs. 524.1 billion which is 0.7 percent higher than the Rs.520.5 billion budget deficit in the same period of 2021.

Considering the widening fiscal deficit, the Government has embarked on corrective measures to improve revenue from both direct and indirect taxes to contain further expansion of the budget

deficit. On the May 31, 2022, immediate steps were taken to increase the VAT rate from 8 percent to 12 percent and Telecommunication Levy from 11.25 percent to 15 percent. Further, tax reform measures have also been approved by the Cabinet, including the reduction of personal income tax relief from Rs. 3 million to Rs. 1.8 million, reduction of tax slabs on taxable income from Rs. 3.0 million to Rs. 1.2 million and imposition of tax rates of 4-32 percent for each slab, making Withholding Tax on Employment Income Tax mandatory etc., while reducing the VAT Registration threshold from Rs. 300 million per annum to Rs. 120 million per annum and removing the VAT exemption granted for sale of Condominium

Housing Units and enhancing revenue from betting and gaming levy by bringing amendments to the Betting and Gaming Levy Act, No. 40 of 1988 in the near term. Meanwhile, measures to rationalize expenditure have continued including temporarily suspending purchasing of vehicles, construction of new buildings, non-urgent renovation of buildings, postponement of non-urgent projects and capital expenditure, and rationalizing over-time payments and other discretionary recurrent expenditure.

To further tighten the public finance in the wake of limited fiscal space, Ministry of Finance issued National Budget Circular No. 03/2022. Expending agencies are requested to review and temporarily halt the execution of capital projects, procurement of works or goods which are initial stage of procurement. More emphasis has been given to suspend the implementation of budget proposals which are in nature of distribution of various commodities, goods and equipment while differing recruitments.

**Table 2.3: Annual Estimate and Actual Tax Revenue from January to April 2022**

Item	Rs. Million	
	Annual Estimate	Actual (Jan-Apr ) (Provisional)
<b>Department of Inland Revenue</b>		
Tax on Income and Profit	496,000	149,163
VAT-Domestic	264,000	85,314
NBT-Domestic	-	50
IRD Other	147,807	3,359
<b>Sub Total</b>	<b>907,807</b>	<b>237,887</b>
<b>Department of Customs</b>		
Import Duty	115,000	17,505
VAT-Imports	160,000	50,832
NBT-Imports		9
Ports and Airports Development Levy	175,000	62,633
Import/Export Cess	90,000	29,235
Special Commodity Levy	80,000	15,797
ESC	-	26
Excise Special Provisions	250,000	62,824
Cigarettes	120,000	32,962
Petroleum	75,000	16,446
Motor Vehicles & Other	55,000	13,416
Other	700	83
<b>Sub Total</b>	<b>870,700</b>	<b>238,944</b>
<b>Department of Excise</b>		
Liquor/Tobacco	180,035	59,483
<b>Sub Total</b>	<b>180,035</b>	<b>59,483</b>
<b>Other</b>		
Telecommunication Levy	18,000	4,267
License Tax & Other	10,458	3,068
<b>Sub Total</b>	<b>28,458</b>	<b>7,335</b>
<b>Total Tax Revenue</b>	<b>1,987,000</b>	<b>543,649</b>

Source: Department of Fiscal Policy



## Government Revenue

Total government revenue excluding grants increased by 31.0 percent to Rs. 630.9 billion in the first four months of 2022 compared to Rs. 481.7 billion in the same period of 2021.

Tax revenue increased by 27.2 percent to Rs. 543.6 billion in the first four months of 2022 compared to Rs. 427.3 billion in the same period of 2021 due to notable increases in revenue collected from income tax (170.0 percent), VAT (33.7 percent), PAL (16.4 percent), excise tax on cigarettes (19.4 percent) and liquor (13.5 percent).

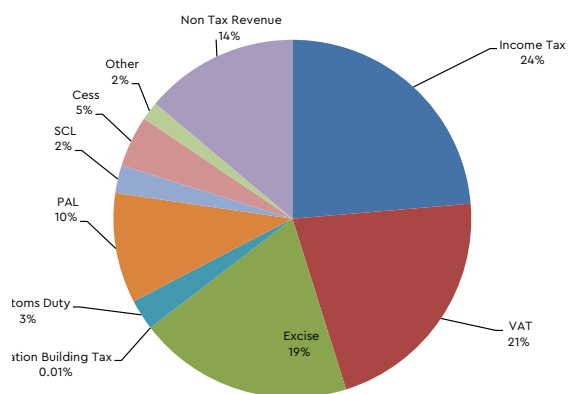
Non-tax revenue also marked an increase of 60.2 percent to Rs. 87.3 billion in 2022 compared to Rs. 54.5 billion in the same period of 2021 with notable increases in revenue from Central Bank profit transfers (by 99.8 percent), rent (by 56.9 percent), profits and dividends (61.8 percent) and fines, fees and charges (83.1 percent).

**Table 2.4: Summary of Performance of Government Revenue from January to April 2022**

Item	Rs. Million		
	2021	2022 Provisional	Growth (%)
<b>Tax Revenue</b>	<b>427,261</b>	<b>543,649</b>	<b>27.2</b>
Income Tax	55,245	149,163	170.0
Domestic Consumption Based Tax	145,305	180,091	23.9
VAT	62,435	85,314	36.6
Excise Duty	82,679	94,726	14.6
Nation Building Tax	191	50	-73.6
Import Based Tax	200,710	203,582	1.4
Custom Duty	31,644	17,505	-44.7
VAT	39,407	50,832	29.0
Nation Building Tax	5	9	78.7
PAL	53,814	62,633	16.4
SCL	20,500	15,797	-22.9
Excise Duty	28,574	27,571	-3.5
Cess	26,766	29,235	9.2
License Taxes and Others	26,000	10,813	-58.4
<b>Non Tax Revenue</b>	<b>54,461</b>	<b>87,259</b>	<b>60.2</b>
<b>Total Revenue</b>	<b>481,722</b>	<b>630,908</b>	<b>31.0</b>

Source: Department of Fiscal Policy

**Figure 2.1: Composition of Government Revenue from January to April 2022**



Source: Department of Fiscal Policy

## Tax Revenue

Tax Revenue, which accounted for 86.2 percent of the total revenue, increased by 27.2 percent to Rs. 543.6 billion in the first four months of 2022 compared to Rs. 427.3 billion in the same period of 2021. Revenue from income taxes significantly increased by 170.0 percent to Rs. 149.2 billion from Rs. 55.2 billion due to the notable increase of corporate and non-corporate tax by 53.7 percent and the introduction of the Surcharge Tax. The contribution of income taxes to total tax revenue increased to 27.4 percent in the first four months of 2022 compared to 12.9 percent recorded in the same period in 2021. The share of indirect taxes to tax revenue declined to 72.6 percent in January-April 2022 with the contribution from the Surcharge Tax, from 87.1 percent in January-April 2021.

## Income Tax

Income tax revenue increased notably by 170.0 percent to Rs. 149.2 billion in the first four months of 2022 from Rs. 55.2 billion in the same period of 2021. This increase was marked by the increase of 53.7 percent in the corporate and non-corporate tax revenue to Rs. 72.2 billion from Rs. 47.0 billion. In addition, a revenue of Rs. 59.6 billion was received as the first installment of the Surcharge Tax levied from any individual, partnership or company, whose taxable income exceeded Rs. 2,000 million for the year of assessment 2020/2021. The second and final installment of the Tax will be received on July 20, 2022. In addition, Pay-As-You-Earn/ Advance Personal Income Tax (APIT) increased

by 63.3 percent to Rs. 7.2 billion from Rs. 4.4 billion and tax on interest marked an increase in revenue by 70.4 percent to Rs. 5.6 billion from Rs. 3.3 billion. Capital Gains Tax also recorded a significant increase of 230.6 percent to Rs. 633 million from Rs. 191 million. In addition, Rs. 3,887 million was recorded from the Voluntary Disclosure Tax (VDT) as at close of end March, 2022 which was levied as an amnesty tax on individuals who disclosed any previously undisclosed income or asset and invested such income/asset in methods specified in the Finance Act, No. 18 of 2021.

**Table 2.5: Performance of Income Tax Revenue from January to April 2022**

Tax Base	Rs. Million		
	2021	2022 (Provisional)	Change (%)
Corporate and Non Corporate	46,967	72,184	53.7
PAYE	4,396	7,177	63.3
Tax on Interest Income	3,268	5,569	70.4
Economic Service Charge	423	127	-70.0
Capital Gain Tax	191	633	230.6
Surcharge Tax	-	59,586	-
Voluntary Disclosure Tax	-	3,887	-
<b>Total</b>	<b>55,245</b>	<b>149,163</b>	<b>170.0</b>

Source: Department of Fiscal Policy

## Value Added Tax (VAT)

The total tax revenue from VAT increased by 33.7 percent to Rs. 136.1 billion in the first four months of 2022, compared to Rs. 101.8 billion in the same period of 2021, realizing 32.1 percent of the estimated VAT revenue for 2022. The VAT revenue from domestic activities increased by 36.6 percent to Rs. 85.3 billion while VAT revenue from imports increased by 29.0 percent to Rs. 50.8 billion in the first four months of 2021. The increase in VAT revenue was due to the increase of the VAT rate applicable on financial services from 15 percent to 18 percent with effect from January 01, 2022, the escalation of global commodity prices, and the depreciation of the Sri Lankan Rupee against all major currencies, among others.

**Table 2.6: Performance of Revenue of VAT from January to April 2022**

Tax Base	Rs. Million		
	2021	2022 (Provisional)	Growth (%)
Gross Revenue	101,842	136,281	33.8
Domestic	62,435	85,341	36.7
Imports	39,407	50,940	29.3
Refunds	-	134	-
Net Revenue	101,842	136,147	33.7
Refunds as % of Gross Revenue	-	0.1	-

Source: Department of Fiscal Policy

### Excise Duty

Revenue generated from Excise duty increased by 9.9 percent to Rs. 122.3 billion in the first four months of 2022, compared to Rs. 111.3 billion in the same period of 2021 mainly due to an increase in revenue from liquor and cigarettes and motor vehicles despite the revenue drops in petroleum and other excisable articles. Excise duty revenue accounted for 22.5 percent of the total tax revenue and contributed to 19.4 percent of the total revenue collected during the first four months of 2022 while achieving 28.4 percent of the annual estimate of Rs. 430.0 billion.

Revenue from Excise duty on liquor increased notably by 13.5 percent to Rs. 59.5 billion in the first four months of 2022 from Rs. 52.4 billion in the same period of 2021 mainly due to the upward revision of Excise Duty on liquor on November 12, 2021 coupled with the initiation of Security Features and Security Features Management System on liquor and liquor-based products, commencing from January 03, 2022.

Excise duty from cigarettes significantly increased by 19.4 percent to Rs. 33.0 billion during the period from January to April, 2022 compared to Rs. 27.6 billion in the same period of 2021. This was mainly due to the upward revision of duty rates of cigarettes in Budget 2022 together with enhanced sales of sticks particularly in cigarettes with lengths less than 67 mm during the above review period.

Revenue generated from excise duty on motor vehicles increased by 40.4 percent to Rs. 11.1 billion in the first four months of 2022, compared to Rs. 7.9 billion in the same period of 2021 despite the

measures introduced to curtail the non-essential imports since March 2020.

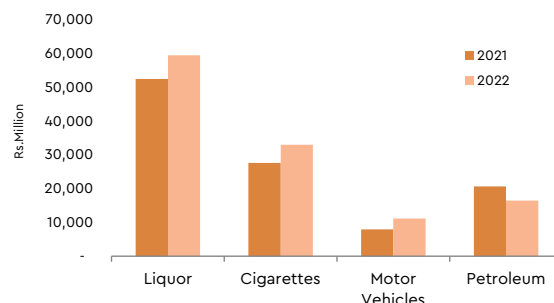
Revenue from petroleum products declined by 20.4 percent to Rs. 16.4 billion in the first four months of 2022, compared to Rs. 20.7 billion in the same period of 2021 mainly due to the reduction of imports of diesel during the period. However, revenue from other excisable articles dropped by 14.0 percent to Rs. 2.3 billion in the first four months of 2022, compared to Rs. 2.7 billion in the same period of 2021.

**Table 2.7: Performance of Excise Duty from January to April 2022**

Tax Base	Rs. Million		
	2021	2022 (Provisional)	Growth (%)
Liquor	52,412	59,473	13.5
Cigarettes	27,602	32,962	19.4
Motor Vehicles	7,921	11,125	40.4
Petroleum	20,653	16,446	-20.4
Other	2,665	2,291	-14.0
Total	111,253	122,297	9.9

Source: Department of Fiscal Policy

**Figure 2.2: Performance of Excise Duty from January to April 2021 and 2022**



Source: Department of Fiscal Policy

## Other Taxes

Revenue generated from PAL and CESS levy increased moderately during first four months of 2022. However, revenue collected from CID, Special Commodity Levy (SCL) and Telecommunication Levy declined in the first four months of 2022, compared to the same period of 2021.

Revenue collection from PAL increased significantly by 16.4 percent to Rs. 62.6 billion in the first four months of 2021 from Rs. 53.8 billion in the same period of 2021 mainly due to increase of global petroleum prices. This was a realization of 35.8 percent of the annual estimate of Rs. 175.0 billion for 2022. Revenue from CESS levy increased by 9.2 percent to Rs. 29.2 billion in the first four months of 2022, compared to Rs. 26.8 billion in the same period of 2021 due to the impacts of the rise in commodity prices in the global market and rupee depreciation against US Dollar combined with the upward revision of import CESS Levy rates with the Budget 2021. The CESS revenue collected in the first four months of 2022 was a realization of 32.5 percent of the annual estimate of Rs. 90.0 billion for 2022. Revenue from CESS Levy on imports increased by 9.5 percent to Rs. 28.5 billion in the first four months of 2022 from Rs. 26.1 billion in the same period of 2021 with the higher revenue generated from portland cement, Beedi leaves, lubricants and woven fabrics imports during the first four months of 2022. Revenue from CESS levy on exports declined slightly by 1.5 percent to Rs. 0.69 billion in the first four months of 2022 from Rs. 0.71 billion in the same period of 2021. Tea, coconut, ilmenite, and pale crepe rubber exports were the largest contributors to the CESS revenue on exports in the first four months of 2022.

Meanwhile, revenue from CID declined significantly by 44.7 percent to Rs. 17.5 billion in the first four

months of 2022, compared to Rs. 31.6 billion in the same period of 2021. Similarly, revenue collected from SCL declined by 22.9 percent to Rs. 15.8 billion due to the downward revision of SCL rates on essential commodities. The revenue collected from Telecommunication Levy dropped marginally by 1.6 percent to Rs. 4.3 billion in the first four months of 2022.

## Non-Tax Revenue

During the first four months of 2022, non-tax revenue increased significantly by 60.2 percent to Rs. 87.3 billion from Rs. 54.5 billion in the corresponding period of 2021, benefiting from the high revenue collection from rent, profits and dividends from SOEs, and sales and charges with the revival of economic activities after the pandemic. The non-tax revenue collection was a realization of 38.6 percent of the annual estimated revenue of Rs. 226.0 for 2022.

Non-tax revenue from rent income, profits and dividends from SOEs and fines, fees and charges grew considerably by 56.9 percent, 61.8 percent and 83.1 percent to Rs. 2.2 billion, Rs. 11.4 billion and Rs. 22.9 billion, in the first four months of 2022 from Rs. 1.4 billion, Rs. 7.0 billion and Rs. 12.5 billion, respectively in the same period of 2021. The profit transfers from the Central Bank, Social Security Contribution and other sources of non-tax revenue also increased to Rs. 30.0 billion, Rs. 12.1 billion, and Rs. 7.5 billion, respectively in the first four months of 2022 from Rs. 15.0 billion, Rs. 11.3 billion, and Rs. 5.9 billion, respectively in the same period of 2021. However, interest income moderately contracted by 13.1 percent to Rs. 1.1 billion in the first four months of 2022 from Rs. 1.3 billion in the same period of 2021.

**Table 2.8: Variance Analysis of Government Revenue**

Item	Rs. Billion			Reason
	2021 (Jan-Apr)	2022 (Annual Est.)	2022 (Jan-Apr)	
Income Tax	55.2	496.0	149.2	Revenue from income tax significantly increased by 170.0 percent to Rs. 149.2 billion in the first four months of 2022 from Rs. 55.2 billion recorded in the same period of 2021, realizing 30.1 percent of the annual estimate. This was mainly due to the increase of 53.7 percent in the corporate and non-corporate tax revenue to Rs. 72.2 billion from Rs. 47.0 billion together with the revenue of Rs. 59.6 billion received from the first installment of Surcharge Tax which is introduced as one-off levy. In addition, Pay-As-You-Earn/ Advance Personal Income Tax (APIT) increased by 63.2 percent to Rs. 7.2 billion from Rs. 4.4 billion and tax on interest increased by 70.4 percent to Rs. 5.6 billion from Rs. 3.3 billion in the first four months of 2022 compared to same period of 2021. Revenue from Capital Gains Tax also notably increased by 230.6 percent to Rs. 633 million from Rs. 191 million during the review period. In addition, Rs. 3,887 million was recorded from the Voluntary Disclosure Tax which was levied as an amnesty tax on individuals who disclosed any undisclosed income or asset and invested such income/asset.
VAT	101.8	424.0	136.1	VAT revenue increased notably by 33.7 percent to Rs. 136.1 billion in the first four months of 2022, compared to Rs 101.8 billion in the same period of 2020, realizing 32.1 percent of the estimated VAT revenue for 2022. This revenue performance was mainly due to the increase in economic activities and inflation (Y-o-Y CCPI) hike to 39.1 percent in May 2022 from 4.5 percent in May 2021 reflecting the higher commodity prices in both domestic and interanational markets. The increase in the VAT rate on financial services from 15 percent to 18 percent with effect from January 2022 and depreciation of the Sri Lankan Rupee against all major currencies also caused this nominal increase in VAT revenue.
Excise Tax	111.3	430.0	122.3	Revenue from Excise duty increased by 9.9 percent to Rs. 122.3 billion in the first four months of 2022, compared to Rs. 111.3 billion in the same period of 2021, realizing 28.4 percent of the annual estimate mainly due to increase in revenue from liquor and cigarettes and motor vehicles. However, the revenue from petroleum and other excisable articles declined. Revenue from liquor increased by 13.5 percent to Rs. 59.5 billion in the first four months of 2022 from Rs. 52.4 billion in the same period of 2021 mainly due to the upward revision of Excise Duty on liquor products. Revenue collection from cigarettes increased by 19.4 percent to Rs. 33.0 billion during the period from January to April, 2022 mainly due to revision of duty rates of cigarettes in Budget 2022 together with enhanced sales of sticks especially in cigarettes with length less than 67mm during the review period. Excise duty on motor vehicles increased by Rs. 3.2 billion to Rs. 11.1 billion in the first four months of 2022, compared to Rs. 7.9 billion in the same period of 2021 despite the measures introduced to curtail the non-essential imports since March 2020. Revenue generated from petroleum products declined by 20.4 percent to Rs. 16.4 billion in the first four months of 2022 as a result of reduction of imports of diesel. Meanwhile, revenue collected from other excisable articles dropped to Rs. 2.3 billion in the first four months of 2022, compared to Rs. 2.7 billion in the same period of 2021.

Item	Rs. Billion			Reason
	2021 (Jan-Apr)	2022 (Annual Est.)	2022 (Jan-Apr)	
Import Duty	31.6	115.0	17.5	Revenue from import duty significantly declined by 44.7 percent to Rs. 17.5 billion during the first four months of 2022, compared to the corresponding period of the previous year, realizing 15.2 percent of the annual estimate. This was mainly due to the decline import duty liable imports resulted from implementation of the import restrictions towards the non-essential goods.
Ports and Airports Development Levy (PAL)	53.8	175.0	62.6	Revenue from PAL increased significantly by 16.4 percent to Rs. 62.6 billion in the first four months of 2022 from Rs. 53.8 billion in the same period of 2021 benefiting from increase of global petroleum prices. This was a realization of 35.8 percent of the annual estimate of 2022.
Special Commodity Levy	20.5	80.0	15.8	Revenue from SCL significantly declined by 22.9 percent during this period, collecting around 19.7 percent from annual estimate 2022. This performance was mainly due to the downward rate changes of selected commodity items in order to maintain the domestic demand and supply in a sustainable level.
Other Taxes	53.0	267.0	40.1	The revenue collection from other taxes declined by 24.3 Percent to Rs. 40.1 billion in the first four months of 2022, compared to Rs. 53.0 billion in the same period of last year realizing 14.9 percent of the annual estimate of 2022
Non Tax Revenue	54.5	226.0	87.3	Non-tax revenue increased significantly by 60.2 percent during the first four months of 2022, compared to the same period of 2021 and it was a realization of 38.6 percent of the annual estimate. This was mainly due to the improved revenue collection from rent, profits and dividends from SOEs, and sales and charges. Receipt of Central Bank profit transfers of Rs. 30 billion was also significantly contributed to the revenue enhancement of non-tax revenue.
<b>Total</b>	<b>481.7</b>	<b>2,213.0</b>	<b>630.9</b>	

Compiled by the Department of Fiscal Policy

**Box 2.1: Major Fiscal Measures: January-June 2022**

Effective Date	Measures
<b>Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)</b>	
01.01.2022	Excise Notification No. 01/2022 (Gazette Notification No. 2260/78 of 01.01.2022) To exempt payment of Authorization fee applicable for the usage of liquor until March 31, 2022 for 3 stars and 4 Stars Classes hotels and 5 Star Classes and above Star Classes/ Boutique Hotels; Boutique Villas/ Heritage Hotels.
01.01.2022	Excise Notification No. 02/2022 (Gazette Notification No. 2260/79 of 01.01.2022) To exempt the annual liquor license fee from hotels (licenses categorized as FL/ 7, FL /8, FL /11 and FL /22 B by the Department of Excise) until March 31, 2022 [Excise Notification No. 02/2021 (Gazette Extraordinary No.2208/35 of 01.01.2021 rescinded.)]
27.01.2022	Gazette Notification No. 2264/28 of 27.01.2022 and Gazette Notification No. 2264/29 of 27.01.2022 To notify that the Excise Notification No. 08/2021 and 09/2021 were passed by parliament on December 10, 2021, as per Section 32 of the Excise Ordinance (Chapter 52) in order to fulfill the legal requirements
29.04.2022	Excise Notification No. 03/2022 (Gazette Notification No. 2277/62 of 29.04.2022) To increase the duty from Rs. 25/- to Rs. 50/ per litre of bottled toddy manufactured in and issued from any licensed manufactory established in Sri Lanka.
08.06. 2022	Excise Notification No. 04/2022 (Gazette Notification No. 2283/28 of 08.06.2022) To Increase the Excise Duty on locally supplied/ imported Ethyl Alcohol
<b>Value Added Tax (VAT) Amendments to Value Added Tax Act, No .13 of 2002</b>	
01.01.2022	To increase the VAT rate from 15 percent to 18 percent on the supply of financial services on financial institutions
01.06.2022	Gazette Notification No. 2282/26 of 31.05.2022 To increase general VAT rate from 8% to 12%
<b>Surcharge Tax Act, No 14 of 2022</b>	
07.04.2022	To impose Surcharge Tax as a one –off tax at the rate of 25 percent from individuals, partnerships or companies whose taxable income exceeds Rs. 2,000 million for the year of assessment 2020/2021
<b>Ports and Airports Development Levy (PAL) – Ports and Airports Development Levy Act, No. 18 of 2011</b>	
06.01.2022	Gazette Notification No. 2261/58 of 06.01.2022 To amended Gazette Notification No. 2199/2 dated October 26, 2020 by granting PAL exemptions on donated medical equipment, machinery etc. donated to government hospitals or Ministry of Health.
12.01.2022	Gazette Notification No. 2262/19 of 11.01.2022 To assign PAL concessionary rates and exemptions on newly created national HS sub divisions.
<b>CESS Levy – Sri Lanka Export Development Act, No. 40 of 1979</b>	
12.01.2022	Gazette Notification No. 2262/20 of 11.01.2022 To Assign the existing CESS levy rates for the new national HS Sub Divisions created for rice, fisheries products and accessories related to transferring liquefied petroleum gas.
11.03.2022	Gazette Notification No. 2270/59 of 10.03.2022 To increase the existing CESS duty rates for textiles and garments.
19.05.2022	Gazette Notification No. 2280/32 of 18.05.2022 To re-gazette the Gazette Notification No. 2262/20 of 11.01.2022

Effective Date	Measures
<b>Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962</b>	
12.01.2022	Revenue Protection Order No. 01/2022 (Gazette Notification No. 2262/14 of 11.01.2022) Create HS Code National Subdivisions  To assess and monitor the standards of LP Gas related accessories  To monitor import and market information of fisheries products  To monitor the export growth and market information of Tissue Culture Plants  To clearly identify brown sugar and white sugar based on ICUMSA value and to promote local brown sugar production  To eliminate classification issues and easy identification of rice varieties as Basmati and other rice
10.03.2022	Revenue Protection Order No. 02/2022 (Gazette Notification No. 2270/20 of 09.03.2022)  To increase CID on selected non essential imports to discourage importation and minimize foreign currency outflows.
<b>Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007</b>	
01.01.2022	Gazette Notification No. 2260/72 of 31.12.2021  To reduce SCL duty by Rs.30/- per Kg on importation of Potatoes and B'Onions for a period of six months.
12.01.2022	Gazette Notification No. 2262/15 of 11.01.2022  To extend the existing duty rates according to the new HS Codes creation for rice and sugar for a period of six months.
04.03.2022	Gazette Notification No. 2269/48 of 03.03.2022  To introduce a concessionary duty rate of Rs.10 per kg on maize and sorghum, considering the raw material requirements of small-scale animal feed manufactures and poultry products prices.
04.03.2022	Gazette Notification No. 2269/56 of 03.03.2022  To extend the validity period of SCL on the importation of mackerel fish, black gram, cowpea, kurakkan and millet for a period of one year in order to protect local canned fish industry, to ensure a good price for farmers and to maintain price stability to consumers.
10.03.2022	Gazette Notification No. 2270/19 of 09.03.2022  To increase SCL on the importation of yogurt and butter to Rs. 1000 per kg, cheese to Rs. 400 per kg, dates and orange fresh to Rs. 200 per kg, grapes- fresh, apples and other fruits to Rs. 300 per kg for a period of six months to reduce the imports.
28.03.2022	Gazette Notification No. 2273/01 of 28.03.2022  To grant duty waiver of Rs. 199/- for the importation of dates considering the Ramadan festive season.
14.04.2022	Gazette Notification No. 2275/02 of 13.04.2022 To extend the validity period of SCL on the importation of lentils, fish, maldivefish, green gram, mangoosteens and kiwi fruit for a period of six months.
<b>Regulations of Department of Imports and Exports Control</b>	
12.01.2022	Imports & Exports (Control) Regulations No.03 of 2022 (Gazette Notification No. 2262/18 of 12.01.2022)  To remove temporary suspension on long grain rice  To continue restrictions on fish fillet as per new HS codes
09.03.2022	Imports & Exports (Control) Regulations No.05 of 2022 (Gazette Notification No. 2270/18 of 09.03.2022)  To impose requirement of ICL for selected items.



Effective Date	Measures
09.04.2022	Imports & Exports (Control) Regulations No.06 of 2022 (Gazette Notification No. 2274/42 of 09.04.2022  To impose requirement of ICL for selected items.
<b>Finance Act, No. 25 of 2003</b>	
<b>Embarkation Levy</b>	
27.03.2022	Gazette Notification No. 2272/53 of 27.03.2022  To reduce embarkation levy by 50 percent to USD 30 for the passengers leaving Sri Lanka by aircraft from Colombo International Airport, Ratmalana (CIAR) with the aim of promoting CIAR as an international airport serving regional destination.
29.04.2022	Gazette Notification No. 2277/63 of 29.04.2022  To extend the waive off of Embarkation Levy for two years from the date of commencement of operations by new international airlines from Mattala Mahinda Rajapaksa International Airport (MRIA).
<b>Strategic Development Projects Act, No.14 of 2008</b>	
18.01.2022	Gazette Notification No. 2263/03 of 18.01.2022  To Publish the relevant information and exemptions granted for the project to develop software and information technology (IT) related services for export by HCL Technologies Lanka (Private) Limited.

## Government Expenditure

Government expenditure increased by 15.2 percent to Rs. 1,155.2 billion in the first four months of 2022, compared to Rs. 1,002.8 billion in the same period of 2021. Recurrent expenditure grew by 14.2 percent to Rs. 1,016.8 billion in the first four months of 2022, compared to Rs. 890.1 billion in the same period of 2021 due mainly to the increased in expenditure on interest payment, salaries and pension payment. Capital expenditure and net lending increased by 22.8 percent to Rs. Rs. 138.4 billion in the first four months of 2022 from Rs. 112.7 billion in the same period of 2021.

**Table 2.9: Performance of Government Expenditure from January to April 2022**

Item	Rs. Million	
	2021	2022 (Provisional)
Recurrent Expenditure	890,085	1,016,810
Salaries and Wages	274,044	316,051
Pension Payment	87,345	99,659
Interest Payment*	366,240	426,786
Other	162,455	174,313
Capital Expenditure and Net Lending	112,748	138,419
Total	1,002,832	1,155,229

Source: Department of Fiscal Policy

\* Including Interest payments for Domestic and Foreign Debt and Discount on Treasury Bills and Treasury Bonds

## Interest Payments

The total expenditure on interest payments including both domestic and foreign debt increased by 16.5 percent to Rs. 426.8 billion in the first four months of 2022, compared to Rs. 366.2 billion in the same period of 2021. Interest payments on foreign debt fell by 8.1 percent to Rs. 84.9 billion in the first four months of 2022, compared to Rs. 92.4 billion in the same period of 2021 whereas interest payment for domestic debt increased by 24.8 percent to Rs. 341.9 billion in the first four months of 2022 from Rs. 273.8 billion in the same period of 2021.

## Salaries and Pensions

The expenditure on salaries and wages of public servants including Provincial Councils increased by 15.3 percent to Rs. 316.1 billion in the first four months of 2022, compared to Rs. 274.0 billion in the

same period of 2021. Meanwhile, the expenditure on pension payments increased by 14.1 percent to Rs. 99.7 billion in the first four months of 2022, compared to Rs. 87.3 billion in the same period of 2021. Provision of a Rs. 5,000 monthly allowance from January 2022 for public servants and pensioners has contributed to this increase.

## Welfare Expenditure

The Government incurred Rs. 191.2 billion on household subsidies including "Samurdhi" payments, elder's allowance, assistance to differently-abled soldiers, food package for pregnant mothers, fertilizer subsidy and school uniforms and text books in the first four months of 2022.

Expenditure on the Samurdhi cash grants provided to low-income families has increased to Rs. 20,679 million for the first four months of 2022 from Rs. 17,271 million in the same period of 2021 owing to the government decision to increase the "Samurdhi" allowance by Rs. 1,000 per month.

The Government expenditure on health and nutrition programmes including the medical supplies for the government hospitals has declined by 2.4 percent to Rs. 19,655 million in the first four months of 2022, compared to Rs. 20,143 million in the same period of 2021. This was due to the decline in expenditure incurred on the Nutritional Food Package for Expectant Mothers, School Nutritional Foods program, and Health Insurance for School Children as a result of the implementation lag of the new policy initiatives with regard to these programmes.

The cost of welfare programmes on education such as free textbooks, uniforms and shoes for students of schools in difficult areas in the first four months of 2022 was Rs. 2,592 million. Government incurred Rs. 14,925 million for fertilizer and crop subsidy for the first four months of 2022 compared to Rs. 7,140 million for the same period of 2021 due to the increased price of fertilizer in the global market.

Considering the impacts of the prevailing economic crisis, in addition to the regular welfare programmes, the Government is in the process of providing additional relief for the most vulnerable

groups of the society. The assistance of the World Bank and the Asian Development Bank has been mobilized through this repurpose project funds for emergency spending on social protection needs by these two institutions. The Government provided or will provide a cash allowance of Rs. 5,000 with an additional top up payment for the "Samurdhi" beneficiaries and other categorical recipients such as elders, disabled persons, and kidney patients, whilst including wait-listed people of those beneficiary categories for the months of May to October 2022. The government is in the process of establishing transparent and objective criteria to identify recipients of welfare support to ensure that support is received by the most deserving households. The improved targeting will enable higher allocations to recipients and will be in the form of cash transfers directly to the bank account of the recipient. This scheme is expected to be implemented in the coming months.

**Table 2.10: Major Welfare Expenditure from January to April 2022**

Program	Rs. Million
	2022 (Provisional)
<b>Social Welfare</b>	
Samurdhi relief	20,679
Support for low-income differently abled persons	1,437
Financial support for elderly	3,334
Financial support for kidney patients	774
"Ranaviru Mapiya Rakawarana " Allowance	634
Flood & drought relief	16
Allowance for pre-school teachers	110
Service Compensation for Death & Injured Soldiers	13,483
<b>Health &amp; Nutrition</b>	
Thripasa program	2
Nutritional food package for expectant mothers	1,129
School Nutritional Food Program	301
Fresh Milk Programme – School Children	–
Health Insurance for School Children	143
Morning Meal for Pre-School Children	21
Medical Supplies for Government Hospitals (with Ayurvedha)	19,655
<b>Education</b>	
School textbooks	374
School uniforms	1,244
Shoes for Students in difficult and very difficult School	400
Scholarships – Grade 5 students	64
Mahapola and bursaries	450
Interest Subsidy for Laptops and Wifi facilities of university students	1
Loan scheme for the students who are unable to get into the state universities	1.1
Dhamma school textbook for student	–
Uniforms for Dhamma school teachers	58
<b>Subsidy</b>	
Fertilizer and crop subsidy	14,925
<b>Other Subsidies</b>	
Sri Lanka Transport Board, subsidy for unremunerated routes, school season tickets and armed forces bus passes	2,850
<b>Total</b>	<b>82,085</b>

Source: Department of National Budget

## Sectoral Expenditure

### School Education

During the first four months of 2022, Rs. 96,707 million has spent on school education, of which recurrent and capital expenditure were Rs. 95,189 million and Rs. 1,518 million, respectively. The recurrent expenditure increased by 17 percent in the first four months of 2022 compared to the same period of 2021 due to the policy decision taken in regard to addressing salary anomalies of teachers and principals and also the payment of Rs. 5,000 allowance from the month of January 2022.

The expenditure on conducting examinations declined by 57 percent compared to the same period of 2021 as COVID-19 pandemic has caused changes to the examination schedule and has affected the pattern of expenditure. Further, the payments related to the Grade 5 examination and Advanced Level Examination which were held in January and February 2022, respectively have not been completed during the first four months of 2022.

Education specific welfare expenditure declined by 18.5 percent to Rs. 3,558 million during the first four months of 2022 from Rs. 4,369 million in 2021. The Ministry of Education was not able to implement the "School Milk Program" due to the shortage of fresh milk. However, the "School Meal Programme" has been implemented as planned.

**Table 2.11: Expenditure on Major Activities of School Education from January to April 2022**

Description	Rs. Million	
	2021	2022 (Provisional)
<b>Recurrent Expenditure</b>		
Personnel emoluments for school teachers and other staff	69,059	84,089
National	14,224	25,519
Provincial	54,835	58,570
Welfare Programmes	4,369	3,558
Evaluation of examination	702	299
<b>Capital Expenditure</b>		
Rehabilitation/ Infrastructure Developments in School	403	386
Teacher Development	98	10
Qualitative Development Reforms in Education	25	59
Provincial education	470	582

Source: Department of National Budget

### Higher Education

The total expenditure on university education decreased by 8.5 percent to Rs. 21,280 million in the first four months of 2022, compared to the same period of 2021 due to the expenditure control measures. The recurrent expenditure increased by 3.5 percent to Rs. 18,320 million in the first four months mainly due to the Rs 5,000 allowance provided from the month of January in 2022. The capital expenditure decreased by 47 percent to Rs. 2,960 million in the first four months of 2022, compared to the same period in 2021.

**Table 2.12: Expenditure on Major Activities of Higher Education from January to April 2022**

Description	Rs. Million	
	2021 Jan-April	2022 Jan-April (Provisional)
<b>Recurrent Expenditure</b>		
Personnel emoluments of universities & other higher educational institutions	15,221	16,585
Mahapola and bursary payment	600	450
<b>Capital Expenditure</b>		
Accelerating higher education expansion & development project	1,595	970
Building complex for the Faculty of Health Care Science, Eastern University (GOSL - Kuwait)	574	360
Science & Technology Human Resource Development project (GOSL - ADB)	904	905
Wayamba University Township Development Project (GOSL/Saudi)	1.6	386
Loan interest for laptops (University Students)	1	1

Source: Department of National Budget

### Skills Development and Vocational Training

The total expenditure for skills development and vocational training was Rs.2,494 million of which recurrent expenditure was Rs. 2,283 million and capital expenditure was Rs. 211 million during the first four months of 2022.

**Table 2.13: Expenditure on Major Activities of Skill Development from January to April 2022**

Description	Rs. Million	
	2021 Jan-April	2022 Jan-April (Provisional)
Improve Vocational Education Programme	3	36
Modernization of 7 Colleges of Technology & Technical Colleges	-	35

Source: Department of National Budget

## Health

The total government expenditure on health including Western and indigenous medicine sectors increased by 4.8 percent to Rs. 95,729 million during the first four months of 2022 compared to the same period of 2021 covering

**Table 2.14: Expenditure on Major Activities of Health Sector from January to April 2022**

Description	Rs. Million	
	2021 Jan-April	2022 Jan-April (Provisional)
<b>Total Recurrent Expenditure</b>	<b>83,242</b>	<b>87,447</b>
Service delivery expenditure	44,352	47,786
of which Salaries of medical personnel and support staff	34,693	37,233
Provision of Medicine	20,143	19,637
Provincial Health	18,747	20,024
<b>Public Investment Expenditure</b>	<b>8,054</b>	<b>8,281</b>
Medical Equipment	1,282	172
Health System Enhancement Project – ADB	824	286
Sri Lanka COVID 19 Emergency Response and Health Systems Preparedness Project (WB)	804	3,323
Establishment of Specialized Pediatric Care Complexes in Karapitiya, Ampara and Jaffna Hospitals	185	-
Upgrading Health Facilities of Selected Hospitals	175	449
Improvement of ETU Facilities under Line Ministry Hospitals	109	58
Development of Ambulatory Care Centre (OPD) of NHSL (GSOL_ China)	98	2
Provision of High Quality Radiotherapy for Cancer Patients in Sri Lanka with High Energy Radiation	69	-
Construction of Nursing Faculty/ Hostel	5	50
Other capital investments	4,493	2,924
Provincial Health Investment	1,377	1,017

Source: Department of National Budget

both Provincial and Central Government health expenditure. Out of the total health expenditure, the recurrent expenditure was Rs. 87,447 million and the capital investment was Rs. 8,281 million. The medical supplies, one of the major categories in the recurrent expenditure, Rs. 20,143 million was spent on pharmaceuticals, surgical items and laboratorial items.

## Irrigation and Water Management

During the first four months of 2022, The total investment for irrigation and water management increased by 29.9 percent to Rs. 11,364 million including the Mahaweli Water Security Investment Program to Rs. 4,304 million compared to Rs. 8,807 million in the same period of 2021. The balance Rs. 8,460 million for the development and improvement of irrigation systems was allocated to the Ministry of Irrigation and the Department of Irrigation.

## Agriculture

The total expenditure on the agriculture sector including plantation, livestock, fisheries and land development increased by 15 percent to Rs. 20,195 million in the first four months of 2022. Out of this amount, Rs. 14,599 million spent on production and supplying fertilizer and regulation of the use of chemical fertilizer and insecticides Rs. 3,858 million was spent on crop agriculture, Rs. 1,369 million on plantation sector development, Rs. 290 million on fisheries development, Rs. 18 million on land development and the balance for livestock development to develop infrastructure and to provide required facilities for beneficiaries.

## Water Supply and Sanitation

The Government continued spending on ensuring access to safe drinking water and quality sanitation services including the servicing of loans obtained from domestic and foreign banks with a cost of Rs. 8,115 million in the first four months of 2022, an increase of 72.4 percent compared to the same period of 2021. The national programme of "water for all", consisting of 248 projects, with the aims of enhancing production capacity, establishing new

water supply schemes, and expediting ongoing projects to ensure access to safe drinking water by the entire population is being implemented in 2022.

**Table 2.15: Highlights of Water Supply and Sewerage Projects Expenditure from January to April 2022**

Project	Rs. Million
	2022 Jan-April (Provisional)
" Water for all " All Island Water Supply Programme	1,633
Kandy North & Pathadumbara Integrated Water Supply Project (GOSL/China)	1,619
Greater Matale Water Supply Project (GOSL/ France)	1,000
Greater Colombo Water and Waste Water Management Improvement Investment Programme – Project 2 (GOSL/ADB)	733
Greater Colombo Water and Waste Water Management Improvement Investment Programme Project – 3 (GOSL/ADB)	705
Deduru Oya Water Supply Project (GOSL/Korea)	563
Water Supply and Sanitation Improvement Project (GOSL/WB)	324
Ambathale Water Supply System Improvement & Energy Saving Project (GOSL/ France)	290

Source: Department of National Budget

## Highways and Bridges

During the first four months of 2022, the expenditure on roads and bridges amounted to Rs. 36,398 million which is a 6 percent decline compared to the same period of 2021. Out of this amount, Rs. 16,123 million has been spent on national and rural road development. Under this, Rs. 10,613 million has been spent on the integrated road development programme (i- Road) to rehabilitate and improve more than 6,000 km of rural and provincial roads while Rs. 2,436 million was spent on the development of 100,000 km of alternative roads to access main roads targeting improvement of connectivity, particularly in the rural sector and also to address traffic congestion in urban areas.

Expenditure on expressways development was Rs. 1,430 million of which a significant amount has been spent on the Port Access Elevated Highway Development. Expenditure on widening and improvement of roads stood at Rs. 113 million while

expenditure related to the construction of bridges and flyovers development was Rs. 606 million.

Port Access Elevated Highway, i-road Development Programme, Widening and Improvement of Roads and Bridges in Central and Uva Provinces and Design and Construction of Flyovers in Kohuwala and Gatambe achieved their targeted progress during the first four months of 2022. Further, around Rs. 14,380 million has been spent on the interest and capital repayment for loans obtained by the Road Development Authority from local banks to implement road rehabilitation and improvement projects.

## Transport

The total government expenditure on the transport sector decreased by 9.3 percent to Rs. 12,320 million during the first four months of 2022 compared to the same period of 2021. Rs. 9,190 million and Rs. 3,130 million has been spent on recurrent and capital expenditure, respectively. Colombo Suburban Railway Project, Rehabilitation of Railway Line from Mahawa to Omanthai, Maintenance of existing railway lines and Minor and large-scale repairs to the railroad Rs. 2,731 million was incurred by the Railway Department.

During the first four months of 2022, the total expenditure incurred by the Government on the bus transportation was Rs. 2,850 million which has been spent on welfare services such as operating SLTB buses on economically unprofitable routes, issuing school and higher education season tickets and bus passes to the Armed Forces. The Department of Motor Traffic has spent Rs.224 million during this period.

## Housing Development

During the first four months of 2022, Rs. 1,351 million has been spent on the construction of housing and related infrastructure. This was utilised for providing facilities for housing needs and expenditure was 44.4 percent lower than expenditure in the same period of 2021. The expenditure of Rs. 603 million was spent on building houses for low-income families, including those in rural, urban, estates, Virusumithuru and kidney disease affected people.

## Urban Development

The total expenditure on Urban Development increased by 11.1 percent to Rs. 5,408 million in the first four months of 2022, compared to Rs. 4,868 million in the same period of 2021. Out of which Rs. 393 million was recurrent expenditure and Rs. 5,015 million was spent on capital expenditure. Out of the total expenditure of the urban development sector,

Rs.4,680 million has been spent on the Colombo Urban Development Project, Urban Regeneration Project, the Strategic Urban Development Project (Kandy, Galle and Jaffna), the Weras Ganga Project, the "Siyak Nagara" Program and the Provincial Urban Development Project.

**Table 2.16: Expenditure on Roads and Bridges from January to April 2022**

		Rs. Million	
Project/Programme		2021 Jan-April	2022 Jan-April (Provisional)
1	<b>Expressways Development</b>	520	1,430
	Central Expressway Project	444	238
	Colombo – Rathnapura – Pelmadulla Expressway	23	117
	Elevated Highway from New Kelani Bridge to Athurugiriya	31	54
	Port Access Elevated Highway Project	22	1,021
2	<b>Highways Development</b>	22,527	16,123
	Maintenance of Roads	1,503	688
	Colombo District Road Development Project	664	158
	Southern Road Connectivity Project	267	438
	Integrated Road Investment Programme (i-Road)	12,055	10,613
	Widening and Improvement of roads and bridges in Central and Uva provinces	30	1,200
	Development of an alternative Road Network to Access Main Roads and Expressways and to ease the Traffic Congestion	7,371	2,436
	Others	637	590
3	<b>Widening and Improvement of Roads</b>	1,437	113
4	<b>Construction of Bridges and Flyovers</b>	118	606
	Reconstruction of Damaged/ Weak Bridges on National Highways	52	32
	Construction of Rural Bridges using old bridge components	16	303
	Second New Kelani Bridge Construction Project	32	21
	Design and Construction of Flyovers in Kohuwala and Gatambe	-	226
	Others ( Including 3 Flyovers)	18	24
5	<b>Natural Disaster Affected Road Rehabilitation</b>	38	12
6	<b>Maganeguma Rural Road Development Programme</b>	16	1,134
7	<b>Transfers to RDA</b>	2,590	2,550
8	<b>Lands &amp; Land Improvements (Other projects excluding priority projects)</b>	391	50
9	<b>Gap Financing of the Road Development Authority's Commitments</b>	11,339	14,380
10	<b>Others</b>	-	-
	<b>Total</b>	<b>38,796</b>	<b>36,398</b>

Source: Department of National Budget

## Performance of the cash flow of the General Treasury

During the first four months of the year 2022, cash inflows to the General Treasury by way of revenue and other receipts amounted to Rs. 598.5 billion, as against the estimation of Rs. 613.7 billion, achieving the 97.5 percent from the estimate. Meanwhile, the first four months of 2022 cash outflow for both recurrent and public investment amounted to Rs. 1,249.3 billion as against the estimate of Rs. 1,210.2 billion, achieving 103.2 percent from the estimate. This is a 22.2 percent increase compared to Rs. 1,022.7 billion over the same period of 2021.

Total cash deficit as at 30<sup>th</sup> April 2022 was Rs. 650.8 billion, an increase of 15.5 percent compared to Rs. 563.6 billion deficit as at end April 2021 mainly due to increase the operational expenditure and public investment by 14.8 percent and 64.5 percent, respectively. However, the closing negative cash and bank balance as at 30<sup>th</sup> April 2022 was recorded as Rs. 230.3 billion against the Rs. 620.5 billion which was prevailed as at 30<sup>th</sup> April 2021.

## Management of Government Debt

The total borrowing limit approved by Parliament for the year 2022 amounted to Rs. 3,200 billion, within which the utilization of Government borrowings for the period from 01<sup>st</sup> January to 30<sup>th</sup> April 2021 was recorded as Rs. 1,754.1 billion.

Total borrowing utilization comprised of domestic and foreign project/programme borrowings amounting to Rs. 1,600.7 billion and Rs 153.4 billion, respectively to finance cash flow operations and development projects during the period. Approximately 91.3 percent consisted of domestic borrowing in the first four months of 2022. Treasury Bonds, Treasury Bills and Provisional Advance and Sri Lanka Development Bond (SLDB) were the main sources of domestic borrowings of the Government. Accordingly, around 60 percent of the total domestic borrowings were raised by way of Treasury Bonds, while 31 percent represent the Treasury Bills and another 8 percent was raised by way of Provisional Advances of Central Bank of Sri Lanka and SLDB in the first four months of 2022. The net borrowing as at end of the period under review was Rs. 1,148.5 billion.

**Table 2.18: Gross domestic borrowings (January to April 2022)**

	Rs. Billion
Treasury Bonds	1,003.5
Treasury Bills (Net)	518.2
Provisional Advances – Central Bank of Sri Lanka	73.8
Sri Lanka Development Bonds	65.6
Repayment of Foreign Currency Banking Unit	(60.4)
<b>Total</b>	<b>1,600.7</b>

Source: Department of Treasury Operations

**Table 2.17: Statement of Government Treasury Cash Flow Operations: January to April, 2022**

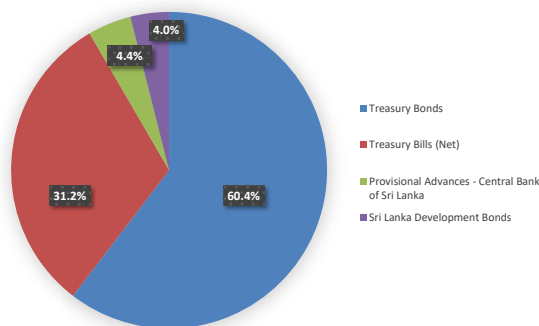
Item	Government Treasury Cash Flow Operations			Rs. Billion
	January-April			
	2021	2022		
	Actual	Estimate	Actual	
Opening Cash balance	-488.2	-831.6	-831.6	
Total cash inflow from revenue and other receipts	459.1	613.7	598.5	
Total cash outflow for recurrent payments	-870.4	-986.9	-998.8	
Total cash outflow for capital payments*	-152.3	-223.3	-250.5	
Net cash surplus / (deficit)	-563.6	-596.5	-650.8	
Gross borrowing *	732.5	1,786.9	1,754.1	
Debt repayment	-310.7	-520.8	-605.6	
Net borrowing	421.8	1,266.1	1,148.5	
Balance proceeds of Commercial Borrowing previous year	-	-	4.5	
Adjustment account balance (TEB, net deposits, Other Transfer etc.)	9.5	-	99.1	
Closing Cash balance	-620.5	-161.9	-230.3	

Source: Department of Treasury Operations

\*Includes project/programme loans accounted by Department of Treasury Operations as at 30<sup>th</sup> April 2022



**Figure 2.3: Gross domestic borrowings (January to April 2022)**



Source: Department of Treasury Operations

## Disclosure of Contingent Liabilities on Treasury Guarantees

Treasury Guarantees are issued in terms of the Section 2 of the Fiscal Management (Responsibility) (Amendment) Act, No. 13 of 2016 and the value of Treasury Guarantees issued and remained valid as at 30<sup>th</sup> April 2022 was Rs. 2,768.2 billion. The list of Treasury Guarantees issued by the General Treasury as at 30<sup>th</sup> April 2022, is given in Table 2.19

**Table 2.19: The List of Treasury Guarantees Issued by the General Treasury up to 29.04.2022**

S. No.	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
1	People's Bank	BCC Lanka Ltd	300.00	
		Ceylon Electricity Board	27,178.07	
		Ceylon Petroleum Corporation	596,778.84	
		Ceylon Shipping Corporation Ltd	25,887.67	
		Lanka Coal Company (Pvt) Ltd	28,000.00	
		National Water Supply & Drainage Board	7,475.25	
		National Paper Corporation	140.00	
		Paddy Marketing Board	1,097.83	
		Road Development Authority	58,184.52	
		State Printing Corporation	1,350.00	
		Sri Lankan Airlines Limited	16,789.57	
		Sri Lanka State Plantation Corporation	100.00	
		STC General Trading Company Ltd.	6,485.09	
	Lanka Sathosa Limited	2,241.00	772,007.84	
2	Bank of Ceylon	Building Materials Corporation Ltd	500.00	
		Ceylon Electricity Board	5,000.00	
		Ceylon Fisheries Corporation	250.00	
		Ceylon Petroleum Corporation	593,997.86	
		Elkaduwa Plantation Ltd	30.00	
		General Sir John Kotelawala Defence University	835.00	
		Janatha Estates Development Board	340.00	
		Lanka Coal Company (Pvt) Ltd	22,000.00	
		Litro Gas Lanka Limited	6,000.00	
		National School of Business Management Limited	8,600.00	
		National Water Supply & Drainage Board	71,848.44	
		Northsea Limited	38.63	
		Paddy Marketing Board	500.00	
		Road Development Authority	148,393.41	
		Sri Lankan Airlines Limited	13,049.95	
		State Development and Construction Corporation	1,000.00	
		Sri Lanka Rupavahini Corporation	200.00	
		State Engineering Corporation	2,400.00	
			Urban Development Authority	2,189.88

S. No.	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
3	National Savings Bank	Ceylon Electricity Board	7,500.00	216,336.06
		General Sir John Kotelawala Defence University	42,747.79	
		Lakdhanavi Ltd.	2,992.00	
		National Water Supply & Drainage Board	32,710.61	
		Road Development Authority	122,615.66	
		Sri Lanka Land Reclamation & Development Corporation	3,500.00	
		Urban Development Authority	2,770.00	
		Techno Park Development Company Private Limited	1,500.00	
4	Commercial Bank	National Water Supply & Drainage Board	968.36	5,724.29
		Road Development Authority	4,755.93	
5	DFCC Bank	National Water Supply & Drainage Board	6,026.24	11,922.75
		Road Development Authority	5,896.51	
6	Exim Bank of China	Telecommunications Regulatory Commission of Sri Lanka	31,915.68	31,915.68
7	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Limited	4,000.00	40,591.67
		National Water Supply & Drainage Board	16,458.52	
		Road Development Authority	20,133.15	
8	Hongkong & Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) Limited	15,889.61	67,372.51
		West Coast Power(Pvt)Ltd.	51,482.90	
9	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	15,110.01	15,110.01
10	Japan International Cooperation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Limited	206,600.47	206,600.47
11	National Development Bank	National Water Supply & Drainage Board	21,380.43	27,679.63
		Road Development Authority	6,299.21	
12	Exim Bank of India	National Water Supply & Drainage Board	92,411.67	92,411.67
13	China Development Bank	National Water Supply & Drainage Board	22,487.93	22,487.93
14	Asian Development Bank	Ceylon Electricity Board	167,399.40	167,399.40
15	Sampath Bank PLC	Road Development Authority	14,500.00	14,500.00
16	UniCredit Bank Austria AG	National Water Supply & Drainage Board	19,319.90	19,319.90
17	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	31,672.39	31,672.39
18	Sri Lanka Insurance Corporation	Sri Lanka Insurance Corporation	4,319.98	4,319.98
19	China National Chemical Engineering No.14 Construction Co. Ltd	Ceylon Petroleum Corporation	15,758.94	15,758.94
20	DB Trustees (Hong Kong) Limited	Sri Lankan Airlines Limited	62,999.77	62,999.77
21	Sri Lanka Savings Bank Limited	Northsea Limited	60.00	60.00
22	Asian Infrastructure Investment Bank (AIIB)	Bank of Ceylon & People's Bank	64,799.77	64,799.77
<b>Total</b>			<b>2,768,163.84</b>	<b>2,768,163.84</b>

Source: Department of Treasury Operations



## CHAPTER 3

### Performance of State Owned Enterprises

#### Overview

During the first four months of 2022, State Owned Enterprises (SOEs) encountered significant operational and financial challenges. The lack of foreign exchange liquidity has adversely affected the supply chain management of many key SOEs, particularly in the energy and transportation sectors. The negative impacts of this have been experienced across the entire economy.

Whilst the recent adoption of cost reflective pricing in the fuel sector is a positive step towards the operational sustainability of the Ceylon Petroleum Corporation (CPC), there remain a multitude of issues that require resolution. The primary concern is the legacy debt of CPC that is predominantly in foreign currency, resulting in frequent foreign exchange losses for the entity which in turn results in additional fiscal stress for the government and financial stress for the state-owned banks. As a result, the CPC has negative equity of Rs. 986 billion as at end April 2022. The Ceylon Electricity Board (CEB) has also not revised electricity tariffs for close to 8 years, contributing to an accumulated loss of Rs. 236 billion. The rising cost of fuel and coal in the global market coupled with the depreciation of the currency has contributed to a spike in the CEB's operating cost, which calls for an urgent adjustment of pricing for this sector. It is important to address the financial position of these two key energies related SOEs in order to ensure a stable and sustainable supply of energy to support economic activity across the board.

SriLankan Airlines (SLA) is another SOE that has significant fiscal implications. SLA's losses for 2021/22 reached Rs. 171 billion, creating a going concern issue for the entity. In addition to the fiscal losses, SLA also has external liabilities that need to be honoured under challenging operating circumstances where revenue is adversely affected by the decline in tourism, and fuel costs have escalated along with finance costs.

During the first four months of 2022, the key 52 SOEs reported a significant loss of Rs. 859 billion which is a significant deterioration compared to

the loss of Rs. 13 billion in the corresponding period in 2021. The key driver of the loss is the foreign exchange loss of CPC due to the depreciation of the currency. The exchange loss of CPC stood at Rs. 549 billion in the first four months of 2022.

The General Treasury collected levies and dividends of Rs. 11.4 billion in the first four months of 2022, which was a 67 percent increase compared to the corresponding period in 2021.

#### Review of the Ten Major SOBEs

##### Bank of Ceylon (BOC)

The asset base of the BoC increased by 14.8 percent to Rs. 4,366 billion as at end April of 2022 from Rs. 3,803 billion as at end 2021. During the first four months of 2022, the deposit base of the bank increased by 13.5 percent to Rs. 3,256 billion, compared to Rs. 2,867 billion as at end 2021. The gross non-performing loan ratio of the bank has deteriorated to 5.2 percent as at end April of 2022, compared to 4.4 percent as at end 2021. The BoC recorded a Profit before Tax (PBT) of Rs. 19.9 billion as at end April 2022, compared to the Rs. 19.6 billion PBT reported in the same period of 2021.

##### People's Bank (PB)

PB's asset base increased by 18.4 percent to Rs. 3,136 billion as at end April 2022 from Rs. 2,648 billion as at the end of 2021. The deposit base of the bank increased to Rs. 2,268 billion as at end April 2022 from Rs. 2,072 billion as at end 2021. Loans and advances increased by 3.9 percent to Rs. 2,014 billion in the first four months of 2022 from Rs. 1,937 billion as at the end of 2021. The gross non-performing loan ratio of the bank has deteriorated to 4.1 percent as at end April of 2022, compared to 3.2 percent as at end 2021. PB recorded a profit before tax of Rs.9.6 billion in the first four months of 2022, compared to Rs. 8.0 billion in the same period of 2021.

##### National Savings Bank (NSB)

NSB's asset base recorded a 2.7 percent increase to Rs. 1,623 billion as at end April 2022 from Rs.

1,579 billion as at end 2021. The deposit base of the bank increased by 2.3 percent to Rs. 1,462 billion by end April 2022 from Rs. 1,428 billion as at end 2021. Loans and advances balance increased by 4.4 percent to Rs. 563 billion in the first four months of 2022 compared to Rs. 539 billion as at end of 2021. NSB recorded a profit before tax of Rs. 8.5 billion in the first four months of 2022, compared to Rs. 10.5 billion in the same period of 2021.

### **Sri Lanka Insurance Corporation Limited (SLIC)**

SLIC has recorded a profit before tax of Rs. 9,017 million in the first four months of 2022 which is a 21 percent increase compared with the same period of 2021. SLIC's total revenue increased by 15 percent to Rs. 22 billion in the first four months of 2022, compared to Rs. 19 billion in the same period of 2021. This was mainly due to the increase in unrealized gain on foreign currency denominated investments of the company. Recently, Fitch Rating Services has downgraded SLIC's National Insurer Financial Strength (IFS) rating to 'AA (lka)' from 'AAA (lka)'.

### **Ceylon Electricity Board (CEB)**

In spite of power supply interruptions, the demand for electricity has remained strong, and accordingly, revenue from the sale of electricity also increased slightly by 2.5 percent to Rs. 82,580 million in the first four months of 2022 compared to the Rs. 80,529 million in the corresponding period of 2021. Price escalations in fuel and coal in the world market and the rupee devaluation have led to an increase in the direct generation cost of CEB significantly by 68 percent from Rs. 59,849 million to Rs.100,615 million during this period. The limited foreign currency liquidity and resultant shortages of key inputs including heavy fuels and disruptions to the CPC refinery have constrained operations of the CEB resulting in power outages during the period under review creating significant economic and social challenges.

Owing to the significant increase in the generation cost, CEB has incurred a large operating loss of Rs. 47,190 million in the first four months of 2022 compared to the loss of Rs. 7,515 million in the same period of 2021. The cost per unit at the selling point also has considerably increased to Rs. 26.96

per KWh in the first four months of 2022 compared to Rs. 18.26 per KWh in 2021. With respect to the generation mix during the concerned period, has also changed with hydro (20%) thermal (fuel) (28%) thermal (coal) (41%) and NCRE & Wind (11%) compared to the same period in 2021 being hydro (18%) thermal fuel (29%) thermal coal (44%) and NCRE/Wind (9%).

The total outstanding obligations of CEB to CPC and Independent Power Producers (IPP) have decreased to Rs. 121,811 million as at end of April 2022 with the Government providing a subsidy of Rs. 45,000 million to CEB to settle its outstanding obligations to CPC. The Independent Power Producers, mainly in the Renewable Energy sector, have also faced severe financial difficulties due to non-payment by the CEB. Furthermore, the outstanding obligations to the state banks have also increased to Rs.115,964 million as at end April 2022 due to the increase in overdraft facility while the total outstanding to the banks including project loans stood at Rs. 429,062 million at the end of April 2022.

### **Ceylon Petroleum Corporation (CPC)**

The import volume of petroleum and petroleum related products was limited to around 11 million barrels in the first four months of 2022 due to the significant bottlenecks in the supply chain both globally and due to domestic foreign exchange shortages. Sales of petroleum products increased marginally by 4 percent in the first four months of 2022 compared to the 1,920 million sold in the corresponding period of 2021.

In February 2022, India and Sri Lanka signed an agreement for a USD 500 million supply of petroleum products from the Indian Oil Company through a credit line, this was expanded by a further USD 200 million in April. Whilst these credit lines have provided important supply channels, CPC continues to face significant difficulties in procuring adequate fuel largely due to limitations in the availability of foreign exchange and external financing challenges.

The international price of a barrel of Brent crude oil has increased by 24 percent up to USD 105 bbl in the first four months of the year 2022. Consequently, CPC's total import cost of petroleum products

increased by 40 percent to USD 1,254 million in the first four months of 2022, compared to USD 894 million in the same period of 2021.

Given these pricing dynamics, the CPC recorded an operating loss of Rs. 64,951 million in the first four months of 2022 compared to Rs. 15,715 million recorded in the same period of 2021. In order to improve CPC's operating viability, the government has established a cost reflective pricing mechanism for petroleum products which will improve CPC's operating finances in the future.

Nonetheless, CPC's financial position would continue to be at risk due to foreign currency denominated liabilities on its balance sheet. A depreciation of the rupee results in added foreign exchange losses for CPC which weakens its bottom line. The exchange rate loss during the first four months of 2022 was Rs. 549,955 million compared to Rs. 26,738 million recorded in the same period of 2021. This has led to the CPC ending up with an overall loss of Rs. 628,381 million at the end of April 2022.

The total liability payable to the two state banks as at 30.04.2022 has reached Rs. 1,223,635 million. The CPC's accumulated losses and negative net worth amounted to Rs. 1,047,391 million and Rs. 985,886 million, respectively as at end April 2022. At the same time, the outstanding dues from various enterprises, primarily from Ceylon Electricity Board and SriLankan Airlines stood at Rs. 175,927 million at the end of April 2022.

### **Sri Lanka Ports Authority (SLPA)**

The COVID-19 pandemic, the March 2021 blockage of the Suez Canal by a container ship that had run aground, and the more recent shock engendered by the Russia-Ukraine conflict continue to have an adverse impact on the global economy, with visible signs of stress in the system and shortages and cost escalations of key commodities. These challenges have also had an impact on the operations of SLPA.

SLPA earned Rs. 21,908 million in total revenue from all three of its ports, including Colombo, Galle, and Trincomalee, of which more than 97 percent came from the Colombo port. SLPA's revenue comprises 55 percent terminal base revenue, 28 percent landlord revenue, and 10 percent profit

from investment. Personal emoluments and over time account for over 67 percent of the total expenditure of Rs. 10,828 million. For the first quarter of 2022, SLPA earned Rs. 14,221 million in profit after foreign exchange gains.

The SLPA continues to invest toward becoming a marine hub in the Asian region. The establishment of the ECT (East Container Terminal) as a semiautomatic terminal would improve efficiency, and the CWIT (Colombo West International Terminal) Consortium will follow with a sophisticated terminal. The second phase is being implemented gradually, with the building of West Container Terminal two and the North Port expansion, with rigorous feasibility studies and consultation work. Another immediate focus of the SLPA is to enhance the ease of doing business in Sri Lanka, and towards that end, SLPA has participated in Port Community System associated development with digitization.

### **National Water Supply and Drainage Board (NWS&DB)**

In accomplishing the targets of the National Water Supply and Drainage Board (NWS&DB) for the year 2025 and fulfilling the Government vision for "Water for All", the NWS&DB was able to increase the piped borne water and safe drinking water supply coverage in the country to 54.9 percent and 95 percent, respectively in first four months of 2022 compared to the same period of 2021 of 53.7 percent and 93.8 percent, respectively.

During this period the NWS&DB was able to complete 3 large scale, 6 local bank funded projects, and 91 Water for All projects, by adding 197,207 new connections to the system. This contributed to the 11.3 percent increase in revenue of the NWS&DB for the first four months in 2022 to Rs. 9,270 million. Revenue in the corresponding period of 2021 was Rs. 8,327 million. However, the NWS&DB recorded an operational loss of Rs. 663 million for the period under review against the operational profit of Rs. 122 million of the previous year due to the increase in administrative expenses. As a result, the NWS&DB incurred a loss of Rs. 483 million for the first four months of year 2022 compared to the loss of Rs. 205 million during the same period of the preceding year.

Water production and water sales for the period under review have increased by 4 percent and 5 percent, respectively and stood as 275 million m<sup>3</sup> and 210 million m<sup>3</sup> compared to the previous year. Further, Non-Revenue Water (NRW) showed a negative trend over the previous year and has slightly decreased to 24.01 percent compared to 24.63 in the previous year.

### **Airport and Aviation Services Sri Lanka Ltd (AASL)**

AASL handled nearly 900,000 passenger arrivals during the first quarter of 2022 despite the numerous challenges locally and globally. Investments in the expansion of the Bandaranaike International Airport (BIA) continue in anticipation of fulfilling the requirements of future demand of tourism and business travellers to Sri Lanka. Once the BIA expansion project phase II is completed it will increase the airport's annual handling capacity to 15 million passengers from the current 6 million level. The second phase expansion was carried out with Rs. 6.1 billion funding from JICA.

The expansion effort will increase the capacity of the parking yard to 49, the number of check-in counters will increase to 149, and the immigration windows will be increased to 83 from the current 27. The airbase entrance too will increase, from four to ten. AASL earned a total revenue of Rs. 9,430 million including aeronautical revenue Rs. 2,102 million,

non-aeronautical revenue Rs. 7,273 million and other income of Rs. 55 million which is 30 percent higher than the budgeted revenue for the period. Total expenditure is Rs. 5,719 million which is 12 percent less than the budget for the period. However, exchange loss on operations and conversions were recorded Rs. 11,143 million, which has directly impacted on the performance of AASL and has increased the operational loss of Rs. 3,711 million to a Loss before Tax of Rs. 6,407 million.

### **Srilankan Airlines (SLA) Ltd.**

SriLankan Airlines (SLA) has Rs. 618,677.61 million in liabilities, including interest bearing facilities such as a sovereign guaranteed USD 175 million international bonds, Treasury guaranteed bank loans from state banks, aircraft leases, and debt with trade creditors, primarily Ceylon Petroleum Corporation. In this context, the government is no longer able to finance SLA's losses and there is an urgent requirement to restructure SLA's balance sheet and convert its operating model into a profitable structure.

During the first four months of 2022, SLA earns a revenue of Rs. 71,825 million and the total cost has been Rs. 320,266 million. Accordingly, the loss for the period is Rs. 248,441 million. SLA experienced a significant one-time exchange loss of Rs. 145 billion in March 2022.

**Table 3.1: Reform/Key Initiatives for Major SOEs**

Institution	Reform/Key Initiatives
State Banks(BOC, PB & NSB)	<ul style="list-style-type: none"> <li>❖ Enhance credit quality and improving monitoring and collections.</li> <li>❖ Strengthen the risk management framework.</li> <li>❖ Develop technological capabilities to meet the customer expectations and Reduce operational cost.</li> <li>❖ Develop new products to assist the existing customers and attract new customers.</li> </ul>
SLIC	<ul style="list-style-type: none"> <li>❖ Investing to expand SLIC's branch network in underserved areas</li> <li>❖ Shifting to a low-cost branch model</li> <li>❖ Maintain brand recognition while offering different values to our stakeholders</li> <li>❖ Identify new digital solutions and implement speedy digital solutions to further improve productivity and quality enhancement of our business</li> <li>❖ Developing a dividend-based life insurance plan</li> <li>❖ Sending policy document in digital form (e-policy)</li> <li>❖ Sending customer notices through digital media</li> <li>❖ Enhancing the features of Customer App</li> </ul>
CPC	<ul style="list-style-type: none"> <li>❖ The Government initiated cost reflective pricing mechanism.</li> <li>❖ The Cabinet approved to open up the fuel importation.</li> </ul>
SLPA	<ul style="list-style-type: none"> <li>❖ SLPA has examined the differences in tariff structures between competing private operators in the Colombo Port and other Asian ports and is in the process of revising tariff rates to be competitive with the other ports. Minister of Finance approval is yet to be submitted.</li> <li>❖ SLPA flagged off the construction work of the second phase of East Container Terminal (ECT) at the Colombo Port. Currently construction of Steel Formwork &amp; Crane Materials and Reclamation works on progress.</li> <li>❖ SLPA has introduced an easy-to-report complaint mechanism against fraud and corruption, intending to enhance the quality of port operations and services. Accordingly, anyone using the port can use the telephone number +94716413332 to lodge an authentic complaint through WhatsApp in case of any fraudulence in operations and services in ports in Sri Lanka.</li> </ul>
SLA	<ul style="list-style-type: none"> <li>❖ The Cabinet of Ministers has decided to create an entity-specific procurement manual for SLA, and both the Department of Public Finance and the Department of Public Enterprises are in the process of approving a manual that will stop impeding SLA's performance without violating government procurement principles.</li> <li>❖ The Prime Minister has stated his intention to divest SLA shares from the government in order to minimize the burden on the treasury. The IMF and other multilateral aid organizations are negotiating the modality of the divestment.</li> <li>❖ Repayment of interest on Rs.175Mn sovereign bond is at a hold with the government policy on defaulting loan repayments.</li> </ul>
AASL	<ul style="list-style-type: none"> <li>❖ BIA phase two is under construction.</li> <li>❖ Repayment of loans taken with sovereign guarantees including Maththala Loan, BIA runaway is at hold with the government policy on defaulting loan repayments.</li> </ul>

Source: SOEs and Department of Public Enterprises



**Table 3.2: PBT – Profitability of 52 State Owned Enterprises**

Rs. Million

Enterprise	2020 <sup>(e)</sup>	2021 <sup>(e)</sup>	As at 30.04.2022 <sup>(e)</sup>
1 Bank of Ceylon	23,552	43,190	19,919
2 People's Bank	21,227	30,387	9,610
3 National Savings Bank	15,645	28,555	8,590
4 State Mortgage & Investment Bank	790	845	243
5 HDFC Bank	1,381	1,267	303
6 Pradeshiya Sanwardena Bank	2,061	2,651	670
7 Employees' Trust Fund Board	32,500	33,159	2,972
8 Sri Lanka Insurance Corporation Ltd	7,972	11,725	9,017
9 National Insurance Trust Fund	8,866	5,936	2812
10 Sri Lanka Export Credit Insurance Corporation	265	310	159
11 Agriculture and Agrarian Insurance Board	1,257	1,780	181
12 Ceylon Electricity Board	-60,486	-21,450	-47,190
13 Ceylon Petroleum Corporation	2,371	-82,208	-628,381
14 Sri Lanka Ports Authority	20,328	25,601	14,221
15 National Water Supply and Drainage Board	643	-2,996	-483
16 Airport and Aviation Services (SL) Ltd*	-3,733	-755	-6,407
17 Srilankan Airlines Ltd (a)	-45,230	-170,751	-248,441
18 Sri Lanka Transport Board	-2,105	-3,143	-599
19 State Engineering Corporation	-1,066	-1,020	-215
20 Central Engineering Consultancy Bureau	261	250	-41
21 State Development and Construction Corporation	-257	43	74
22 Milco (Pvt) Ltd*	230	330	-131*
23 National Livestock Development Board*	-	158	444
24 Sri Lanka State Plantations Corporation	-150	-232	3.7
25 Janatha Estates Development Board	-351	-481	-22.4
26 Kurunegala Plantations Ltd	214	468	204
27 Chilaw Plantations Ltd	283	511	139**
28 Kalubovitiyana Tea Factory Ltd	43	-15	0.57**
29 Sri Lanka Cashew Corporation	15	16	2
30 Lanka Mineral Sands Ltd	69	1,205	310
31 Lanka Phosphate Ltd.*	150	117	157**
32 Kahatagaha Graphite Lanka Ltd	14	4	7.7**
33 Development Lotteries Board	2,994	2,954	1,409
34 National Lotteries Board	1,435	1,003	444
35 State Pharmaceuticals Manufacturing Corporation	1,161	1,238	563
36 Sri Lanka Ayurvedic Drugs Corporation	9	-21	59
37 State Pharmaceuticals Corporation	2,546	3,157	209
38 Sri Jayawardanapura General Hospital	174	-258	-50
39 Independent Television Network Ltd	-251	-344	-102
40 Sri Lanka Rupavahini Corporation	-236	-224	-125
41 Sri Lanka Broadcasting Corporation	-2	9	-52
42 Sri Lanka Handicraft Board	-106	-35	-17.3
43 State Timber Corporation	464	1,236	186
44 STC General Trading Company	-120	63	126
45 Lanka Sathosa Ltd*	-1,386	-880	-118.7
46 State Printing Corporation	-44	-208	-57
47 Ceylon Fisheries Corporation*	-48	-63	-31
48 Ceylon Fishery Harbour Corporation	-236	-140	-9
49 Ceylon Fertilizer Company Ltd*	98	124	61.3
50 Colombo Commercial Fertilizer Company Ltd*	163	260	166.7
51 Hotel Developers Lanka Ltd.	-877	-947	-52
52 Lanka Sugar Company Ltd	1,171	1,577	391
<b>Total</b>	<b>33,668</b>	<b>-86,042</b>	<b>-858,870</b>

Source: SOEs and Department of Public Enterprises

<sup>(e)</sup> Provisional

\*Profitability as at 28.02.2022 (Jan-February 2022)

\*\* Profitability as at 31.03.2022 (Jan-March 2022)

**Table 3.3: Levy/ Dividend Income from SOEs**

Rs. Million

	2020	2021	As at 30.04.2022
<b>Levy</b>	<b>14,769</b>	<b>25,919</b>	<b>9,561</b>
National Savings Bank	1,000	3,500	-
Bank of Ceylon	1,250	1,500	-
People's Bank	2,500	1,977	-
Telecommunication Regulatory Commission of Sri Lanka	5,000	8,500	5,700
State Timber Corporation	-	100	-
State Pharmaceuticals Manufacturing Corporation	-	100	100
National Insurance Trust Fund	782	1,824	1,508
Geological Survey and Mines Bureau	-	2,000	650
National Gem and Jewellery Authority	-	15	25
Board of Investment of Sri Lanka	156	-	416
National Lotteries Board	-	900	261
Sri Lanka Export Credit Insurance Corporation	-	25	-
Central Engineering Consultancy Bureau	-	25	-
Civil Aviation Authority	-	50	-
State Pharmaceutical Corporation	-	-	128
National Transport Medical Institute	-	110	290
National Medicine Regulatory Authority	81	147	400
Road Development Authority	4,000	4,000	-
Land Reforms Commission	-	1,100	-
Condominium Management Authority	-	25	-
National Institute of Business Management	-	16	33
Sri Lanka Ayurvedic Drugs Corporation	-	5	-
Post Graduate Institute of Management	-	-	50
<b>Dividends</b>	<b>2,854</b>	<b>4,672</b>	<b>1,838</b>
<b>National Savings Bank</b>	<b>60</b>	<b>60</b>	<b>30</b>
Bank of Ceylon	346	346	173
People's Bank	316	316	158
National Development Bank	1	1	0.9
Sri Lanka Insurance Corporation Ltd	695	899	755
Lanka Mineral Sands Ltd	-	700	359
Lanka Phosphate Ltd	-	20	15
Lanka Leyland Ltd	2	3	-
Manthai Salt Ltd (National Salt Company)	2	14.8	-
Ceylon Fertilizer Ltd	304	29	-
Paranthan Chemicals Company Ltd	10	3	50
Sri Lanka Telecom PLC	947	1,331	-
De La Rue Lanka Ltd	-	345	-
Lanka Electricity Company Ltd	-	327	218
Lanka Industrial Estates Ltd	82	82	-
Ceylon Agro Industries	77	95	24
Plantation Companies	12	98	48
Others	-	2.2	7
<b>Total</b>	<b>17,623</b>	<b>30,591</b>	<b>11,399</b>

Source: SOEs and Department of Public Enterprises



## CHAPTER 4 Foreign Financing

### Overview

In line with the policies adopted to mobilize foreign financing in 2021, the Government aimed to finance high propriety projects and financial needs in 2022. Accordingly, in 2022 the Government acquired foreign loans for import of essential commodities and for education sector.

### Foreign Financing Commitments

The Government has made arrangements to mobilize foreign financing of USD 1,550.5 million by entering into 4 agreements with foreign development partners and lending agencies from 1<sup>st</sup> January to 30<sup>th</sup> April 2022, to support the public investment program. This consists of USD 1,500.0 million of Export credit Facilities extended by the EXIM bank and State bank of India for import of essential commodities, USD 32.9 million extended by the government of Kuwait to be utilized for construction and equipping facility of Medicine at university of Moratuwa project and USD 17.6 million extended by government of federal republic of Germany for establishment of a vocational training center in Matara. The performance of mobilizing foreign financing during the first quarter was greatly affected by economic crisis of Sri Lanka.

### Foreign Financing Disbursements and Utilization

Total foreign financing disbursements made during the period from 1<sup>st</sup> January to 30<sup>th</sup> April, 2022 amounted to USD 968.8 million, of which, USD 968.1 million was disbursed as loans while USD 0.7 million was disbursed by way of grants.

The majority of the disbursements were from the loan agreements signed with India, which is almost 39 percent, followed by Asian Development Bank (37 percent) and China (7 percent).

The majority of the disbursements was in lieu of the projects implemented under the power and energy sector accounting for almost 41.57 percent of the total disbursements, followed by the road and bridges sector at 21.5 percent, Health

and Social welfare 10.97 percent water supply and sanitation sector at 6.32 percent, irrigation 6.07 percent ground transport 5.5 percent and education sector at 3.13 percent.

**Table 4.1: Disbursements of Foreign Loans and Grants from 01<sup>st</sup> January to 30<sup>th</sup> April, 2022**

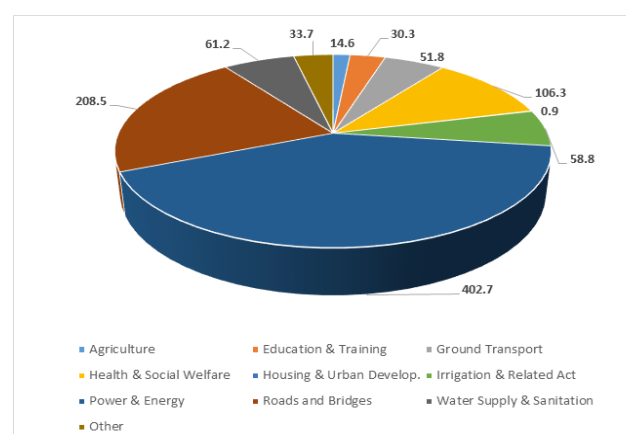
Development Partner	Disbursements (USD Million)*		
	Loan	Grant	Total
<b>Bilateral</b>	<b>536.0</b>	<b>0.7</b>	<b>536.7</b>
China	67.9		67.9
Japan	42.3		42.3
France	20.8		20.8
India	376.9		376.9
Netherlands	13.7		13.7
United Kingdom	2.3		2.3
Kuwait	5.1		5.1
Austria	0.71		0.7
Korea	2.1		2.1
Spain	1.3		1.3
Germany		0.7	0.7
Hungary	2.9		2.9
<b>Multilateral</b>	<b>432.1</b>	<b>0</b>	<b>432.1</b>
World Bank	67.3		67.3
Asian Development Bank	359.6		359.6
OPEC Fund	2.4		2.4
International Fund for Agriculture Development	2.7		2.7
<b>Total</b>	<b>968.1</b>	<b>0.7</b>	<b>968.8</b>

Source: Department of External Resources

Note: For conversion of disbursements made in different currencies into US\$ and Rupees, the exchange rates as at 30<sup>th</sup> April 2022 have been used

\* Provisional

**Figure 4.1: Disbursements Made for each Sector from 1<sup>st</sup> January to 30<sup>th</sup> April 2022 (USD Million)**



Source: Department of External Resources

**Table 4.2: Foreign Financing Commitments with Terms – from 01<sup>st</sup> January to 30<sup>th</sup> April, 2022**

Development Partner/ Lending Agency	Instrument Type	Agreement Date	Project/Program/ Instrument Name	Amount Committed (Million)		Financial Terms			Other Terms							
				Currency	Instrument Currency	Rupees	USD	Interest	Type	Annual Rate (%)	Margin (100 Basis Points)	Other Charges	Grace Period (Years)	Maturity/ Availability Period from the Date of Signing (Years)		
															Interest	Annual Rate (%)
<b>Bilateral</b>																
Kuwait	Loan	2/3/2022	Construction and Equipping Faculty of Medicine at University of Moratuwa Project	KWD	10	6,638.9	32.9	32.9	Fixed	Not Applicable	1	1	Commitment Fee 0.5%	6	26	
India	Loan	2/2/2022	Short-Term Line of Credit USD 500M	USD	500	100,710.3	500.0	500.0	Variable	SOFR 6M	1.5	1	Commitment Fee 0.5%	1	1	
	Loan	3/17/2022	Importation of Essential Commodities for year 2022 (USD -1000)	USD	1,000	267,862.0	1,000.0	1,000.0	Variable	SOFR 3M	1.6	3		3	3	
Germany	Loan	1/27/2022	Establishment of a Vocational Training Center in Matara Project	EUR	15.7	3,561.6	17.6	17.6	Fixed	Not Applicable	2	2		10	30	
<b>Total</b>						<b>378,772.8</b>	<b>1,550.5</b>	<b>1,550.5</b>								

Source: Department of External Resources

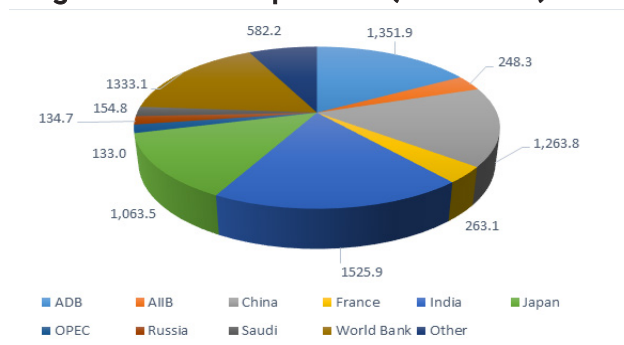
Note: SOFR = Secured Overnight Financing Rate. Financial values committed in difference currencies have been converted into USD and LKR as per the prevailing exchange rates of each agreement date

## Committed Undisbursed Balance (CUB)

As at 30<sup>th</sup> April 2022, the total undisbursed balance of foreign financing available from already committed loans that are to be utilized in next 3-5 years, was USD 8,054.3 million. India has the majority of the balance to be disbursed followed by, the Asian Development Bank, World Bank, China, and Japan respectively.

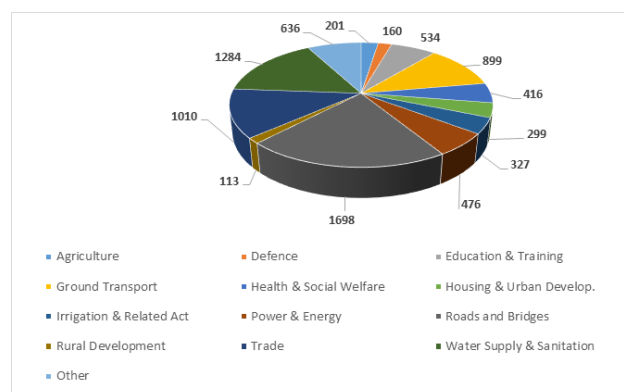
Almost 21 percent of the CUB to be utilized in Roads and Bridges sector whereas 16 percent is for Water supply and sanitation and 13 percent for Trade sector.

**Figure 4.2: CUB of Development Projects and Programs as of 30<sup>th</sup> April 2022 (USD Million)**



Source: Department of External Resources

**Figure 4.3: Sector-wise CUB of Development Projects and Programs as of 30<sup>th</sup> April 2022 (USD million)**



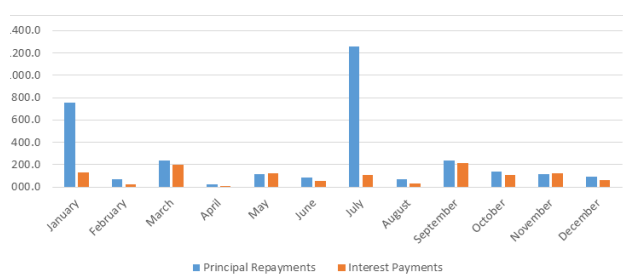
Source: Department of External Resources

## External Debt Stock and External Debt Service Payments

The Government has initiated to seek the possibility of getting assistance from the International Monetary Fund (IMF) in designing an economic recovery program and for emergency financial assistance. It was intended to pursue its discussions with the IMF as expeditiously as possible with a view to formulating and presenting to the country's creditors a comprehensive plan for restoring Sri Lanka's external public debt to a fully sustainable position. Considering the above, the Government has taken a policy decision to temporarily suspend servicing external debt of bilateral and commercial creditors for an interim period commencing from 12<sup>th</sup> April, 2022 pending an orderly and consensual restructuring of those obligations in a manner consistent with the IMF programme.

By the end of April 2022, total outstanding external debt of the Government was USD 35.04<sup>1</sup> billion. Total debt service<sup>2</sup> payments from 1<sup>st</sup> January to 30<sup>th</sup> April 2021 amounted to USD 1,443.7 of which, USD 1,084.2 million was in lieu of principal repayments and the balance USD 359.6 million for the payment of interest.

**Figure 4.4: Debt Service Payments during January – April 2022 and Forecast<sup>3</sup> for the Remaining Period of 2022 (USD Million)**



Source: Department of External Resources

<sup>1</sup> Non-residential holdings of Treasury Bills/Bonds and outstanding debt of State-Owned Enterprises (SOEs) are not included.

<sup>2</sup> Debt Service = Principal Payments + Interest Payments, Debt Service Payment of SOEs are not included

<sup>3</sup> USD estimations are based on the exchange rates as at 30<sup>th</sup> April 2022, Forecast was made based on existing portfolio only, i.e. debt stock to be accumulated due to new commitments are not included