

**MID YEAR
FISCAL POSITION REPORT
- 2009 -**

**Ministry of Finance and Planning
Sri Lanka**



**MID -YEAR
FISCAL POSITION REPORT 2009**

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

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

Mid Year Fiscal Position Report
Issued by the Hon. Minister of Finance
Under Section 10 of the Fiscal Management (Responsibility) Act No.03 of 2003

In terms of Section 10 of the Fiscal Management (Responsibility) Act No.03 of 2003 the Minister of Finance is requested to present the mid- year fiscal position report to the public by the last day of June of the year and thereafter lay before the parliament.

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

The report contains the performance of Government revenue, expenditure, cash flow operations and borrowings during the first four months of the year 2009. The report also provides updated information, depending on the availability of information, relating to macro economic performance, price development, foreign aid, Government debt, and balance of payments, money and credit development.

Chapter 1

Fiscal Developments

An Overview

- The recessionary pressures in the world economy and related slowing down of the domestic economic activities negatively affected the government revenue collection. During the first four month of 2009 the revenue collection declined by around 10 percent over the corresponding period of the last year. Contractions in the domestic manufacturing and service sector severely affected indirect tax such as VAT and excise duties. The expenditure grew by 28 percent influenced by higher interest payment, enhanced wages and pension bills, fertilizer subsidy payments and enhanced funds allocated for capital projects.
- During the first four months of the year, 23 percent of the total provision of public investment was utilized. This should be viewed in the context of declining revenue flows. Even under difficult fiscal situations Government was able to channel funds for capital projects during this period amounting to Rs. 85 billion an increase over 14 percent compared to the corresponding period of the last year. The recurrent expenditure accounted for 37 percent of the total allocation of 2009.
- With the slowdown in revenue collection coupled with higher interest payments and fertilizer subsidy and enhanced salary bill, revenue deficit reached 2.3 percent of GDP. The overall deficit increased to Rs. 199 billion, 4 percent of GDP.
- Despite the economic and financial crises in the world economy, the foreign assistance for capital projects continued during this period. Total foreign grants and loans amounted to US \$ 403 million by end May 2009, compared to US \$ 368 million in the corresponding period of 2008.

Table 1.1**Summary of the Budget (Jan-April) - Economic Classification**

Rs. Mn.

	2008	2009
Revenue	210,427	190,138
Tax	187,584	175,308
Non-Tax	22,843	14,830
Expenditure	303,847	389,788
Current	229,236	308,416
Public Investment	78,878	85,973
Other	-4,267	-4,601
Revenue Account	-18,809	-118,278
Overall Deficit	-93,420	-199,651
Financing	93,420	199,651
Grant	3,585	3,670
Foreign Loans*	15,170	-2,133
Domestic Financing	74,665	198,114
Non Bank	56,276	48,849
Bank	18,389	149,265
Revenue/ GDP(%)	4.8	3.9
Current Expenditure/GDP (%)	5.2	6.2
Public Investment/GDP (%)	1.8	1.7
Revenue Deficit/GDP (%)	0.4	2.3
Overall Budget Deficit/GDP (%)	2.1	4.0

Source: Department of Fiscal Policy

* Includes foreign investment in Treasury Bonds.

Government Revenue

- Government revenue generated Rs. 239.6 billion during January-May 2009. However the revenue collected during this period recorded a decline of 8 percent compared to the same period of 2008. The slower growth in the economy stemming from the recessionary condition in the world economy was reflected in the Government revenue collections.
- The slower growth recorded in sub sectors of manufacturing and services effected the VAT and Excise duty collections while a 30 percent decline in imports adversely affected the trade related taxes. The policy measures taken by the Government helped to a certain extent to avert the declining trends in Government Revenue. Scaling up of Cess rates, introduction of an excise duty on gas, introduction of the Nation Building Tax, scaling up of tobacco and liquor excise duties, introduction of specific duties on certain imports are some of the measures introduced with a view to minimize the erosion of the Government Revenue. However, these measures were adopted taking into consideration, the declining price trends in international markets and related reductions in tax revenues and also passing the benefit of price reductions to domestic consumers.

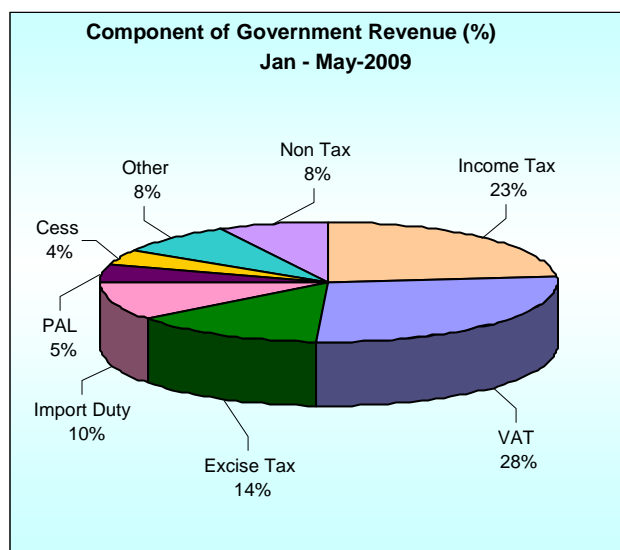
Table 1.2
Revenue Performance - (Jan- May)

	2008	2009	Growth %
Tax Revenue	237,070	221,293	-6.7
Income Tax	48,998	56,307	14.9
VAT	86,904	66,161	-24.3
Excise Tax	41,503	32,453	-21.8
Cess	9,317	10,352	11.1
Port & Airport Development Levy	12,996	11,676	-10.2
Import duty	22,945	24,658	7.5
Other	14,408	19,686*	39.5
Non Tax Revenue	25,438	18,337	-27.9
Total Revenue	262,508	239,630	-8.7

Source: Department of Fiscal Policy

*includes Rs. 4,133 million collected as Nation Building Tax

Chart 1.1



Income Tax

Total revenue from corporate profit tax, personal income tax, tax on interest income, the Economic Service charge at Rs. 56,030 million registered a 14 percent increase during the first five months of 2009 over the corresponding period of 2008.

The policy measures implemented in last few years to broaden the tax base had a positive impact on the income tax revenue. Also measures taken to grant exemption and concessions to revive thrust sectors of the economy was further strengthened by the certain proposals introduced in the 2009 Budget.

Some of these measures were

- The extension of tax holiday period from 5 to 7 years for the income from new or upgraded cinema.
- Granting an exemption from Economic Service Charge for a period of one year for any receipts from exports of any article, supply of any article manufactured to any exporter for exports and operation of hotel or inbound tour operators and tour agents approved by Sri Lanka Tourism Development Authority.
- Concessionary income tax rate of 15 percent for export of black tea packets weighing not more than 1 Kg.
- The broadening of the PAYE tax slabs.

Value Added Tax (VAT)

VAT revenue up to May 2009 amounted to Rs. 66, 161 million, compared to Rs. 86,904 million in the corresponding period of 2008. The fall in on non-oil imports by over 30 percent, slower growth in the domestic economy especially the service and manufacturing sectors severely affected the VAT revenue collection. Further the lower prices in petroleum products, the VAT rate reduction from 15 to 12 percent and the slower growth in cigarette sales and liquor production had a negative impact on VAT collection.

Table 1.3
Performance of VAT - (Jan. - May 2009)

Rs. Mn.

Tax Base	2008	2009	Growth %
Domestic	47,819	44,801	-6.3
Import	42,601	24,111	-43.4
Gross revenue	90,420	68,912	-23.8
Refunds	3,516	2,751	-21.8
Net Revenue	86,904	66,161	-24.3
Refunds as % of Gross Revenue	3.9	3.9	

Source: Department of Fiscal Policy

Further to the exemptions already in place several development oriented VAT exemptions were granted with effect from 1st January 2009 and latter part of 2008.

VAT Exemptions.

- The import and supply of solar panel modules and accessories for the generation of solar power energy to encourage this alternative energy source.
- Locally manufactured tea machines and locally manufactured surgical gauze to support the domestic industry.
- The import of brass sheets, brass ingots, thread, dyes etc for the manufacturing of brass ware by the National Craft Council to promote self employment in this sector.
- Import of chemical Naptha used for electricity generation with a view to supply electricity at a lower price thereby reduce cost of production of local entrepreneurs.

- Construction work such as "Gama Neguma", "Maga Neguma", "Samurdhi" and Community Irrigation Project designed for livelihood and infrastructure development of rural areas.

Excise taxes

- Revenue from excise taxes on liquor, cigarettes petroleum products, motor vehicles and selected consumer durables generated Rs. 32,454 million in the first five months of 2009 compared to Rs. 41,503 million in the Jan-May 2008.
- Excise tax on liquor at Rs. 12,007 million recorded a marginal growth of 5 percent over the corresponding period despite the recorded productions decreases mainly benefiting from the scaling up of the duty rates in March 2009. The cigarette sales also declined by 5 percent during the period effecting the revenue collections. Despite the removal of concessionary duty scheme for public servants the motor vehicle imports continued to decline further. The revenue collection has further deteriorated by around 73 percent during this period compared the corresponding period of 2008, which was also at lower levels due to the impact of the public servants concessionary scheme. Also the slowdown in imports of consumer durables adversely affected the revenue collections. An excise duty on gas was imposed with effect from 1st of January 2009, somewhat mitigated the drastic drops in excise revenue collection.

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

Item	Rs. Mn.		
	2008	2009	Growth %
Liquor	11,439	12,006	5.0
Cigarettes	14,322	13,360	-6.7
Petroleum & Motor vehicles	12,605	5,438	-56.9
Other	3,137	1,649	-47.4
Total	41,503	32,453	-21.8

Source: Department of Fiscal Policy

Excise duty rate changes

- The excise duty on cigarettes and liquor was revised upwards with effect from March 2009.
- An excise duty Rs. 8 per Kg was imposed on LP gas from 1st Jan 2009 and further increased to Rs. 27.50 per Kg from 1st March 2009. This was reduced to Rs. 26.50 per Kg from 1st May 2009.

Table 1.5
Excise Duty Rate Revision on Cigarettes

Range of the Length of a Cigarette	per 1,000 cigarettes				
	2008 March	2008 Nov	2009 Jan	2009 Mar	Increased (%)
L>84 mm	9,870	10,870	11,170	12,170	23.3
72 mm< L< 84 mm	8,850	9,380	9,681	10,715	21.1
67 mm< L< 72 mm	7,219	7,745	7,991	8,485	17.5
60 mm< L< 77 mm	4,520	5,048	5,215	5,706	26.2
L< 60 mm	2,215	2,215	2,289	2,289	3.3

Source: Department of Fiscal Policy

- Excise duty on paints were revised to Rs. 16 per Kg while a Rs. 6 per litre duty was imposed on premix drinks with effect from 7th November 2008.

Import Duty

- Import duty revenue increased by 8 percent to Rs. 24,658 million in the first five months of 2009. The imposition of specific duties and scaling up of the existing specific rates and imposing specific rates on petroleum imports had a positive impact on the revenue collection, while slowing down of motor vehicle imports & other durables curtailed the revenue growth.
- With the easing of price pressures in the international markets Government was able to increase the Special Commodity Levy applicable on essential commodities without affecting the domestic prices of such items. This helped to compensate revenue losses to certain extent generated from the unified rate being very much lower than the effective duty rates under different taxes previously applicable. Special Commodity Levy revenue generates Rs. 9,000 million in Jan-May 2009.

Import Duty Changes.

- Specific rate of Rs. 35 per petrol litre and Rs. 15 per Diesel litre with effect from 7th November 2008. A Rs. 10 per litre waiver was effected on petrol from April 2009.
- Specific rate of Rs. 10 per Kg was introduced on wheat grain from February 2009.
- Specific rate on edible oil was increased to Rs. 60 per Kg from Rs. 40 per Kg from April 2009.
- Specific rates applicable on tiles were increased to Rs. 200 per square meter from Rs. 100 per square meter with effect from March 2009.
- A specific rate of Rs. 125 per Kg was imposed on milk powder with effect from March 2009 and brought under the normal tax structure instead of the previously applicable unified tax.
- Specific rate on bicycles was scaled up to Rs. 1,500 from Rs. 750 per bicycle.

Table 1.6
Special Commodity Levy Duty Changes (Jan-May 2009)
(Per Rs/Kg)

Item	Applicable Duty		
	06.11.2008	03.02.2009	30.03.2009
Milk Powder	15	35*	-
Potatoes	20	25	25
B'onions	20	25	25
Peas	15	25	35
Chickpeas	15	25	30
Green gram	13	15	15
Lentils	6	6	20
Chilies	30	40	40
Canned Fish	25	40	85
White Sugar	16	16	16
Sprats	20	35	30

* This rate increased to Rs. 55 per kg with the gazette notification No. 1590/17 dated 26/02.2009.
Source: Department of Trade Tariff and Investment Policy

Other Taxes

- Revenue from Port and Airport Development Levy generated Rs. 11,676 million. The raw materials used for pharmaceutical manufacturing and certain machines were placed at a lower rate of 2 percent while the general rate was increased to 5 percent with effect from 1st January 2009.
- Cess revenue generated Rs. 10,352 millions a 11 percent increase over corresponding period of 2008, mainly benefiting from a scaling up of existing cess rates and imposition of cess on certain items.
- The newly introduced Nation Building Tax generated Rs. 4,133 million in the first five months of 2009. The rate was further revised to 3 percent from 1st May 2009.

Non Tax Revenue

Non tax revenue collected during the Jan-May 2009 amounted to Rs. 18,565 compared to Rs. 25,438 million in the corresponding period of 2008. The 2008 figures included Central Bank profit transfers of Rs. 8,000 million, while there was no profit transfers in the corresponding period of 2009.

Table 1.7
Fiscal Measures-2009

Import tariff	
07.11.2008	RPO 1/2008 Gazette No.1574/13 of 06.11.2008- Custom duty changes based on the budget proposals
04.02.2009	RPO 1/2009 Gazette No.1587/9 of 03.02.2009 -Increase tax for wheat grain from 15%to 15% or Rs 10 per Kg
01.04.2009	RPO 2/2009 Gazette No.1595/11 of 30.03.2009-Increase the duty rate for Milk powder, tiles, bicycles, air conditions and introduction of new HS codes
07.04.2009	RPO 3/2009 Gazette No.1596/7 of 06.04.2009-Increase the tax on Palm oil
Excise Duty	
07.11.2008	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1574/8 of 06.11.2008)-Rate revisions as mentioned in Budget 2009
07.11.2008	Section 3 C of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1574/9 of 06.11.2008)- Exemption of specified excisable articles
01.01.2009	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1582/14 of 31.12.2008)- Revision of duty on cigarettes
01.01.2009	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1582/12 of 31.12.2008)- Imposition of Excise duty on petroleum gas
28.02.2009	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1590/18 of 27.02.2009) -Revision of Excise duty on petroleum gas
05.03.2009	Section 3 C of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1591/10 of 04.03.2009)-Exemption of specified excisable articles
27.03.2009	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1594/23 of 26.03.2009)-Revision of duty on cigarettes

01.05.2009	Section 3 of the Excise (Special Provisions)Act No.13 of 1989(Gazette Notification No.1599/21 of 30.04.2009) -Revision of Excise duty on petroleum gas
Special Commodity Levy	
07.11.2008	Essential Commodity levy(Gazette Notification No.1574/11 of 06.11.2008) -Revision of Special Commodity Levy rates as per the Budget proposals
21.01.2009	Essential Commodity levy(Gazette Notification No.1585/10 of 20.01.2009)-Increase of Special Commodity Levy on milk powder
04.02.2009	Essential Commodity levy(Gazette Notification No.1587/10 of 03.02.2009)-Revision of Special Commodity rates other than Milk powder
27.02.2009	Essential Commodity levy(Gazette Notification No.1590/18 of 26.02.2009)- Revision of Special Commodity rates on Milk powder
01.04.2009	Essential Commodity levy(Gazette Notification No.1595/09 of 30.03.2009)- Removal of Special Commodity for Milk powder
01.04.2009	Essential Commodity levy(Gazette Notification No.1595/10 of 30.03.2009)-Revision of Special Commodity rates other than Milk powder
Value Added Tax	
01.01.2009	Section 2A Value Added Tax Act No.14 of 2002(Gazette Notification No.1582/35 of 01.01.2009)-Reduction of standard VAT rate of 15% to 12%
Cess	
07.11.2008	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No. 1574/7of 06.11 .2008) Increase the Cess rates

02.02.2009	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1586/26 of 30.01.2009)
21.02.2009	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1589/31 of 20.02.2009) Rate revision of parts of foot wear.
06.03.2009	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1591/14 of 05.03.2009)-Imposition of Cess on Grain Sorghum
02.04.2009	Section 14 of the Sri Lanka Export Development Act No.40 of 1979(Gazette Notification No.1595/25 of 02.04.2009)-Revision of cess rates
Income Tax	
28.04.2009	Section 217 of Inland Revenue Act No.10 of 2006(Gazette Notification No.1599/13 of 28.04.2009)- Guidelines for the contribution by an employer to any pension funds and investments made by such funds
Other tax measures	
01.01.2009	Finance Act No. 11 of 2002(Gazette Notification No.1582/15 of 01.01.2009)-Application of concessionary rates and exemptions for specified articles

1.1 Box
Finance & Revenue related Legislations (2008 Nov- 2009 June)

Statute	Objective
Inland Revenue(Amendment) Act No.19 of 2009	To grant income tax exemptions for certain individuals and institutions and to grant tax concessions.
Value Added Tax(Amendment) Act No.15 of 2009	To grant the exemptions, limitations for the registration for VAT and rate reductions as mentioned in budget 2009.
Economic Service Charge(Amendment) Act No.16 of 2009	To grant exemptions for receipts from Economic Service Charge (ESC).
Finance Act (Amendment)No.13 of 2009	To increase the Port and Airport Development Levy (PAL) from 3 percent to 5 percent.
Finance Act (Amendment) No.18 of 2009	To remove Social Responsibility Levy (SRL) liability on Personal Income Tax and to limit SRL only to Corporate Income tax.
Finance Act(Amendment) No.13 of 2009	To expand the 10 percent Telephone Levy presently applicable to mobile and codeless telephones to fixed lines.
Finance Act (Amendment) No.18 of 2009	Provisions to deduct the Construction Industry Guarantee Levy at the time of payment made to the contractor by the contractee.
Debit Tax(Amendment) Act No.17 of 2009	Amendments to regularize the provisions in relation to the collection of the debit tax.
Excise (Special Provisions) (Amendment)Act No.14 of 2009	Amendments to use selected taxes instead of all taxes in calculating the excise tax as the base.
Nation Building Tax Act No. 9 of 2009	An Act introduced as mentioned in Budget 2009.

Government Expenditure

- The overall public expenditure for the first four months of 2009 stood at Rs. 389,788 million which constituted of Rs. 308,416 million of recurrent expenditure and Rs. 81,372 of capital expenditure. The increased disbursements on account of interest cost reflecting the high interest rates that prevailed in the latter part of 2008 coupled with the high borrowings from the domestic market in the absence of foreign capital market borrowings exerted a severe pressure on the recurrent expenditure. Also the enhanced salary and pension bills, spillovers in fertilizer payments adversely affected the recurrent expenditure.

- The public investment stood at Rs 85 billion during the first four months of 2009. Major development projects in the areas such as power generation, ports, roads and irrigation continued, while rural development initiatives were also carried out with enhanced resources.

Table 1.8
Performance of Government Expenditure- (Jan. – April)

	Rs. Mn.	
	2008	2009 (prov.)
Current Expenditure	229,236	308,416
Salaries and wages	74,749	86,681
Interest	71,437	108,341
Samurdhi	3,468	3,719
Fertilizer subsidy	11,260	17,428
Pension	25,001	27,233
Other expenditure	43,321	65,014
Public Investment	78,878	85,973

Source: Department of National Budget

Salaries and Pension Costs

- Expenditure on salaries for public servants increased to Rs. 86,681 million an increase of 16 percent over the corresponding period of the previous year. Increased cost of living allowance of Rs 4,500 per employee per month, the impact of new recruitment especially for defence services during 2008 influenced the increase in the salary bill.
- Total pension payments increased to Rs. 27,233 million recording a 17 percent increase. The full impact of around 12,000 retirees in 2007 and further around 4,000 in the first four month of 2009 contributed to this increase. During this period, a pensioner received Rs. 2,000 per month as COLA and the related allowances during the corresponding period was Rs. 1,250 per month.

Interest Cost

- Interest payments on foreign and domestic debt amounted to Rs. 108,341 million registering a 52 percent increase over the corresponding period of last year. The heavy borrowings on short term basis from domestic markets during the latter part of the year in the absence of the envisaged foreign capital market borrowings, pushed up the interest bill during this period. Also the revenue shortfalls warranted heavy borrowings from domestic market to finance rupee funds needed for capital and other expenditure. A noteworthy development is the reduction of the treasury bill interest rate by around 520 basis points up to May 2009 from the rates prevailed in December 2008. This will have a positive impact on the interest cost in the latter part of the year.

Table 1.9
Behavior of Yield Rates (%) - 2009

Year	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2008 May	17.14	18.50	18.65	17.92	17.00	-	15.55
2008 Dec	17.33	18.57	19.12	20.53	20.34	19.60	-
2009 Jan	15.94	16.77	15.76	18.34	18.25	18.10	-
2009 Feb	15.76	16.93	17.73	18.07	18.08	18.03	-
2009 Mar	14.62	16.16	16.63	16.92	16.99	16.91	-
2009 Apr	13.75	15.32	15.74	16.78	16.99	16.86	-
2009 May	12.13	13.28	13.58	13.32	13.73	13.63	-
Change Dec-2008- May-2009	(30.01)	(28.49)	(28.97)	(35.12)	(32.50)	(30.46)	-

Source: Department of Treasury Operations

Welfare payments and social safety net on vulnerable groups

- The total expenditure on welfare payments and subsidies amounted to Rs. 30,215 million up to May 2009 compared to Rs. 26,813 million in the corresponding period of 2008.
- The welfare assistance provided in support of the poorer segments of the society, displaced persons, differently abled soldiers and vulnerable groups was Rs. 10,246 million in 2009.
- Nutritional intervention programmes conducted with the intention of improving maternal and child health care continued with enhanced costs. "Poshana Malla", a programme to provide nutritional food to expectant mothers and school children were continued with an increased cost of Rs. 183 million while utilizing Rs. 586 million for nutritional food for school children in the first five months of 2009. Other nutritional programs such as the infant milk food subsidy and Triposha Program were continued at a cost of Rs. 431 million.

- The cost of welfare programs implemented for the benefit of school children by providing free school text books, uniforms, school season tickets and free dharma school text books amounted to Rs. 1,280 million.

Table 1.10
Welfare payment and subsidies- (Jan.-May)

Item	Rs. Mn.	
	2008	2009
Children	2,448	2,480
Infant Milk Food Subsidy	20	19
Poshana Malla	131	183
Thriposha Programme	228	412
Free Text Books & Uniforms	1,198	894
School Season Tickets	250	355
Dharma School Text Books & Uniforms	39	31
School Nutritional Foods	582	586
Agriculture	14,944	17,489
Interest Subsidy for Agricultural Loans etc	44	127
Fertilizer Subsidy	14,900	17,362
Welfare Payments	9,421	10,246
Samurdhi Relief	4,330	3,143
Assistance to differently abled Soldiers	3,451	3,773
WFP food Assistance	1,596	3,239
Flood and Drought Relief	44	91

Source: Department of National Budget

- The fertilizer subsidy scheme targeting small holder agriculture with a view to assist particularly, low income farmers continued in 2009. Paddy farmers enjoyed all varieties of fertilizer at a subsidized price of Rs. 350 per 50 kg bag for paddy.
- The urea fertilizer subsidy scheme also continued in 2009 to the plantation sector, owned less than 50 acres in extent at a subsidized price of Rs. 1,000 per 50 kg bag.

Public Investment Expenditure

- The Government continued in channeling enhanced resources with a commitment to accelerate development programs, targeting the rural sector especially the newly liberated areas, through rural development initiatives such as "Gama Neguma", "Maga Neguma", "Uthuru Wasanthaya" and other pro poor growth development initiatives. The momentum gained with respect to key national infrastructure development projects consisting of roads and bridges, power generation, ports, irrigation, water supply and human development during the past years was maintained in 2009. The total public investment amounted to Rs. 85 billion during Jan-April 2009, an increase of 14 percent over the same period of 2008.

Rural Development Initiatives

- The expenditure on "Maga Neguma", the island wide rural infrastructure development program amounted to Rs. 1,335 million as at end May 2009. Under this programme, many rural roads were rehabilitated using modern techniques to give a boost to rural accessibility while sustaining a rapid and equitable economic growth. During 2009, around 682 km of rural roads were rehabilitated benefiting 32,819 families. So far, over 6,600 km of rural roads under "Maga Neguma" programme have been rehabilitated at a cost of Rs. 9,830 million.

Table 1.11
Maga Neguma Rural Development Programme
Progress as at end of May 2009

District	No. of Projects	Total Road length completed (Km)	Expenditure (Rs.Mn)	Beneficiary Families
Colombo	95.0	18.39	56.6	1,326.0
Gampaha	30.07	43.74	158.0	3,480.0
Kalutara	201.0	27.82	85.6	2,175.0
Kandy	74.0	18.31	45.1	1,013.0
Matale	19.0	7.51	22.5	460.0
Nuwara Eliya	19.0	4.91	18.0	224.0
Galle	2.07	8.75	32.2	411.0
Matara	108.0	24.07	87.4	1,416.0
Hambantota	397.0	73.36	309.6	5,194.0
Jaffna	4.0	3.55	6.5	160.0
Mannar	5.0	1.68	3.2	75.0
Vavunia	9.0	6.03	6.4	263.0
Mullaitive	-	-	-	-
Kilinochchi	-	-	-	-
Batticaloa	1.0	1.80	3.6	100.0
Ampara	81.0	48.74	80.5	2,304.0
Trincomalee	6.0	3.27	7.2	187.0
Kurunegala	219.0	163.74	150.3	5,686.0
Puttalam	39.0	15.05	49.1	827.0
Anuradhapura	132.0	143.22	67.3	3,731.0
Polonnaruwa	11.0	9.84	13.2	250.0
Badulla	23.0	5.50	19.1	284.0
Moneragala	14.0	6.26	7.7	153.0
Ratnapura	212	31.6	65.9	2,064.0
Kegalle	76.0	14.98	39.1	1,036.0
Total	2,079.0	682.12	1,335.2	32,819.0

Source: Department of National Budget.

- "Gama Neguma" the major initiative to empower the rural economy through creation of an economically prosperous village was further extended at a cost of Rs. 1,422 million in the first four months of 2009.
- Financial assistance amounting to Rs. 365 million were provided under "Jathika Saviya" programme, to develop infrastructure facilities and resettlement of people from the areas liberated from terrorist activities. Apart from this, Rs 100 billion has been spent under "Negenahira Navodaya" for resettlement activities in the Eastern Province.
- "Uthuru Wasanthaya", a new initiative commenced in 2009 was mainly targeted to restore the livelihoods of the people who were under grips of terror in Northern Province. After liberalizing the North and East from the terrorist activities, Rs. 2,550 million has been utilized for a speedy implementation of reconstruction of social and economic infrastructure under this initiative during the first four months of 2009.

Resettlement of Internally Displaced Persons (IDPs)

- Resettlement activities of internally displaced persons in the Northern and Eastern provinces continued in 2009 at a cost of Rs. 4,328 million. A significant amount of funds have been utilized under North East Housing Reconstruction Project and Protected Relief and Recovery programme amounting to Rs. 1,348 million and Rs 2,023 million respectively.

Table 1.12
No of IDP's Vavuniya District - as at June 2009

Name of Zone/Centre	No. of Families	Male	Female	No. of Persons
Anandakumarasamy Village - Zone 1	15,236	21,788	23,970	45,758
Pon Ramanathar Village - Zone 2	24,137	35,364	37,942	73,306
Arunachchalam Village - Zone 3	15,081	21,120	21,824	42,944
Arunachchalam Village - Zone 4	13,918	19,964	20,757	40,721
Other Centres in Vavuniya District	18,068	27,063	28,164	55,330
Total	86,440	125,299	132,657	258,059

Source: Ministry of Resettlement and Disaster Relief Services

- As at June 2009, 86,440 families of IDPs were sheltered in welfare camps. The Government has spent Rs. 1,012 million to distribute cooked meals and dry rations for IDPs during the first four months of 2009.

Spending on Development Programs

Human Resource Development

Health

- The Government expenditure on health as at end April 2009 was Rs. 11,725 million covering both Health and Indigenous sectors. In order to maintain a safe and effective medical supply to Government institutions, Rs. 1,101 million has been utilized on medical supplies upto April 2009.
- Construction work of several hospital development projects such as Oncology Unit and Maternity ward complex at Kurunegala Teaching Hospital, Theatre Complex at Kandy General Hospital, Korean funded Matara-Godagama Hospital etc. are successfully being implemented during 2009. Neuro Trauma Unit at National Hospital, a unit to

provide state of art healthcare facilities for patients with neurological problems is nearing completion with Saudi assistance.

- To overcome the prevalent imbalance in the human resource distribution, recruitments in the health sector continued in 2009. 681 post intern medical officers were appointed in March 2009. In addition, 2,363 nurses who have completed training were absorbed to the system during 2009. Moreover, 19 Midwives and 4 MLTs have been recruited during the first six months of the year.

Education

- A total expenditure of Rs. 11,960 million has been utilized on education during the first four months of 2009.
- In order to improve the educational facilities provided for school children, capital investment amounting to Rs 34 million has been spent on primary and secondary education during 2009.
- Financial assistance amounted to Rs. 653 million has been provided for infrastructure development of universities in 2009. In addition, Rs. 856 million has been utilized on higher education development projects assisted by ADB, WB, Kuwait, Netherlands/Austria etc.

Infrastructure Development

Roads

- The investment on road sector was around Rs. 18,000 million up to April 2009. This included Rs. 6,542 on express way development of which Rs. 5,158 million got Southern Express way development and Rs. 3,968 million on development of highways island-wide. Also Rs. 1,689 million has spent on construction of bridges and flyovers. In addition Rs. 1,788 million has been utilized on widening and improving of roads in all provinces during 1st four months of 2009.

Water Supply and Sanitation

- Expenditure on water supply and sanitation amounted to Rs. 8,611 million in the first quarter of 2009.

Table 1.13
Area wise breakdown of expenditure in Water Supply
& Sanitation Schemes

Scheme Implemented	Rs.Mn Expenditure up to April, 2009
Large scale water supply schemes in major townships	6,623
Small scale water supply schemes	302
Rural water supply schemes	567
Sewerage schemes	1,119

- In addition work on , water treatment plants at Negambo, Unnichchai, Batticaloa, Hambantota, Kandy, Nuwara Eliya etc., and transmission and distribution pipelines in several areas were carried out during this period.

- Construction work of wastewater disposal system in Ratmalana-Moratuwa and Jaela-Ekala areas is being satisfactorily implemented during 2009.
- Out of the rural water supply schemes commenced in 506 Grama Niladari Divisions, 148 have been completed during the 1st quarter 2009.

Irrigation

- Balance development work of Menik Ganga-Weheragala irrigation project; national park, roads and minor tank, was continued with a cumulative expenditure of Rs 1,761 million up to April 2009.
- Financing of Uma Oya Diversion project with Iranian assistance was finalized at a cost of US\$ 529 million in 2009. Rs. 107 million has been utilized up to April 2009 for contract payments and to commence the project work benefiting 5,000 hectares of land and 12,000 families in the Hambantota and Moneragala districts.
- Construction of Moragahakanda dam is in progress with local funds. The work on a deviated road network, infrastructure development for resettlement and land acquisition has also been commenced during 2009. Meanwhile, the head works of the Moragahakanda and Kaluganga reservoirs are to be commenced in 2009 with Kuwait and Saudi assistance.
- Rs 3 million has been utilized during the first four months of 2009 for the World Bank assisted dam safety and water resources planning project which was designed to ensure the safety and operational efficiency of 32 large dams, establishing a modern hydro-metrological information system and improving water resource planning of the country.

Government Treasury Cash Flow Operations - 2009

Cash Operations

The net cash outflow from operational activities, by the end of May 2009 amounted to Rs. 117.4 billion, as against the forecasted deficit of Rs. 5.4 billion. The main reason for the deviation is the shortfall of revenue receipts. The Government's cash operations, after investment activities, during the first five months (Jan-May) of 2009 indicated a net cash deficit of Rs. 171.4 billion, compared to Rs. 76.9 billion during the corresponding period of 2008. Cash outflow from investment activities decreased by Rs. 13.2 billion over the original cash flow estimates. Repayments on debt, marginally decreased by Rs. 8.1 billion with estimates, and the gross borrowings raised to meet the cash deficit of Rs. 171 billion, including the increase on account of the temporary overdraft.

The overall closing balance which corresponds to the working overdraft balance with the banks increased from Rs. 69.2 billion at the beginning of the year to Rs. 77.0 billion by the end of May 2009.

Table 1.14
Statement on Government Cash Flow Operations
2008 and 2009 First Five Months.

Item	Actual Jan-May 2008	2009 Jan-May	
		Original Estimate	Actual Cash Flow
Total cash inflows from revenue	261,521	342,014	228,130
Total cash outflow from operating activities	(284,961)	(347,375)	(345,548)
Net cash from Operating activities	(23,440)	(5,361)	(117,418)
Cash flow investment activities	(53,542)	(67,270)	(54,045)
Net cash surplus (deficit)	(76,982)	(72,631)	(171,463)
Opening cash balance	(37,211)	(69,195)	(69,195)
Gross borrowing	(170,743)	(324,012)	400,938
Debt repayment	(103,609)	(248,488)	(240,305)
Net borrowing	67,134	75,524	160,633
Adjustment Account Balance (TEB, REA, deposits, etc.,)	2,907		2,977
Closing balance	(44,152)	(54,908)	(77,048)

Source: Department of Treasury Operations.

Chapter 2

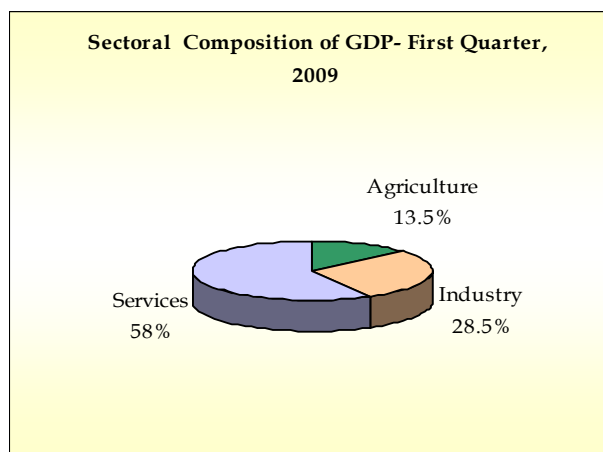
The Economy

- The economy's growth momentum slowed in the first quarter of 2009 with a growth rate of 1.5 percent reflecting the setbacks in the external and domestic environment. It is envisaged that the growth rate will pick up later in 2009 with agricultural and construction led recovery especially stemming from the resumption of economic activities in the North and East. Performance of the first quarter of 2009 should be reviewed in the backdrop of adverse global financial and economic developments particularly happened in the Advanced countries which recorded negative growth for the review period. Countries like Singapore, Malaysia and Thailand recorded negative GDP growth of 6.5 percent, 6.2 percent and 7.0 percent respectively for the first quarter of 2009. The GDP grew by 1.5 percent in the first quarter of 2009 deteriorating from 6.2 percent achieved in the reference period of 2008. Bolstered by agriculture with the growth of 3.0 percent, the economy maintained a comparatively healthy growth while industry and services sector grew by 1.9 percent and 1.0 percent respectively.
- Making the highest contribution to overall GDP of the economy, the agriculture sector grew by 3 percent as compared to 5.9 percent recorded in the review period of 2008. Increased production of paddy, coconut, seasonal crops, fruits and vegetables and fisheries sector provided added momentum for the sector in the face of food crisis that prevailed in the world. The production of the major export crops such as tea and minor export agricultural crops recorded negative growth of 40.9 percent and 5.3 percent respectively in the reference period. The tea production decreased to 48.4 million kgs in the first quarter of 2009 over the 83.5 million Kgs achieved in the same period of 2008 mainly due to declined tea prices stemming from depressed global demand coupled with decreased fertilizer usage by 16 percent and the effect of drought condition. All elevational categories of high, medium and low grown tea production declined by 31.3 percent, 38.2 percent and 46.5 percent respectively in the review period. The deterioration

of financial situation in Russia and the Middle East, who are among the major buyers for

- Ceylon tea over the years, had a direct impact on stifle Sri Lanka's tea trade in the review period. In Contrast, the rubber production increased by 2.7 percent to 37.9 million kgs during the period compared to 14.4 percent growth recorded in the first quarter of 2008. The rubber sector underwent significant price reductions since June, 2008 due to depressed demand with the worst effects of the global economic downturn affecting the automobile manufacturing and other rubber related manufacturing industries. The coconut production increased by 29 percent to 722.2 million nuts over the negative growth of 3.6 percent recorded for the corresponding quarter of the previous year. This was due to the favourable weather condition prevailed and the control of "Weligama Wilt" disease outbreak in the Southern province, which had an adverse impacts in 2008.
- The paddy production in 2008/2009 Maha season increased by 10.1 percent to 2.34 million mt or 112 million bushels compared to 2007/2008 Maha while the extent under cultivation increased by 8.6 percent during this period. The favourable weather condition prevailed, continued fertilizer subsidy scheme and resumption of normalcy in the Eastern province could cite as the main contributory factors to this surge.
- Minor export agricultural crops sector comprising of cinnamon, cloves, peppers etc recorded a negative growth of 5.3 percent in the first quarter of 2009 due to lower export demand. Cinnamon production declined by 15.5 percent while the volume of the clove export decelerated by 84.7 percent. The most of the subsidiary food crops such as highland crops, vegetables and fruit sub sector registered a favorable growth of 6.2 percent. Food crops such as big onion, potatoes and maize production significantly increased in the review period.

Chart 2.1



- Livestock sector grew by 2.9 percent with increased production of beef, mutton and egg while the poultry production registered a slight decline in the period. Milk production reached 103 million litres recording about 2 percent increased over the period mainly benefiting from favourable producer prices and other incentives granted by the Government to revive the local milk production. Fisheries sub sector recorded a 6.0 percent growth while the marine and inland fish production increased by 3.5 percent and 28.9 percent respectively in the first quarter of 2009 with removing of restrictions imposed for fishing activities in the North and East, it is envisaged that the fish production will be improved significantly during the remaining period of the year.
- The industry sector grew marginally by 1.9 percent in the first quarter of 2009 over 6.0 percent achieved in 2008. Mining and quarrying sub sector decelerated to 4.3 percent while export value of precious stones declined by 50 percent reflecting the sub-proned world demand stemming from the world recessionary conditions. The manufacturing sector indicated a 2.7 percent growth in the first quarter of 2009. The textile and apparel industry grew by 5.4 percent as against that of 2.5 percent recorded in the reference period of 2008 despite the global economic turmoil, triggered stiff competition and uncertainty erupted in the GSP+ scheme. The stimulus

package announced by the Government also had a positive impact on the apparel sector. The announced reward scheme under the above package gave a leeway for the manufactures to operate on thin margins thereby increasing the export volumes and sustained the earnings. Tea, rubber and coconut processing industry somewhat contracted by 12 percent in 2009. The electricity, gas and water sector also contained by 2.5 percent in real terms particularly due to decreased hydro power generation by 27.2 percent and slowdown of economic activities.

- The construction industry recorded a 3 percent growth in 2009 reflecting increased investment in public infrastructure projects such as Upper Kotmale Hydropower project, Southern Highway, and Hambantota Harbour and also private investment in the construction of 31 condominiums. However, the growth rate of 8.6 percent was recorded in the corresponding period of 2008 for the sub sector. The food, beverages and tobacco category indicated a 4.7 percent buoyant growth despite declined cigarette sales and liquor production.
- The service sector recorded a 1.0 percent growth in the first quarter of 2009 contributing 55.3 percent to the GDP mainly driven by banking, insurance, post and telecommunication, transport and government and private services. However, sub-sectors such as import and export trade, hotels and restaurants, cargo handling, ports and civil aviation recorded negative growth amidst the world economic recession. The total number of cargo handled decreased by 12.1 percent during the period.
- The growth momentum in the telecommunication sector somewhat decelerated in the first quarter of 2009 recording 10.1 percent growth over 22.5 percent witnessed in the review period of 2008. Reflecting the sustained growth in the telecommunication sector, the number of fixed lines and mobile phones increased by 15 percent and 30 percent respectively during the review period as against the corresponding period of 2008. The transport and communication sub-sector grew by 3.9 percent as against 9.4 percent recorded in 2008. The new registration of vehicles during the period has decreased by 30.5 percent.

- The export and import trade severely hindered in the first quarter of 2009 due to depressed global demand resulting from the world economic and financial turmoil. Both import and export trade showed negative growth rate of 12.1 percent and 0.7 percent respectively in the review period. Wholesale and retail sector recorded a negative growth of 2.5 percent in the first quarter of 2009.

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

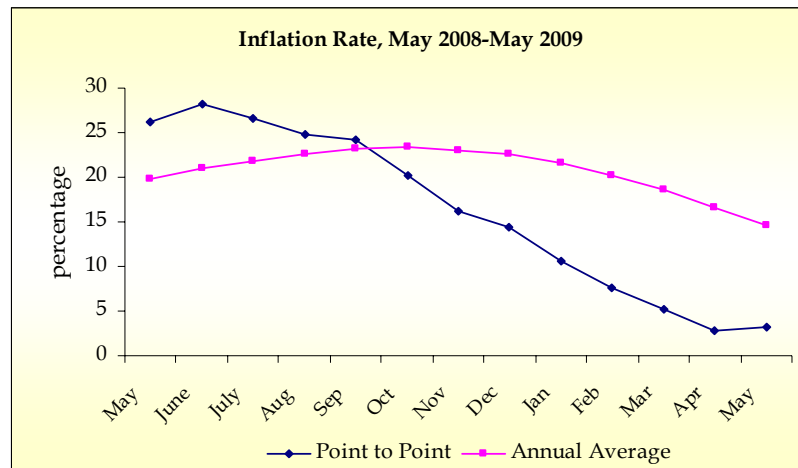
	First Quarter	
	2008	2009
Agriculture, Forestry and Fishing	78,959	81,299
Agriculture, Livestock and Forestry	72,526	74,481
Tea	7,171	4,235
Rubber	941	966
Coconut	6,933	7,979
Minor export crops	1,817	1,720
Paddy	18,669	20,555
Highland crops	10,463	11,152
Fruits and Vegetables	14,901	15,776
Livestock	4,286	4,412
Other Agriculture	4,001	4,158
Firewood & Forestry	3,344	3,527
Fishing	6,433	6,819
Industry	167,860	171,058
Mining and Quarrying	12,271	11,745
Manufacturing	104,666	107,544
Processing Industries	3,754	3,304
Factory industry	94,082	97,212
Small industries	6,830	7,028
Electricity, gas and water	12,506	12,200
Electricity	10,881	10,555
Gas	1,019	1,028
Water	606	617
Construction	38,418	39,570
Services	344,635	348,252
Wholesale and retail trade	139,972	136,460
Import trade	49,001	43,089
Export trade	24,072	23,903
Domestic trade	66,899	69,468
Hotels and restaurants	1,845	1,537
Transport and communication	77,920	80,958
Transport	66,408	68,996
Cargo handling-Ports and Civil aviation	3,509	3,154
Post and telecommunication	8,003	8,808
Banking , insurance and real estate etc.	51,015	52,953
Ownership of dwellings	18,280	18,463
Government services	41,523	43,179
Private Services	14,081	14,702
Gross Domestic Product	591,454	600,610

Source: Department of Census and Statistics

Inflation

- The overall price pressures decreased further in the first five months of 2009. Reflecting the decline in prices of food and energy related items mainly in the first quarter of 2009 in domestic and international markets coupled with unchanged domestic price adjustments in petroleum products and related utility services during five months period, the point-to-point inflation measured by Colombo Consumer's Price Index (CCPI) (2002=100) dropped sharply to 2.9 percent in April, 2009 fetching the lowest level of inflation ever recorded since 2004. However, this rate has slightly increased to 3.3 percent in May, 2009 due to upward revision of price of gas in the presence of high international prices and increase in prices of sugar and dhal with the removal of price ceiling imposed by the government.

Chart 2.2



- Headline inflation was lower in the first quarter of 2009 compared to the previous year, reflecting subdued price pressures as prices of food and energy related items decreased. The annual average inflation rate further decelerated to 14.7 percent in May, 2009 compared to 17.4 percent in May, 2008. Likewise core inflation, which is indicative of underlying and broad based price pressures, slowed down during the first quarter of 2009. However, the core inflation reached 13.5 percent by May, 2009 from 9.6 percent in May, 2008. Inflation expectation also remained well anchored.

With the stabilization of commodity prices in the international markets and the tight monetary policy stance, inflation is envisaged to be remained at a single digit level in 2009.

Table 2.2
Headline Inflation and Core Inflation in Sri Lanka

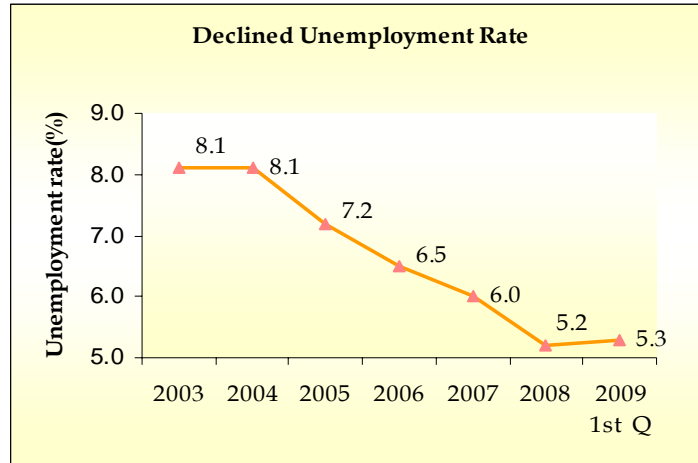
Month	Headline Inflation CCPI (N)	Core Inflation
2008		
January	20.8	6.9
February	21.6	8.5
March	23.8	9.3
April	25.0	9.3
May	26.2	9.6
June	28.2	14.1
July	26.6	17.2
August	24.9	17.4
September	24.3	18.7
October	20.2	18.1
November	16.3	18.1
December	14.4	15.7
2009		
January	10.7	15.5
February	7.6	14.8
March	5.3	14.2
April	2.9	13.5
May	3.3	13.5

Source: Department of Census and Statistics

Unemployment

- A declining trend in unemployment is demonstrated when the annual unemployment rate is considered for 2003-2009. According to the Sri Lanka Labour Force Survey, the unemployment rate (excluding North and East) marginally increased to 5.3 percent in the review period of 2009 from 5.1 percent in the same period of 2008.

Chart 2.3



- About 7.7 million Sri Lankans were employed in the first quarter of 2009. The service sector employed 42 percent of the total employed population while the agriculture and industry sectors accounted for 34 percent and 25 percent respectively.

External Sector Development

Exports

- The global economic downturn had a severe negative impact on the country's export performance in the first quarter of 2009. The real value of trade margin of export trade decreased by 0.7 percent in the first quarter of 2009. The export earnings contracted by 16.2 percent to US \$ 2,085 million during the first four months in 2009. Agricultural exports which accounted for about 22 percent of the total export earnings, decelerated by 23.8 percent to US \$ 449.5 million in the first four months period with decreased prices due to depressed demand particularly from the USA and European countries with impact of the recession. However, the export volumes of tea, rubber and coconut increased by 8.2 percent, 46.9 percent and 312.9 percent respectively in the first quarter of 2009 as against the corresponding period of 2008 whereas the prices (US\$/Kg or nut) of these commodities declined by 5.9 percent, 43.2 percent and 39 percent respectively in the first quarter of

2009 due to the bursting the bubble of the commodity prices that prevailed prior to crisis situation. In line with these developments, the Colombo Auction prices for tea and rubber declined by 1.3 percent and 48.3 percent respectively. However, tea prices fetched around US \$ 4.00 per kg in April, 2009 on par with the prices prevailed in the last year. The earnings from the coconut exports increased by 44 percent while the earnings from the coconut kernels increased by 88 percent during the first four months period despite the 43.4 percent decline in prices in April, 2009. The export earnings of minor agricultural products also declined by 29.7 percent to US \$ 64 million in the first four months in 2009.

- Industrial export earnings declined by 12.9 percent to US \$ 1,612 million in the first four months of 2009 compared to US\$ 1,850 million recorded in 2008. Among the industrial exports, the earnings from the textiles and garments sector increased by 2 percent to US \$ 1,053 million in the first four months period of 2009. The leather, footwear and travel goods sub sector also recorded a healthy growth of 23 percent in the four months period of 2009. The mineral exports also contained by 50.6 percent in January-April, 2009 to US \$ 23.6 million while the food, beverages, tobacco and rubber products sub sectors contracted by 15 percent and 41 percent respectively.

Imports

- All major commodity groups posted negative growth during the review quarter. Despite the lower import prices in major commodities, expenditure on imports declined by 36.9 percent by end April, 2009 amounting to US \$ 2,891 million due to the depressed demand, reflecting slowdown in economic activity accompanied by the global economic turmoil. The expenditure on consumer goods declined by 32.1 percent due to lower expenditure incurred on import of sugar, wheat grain, milk products and other food items. With the escalating sugar prices in the international market, the import price of sugar increased by 16.3 percent in April, 2009. In addition, import of motor vehicles and electrical appliances declined by 72 percent and 61 percent respectively.

- The non petroleum intermediate goods imports amounted to US \$ 2,406 million in the first four months in 2009 compared to US \$ 3,440 million in the same period of 2008. The total expenditure on intermediate goods declined by 44.8 percent to US \$ 1,446 million led by lower petroleum and fertilizer imports. The imports of petroleum contained by 57 percent amounting to US \$ 485 million during the period while the fertilizer imports declined by 75 percent. The average import price in crude oil slightly increased from US \$ 43 per barrel to US \$ 50 per barrel in April 2009 and high speculation of price of crude oil is expected during the rest of period of 2009. Reflecting the depressed global demand, the imports of textiles and diamonds contracted by 18 percent and 43 percent respectively. Investment goods also declined by 23 percent to US \$ 781 million, reflecting the slowing down the growth of the economy.

Trade Deficit

- Reflecting declined in both earnings from exports and expenditure on imports coupled with lack of demand for imported goods and the lower import prices, the cumulative trade deficit contracted by 61.5 percent to US \$ 806 million during the January-April period of 2009 over the US \$ 2,091 million in the review period of 2008.

Private Remittances

- Mainly with the increased transfers through the banking systems, the private remittances reached US \$ 1,034 million in the four months period of 2009, compared to US \$ 1,047 million in the corresponding period of 2008. The private remittances during this period were about 28 percent (excess of US \$ 228 million) in excess of trade deficit.

Table 2.3
External Trade

Category	Jan-Apr 2008 Cumulative (US\$ Mn.)	Jan-Apr 2009 Cumulative (US\$ Mn.)
Exports	2,488	2,085
Agriculture	590	450
Tea	411	300
Other	179	149
Industrial	1,850	1,612
Food, Beverages and Tobacco	141	119
Textiles and Garments	1,033	1,053
Rubber products	176	104
Diamond and Jewellery	113	80
Other	387	256
Mineral	48	24
Unclassified	0	0
Imports	4,579	2,891
Consumer goods	913	621
Food & Drink	554	406
Other Consumer Goods	359	214
Motor Cars & Cycles	152	43
Intermediate goods	2,621	1,446
Petroleum	1,140	485
Fertilizer	123	31
Chemicals	115	86
Textiles & Clothing	532	435
Diamonds	104	59
Other Intermediate Goods	609	350
Investment goods	1,013	781
Machinery & Equipment	467	32
Transport Equipment	139	124
Building Materials	297	249
Other Investment Goods	110	84
Unclassified	31	44
Trade Balance	-2,091	-806

Source: Central Bank of Sri Lanka.

Official Reserve

- The gross official reserves with and without Asian Clearing Union (ACU) Funds posted US \$ 1,471 million and US \$ 1,296 million respectively by end April 2009. This includes deposits of US \$ 165 million placed with two domestic banks. Reflecting the process of accumulating the official reserves to a favourable level by absorbing foreign exchange from the market, the absorbed figure amounted to US \$ 367 million upto 19th June 2009. Moreover, US \$ 66 million of gross official reserves were attracted by issuing Sri Lanka Development Bonds(SLDBs) during the review period. This has resulted to remove the restrictions that were imposed on forward sales and purchases of foreign exchange and the margin deposit requirements imposed on importation of motor vehicles and selected consumer goods. This will help to stabilize the foreign exchange market and attract more inflows into the country.

Financial Sector Development

- In view of sharp decline in inflation and inflationary expectation coupled with rising domestic demand along with the reconstruction and development in the liberated areas and flexibility in the nominal exchange rate, the Central Bank eased its monetary policy stance and has taken several steps to increase liquidity in the market. As such, the policy interest rates of the Central Bank have been further reduced by 50 basis points each in June, 2009 in order to accelerate the economic activity of the country. Consequently, the Central Bank continued the reduction of the Repurchase rate from 11.50 percent to 8.50 percent and the Reserve Repurchase rate from 12 percent to 11.00 percent by June, 2009. The reduction of the Central Bank's policy rates will help relax conditions in the domestic credit markets further and thereby bringing down the market interest rates with the increased flow of credit. These measures have led to decline in broad money supply (M_{2b}) to **10.3** percent by May 2009.

- The stock market operations in the first quarter of 2009 recorded an exceptional performance posting the highest daily percentage growth recorded by the All Share Price Index (ASPI) in the history. ASPI recorded a growth of 16.3 percent for the year in US Dollar terms.
- The daily turnover increased by 82 percent from January- May, 2009 period to Rs. 751 million while the Milanka and ASPI increased by 18 percent and 16 percent respectively stimulating more foreign direct investment to the country and this would encourage more local entrepreneurs to invest in the Colombo Stock Exchange.

Chapter 3

Foreign Assistance

- The total commitment made by lenders and donor agencies to Sri Lanka during the period of January to end May 2009 was US\$ 147.73 million, of which project loans accounted for US\$ 110.43 million and grants accounted for US\$ 37.30 million.

Table 3.1
Aid Commitments (Jan-May, 2009)

Donor	US\$ Mn.
Japan	9.74
Kuwait	34.09
Korea	76.34
FAO	2.26
UNDP	25.30
Total	147.73

Source: Department of External Resources

Chart 3.1
Aid Commitments (by percentage)

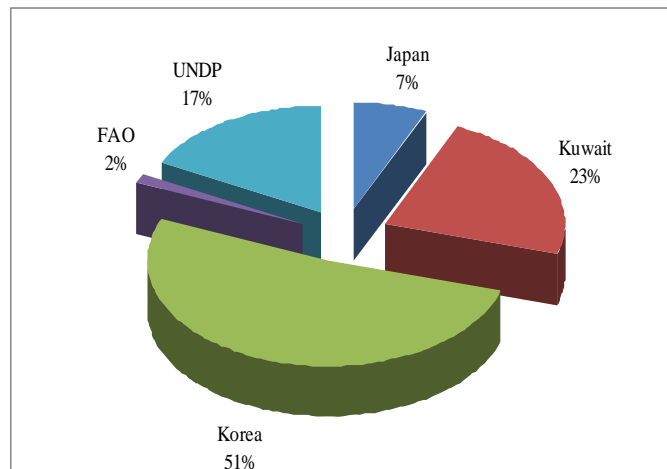


Table 3.2
Commitment from 01.01.2009 to 31.05.2009 (in US\$ Mn)

Sector	Donor	Project Name	Loan	Grant
Agriculture	Japan	2 KR Food Security Project for Underprivileged Farmers - 2008		5.42
	FAO	Emergency Agriculture Assistance in Support of IDPs		0.36
Irrigation	Kuwait	Kalu Ganga Development Project	34.09	
Health & Social Welfare	Japan	Improvement of Anuradhapura Teaching Hospital Phase II)		4.33
	UNDP	Social Development of the Plantation Community		0.10
Water Supply	Korea	Ruhunupura Water Supply Development Project	76.34	
Fishing	FAO	Regional Fisheries Livelihood Programme for South & South-East Asia		1.90
Justice	UNDP	Support Efforts and Action Against Corruption		0.30
	UNDP	Equal Access to Justice Phase II		7.74
Environment	UNDP	Conservation of Biodiversity in the South-West Rainforest		0.22
Management & Institutional Dev.	UNDP	Capacity Building through South-South Cooperation.		0.13
Livestock Dev.	UNDP	Transition Recovery Programme		16.80
Total			110.43	37.30

Committed Undisbursed Balance

- The total Committed Un-disbursed Balance of foreign financing available for government's development program as at end of May 2009 was US \$ 5.36 billion. The project implementation duration for these commitments will be in the range of 2 -5 years and hence the utilization will be on that basis. Table 3.3 indicates the sector-wise classification of the committed and un-disbursed balance.

Table 3.3
Committed Un-disbursed Balance - (by sector) as of 31st May 2009

Sector	US\$ Mn	% of Total
Roads, and Transport	1162.8	21.7
Ports	740.8	13.8
Water Supply & Sanitation	568.1	10.6
Tsunami Rehabilitation	317.2	5.9
Health, Education & Vocational Training	333.7	6.2
Power & Energy	708.4	13.2
Private Sector Development	100.8	1.9
Agriculture, Fisheries, and Irrigation	783.2	14.6
Conflict Affected Areas Rehabilitation	83.9	1.6
Rural Development	73.2	1.4
Environment & Natural Resources	54.2	1.0
IT, Science & Technology	43.2	0.8
Housing & Urban Development	58.9	1.1
Other	330.2	6.2
Total	5,358.6	

Source: Department of External Resources

Foreign Fund Disbursements

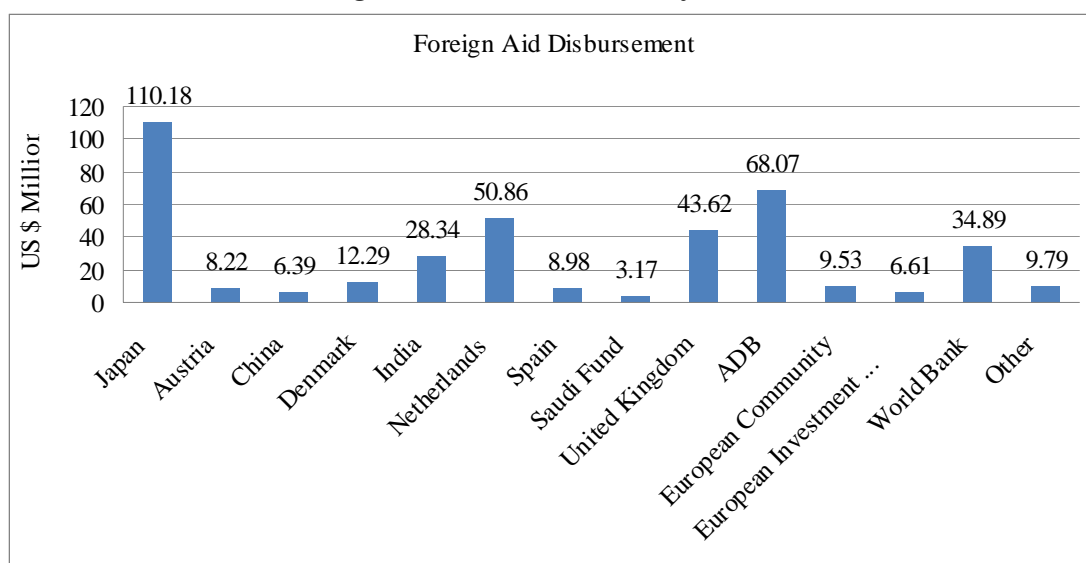
- The total foreign fund disbursement up to end of May 2009 was US\$ 402.94 million. Of the total disbursement, project loans accounted for US\$ 316.40 million and grants US\$ 86.54 million.

Table 3.4
Foreign Aid Disbursement -in US\$ million

Donor	Loan	Grant	Total
Japan	110.36	0.57	110.93
Austria	8.23		8.23
China	6.40		6.40
Denmark	13.61		13.61
India	28.34		28.34
Netherlands	10.35	49.45	59.80
Spain	8.98		8.98
Saudi Fund	3.17		3.17
United Kingdom	32.36		32.36
Asian Development Bank	64.95	3.12	68.07
European Community		9.55	9.55
European Investment Bank	6.61		6.61
World Bank	14.37	20.53	34.9
UN Agencies	0.65	2.23	2.88
Other	8.02	1.09	9.11
Total	316.40	86.54	402.94

Source: Department of External Resources

Chart 3.2
Foreign Aid Disbursements by Donors



External Debt

- The total external debt of the government as at end of May 2009 stood at US\$ 12.06 billion. This was a decrease of US\$ 250 million compared to the debt stock stood at end 2008.
- The total debt service payment up to 31st May 2009 amounted to US\$ 223.4 million. Of this US\$ 145.7 million was for principal payments and the balance US\$ 77.7 for the interest payments. The total estimated debt service payment for 2009 is US\$ 900 million, of which 24.8 percent has already been paid by 31st May 2009.