



# **FISCAL MANAGEMENT REPORT 2020-21**

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**Minister of Finance**

**17<sup>th</sup> November 2020**

Issued under the Fiscal Management (Responsibility) Act, No. 3 of 2003, consisting of the Fiscal Strategy Statement – 2021 (in compliance with Sections 4, 5 and 6) and the Budget, Economic and Fiscal Position Report – 2021 (in compliance with Sections 7, 8 and 9) by the Hon. Minister of Finance.

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## Key Economic Indicators

Indicator	Period	Unit	Value	
			2019	2020
<b>REAL SECTOR</b>				
Economic Growth	First Quarter	%	3.7	-1.6
Agriculture	First Quarter	%	5.0	-5.6
Industry	First Quarter	%	3.9	-7.8
Services	First Quarter	%	3.7	3.1
Inflation (Point to Point) – CCPI	End Sep	%	5.0	4.0
Inflation (Average) – CCPI	End Sep	%	3.9	4.7
Unemployment Rate	First Quarter	%	4.7	5.7
Labour Force Participation Rate	First Quarter	%	52.6	51.0
<b>FISCAL SECTOR</b>				
Budget Deficit	Jan-Aug	Rs. Bn.	-721	-975
Total Revenue	Jan-Aug	Rs. Bn.	1,205	906
Tax Revenue	Jan-Aug	Rs. Bn.	1,105	801
Non-tax Revenue	Jan-Aug	Rs. Bn.	100	105
Total Expenditure	Jan-Aug	Rs. Bn.	1,927	1,884
Recurrent Expenditure	Jan-Aug	Rs. Bn.	1,500	1,670
Public Investment	Jan-Aug	Rs. Bn.	435	228
Government Debt	End Jul	Rs. Bn.	12,646	14,261
<b>EXTERNAL SECTOR</b>				
Exports	Jan-Aug	US\$ Mn.	8,030	6,445
Agriculture Exports	Jan-Aug	US\$ Mn.	1,667	1,516
Industrial Exports	Jan-Aug	US\$ Mn.	6,330	4,906
Textile and Garments	Jan-Aug	US\$ Mn.	3,737	2,853
Other	Jan-Aug	US\$ Mn.	2,594	2,053
Imports	Jan-Aug	US\$ Mn.	12,886	10,257
Consumer Goods	Jan-Aug	US\$ Mn.	2,499	2,300
Intermediate Goods	Jan-Aug	US\$ Mn.	7,380	5,692
o/w Petroleum Products	Jan-Aug	US\$ Mn.	2,577	1,691
Investment Goods	Jan-Aug	US\$ Mn.	3,002	2,253
Trade Balance	Jan-Aug	US\$ Mn.	-4,855	-3,812
Tourist Arrivals	Jan-Sep	No.	1,376,312	507,311
Earnings From Tourism	Jan-Sep	US\$ Mn.	2,594	956
Workers' Remittances	Jan-Sep	US\$ Mn.	4,930	5,049
Portfolio Investments (Net)	Jan-Aug	US\$ Mn.	15	n.a.
Overall Balance of Payments (BOP)	Jan-Sep	US\$ Mn.	789	n.a.
Gross Official Reserves	End Sep	US\$ Mn.	7,635	6,653
Exchange Rate (End Month)	End Sep	Rs. per US\$	181.92	185.52
Exchange Rate (Monthly Average)	Jan- Sep	Rs. per US\$	180.77	185.03
<b>MONETARY SECTOR</b>				
Standing Deposit Facility Rate (SDFR)	End Sep	%	7.00	4.50
Standing Lending Facility Rate (SLFR)	End Sep	%	8.00	5.50
Statutory Reserve Requirement (SRR)	End Sep	%	5.00	2.00
Commercial Bank Weekly Average Weighted Prime Lending Rate (AWPR)	End Sep	%	10.49	6.19
Sri Lanka Inter Bank Offer Rate (SLIBOR ) (1 Month)	End Jun	%	8.52	6.05
W.A. Yield Rate of Treasury Bills (91 Days)	End Sep	%	7.62	4.51
W.A. Yield Rate of Treasury Bills (364 Days)	End Sep	%	8.41	4.88
Growth in Money Supply (M <sub>2b</sub> )	Aug 2019/Aug 2020	%	7.7	17.5
Growth in Credit to the Private Sector	Aug 2019/Aug 2020	%	7.0	5.2

## Reporting Requirements Under the Fiscal Management (Responsibility) Act, No. 3 of 2003

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

\* By the Minister of Finance

\*\* By the Secretary to Ministry of Finance



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## Compliance – 2020

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- **Pre-election Budgetary Position Report – 2020** was released to the public on 23<sup>rd</sup> March 2020 and was soon thereafter placed before Parliament.

- **Final Budget Position Report – The Annual Report – 2019 of the Ministry of Finance**

Stating the fiscal and economic position of 2019 was released to the public by end May 2020 and was soon thereafter placed before Parliament.

- **Mid-Year Fiscal Position Report – 2020** was released to the public by end June 2020 and was soon thereafter placed before Parliament.

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### **This Fiscal Management Report – 2020–21 contains:**

- **Fiscal Strategy Statement – 2021**, setting out the Government's fiscal strategy statement indicating the broad strategic priorities specifying key fiscal measures, which the Government considers important for the overall fiscal policy, to be placed before Parliament on the day of the second reading of the Appropriation Bill.

- **Budget, Economic and Fiscal Position Report – 2021** setting out the basis to evaluate the Government's fiscal performance as against its fiscal strategy, with estimates relating to Government revenue, expenditure and Government borrowing etc. to be placed before Parliament on the day of the second reading of the Appropriation Bill.
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# PART I



# **Fiscal Strategy Statement – 2021**

**Issued by the Hon. Minister of Finance**

**Under Sections 4, 5 and 6 of the Fiscal Management (Responsibility) Act, No. 3 of 2003**

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

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



# Medium-Term Fiscal Strategy | 01





## 1.1 Overview

At the time of compiling this report, the second wave of COVID-19 has also affected the country, which first erupted in the latter part of 2019. The extraordinary nature of this global health pandemic has prompted the world on to a path of behavioural change such as 'lockdowns', 'mass quarantine', and 'social distancing' which has had varying impacts on all walks of life. As at end of October 2020, 189 countries/regions has reported over 51.4 million infected cases and claiming 1.2 million deaths.<sup>1</sup> While Sri Lanka has not been spared the impact of COVID-19, the country has been proactive in its response which has been measured and has taken a multi-sectoral approach covering medical and health aspect, supporting and sustaining livelihoods and businesses and ensuring the smooth functioning of logistical networks.

Sri Lanka imposed full lockdown measures at end-March, which was gradually removed by May and the country operated under a "new normal", where the General elections were held under health guidelines in August 2020, ushering in a new government. However, during the latter part of October 2020, with the identification of two major clusters; Minuwangoda and Peliyagoda restrictions has been re-imposed but have been more localized in nature.

The impact of the lockdowns, mass quarantine procedures has severely disrupted the supply chains resulting in significant upheaval in almost all the economies in the world, such that this disruption is expected to result in the worst-ever recession since World War II which is much worse than the 2008-09 financial crisis. Reflecting on both supply and demand-side shocks, the World Economic Outlook (October 2020) of the International Monetary Fund (IMF) highlights that the world economy is expected to collapse by around 4.4 percent in 2020, with the United States expected to

experience contractions in its economy by 4.3 percent, European economies on average by 8.3 percent with its largest economy Germany alone experiencing a contraction of 6.0 percent. India is expected to see a contraction of 10.3 percent, with Japan at 5.3 percent whereas China is expected a positive growth of 1.9 percent.

While at the start of 2020, the economy was expected to record a growth of exceeding 4.5 percent, but the impact of COVID-19 together with the overhang of the sluggish growth since 2015 to 2019, the expectations for growth in 2021 has been revised and it is expected to rebound 5.0 percent in 2021. Meanwhile, economic indicators point to a "V-shaped" recovery from July to September 2020.

In 2019, fiscal deficit reported of 6.8 percent of GDP masked a larger overhang of arrears of about 2.8 percent of GDP, whereby the deficit would have been 9.6 percent of GDP. Despite the limitations placed by the Vote on Accounts, the arrears as at end 2019 have been cleared. The central government debt has also increased to 86.8 percent of GDP at end 2019 and half of which is foreign currency-denominated debt.

Sri Lanka adopted both fiscal and monetary policy stimulus to augment the aggregate demand. However, the government elected in November 2019, in less than a month into its term in a bid to stimulate growth, introduced sweeping changes to the tax policy introducing low tax rates, fewer taxes with a simpler tax methodology preceding the advent of COVID-19 into the country. Such early fiscal measures amounting to almost 1.5 percent of the GDP, precluded the need for a large fiscal stimulus package once COVID-19 affected Sri Lanka, apart from the support for the health and livelihood support measures.

The monetary policy has also reacted early injecting liquidity through 250 basis points downward revision to the policy rates since

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1 *John Hopkins Coronavirus Resource Centre, Retrieved October 25, 2020, available at <https://coronavirus.jhu.edu/map.html>*

March 2020, slashing of the Statutory Reserve requirements to 2.00 percent and the debt moratoria provided for businesses in particular the small and medium enterprises (SMEs). Inflation is well anchored within a targeted corridor ranging from 4–6 percent in 2020.

Business confidence has improved with the political stability in place with a government that enjoys almost two-thirds majority in Parliament and with the passage of the 20<sup>th</sup> Amendment to the Constitution, the President has been provided with greater authority in decision making process in the country.

The current dynamics in the global and domestic markets has created significant challenges in balancing the government's revenue and expenditure and overall fiscal and monetary coordination. Rationalizing expenditure has been a policy cornerstone with a top down approach adopted with elected officials themselves not being provided with new vehicles and office buildings, while also creating a tax system that is simple and easy to implement in facilitating a realistic fiscal consolidation process. In this regard, the government has already announced reforms ranging from the directives issued on domestic preference in government procurements to e-procurements while revisiting the existing financial regulations, land policies all of which has an impact on improving efficiency and efficacy of doing creating value and doing business in the country. The fiscal implications of the reforms will be important tools to revive the economy as envisaged at the end of 2019 which will have a spill-over effect in 2021 onwards.

With the recent developments, the Government has revised the Medium Term Macro Fiscal Framework 2021–2025 which

have been framed by the Fiscal Management (Responsibility) Act, No. 3 of 2003. The fiscal deficit excluding the payment of arrears in 2020 is expected to reach 7.9 percent of GDP. It is projected that fiscal deficit will increase to 8.8 percent of GDP in 2021 to provide sufficient fiscal space to increase public investments from 2.6 percent of GDP in 2020 to 5.4 percent of GDP. The combination of revenue improvements coupled with expenditure rationalization is expected to support the fiscal deficit to contract to 4.0 percent of GDP in 2025.

It is in this background that the Government has designed a medium term macro-fiscal strategy aiming to achieve economic revival and thereby fostering higher and inclusive economic growth in line with the policies articulated in the "Vistas of Prosperity" policy document. The policy is centered on preserving national security, ensuring people's ownership of national resources while strengthening local entrepreneurs. It also includes productivity improvements at State Owned Enterprises (SOEs) facilitating better value addition.

## **1.2 Fiscal Strategy in the Medium Term**

The fiscal operations of government are framed by the Fiscal Management (Responsibility) Act, No. 3 of 2003, which provides a legal framework to phase out fiscal deficits and associated debt to support the broad-based development objectives in the Medium Term Macro Fiscal Framework (MTMFF). Government's major medium term fiscal objectives, among others, are to contain fiscal deficit to 4.0 percent of GDP and debt to GDP ratio to around 75.5 percent by 2025.

**TABLE 1.1 : Medium Term Macro Fiscal Framework from 2020 to 2025**

As a percentage of GDP

Indicator	Provision	Est.	Est.	Projections			
	2019	2020	2021	2022	2023	2024	2025
<b>Total Revenue and Grants</b>	<b>12.6</b>	<b>9.5</b>	<b>10.7</b>	<b>12.1</b>	<b>12.5</b>	<b>13.3</b>	<b>14.2</b>
<b>Total Revenue</b>	<b>12.6</b>	<b>9.5</b>	<b>10.6</b>	<b>12.0</b>	<b>12.5</b>	<b>13.3</b>	<b>14.2</b>
<b>Tax Revenue</b>	<b>11.6</b>	<b>8.5</b>	<b>9.4</b>	<b>10.5</b>	<b>10.9</b>	<b>11.6</b>	<b>12.5</b>
Income Taxes	2.8	1.9	2.1	2.2	2.4	2.6	3.0
Taxes on Goods and Services	6.5	4.0	4.5	5.3	5.5	5.9	6.3
Taxes on External Trade	2.2	2.5	2.8	2.9	3.0	3.1	3.2
<b>Non-Tax Revenue</b>	<b>1.0</b>	<b>1.0</b>	<b>1.3</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>
<b>Grants</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.05</b>	<b>0.04</b>	<b>0.04</b>
<b>Total Expenditure</b>	<b>22.2</b>	<b>17.5</b>	<b>19.5</b>	<b>18.4</b>	<b>18.0</b>	<b>17.9</b>	<b>18.3</b>
<b>Recurrent Expenditure</b>	<b>16.1</b>	<b>14.9</b>	<b>14.2</b>	<b>13.5</b>	<b>12.9</b>	<b>12.5</b>	<b>12.3</b>
Salaries and Wages	4.6	5.0	4.9	4.7	4.4	4.3	4.1
Goods and Services	1.2	1.0	1.1	0.8	0.7	0.7	0.8
Interest	6.0	5.4	4.9	4.9	4.7	4.7	4.7
Subsidies & Transfers	4.4	3.5	3.3	3.2	3.0	2.8	2.8
<b>Capital Expenditure and Net Lending</b>	<b>6.1</b>	<b>2.6</b>	<b>5.3</b>	<b>4.9</b>	<b>5.1</b>	<b>5.4</b>	<b>5.9</b>
Public Investments	6.2	2.6	5.4	5.0	5.2	5.5	6.0
<b>Current Account Balance</b>	<b>-3.6</b>	<b>-5.4</b>	<b>-3.6</b>	<b>-1.5</b>	<b>-0.4</b>	<b>0.8</b>	<b>1.9</b>
<b>Primary Balance</b>	<b>-3.6</b>	<b>-2.5</b>	<b>-3.9</b>	<b>-1.4</b>	<b>-0.7</b>	<b>0.0</b>	<b>0.6</b>
<b>Budget Deficit</b>	<b>-9.6</b>	<b>-7.9</b>	<b>-8.8</b>	<b>-6.4</b>	<b>-5.4</b>	<b>-4.6</b>	<b>-4.0</b>
<b>Deficit Financing</b>	<b>9.6</b>	<b>7.9</b>	<b>8.8</b>	<b>6.4</b>	<b>5.4</b>	<b>4.6</b>	<b>4.0</b>
Foreign Financing (Net)	3.6	-1.4	0.5	-0.2	0.1	-0.1	-0.1
Domestic Financing (Net)	6.0	9.3	8.3	6.5	5.4	4.8	4.1
<b>Central Government Debt (% of GDP)</b>	<b>86.8</b>	<b>95.1</b>	<b>96.3</b>	<b>92.4</b>	<b>88.1</b>	<b>82.3</b>	<b>75.5</b>

Sources : Department of Fiscal Policy and Department of National Budget

\* projections are based on information as of end September, 2020

In line with the MTMFF, the government's priorities for 2021–2025 are:

- Achieving economic growth at 6.0 percent or higher.
- Maintaining unemployment at less than 4 percent.
- Retaining inflation not exceeding 5 percent.
- Increasing revenue to GDP ratio over 14 percent in 2025
- Allowing the Budget on a sustainable foot by rationalizing unproductive expenditure
- Containing budget deficit at less than 4 percent of GDP
- Achieving primary surplus by 2025 and beyond
- Reducing the Government debt to GDP ratio at 75.5 percent in 2025
- Ensure a single-digit rate of interest
- Maintain the stable exchange value of the rupee

The fiscal strategy is designed to address the much needed requirement for growth in an economy. As such, in the background of the longstanding requirement for infrastructure related investments to complement the private sector investments, the public investment will be to maintain an average of over 5.0–6.0 percent of GDP per annum during the period 2021 – 2025.

Public investment has been focused on ensuring connectivity with the 100,000 Km of road projects which includes rural & urban roads and expressways, doubling access to pipeborne water to 75 percent, ensuring the supply of water for agriculture and providing infrastructure for industries, which will have a direct impact on improving productivity in

agriculture and industries, whilst improving the quality of living with government taking the role of the investor of first resort. In financing the public investments, almost 75 percent of the public investment will be domestically financed.

The government strategy of rationalizing recurrent expenditure continues into the medium term, from 14.2 percent of GDP in 2021 to at least 12.3 percent of GDP by 2025. Such strategy will include the continuation of the freezing of expenditure on purchasing of vehicles and buildings and other such assets, digitalization of key systems and processes including the rollout of e-procurement and the e-National Identity Card, are expected to facilitate the expenditure rationalization.

In this background, while revenue is expected to be around 9.5 percent of GDP in 2020, it is expected to increase to 14.2 percent of GDP by 2025, in the background of the expected growth potential boosting the tax capacity. To complement such strategy, several measures have already been taken to address the concerns in revenue collection. Revenue enhancement has been accompanied by a comprehensive strategy that interlinks tax policy reforms and revenue administration reforms, which has been dealt with in isolation for many years. This includes the combining of several tax instruments (e.g. increasing the PAL rate and removing the NBT rate), simplification of the system of taxation by reducing the number of taxes to be paid such as NBT, PAYE and WHT. Further, capacity enhancing measures in revenue administration have already commenced including the establishment of the Large Tax Payers Unit (LTU) at IRD, the introduction of risk-based audits, management, governance and human resource development and improvements to the Revenue Administration Management Information System (RAMIS) at IRD. The Sri Lanka Customs (SLC) has already introduced the "Single Window System" and is working on the National Single Window platform. The Integrated Treasury Management Information System (ITMIS) at the Treasury has commenced

roll outs in 45 entities and it is expected to further expand to about 200 entities. The tax buoyancy is expected to be improved in the medium term.

Reforms in SOEs is also a key aspect of the fiscal strategy. The government's policy to appoint qualified professionals to the Boards of Management of SOE's has yielded benefits. Productivity improvements, broad basing of the ownership of non-strategic commercial SOEs are expected to support the fiscal space in reducing expenditure whilst also supporting the non-tax revenue and the non-debt financing of the government expenditure.

However, the impact of COVID-19 remains a key challenge in the implementation of the fiscal strategy, amidst the forecast for the global economy which remains fragile and uncertain posing risks to the expectation and targets of the MTMFF and the Sri Lankan economy.

### 1.3 Reform Initiatives

Government has already embarked on implementing a wide spectrum of reforms including institutional, administrative, legislative and capacity improvement to suit present day demands and meet international standards covering the areas of taxation, expenditure management, public enterprises, procurement and policy improvements.

#### Tax Reforms

Sri Lanka's far-reaching tax reform was made possible after the 2019 Presidential Election, which gave the new government a mandate to revive the economy and fight against corruption with a zero-tolerance while increasing tax compliance. A simplified the tax system, reduced rates, and eliminated certain taxes that had been generating little revenue were the cornerstone of the reforms, among others. This makes tax administration less challenging.

#### BOX 1 : Income Tax Regime (as at end of October 2020)

Description	Tax Rate (%)
<b>Individuals</b>	
Tax free allowance for residents/non- resident citizens of Sri Lanka	Rs. 3,000,000
Tax on Taxable Income	
First Rs. 3,000,000	6
Next Rs. 3,000,000	12
On the Balance	18
<b>Introduction of Advanced Personal Income Tax (APIT) (For primary and secondary employment) with effect from 01.04.2020</b>	
Personal relief per month (other than for non-resident non-citizens)	Rs. 250,000
Tax on Taxable Income	
First Rs. 250,000	6
Next Rs. 250,000	12
On the Balance	18
<b>Terminal benefits from employment (Commutated pension, Retiring Gratuity, ETF or Approved compensation)</b>	
<b>Concessionary Rates</b>	
First Rs. 10 Mn.	0

**BOX 1 : Income Tax Regime (as at end of October 2020) (Contd...)**

Description	Tax Rate (%)
Next Rs. 10 Mn.	6
On the balance	12
<b>Standard Rates</b> applicable to individuals with respect to compensation for loss of office, payment from provident fund (not a regulated fund) or other payments or any retirement non-cash benefit not approved by CGIR.	
<b>Business consisting of betting and gaming , manufacturing and sale or import and sale of any liquor or tobacco products</b>	40
<b>Corporate Income Tax</b>	
<b>Standard Rate</b>	
All companies (other than companies taxed at special rates)	24
SMESs, Exporting Goods and Specified Undertakings, Promoting Tourism, Construction Services, Agro processing, Healthcare and Educational Services	14
Manufacturing	18
Agriculture, fisheries, livestock, IT and enabled services	Exempt
Trading, Banking, Finance, insurance (Standard rate)	24
Betting and Gaming	40
Manufacture and sale or import and sale of any liquor or Tobacco products	40
<b>Partnerships</b>	
Balance Taxable Income( Not exceeding Rs. 1,000,000)	0
Exceeding Rs. 1,000,000 (On the excess of Rs. 1,000,000)	6
<b>Unit Trusts or Mutual Funds</b>	
Income other than capital gains	24
<b>Charitable Institutions</b>	
Income other than capital gains	14
<b>NGOs</b>	
Income other than capital gains	24
3% of grants, donation or contributions	24
<b>ETF, EPF, Pension Funds or Termination Funds</b>	<b>14</b>
<b>Income on capital gains</b>	<b>10</b>

Compiled by the Department of Fiscal Policy

The government has introduced measures such as an electronic tax filing system in turn made it easier to pay taxes. The technology infusion to the tax system both improved efficiency and reduced opportunities for corruption.

Several taxes were removed to simplify the tax structure: Economic Service Charge (ESC), Debt Repayment Levy (DRL) and Nation Building Tax (NBT) removed. The personal income tax-free allowance increased to Rs. 3 million per annum from Rs. 500,000 per annum. The tax slab has broadened to Rs. 3 million per annum from Rs. 600,000 per annum while revising the progressive tax rate to 6 percent, 12 percent with a maximum of 18 percent.

The standard Corporate Income Tax (CIT) rate structure reduced to 24 percent from 28 percent. The concessionary rate of 14 percent is applicable to the income from export of goods, tourism, education, healthcare, construction and agro-processing and 18 percent applicable on income from manufacturing. The high tax rate of 40 percent continued to be applied on the liquor, tobacco and betting and gaming. Key potential sectors including agriculture, IT, income earned from foreign sources and interest income earned from Non Resident Foreign Currency (NRFC) and Resident Foreign Currency (RFC) were exempted from income tax to revitalize the economic activities.

Upward adjustments were made to excise duty on all categories of liquor and cigarettes to recoup the potential revenue loss of VAT reduction and the removal of NBT applicable to such items while maintaining the retail prices intact. The impact of the removal of NBT from import activities has been adjusted with the upward revision of standard PAL rate to 10.0 percent from 7.5 percent. However, three-tier concessionary rates of 2.5, 5.0 and 7.5 percent were granted to relief the imports of raw materials, crude petroleum oil and fuels, intermediate goods as well as investment goods.

In addition to the fiscal stimulus provided following the Presidential Election in the latter part of 2019, swift measures have been provided to combat COVID-19 outbreak while providing relief for all. As fiscal measures, importation of protective gears to be donated to the Ministry of Healthcare and Indigenous Medical Services have been exempted from PAL effective from April 16, 2020 to support the fight against the outbreak of COVID-19. Meanwhile, the supply of personal protective equipment and similar products by BOI enterprises to the Ministry of Healthcare and Indigenous Medical Services, Department of Health Services, Tri Forces, etc were exempted from all taxes including Customs Duty, VAT, PAL and CESS effective from April 29, 2020 while ensuring the availability of those equipment and similar products. Considering the declining trend of international fuel prices, CID on the imports of petroleum products revised up and Customs surcharge on the importation of petroleum products increased. The revenue generated from the surcharge was credited to the Fuel Price Stabilization Fund (FPSF) to reap the benefits arising from the plunge in international oil prices.

### **Reforms in Tax Administration**

The Government has recognized the institutional reforms to enhance higher tax revenue mobilization, improved taxpayer compliance and more efficient service delivery. Modernizing tax administration has been identified as a policy measure to increase the effectiveness of the tax system. IT infusion to the tax administration is expected to minimize "tax gap" or taxpayers noncompliance. Encouraging voluntary compliance with the reduction of tax rates and reduction of complexity of the tax system, tax treatment based on taxpayer's revenue potential such as large taxpayers unit at IRD have already been introduced. Taxpayer registration, tax returns and payment process, collection of default taxes tax audits and penalties, taxpayer services and human resources development have been identified as areas for improvement. IT-based systems for registration, filing and payment of taxes

and risk-based auditing is expected to attain the voluntary taxpayer compliance through improved service delivery.

Taxpayer segmentation such as Large Tax Administration Unit (LTA), Upper Corporate Unit (UCU), Medium Corporate Unit (MCU) and Regional Corporate Unit (RCU) has been introduced as a part of major reforms. Meanwhile, the IRD is about to commence the second phase of the Revenue Administration Management Information System (RAMIS) to fast track of the system. Excise Department of Sri Lanka (EDSL) is in the process of introducing Revenue Risk management system and Excise Revenue Management System (ERMS) in order to secure potential revenue. The Sri Lanka Customs (SLC) has introduced a paperless goods clearance system for BOI companies to speed the track their shipments. Scanning of all export and import containers has been commenced in September 2020 to facilitate legitimate trade while reducing the volume of intrusive examinations. Government has allocated a land in Kerawalapitiya for a fully-fledged Customs examination yard and automated container tacking system is about to commence to expedite clearance of cargos. In line with the implementation of WTO TFA measures, SLC is in the process of operating "Single Window" (SW) system. Meanwhile, the General Treasury has commenced its operational system of ITMIS in January 2020.

### **Public Expenditure Management**

The government has committed to balancing public expenditure and revenue with strategic priorities. The expenditure restraint has been identified as a mainstream of reforms including the curtailment of expenditure on the purchase of new vehicles including for elected officials and the rent or purchase of buildings, equipment etc, while closely monitoring the expenditure rationalization process at expenditure units. In this regard, the Government has already decided to reexamine its debt-financed public investment pipeline amounting to almost US\$ 9 billion and re-profile it by advancing urgent projects, cancelling those that will not generate an adequate return financially or economically

while deferring certain projects that need to be undertaken later. In this context, the Government has also taken steps to suspend any new constructions of buildings for state institutions for 2 years.

The rationalization efforts have been further benefited from the savings arisen from the tax reductions which help improve cash flows, in particular, SOEs together with the decrease in the budgetary allocations made for the spending agencies.

### **Public Financial Management**

Government has put emphasis on the importance of reforming public financial management in order to assure transparency and accountability particularly in procurement, public assets management and other public resources while facilitating prioritization and delivery of services through a simplified and streamlined system that will enable the access to public service more effective and also economical. The government has taken steps to improve public procurement systems which is an integral part of the effective management of resources from domestic and foreign resources. In this regard, skills and processes to suit present public procurement needs, monitoring and evaluation will be streamlined.

The study of the existing regulations issued through circulars on the financial regulations and procurement guidelines found that most regulations are archaic hence, require simplification and updated to suit the present-day demands. The COVID-19 pandemic has only compelled to the infusion of technology rigorously to support work-at-home concept and demand that the regulatory framework be embedded with advanced internal control systems and audit processes.

Electronic Government Procurement (e-GP) system has been a catalyst in coping with the requirements of the COVID-19 pandemic which is a cost-effective measure in the areas



of tender notices, supplier registration and e-submission of bids, among other processes. This has been introduced during the first wave of COVID-19 to procure urgent goods and services in a transparent and efficient manner.

### **State Owned Business Enterprises**

Reforming the SOEs remains integral in the government's economic policy framework amidst their sub-optimal level performance since SOEs play a significant role in promoting economic development. The lack or absence of coherent pricing policy, lack of competitiveness, inadequate level of capital infusion, in particular, equity and incompetent or less empowered boards have been identified as the most important factors in contributing to the sub-optimal performance. As such, the government introduced hiring professionals based on merit to the Boards of SOEs which will improve fiscal discipline and accountability in SOEs.

Reforms of SOEs have introduced focusing on productivity improvement and generating better shareholder value. To this end, the SOE's will be required to submit strategic business plans where Key Performance Indicators (KPIs) will be established, concurrently with the establishment of a strong monitoring system. Action will also be taken to review the Schemes of Recruitment of SOEs to ascertain their applicability in meeting the KPIs as established. Financial transparency, competitive market structures, and a regulatory framework are required to be the key reforms agenda for the medium term for the next transition.

### **Public Investment**

While the Government is taking stringent measures to control the COVID-19 Pandemic, the government has identified the need of preparing the country for the post-COVID-19 economic development. In this regard, public investment plays a catalyst role since it will help rejuvenate economic activity and employment from the slowdown. The requirement for public investment in this period is more critical in terms of healthcare,

education, water, transportation and IT sector. The low interest regime is expected to increase more public investment in order to generate more jobs while boosting private sector investment hence the government is expected to boost public investment in the medium term to spur the economic growth of the country.

### **Debt Management**

Government has committed to containing its debt to a risk-free and manageable level through growth-friendly fiscal consolidation efforts in the medium term. Although the debt to GDP ratio has declined in the recent past and is 71.3 percent of GDP at end 2014; the high level of debt in a weak fiscal position of Sri Lanka increased its debt level to 86.8 percent of GDP or Rs. 13,031 billion at the end of 2019. The debt stock as at end 2020 is expected to rise to 94.3 percent of GDP mainly due to the macroeconomic conditions arisen from the lagging economic development from 2015–2019 coupled with the COVID-19 impact. However, Sri Lanka has never defaulted on servicing its debt. The exposure to the foreign currency carries about half of the total debt stock which is about 47 percent in 2020 exacerbating foreign exchange and rollover risk. Of the total foreign currency debt stock of US\$ 35.3 billion, International Sovereign Bonds (ISB) dominate which accounts for almost 42.6 percent or US\$ 15.0 billion. However, the debt to GDP ratio is projected to reduce below 75.5 percent by 2025 with the expected lower fiscal deficit align with higher economic growth. The government has committed to preserving fiscal sustainability, the primary fiscal balance is expected to improve in the medium term thereby reducing its debt stock moving towards a more disciplined course in containing its public debt.

### **Financial Sector**

The financial sector stability and soundness are expected to stimulate economic growth in the medium term. The performance of the banking sector improved with the maintaining profit levels, improved Capital Adequacy Ratios (CAR) above minimum level despite the

decline of non-performing loans (NPL) ratio due to the impact of COVID-19. The financial sector will be further strengthened with the establishment of "Colombo Port City Project", among other priority projects, to attract both domestic and international banks to operate in Sri Lanka benefiting private equity and venture capital industry.

## External Sector

The country has already initiated steps to boost the export sector through diversification of products, increase value addition, promotion of export-oriented foreign direct investments and creation of competitive infrastructure with new developments. The tax and tariff policy has also been revamped to provide a stimulus to the export sector and increased value addition.

As such, the external sector demonstrated a resilience amidst rising global uncertainties caused by the COVID-19. The trade deficit narrowed in the first nine months of 2020 due to the improvement in earnings from exports, restrictions imposed on the importation of non-essential goods together with the plunge in crude oil prices. Despite the contraction in earnings from the tourism sector, services exports increased with prospective growth

in computer and logistic services. Workers' remittances increased better than expected. Meanwhile, the International Sovereign Bond (ISB) of US\$ 1 billion has been settled in October 2020 maintaining the record of an unblemished debt servicing of the country. The exchange rate remained stable and Gross Official Reserves were estimated at US\$ 6.7 billion at end September 2020.

## 1.4 The Global Economic Conditions and its Impact on Sri Lanka

The global economy shows a steep contraction commencing from 2019: there was an uncertainty arisen from the impact of a US-China trade war and Brexit on the World Economy, among other factors. As such, the IMF had projected global growth of 3.4 percent. However, COVID-19 reversed the outlook unexpectedly. The IMF downgraded its growth projection to -4.4 percent as the COVID-19 outbreak spread across the borders. The tourism industry was affected and the flow of goods through global supply chains vastly reduced. Countries issued "stay-at-home" which has led to a recession in developed countries. Sri Lanka has also affected by the COVID-19 exacerbating pressures to many sectors which requires a consolidated effort thorough implementation of structural reforms.

### BOX 2 : Key Policy Responses to COVID-19

#### Fiscal Sector

- Establishment of a COVID-19 Healthcare and Social Security Fund with an allocation of Rs. 100 million from the President Fund.
- Granting tax exemptions on the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID 19 pandemic.
- Granting tax exemptions on the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri Forces and Sri Lanka Police
- Granting tax exemption on the importation of raw materials and packing materials by pharmaceutical manufacturers for manufacture of pharmaceuticals.

## **BOX 2 : Key Policy Responses to COVID-19 (Contd...)**

- Granting tax exemptions on the importation of Pharmaceutical machinery and equipment including accessories and spare parts for pharmaceutical machinery and equipment.
- Granting Tax Exemptions on the importation of Medical instrument and equipment including test kits required for the provision of health services, to help in detection of COVID-19 patients.
- Removal of the Teledrama Levy imposed on imported foreign films and teledramas.
- Establishment of the Fuel Price Stabilization Fund (FPSF) with an initial capital of Rs. 50 billion.
- Surcharge on Customs Duty collected on fuel imports will be credited to the FPSF.
- Provisions of Rs. 5,000 cash allowance to senior citizens, differently-abled persons, kidney patients and farmers and displaced daily worker for the month of April and May.
- Allocation of Rs. 65 billion for preventive measures.
- Payment of an interest-free advance of Rs. 10,000 to Samurdhi beneficiaries through all Samurdhi Banks.
- Implementation of a debt moratorium facilitated through banks complemented by guarantees from the Central Bank.
- Introduction of the one-month grace period to the general public for the payments of utility bills and monthly credit card bills less than Rs. 50,000.
- Doubling the Agrahara insurance benefits for health workers engaged in Corona prevention activities, Police, Tri-forces personnel and other government employees.
- Suspension of the loan payment deductions from salaries of all public sector employees drawn from advance accounts until further notice.
- Extending the payment deadlines for Value Added Tax.
- Suspension of the Tea Promotion Levy (TPL) for a period of six months.
- Directions issued to exempt penalty payments of all taxes during the COVID19 lockdown period and to commence penalty provisions for late payments from July 2020.
- Relief measures for SMEs such as waiving of income tax arrears on assessments issued up to the Year of Assessment 2018/19, non-issuance of additional assessments for the year 2019/20, granting grace period to settle taxes in arrears/default, extension on seizure notices, and extension of the dates for the payment of taxes and filling tax returns.

### **External Sector**

- Suspension of foreign currency outflows in relation to any investments by local persons, outward remittances and repatriation of funds by emigrants for three months.
- Suspension of Letters of Credit (LCs) facilities on the importation of selected motor vehicles and on the Importation of selected non-essential goods under LCs, documents against acceptance and advance payments for a period of three months.
- Imposition of restrictions on all non-essential imports with certain conditions.
- Issuing of directions to Authorized Dealers to issue foreign currency notes up to a maximum

## **BOX 2 : Key Policy Responses to COVID-19 (Contd...)**

of US\$ 5,000 (or its equivalent in other foreign currency) as travel allowance to persons resident in Sri Lanka travelling abroad for any purpose, from the previously permitted travel allowance of US\$ 10,000

- Sell-Buy Forex SWAP Auctions for LCBs to provide foreign currency liquidity on term basis without depleting the foreign reserves.
- Obtaining approval to enter into a Bilateral Currency Swap Agreement with the Reserve Bank of India for US\$ 400 million. All necessary prerequisites for signing the Swap Agreement have been fulfilled by the Ministry of Finance and Central Bank.
- Curtailing of Net Open Positions (NOP) of LCBs on a selective basis to prevent speculative activity in the foreign exchange market.
- Obtaining approval to initiate a Repo Facility for US\$ 1,000 million from Federal Reserve Bank New York, to meet the contingent liquidity needs of the government.

### **Monetary Sector**

- Suspension of the leasing loan repayment for a period of six months for 1.5 million self-employed persons, including owners of three-wheelers, trucks, school buses and vans and self-employed motorists.
- Injection of liquidity amounting to Rs. 150 billion into the banking system by reducing the Statutory Reserve Ratio (SRR) to 2.00 in order to facilitate economic activity.
- Introduction of the Rs. 50 billion re-financing facility to support business and the economy.
- Introduction of a "Special Deposit Account" to support the national efforts to manage the challenges faced due to COVID-19.
- Reduction of the Standing Deposit Facility Rate (SDFR) and Standard Lending Facility Rate (SLFR) by 250 basis points from January to July 2020 to 4.50 and 5.50 respectively to reduce market lending rates.
- Reduction of the interest rate for credit card domestic transactions to 15% up to Rs. 50,000 and reduce the minimum daily reserve requirement limit from 90 per cent to 20 per cent for Licensed Commercial Banks 50% in minimum monthly charges.
- Opening of all bank branches during non-curfew hours providing maximum service to customers.
- Issuance of the guidelines to licensed banks for them to maintain uninterrupted credit flows by cutting down on discretionary payments and other non-essential expenditures.
- Implementation of three new Credit Schemes to support the revival of economic activity to support lending to business segments affected by the COVID-19 (construction and other needy sectors) at the concessional rate of 4.00 per cent per annum. Repayment period was extended to 9 months.

## **BOX 2 : Key Policy Responses to COVID-19 (Contd...)**

### **Administrative Operations**

- Establishment of the National Operations Centre for Prevention of COVID-19 and appointment of Presidential Task Forces on COVID-19 Health Care, Education, Economic Revival and Poverty Alleviation and a high-level coordination council to manage health risks and economy easing strategies.
- Conversion of National Institute of Infectious Diseases and many other major hospitals into the COVID-19 treatment centers and establishing around 34 Quarantine Centers island wide.
- Increase the Daily PCR testing to over 10,000 tests as at November 7, 2020.
- Delivery of Thriposha, "PoshanaMalla" and medicines directly to the targeted beneficiaries.
- Payment of the pensions to 645,179 pensioners through Divisional Secretariats and Postal Services.
- Implementation of the "Saubhagya Home Garden" programme to ensure the food security of the country.
- Provisions of fertilizer, and seeds and plantation material for "Samurdhi" beneficiaries to encourage farming.
- Encourage of domestic manufacturers and inventors to produce requested equipment such as hospital beds, disinfection chambers and sanitizers.
- Relaxing of the restrictions such as curfew on all agricultural activities to meet local and export demand.
- Contribution of US\$ 5 million to the SAARC COVID-19 Emergency Fund.
- Arrangement of Sri Lankan Airline flights to bring back Sri Lankans stranded due to COVID-19 in India, UK, China and other countries.
- Issuance of Guidelines to carry out "work from home" activities especially for public sector.



## PART II

# **Budget, Economic and Fiscal Position Report – 2021**

**Issued by the Hon. Minister of Finance**

**Under Sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act, No. 3 of 2003**

This Report is issued under Sections 7, 8 and 9 of the Fiscal Management (Responsibility) Act, No. 3 of 2003, which requires the provision of a basis for the evaluation of the Government's fiscal performance as against its fiscal strategy statement and to be placed before Parliament on the day of the second reading of the Appropriation Bill. It includes estimates relating to the gross domestic product, consumer prices, the balance of payments, and assumptions based for estimating revenue and expenditure.

Accordingly, this Report contains provisional figures of government revenue, expenditure and borrowing in the first eight months of 2020. This report provides key macroeconomic developments during this period to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted. This Report also refers to the basis of information on economic and other assumptions used in the preparation of estimates for 2021 and downside risks associated with these assumptions and other information that may have a material effect on the fiscal performance of Government.



# **Fiscal Developments, Treasury Operations and Foreign Financing** | **01**



## 1.1 Overview

The government introduced a simple, transparent and efficient tax system in the latter part of 2019 and the beginning of 2020 to stimulate the economy by augmenting aggregated demand. The tax structure was simplified by removing Economic Service Charge (ESC), Nation Building Tax (NBT) and Debt Repayment Levy (DRL). Personal and corporate income tax structures were revised. Value Added Tax (VAT) rate slashed to 8 percent from 15 percent and VAT registration threshold expanded.

Fiscal operation of the Government demonstrated a mixed performance from January to August 2020 due to multiple reasons. It has been mainly disturbed by the outbreak of the COVID-19 pandemic together with fiscal and monetary stimulus packages announced to mitigate the impact of COVID-19. The revenue performance exhibited mainly three episodes during the period: (i) total revenue increased in

the first two months of the pre-COVID period by 5.0 percent to Rs. 318.6 billion; (ii) revenue significantly declined by 43.4 percent to Rs. 264.7 billion during the lockdown period of the end of March to May 2020; and (iii) revenue recovered and declined only by 25.6 percent to Rs. 323.1 billion during the "new normal" from June to August 2020. The above episodes propelled to declining revenue by 24.8 percent to Rs. 906.4 billion during the first eight months of 2020, compared to Rs. 1,205.0 billion in the same period of 2019. Total expenditure declined by 2.3 percent to Rs. 1,883.7 billion in the first eight months of 2020, compared to Rs. 1,927.1 billion in the same period of 2019. Recurrent expenditure which is rigid in nature, increased by 11.3 percent to Rs. 1,670.4 billion in the period showing an increase in recurrent expenditure in March 2020 due to the increase in expenditure on livelihood support to COVID-19 affected individuals. Capital expenditure also demonstrated the three episodes similar to the revenue patterns observed during the

**TABLE 1.1 : Summary of Fiscal Operations**

Item	Jan-Aug	
	2019	2020 <sup>(a)</sup>
<b>Revenue and Grants</b>	<b>1,206,477</b>	<b>908,876</b>
<b>Revenue</b>	<b>1,205,036</b>	<b>906,359</b>
Tax	1,105,402	801,340
Non-Tax	99,634	105,020
Grants	1,440	2,516
<b>Expenditure</b>	<b>1,927,104</b>	<b>1,883,706</b>
<b>Current</b>	<b>1,500,534</b>	<b>1,670,356</b>
Salaries	446,451	516,354
Interest Payments	599,612	653,498
Other	454,471	500,504
Public Investments	435,270	227,939
Other	-8,699	-14,590
<b>Revenue Deficit (-)/Surplus (+)</b>	<b>-295,498</b>	<b>-763,997</b>
<b>Overall Budget Deficit (-)/Surplus (+)</b>	<b>-720,628</b>	<b>-974,831</b>
<b>Financing</b>	<b>720,628</b>	<b>974,831</b>
Foreign Financing (Net)	142,349	-92,289
Domestic Financing (Net)	578,279	1,067,119

Source : Department of Fiscal Policy

(a) Provisional

period. The increase in capital expenditure in the first two months declined to half in March and April due to the lockdown and it picked up in May. However, it further decelerated to April level in June and July due to the disturbances occurred in the construction sectors. The capital expenditure started to increase in August 2020.

Total government revenue in the first eight months of 2020 was Rs. 906.4 billion comprising of tax revenue of Rs. 801.3 billion and non-tax revenue of Rs. 105.0 billion. Reflecting the impact of COVID-19, total government revenue declined by 46.3 percent to Rs. 158.1 billion during March to April 2020, compared to Rs. 294.5 billion in the same period of 2019. The revenue has recovered in the "new normal" period with an increase of revenue to Rs. 243.0 billion during July and August period. Meanwhile, non-tax revenue declined by 54.3 percent to Rs. 18.6 billion April to June period due to deceleration of economic activities with the outbreak of COVID-19. However, the non-tax revenue surpassed the July 2019 level in July 2020 showing the recovery of economic activities. In cumulative basis, non-tax revenue increased by 5.4 percent to Rs. 105.0 billion during January to August 2020, compared to Rs. 99.6 billion in the same period of 2019 mainly due to the receipt of profit transfers of the Central Bank in February 2020.

Total government expenditure declined by 2.3 percent to Rs. 1,883.7 billion during the first eight months of 2020, compared to Rs. 1,927.1 billion in the same period of 2019. Meanwhile, recurrent expenditure increased by 11.3 percent to Rs. 1,670.4 billion whereas capital and net lending declined by 50.0 percent to Rs. 213.3 billion during the first eight months of 2020. Further, recurrent

expenditure on salaries and wages increased by 15.7 percent to Rs. 516.3 billion and interest payments increased by 9.0 percent to Rs. 653.5 billion absorbing 70 percent of total recurrent expenditure for these two items. Expenditure on goods and services increased by 15.9 percent to Rs. 106.8 billion and expenditure on subsidies and transfers increased by 8.7 percent to Rs. 393.7 billion during the first eight months of 2020.

The allocation of the expenditure items for the full year of 2020 was dependent on a Vote on Account (VoA). The VoA was presented to Parliament for the first four months of 2020 due to the delay in submission of the Budget for 2020 and it was approved by Parliament on October 23, 2019, granting the authority to spend until April 30, 2020. Meanwhile, Parliament was dissolved on March 02, 2020 and the authority had been granted by His Excellency the President to the Secretary to the Treasury under the provisions of Article 150 of the Constitution to incur the expenditure from the Consolidated Fund for government services and development activities from March to May 2020. This authority was further extended until August 2020 due to the delay in conducting the Parliamentary Election 2020 stemming from the COVID-19 pandemic. After the end of Parliamentary Election 2020, a new VoA was presented to Parliament to incur expenditure for the last four months of 2020 and it was approved by Parliament on August 28, 2020.

The budget deficit in the first eight months of 2020 was Rs. 974.8 billion and the deficit was largely financed through domestic borrowing. Domestic borrowing during the period amounted to Rs. 1,067.1 billion and foreign borrowing in terms of debt repayment amounted to Rs. 92.3 billion.

**TABLE 1.2 : Estimated and Actual Revenue and Expenditure - 2020**

Rs. Billion

Item	Jan-Aug		Deviation
	Estimated	Actual <sup>(a)</sup>	
<b>Total Revenue</b>	<b>1,520.0</b>	<b>906.4</b>	<b>-613.6</b>
<b>Tax Revenue</b>	<b>1,358.0</b>	<b>801.4</b>	<b>-556.6</b>
<b>Inland Revenue Department</b>			
Taxes on Income and Profit	323.9	167.4	-156.5
Value Added Tax (VAT) - Domestic (Net)	161.0	87.1	-73.9
Nation Building Tax (Domestic)	2.8	1.8	-1.1
Other	7.4	33.1	25.7
<b>Sub Total</b>	<b>495.1</b>	<b>289.5</b>	<b>-205.6</b>
<b>Sri Lanka Customs Department</b>			
Customs Import Duty	140.0	73.2	-66.8
Value Added Tax - Imports (Net)	80.0	50.6	-29.4
Nation Building Tax (Import)	0.2	0.1	-0.1
Ports & Airports Development Levy	115.0	71.8	-43.2
CESS Levy	50.0	31.3	-18.7
Special Commodity Levy & Other	99.6	55.9	-43.7
Economic Service Charge	0.1	0.0	-0.1
Excise (Special Provisions) Duty	225.0	142.3	-82.7
Cigarettes	105.0	59.0	-46.1
Petroleum Products	65.0	37.3	-27.7
Motor Vehicles	50.0	43.2	-6.8
Other	5.0	2.8	
<b>Sub Total</b>	<b>709.9</b>	<b>425.2</b>	<b>-284.7</b>
<b>Excise Department</b>			
Liquor/Tobacco	130.0	72.5	-57.5
<b>Sub Total</b>	<b>130.0</b>	<b>72.5</b>	<b>-57.5</b>
<b>Other</b>			
Telecommunication Levy	15.0	8.8	-6.2
Licence Tax & Other	8.0	5.4	-2.6
<b>Sub Total</b>	<b>23.0</b>	<b>14.2</b>	<b>-8.8</b>
<b>Non-Tax Revenue</b>	<b>162.0</b>	<b>105.0</b>	<b>-57.0</b>
<b>Total Expenditure</b>	<b>2,794.1</b>	<b>1,883.7</b>	<b>-910.4</b>
<b>Current Expenditure</b>	<b>2,385.3</b>	<b>1,670.4</b>	<b>-714.9</b>
Salaries and Wages	800.0	516.4	-283.6
Interest Payments	866.0	653.5	-212.5
Pension Payments	252.7	160.1	-92.6
Transfers to Public Corporations & Institutions	76.6	68.2	-8.4
Other	390.0	272.3	-117.7
<b>Capital Expenditure and Net Lending</b>	<b>408.8</b>	<b>213.3</b>	<b>-195.5</b>

Sources : Department of Treasury Operations and Department of Fiscal Policy

(a) Provisional

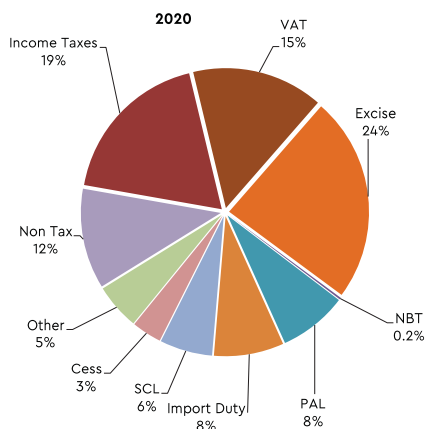
## 1.2 Government Revenue

Reflecting the impact of the COVID-19 pandemic on domestic and external economic activities, the total government revenue declined by 24.8 percent to Rs.

906.4 billion in the first eight months of 2020 from Rs. 1,205.0 billion in the same period of 2019. However, a sharp "V-shaped" recovery in revenue was observed during the period: the increase in revenue in the first quarter of 2020 was reversed in the COVID-19 hit

months, in particular, the second quarter of 2020; the revenue gathered its momentum since the beginning of July 2020. Tax revenue declined by 27.5 percent to Rs. 801.3 billion in the first eight months of 2020 due to the decline in revenue generated, in particular, from VAT, Excise duty on motor vehicles, and Telecommunication Levy together with

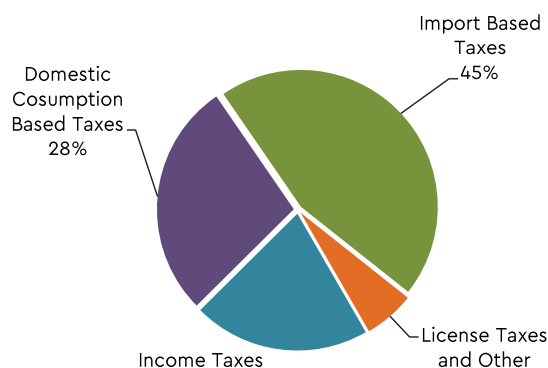
**FIGURE 1.1 : Composition of Total Revenue from January to August 2020**



Source : Department of Fiscal Policy

the removal of certain taxes. However, non-tax revenue increased by 5.4 percent to Rs. 105.0 billion from January to August 2020, compared to Rs. 99.6 billion in the same period of 2019. Overall, the total revenue collection during the period was 59.6 percent of the annual estimate of Rs. 1,520.0 billion.

**FIGURE 1.2 : Tax Revenue by Sources from January to August 2020**



Source : Department of Fiscal Policy

**TABLE 1.3 : Summary of Performance of Government Revenue**

Item	Rs. Million		Change (%)
	2019	2020 <sup>(a)</sup>	
<b>Tax Revenue</b>	<b>1,105,402</b>	<b>801,340</b>	<b>-27.5</b>
<b>Income Taxes</b>	<b>238,168</b>	<b>167,440</b>	<b>-29.7</b>
<b>Domestic Consumption Based Taxes</b>	<b>358,848</b>	<b>223,201</b>	<b>-37.8</b>
Value Added Tax (VAT)	186,875	87,148	-53.4
Excise Duty	137,270	134,298	-2.2
Nation Building Tax (NBT)	34,703	1,754	-94.9
<b>Import Based Taxes</b>	<b>467,480</b>	<b>362,609</b>	<b>-22.4</b>
Customs Duty	63,973	73,171	14.4
Value Added Tax (VAT)	114,885	50,644	-55.9
Nation Building Tax (NBT)	13,254	112	-99.2
Ports & Airports Development Levy (PAL)	73,825	71,769	-2.8
Special Commodity Levy (SCL)	46,867	55,141	17.7
Excise Duty	122,280	80,486	-34.2
CESS Levy	32,397	31,286	-3.4
<b>Licence Taxes and Other</b>	<b>40,906</b>	<b>48,091</b>	<b>17.6</b>
<b>Non-Tax Revenue</b>	<b>99,634</b>	<b>105,020</b>	<b>5.4</b>
<b>Total Revenue</b>	<b>1,205,035</b>	<b>906,359</b>	<b>-24.8</b>

Source : Department of Fiscal Policy

(a) Provisional

## Income Taxes

Revenue from income taxes increased by 5.9 percent to Rs. 79.3 billion during the first three months of 2020, compared to Rs. 74.9 billion recorded in the same period of 2019. Reflecting the impact of COVID-19 on the sources of income tax due to deceleration of economic activities, revenue collection from income taxes contracted significantly by 46.0 percent to Rs. 88.1 billion during April to August 2020. Meanwhile, revenue from corporate income taxes increased significantly by 12.1 percent to Rs. 132.1 billion in the first eight months of 2020 despite the revision of standard corporate tax rate to 24 percent from 28 percent and granting of concessionary tax rates of 18 percent and

14 percent for the manufacturing sector and the construction industry, respectively with effect from January 01, 2020. Revenue from non-corporate taxes declined by 65.5 percent to Rs. 4.3 billion mainly due to the decline in income sources coupled with the expansion of tax-free allowance on personal income tax to Rs. 3 million per annum from Rs. 500,000 per annum with a revision of applied progressive tax structure effective from January 01, 2020. Revenue collection from ESC and PAYE tax dropped sharply by 66.0 percent and 70.8 percent to Rs 13.8 billion and Rs. 9.9 billion, respectively during the first eight months of 2020 due to the removal of such taxes effective from January 01, 2020.

**TABLE 1.4 : Performance of Income Taxes**

Tax Base	Rs. Million		
	Jan-Aug		Growth (%)
	2019	2020 <sup>(a)</sup>	
Corporate and Non Corporate	129,967	136,214	4.8
PAYE	33,737	9,860	-70.8
Tax on Interest Income	33,616	7,406	-78.0
Economic Service Charge	40,625	13,816	-66.0
Capital Gain Tax	224	144	-35.9
<b>Total</b>	<b>238,168</b>	<b>167,440</b>	<b>-29.7</b>

Source : Department of Fiscal Policy

(a) Provisional

## Value Added Tax (VAT)

Reflecting the reduction of VAT rate to 8 percent from 15 percent in the latter part of 2019 together with the deceleration of both domestic and import related activities due to the COVID-19 pandemic, revenue generated from VAT declined considerably

in the first eight months of 2020. In addition, the increase in registration of VAT threshold to Rs. 300 million per annum from Rs. 12 million per annum with effect from January 01, 2020 combined with the reversal of expected economic growth due to the COVID-19 contributed to the reduction of VAT revenue.

**TABLE 1.5 : Performance of VAT**

Tax Base	Rs.Million		
	Jan-Aug		
	2019	2020 <sup>(a)</sup>	Growth (%)
Domestic	187,026	87,394	-53.3
Imports	115,488	51,626	-55.3
<b>Gross Revenue</b>	<b>302,514</b>	<b>139,019</b>	<b>-54.0</b>
Refunds	753	1,226	62.8
<b>Net Revenue</b>	<b>301,761</b>	<b>137,793</b>	<b>-54.3</b>
Refunds as % of Gross Revenue	0.25	0.88	

Source : Department of Fiscal Policy  
(a) Provisional

Total government revenue from VAT was Rs. 137.8 billion in the first eight months of 2020, compared to Rs. 301.8 billion in the same period of 2019. The total revenue collection from VAT during the period was 57.2 percent of the annual estimate of Rs. 241.0 billion. Revenue from VAT on domestic economic activities dropped significantly by 53.4 percent to Rs. 87.1 billion during the first eight months of 2020, compared to Rs. 186.9 billion recorded in the same period of 2019 while revenue collection from VAT on import

related activities also declined significantly by 55.9 percent to Rs. 50.6 billion during the period, compared to Rs. 114.9 billion in the same period of 2019.

### Excise Duty

Revenue from Excise duty increased significantly by 11.6 percent to Rs. 105.6 billion in the first three months of 2020, compared to Rs. 94.6 billion recorded in the same period of 2019 with the increased revenue from all categories applicable to excise duty other than motor vehicles. However, reflecting the impacts of the

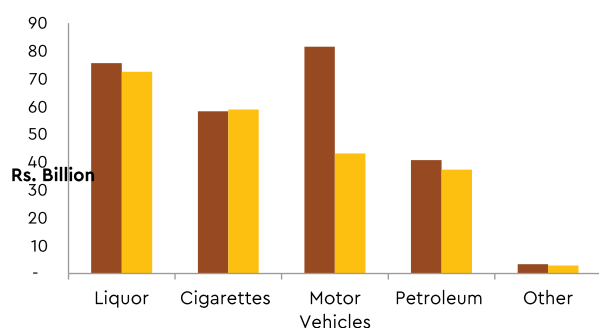
**TABLE 1.6 : Performance of Excise Duty**

Tax Base	Rs. Million		
	Jan-Aug		
	2019	2020 <sup>(a)</sup>	Growth (%)
Liquor	75,628	72,503	-4.1
Cigarettes	58,300	58,949	1.1
Motor Vehicles	81,521	43,151	-47.1
Petroleum Products	40,759	37,335	-8.4
Other	3,342	2,846	-14.8
<b>Total</b>	<b>259,548</b>	<b>214,783</b>	<b>-17.2</b>

Source : Department of Fiscal Policy  
(a) Provisional



**FIGURE 1.3 : Performance of Excise Duty from January to August 2020**



Source : Department of Fiscal Policy

COVID-19 pandemic, the revenue declined significantly by 44.9 percent to Rs. 54.5 billion in the second quarter of 2020 and recovered in the months of August with the new normal situation in the country. Revenue from Excise duties continued to be the leading contributor for the government tax revenue, accounting for 26.8 percent of the total tax revenue from January to August with a 60.5 percent achievement against the annual estimate of 2020.

Revenue from excise duty on cigarettes increased slightly by 1.1 percent to Rs. 58.9 billion during the first eight months of 2020, compared to Rs. 58.3 billion in the same period of 2019 despite the drop in cigarette sales during the period of 2020. However, an upward revision of Excise duty on cigarettes has a positive impact on this revenue performance partially outweighing the effect of sales drop.

Revenue generation from Excise duty on the importation of motor vehicles declined

notably by 47.1 percent to Rs. 43.1 billion in the first eight months of 2020, compared to Rs. 81.5 billion recorded in the same period of 2019. This subdued performance was mainly due to the sharp decline in motor vehicle imports in the first eight months of 2020 due to the restriction imposed on the importation of motor vehicles effective from March 2020. In addition, an upward revision of Excise duty on motor vehicles in line with the budget 2019 has a negative impact on the importation of motor vehicles.

The decline in revenue from liquor observed in the months of March to May was reversed in the months of June to July showing the recovery of its growth momentum. This recovery has resulted to decline in revenue marginally by 4.1 percent to Rs. 72.5 billion during the first eight months of 2020 from Rs. 75.6 billion in the same period of 2019 mainly due to the decline in liquor production and liquor sales during the COVID-19 pandemic period. Excise revenue from hard liquor declined by 6.0 percent to Rs. 51.3 billion in the first eight months of 2020, compared to Rs. 54.6 billion in the same period of 2019. In the same vein, revenue collection from malt liquor dropped by 16.2 percent to Rs. 18.1 billion in the first eight months of 2020, compared to Rs 21.6 billion in the same period of 2019.

Revenue from petroleum products increased significantly by 29.3 percent to Rs. 18.3 billion from January to March 2020, compared to Rs. 14.1 billion in the same period of 2019, showing the signs of economic recovery with the increase in consumption

**TABLE 1.7 : Motor Vehicle Imports and New Registration of Vehicles**

Unit: Number

Item	Imports				New Registrations			
	Jan-Aug				Jan-Aug			
	2019	2020	Change	%	2019	2020	Change	%
Motor Cars	3,309	27	-3,282	-99	25,909	19,445	-6,464	-25
Passenger Van and Buses	106	2	-104	-98	1,116	445	-671	-60
Three Wheelers	1,060	-	-1,060	-100	10,245	6,610	-3,635	-35
Motor Cycles	21,203	277	-20,926	-99	202,081	135,270	-66,811	-33
Goods Transport Vehicles <sup>(a)</sup>	1,441	57	-1,384	-96	13,761	12,746	-1,015	-7
Land Vehicles <sup>(b)</sup>	233	354	121	52	3,592	3,018	-574	-16
Other <sup>(c)</sup>	11	3	-8	-73	593	395	-198	-33
<b>Total</b>	<b>27,363</b>	<b>720</b>	<b>-26,643</b>	<b>-97</b>	<b>257,297</b>	<b>177,929</b>	<b>-78,697</b>	<b>-31</b>

Sources: Department of Customs and Central Bank of Sri Lanka

(a) Lorries, other Goods Transport Vehicle and Special Purpose Vehicle

(b) Lorries, other Goods Transport Vehicle and Special Purpose Vehicle

(c) Including Dual Purpose Vehicle

of petroleum products. However, this progressive performance declined notably by 52.0 percent to Rs. 7.4 billion in the months of April – June 2020 and recovered in July – August 2020 recording a growth of 4.4 percent to Rs. 11.6 billion. Meanwhile,

revenue from Excise duty on other products declined moderately by 14.8 percent to Rs. 2.8 billion in the first eight months of 2020, compared to Rs. 3.3 billion in the same period of 2019.

**TABLE 1.8 : Coverage of Products and Value of Imports/Exports Under Free Trade Agreements**

Free Trade Agreement	Jan-June 2020		
	No. of Products Subject to Tariff Concessions	Import Value (CIF / Rs. Million)	Export Value (FOB/ Rs. Million)
India – Sri Lanka Free Trade Agreement (ISFTA)	4,883	21,863	52,338
Pakistan – Sri Lanka Free Trade Agreement (PSFTA)	5,724	1,338	7,461
South Asia Free Trade Agreement (SAFTA)	5,465	724	5,401
Asia – Pacific Trade Agreement (APTA)	715	2,723	28,539
<b>Total</b>	<b>16,787</b>	<b>26,648</b>	<b>93,739</b>

Source : Department of Trade and Investment Policy

### Customs Import Duty (CID)

Revenue collection from Customs Import Duty (CID) increased notably by 14.4 percent to Rs. 73.2 billion in the first eight months of 2020, compared to Rs. 64.0 billion in the same period of 2019. This increase was partly due to the increase in CID rates on the importation of petroleum products with effect from April 2020 and the removal of duty waiver for diesel and petrol effective from March and April 2020, respectively overweighing the impact of curtailment of non-essential items.

### Special Commodity Levy (SCL)

Revenue generation from Special Commodity Levy increased significantly by 17.7 to Rs. 55.1 billion in the first eight months of 2020, compared to Rs. 46.9 billion in the same period of 2019. This increase was largely due to the upward revision of SCL rates on the importation of selected commodities such as potato, red onion, garlic, pea, chickpea, lentil, vegetable oil, fish, sugar, apple, grape and orange with effect from May 2020. In addition, government policy on the protection of local agricultural producers while maintaining price stability in the domestic market greatly supported this revenue mobilization effort.

### Other Taxes

Revenue generation from Ports and Airports Development Levy (PAL) contracted slightly by 2.8 percent to Rs. 71.8 billion during the first eight months of 2020 from Rs. 73.8 billion in the same period of 2019 despite the increase in standard PAL rate to 10.0 percent from 7.5 percent and all concessionary rates by 2.5 percent other than crude petroleum with effect from December 06, 2019. However, policy measures on the import restriction and PAL exemptions granted on selected goods outweighed the revenue gains expected from the increase in PAL rate. In the same vein, revenue from CESS levy declined marginally by 3.4 percent to Rs. 31.3 billion in the first eight months of 2020, compared to Rs. 32.4 billion in the same period of 2019. Revenue collection from Telecommunication Levy (TL) declined considerably by 30.0 percent to Rs. 8.8 billion in the first eight months of 2020, compared to Rs. 12.5 billion recorded in the same period of 2019 due to the reduction of the rate of TL on voice communication to 11.25 percent from 15 percent effective from December 2019.

**TABLE 1.9 : Performance of NBT, Stamp Duty and Motor Vehicle Registration Fees**

Rs. Million

Item	2019			2020			% Change 2019/2020		
	Jan-Aug			Jan-Aug			Jan-Aug		
	CG	PCs	Total	CG	PCs	Total	CG	PCs	Total
<b>NBT*</b>	<b>47,957</b>	<b>23,978</b>	<b>71,935</b>	<b>1,866</b>	<b>933</b>	<b>2,800</b>	<b>-96.1</b>	<b>-96.1</b>	<b>-96.1</b>
Domestic	34,703	17,351	<b>52,054</b>	1,754	877	<b>2,631</b>	-94.9	-94.9	-94.9
Import	13,254	6,627	<b>19,881</b>	112	56	<b>168</b>	-99.2	-99.2	-99.2
Stamp Duty**	-	7,053	<b>7,053</b>	-	4,374	<b>4,374</b>	-	-38.0	-38.0
Motor Vehicle Registration Fees***	489	1,141	<b>1,630</b>	372	869	<b>1,241</b>	-58.9	-58.9	-58.9
<b>Total</b>	<b>48,446</b>	<b>32,173</b>	<b>80,618</b>	<b>2,239</b>	<b>6,176</b>	<b>8,415</b>	<b>-95.7</b>	<b>-82.0</b>	<b>-90.3</b>

Source : Department of Fiscal Policy

(a) Provisional

\* NBT has abolished since 01.12.2019

\*\* Since 2011, 100 percent of the revenue collected from the Stamp Duty by the Central Government is transferred to Provincial Councils.

\*\*\* Data represent 70 percent of the revenue collected by the Central Government from motor vehicles registration fee and transferred to PCs.

**TABLE 1.10 : CESS Revenue from International Trade**

Rs. Million

Item	Jan-Aug	
	2019	2020 <sup>(a)</sup>
<b>CESS on Exports</b>	<b>1,563</b>	<b>1,224</b>
Tea – under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	526	272
Rubber – under Rubber Replanting Subsidy Act	4	4
Coconut – under Coconut Development Authority Act	90	129
EDB Cess – under Sri Lanka Export Development Act	942	819
<b>CESS on Imports - under Sri Lanka Export Development Act</b>	<b>30,834</b>	<b>30,062</b>
<b>Total</b>	<b>32,397</b>	<b>31,286</b>

Source : Department of Fiscal Policy

(a) Provisional

## Non-tax Revenue

Non-tax revenue increased moderately by 5.4 percent to Rs. 105.0 billion in the first eight months of 2020 from Rs. 99.6 billion in the same period of 2019 mainly due to Central Bank profit transfers of Rs. 24 billion and increased revenue from rent income and social security contributions. Revenue from rent income increased notably by 245.4 percent to Rs. 9.8 billion in the first eight months of 2020, compared to Rs. 2.8 billion in the same period of 2019 mainly due to the receipts of Rs. 8.6 billion of rent income in February 2020. Meanwhile, revenue from social security contributions increased by

13.8 percent to Rs. 20.8 billion in the first eight months of 2020, compared to Rs. 18.2 billion in the same period of 2019. However, reflecting the impacts of the COVID-19 pandemic, non-tax revenue from interest income, profit and dividend transfers from major SOEs and fees and charges declined significantly by 47.7 percent, 45.6 percent and 33.4 percent to Rs. 4.7 billion, Rs. 7.8 billion and Rs. 34.4 billion, respectively during the period. Overall, the share of non-tax revenue to total revenue increased in the first eight months of 2020 to 11.6 percent, compared to 8.3 percent in the same period of 2019.

**TABLE 1.11 : Variance Analysis of Government Revenue (January – August 2020)**

Item	Rs. Billion			Reason
	2019	2020 Est.	2020 Prov.	
Income Taxes	238.2	324.0	167.4	Revenue collection from income taxes increased by 5.9 percent to Rs. 79.3 billion during the first three months of 2020, compared to Rs. 74.9 billion in the same period of 2019. However, revenue from income taxes declined by 29.7 percent to Rs. 167.4 billion from January to August 2020 mainly due to the outbreak of the COVID-19 pandemic from mid-March 2020. 51.7 percent of the annual estimate of 2020 has been realized as at end August 2020. Revenue from corporate and non-corporate income taxes including Capital Gain Tax increased by 4.8 percent to Rs. 136.2 billion during the period. Moreover, the tax reforms introduced in the latter part of 2019 worked as a stimulus fiscal package with the outbreak of COVID-19 delaying the fruition of expected outcomes.
Value Added Tax (VAT)	301.8	241.0	137.8	Reflecting the impact of VAT rate reduction to 8 percent from 15 percent coupled with the slowdown of economic activities due to the spread of the COVID-19 pandemic, total VAT revenue declined significantly by 54.3 percent to Rs. 137.8 billion during the period realizing 57.2 percent of the annual estimate. Revenue from VAT on domestic economic activities and import related activities contracted by 53.3 percent to Rs. 87.4 billion and 55.3 percent to Rs. 51.6 billion, respectively. The reduction of VAT threshold for registration to Rs 300 million per annum from Rs. 12 million per annum had an impact to the performance.
Excise Duty	259.5	355.0	214.8	Revenue collection from excise duties increased by 11.6 percent to Rs. 105.6 billion during the first three months of 2020, compared to Rs. 94.6 billion in the same period of 2019. However, reflecting the impacts of the COVID-19 pandemic, revenue collection from excise duties declined by 17.2 percent to Rs. 214.8 billion from January to August 2020, compared to Rs. 259.5 billion in the same period of 2019. This was 60.5 percent of the annual estimate of 2020. Revenue from excise duty on cigarettes increased by 0.3 percent to Rs. 58.9 billion during the period despite the drop in cigarette sales. However, revenue collection from excise duty on the importation of motor vehicles contracted by 47.1 percent to Rs. 43.1 billion, due to the restriction imposed on motor vehicle imports effective from March 2020. Moreover, revenue generation from excise duty on liquor declined by 4.1 percent to Rs. 72.5 billion during the period due to the decline in liquor production and sales particularly during the pandemic period. Meanwhile, revenue collection from petroleum products declined by 8.4 percent to Rs. 37.3 billion during the first eight months of 2020 due to the drop in petrol and diesel imports, outweighing the improved revenue performance at the beginning of the year. Revenue collection from other products also decreased by 14.8 percent to Rs. 2.8 billion during the period.

**TABLE 1.11 : Variance Analysis of Government Revenue (January – August 2020) (Contd..)**

Customs Import Duty (CID)	64.0	140.0	73.2	Revenue from Customs Import Duty moderated to Rs. 73.2 billion during the first eight months of 2020, compared to Rs. 64.0 billion recorded in the same period of 2019 despite the on-going import restrictive policy measures being implemented in mid-March 2020, realizing 52.3 percent of the annual estimate. This improved revenue performance was mainly due to the duty hikes on the importation of petrol and diesel effective from April 2020 and the removal of duty waiver granted on petrol and diesel.
Special Commodity Levy (SCL)	46.9	98.0	55.1	Revenue collection from SCL increased by 17.7 percent to Rs. 55.1 billion during the period from January to August 2020, in comparison to Rs. 46.9 billion recorded in the same period of 2019, realizing 56.2 percent of annual estimate 2020. This was mainly due to the upward revision of SCL rates on the importation of selected commodities including potato, red onion, garlic, pea, chickpea, lentil, vegetable oil, fish, sugar, apple, grape and orange.
Other Taxes	195.1	200.0	153	Revenue generation from other taxes declined by 18.9 percent during the first eight months of 2020, realizing 74.5 percent of the annual estimate. Revenue collection from PAL declined by 2.8 percent to Rs. 71.8 billion during the period, recording a realization of 62.4 percent of annual estimate 2020. Revenue from CESS levy decreased by 3.4 percent to Rs. 31.3 billion during the first eight months of 2020, reflecting the impacts of import restrictive policy measures coupled with the spread of the COVID-19 pandemic. Revenue from Telecommunication Levy declined by 30.0 percent to Rs. 8.8 billion during the period under review, resulting in the reduction of the tax rate on voice communication to 11.25 percent from 15.0 percent with effect from December 01, 2019 as well as a drop in international incoming call duration during the first eight months of 2020. Further, removal of Nation Building Tax with effect from December 01, 2019 and removal of Debt Repayment Levy (DRL) from January 01, 2020, affected this revenue deviation.
Non-tax Revenue	99.6	162.0	105.0	Non-tax revenue increased by 5.4 percent to Rs. 105.0 billion during the first eight months of 2020, compared to Rs. 99.6 billion recorded in the same period of the last year and it was a realization of 64.8 percent of the annual estimate. The receipts from the Central Bank profit transfers of Rs. 24.0 billion and rental income of Rs. 10.0 billion along with revenue from social security contributions of Rs. 20.8 billion were mainly attributed to the growth of non-tax revenue. However, reflecting the impacts of the COVID-19 pandemic, non-tax revenue from interest income, profit and dividend transfers from major SOEs and fees and charges declined significantly by 47.7 percent, 45.6 percent and 33.4 percent to Rs. 4.7 billion, Rs. 7.7 billion and Rs. 34.5 billion, respectively during the period under review, negatively affecting the revenue collection from non-tax sources.
<b>Total</b>	<b>1,205.1</b>	<b>1,520.0</b>	<b>906.3</b>	

Compiled by the Department of Fiscal Policy

**Box 3 : Major Fiscal Measures from January to September 2020**

Effective Date	Measures	
	<b>Income Tax – Inland Revenue Act, No. 24 of 2017</b>	
	<b>Corporate Income Tax</b>	
01.01.2020		
	<b>Category</b>	
	<b>Rate</b>	
	Standard income tax rate	24%
	Income tax rate applicable for manufacturing industry	18%
	Income tax rate applicable for exports, tourism, education, healthcare, construction and agro-processing	14%
	Income tax rate applicable for betting and gaming, liquor and tobacco	40%
	<b>Personal Income Tax</b>	
01.01.2020		
	<b>Taxable Income per annum</b>	
	<b>Rate</b>	
	First Rs. 3,000,000	Exempted
	Rs. 3,000,000 – Rs. 6,000,000	6%
	Rs. 6,000,000 – Rs. 9,000,000	12%
	Exceeding Rs. 9,000,000	18%
01.01.2020	<b>Terminal Benefits</b>	
	<b>Income from Terminal Benefits</b>	
	<b>Rate</b>	
	First Rs. 10,000,000	Exempted
	Next Rs. 10,000,000	6%
	Balance	12%
	<b>Pay As You Earn Tax (PAYE)</b>	
01.01.2020	- To remove PAYE on any employment receipts to any resident or non-resident person and to introduce Advance Personal Income Tax deductible at the source, subject to the consent of the employee.	
	<b>Withholding Tax (WHT)</b>	
01.01.2020	- To remove WHT on any payments made to any resident person except the following;	
	- WHT on the amounts paid as winning from lottery, reward, betting or gambling - 14%	
	- WHT on sale of any gem at an auction conducted by the National Gem and Jewellery Authority - 2.5%	
	- WHT on payments made to any non-resident person - 14%	

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
	<b>Income Tax Exemptions</b>
01.01.2020	<ul style="list-style-type: none"><li>- Profits and income earned from Information Technology (IT) and enabling services.</li><li>- Profits and income earned from services rendered to persons outside Sri Lanka, including income earned from foreign sources, in the event the payments for such services are received in foreign currency through a bank.</li><li>- Interest income earned on Non-Resident Foreign Currency (NRFC) and Resident Foreign Currency (RFC) accounts.</li><li>- Dividends paid by a resident company to any non-resident.</li><li>- Dividends distributed by commercial hub operators.</li><li>- Amounts derived by any non-resident person from laboratory services or standard certification services.</li><li>- Amounts received by any religious institutions by way of grants and donations.</li></ul>
01.04.2019	<ul style="list-style-type: none"><li>- Profits and income earned from farming including agriculture, fish and livestock farming.</li></ul>
01.04.2018	<ul style="list-style-type: none"><li>- Interest paid on loans obtained from any person outside Sri Lanka.</li><li>- Any income earned by any non-resident person on any Sovereign Bond denominated in foreign or local currency.</li><li>- Interest or discount paid or allowed to any person on Sovereign Bonds denominated in foreign currency.</li><li>- Funds received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.</li></ul>
	<b>Economic Service Charge (ESC) – Economic Service Charge Act, No. 13 of 2006</b>
01.01.2020	<ul style="list-style-type: none"><li>- To remove ESC.</li></ul>
	<b>Value Added Tax (VAT) – Value Added Tax Act, No. 14 of 2002</b>
01.01.2020	<ul style="list-style-type: none"><li>- To increase the threshold for registration of VAT to Rs. 300 million per annum from Rs. 12 million per annum.</li><li>- To exempt Information Technology (IT) and enabling services.</li></ul>
01.04.2020	<ul style="list-style-type: none"><li>- To exempt supply of services in respect of inbound tours, by a travel agent registered with the Sri Lanka Tourism Development Authority.</li></ul>

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
22-04-2020	<p>- To exempt the payment of VAT</p> <p>On the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health &amp; Indigenous Medical Services, Department of Health Services, Tri Forces, Sri Lanka Police and COVID Centre (National Operation Centre for Prevention of COVID-19 Outbreak) on their request.</p>
20.05.2020	<p>- To exempt the payment of VAT</p> <p>On the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID-19 pandemic, to the to the Secretary, Ministry of Health &amp; Indigenous Medical Services.</p>
<b>Excise (Special Provisions) Duty – Excise (Special Provisions) Act, No. 13 of 1989</b>	
06.03.2020	<p>Gazette Notification No. 2165/60 of 06.03.2020</p> <p>- To amend the Schedule II of the Extraordinary Gazette Notification No. 2113/9 of 05.03.2019.</p>
02.06.2020	<p>Gazette Notification No. 2178/15 of 02.06.2020</p> <p>- To increase duty rate to 24% from 20% on Industrial fatty acids.</p>
22.08.2020	<p>Gazette Notification No. 2189/47 of 21.08.2020</p> <p>- To revise tax free threshold and duty rates on carbonated beverages and fruit-based beverages.</p>
<b>Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)</b>	
01.03.2020	<p>Excise Notification No. 01/2020 (Gazette Notification No. 2164/72 of 01.03.2020)</p> <p>- To amend rules in the Excise Notification No. 04/2019.</p>
30.04.2020	<p>Excise Notification No. 02/2020 (Gazette Notification No. 2173/11 of 30.04.2020)</p> <p>- To amend the Schedule in the Excise Notification No. 988.</p>
01.06.2020	<p>Excise Notification No. 03/2020 (Gazette Notification No. 2078/4 of 01.06.2020)</p> <p>- To amend rules in the Excise Notification No. 01/2020.</p>
09.06.2020	<p>Excise Notification No. 04/2020 (Gazette Notification No. 2179/9 of 09.06.2020)</p> <p>- To amend the Schedule in the Excise Notification No. 02/2020.</p>



**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
	<b>Ports and Airports Development Levy (PAL) – Ports and Airports Development Levy Act, No. 18 of 2011</b>
25.02.2020	Gazette Notification No. 2164/15 of 24.02.2020 - To grant concessionary rate of 7.5 percent on the importation of clinker.
16.04.2020	Gazette Notification No. 2171/6 of 16.04.2020 - To exempt the payment of PAL: On the importation of medical equipment and hospital furniture consigned to the Secretary, Ministry of Health & Indigenous Medical Services as a donation.
23.04.2020	Gazette Notification No. 2172/10 of 22.04.2020 - To grant concessionary rate of 5.0 percent on the importation of steel industry related raw materials.
19.05.2020	Gazette Notification No. 2176/10 of 19.05.2020 - To exempt the payment of PAL: On the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health & Indigenous Medical Services, Department of Health Services, Tri Forces, Sri Lanka Police and COVID Centre (National Operation Centre for Prevention of COVID-19 Outbreak) on their request. On the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID-19 pandemic, to the Secretary, Ministry of Health & Indigenous Medical Services.
26.05.2020	Gazette Notification No. 2177/4 of 26.05.2020 - To exempt the payment of PAL: On the importation of raw materials and packing materials by pharmaceutical manufacturers for manufacture of pharmaceuticals.
03.09.2020	Gazette Notification No. 2191/25 of 02.09.2020 - To grant concessionary rate of 2.5 percent on the importation of machineries used in oil extraction industry.

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
	<b>CESS Levy – Sri Lanka Export Development Act, No. 40 of 1979</b>
14.01.2020	Gazette Notification No. 2158/1 of 13.01.2020 <ul style="list-style-type: none"><li>- To remove CESS levy on the importation of wheat flour.</li></ul>
20.05.2020	Gazette Notification No. 2176/13 of 20.05.2020 <ul style="list-style-type: none"><li>- To exempt the payment of CESS:  On the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health &amp; Indigenous Medical Services, Department of Health Services, Tri Forces, Sri Lanka Police and COVID Centre (National Operation Centre for Prevention of COVID-19 Outbreak) on their request.  On the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID-19 pandemic, to the Secretary, Ministry of Health &amp; Indigenous Medical Services.</li></ul>
03.06.2020	Gazette Notification No. 2178/21 of 03.06.2020 <ul style="list-style-type: none"><li>- To revise CESS levy base to unit rate from advalorem rate on the importation of cement clinker and cement.</li></ul>
01.07.2020	Gazette Notification No. 2182/21 of 30.06.2020 <ul style="list-style-type: none"><li>- To introduce CESS levy on the importation of papadam, palmyrah toddy, palmyrah-based arrack, cinnamon-based cigarettes, shoe uppers and filament bulbs and to revise CESS levy on the importation of cement.</li></ul>
01.07.2020	Gazette Notification No. 2182/22 of 30.06.2020 <ul style="list-style-type: none"><li>- To remove CESS levy on the importation of cement clinker.</li></ul>
	<b>Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962</b>
08.03.2020	Revenue Protection Order No. 01/2020 (Gazette Notification No. 2165/72 of 07.03.2020) <ul style="list-style-type: none"><li>- To create new HS Codes for Black Gram.</li></ul>
10.04.2020	Revenue Protection Order No. 02/2020 (Gazette Notification No. 2170/6 of 09.04.2020) <ul style="list-style-type: none"><li>- To revise CID on the importation of lubricants.</li></ul>
17.04.2020	Revenue Protection Order No. 03/2020 (Gazette Notification No. 2174/4 of 16.04.2020) <ul style="list-style-type: none"><li>- To revise CID on the importation of selected items.</li></ul>
23.04.2020	Revenue Protection Order No. 04/2020 (Gazette Notification No. 2172/7 of 22.04.2020) <ul style="list-style-type: none"><li>- To revise CID on the importation of petrol and diesel.</li></ul>

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

<b>Effective Date</b>	<b>Measures</b>
19.06.2020	Revenue Protection Order No. 05/2020 (Gazette Notification No. 2180/31 of 18.06.2020)  - To create new HS Codes for selected items and to revise CID on the importation of selected items.
08.07.2020	Revenue Protection Order No. 06/2020 (Gazette Notification No. 2183/27 of 08.07.2020)  - To extend the validity period of CID on the importation of Black Gram.
22.09.2020	Revenue Protection Order No. 07/2020 (Gazette Notification No. 2194/5 of 21.09.2020)  - To revise CID on the importation of Bamboo Sticks.
<b>Surcharge on Customs Duty - Customs Ordinance (Chapter 232)</b>	
14.03.2020	Gazette Notification No. 2166/35 of 13.03.2020  - To introduce surcharge on Customs Duty on the importation of petrol and diesel for a period of two months.
23.04.2020	Gazette Notification No. 2172/6 of 22.04.2020  - To increase and extend surcharge on Customs Duty on the importation of petrol and diesel for a period of two months.
24.06.2020	Gazette Notification No. 2181/13 of 24.06.2020  - To reduce and extend surcharge on Customs Duty on the importation of petrol and diesel for a period of two months.
24.08.2020	Gazette Notification No. 2189/57 of 23.08.2020  - To extend existing surcharge on Customs Duty on the importation of petrol and diesel for a period of three months.
<b>Customs Import Duty (CID) Waiver – Customs Ordinance (Chapter 232)</b>	
14.01.2020	- To introduce CID waiver of Rs. 13 per kg on the importation wheat flour.
14.03.2020	- To remove CID waiver of Rs. 3 per litre on the importation of auto diesel.  - To reduce CID waiver on the importation of petrol (Octane 92) to Rs. 5 per litre from Rs. 17 per litre.
23.04.2020	- To remove CID waiver of Rs. 5 per litre on the importation of petrol (Octane 92).
30.06.2020	- To introduce CID waiver of Rs. 6 per litre on the importation petrol (Octane 92 and Octane 95).  - To introduce CID waiver of Rs. 5 per litre and Rs. 7 per litre on the importation super diesel and auto diesel, respectively.
17.09.2020	- To increase CID waiver on the importation of petrol (Octane 92) to Rs. 11 per litre from Rs. 6 per litre.  - To increase CID waiver on the importation of auto diesel to Rs. 8 per litre from Rs. 7 per litre.

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
	<b>Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007</b>
25.01.2020	Gazette Notification No. 2159/41 of 24.01.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Potatoes for a period of 31 days.</li></ul>
02.02.2020	Gazette Notification No. 2160/63 of 01.02.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of B'onions, Chickpeas, Red Lentils (whole and split), Yellow Lentils (whole and split), Dates (fresh and dried), Oranges (fresh), Apples (fresh), Maize, Vegetable Oils, Beet and Cane Sugar, White Crystalline Cane Sugar and White Crystalline Beet Sugar for a period of six months.</li></ul>
07.02.2020	Gazette Notification No. 2161/34 of 06.02.2020 <ul style="list-style-type: none"><li>- To decrease and extend SCL on the importation of Fish (fresh, chilled or frozen) to Rs. 25 per kg for a period of three months.</li></ul>
25.02.2020	Gazette Notification No. 2164/10 of 24.02.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Potatoes for a period of 31 days.</li></ul>
04.03.2020	Gazette Notification No. 2165/12 of 03.03.2020 <ul style="list-style-type: none"><li>- To increase and extend SCL on the importation of Fish (fresh, chilled or frozen) to Rs. 150 per kg for a period of six months.</li></ul>
08.03.2020	Gazette Notification No. 2165/73 of 07.03.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Mackerel, Black Gram, Cowpea and Kurakkan for a period of six months.</li></ul>
13.03.2020	Gazette Notification No. 2166/34 of 13.03.2020 <ul style="list-style-type: none"><li>- To remove retrospective effect of the Order on the importation of Fish Bait issued in Gazette Notification No. 2165/12 of 03.03.2020.</li></ul>
18.03.2020	Gazette Notification No. 2167/10 of 18.03.2020 <ul style="list-style-type: none"><li>- To remove retrospective effect of the Order on the importation of Fish (fresh, chilled or frozen) issued in Gazette Notification No. 2165/12 of 03.03.2020.</li></ul>
19.03.2020	Gazette Notification No. 2167/11 of 18.03.2020 <ul style="list-style-type: none"><li>- To impose SCL of Rs. 1 per kg on the importation of Disinfectants and Face Masks for a period of two months.</li></ul>
27.03.2020	Gazette Notification No. 2168/7 of 26.03.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Potatoes for a period of three months.</li></ul>
10.04.2020	Gazette Notification No. 2170/5 of 09.04.2020 <ul style="list-style-type: none"><li>- To revise and extend SCL on the importation of Vegetable Oils for a period of three months.</li></ul>

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

<b>Effective Date</b>	<b>Measures</b>
17.04.2020	Gazette Notification No. 2171/2 of 16.04.2020 <ul style="list-style-type: none"><li>- To revise and extend SCL on the importation of fruits including Oranges (fresh), Grapes (fresh and dried) and Apples for a period of two months.</li></ul>
17.04.2020	Gazette Notification No. 2171/3 of 16.04.2020 <ul style="list-style-type: none"><li>- To waive SCL on the importation of Vegetable Oils for a period of three months.</li></ul>
01.05.2020	Gazette Notification No. 2173/12 of 30.04.2020 <ul style="list-style-type: none"><li>- To increase and extend SCL on the importation of B'onions to Rs. 15 per kg from Rs. 1 per kg for a period of three months.</li></ul>
08.05.2020	Gazette Notification No. 2174/7 of 07.05.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Sprats, Dried Fish, Green Gram, Mangoosteens (dried and fresh) and Kiwifruit for a period of three months.</li></ul>
22.05.2020	Gazette Notification No. 2176/18 of 21.05.2020 <ul style="list-style-type: none"><li>- To revise and extend the validity period of SCL on the importation of Yogurt, Potatoes, Red Onions, Garlic, Peas (whole and split), Chickpeas (whole and split), Red Lentils (whole and split), Yellow Lentils (whole and split), Dates (fresh and dried), Oranges (fresh), Lemon (fresh and dried), Grapes (fresh and dried), Apples (fresh), Quinces, Chillies (dried), Seeds of Cumin, Seeds of Fennel, Maize, Ground Nuts (shelled), Vegetable Oils, Fish, Beet and Cane Sugar, White Crystalline Cane Sugar and White Crystalline Beat Sugar for a period of six months.</li></ul>
22.05.2020	Gazette Notification No. 2176/20 of 21.05.2020 <ul style="list-style-type: none"><li>- To waive-off balance amount after collecting Rs. 6 per kg from the applied SCL of 10% or Rs. 150 per kg whichever is higher on the importation of Jack and Horse Mackerel (Trachurus spp. classified under the HS Code 0303.55) under HS Heading 03.03 for a period of three months.</li></ul>
17.06.2020	Gazette Notification No. 2180/10 of 16.06.2020 <ul style="list-style-type: none"><li>- To impose SCL on the importation of Vegetable Fats and Oils for a period of six months.</li></ul>
17.06.2020	Gazette Notification No. 2180/11 of 16.06.2020 <ul style="list-style-type: none"><li>- To impose SCL on the importation of selected fruits for a period of six months.</li></ul>
27.06.2020	Gazette Notification No. 2181/23 of 26.06.2020 <ul style="list-style-type: none"><li>- To revise and extend SCL on the importation of selected Vegetable Oils for a period of six months.</li></ul>
27.06.2020	Gazette Notification No. 2181/24 of 26.06.2020 <ul style="list-style-type: none"><li>- To waive-off Rs. 440 per kg from the applied SCL on the importation of Vegetable Fats and Oils classified under the HS Code 1516.20 and Rs. 400 per kg from the applied SCL on the importation of Margarine classified under the HS Code 1517.90 for a period of six months.</li></ul>

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

<b>Effective Date</b>	<b>Measures</b>
11.07.2020	Gazette Notification No. 2183/44 of 10.07.2020 <ul style="list-style-type: none"><li>- To waive-off of Rs. 25 per kg from the applied SCL on the importation of Coconut Oils for a period of six months.</li></ul>
19.07.2020	Gazette Notification No. 2184/53 of 18.07.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Maldive Fish and substitutes, grated or powdered cheese, Seeds of Coriander (neither crushed nor ground), Turmeric (neither crushed nor ground), Turmeric (other) and Black Gram Flour for a period of six months.</li></ul>
01.08.2020	Gazette Notification No. 2186/32 of 31.07.2020 <ul style="list-style-type: none"><li>- To revise SCL on the importation of Sprats, Dried Fish, B' Onions, Green Gram (Moong), Mangoosteens (fresh and dried) and Kiwifruit for a period of three months.</li></ul>
15.08.2020	Gazette Notification No. 2188/50 of 14.08.2020 <ul style="list-style-type: none"><li>- To increase and extend SCL on the importation of Potatoes to Rs. 55 per kg for a period of four months.</li></ul>
22.08.2020	Gazette Notification No. 2189/39 of 21.08.2020 <ul style="list-style-type: none"><li>- To waive-off balance amount after collecting Rs. 6 per kg from the applied SCL of 10% or Rs. 150 per kg whichever is higher on the importation of Jack and Horse Mackerel (Trachurus spp. classified under the HS Code 0303.55) under HS Heading 03.03 for a period of three months.</li></ul>
04.09.2020	Gazette Notification No. 2191/26 of 03.09.2020 <ul style="list-style-type: none"><li>- To revise and extend SCL on the importation of selected commodities for a period of six months.</li></ul>
01.10.2020	Gazette Notification No. 2195/29 of 30.09.2020 <ul style="list-style-type: none"><li>- To extend the validity period of SCL on the importation of Butter, Dairy Spreads, Mathe Seeds, Kurakkan Flour, Mustard Seeds and Salt for a period of one year.</li></ul>
	<b>Finance Act, No. 35 of 2018</b>
	<b>Luxury Tax on Motor Vehicles</b>
20.02.2020	Gazette Notification No. 2163/26 of 20.02.2020 <ul style="list-style-type: none"><li>- To amend the Gazette Notification No. 2147/72 of 31.10.2019.</li></ul>
26.05.2020	Gazette Notification No. 2177/2 of 26.05.2020 <ul style="list-style-type: none"><li>- To amend the Gazette Notification No. 2147/72 of 31.10.2019.</li></ul>
17.06.2020	Gazette Notification No. 2180/21 of 17.06.2020 <ul style="list-style-type: none"><li>- To amend the Gazette Notification No. 2177/2 of 26.05.2020.</li></ul>
	<b>Debt Repayment Levy (DRL)</b>
01.01.2020	<ul style="list-style-type: none"><li>- To remove Debt Repayment Levy.</li></ul>
	<b>Finance Act, No. 11 of 2006</b>
	<b>Levy on Tele-dramas, Films and Television Commercials</b>

**Box 3 : Major Fiscal Measures from January to September 2020 (Contd...)**

Effective Date	Measures
27.03.2020	Gazette Notification No. 2168/9 of 27.03.2020 - To amend the Gazette Notification No. 2044/21 of 07.11.2017.
01.10.2020	<b>Finance Act, No. 25 of 2003</b> <b>Embarkation Levy</b> Gazette Notification No. 2194/6 of 21.09.2020 - To amend the Gazette Notification No. 2134/5 of 29.07.2019.

Compiled by the Department of Fiscal Policy

**1.3 Government Expenditure**

In the first eight months of 2020, government expenditure was Rs. 1,883.7 billion of which

Rs. 1,670.4 billion was recurrent expenditure and Rs. 213.3 billion was capital and net lending.

**TABLE 1.12 : Performance of Government Expenditure**

Rs. Million

Item	Jan-Aug	
	2019	2020 <sup>(a)</sup>
<b>Recurrent Expenditure</b>	<b>1,500,534</b>	<b>1,670,356</b>
Salaries	446,451	516,354
Pension	143,511	160,058
Interest	599,612	653,498
Other	310,960	340,446
<b>Capital Expenditure</b>	<b>426,571</b>	<b>213,350</b>
<b>Total</b>	<b>1,927,104</b>	<b>1,883,706</b>

Sources: Department of National Budget & Department of Fiscal Policy

(a) Provisional

**Personal Emoluments and Pensions**

Total expenditure on personal emoluments for public servants including the Provincial Councils' employees increased by 15.7 percent to Rs. 516.3 billion in the first eight months of 2020, compared to Rs. 446.4 billion in the same period of 2019. Central Government's Contribution to the Provincial Council salaries increased by 32.6 percent to Rs. 153.8 billion in the first eight months of 2020 from Rs. 115.9 billion in the same period of 2019. The pension payments increased by 11.5 percent to Rs. 160.1 billion in the

first eight months of period, compared to Rs. 143.5 billion in the same period of 2019.

**Interest Payments**

Interest payments on domestic and foreign debt increased by 9.0 percent to Rs. 653.5 billion in the first eight months of 2020 from Rs. 599.6 billion in the same period of 2019 of the total of Rs. 653.5 billion, interest payments for domestic loans amounted to Rs. 481.7 billion while Rs. 171.7 billion was for foreign loans.

**TABLE 1.13 : Behaviour of Yield Rates (%) on Government Securities and Exchange Rate from 2019 to 2020**

Period	Treasury Bills (%)				Treasury Bonds (%)				Average Exchange Rate Rs/US\$
	91 days	182 days	364 days	2 year	3 year	4 year	5 year		
2019	Jan	10.01	9.87	10.69	-	10.85	-	11.58	182.1
	Feb	9.55	9.87	10.67	-	-	-	-	178.7
	Mar	9.39	9.67	10.40	-	-	-	11.04	178.4
	Apr	8.89	9.09	9.81	-	10.72	-	10.98	174.8
	May	8.52	8.63	8.88	-	-	-	-	176.4
	Jun	8.24	8.49	8.70	9.79	-	-	9.83	176.6
	Jul	7.85	7.94	8.21	-	-	-	-	176.0
	Aug	7.63	7.70	8.22	-	-	-	-	178.0
	Sep	7.62	7.75	8.41	-	-	-	10.27	180.8
	Oct	7.49	7.65	8.35	-	9.65	-	-	181.5
	Nov	7.45	7.67	8.29	-	-	-	-	180.4
	Dec	7.51	8.02	8.45	-	-	-	9.87	181.3
2020	Jan	7.51	8.15	8.59	-	9.39	-	9.27	181.4
	Feb	7.42	8.06	8.58	-	-	-	-	181.6
	Mar	7.00	7.25	7.50	-	9.33	9.81	-	185.1
	Apr	6.75	6.80	7.00	-	8.14	8.70	8.75	193.1
	May	6.69	6.82	6.93	-	8.05	-	-	187.9
	Jun	5.50	5.53	5.66	5.86	-	-	8.59	186.0
	Jul	4.59	4.68	4.86	5.73	-	-	6.50	185.8
	Aug	4.56	4.68	4.89	-	-	-	-	184.9
	Sep	4.51	4.64	4.89	5.65	5.72	-	6.59	185.0

Sources: Department of Treasury Operations, Department of Public Debt and Central Bank of Sri Lanka

## Welfare Expenditure

The expenditure on welfare programs amounted to Rs. 199.4 billion during January and August, 2020, compared to Rs. 141.5 billion for the same period of 2019. The health expenditure amounting to Rs. 44.01 billion were mainly consist the expenditure on 'Free Medicine for All', 'Triposha' program and 'Poshana Malla' nutritional program. The 'Free Medicine for All' program contributed to the largest expenditure while expenditure on education sector also increased during the period.

Rs. 105,1 billion have been incurred for the livelihood support program. 'Samurdhi' and

fertilizer subsidy programs were the major Government regular livelihood assistance programmes, in respective period, while spending Rs 47,7 billion for payment of Rs. 5,000 allowance for the month of April and May to pay the assistance people who were affected COVID-19 pandemic.

Meanwhile, expenditure on social welfare and safety net activities was reported as Rs. 39,7 billion in the respective period including Rs. 25,4 billion under Assistance to Differently-abled Soldiers program with an increase of 17.5 percent in the review period compared to the corresponding period of last year.



**TABLE 1.14 : Welfare Expenditure**

Rs. Million

Item	Jan-Aug	
	2019	2020 <sup>(a)</sup>
<b>Healthcare &amp; Nutrition</b>	<b>41,260</b>	<b>44,089</b>
Free Medicine for All	36,453	40,133
Thriposha Programme	1,282	728
Morning Meal for Pre-School Children	174	65
Poshana Malla	3,351	3,163
<b>Education</b>	<b>9,742</b>	<b>10,523</b>
Free Text Books	919	1,958
Free School Uniforms	2,500	2,080
School Season Tickets	1,399	2,900
School Nutritional Foods	2,436	1,541
Shoes for Students in Difficult and Very Difficult area Schools	681	491
Grade Five Scholarships	123	321
Mahapola Scholarships	822	698
Bursaries	438	427
Dhamma School Text Book	122	30
Dhamma School Uniforms for Teachers	66	3
Assistance for Dhamma School Teacher	236	74
<b>Livelihood Support</b>	<b>57,964</b>	<b>105,157</b>
Fertilizer Subsidy	30,148	21,349
Samurdhi Relief	27,036	35,087
Subsidies for Replanting (Tea/Rubber)	534	740
Assisting the Farmers for Export Crop Development	246	281
Livelihood Assistance for COVID-19 Affected Persons		47,700
<b>Social Welfare &amp; Safety net</b>	<b>32,554</b>	<b>39,689</b>
Assistance for Differently Abled Person & Kidney Patient	506	1,460
Assistance to Elderly Person's	3,331	6,575
Assistance to Differently Abled Soldiers	21,635	25,431
Social Care of <i>Ranaviru</i> Parents	1,567	1,571
Food Assistance, Flood and Drought Relief	228	52
Bus Services in Uneconomical Roots	5,287	4,600
<b>Total</b>	<b>141,520</b>	<b>199,458</b>

Source: Department of National Budget

(a) Provisional

## Public Investment

The expenditure on public investment including infrastructure developments in highways, water supply, irrigation, transport, agriculture and health and education sectors

was Rs. 98 billion in the first eight months of 2020, compared to Rs. 175 billion in the same period of 2019.

## 1.4 Treasury Operations

### Performance of the Cash Flow of the General Treasury

During the first eight months of 2020, cash inflows to the General Treasury by way of revenue and other receipts amounted to Rs. 880.4 billion, an decline of 31.3 per cent, compared to Rs. 1,281.7 billion in the same period of 2019. This was mainly due to the declaration of economic activities stemming from the impact of COVID-19 pandemic globally as well as locally. Meanwhile,

cash outflow for both recurrent and public investment during the first eight months of 2020 amounted to Rs. 1,948.1 billion, a 4.2 percent increase compared to Rs. 1,869.4 billion in the same period of 2019.

Total cash deficit as at August 31, 2020 was Rs. 1067.7 billion, an increase of 81.7 percent compared to Rs. 587.7 billion as at end August 2019 mainly due to the decline in cash inflows to the General Treasury by 31.3 percent, resulting in the increase in the closing negative cash and bank balance as at August 31, 2020 up to Rs. 541.5 billion.

**TABLE 1.15 : Statement on Government Treasury Cash Flow Operations**

Item	Rs. Billion	
	Jan-Aug	
	Actual	
	2019	2020
Opening Cash balance as at 1 <sup>st</sup> January	-274.2	-274.3
Total cash inflow from revenue and other receipts	1,281.7	880.4
Total cash outflow for recurrent payments	-1,442.9	-1,626.7
Total cash outflow for capital payments*	-426.5	-321.4
Net cash surplus/(deficit)	-587.7	-1,067.7
Gross borrowing*	1,524.1	1,355.7
Debt repayment	-886.5	-616.2
Net borrowing	637.6	739.5
Balance Proceeds of ISB Previous Year	-	51.4
Adjustment account balance (TEB, net deposits, etc.)	5.3	9.6
Closing Cash balance year/month end	-219.0	-541.5

Source: Department of Treasury Operations

\*Includes project/programme loans accounted by Department of Treasury Operations as at 31st August 2020

### Management of Government Debt

Total gross borrowing of the Government from January 01, to August 30, 2020 stood at Rs. 1,355.7 billion of which domestic and foreign borrowings amounted to Rs. 1,085.8 billion and Rs 269.9 billion, respectively to finance cash flow operations and development projects during the period. Approximately 74 percent of domestic borrowing consisted of long-term borrowing in the first eight months of 2020. Treasury Bonds, Treasury Bills, Sri Lanka Development Bonds and Foreign Currency Banking Units (FCBUs) were the main sources of domestic borrowings of the Government.

Accordingly, around 67 percent of the total domestic borrowings were raised by way of Treasury Bonds, while 21 percent represent the Treasury Bills, 7 percent Sri Lanka Development Bonds and another 5 percent was raised by way of FCBUs in the first eight months of 2020. In addition, proceeds from the Syndicate Loan issued in the first quarter of 2020 was utilized to finance the foreign currency debt service payments. The net borrowing as at end of August 2020 was Rs. 739.5 billion.

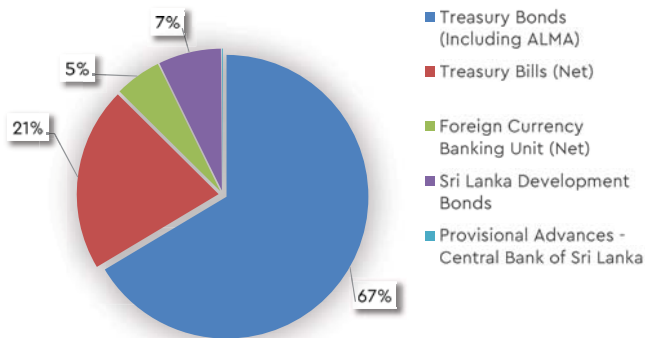
The Government gross domestic borrowings from January to August 2020 are demonstrated in Table 1.16 and Figure 1.4.

**TABLE 1.16 : Gross Domestic Borrowings by Instruments**

Rs. Billion

Instruments	Jan-Aug 2020
Treasury Bonds (Including ALMA)	721.2
Treasury Bills (Net)	227.9
Sri Lanka Development Bonds	77.7
Foreign Currency Banking Unit (FCBU) (Net)	57.8
Provisional Advances – Central Bank of Sri Lanka	1.2
<b>Total</b>	<b>1,085.8</b>

Source : Department of Treasury Operations

**FIGURE 1.4** : Gross domestic borrowings by Instruments from January to August 2020

Source : Department of Treasury Operations

### Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Treasury Guarantees issued and remained valid as at August 31, 2020, was Rs. 1,317 billion which were within the limit applicable as per the Section 2 of the Fiscal Management (Responsibility) (Amendment) Act, No.13 of 2016. The list of Treasury Guarantees issued by the General Treasury as at August 31, 2020, is given in Annex I.

## 1.5 Foreign Financing

### Foreign Financing Commitments

The Government has made arrangements to mobilize foreign financing of US\$ 742.8 million by entering into 11 agreements with foreign development partners and lending agencies from January 01 to August 31, 2020, to support the public investment program. This consists of US\$ 500.0 million of Foreign Currency Term Financing Facility extended by the China Development Bank for budget support purposes and US\$ 128.6 million extended by the World Bank to be utilized for COVID-19 Emergency Response and Health Systems Preparedness project plus grants extended by Japan (US\$ 7.6 million), Germany (US\$ 12.5 million), the Asian Development Bank (US\$ 3.0 million) and the United Nations High Commissioner for Refugees (US\$ 0.02 million). The performance of mobilizing foreign financing during the period was adversely affected by COVID-19 pandemic.

**TABLE 1.17 : Foreign Financing Commitments with Terms from January to August 2020**

Development Partner/ Lending Agency	Instrument Type	Agreement Date (YYYY/MM/DD)	Project /Program/ Instrument Name	Amount Committed (million)			Financial Terms			Other Terms		
				Currency	₹	US\$	Interest	Margin (100 basis points)	Other Charges			
							Annual Rate (%)	Type	LIBOR for US\$	Grace Period (Years)	Maturity / Availability Period from the Date of Signing (Years)	
<b>Bilateral</b>												
China Development Bank	Loan	2020/03/18	Foreign Currency Term Financing Facility 2020	US\$	500.0	92,542.7	500.0	Variable	LIBOR for US\$	2.51	Upfront fee 1.25%	3 10
Japan	Grant	2020/07/30	Japan Non-project Grant Aid for the Provision of Medical Equipment to Strengthen the COVID-19 Preventing Activities in Sri Lanka	JPY	800.0	1,413.9	7.6			N/A		3
	Grant	2020/08/11	Project for Improvement of the Anti-Narcotic Activities in SL Police - JPY 200 Mn	JPY	200.0	348.8	1.9			N/A		3
Germany	Grant	2020/06/10	Technical Cooperation from Germany	EUR	11.0	2,308.8	12.5			N/A		1
<b>Multilateral</b>												
International Bank for Reconstruction & Development	Loan	2020/04/03	COVID-19 Emergency Response & Health Systems Preparedness	US\$	35.0	6,685.0	35.0	Variable	LIBOR for US\$	0	Commitment Fee 0.25%, Front-end Fee 0.25%	5 30

Development Partner/ Lending Agency	Instrument Type	Agreement Date (YYYY/MM/DD)	Project /Program/ Instrument Name	Amount Committed (million)			Financial Terms			Other Terms			
				Currency	Instrument Currency	Rupees	US\$	Type	Annual Rate (%)	Margin (100 basis points)	Other Charges	Grace Period (Years)	Maturity / Availability Period from the Date of Signing (Years)
	Loan	2020/04/03	COVID-19 Emergency Response & Health Systems Preparedness	US\$	93.6	17,877.6	93.6	Variable	LIBOR for US\$	0	Front-end fee US\$ 234,000	5	30
	Loan	2020/07/23	Additional Financing for the COVID 19 Emergency Response and Health Systems Preparedness - Concessional Loan	SDR	33.0	8,467.2	45.6	Fixed	1.25	N/A	Service Fee 0.75%	5	30
International Development Association	Loan	2020/07/23	Additional Financing for the COVID 19 Emergency Response & Health System Preparedness - Non Concessional Loan	US\$	41.9	7,784.6	41.9	Variable	LIBOR for US\$	0	Commitment Fee 0.25%,	5	30
Asian Development Bank	Grant	2020/07/23	Additional Financing for the COVID 19 Emergency Response & Health Systems Preparedness Project- Grant	US\$	1.7	320.2	1.7			N/A	Front-end fee US\$ 104,750		0.5
United Nations High Commissioner for Refugees	Grant	2020/06/08	COVID-19 Emergency Response Project	US\$	3.0	556.4	3.0			N/A			0.5
	Grant	2020/03/02	Enabling Returnees in the 5 districts in Northern Province and Puttalam to Access their Rights	LKR	4.6	4.6	0.02			N/A			0.5
<b>Total</b>						<b>138,309.7</b>	<b>742.8</b>						

Source: Department of External Resources

Note: LIBOR = London Interbank Offer Rate, Financial values committed in difference currencies have been converted into USD and LKR as per the prevailing change rates of each agreement date

## Foreign Financing Disbursements and Utilization

Total foreign financing disbursements made during the period from January 01, to August, 31, 2020 amounted to US\$ 1,352.2 million, of which, US\$ 1,320.9 million was disbursed as

loans while US\$ 31.3 million was disbursed by way of grants.

The majority of the disbursements were from the loan agreements signed with China, which is almost 50 percent, followed by World Bank (15 percent), Asian Development Bank (14 percent), and Japan (9 percent).

**TABLE 1.18: Disbursements of Foreign Loans and Grants from January to August 2020**

Development Partner	Disbursements <sup>(a)</sup> (US \$ Million)		
	Loan	Grant	Total
<b>Bilateral</b>	<b>914.4</b>	<b>9.3</b>	<b>923.7</b>
China*	679.4	-	679.4
Japan	115.2	9.1	124.3
France	47	0.2	47.2
India	33	-	33
United Kingdom	11.8	-	11.8
Netherlands	11.1	-	11.1
Austria	4.5	-	4.5
Korea	6.4	-	6.4
Kuwait	4.2	-	4.2
Spain	0.9	-	0.9
Germany	0.5	-	0.5
Denmark	0.3	-	0.3
<b>Multilateral</b>	<b>406.5</b>	<b>22</b>	<b>428.5</b>
World Bank	208.6	0.2	208.8
Asian Development Bank	181.4	11.1	192.5
OPEC Fund	7.4	-	7.4
International Fund for Agricultural Development	6.6	-	6.6
Asian Infrastructure Investment Bank	2.4	-	2.4
World Food Program	-	0.4	0.4
Food & Agriculture Organization	-	0.2	0.2
United Nations Development Programme	-	8.4	8.4
United Nations International Children's Fund	-	1.6	1.6
United Nations Population Fund	-	0.1	0.1
<b>Total</b>	<b>1,320.90</b>	<b>31.3</b>	<b>1,352.20</b>

Source: Department of External Resources

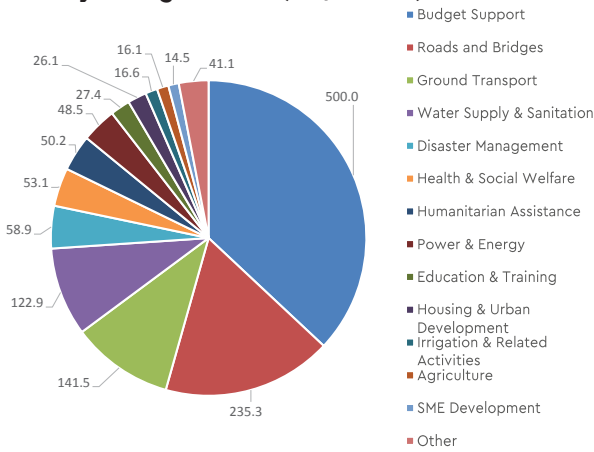
Note: For conversion of disbursements made in different currencies into US\$ and Rupees, the exchange rates as at 31st August 2020 have been used

(a) Provisional

\*Includes Foreign Currency Term Financing Facility of USD 500 million extended by the China Development Bank

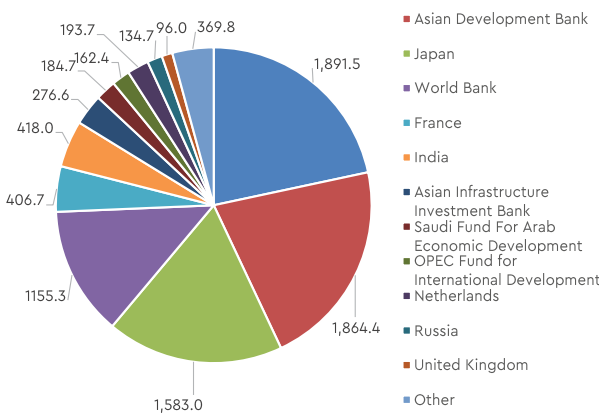
Other than the US\$ 500 million obtained as a budget support loan, the majority of the disbursements was in lieu of the projects implemented under the roads & bridges sector accounting for almost 17 percent of

**FIGURE 1.5 : Disbursements by Sectors from from January to August 2020 (US\$ million)**



Source : Department of External Resources

**FIGURE 1.6 : Lender-wise CUB of Development Projects and Programs – August 2020 (US\$ Million)**



Source : Department of External Resources

## External Debt Stock and External Debt Service Payments

By the end of August 2020, total outstanding external debt of the Government was US\$ 35.3 billion. Total debt service payments

- 1 Non-residential holdings of Treasury Bills/Bonds and outstanding debt of State Owned Enterprises (SOEs) are not included.
- 2 Debt Service = Principal Payments + Interest Payments, Debt Service Payment of SOEs are not included

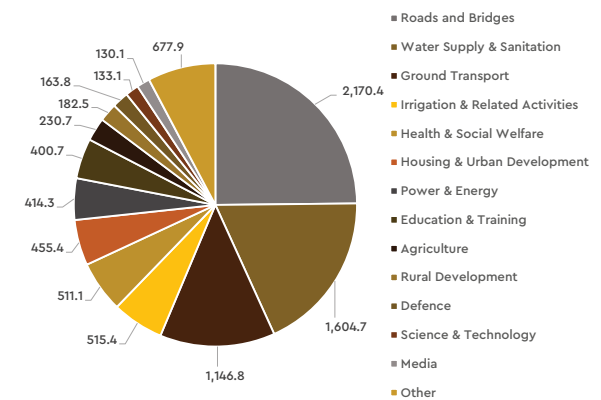
the total disbursements, followed by the ground transport sector at 11 percent, water supply and sanitation sector at 9 percent, and disaster management (4 percent).

## Committed Undisbursed Balance (CUB)

As at August 31, 2020, the total undisbursed balance of foreign financing available from already committed loans that are to be utilized in next 3–5 years, was US\$ 8,737 million. China has the majority of the balance to be disbursed followed by Asian Development Bank, Japan and the World Bank respectively.

Almost 25 percent of the CUB to be utilized in roads and bridges sector whereas 18 percent is for water supply and sanitation and 14 percent for ground transport sector.

**FIGURE 1.7 : 5.3: Sector-wise CUB of Development Projects and Programs – August 2020 (US\$ Million)**



Source : Department of External Resources

from January 01, to August 31, 2020 amounted to US\$ 2,292.7 million. of which, US\$ 1,348.6 million was in lieu of principal repayments and the balance US\$ 944.1 million for the payment of interest.





# Economic Perspectives | 02

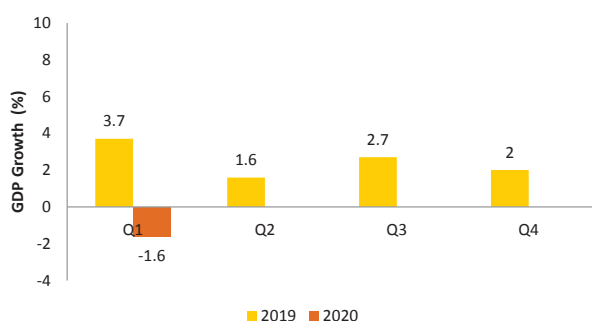


## 2.1 Overview

The economy contracted by 1.6 percent in the first quarter of 2020 due to multiple reasons which were both domestic and external: (i) the ramification effect of the slowdown of economic activities over the last five years; (ii) the outbreak of COVID-19; (iii) health precaution measures such as lockdown and social distancing; (iv) turbulent weather conditions; and (v) global headwinds due to the deceleration of economic activity engulfed with the spread of COVID-19 across borders posing pressure on the movement of goods, services and capital flows while disrupting to the global value chain. However, a "V-shaped" recovery has been shown during July-September 2020 in the post-COVID period, according to the macroeconomic indicators.

The Government implemented a series of relief measures including fiscal and monetary policy stimuli to facilitate businesses and relief the vulnerable groups of the society. The fiscal reforms initiated in the latter part of 2019 counted as a fiscal stimulus provided to fight against the COVID-19 in addition to the other relief measures granted to the affected people. The monetary stimulus including monetary easing measures such as reductions of the policy rates and the Statutory Reserve Ratio (SRR) to inject liquidity to the market, debt moratoria for the businesses and individuals and concessional credit schemes have been implemented to spur economic activities.

**FIGURE 2.1 : GDP Growth**

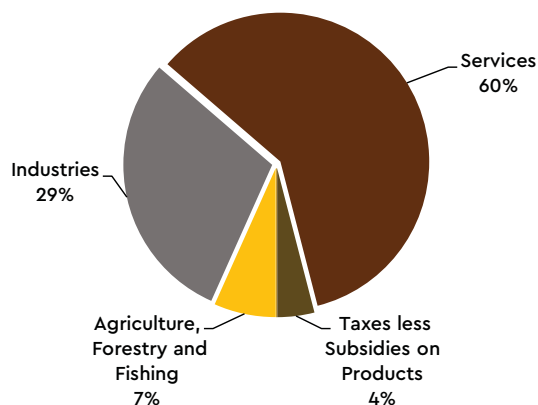


Source : Department of Census and Statistics

There was an uptick in credit to the private sector growth in August and September 2020, which helped increase broad money growth in the first nine months of 2020. Reflecting the narrowed trade balance, the increase in workers' remittances together with a stable exchange rate, the external sector was largely revived. This was mainly due to proactive measures taken by the Government to restrict the non-essential imports coupled with the additional cushion gained from the plunge in global oil prices. The balance of payments (BOP) moderated whereas Gross Official Reserves were at US\$ 7,430 million at end August 2020. The Government successfully settled US\$ 1 Billion the International Sovereign Bond (ISB) in the first week of October 2020 demonstrating the unblemished record of the payment of dues on time. Inflation ranged between 4–6 percent despite the increase in food prices in certain months due to the supply-side shocks. The economy is expected to revive in 2021 onwards with the policies enumerated to boost local production capacity while well-contained COVID-19 pandemic with well-established health measures.

## 2.2 Economic Growth

Reflecting the decline in Industry and Agriculture sectors despite the increase in growth in Services sector, the economy exhibited a contraction of 1.6 percent in the first quarter of 2020, compared to the growth of 3.7 percent in the same quarter of 2019. Industry sector contracted by 7.8 percent in the first quarter of 2020 from the growth of 3.9 percent in the first quarter of 2019 which was largely driven by the deceleration of construction activities and manufacturing activities. Agriculture sector contracted by 5.6 percent in the first quarter of 2020, compared to the growth of 5.0 percent in the same quarter of 2019 due to the moderate growth in tea, coconut, and fishing sectors. However, Services sector expanded by 3.1 percent in the first quarter

**FIGURE 2.2 : Composition of GDP - First Quarter**

Source : Department of Census and Statistics

of 2020 from the growth of 3.7 percent in the same quarter of 2019 which was mainly attributable to the increase in growth in wholesale and retail trade, financial services, real estate activities and other personal services. Taxes less subsidies on products declined by 10.8 per cent in the first quarter of 2020.

**TABLE 2.1 : Sectoral Composition of GDP at Constant (2010) Prices**

Sector	Rs. Million						
	2017	2018	2019 <sup>(b)</sup>	First Quarter		Growth (%)	
				2019 <sup>(b)</sup>	2020 <sup>(a)</sup>	2019	2020
<b>Agriculture, Forestry and Fishing</b>	<b>642,159</b>	<b>683,816</b>	<b>687,857</b>	<b>162,787</b>	<b>153,735</b>	<b>-3.5</b>	<b>-5.6</b>
1 Growing of Cereals (except rice)	11,503	11,736	10,615	3,426	3,867	-19.8	12.9
2 Growing of Rice	48,648	70,380	70,169	11,316	11,783	28.2	4.1
3 Growing of Vegetables	55,240	57,439	58,298	9,801	10,288	-4.4	5.0
4 Growing of Sugar Cane, Tobacco and Other Non-perennial Crops	2,044	1,820	1,973	443	490	3.1	10.6
5 Growing of Fruits	49,961	55,654	60,399	14,788	15,883	11.4	7.4
6 Growing of Oleaginous Fruits (Coconut, King Coconut, Oil Palm)	53,773	57,577	68,062	17,106	14,909	34.2	-12.8
7 Growing of Tea (Green Leaves)	66,879	67,141	66,300	16,223	11,766	-1.2	-27.5
8 Growing of Other Beverage Crops (Coffee, Cocoa etc.,)	1,268	1,592	1,219	334	306	-16.2	-8.3
9 Growing of Spices, Aromatic, Drug and Pharmaceutical Crops	63,200	66,914	66,223	17,571	17,834	2.4	1.5
10 Growing of Rubber	24,165	24,085	21,807	6,265	5,721	3.3	-8.7
11 Growing of Other Perennial Crops	16,717	16,303	16,255	4,044	3,870	-1.0	-4.3
12 Animal Production	58,729	63,418	65,440	15,572	15,629	8.3	0.4

**TABLE 2.1 : Sectoral Composition of GDP at Constant (2010) Prices (Contd...)**

		Rs. Million					
Sector	2017	2018	2019 <sup>(b)</sup>	First Quarter		Growth (%)	
				2019 <sup>(b)</sup>	2020 <sup>(a)</sup>	2019	2020
13 Plant Propagation and Support Activities to Agriculture	9,238	9,258	8,675	2,124	2,110	-4.7	-0.6
14 Forestry and Logging	62,545	62,020	59,036	13,745	11,914	-5.5	-13.3
15 Marine Fishing and Marine Aquaculture	103,043	102,175	96,589	26,163	24,056	-2.0	-8.1
16 Fresh Water Fishing and Fresh Water Aquaculture	15,208	16,304	16,797	3,866	3,308	17.6	-14.4
<b>Industries</b>	<b>2,509,421</b>	<b>2,540,315</b>	<b>2,608,211</b>	<b>736,946</b>	<b>679,127</b>	<b>3.9</b>	<b>-7.8</b>
17 Mining and Quarrying	237,827	225,505	231,893	62,727	51,232	6.2	-18.3
18 Manufacture of Food, Beverages and Tobacco Products	534,924	556,140	574,888	169,694	174,434	2.1	2.8
19 Manufacture of Textile, Wearing Apperal and Leather Related products	304,090	314,442	326,803	114,329	98,723	3.9	-13.6
20 Manufacture of Wood and Products of Wood and Cork, except Furniture	32,909	33,845	31,178	10,472	10,850	-17.0	3.6
21 Manufacture of Paper Products, Printing and Reproduction of Media Products	31,885	32,226	30,803	11,484	10,599	-5.8	-7.7
22 Manufacture of Coke and Refined Petroleum Products	29,743	27,312	33,694	14,001	11,313	94.8	-19.2
23 Manufacture of Chemical Products and Basic Pharmaceutical Products	93,552	96,761	100,511	23,740	21,339	1.8	-10.1
24 Manufacture of Rubber and Plastic Products	86,202	88,147	83,009	11,821	10,447	1.6	-11.6
25 Manufacture of Other Non-metallic Mineral Products	77,821	85,031	85,341	21,592	21,471	-4.1	-0.6

**TABLE 2.1 : Sectoral Composition of GDP at Constant (2010) Prices (Contd...)**

		Rs. Million					
Sector	2017	2018	2019 <sup>(b)</sup>	First Quarter		Growth (%)	
				2019 <sup>(b)</sup>	2020 <sup>(a)</sup>	2019	2020
26 Manufacture of Basic Metals and Fabricated Metal Products	43,862	48,111	46,328	14,824	16,041	-4.2	8.2
27 Manufacture of Machinery and Equipment	50,967	52,075	52,578	14,578	14,072	-2.5	-3.5
28 Manufacture of Furniture	97,920	100,302	100,797	32,824	30,633	5.9	-6.7
29 Other Manufacturing and Repair and Installation of Machinery and Equipment	76,943	78,408	75,040	20,194	20,696	-3.8	2.5
30 Electricity, Gas, Steam and Air Conditioning Supply	94,803	100,382	104,437	25,609	26,191	1.9	2.3
31 Water Collection, Treatment and Supply	13,562	14,351	15,139	3,711	3,895	6.3	5.0
32 Sewerage, Waste, Treatment and Disposal Activities	28,316	30,207	32,403	8,076	8,224	7.0	1.8
33 Construction	674,097	657,070	683,371	177,270	148,966	6.9	-16.0
<b>Services</b>	<b>5,313,435</b>	<b>5,555,303</b>	<b>5,680,757</b>	<b>1,326,977</b>	<b>1,367,507</b>	<b>3.7</b>	<b>3.1</b>
34 Wholesale and Retail Trade	993,667	1,040,360	1,071,847	270,577	281,581	4.6	4.1
35 Transport of Goods and Passenger including Warehousing	1,013,857	1,034,755	1,049,566	233,219	232,917	2.7	-0.1
36 Postal Courier Activities	4,425	4,485	4,752	1,184	1,276	5.7	7.7
37 Accommodation, Food and Beverage Service Activities	146,432	154,794	147,671	40,448	37,945	4.6	-6.2
38 Programming and Broadcasting Activities and Audio Video Productions	2,804	2,519	2,639	622	651	8.8	4.5
39 Telecommunication	41,503	45,830	53,695	12,381	14,264	17.5	15.2

**TABLE 2.1 : Sectoral Composition of GDP at Constant (2010) Prices (Contd...)**

Sector	2017	2018	2019 <sup>(b)</sup>	First Quarter		Growth (%)	
				Rs. Million		2019	2020
				2019 <sup>(b)</sup>	2020 <sup>(a)</sup>		
40 IT Programming Consultancy and Related Activities	13,564	15,072	17,044	3,893	4,265	11.7	9.6
41 Financial Service Activities and Auxiliary Financial Services	606,512	687,918	701,880	140,166	152,822	4.4	9.0
42 Insurance, Reinsurance and Pension Funding	95,925	112,493	118,987	20,019	20,060	7.4	0.2
43 Real Estate Activities, Including Ownership of Dwelling	544,733	566,078	579,601	145,023	151,068	2.2	4.2
44 Professional Services	158,755	165,550	169,523	41,896	42,582	4.9	1.6
45 Public Administration and Defence; Compulsory Social Security	430,672	428,022	437,065	97,733	98,631	2.0	0.9
46 Education	172,701	179,524	185,116	46,439	47,540	4.3	2.4
47 Human Health Activities, Residential Care and Social Work Activities	174,155	179,356	182,777	32,616	32,999	-1.6	1.2
48 Other Personal Service Activities	913,729	938,547	958,592	240,760	248,905	3.8	3.4
<b>Gross Value Added (GVA), at basic prices</b>	<b>8,465,015</b>	<b>8,779,434</b>	<b>8,976,825</b>	<b>2,226,711</b>	<b>2,200,369</b>	<b>3.8</b>	<b>-1.2</b>
<b>(+) Taxes less Subsidies on Products</b>	<b>894,132</b>	<b>889,166</b>	<b>912,553</b>	<b>103,342</b>	<b>92,221</b>	<b>1.3</b>	<b>-10.8</b>
<b>Gross Domestic Product(GDP) at market prices</b>	<b>9,359,147</b>	<b>9,668,600</b>	<b>9,889,379</b>	<b>2,330,053</b>	<b>2,292,590</b>	<b>3.7</b>	<b>-1.6</b>

Source : Department of Census and Statistics

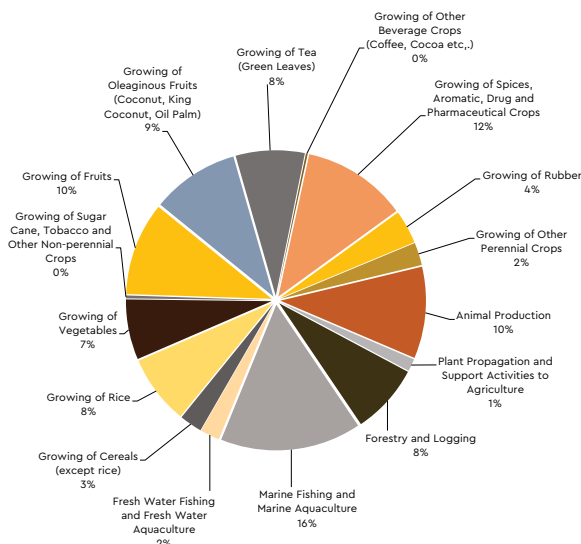
(a) Provisional

(b) Revised

## Agriculture

Agriculture sector contracted by 5.6 percent in the first quarter of 2020, compared to the contraction of 3.5 percent in the same quarter of 2019 largely driven by the decline in production of tea, coconut, fresh water fishing, and forestry and logging. However, growing of cereals, sugarcane, tobacco and other non-perennial crops, fruits and vegetable, spices, animal production sub-sectors recorded positive growths during the first quarter of 2020.

**FIGURE 2.3 : Composition of Agriculture Sector - First Quarter 2020**



Source : Department of Census and Statistics

## Paddy

The paddy production increased by 4.0 percent to 3.2 million metric tons in the 2019/20 Maha season and 2019 Yala season is expected to register 1.8 million metric tons of paddy totalling 5.0 million metric tons for 2020, compared to 4.6 million metric tons in 2019 due to the favourable weather condition prevailed in paddy growing areas and the provision of fertilizer free of charge during the Yala season. With the increase in paddy production, the imports of rice declined by 29.3 percent to 10,724 metric tons in the first eight months of 2020. The government also utilized the guaranteed price for paddy and the retail price ceiling for the rice to safeguard both farmers and consumers.

## Tea, Rubber and Coconut

Tea, rubber and coconut production declined in the first eight months of 2020. The tea production declined by 16.0 percent to 177.3 million Kg in the first eight months of 2020 due to the unfavourable weather conditions and the impact of COVID-19 on the sector. As a result of low supply, tea prices increased by 15.5 percent to Rs. 630.80 per Kg at the Colombo Tea Auction (CTA). In the same vein, rubber production declined by 5.9 percent to 50.2 million Kg in the first eight months of 2020 due to the reduction in tapping days stemming from the unfavourable weather condition coupled with the imposition of mobility restrictions during the COVID-19 pandemic. The price of Ribbed Smoked Sheet 1 (RSS1) at the Colombo Rubber Auction (CRA) increased by 20.8 percent to Rs. 309.24 per Kg in the first quarter of 2020 and the average latex crepe 1X price increased by 20.6 percent to Rs. 330.61 per Kg in the first eight months of 2020. Also, the coconut production declined by 11.3 percent to 1,867 million nuts in the first eight months of 2020 from 2,104 million nuts in the same period of 2019 due to the impact of dry weather conditions prevailed during 2019. As such, production of desiccated coconut (DC) and coconut oil declined. Accordingly, the imports of coconut oil increased significantly to 30,575 metric tons in the first eight months of 2020 benefiting from the revision of the Special Commodity Levy (SCL) on coconut oil, virgin coconut oil and palm oil imports. However, coconut cream and coconut milk production increased by 26.2 percent in the first eight months of 2020.

## Cereals, Vegetables, Fruits, Spices and Pharmaceutical Crops

Value-added production of cereals positively contributed to the overall growth of the agricultural sector with an increase of 12.9 percent in the first quarter of 2020, compared to the contraction of 2.8 percent recorded in the same period of 2019 benefiting from the attractive prices stemming from the increase rate of



SCL on cereal imports to encourage local production. Vegetable production in the 2019/20 Maha season increased by 7.0 percent to 893,930 metric tons due to the favourable prices and weather conditions. In value-added terms, growing of fruits and vegetable expanded by 7.4 percent and 5.0 percent, respectively in the first quarter of 2020. Value-added production of spices, aromatic, drug and pharmaceutical products augmented by 1.5 percent in the first quarter of 2020.

### Fisheries and Livestock

The fisheries sub-sector contracted significantly in the first quarter of 2020, compared to the same period of 2019. Freshwater fishing and freshwater aquaculture sub-sector dropped by 14.4 percent during the first quarter of 2020, compared to the 17.4 percent growth recorded in the same period of 2019. Meanwhile, marine fishing and marine aquaculture sub-sector declined by 8.1 percent during the reference period, compared to 2.0 percent contraction recorded in the same period of 2019.

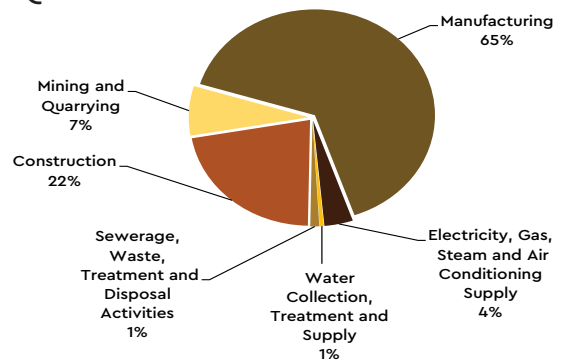
The fish production declined by 15.7 percent to 283,485 metric tons in the first eight months of 2020 due to the combined effect of certain restrictions imposed on fishing and adverse weather conditions: the marine fish production declined by 20.2 percent to 222,270 metric tons whereas inland fish production increased by 5.6 percent in the first eight months of 2020.

Reflecting the adverse impact of COVID-19 in the livestock sector, animal production sub-sector moderated to 0.4 percent in the first quarter of 2020, compared to 9.4 percent growth recorded in the same period of 2019. Milk production increased by 8.2 percent to 240.7 million litres in the first six months of 2020.

### Industry and Manufacturing

Industry sector contracted by 7.8 percent in the first quarter of 2020, compared to the growth of 3.9 percent recorded in the

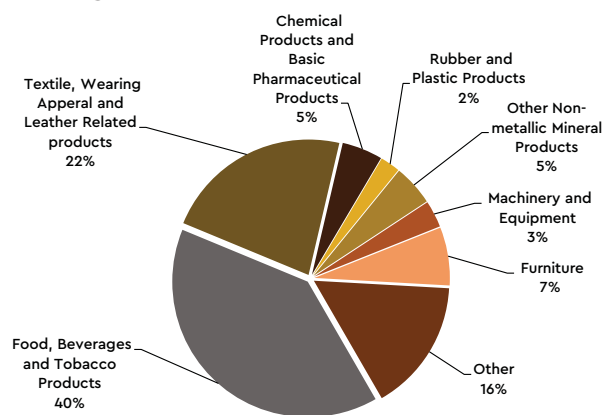
**FIGURE 2.4 : Composition of Industry Sector – First Quarter 2020**



Source : Department of Census and Statistics

same period of 2019. This was due to the notable contraction in sectors, in particular, construction (16.0 percent), manufacturing activities (4.1 percent), mining and quarrying (18.3 percent) and textile and wearing apparels (13.6 percent). However, electricity, gas, steam and air conditioning (2.3 percent), water collection, treatment and supply activities (5.0 percent), and

**FIGURE 2.5 : Composition of Manufacturing Sector – First Quarter 2020**



Source : Department of Census and Statistics

sewerage, waste treatment and disposal activities (1.8 percent) reported positive growths while contributing to the expansion of the sector. Manufacturing activities including the manufacture of textiles, wearing apparel and leather related products (13.6 percent), manufacture of coke and refined petroleum products (19.2 percent), manufacture of chemical products and basic pharmaceutical products (10.1 percent), manufacture of furniture (6.7 percent), and manufacture of rubber and plastic products (11.6 percent) contracted. In

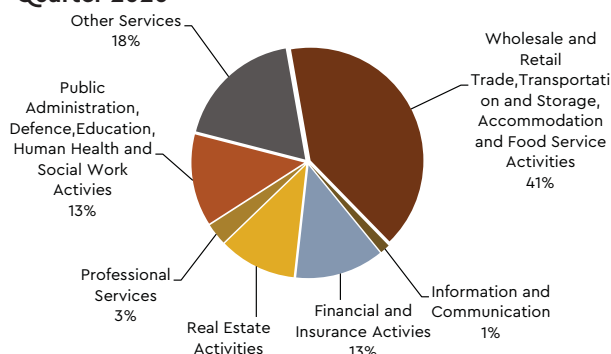
contrast, manufacturing sectors such as the manufacture of food, beverages & tobacco products (2.8 percent), and manufacture of basic metals and fabricated metal products (8.2 percent) reported positive growth.

Electricity, gas, steam and air conditioning supply and water collection and treatment and sewerage and waste treatment moderated by 2.3 percent, 5 percent and 1.8 percent, respectively in the first quarter of 2020. Total power generation declined by 1.4 percent to 1,353 GWh in the first eight months of 2020, compared to 1,373 GWh generated in the same period in 2019. The total revenue from sales of electricity declined by 3.1 percent to Rs. 158.5 million in the first eight months of 2020. The generation mix of hydro: thermal (fuel): thermal (coal): NCRE & Wind has changed to 22:28:41:9 in the first eight months of 2020, compared to the 17:37:38:9 for the same period in 2019

## Services

The Services sector expanded by 3.1 percent in the first quarter of 2020, compared to the growth of 3.7 percent in the same period of 2019. This was largely attributable to the expansion in financial services (9.0 percent), wholesale and retail trade (4.1 percent), other personal services (3.4 percent), and real estate activities (4.2 percent). Other sectors such as telecommunication (15.2 percent), education (2.4 percent), public administration and defence (0.9 percent), professional services (1.6 percent), IT programming and consultancy (9.6 percent), human health (1.2 percent), postal and courier services (7.7 percent), programming and broadcasting services (4.5 percent), and insurance activities (0.2 percent) also recorded a favourable growth. However, accommodation, food and beverage services (6.2 percent), and transportation activities (0.1 percent) contracted during the first quarter of 2020.

**FIGURE 2.6 : Composition of Service Sector – First Quarter 2020**



Source : Department of Census and Statistics

## Wholesale and Retail Sale, Transport of Goods, Warehousing and Passenger Services

Wholesale and retail trade activities expanded by 4.1 percent in the first quarter of 2020, compared to 4.6 percent growth recorded in the same period of 2019. Transport sector contracted by 0.1 percent in the first quarter of 2020, compared to the same quarter of 2019. The total number of new vehicle registration declined to 190,442 in the first nine months of 2020 from 286,126 in the same period of 2020. This drop was mainly due to the import restrictions imposed by the government to curtail non-essential items to stabilize the exchange rate.

The registration of motor cars declined by 29.8 percent in the first nine months of 2020 while, registration of busses, goods transport vehicles, dual purpose vehicles and three-wheelers declined by 55.9 percent, 25.0 percent 8.5 percent and 42 percent, respectively during the period. Total containers handled in the first nine months of 2020 contracted by 4.7 percent to 5.1 million Twenty-foot Equivalent Units (TEUs). Containers handled for transshipment and re-stowing declined by 2.1 and 9.2 percent to 4.2 million and 0.1 TEUs, respectively in the first nine months of 2020. Total cargo handled dropped by 4.8 percent to 76.6 million metric tons in the first nine months of 2020, compared to 80.5 million metric tons in the same period of 2019. Disruption in global supply chains due to the COVID-19 pandemic could be attributable to this moderate growth.

**Table 2.2 : Selected Indicators of Service Sector**

Indicator	2016	2017	2018	2019	2019	2020
					Jan-Sep	Jan-Sep (a)
<b>Port Services</b>						
Vessels Arrived (No)	5,023	4,879	4,874	4,707	3,513	3,320
Total Cargo Handled (MT '000)	86,546	93,857	104,934	106,979	80,579	76,675
Total Container Handled (TEU '000)	5,735	6,209	7,047	7,228	5,428	5,190
Transshipment (TEU '000)*	4,435	4,826	5,704	5,955	4,484	4,384
					<b>Jan-Sep</b>	<b>Jan-Sep (a)</b>
<b>Telecommunication Sector</b>						
Fixed Telephone Lines (No.'000)**	1,166	1,198	1,216	2,300	2,324	2,328
Cellular Phones (No.'000)	26,228	28,199	32,528	32,884	33,463	27,679
Wireless Phones (No.'000)	1,384	1,405	1,269	1,055	1,084	1,074
Internet and E-mail Subscribers (No. '000)	4,921	5,904	10,563	13,408	12,536	13,295
					<b>Jan-Sep</b>	<b>Jan-Sep (a)</b>
<b>Health Sector</b>						
Private Hospitals	225	181	191	207	207	209
Public Hospitals	610	612	612	603	603	605
No. of Beds (Government)	76,829	76,569	76,824	77,964	77,964	78,526
No. of Doctors (Government)	20,458	20,349	19,692	18,130	18,130	20,544
No. of Nurses (Government)	32,499	34,221	34,714	38,276	38,276	38,569
					<b>Jan-June</b>	<b>Jan-June (a)</b>
<b>Financial Sector</b>						
Bank Branches and Other Outlets	6,107	6,213	6,882	7,387	7,133	7,397
					<b>Jan-Mar</b>	<b>Jan-Mar (a)</b>
Credit Cards in Use	1,315,915	1,486,545	1,710,671	1,854,103	1,730,521	1,892,205
					<b>Jan-Sep</b>	<b>Jan-Sep (a)</b>
Licensed Finance Companies	46	45	43	42	42	39
Specialised Leasing Companies	7	6	5	4	4	3
					<b>Jan-Sep</b>	<b>Jan-Sep (a)</b>
<b>Tourism Sector</b>						
Tourist Arrivals	2,050,832	2,116,407	2,333,796	1,913,702	1,376,312	507,311
Tourist Earnings (US \$ Million)	3,518	3,925	4,381	3,607	2,594	956
Room Occupancy Rate	74.8	73.3	72.8	N.A.	N.A.	N.A.
					<b>Jan-Sep</b>	<b>Jan-Sep (a)</b>
<b>Transport Services ( New Registration)</b>						
Buses	2,685	3,331	2,957	1,613	1,099	507
Cars	45,172	39,182	80,776	38,232	28,574	20,048
Motor Lorries	26,887	16,742	16,931	3,738	2,969	2,387
Motor Cycles	340,129	344,380	339,763	284,301	223,728	144,399
Three Wheelers	56,945	23,537	20,063	15,490	12,144	7,040
Tractors and Trailers***	13,947	13,049	10,282	7,666	5,531	5,790

Source : Central Bank of Sri Lanka

(a) Provisional

\* Includes Re-stowing

\*\* Include number of wireless phones

\*\*\* Include No. of special purpose vehicles

**TABLE 2.3 : Performance of Tourism Sector**

Month	Tourist Arrivals					Tourist Earnings US\$ Million				
	2016	2017	2018	2019	2020	2016	2017	2018	2019 <sup>(a)</sup>	2020 <sup>(b)</sup>
January	194,280	219,360	238,924	244,239	228,434	333.3	407.0	448.5	460.3	430.6
February	197,697	197,517	235,618	252,033	207,507	339.2	366.3	442.3	475.0	391.1
March	192,841	188,076	233,382	244,328	71,370	330.8	348.8	438.1	460.5	134.5
April	136,367	160,249	180,429	166,975	-	234.0	297.2	338.7	314.7	-
May	125,044	121,891	129,466	37,802	-	214.5	226.1	243.0	71.2	-
June	118,038	123,351	146,828	63,072	-	202.5	228.8	275.6	118.9	-
July	209,351	205,482	217,829	115,701	-	359.2	381.1	408.9	218.1	-
August	186,288	190,928	200,359	143,587	-	319.6	354.0	376.1	270.6	-
September	148,499	145,077	149,087	108,575	-	254.8	269.0	279.8	204.6	-
October	150,419	152,429	153,123	118,743	-	258.1	283.0	287.4	223.8	-
November	167,217	167,511	195,582	176,984	-	286.9	311.0	367.1	333.6	-
December	224,791	244,536	253,169	241,663	-	385.7	453.0	475.2	455.5	-
<b>Total</b>	<b>2,050,832</b>	<b>2,116,407</b>	<b>2,333,796</b>	<b>1,913,702</b>	<b>507,311</b>	<b>3,518.6</b>	<b>3,925.3</b>	<b>4,380.7</b>	<b>3,606.9</b>	<b>956.2</b>

Source : Sri Lanka Tourism Development Authority

(a) Revised

(b) Provisional

### Accommodation, Food and Beverages

Value-added production of accommodation, food and beverages sub-sector contracted by 6.2 percent in the first quarter of 2020, compared to the same period of 2019. Tourist arrival declined by 63.5 percent to 507,311 tourists during the eight months of 2020, compared to 1.37 million tourists in the same period of 2019 due to the restrictions imposed on tourist arrivals and lockdown of the country since end March 2020. Consequently, earnings from tourism dropped significantly by 54 percent to US\$ 956 million in the first eight months of 2020.

### Telecommunication, IT consultancy, Postal Services

Value-added services of telecommunication sector demonstrated the highest growth among all sub-sectors in 2020 due to the expansion of telecommunication services by 15.2 percent. The telecommunication services were benefited from the higher demand for such services from the users during the lockdown period and the

introduction of 'work from home' concept. IT programming consultancy and related activities expanded by 9.6 percent in the first quarter of 2020 benefiting from greater demand for business process management (BPM). The increase in the number of mobile broadband connections and fixed broadband connections increased by 19.4 percent and 6.5 percent, respectively. Work-from-Home and Study-from-Home policies have been introduced by both public and private sectors. Meanwhile, postal and courier activities grew by 7.7 percent in the first quarter of 2020, compared to the same period of 2019.

### Financial Services, Insurance and Real Estate and Other Services

Value-added financial and auxiliary financial services sector expanded significantly by 7.9 percent in the first quarter of 2020, compared to 4.8 percent in the same period of 2019. Meanwhile, insurance sub-sector subdued to 0.2 percent in the first quarter of 2020.

**TABLE 2.4 : Sectoral Distribution of GDP Growth (%)**

Sector	2015	2016	2017	2018	2019 <sup>(a)</sup>	First Quarter	
						2019 <sup>(a)</sup>	2020 <sup>(a)</sup>
<b>Agriculture</b>	<b>4.7</b>	<b>-3.7</b>	<b>-0.4</b>	<b>6.5</b>	<b>0.6</b>	<b>5.0</b>	<b>-5.6</b>
Growing of Tea	-2.5	-11.2	4.5	0.4	-1.3	-1.2	-27.5
Growing of Rice	25.0	-31.3	-7.1	44.7	-0.3	28.2	4.1
Growing of Rubber	-10.1	-10.7	4.9	-0.3	-9.5	3.3	-8.7
Growing of Cereal	7.3	-12.2	-12.6	2.0	-9.5	-19.8	12.9
Growing of Vegetables	2.7	2.9	-5.3	4.0	1.5	-4.4	5.0
Animal Production	8.1	7.3	5.6	8.0	3.2	8.3	0.4
Forestry and Logging	1.9	8.5	19.2	-0.8	-4.8	-5.5	-13.3
Fishing	-12.5	10.6	-8.7	6.4	-2.5	17.6	-14.4
<b>Industry</b>	<b>2.2</b>	<b>5.7</b>	<b>4.7</b>	<b>1.2</b>	<b>2.7</b>	<b>3.9</b>	<b>-7.8</b>
Mining and Quarring	-5.2	13.8	9.3	-5.2	2.8	6.2	-18.3
Manufacturing Activities	4.7	1.8	3.9	3.6	1.9	2.5	-4.1
Other Industries	10.1	10.0	3.9	7.5	3.4	3.4	2.4
Construction	-2.5	8.3	4.4	-2.5	4.0	6.9	-16.0
<b>Services</b>	<b>6.0</b>	<b>4.8</b>	<b>3.6</b>	<b>4.6</b>	<b>2.3</b>	<b>3.7</b>	<b>3.1</b>
Wholesale and Retail Trade	5.6	2.6	3.8	4.7	3.0	4.6	4.1
Transportation and Storage	5.2	5.5	3.2	2.1	1.4	2.7	-0.1
Accommodation and Food Service Activities	1.9	4.0	5.0	5.7	-4.6	4.6	-6.2
Information and Communication	4.4	7.9	-0.9	-10.2	4.8	15.0	13.1
Financial and Insurance Activities	14.8	11.8	8.9	13.9	2.6	4.5	7.9
Real Estate Activities	10.2	6.3	4.7	3.9	2.4	2.2	4.2
Professional Services	-7.3	-1.3	4.3	4.3	2.4	4.9	1.6
Education, Human Health and Social Work Activities	-1.6	4.5	3.8	3.5	2.5	1.8	1.9
Public Administration and Defence	6.9	5.2	-4.8	-0.6	2.1	2.0	1.9
Other Services (Excluding Own-services)	4.0	1.4	3.2	2.7	2.1	3.8	3.4
<b>GDP</b>	<b>5.0</b>	<b>4.5</b>	<b>3.6</b>	<b>3.3</b>	<b>2.3</b>	<b>3.7</b>	<b>-1.6</b>

Source : Department of Census and Statistics

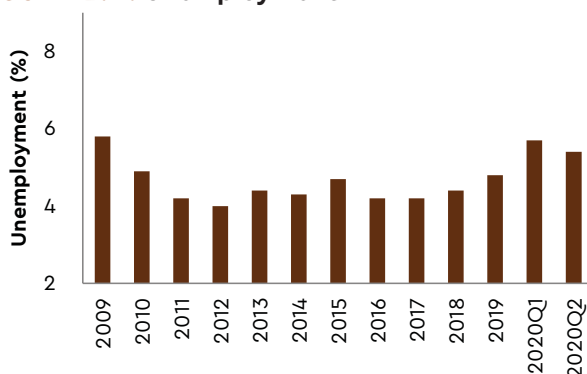
(a) Provisional

Real estate activities expanded by 4.2 percent in the first quarter of 2020. Public administration and defence, education, human health and social work activities sub sectors grew by 0.9 percent, 2.4 percent and 1.2 percent, respectively in value added terms in the first quarter of 2020. Professional, scientific, technical, administration and support services activities grew marginally by 1.6 percent in value added terms, compared to 4.9 percent growth recorded in the first quarter of 2019.

## Unemployment

As per the Labour Force Survey, the employed population dropped by 2.4 percent to nearly 8 million in the first half of 2020, compared to 8.2 million recorded in the same period of 2019. This drop was due to the decline in employment in industry and services sectors amidst an increase in the employed population in the agriculture sector. As such, the unemployed population increased significantly by 14.8 percent to 0.471 million in the first half of 2020, compared to 0.410 million in the same period of 2019 due to the impact of the pandemic. Accordingly, the unemployment rate increased to 5.6 percent in the first half of 2020, compared to 4.8 percent in the first half of 2019. The unemployment rate of females increased significantly to 8.9 percent and moderated to 3.9 percent among males in the first half of 2020.

**FIGURE 2.7 : Unemployment**



Source : Department of Census and Statistics

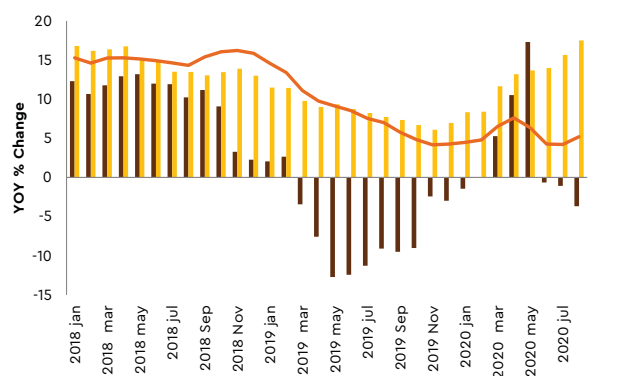
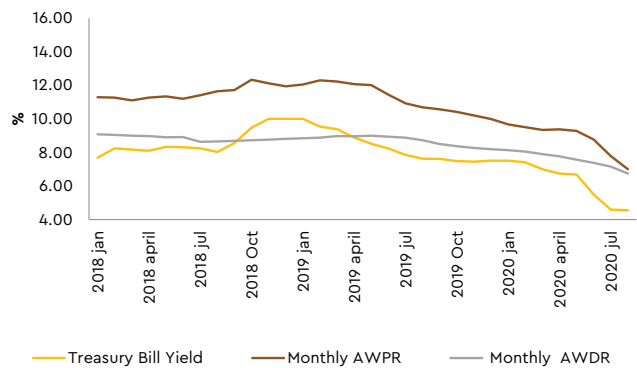
However, the unemployment rate declined to 5.4 percent in the second quarter of 2020, compared to 5.7 percent in the first quarter of 2020. The estimated labour force

participation rate was at 50.2 percent as at end June 2020. Youth unemployment aged between 15–24 years remained high at 27.7 percent in the first half of 2020. The unemployment rate among the category of the GCE A/L and above increased notably to 10.1 percent in the first half of 2020 from 8.7 percent in the same period of 2019.

## 2.3 Monetary Sector Developments

The Central Bank adopted a more relaxed accommodative monetary policy stance with the developments in COVID-19 pandemic. The gamut of policy measures have been conducted by the Central Bank to reduce the interest rate and increase the private sector credit growth.

**FIGURE 2.8 : Yield Rates, Monetary Aggregates and Private Sector Credit Growth**



Source : Central Bank of Sri Lanka.

Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were 7.0 percent and 8.0 percent, respectively at the end of 2019. In January 2020, policy rates

of SDFR and SLFR have been reduced by 50 basis points to 6.5 percent and 7.5 percent, respectively to stimulate the private sector credit growth which was below the expected level. In March 2020 with the outbreak of COVID-19, both the policy interest rates and the Statutory Reserve Ratio (SRR) have been further reduced by 25 basis points (SDFR to 6.25 percent and SLFR to 7.25 percent) and 4.0 percent, respectively to soften the domestic financial market. In April, the policy interest rate has reduced by 25 basis points (SDFR to 6.00 percent and SLFR to 7.00 percent) to respond to the COVID-19 outbreak. In May 2020, the policy interest rates have been further reduced by 50 basis points (SDFR to 5.50 percent and SLFR to 6.50 percent) to provide relief to businesses and individuals. However, with the reduction of policy rates by 150 basis points from January to May 2020, the credit growth to the private sector was weaker than expected. As such, in June 2020, the SRR has been further reduced to inject more liquidity to the market to reduce the interest rate.

Meanwhile, new credit schemes have been introduced at concessional rates for working capital purposes. Up to the end of June, the credit growth to the private sector remained stiff despite the repetitive reduction of policy rates. In July 2020, the policy rates have been reduced further by 100 basis points (SDFR to 4.50 percent and SLFR to 5.50 percent) in order to reduce market lending rates. In August 2020, other regulatory measures have been implemented to increase more borrowing. Finally, market interest rates declined as anticipated after the aggressive policy measures which helped increase credit to the private sector thereby expanding broad money growth.

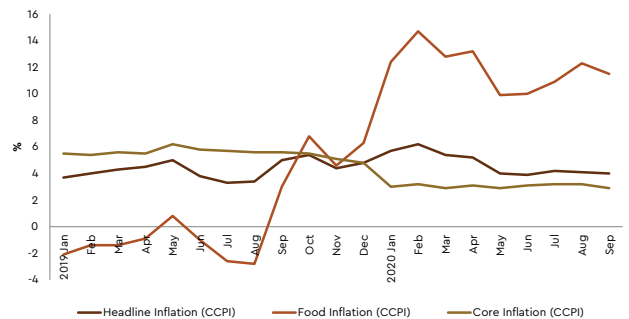
Average Weighted Lending Rate (AWLR) stood at 13.47 percent at the end of January and dropped to 12.29 percent towards the end of July 2020 and had further dropped to 11.21 percent at the end of September while Average Weighted Deposit Rate (AWDR) dropped to 6.23 percent by October 21

from 8.06 percent at the end of January this year. While Broad Money (M2b) increased by 8.57 percent from Rs. 7,704 billion at the end of January 2020 to Rs. 8,692 billion at the end of August 2020, the credit to the private sector increased substantially to 5,909 billion at the end of August 2020 from 5,798 billion at the end of January, 2020 benefiting from the low interest rates.

## Inflation

Inflation measured by the Colombo Consumer Price Index (CCPI, 2013=100) ranged 4–6 percent during January–September 2020. The inflation demonstrated three episodes during the first nine months of 2020 on a year-on-year basis: (i) the increase in inflation from 5.7 percent in January to 6.2 percent in February 2020; (ii) the decline in inflation and reached 3.9 percent in June; and (iii) the increase in inflation to 4.0 percent in September 2020. The CCPI based annual average inflation reported 4.5 percent in January and slightly increased to 4.7 percent in September 2020.

**FIGURE 2.9 : Movements in Headline, Core and Food Inflation (Based : 2013 = 100)**



Source : Department of Census and Statistics

Inflation measured by the National Consumer Price Index (NCPI, 2013=100) on year-on-year based headline inflation reached above mid-single digit level in the period from January to September 2020. The headline inflation, which registered 7.6 percent in January, increased to 8.1 percent in February 2020 at its highest level and stationed at 6.4 percent in September 2020. The NCPI based annual average inflation increased from 4.1 percent in January to 6.2 percent in September 2020.

**TABLE 2.5 : Headline Inflation, Core Inflation and Food Inflation (Base : 2013 = 100)**

Month	Headline Inflation (%)				Core Inflation* (%)				Food Inflation (%)			
	YoY		Annual Average		YoY		Annual Average		YoY		Annual Average	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
January	3.7	5.7	4.1	4.5	5.5	3.0	3.7	5.3	-2.1	12.4	2.3	2.0
February	4.0	6.2	4.1	4.6	5.4	3.2	3.8	5.1	-1.4	14.7	1.7	3.3
March	4.3	5.4	4.1	4.7	5.6	2.9	4.0	4.9	-1.4	12.8	1.2	4.4
April	4.5	5.2	4.1	4.8	5.5	3.1	4.2	4.7	-0.9	13.2	0.9	5.5
May	5.0	4.0	4.2	4.7	6.2	2.9	4.4	4.4	0.8	9.9	0.7	6.3
June	3.8	3.9	4.2	4.7	5.8	3.1	4.7	4.2	-1.0	10.0	0.3	7.2
July	3.3	4.2	4.0	4.8	5.7	3.2	4.8	4.0	-2.6	10.9	-0.3	8.4
August	3.4	4.1	3.8	4.8	5.6	3.2	5.0	3.8	-2.8	12.3	-1.2	9.7
September	5.0	4.0	3.9	4.7	5.6	2.9	5.1	3.6	3.0	11.5	-1.1	10.4
October	5.4	-	4.0	-	5.5	-	5.3	-	6.8	-	-0.4	-
November	4.4	-	4.1	-	5.1	-	5.4	-	4.6	-	0.1	-
December	4.8	-	4.3	-	4.8	-	5.5	-	6.3	-	0.8	-

Source : Department of Census and Statistics

Meanwhile, core inflation, which is underlying inflation of the economy, continued to be lower and the year-on-year NCPI based core inflation dropped to 3.2 percent in March from 3.9 percent in January and reach 4.8 percent in September 2020. Meanwhile, CCPI based year-on-year core inflation declined to 2.9 percent in September 2020 from 3.0 percent in January 2020.

## 2.4 Stock Market

The indicators of the Colombo Stock Exchange (CSE) demonstrated a mixed performance. The ASPI and S&P Sri Lanka 20 index declined by 2.4 percent and 16.1 percent, respectively, by end September 2020, compared to end 2019. Market capitalization dropped to Rs. 2,596 billion at end September 2020 from Rs. 2,709 billion, compared to end of September 2019. Meanwhile, the average daily turnover increased to Rs. 1,482 million, compared

to Rs. 661 million in the first nine months of 2019. The cumulative foreign sales were Rs. 40 billion in the first nine months of 2020, compared to the foreign sales of Rs. 2.6 billion recorded in the same period of 2019.

The CSE showed this mixed performance due to heightened uncertainties arisen from the COVID-19: At the beginning of the year, the CSE demonstrated a recovery with the improved investor confidence due to the renewed political stability and the successful control of COVID-19. However, the performance of CSE was sensitive to the developments of the pandemic. Due to lockdown stemming from the spread of COVID-19, the CSE was closed from 20 March 2020 until 11 May 2020. After the resurrection of CSE activities, market indices dropped following the second wave of the outbreak in September/October 2020 which is expected to rebound in the fourth quarter of 2020 and beyond.



**TABLE 2.6 : Movements in Capital Market**

Indicators	2014	2015	2016	2017	2018	2019	End Sep	
							2019	2020 <sup>(a)</sup>
All Share Price Index (1985 = 100)	7,299	6,895	6,228	6,369	6,052	6,129	5,738	5,985
S&P SL 20 Index	4,089	3,626	3,496	3,672	3,135	2,937	2,760	2,463
Market Capitalization (Rs. Billion)	3,105	2,938	2,745	2,899	2,840	2,851	2,709	2,596
No. of Listed Companies in Trading	294	294	295	296	297	289	290	285
Annual Average Turnover (Rs.Billion)	341	253	176	221	200	171	118	218
Foreign Sales (Rs. Million)	83,554	89,793	74,275	94,627	100,315	68,272	48,721	87,027
Foreign Purchases (Rs. Million)	104,771	84,421	74,625	112,285	77,067	56,537	46,127	46,905
Net Purchases (Rs. Million)	21,217	-5,372	350	17,658	-23,248	-11,735	-2,594	-40,122

Sources : Colombo Stock Exchange and Central Bank of Sri Lanka

(a) Provisional

## 2.5 External Sector Developments

Sri Lanka's external sector exhibited a mixed performance in the first eight months of 2020 with two episodes: (i) a subdued performance was witnessed in the first six months of 2020 with the ramification effects of the COVID- 19 on trade, tourism and financial flows; (ii) external sector started to recover from the second week of May 2020 with the resumption of domestic economic activities after the removal of lockdown measures. The recovery is observed in June, July and August with the narrowed trade deficit, increased workers' remittances, the increase in exports and decline in import bill due to the restriction imposed on non-essential imports and certain outward capital flows together with the decline in petroleum import bill.

In a cumulative basis, the trade deficit narrowed by US\$ 1,043 million to US\$ 3,812 million in the first eight months of 2020 from US\$ 4,855 million in the same period of 2019. Earning from exports declined by 19.7 percent to US\$ 6,445 million in the first eight months of 2020, compared to US\$ 8,030 million during the same period of 2019 due to the contraction of industry, agriculture

and mineral exports by 22.5 percent to US\$ 4,905.5 million, by 9.1 percent to US\$ 1,516.0 million and by 33.1 percent to US\$ 14.3 million, respectively. Meanwhile, import expenditure dropped significantly by 20.4 percent to US\$ 10,257.4 million in the first eight months of 2020, compared to US\$ 12,885.5 million in the same period of 2019. This decline was driven by the Government policy on curtailment of import of non-essential items and the plunge in expenditure on fuel imports.

In paralleled to the global developments, the country was closed for international tourists from late March 2020 onwards. The outflows from the government securities market and the Colombo Stock Exchange (CSE) were witnessed with increased global uncertainties. The Sri Lankan rupee stabilized at end August 2020 with the series of measures implemented by the Government including the limitation imposed on foreign exchange outflows. The Government duly made debt service obligations. The Government is committed to attracting more foreign investments which will help improve investor confidence in near term to medium term.

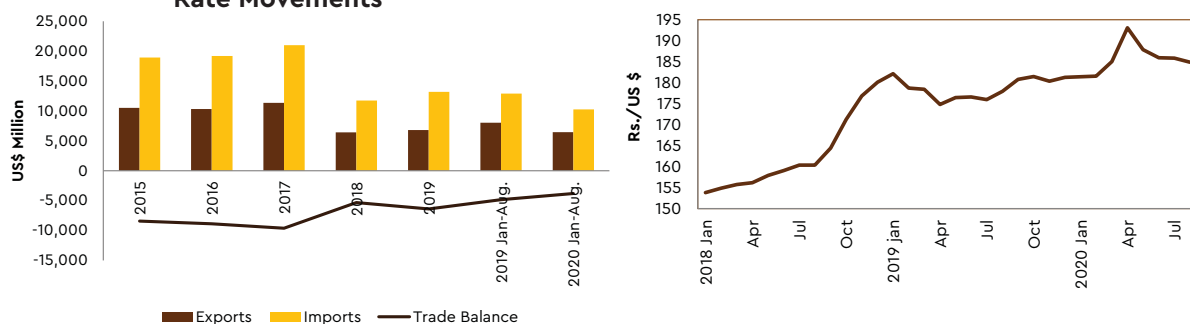
**TABLE 2.7 : External Trade**

US\$ Million

Category	2017	2018	2019	Jan-Aug	
				2019	2020 <sup>(a)</sup>
<b>Exports</b>	<b>11,361</b>	<b>11,890</b>	<b>11,940</b>	<b>8,030</b>	<b>6,445</b>
<b>Agricultural Exports</b>	<b>2,767</b>	<b>2,580</b>	<b>2,462</b>	<b>1,667</b>	<b>1,516</b>
Tea	1,530	1,429	1,346	915	806
Other Agricultural Products	1,237	1,151	1,116	752	710
<b>Industrial Exports</b>	<b>8,542</b>	<b>9,258</b>	<b>9,427</b>	<b>6,330</b>	<b>4,906</b>
Textile and Garments	5,032	5,318	5,597	3,737	2,853
Food, Beverages and Tobacco	393	462	447	304	303
Rubber Products	835	875	866	591	489
Machinery and Mechanical Appliances	371	435	400	275	210
Petroleum Products	434	622	521	328	268
Other Industrial Exports	1,477	1,546	1,596	1,096	783
<b>Mineral Exports</b>	<b>35</b>	<b>34</b>	<b>34</b>	<b>21</b>	<b>14</b>
<b>Unclassified</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>11</b>	<b>9</b>
<b>Imports</b>	<b>20,980</b>	<b>22,233</b>	<b>19,937</b>	<b>12,886</b>	<b>10,258</b>
<b>Consumer Goods</b>	<b>4,503</b>	<b>4,980</b>	<b>3,957</b>	<b>2,499</b>	<b>2,300</b>
Food and Beverages	1,841	1,606	1,427	917	1,024
Other Consumer Goods	2,662	3,374	2,530	1,582	1,277
<b>Intermediate Goods</b>	<b>11,436</b>	<b>12,488</b>	<b>11,369</b>	<b>7,380</b>	<b>5,692</b>
Petroleum	3,428	4,152	3,892	2,577	1,691
Textiles and Garments	2,724	2,859	2,909	1,877	1,457
Wheat and Maize	357	374	346	203	229
Other	4,927	5,104	4,222	2,723	2,315
<b>Investment Goods</b>	<b>4,895</b>	<b>4,690</b>	<b>4,603</b>	<b>3,002</b>	<b>2,253</b>
Machinery and Equipment	2,621	2,492	2,490	1,610	1,325
Building Materials	1,591	1,525	1,509	1,007	671
Transport Equipments	675	668	597	380	255
Other	8	6	8	5	2
<b>Unclassified</b>	<b>147</b>	<b>75</b>	<b>8</b>	<b>5</b>	<b>11</b>
<b>Trade Deficit</b>	<b>-9,620</b>	<b>-10,343</b>	<b>-7,997</b>	<b>-4,855</b>	<b>-3,812</b>

Source : Central Bank of Sri Lanka

(a) Provisional

**FIGURE 2.10 : Trade Balance and Exchange Rate Movements**


Source : Central Bank of Sri Lanka.

## Exports

Exports exhibited a “V-shaped” recovery in the first eight months of 2020. Reflecting the impact of COVID-19 on the external trade, earnings from exports declined by 19.7 percent to US\$ 6,445.0 million in the first eight months of 2020, compared to US\$ 8,030.2 million during the same period of 2019. Earnings from industrial exports declined by 22.5 percent to US\$ 4,905.5 million in the first eight months of 2020 from US\$ 6,330.2 million in the same period of 2019. This was due to the decline in industrial exports especially textile and garments by 23.6 percent, gems diamond and jewellery by 48.7 percent, transport equipment by 61.6 percent, base metals and articles by 37.2 percent, leather, travel goods and footwear by 48.5 and rubber products by 17.3 percent. However, there is a higher demand for personal protective equipment, with the spread of COVID-19 pandemic, such as face masks, surgical gloves, and health protective suits which are categorised as textiles and garments, other made up textile articles and surgical and other gloves categorised under rubber products. Therefore, earnings from other made up textile articles grew by 141 percent to US\$ 170.1 million during the first eight months of 2020 compared to US\$ 70.5 million in the same period of 2019. Furthermore, industrial export earnings increased from subcategories of food, beverages and tobacco, transport equipment, plastics and articles during August 2020. Main export destinations such as the US, the UK and other European countries were severely affected by the COVID-19, depressing the demand for exported goods. Meanwhile, earnings from agricultural exports declined by 9.1 percent to US\$ 1,516.0 million during the first eight months of 2020 from US\$ 1,667.4 million in the corresponding period of 2019 due to the significant decline in agricultural exports including tea, rubber, coconut, spices, unmanufactured tobacco and seafood, except vegetables and minor agricultural products. However, earnings from agricultural exports increased by 12 percent to US\$ 229.1 million in June 2020

and by 27.3 percent to US\$ 261.2 million in July on a year on year basis. Furthermore, earnings from coconut, spices, vegetables, unmanufactured tobacco, and minor agricultural products increased in August 2020 mainly due to the stabilization domestic economic activities after the adverse impacts of COVID-19 Pandemic. Meanwhile, mineral exports declined by 33.1 percent to US\$ 14.3 million.

**FIGURE 2.11 : Composition of Exports**

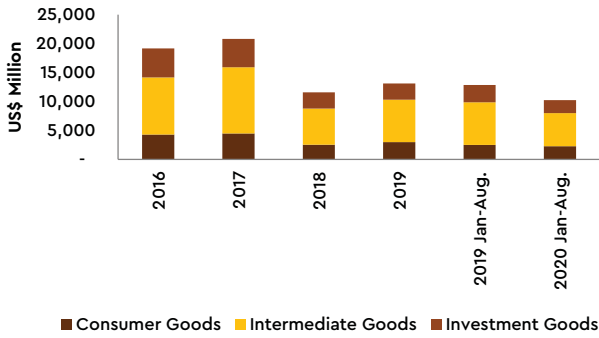


Source : Central Bank of Sri Lanka.

## Imports

The performance of the imports demonstrated a recovery during the July-August months. Expenditure on imports declined by 20.4 percent to US\$ 10,257.4 million in the first eight months of 2020, compared to US\$ 12,885.5 million in the same period of 2019 mainly due to the restriction imposed on the importation of motor vehicles and non-essential goods. Import expenditure on consumer goods declined by 8 percent to US\$ 2,300.3 million during the period mainly due to the decline in imports of non-food consumer goods. Hence, import expenditure on non-food consumer goods fell by 19.3 percent to US\$ 1,276.7 million from US\$ 1,582.0 million in the same period of 2019 due to drop in import expenditure on the personal vehicles, clothing and accessories, home appliances and household and furniture items. Import expenditure on personal vehicles declined by 43.4 percent to US\$ 280.8 million. However, import expenditure on food and beverages increased by 11.6 percent to US\$ 1,023.7 million during in the first eight

**FIGURE 2.12 : Composition of Imports**



Source : Central Bank of Sri Lanka.

months of 2020 driven by the importation of vegetables, dairy products, sugar and confectionery and spices. Meanwhile, import expenditure on intermediate goods shrunk significantly by 22.9 percent to US\$ 5,692.4 million from US\$ 7,379.8 million, mainly due to declined expenditure on imports of fuel, diamonds, precious stones and metals, textiles and textile articles, base metals and mineral products. Expenditure on fuel imports significantly decreased by 34.4 percent to US\$ 1,691.2 million driven by the decline in import prices of crude oil and refined petroleum in the international market and the drop in fuel import volumes due to the decline in domestic demand for fuel with slowed down of economic activities. Moreover, expenditure on imports of textile and textile articles significantly declined by 22.4 percent to US\$ 1,457.2 million in the first eight months of 2020 with the disruption to global supply chains and with low expectations on demand for

garment-exports in the near term.

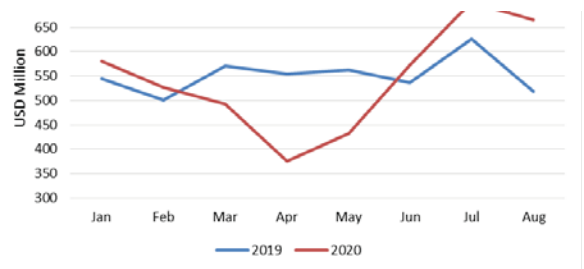
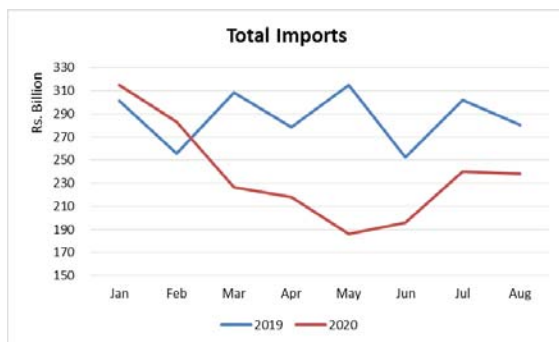
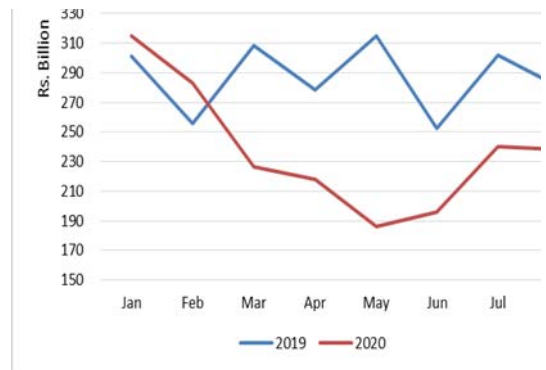
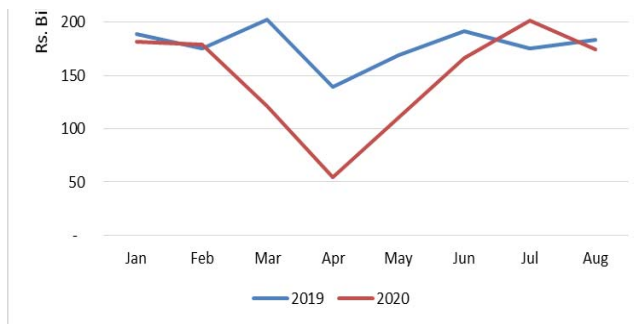
Import expenditure on investment goods declined significantly by 24.9 percent to US\$ 2,253.2 million in the first eight months of 2020 from US\$ 3,001.8 million in the same period of 2019: machinery and equipment by 17.7 percent, building material by 33.3 percent, transport equipment by 32.8 percent and other investment goods by 56.5 percent.

### Tourism and Workers' Remittances

Tourist arrivals declined by 60.0 percent to 507,311 persons in the first eight months of 2020, compared to 1,267,737 persons recorded in the same period of 2019. This drastic drop is mainly due to the termination of all passenger flights and ships since mid-March 2020. Hence, earnings from tourism dropped by 60 percent to US\$ 956 million in the first eight months of 2020 from US\$ 2,389 million in the same period of 2019.

On a cumulative basis, inflows from workers' remittances dropped marginally by 1.5 percent to US\$ 4,346 million in the first eight months of 2020 from US\$ 4,414 million in the same period of 2019. However, workers' remittances increased in June, July and August by 6.7 percent to US\$ 572 million, 12.2 percent to US\$ 702 million, and 28.2 percent to US\$ 664 million, respectively. Meanwhile, Gross Official Reserves (GOR) stood at US\$ 7.4 billion by the end of August 2020.

## Economic and Fiscal Impact of the COVID-19 Pandemic to the Country



### 2.6 World Economic Perspectives

With the contraction of economic activities in the advanced economies, China, India and Emerging Markets and Developing Economies (EMDEs) due to the COVID-19 pandemic, the world economic growth is expected to contract by 4.4 percent in 2020, compared to 2.4 percent growth recorded in 2019, according to the International Monetary Fund (IMF). Global economic activities were largely collapsed in the first four months of 2020 due to COVID-19 outbreak related lockdowns and other restrictions. Both trade and financial sectors collapsed, and thus it is expected to trigger contractions in most of the economies. The IMF forecasts that nearly 80 percent of EMDEs would experience negative growth, particularly, economies that heavily depend on tourism, deeply embedded in global value chains, and major exporters of industrial commodities.

Economies of Low-income countries have been severely affected due to loss of income thereby endangering them into poverty. The capacity of the health sector of these countries is limited to address larger pandemic outbreaks. Many countries are facing a lack of fiscal space to respond to current pandemic due to their higher levels of government debt. However, economic growth is expected to rebound in EMDEs to 4.6 percent in 2021 with the recovery of trade activities and investments, however, the countries depending on tourism will take more time to recover.

Economies have moved to ease monetary policy in short-term to address the deep recession and in medium term, economies need to further enhance their monetary policies to bolster economic growth while implementing fiscal support packages such as delay or ease payment obligations for taxes, utilities, rents, and debt service.

**TABLE 2.8 : Key Indicators of World Economy – 2020 (Projection)**

Country	GDP Growth (Annual percent change)	Inflation (Percent)	Unemployment (Percent)	Fiscal Deficit (Percent of GDP)	Gross Debt (Percent of GDP)
Argentina	-11.8	-	11.0	-10.7	62.2
Australia	-4.2	0.7	6.9	-10.7	125.5
Brazil	-5.7	2.8	13.4	-16.8	101.4
Canada	-7.1	0.6	9.7	-19.9	114.6
Chile	-6.0	2.9	11.4	-10.7	62.2
China	1.9	2.9	3.8	-11.9	61.7
France	-9.8	0.5	8.5	-10.8	118.7
Germany	-6.0	0.5	4.3	-8.2	73.3
Greece	-9.5	-0.6	19.9	-6.2	48.8
India	-10.3	4.9	n.a.	-13.1	89.3
Indonesia	-1.5	2.1	8.0	-6.2	48.8
Italy	-10.6	0.1	11.0	-13.0	161.8
Japan	-5.3	-0.1	3.3	-14.2	266.2
Korea	-1.9	0.5	4.1	-10.7	125.5
Malaysia	-6.0	-1.1	4.9	-6.2	48.8
Mexico	-9.0	3.4	5.2	-5.8	65.5
Russia	-4.1	3.2	5.6	-5.3	18.9
Singapore	-6.0	-0.4	3.0	-10.7	63.7
South Africa	-8.0	3.3	37.0	-14.0	78.8
Spain	-12.8	-0.2	16.8	-14.1	123.0
Thailand	-7.1	-0.4	1.0	-6.2	48.8
United Kingdom	-9.8	0.8	5.4	-16.5	108.0
United States	-4.3	1.5	8.9	-18.7	131.2
Vietnam	1.6	3.8	3.3	-6.2	48.8

Sources: *World Economic Outlook, IMF, October 2020, and Fiscal Monitor, IMF, October 2020*

*n.a – not available*

# Performance of State Owned Enterprises | 03





### 3.1 Overview

The Government policy direction on State Owned Enterprises (SOEs) is now geared towards improving the efficiency level of such SOEs through the inclusion of professionalism to the Board of Management, monitoring closely at each stage, operating with proper strategic directions to convert them towards commercially sound and financially independent ventures in the medium term.

Having identified the importance of having a qualified Board of Management at State Owned Enterprises, the government adopted a novel policy of calling for Request for Proposals from those interested to serve in these Boards. This resulted in many SOEs seeing qualified professionals, entrepreneurs with a sound track record being appointed to the Boards. It is encouraging to see that such appointments have had a significant impact as evidenced by the performance even in the last few months amidst the impact of the COVID-19.

The Government was able to utilize the extensive networks, processes and systems in particular in Lanka Sathosa Limited, State Pharmaceuticals Manufacturing Corporation (SPMC), State Pharmaceuticals Corporation (SPC), Ceylon Electricity Board, National Water Supply & Drainage Board etc. which provides key services to ensure that their services were maintained with no interruption during COVID. Reforms of SOEs have commenced focusing on productivity improvement and generating better shareholder value. In this regard, Selendiva Investments Limited to oversee the real estate properties of the government has been incorporated while a company for expressway management is also being incorporated. SOEs have been guided to submit strategic business plans where Key Performance Indicators (KPI) will be established, concurrently with the establishment of a strong monitoring system. Action will also be taken to review the Schemes of Recruitment of SOEs to ascertain their applicability in meeting the KPIs as established.

SOEs were supported in their operations during the last few months, with such support including the issuance of Treasury guarantees. At the same time, having reexamined the monitoring mechanism of the Treasury, the Circular No 02.2020 on October 26, 2020 has provided the SOEs with better flexibility and autonomy in their recruitments.

The State Owned Banks, played a vital role in implementing the credit relief scheme introduced by the Central Bank of Sri Lanka to support those businesses hit by the COVID-19 pandemic. The State Owned Banks together has supported 27,553 customers and has disbursed Rs. 46.7 billion under the Saubagya COVID-19 Renaissance facility. Lanka Sathosa, SPC, SPMC, in particular, played a significant role in supporting the government's action regarding managing the COVID-19 pandemic.

### 3.2 A Brief Review of the major State Owned Business Enterprises (SOBES)

#### Bank of Ceylon

Bank of Ceylon (BoC) with its strong digital presence in online banking and mobile banking were able to facilitate its customers to engage in banking transactions smoothly during the lockdown. BoC has granted moratorium for 221,057 customers in line with the COVID-19 relief packages.

Bank's asset base increased by 15 percent to Rs. 2.8 trillion as at end August 2020 from Rs. 2.4 trillion as at end 2019. Deposits of the bank were Rs. 2.2 trillion by the end of August 2020, being the first Sri Lankan Bank to surpass the Rs. 2 trillion landmark. BoC recorded a profit before tax of Rs. 12.9 billion in the first eight months of 2020, compared to the profit before tax of Rs. 18.1 billion in the same period of 2019. This was mainly due to accounting for the day one loss on COVID -19 moratorium and the increase in interest expenses in line with the growth of the deposit base.

#### People's Bank

People's Bank (PB) has granted credit relief for 20,213 business customers amounting to Rs. 37 billion for 6 months to support businesses affected by COVID-19. PB launched a 'Made in Sri Lanka' loans project in collaboration with the Industrial Development Board to facilitate with financial and non-financial sciences to boost the local entrepreneurs and industries.

The PB successfully issued Rs. 20 billion worth of Basel III, Tier 2 compliant, unlisted, rated, unsecured, subordinated, redeemable debentures in July 2020 to strengthen the Tier 2 capital of the bank and to expand the loan book through diverse lending products.

During the first eight months of 2020, PB's asset base surpassed Rs. 2 trillion, being the second licensed commercial bank in the country, with an asset base over Rs. 2 trillion. The deposit base increased by 11.3 percent to Rs. 1.7 trillion by the end of August 2020, compared to Rs. 1.5 trillion as at end 2019. Loan portfolio of the bank increased by 22.1 percent to Rs. 1.7 trillion during the first eight months of 2020. PB recorded a profit before tax of Rs. 6.3 billion for the period from January to August 2020, compared to Rs. 13.3 billion during the same period of 2019 due to the increase in impairment charges by 89 percent.

### National Savings Bank

The National Savings Bank (NSB), the largest savings bank in the country, expanded its branch network by 2 branches to 258 by the end of August 2020. Further, NSB has a network of 4,692 post offices/sub-post offices distributed throughout the country.

The total asset base of the Bank grew by 8.1 percent to Rs. 1.3 trillion by the end of August 2020 against the Rs. 1.2 trillion as at the end December 2019, mainly attributable to the growth in investments in Government securities. The increase in assets was mainly funded through customer deposits (91.3 percent of the total assets), which increased by 13.8 percent to Rs. 1,156 billion, compared to the deposit base of Rs. 1,016 billion as at end 2019. Loans and advances recorded a marginal

growth of 2.6 percent to Rs. 466 billion from Rs. 454 billion as at end 2019. Profit before tax of the bank during the first eight months of 2020 recorded a decline of 13 percent to Rs. 5.4 billion, compared to Rs. 6.1 billion in the same period of 2019, primarily due to the increase in the recognition of interest loss and the impairment charge caused by COVID 19 pandemic.

### Ceylon Electricity Board

The total revenue of the Ceylon Electricity Board (CEB) has declined by 2.3 percent to Rs. 158,295 million for the period end of August 2020, compared to the Rs. 162,033 million in the same period of 2019, mainly due to the decline in demand for the industry, general-purpose and hotel sector during the lockdown period. The direct generation cost declined by 22.7 percent from Rs. 162,089 million during the period in 2019 to Rs.125,334 million in same period in 2020. Accordingly, the cost per unit declined to Rs. 20.63 per KWh in the first eight months of 2020 as against Rs. 23.61 per KWh for the same period in 2019 due to the favourable changes in generation mix as hydro: thermal (fuel): thermal (coal): NCRE & wind 22:28:41:9, compared to the 17:37:38:9 for the same period of 2019. As a result, CEB's operating loss declined to Rs. 31,724 million for the period by 50.2 percent, compared to the operating loss of Rs. 63,755 million for the same period in 2019.

**TABLE 3.1 : Composition of Electricity Generation and Capacity**

	2020 Jan-Aug <sup>(a)</sup>		
	Installed Capacity (MW )	Total Generation (GWh)	Percentage of Total Generation
Hydro	1,399	2,334	22%
Thermal – CEB Oil	654	1,069	10%
Thermal – IPP Oil	704	1,962	18%
Thermal – Coal	900	4,381	41%
NCRE & Wind	659	1,060	9%
<b>Total</b>	<b>4,316</b>	<b>10,806</b>	<b>100%</b>

Sources : CEB and Department of Public Enterprises

(a) Provisional

Payments made by the CEB to the Ceylon Petroleum Corporation (CPC) and Independent Power Producers (IPPs) have been improved almost by 41.2 percent in the first eight months of 2020, compared to the same period of 2019 using the given finance support (Rs. 48 billion) to CEB through Fuel Price Stabilization Fund (FPSF). However, as CEB experienced considerable delays in collection of electricity bill during the period, total outstanding obligations to the state banks have further enhanced to Rs. 103,792 million as at end August 2020 (except project loans), compared to Rs. 89,420 million as at end December 2019.

### **Ceylon Petroleum Corporation**

The sales volume of Ceylon Petroleum Corporation (CPC) declined by almost 20 percent to 3,367 million litres for the first eight months of 2020, compared to 4,211 million litres in the same period of 2019. Accordingly, the revenue of CPC dropped almost by Rs. 96 billion while the cost of sales declined by 22 percent to Rs. 311 billion. In fact, the CPC was able to record an operational profit for the period, as the CPC's overall performance is highly linked with the exchange rate fluctuations, coupled with the exchange rate variations, CPC's overall loss for the first eight months of 2020 reached Rs. 4.4 billion.

As the average crude oil price remained below US\$ 43 per barrel, the total import cost of the CPC during the first eight months of 2020 declined to around USD 1,126 million. As the government established the FPSF, future oil price fluctuations in the global market are expected to be absorbed by this Fund to maintain a stable price level for petroleum products in the domestic market.

Nevertheless, due to the absence of cost recovery pricing structure historically, the

accumulated loss of CPC as at the end of August 2020 reached to Rs. 341.6 billion creating a significant impact on its operations and balance sheet. The trade receivable stood at Rs.159 billion at the end of August 2020. However, the CPC's exposure to state banks reduced to Rs. 519 billion by end August 2020 from Rs. 566 billion at end December 2019, due to the fund transferred made through the FPSF.

### **National Water Supply and Drainage Board**

National Water Supply and Drainage Board (NWS&DB) recorded a total piped borne water coverage of 52.1 percent, safe water supply coverage of 92.2 percent and piped sewerage coverage of 2.07 percent against the target set for 2020 of 60 percent, 91.7 percent and 3.3 percent, respectively.

During the first eight months of 2020, NWS&DB recorded a revenue of Rs. 16,824 million against the revenue of Rs. 16,084 million than that of 2019. Due to a marginal decline in cost of sales, the Board was able to record a gross profit of Rs. 7,693 which is a 10.8 percent increase than the same period of the last year. This is reflected in the operating profit of Rs. 179 million against the loss of Rs. 512 million incurred during the same period of year 2019.

The total number of connections provided by the Board has increased to 2.48 million for the first seven months of 2020 by 4 percent. However, non-revenue water percentage has increased by 0.7 percent to 24.91 for the same period.

Moreover, up to now, the General Treasury has contributed to Rs. 2,027 million to meet agreed obligation to service the loans to cover 50 percent to urban water projects, 75 percent to rural water projects and 100 percent on CKD reduction water projects.

**TABLE 3.2 : Profitability of Key State Owned Enterprises**

Rs. Million

Enterprise	Profit/(Loss) as at		
	2018	2019 <sup>(a)</sup>	31.08.2020 <sup>(a)</sup>
1 Bank of Ceylon	33,416	29,685	12,881
2 People's Bank	24,406	19,666	6,343
3 National Savings Bank	7,941	10,462	5,449
4 State Mortgage & Investment Bank	480	465	189
5 HDFC Bank	629	774	-788
6 Regional Development Bank	2,103	1,344	-575
7 Employee's Trust Fund Board	18,292	20,570	21,344
8 Sri Lanka Insurance Corporation	13,399	18,976	3,601
9 National Insurance Trust Fund	3,289	3,009	6,204
10 Sri Lanka Export Credit Insurance Corporation	419	277	167
11 Agriculture and Agrarian Insurance Board	612	411	-158
12 Ceylon Electricity Board	-30,458	-85,411	-31,724
13 Ceylon Petroleum Corporation	-106,143	-11,835	-4,417
14 Sri Lanka Ports Authority	7,534	15,777	7,483
15 National Water Supply and Drainage Board	-517	-1,177	179
16 Airport and Aviation Services (Sri Lanka ) Ltd	10,458	15,222	-688
17 Sri Lankan Airlines Ltd	-17,214	-44,023	-36,387
18 Sri Lanka Transport Board	1,295	1,556	-1,175
19 State Engineering Corporation	-1,337	-954	-598
20 Central Engineering Consultancy Bureau	531	340	-93
21 State Development and Construction Corporation	18	11	-264
22 Milco (Pvt) Ltd	-606	-619	-56 *
23 National Livestock Development Board	-589	-510	-69 *
24 Sri Lanka State Plantations Corporation	-76	-239	-112
25 Janatha Estates Development Board	-320	-452	-250
26 Kurunegala Plantations Ltd	211	120	161
27 Chilaw Plantations Ltd	-35	89	178
28 Kalubovitiyana Tea Factory Ltd	-7	-53	-1
29 Sri Lanka Cashew Corporation	18	43	-18 *
30 Lanka Mineral Sands Ltd	621	2,271	-296
31 Lanka Phosphate Ltd	16	28	29
32 Kahatagaha Graphite Lanka Ltd	24	31	-1
33 Development Lotteries Board	2,735	2,897	1,711
34 National Lotteries Board	1,038	1,323	866
35 State Pharmaceuticals and Manufacturing Corporation	360	592	838
36 Sri Lanka Ayurvedic Drugs Corporation	33	3	-5
37 State Pharmaceuticals Corporation	1,685	2,176	675

Enterprise	Profit/(Loss) as at		
	2018	2019 <sup>(a)</sup>	31.08.2020 <sup>(a)</sup>
38 Sri Jayawardenapura General Hospital	123	-94	54
39 Independent Television Network Ltd	-622	-597	-420
40 Sri Lanka Rupavahini Corporation	190	-467	-330
41 Sri Lanka Broadcasting Corporation	-20	-29	-12
42 Sri Lanka Handicraft Board	22	123	-68
43 State Timber Corporation	422	317	-119
44 STC General Trading Company	88	-29	-34
45 Lanka Sathosa Ltd	-2,250	-1,781	-1,021
46 State Printing Corporation	-406	-169	-82
47 Ceylon Fisheries Corporation	17	-28	-40 *
48 Ceylon Fishery Harbour Corporation	3	20	-65 *
49 Ceylon Fertilizer Company Ltd	39	120	31
50 Colombo Commercial Fertilizer Company Ltd	290	306	44
51 Hotel Developers Lanka PLC	-126	-361	-15
52 Lanka Sugar Company Ltd	144	-1,308	1,007
<b>Total</b>	<b>-27,825</b>	<b>-1,132</b>	<b>-10,447</b>

Sources : SOBEs and Department of Public Enterprises

\*Profitability as at 31.07.2020

(a) Provisional

**TABLE 3.3 : Levy/Dividend Income from State Owned Enterprises**

Rs. Million

	2016	2017	2018	2019	As at 31.08.2020
<b>Levy</b>	<b>92,338</b>	<b>50,447</b>	<b>37,230</b>	<b>22,833</b>	<b>5,081</b>
National Savings Bank	12,026	3,865	500	2,000	1,000
Bank of Ceylon	18,000	12,000	4,500	-	-
Peoples Bank	8,000	5,000	3,200	2,200	1,500
Telecommunication Regulatory Commission of Sri Lanka	28,000	22,800	21,850	8,950	2,000
Ceylon Petroleum Corporation	10,000	-	-	-	-
State Mortgage & Investments Bank	10	25	-	-	-
Regional Development Bank	88	-	-	169	-
State Timber Corporation	175	100	100	50	-
State Pharmaceuticals Manufacturing Corporation	65	45	50	-	-
National Insurance Trust Fund	2,500	2,100	2,750	3,268	500
Geological Survey and Mines Bureau	900	1,500	1,700	2,300	-
National Gem and Jewellery Authority	175	100	25	25	-
Sri Lanka Rupavahini Corporation	-	-	-	-	-
Ceylon Electricity Board	8,000	-	-	-	-
Board of Investment of Sri Lanka	115	220	250	250	-
National Lotteries Board	550	-	-	-	-
Securities and Exchange Commission	-	-	-	52	-
Sri Lanka Export Credit Insurance Corporation	25	-	15	15	-
Central Engineering Consultancy Bureau	25	25	25	25	-
Sri Lank Tourism Promotion Bureau	1,500	1,000	1,000	500	-
Civil Aviation Authority of Sri Lanka	768	800	800	800	-
State Pharmaceutical Corporation	216	222	-	-	-
National Transport Medical Institute	200	160	165	200	-
Sri Lanka Bureau of Foreign Employment	1,000	185	200	650	-
National Transport Commission	-	300	100	50	-
Sri Lanka Tourism Development Authority	-	-	-	200	-
Sri Lanka Land Reclamation and Development Authority	-	-	-	200	-
Sri Lanka Ports Authority	-	-	-	900	-
National Medicines Regulatory Authority	-	-	-	29	81
<b>Dividends</b>	<b>15,821</b>	<b>3,550</b>	<b>4,598</b>	<b>5,024</b>	<b>2,407</b>
National Savings Bank	60	60	60	60	60
Bank of Ceylon	346	346	346	346	346
People's Bank	316	316	316	316	316
Lankaputhra Development Bank	36	41	41	-	-
National Development Bank	2	2	1	1	1
Sri Lanka Savings Bank	-	-	86	-	-
Sri Lanka Insurance Corporation	11,857	503	1,856	1,720	695
Airport and Aviation Services (Sri Lanka) Ltd	1,500	850	300	500	-
Lanka Mineral Sands Ltd	-	-	35	130	-

	2016	2017	2018	2019	As at 31.08.2020
Lanka Phosphate Ltd	-	8	5	7	-
Independence Television Network Ltd	-	10	12	-	-
Lanka Leyland Ltd	34	35	45	13	2
Rakna Arakshaka Lanka Ltd	-	-	40	37	-
Ceylon Fertilizer Ltd	116	90	21	15	-
Colombo Commercial Fertilizer Ltd	25	12	20	10	-
Paranthan Chemicals Company Ltd	-	8	11	-	10
STC General Trading Company	5	-	-	-	-
Sri Lanka Telecom PLC	795	795	795	947	947
De La Rue Lanka Ltd	62	79	106	133	-
Lanka Electricity Company Ltd	152	218	305	500	-
Lanka Industrial Estates Ltd	47	55	78	82	-
Skills Development Fund	-	-	-	-	-
Ceylon Agro Industries	12	12	19	23	30
Lanka Logistics Limited	5	-	1	-	-
Ceylon Petroleum Storage Terminals Ltd	438	-	-	-	-
Plantation Companies*	10	103	95	172	-
Others**	3	7	4	12	-
<b>Total</b>	<b>108,159</b>	<b>53,997</b>	<b>41,828</b>	<b>27,857</b>	<b>7,488</b>

Sources : SOBEs and Department of Public Enterprises

\* Includes Kurunegala , Kalubowitiyana, Chilaw, Pussellawa, Kotagala, Namunukula, Elpitiya.

\*\* Includes Ceylon Petroleum Storage Terminals Ltd, Carsons Management, Lanka Canneries, United Motors Lanka Ltd, Bogala Graphite Lanka Ltd, Autogrill Lanka Ltd, Hunnasfalls Hotel, Lanka Hydraulic Service (Pvt) Ltd, Jaya Container Terminals Ltd





# Basis Used for Preparation of 2020–21 Budget

# 04



## **Basis Used for Estimates**

The macroeconomic and fiscal estimates in the Budget 2020–21 are based on a series of assumptions, analysis and staff judgements at the time of budget preparation. This provides details of the macroeconomic indicators which are used for estimates such as GDP, inflation, external sector developments, and unemployment's etc and assumptions used for revenue and expenditure while providing sensitivities of the estimates.

## **Gross Domestic Product**

The unprecedented contraction in the world economy and its spill-over effects on the domestic economy combined with the impact of COVID-19 on the economic and social activities impose pressures on the slowdown of economic activities in 2020. The real Gross Domestic Product (GDP) growth is expected to grow by 5.0 percent in 2021. Despite the slowdown in growth in 2020, the macroeconomic fundamentals along with political stability of the country exhibit a resilience hence, the economy is expected to rebound in 2021. Fiscal and monetary policy stimulus provided during 2020 along with simplification of the tax system are expected to achieve 5.0 percent economic growth in 2021. This will be further supported by the fiscal consolidation path and consumer price inflation is within the targeted limits in 2020–21. Global confidence in the Sri Lankan economy is expected to revive with the growing inflows of Foreign Direct Investment (FDI) to the Colombo Port City, the Hambantota Industrial Zone project and Eravur Fabric Park and other mega projects in the pipeline in 2021 onwards. Sri Lanka is expected to reappear as an important player in South Asia and the Asian region on the back of policy certainties and political stability with the implementation of far-reaching policy reforms in 2020–21 onwards. From the demand side, private and government final consumption expenditure, net exports and gross fixed capital formation are expected to be driven the growth in 2021.

The agriculture sector is expected to rebound gaining its growth momentum the recovery of agricultural output/exports with the clear-guided policy priorities together with the prevalence of conducive weather conditions. Reflecting the potential growth in

the manufacturing industry and construction, among other key sectors, the industry sector is expected to position in a new trajectory in the near term to medium term. The services sector, the largest contributor to the GDP, is expected to expand further with positive contribution from Information Communication Technology, transportation, financial services and real estate sector. Education and health sectors of the country are expected to be the catalyst for the expansion of the Services sector.

## **Consumer Prices**

Government has taken swift measures to stabilize prices of essential food items through trade and fiscal policy instruments including encouragement of local production, import duty, SCL, minimum and maximum price ceilings, guaranteed prices, import restrictions while regularising marketers to ensure availability and moderate prices. Government has also implemented the Fuel Price Stabilization Fund (FPSF) to help stable petroleum prices over the medium term. With these developments along with the monetary policy measures, inflation is expected to remain in the mid-single digits, around 4–6 percent in the year 2021. The improved fiscal space over the medium term, increased domestic supply and distribution network and monetary policy measures are expected to inflation in the targeted corridor.

## **Employment and Unemployment**

It is expected to contain unemployment to 4.0 percent in 2021 with the increase in employment opportunities for females, youths while reducing the mismatch between education and employment level. As such, the Government has declared 2021 to 2030 as the "Decade of Skills Development" to transform the education for better employment, arrest FDIs, and promote skilled migration while reducing unskilled labour migration. The outbreak of COVID-19 has propelled the country towards the use of online platforms which will capitalize for future expansion of the education and employment. Increasing women participation in the active labour force will be the key driver for economic development hence, access to work affordable facilities including child care and

vocational training, among other facilities will be improved.

## External Sector

Sri Lanka's external sector is expected to improve in 2021 with the increase in exports while normalising the imports hence, the trade deficit is expected to improve. Transport services and IT/BPO activities are expected to expand in 2021. Tourism and workers' remittances are expected to revive with the normalization of economic activities. As such, the external current account deficit is expected to improve over the medium term. FDI inflows are expected to rebound with the commencement of large scale projects and the stable exchange rate is anticipated during 2020-21.

## Monetary Aggregates

The money supply is expected to maintain at a level compatible with the expected growth in the nominal GDP in 2021. The fiscal consolidation path along with the improvement in the performance of State Owned Enterprises will inject more resources in the market which could be used by for the private sector investment to realize the expected economic growth in 2021.

## Revenue

Assumptions used for the revenue estimates are given in Annex IV.

## Expenditure

The basis for the preparation of expenditure estimates are as follows:

- The expenditure estimates on salaries and wages are based on the assumption that there will be about 1.3 million employees in the public sector while allowing a normal annual increase in the salaries due to annual increments entitled by employees.
- The number of pensioners is assumed to be 659,000 in estimating the expenditure on pension payments with the partial impact of about 25,000 and 28,000 retirees who would retire in 2020 and 2021, respectively.
- There will be a decline in interest payments given the expected lower domestic interest rates in 2020 consequent to the anticipated decline in inflation.

- Expenditure on utility services and supplies etc. would be tightened by strictly managing to meet medium term fiscal targets.
- Transfers and subsidies to households will be continued by implementing support programs for school children and disabled soldiers in addition to the cash grant provided for the vulnerable groups in the society due to the COVID-19 pandemic. Social security and welfare schemes for needy people such as free medicine, poverty alleviation programs will be continued together with agriculture support programs.
- Promotion of IT based solutions to all sectors is given priority.
- Transfers to public institutions and corporations will be maintained at the desired level while expecting a strong improvement in their performance.
- Public investment is expected to maintain at 4-6 percent of GDP over the medium term in economic and social infrastructure such as transportation, water, education, health and vocational training etc., while stimulating private sector in economic activities.
- Efforts to improve the quality of public spending and curtailment of unproductive expenditures will be strengthened.
- To avoid duplication and smooth functioning of the utilization of budgetary provisions, close cooperation and monitoring mechanisms with devolved agencies and line ministries are applied when implementing development activities.
- Commitment Control mechanisms will be implemented for fiscal and cash flow management.
- Priority has been given for institutional development in terms of the process, service delivery and rule of law.

## Borrowings

The government debt to GDP ratio is to be increased to 95.1 percent in 2020 and the ratio will expand to 96.3 percent of GDP in 2021. The debt is projected to contain at around 75 percent of GDP in the medium

term. A proper combination of domestic and foreign borrowings will be maintained to ensure that the government debt to GDP ratio would continue to decline. Minimizing debt is to be through increasing government revenue especially expansion tax revenue as 13 percent of GDP, tighten budgetary expenditure and attracting foreign direct investment. The debt management will be continued to focus on ensuring that the financing needs of the government are met at the lowest possible cost.

### **Sensitivities to the Estimates**

Economic Projections could be sensitive to the following challenges:

- Recovery of the global economy in 2021 than envisaged leading to an increase in international energy and other commodities, which could adversely affect the import cost, domestic consumer prices, production costs as well as budget costs though it will also generate positive implications, such as enhanced exports
- The outbreak of COVID-19 or other related health risks
- Adjustment costs to external shocks which may impact domestic production, international trade, domestic prices and overall growth
- Risks associated with natural disasters and possible international geopolitical uncertainties.
- Unfavorable weather conditions which could have an adverse impact on agriculture, hydropower generation and government budget
- Administrative and procurement related impediments
- Capacity constraints to the medium term transformation may affect the use of funds in relation to foreign funded large projects and thereby investment level and economic growth.
- Risks likely to have a material effect on the fiscal position
- Deterioration of global imbalances resulting in a lower than expected global economic growth which could adversely affect external demand for Sri Lankan goods and services which will result in a slowing down of the Sri Lankan economy
- Fluctuated prices of petroleum and commodity in the international market could have an impact on the macroeconomic stability and growth targets while affecting government expenditure and revenue.
- Increasing trend in public sector employees' salaries and pensions related recurrent expenditure.
- Underperforming State Owned Business Enterprises (SOBEs)



## The List of Treasury Guarantees Issued by the General Treasury – September 2020

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
1	People's Bank	Ceylon Electricity Board	19,957.74	273,909.23
		Ceylon Petroleum Corporation	171,097.09	
		Ceylon Shipping Corporation Ltd	13,554.40	
		Lanka Coal Company (Pvt) Ltd	11,000.00	
		National Water Supply & Drainage Board	3,410.59	
		Paddy Marketing Board	2,846.71	
		Road Development Authority	40,157.88	
		State Printing Corporation	1,350.00	
		SriLankan Airlines Ltd	9,434.83	
		Sri Lanka State Plantation Corporation	100.00	
		Lanka Sathosa Ltd	1,000.00	
2	Bank of Ceylon	Building Materials Corporation Ltd	500.00	381,137.47
		Ceylon Electricity Board	5,000.00	
		Ceylon Fisheries Corporation	100.00	
		Ceylon Petroleum Corporation	169,641.00	
		Elkaduwa Plantation Ltd	30.00	
		General Sir John Kotelawala Defence University	835.00	
		Janatha Estates Development Board	140.00	
		National School of Business Management Ltd	8,600.00	
		National Water Supply & Drainage Board	58,299.96	
		Northsea Ltd	80.00	
		Paddy Marketing Board	8,572.95	
		Road Development Authority	116,480.30	
		SriLankan Airlines Ltd	7,068.38	
		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	

## The List of Treasury Guarantees Issued by the General Treasury – September 2020

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
3	National Savings Bank	Ceylon Electricity Board	5,000.00	134,324.31
		General Sir John Kotelawala Defence University	35,201.41	
		Lakdhanavi Ltd	2,992.00	
		National Water Supply & Drainage Board	16,239.48	
		Road Development Authority	68,621.43	
		Sri Lanka Land Reclamation & Development Corporation	3,500.00	
		Urban Development Authority	2,770.00	
4	Commercial Bank	National Water Supply & Drainage Board	1,929.61	7,878.42
		Road Development Authority	5,948.81	
	DFCC Bank	National Water Supply & Drainage Board	6,026.24	12,132.09
		Road Development Authority	6,105.85	
6	Employees' Trust Fund Board	Lakdhanavi Ltd	2,992.00	2,992.00
7	Exim Bank of China	Telecommunications Regulatory Commission of Sri Lanka	16,710.58	16,710.58
8	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Ltd	4,000.00	41,160.09
		National Water Supply & Drainage Board	13,216.55	
		Road Development Authority	23,943.54	
9	Hongkong & Shanghai Banking Co. Ltd	Airport & Aviation Services (Sri Lanka) Ltd	8,319.56	38,759.69
		West Coast Power (Pvt) Ltd	30,440.13	
10	Industrial And Commercial Bank of China Ltd	Ceylon Electricity Board	13,142.20	13,142.20
11	Japan International Cooperation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Ltd	134,227.07	134,227.07
12	National Development Bank	National Water Supply & Drainage Board	17,380.43	25,125.79
		Road Development Authority	7,745.36	
13	Exim Bank of India	National Water Supply & Drainage Board	48,385.38	48,385.38
14	China Development Bank	National Water Supply & Drainage Board	11,774.35	11,774.35
15	Asian Development Bank	Ceylon Electricity Board	87,647.85	87,647.85
16	Sampath Bank PLC	Road Development Authority	14,500.00	14,500.00



## The List of Treasury Guarantees Issued by the General Treasury – September 2020

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
17	UniCredit Bank Austria AG	National Water Supply & Drainage Board	11,422.95	11,422.95
18	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	18,726.39	18,726.39
19	Sri Lanka Insurance Corporation	Sri Lanka Insurance Corporation	2,261.88	2,261.88
20	China National Chemical Engineering No. 14 Construction Co. Ltd	Ceylon Petroleum Corporation	8,251.15	8,251.15
21	DB Trustees (Hong Kong) Ltd	SriLankan Airlines Ltd	32,985.75	32,985.75
	<b>Total</b>		<b>1,317,454.65</b>	<b>1,317,454.65</b>

Source : Department of Treasury Operatios

**TABLE 1 : Key Sectoral Growth Rate %**

	2018	2019	2020 Q1 <sup>(a)</sup>
GDP	3.3	2.3	-1.6
Agriculture	6.5	0.6	-5.6
Industry	1.2	2.7	-7.8
Services	4.6	2.3	3.1
Inflation – GDP Deflator (%)	4.3	2.2	3.6
Unemployment Rate (%)	4.4	4.8	5.7

Source : Department of Census and Statistics

(a) Provisional

**TABLE 3 : Performance in Industrial Sector : 2018 – 2020 (Rs. Million)**

Description	2018	2019	2020 <sup>(a)</sup> Q <sub>1</sub>
Food, Beverages and Tobacco Products	556,140.0	574,888.0	174,434.0
Growth Rate	4.0	3.4	2.8
Textile, Wearing Apparel and Leather Related Products	314,442.0	326,803.0	98,723.0
Growth Rate	3.4	3.9	-13.6
Chemical Products and Basic Pharmaceutical Products	96,761.0	100,511.0	21,339.0
Growth Rate	3.4	3.9	-10.1
Rubber and Plastic Products	88,147.0	83,009.0	10,447.0
Growth Rate	2.3	-5.8	-11.6
Non-metallic Mineral Products	85,031.0	85,341.0	21,471.0
Growth Rate	9.3	0.4	-0.6
Furniture	100,302.0	100,797.0	30,633.0
Growth Rate	2.4	0.5	-6.7
Total Industrial Sector	2,540,315.0	2,608,211.0	679,127.0
Overall Industrial Growth	1.2	2.7	-7.8

Source : Department of Census and Statistics

(a) Provisional

**TABLE 4 : Performance in Electricity Generation and Services Sector : 2019 – 2020**

Category	2019				2020			
	Q <sub>4</sub>	Q <sub>2</sub>	Sep	Jan-Sep	Q <sub>4</sub>	Q <sub>2</sub>	Sep	Jan-Sep
<b>Electricity Generation</b>								
Total Generation (GWh) (Excluding Self Generation)	3,932.9	4,048.6	1,280.8	12,038.9	3,987.0	3,617.0	n.a.	n.a.
Growth Rate	5.7	7.5	-1.0	5.3	1.4	-10.7	n.a.	n.a.
Hydro (excluding mini hydro)	847.1	509.7	309.9	2,147.6	784.4	818.1	n.a.	n.a.
Growth Rate	30.2	-61.1	-19.6	-37.3	-7.4	60.5	n.a.	n.a.
Fuel Oil	1,488.3	1,608.4	353.0	4,422.9	1,453.9	854.1	n.a.	n.a.
Growth Rate	5.4	98.3	18.9	46.2	-2.3	-46.9	n.a.	n.a.
Coal	1,319.2	1,541.3	433.3	4,260.8	1,440.2	1,520.7	n.a.	n.a.
Growth Rate	-6.1	36.9	-11.9	14.4	9.2	-1.3	n.a.	n.a.
NCRE (Including mini hydro)	278.3	389.2	184.6	1,207.6	308.5	424.2	n.a.	n.a.
Growth Rate	10.1	-25.3	55.0	-4.0	10.9	9.0	n.a.	n.a.
Hydro: Fuel Oil: Coal: NCRE Ratio	22:38:34:7	13:40:38:10	24:28:34:14	18:37:35:10	20:36:36:8	23:24:42:12	n.a.	n.a.
Reservoir Water Level % (End Period Aaverage)	51.6	27.7	54.2	40.0	69.6	54.5	67.8	62.3
<b>Port Services</b>								
Total Cargo Handled ('000 MT)	26,992.2	26,857.1	8,801.4	80,578.8	27,249.0	20,911.9	9,572.4	
Growth Rate	6.0	4.4	2.9	3.4	1.0	-22.1	8.8	-4.8
Total Container Handled ('000 TEUs)	1,790.7	1,800.6	604.4	5,427.8	1,803.9	1,475.1	644.4	5,189.8
Growth Rate	4.9	5.4	5.1	3.9	0.7	-18.1	6.6	-4.4
<b>Telecommunications Services (No. of Subscribers)</b>								
Fixed Lines ('000)	2,367.2	2,354.9	-	2,324.1	2,325.4	2,328.1	-	n.a.
Growth Rate	-4.6	-4.6	-	-7.4	-1.8	-1.1	-	n.a.
Cellular ('000)	32,567.7	32,723.3	-	33,463.5	31,875.8	27,679.0	-	n.a.

**TABLE 4 : Performance in Electricity Generation and Services Sector : 2019 – 2020 (Contd..)**

Category	2019				2020			
	Q <sub>4</sub>	Q <sub>2</sub>	Sep	Jan-Sep	Q <sub>4</sub>	Q <sub>2</sub>	Sep	Jan-Sep
Growth Rate	12.4	8.3	-	4.4	-2.1	-15.4	-	n.a.
Total Fixed Lines and Cellular ('000)	34,934.9	35,078.2	-	35,787.5	34,201.2	30,007.1	-	n.a.
Growth Rate	10.8	7.1	-	3.6	-2.1	-14.5	-	n.a.
Internet and email ('000)	11,120.8	11,991.3	-	12,536.3	13,079.0	13,295.3	-	n.a.

**TABLE 5 : Export Performance in 2019 – 2020**

Item	US\$ Million	
	2019 Jan-Aug	2020 Jan-Aug <sup>(a)</sup>
Agricultural Products	1,667	1,516
Tea	915	806
Rubber	19	18
Coconut Products	232	222
Other Agricultural Products	502	471
Industrial Products	6,330	4,905
Textile and Garments	3,737	2,853
Petroleum Products	328	268
Other Industrial Products	2,266	1,784
Mineral Export	21	14
Other Exports	11	9
Total Exports	8,030	6,445

Source : Central Bank of Sri Lanka

(a) Provisional

**TABLE 6 : Import Performance in 2019 – 2020**

Item	US\$ Million	
	2019 Jan-Aug	2020 Jan-Aug <sup>(a)</sup>
<b>Consumer Goods</b>	<b>2,499</b>	<b>2,300</b>
Rice	8	6
Sugar	125	162
Other Food Products	784	855
Other Consumer Goods	1,582	1,277
<b>Intermediate Goods</b>	<b>7,380</b>	<b>5,692</b>
Fuel	2,577	1,691
Wheat and Maize	203	229
Fertilizer	138	124
Textile & Clothing	1,877	1,457
Other Intermediate Goods	2,585	2,190
<b>Investment Goods</b>	<b>3,002</b>	<b>2,253</b>
<b>Other Imports</b>	<b>5</b>	<b>11</b>
<b>Total</b>	<b>12,886</b>	<b>10,257</b>

Source : Central Bank of Sri Lanka

(a) Provisional

**TABLE 7 : Balance of Payments – 2019**

Item	US\$ Million		
	2020		Annual Projection <sup>(b)</sup>
	Q1 <sup>(a)</sup>	Q2 <sup>(a)</sup>	
<b>Current Account Balance</b>	<b>-244</b>	<b>-548</b>	<b>-1,265</b>
<b>Trade Balance</b>	<b>-1,853</b>	<b>-1,409</b>	<b>-5,555</b>
Exports	2,650	1,763	10,245
Imports	4,503	3,172	15,800
<b>Services (net)</b>	<b>797</b>	<b>103</b>	<b>925</b>
Receipts	1,986	562	4,249
Payments	1,189	459	3,324
<b>Primary Income (net)</b>	<b>-579</b>	<b>-462</b>	<b>-2,287</b>
Receipts	64	49	254
Payments	643	511	2,542
<b>Secondary Income (net)</b>	<b>1,390</b>	<b>1,220</b>	<b>5,652</b>
Secondary income: credit	1,600	1,380	n.a.
Secondary income: debit	210	160	n.a.
<b>Capital Account (net)</b>	<b>1</b>	<b>2</b>	<b>10</b>
Capital account: credit	9	7	n.a.

**TABLE 7 : Balance of Payments – 2019 (Contd...)**

US\$ Million

Item	2020		Annual Projection <sup>(b)</sup>
	Q1 <sup>(a)</sup>	Q2 <sup>(a)</sup>	
Capital account: debit	8	5	n.a.
<b>Current and Capital Account (net)</b>	<b>-243</b>	<b>-546</b>	<b>-1,255</b>
<b>Financial Account (net)</b>	<b>-620</b>	<b>196</b>	<b>-238</b>
<b>Direct Investment: Assets</b>	<b>9</b>	<b>9</b>	<b>n.a.</b>
<b>Direct Investment: Liabilities</b>	<b>122</b>	<b>115</b>	<b>n.a.</b>
<b>Portfolio Investment: Assets</b>	<b>-</b>	<b>-</b>	<b>n.a.</b>
Debt securities	-	-	n.a.
<b>Portfolio Investment: Liabilities</b>	<b>-364</b>	<b>-214</b>	<b>n.a.</b>
Equity and investment fund shares	-26	-83	n.a.
Debt securities	-339	-131	n.a.
<b>Financial Derivatives</b>	<b>-</b>	<b>-</b>	<b>n.a.</b>
<b>Other Investment: Assets</b>	<b>432</b>	<b>-294</b>	<b>n.a.</b>
Currency and deposits	86	-65	n.a.
Trade credits and advances	35	24	n.a.
Other accounts receivable	311	-253	n.a.
<b>Other Investment: Liabilities</b>	<b>745</b>	<b>-1,339</b>	<b>n.a.</b>
Currency and deposits	-195	-441	n.a.
Loans	1,206	-411	n.a.
Trade credits and advances	-30	-541	n.a.
Other accounts payable	-237	54	n.a.
Special Drawing Rights (SDRs)	-	-	n.a.
<b>Reserve Assets</b>	<b>-558</b>	<b>-957</b>	<b>n.a.</b>
<b>Net Errors and Omissions</b>	<b>-377</b>	<b>742</b>	<b>n.a.</b>
<b>Overall Balance</b>	<b>143</b>	<b>-760</b>	<b>-1,493</b>

Source : Central Bank of Sri Lanka

(a) Provisional

(b) Projections

**TABLE 8 : International Reserves**

Item	US \$Million			
	End 2019	Jun 2020	Jul 2020	Aug 2020
Total External Reserves	10,402	9,513	10,032	10,345
Months of Imports	6.3	6.3	6.8	7.2
Gross Official Reserves	7,642	6,695	7,096	7,430
Months of Imports	4.60	4.5	4.8	5.1

Source : Central Bank of Sri Lanka

**Table 9 : Government Foreign Currency Debt Outstanding**

Items	US\$ Million
	End Aug 2020 <sup>(a)</sup>
<b>Total Outstanding</b>	39,181.24
Government Foreign Debt <sup>(b)(c)</sup>	35,333.96
Dollar dominated Domestic Debt	3,847.28
Sri Lanka Development Bonds (SLDBs)	2,552.28
Foreign Currency Banking Units (FCBUs)	1,295.00

Source : Central Bank of Sri Lanka

(a) Provisional

(b) Includes International Sovereign Bonds (ISBs), Foreign Project Loans, Syndicated Loans and Foreign Holdings of T-bills and T-bonds.

(c) Exchange rate used 1 US \$ = 186.1578 (31.08.2020)

**TABLE 10 : Outstanding Domestic Foreign Currency Debt of the Government**

	US\$ Million	
	End 2019	End Sep. 2020 <sup>(a)</sup>
<b>Outstanding</b>	<b>4,009.37</b>	<b>3,847.28</b>
FCBUs	925.00	1,295.00
SLDBs	3,084.37	2,552.28
<b>Receipts</b>	<b>345.22</b>	<b>420.21</b>
FCBUs	-	-
SLDBs <sup>(a)</sup>	345.22	420.21
<b>Payments</b>	<b>621.83</b>	<b>952.30</b>
FCBUs	-	-
SLDBs <sup>(b)</sup>	621.83	952.30

Source : Central Bank of Sri Lanka

(a) Receipts are issues during the period.

(b) Payments are maturities during the period.

**TABLE 11 : Movements in Selected Exchange Rates (Against the US\$)**

Currency	Appreciation (+) / Depreciation (-)	
	End 2018 – End 2019	End 2019 – Sep 2020
Sri Lanka Rupee	0.61	-2.10
Indian Rupee	-1.95	-3.31
Bangladesh Taka	-1.51	0.11
Pakistan Rupee	-9.67	-6.45
Singapore Dollar	1.40	-1.51
Thailand Bhat	9.07	-5.75
Taiwan Dollar	1.91	3.45
Indonesian Rupiah	4.05	-6.68
Philippine Peso	3.65	4.67
Korean Won	-3.99	-0.84
Japanese Yen	1.65	2.80

Source : Central Bank of Sri Lanka

**TABLE 12 : Central Bank Holdings of Treasury Bills**

End Period	Gross (Book Value)	Rs. Billion
		Net of Repos (Book Value)
2012	154.00	163.30
2013	3.10	13.30
2014	123.50	3.10
2015	104.80	79.10
2016	331.40	330.10
2017	9.90	25.60
2018	45.80	274.20
2019	74.70	125.30
End Sep. 2020	322.10	361.10

Source : Central Bank of Sri Lanka



**TABLE 13 : Commercial Banks' Loans and Advances to the Private Sector – June 2020**

	Amount (Rs. Million) <sup>(a)</sup>	as a % of Total
<b>1. Agriculture &amp; Fishing</b>	<b>468,657</b>	<b>7.7</b>
<i>of which...</i>		
Tea	94,406	1.6
Rubber	24,253	0.4
Coconut	26,531	0.4
Paddy	40,637	0.7
Vegetable, Fruit Cultivation and Minor Food Crops	26,342	0.4
Livestock and Dairy Farming	26,899	0.4
Fisheries	20,681	0.3
<b>2. Industry</b>	<b>2,487,208</b>	<b>40.9</b>
<i>of which...</i>		
Construction	1,231,226	20.2
<i>of which...</i>		
– Personal Housing including Purchasing/Construction/Repairs	573,097	9.4
– Staff Housing	87,999	1.4
Food and Beverages	147,609	2.4
Textiles and Apparel	252,119	4.1
Wood and Wood Products including Furniture	21,410	0.4
Paper and Paper Products	18,715	0.3
Chemical, Petroleum, Pharmaceutical, Healthcare and Rubber and Plastic Products	124,393	2.0
Non-metallic Mineral Products	23,707	0.4
Basic Metal Products	46,622	0.8
Fabricated Metal Products, Machinery and Transport Equipment	166,941	2.7
Other Manufactured Products	23,429	0.4
<b>3. Services</b>	<b>1,723,867</b>	<b>28.3</b>
<i>of which...</i>		
Wholesale and Retail Trade	478,059	7.9
Tourism	252,306	4.1
Financial and Business Services	370,358	6.1
Transport	89,205	1.5
Communication and Information Technology	62,799	1.0
Printing and Publishing	26,564	0.4
Education	14,981	0.2
Health	55,535	0.9
Shipping, Aviation, Supply and Freight Forwarding	22,419	0.4
<b>4. Personal Loans and Advance(d)</b>	<b>1,405,232</b>	<b>23.1</b>
<i>of which...</i>		
Consumer Durables	223,718	3.7
Pawning	220,940	3.6

**TABLE 13 : Commercial Banks' Loans and Advances to the Private Sector – June 2020**

	Amount (Rs. Million) <sup>(a)</sup>	as a % of Total
Credit Card	126,170	2.1
Personal Education	9,141	0.2
Personal Healthcare	3,210	0.1
<b>Total</b>	<b>6,084,964</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

(a) Provisional

**TABLE 14 : Interest Rate Movements in 2018 – 2020**

Interest Rate	End July 2019	End Dec 2019	End March 2020	End June 2020	End Sep 2020
<b>Policy Rates of the Central Bank</b>					
Standing Deposit Facility Rate (SDFR)	7.50	7.00	6.25	5.50	4.50
Standing Lending Facility Rate (SLFR)	8.50	8.00	7.25	6.50	5.50
Weighted Average Call Money Rate (AWCMR)	7.70	7.45	6.75	5.52	4.53
Weighted Average OMO Auction Rate (Repo)	7.67	7.51	6.76	-	-
Weighted Average OMO Auction Rate (Reverse Repo)	-	7.50	6.76	5.88	-
<b>Treasury Bill Rates</b>					
91-days	7.85	7.51	7.00	5.50	4.51
182-days	7.94	8.02	7.25	5.53	4.64
364 -days	8.21	8.45	7.50	5.66	4.89
<b>Lending Rates</b>					
Average Weighted Prime Lending Rate(AWPR) (weekly)	10.89	9.74	9.24	8.48	6.19
Average Weighted Prime Lending Rate (AWPR) (monthly)	10.93	10.00	9.35	8.78	6.42
Average Weighted Lending Rate(AWLR)	14.22	13.59	13.22	12.64	11.21
<b>Deposit Rates</b>					
Average Weighted Deposit Rate (AWDR)	8.88	8.20	7.90	7.38	6.44
Average Weighted Fixed Deposit Rate (AWFDR)	10.97	10.05	9.65	9.00	7.90

Source : Central Bank of Sri Lanka

## Assumptions for Revenue Estimates : 2020–21

The revenue assumptions are based on actual revenue collected up to August 2020 for the estimate of 2020 and emerging trends including the impact of COVID-19 for the year. Since assumptions are more critical with the unfolded COVID-19 across borders, the revenue projections for 2021 are based on the economic trends, the impact of COVID-19, country's tax system followed by the staff's best judgment about performance of the economy and revenue.

The broad assumptions are as follows:

- In 2020, the economy is expected slowdown 1.5 percent due to the impact of COVID-19 pandemic situation across the world exacerbating pressure on both domestic and external activities.
- In 2021, the economy is expected to rebound to 5.0 percent moving towards potential output level assisted by government development policy priorities coupled with the ease of containment measures while improving investor and consumer confidence with renewed political stability.
- Increased domestic agricultural and industrial production along with prioritized infrastructure development are expected to more income and employment thereby boosting the productive capacity of the economy.
- Consumer price inflation is expected to remain at mid-single-digit level in both 2020 and 2021.
- The unemployment rate is expected to stabilize at around 5.0 percent in 2020 and is projected to decline to 4.0 percent in 2021.
- The external trade gap is expected to narrow with the Government's commitment towards the expansion of the export sector with value added diversified products. However, global economic risks emanating from trade tensions, financial conditions and the spread of COVID-19 would pose upside risks on the external sector.
- Growth in exports is expected to continue with the enhanced external demand particularly from major trading partners such as the United States and India while helping a commensurate improvement in domestic economic activities.
- Imports are projected to record a relatively high growth with increased demand for investment and intermediate goods by both private and public sector to support higher export growth and economic growth.
- A stable exchange rate is expected to be continued, supported by the enhanced external reserves of the country.
- Domestic demand is expected to improve resultant to a strong improvement in domestic economic activities complemented by the low interest rate regime.
- The growth in the money supply in 2021 is expected to maintain at a level compatible with the expected nominal growth of around 10.6 percent of GDP.
- Introduction of taxpayer segmentation such as Large Tax Administration Unit (LTA), Upper Corporate Unit (UCU), Medium Corporate Unit (MCU) and Regional Corporate Unit (RCU) at the IRD is expected to increase revenue.
- The second phase of the Revenue Administration Management Information System (RAMIS) at IRD and Revenue Risk Management System and Excise Revenue Management System (ERMS) at EDSL is expected to secure potential revenue.

- Introduction of a paperless goods clearance system for BOI companies to speed the track their shipment, scanning of all export and import containers establishment of a fully pledged Customs examination yard and automated container tacking system and "Single Window" (SW) system at SLC will improve the revenue collection.
- Integrated Treasury Management Information System (ITMIS) will ensure efficient management of government resources.

### **COVID-19 related Assumptions:**

- The outbreaks of COVID-19 including the cluster outbreak is expected to contain.
- Preventive measures including social distancing, work from home and restrictions imposed under the Quarantine and Prevention of Disease Ordinance (Chapter 553) continue until the pandemic is over.
- International travel operations are expected to subdue in 2020 and gradual recovery in tourism be resumed in 2021.
- Overseas employment is expected to decline in 2020 and a gradual increase is expected thereafter.

**TABLE 1 : Excise (Special Provisions) Duty Structure for Motor Vehicles Duty Structure (As at 30.09.2020)**

Item/ Engine Capacity	Rate
<b>(i) Cars – Petrol</b>	
Less than 1,000 cc	Rs. 1,650,000/- per unit or Rs. 2,000/- per cm <sup>3</sup>
1,000 cc – 1,300 cc	Rs. 3,200/- per cm <sup>3</sup>
1,300 cc – 1,500 cc	Rs. 3,700/- per cm <sup>3</sup>
1,500 cc – 1,600 cc	Rs. 4,250/- per cm <sup>3</sup>
1,600 cc – 1,800 cc	Rs. 5,300/- per cm <sup>3</sup>
1,800 cc – 2,000 cc	Rs. 6,350/- per cm <sup>3</sup>
2,000 cc – 2,500 cc	Rs. 7,000/- per cm <sup>3</sup>
2,500 cc – 2,750 cc	Rs. 8,000/- per cm <sup>3</sup>
2,750 cc – 3,000 cc	Rs. 9,000/- per cm <sup>3</sup>
3,000 cc – 4,000 cc	Rs. 10,000/- per cm <sup>3</sup>
Exceeding 4,000 cc	Rs. 11,000/- per cm <sup>3</sup>
<b>(ii) Cars – Diesel</b>	
Less than 1,500 cc	Rs. 4,600/- per cm <sup>3</sup>
1,500 cc – 1,600 cc	Rs. 5,750/- per cm <sup>3</sup>
1,600 cc – 1,800 cc	Rs. 6,900/- per cm <sup>3</sup>
1,800 cc – 2,000 cc	Rs. 8,000/- per cm <sup>3</sup>
2,000 cc – 2,500 cc	Rs. 8,000/- per cm <sup>3</sup>
2,500 cc – 2,750 cc	Rs. 9,000/- per cm <sup>3</sup>
2,750 cc – 3,000 cc	Rs. 10,000/- per cm <sup>3</sup>
3,000 cc – 4,000 cc	Rs. 11,000/- per cm <sup>3</sup>
Exceeding 4,000 cc	Rs. 12,000/- per cm <sup>3</sup>
<b>(iii) Cars – Hybrid/ Petrol</b>	
Less than 1,000 cc	Rs. 1,500,000/- per unit
1,000 cc – 1,300 cc	Rs. 2,300/- per cm <sup>3</sup>
1,300 cc – 1,500 cc	Rs. 2,850/- per cm <sup>3</sup>
1,500 cc – 1,600 cc	Rs. 4,000/- per cm <sup>3</sup>
1,600 cc – 1,800 cc	Rs. 5,200/- per cm <sup>3</sup>
1,800 cc – 2,000 cc	Rs. 5,700/- per cm <sup>3</sup>
2,000 cc – 2,500cc	Rs. 6,000/- per cm <sup>3</sup>
2,500 cc – 2,750 cc	Rs. 7,000/- per cm <sup>4</sup>
2,750 cc – 3,000 cc	Rs. 8,000/- per cm <sup>4</sup>
3,000 cc – 4,000 cc	Rs. 9,000/- per cm <sup>5</sup>
Exceeding 4 000 cc	Rs. 10,000/- per cm <sup>5</sup>
<b>(iv) Cars – Hybrid/ Diesel</b>	
Less than 1,000 cc	Rs. 3,400/- per cm <sup>3</sup>
1,000 cc – 1,300 cc	Rs. 3,400/- per cm <sup>3</sup>
1,300 cc – 1,500 cc	Rs. 3,400/- per cm <sup>3</sup>

**TABLE 1 : Excise (Special Provisions) Duty Structure for Motor Vehicles Duty Structure (As at 30.09.2020)**

Item/ Engine Capacity	Rate
1,500 cc – 1,600 cc	Rs. 4,600/- per cm <sup>3</sup>
1,600 cc – 1,800 cc	Rs. 5,700/- per cm <sup>3</sup>
1,800 cc – 2,000 cc	Rs. 6,900/- per cm <sup>3</sup>
2,000 cc – 2,500 cc	Rs. 7,000/- per cm <sup>3</sup>
2,500 cc – 2,750 cc	Rs. 8,000/- per cm <sup>3</sup>
2,750 cc – 3,000 cc	Rs. 9,000/- per cm <sup>3</sup>
3,000 cc – 4,000 cc	Rs. 10,000/- per cm <sup>3</sup>
Exceeding 4,000 cc	Rs. 11,000/- per cm <sup>3</sup>
<b>(v) Electric Cars</b>	
<b>Car – Electric – By External Source or Generator</b>	
Less than 50kW	Rs. 7,500/- per kW
50kW – 100kW	Rs. 10,000/- per kW
100kW – 200kW	Rs. 15,000/- per kW
Exceeding 200kW	Rs. 40,000/- per kW
<b>Car – Electric – By Solar Panels</b>	Rs. 7,500/- per kW
<b>(vi) Vans</b>	
13 – 25 Persons/ Diesel	Rs. 4,500,000/- per unit
13 – 25 Persons/ Petrol	Rs. 1,750/- per cm <sup>3</sup>
Less than 13 Persons/ Diesel	200%
Less than 13 Persons/ Petrol	150%

Source : Department of Fiscal Policy

**TABLE 2 : Excise (Special Provisions) Duty Structure for Cigarettes (As at 30.09.2020)**

Category	Rs. per 1,000 Sticks
Cigarettes each not exceeding 60mm. in length	13,360
Cigarettes each exceeding 60mm. but not exceeding 67mm in length	22,300
Cigarettes each exceeding 67mm. but not exceeding 72mm in length	37,650
Cigarettes each exceeding 72mm. but not exceeding 84mm in length	43,100
Cigarettes each exceeding 84mm. in length	48,350

Source : Department of Fiscal Policy

**TABLE 3 : Excise (Special Provisions) Duty Structure for Petroleum Products (As at 30.09.2020)**

Item	Rs. Per litre
Petrol	27.00
Diesel – Auto	6.00
Diesel – Super	13.00

Source : Department of Fiscal Policy

**TABLE 4 : Excise Duty Structure under Excise Ordinance (As at 30.09.2020)**

Classifications	Duty Rate (Rs.)
<b>Liquor</b>	
Molasses, Palmyrah, Coconut and Processed Arrack (per litre of alcohol)	4,050
Country Made Foreign Spirits (per litre of alcohol)	4,150
Malt Liquor (per liter of alcohol)	3,200
Liquor by process from natural products of the palm tree or any other plant (per litre of alcohol)	3,200
<b>Row materials used for production of Ethanol</b>	
Coconut Toddy (per bulk litre)	5
Molasses (per bulk kg)	10
Rice used for production of spirits by distillation (per bulk kg)	10
Maize used for production of spirits by distillation (per bulk kg)	10
Fruit used for production of spirits by distillation (per bulk kg)	10
<b>Foreign liquor</b>	
Imported Malt Liquor (Beer)	135
Imported Wine	230
Any other imported Foreign Liquor (which does not come under malt liquor or wine)	650
Non-potable Spirits (per bulk kg)	

Source : Department of Fiscal Policy

**TABLE 5 : Ports and Airports Development Levy (As at 30.09.2020)**

Category	Rate
General Rate	10.0%
Concessionary Rates	7.5%, 5.0%, 2.5%

Source : Department of Fiscal Policy

**TABLE 6 : Value Added Tax (VAT)**

Rate	Item
Zero Rate	Export Goods
Standard Rate (8%)	General Items
Exemptions	Goods and Services which are listed in the VAT exemption list of the VAT Act.

Source : Department of Fiscal Policy

**TABLE 7 : Customs Import Duty Structure (As at 30.09.2020)**

	Rate
Basic raw materials and machinery	Zero
Semi processed items and Intermediate products	15%
Finished products and luxury goods	30%

Source : Department of Trade and Investment Policy

**TABLE 9 : Fees and Charges**

	2018	2019 (Provisional)	2020 Estimate	2021 Estimate
				Rs. Million
Service Charges by Government Press	866	1,118	1,000	1,000
Fees of Passport, Visas and Dual Citizenship	17,258	14,054	8,000	23,000
Examination & Other Fees	287	325	300	325
Fees under the Motor Traffic Act & other Receipts	10,433	10,289	7,500	12,000
From others Various Sources	31,692	32,032	24,500	37,725
<b>Total</b>	<b>60,536</b>	<b>57,818</b>	<b>41,300</b>	<b>74,050</b>

Source : Department of Fiscal Policy



**TABLE 10 : Special Commodity Levy Rates (As at 30.09.2020)**

		Rs. per kg.	
Item		End Sept. 2019	End Sept. 2020
1	Sprats	1	1
2	Potatoes	50	55
3	Red Onions	25	50
4	B' Onions	40	50
5	Garlic	40	50
6	Watana - Whole	5	5
	Watana - Split	8	10
7	Chick Peas - Whole	2	5
	Chick Peas - Split	5	10
8	Green Gram	40	40
9	Lentils - Whole	2	5
	Lentils - Split	7	10
10	Chilies - Neither crushed nor ground	25	100
	Chilies - Crushed or ground	125	125
11	Canned fish	50	100
12	White Sugar	32 (White)	
	Raw/Brown Sugar	35 (Raw/Brown)	50
13	Black Gram - Whole	200	200
	Black Gram - Skinned	-	300
14	Cowpea	70	70
15	Kurakkan	70	70
	Millet/Other	70	70
16	Maldive Fish	102	102
17	Dried Fish	52	52
18	Orange-Fresh	80	125
19	Grapes - Fresh	130	200
20	Apples - Fresh	60	100
21	Seeds of Coriander - Neither crushed nor ground	26	26
	Seeds of Coriander - Crushed or ground	52	52
22	Seeds of Cumin	162	162
23	Seeds of Fennel	162	162
24	Turmeric - Not crushed or ground	102	102
	Turmeric - Crushed or ground	360	360
25	Mathe - Seed	50	50
26	Kurakkan Flour	150	150
27	Black Gram Flour	200	325
28	Ground Nut	112	220
29	Mustard Seeds	62	62
30	Palm oil/Other Veg. Oil - Crude	175	250
	Palm oilen	180	255
	Refine Palm oil	200	275
	Other Veg. Oil Refine	195	275
	Palm Kernal - Crude	195	250

**TABLE 10 : Special Commodity Levy Rates (As at 30.09.2020)**

		Rs. per kg.	
Item		End Sept. 2019	End Sept. 2020
	- Refine	210	275
	Coconut oil - Crude	195	150 (Duty Waiver - 25)
	Coconut oil - Refine	195	175 (Duty Waiver - 25)
31	Fish	10 % or Rs. 100	10 % or Rs. 150
32	Mackerel Fish	6	6
	Jac/Horse Mackerel	-	6
33	Yoghurt	625	800
34	Butter	880	880
35	Margarine(Fat 80% >)	215	650
	Margarine - Other	315	650
36	Salt	40	40
37	Dates	80	100
38	Dried Grapes	230	200
39	Mangoesteen	200	200
40	Dried Orange	200	125
41	Pears	175	220
42	Cherries	250	315
43	Plums and Sloes	200	250
44	Kiwifruit	175	175
45	Pomegranate (Other)	200	200
46	Grated/powdered Cheese	200	200
47	Maize	10	25
48	Face Mask	-	1
49	Clementines - Fresh	-	120
50	Clementines - Dried	-	250
51	Other (citrus) fruits - Fresh	-	120
52	Other (citrus) fruits - Dried	-	250
53	Grapefruit - Fresh	-	285
54	Grapefruit - Dried	-	300
55	Lemon - Fresh	-	350
56	Lemon - Dried	-	400
57	Other Citrus fruits - Fresh	-	300
58	Other Citrus fruits - Dried	-	375
59	Quinces	-	350
60	Apricots	-	350
61	Cherries - Sour	-	330
62	Peaches and Nectarines	-	310
63	Vegetable fats and oil	-	600 (Duty Waiver Rs. 440)
64	Margarine - Liquid	-	600 (Duty Waiver Rs. 400)

Source : Department of Trade and Investment Policy

**TABLE 11 : SOEs' Levy/Dividend Income and Estimate for 2020**

		Rs. Million		
		Revised Estimate		
		2018	2019	2020
	<b>Levy</b>	<b>37,230</b>	<b>22,833</b>	<b>30,961</b>
1	National Savings Bank	500	2,000	1,500
2	Bank of Ceylon	4,500	-	3,403
3	People's Bank	3,200	2,200	4,500
4	Regional Development Bank (Pradheshiya Sanwardhena Bank)		169	198
5	State Mortgage and Investment Bank		-	-
6	Telecommunication Regulatory Commission of Sri Lanka	21,850	8,950	16,000
7	State Timber Corporation	100	50	50
8	National Insurance Trust Fund	2,750	3,268	3,000
9	Geological Survey & Mines Bureau	1,700	2,300	310
10	National Gem and Jewellery Authority	25	25	15
11	Board of Investment of Sri Lanka	250	250	1,000
12	Civil Aviation Authority of Sri Lanka	800	800	100
13	State Pharmaceuticals Manufacturing Corporation	50	-	50
14	State Pharmaceuticals Corporation		-	100
15	National Lotteries Board	-	-	-
16	Ceylon Electricity Board	-	-	-
17	Sri Lanka Export Credit Insurance Corporation	15	15	50
18	Central Engineering Consultancy Bureau	25	25	25
19	Sri Lanka Tourism Development Authority	-	200	-
20	Sri Lanka Tourism Promotion Bureau	1,000	500	-
21	Ceylon Petroleum Corporation	-		-
21	Sri Lanka Bureau of Foreign Employment	200	650	200
22	National Transport Commission	100	50	-
23	National Transport Medical Institute	165	200	200
24	Sri Lanka Land Reclamation and Development Corporation	-	200	100
25	National Institute of Business Management	-	-	-
26	Post Graduate Institute of Management	-	-	-
27	Sri Lanka Ports Authority	-	900	-

**TABLE 11 : SOEs' Levy/Dividend Income and Estimate for 2020**

			Rs. Million	
			Revised Estimate	
28	National Medicines Regulatory Authority	-	29	160
29	Sri Lanka Ayurvedadic Drug Corporation	-	-	-
30	Securities and Exchange Commission of Sri Lanka	-	53	-
	<b>Dividend</b>	<b>4,598</b>	<b>5,024</b>	<b>4,918</b>
1	National Savings Bank (NSB Fund Management Ltd)	60	60	60
2	Bank of Ceylon (Financial Accounting Unit)	346	346	347
3	People's Bank (Restructuring Bond)	316	316	317
4	Lankaputhra Development Bank	41	-	-
5	National Development Bank	1	1	-
6	Sri Lanka Savings Bank	86	-	-
7	Commercial Bank of Ceylon PLC		0.1	-
8	SL Insurance Corporation Ltd	1,856	1,720	2,000
9	Airport and Aviation Services (Sri Lanka ) Ltd	300	500	100
10	Lanka Mineral Sands Ltd	35	130	220
11	Lanka Phosphate Ltd	5	7	5
12	Independent Television Network	12	-	-
13	Lanka Leyland Ltd	45	13	-
14	Rakna Arakshaka Lanka Ltd	40	37	30
15	Manthai Salt	-	-	10
16	Ceylon Fertilizer Co. Ltd	21	15	32
17	Colombo Commercial Fertilizer Ltd	20	10	10
18	Paranthan Chemicals Co. Ltd	11	-	10
19	Kahatagaha Graphite Lanka Ltd	-	-	-
20	STC General Trading Company	-	5	23
21	Kurunegala Plantation	-	128	28
22	Chilaw Plantation	30	-	20
23	Namunukula Plantation	47	28	20
24	Elpitiya Plantation	18	17	9
25	Sri Lanka Telecom	795	947	947
26	De La Rue Lanka Pvt Ltd	106	133	135
27	Lanka Electricity Company Ltd	305	501	450
28	Lanka Industrial Estates Ltd	78	82	55
29	Skills Development Fund Ltd	-	-	9
30	Ceylon Agro Industries	19	23	30
31	Lanka Sugar Co. Ltd	-	-	-

**TABLE 11 : SOEs' Levy/Dividend Income and Estimate for 2020**

				Rs. Million
				Revised Estimate
32	Lanka Logistics Ltd	1	-	-
33	Lanka Thriposha Ltd	-	-	50
34	Others	3	6	1
35	Ceylon Petroleum Storage Terminals Ltd	-	-	-
	<b>Total</b>	<b>41,828</b>	<b>27,857</b>	<b>35,879</b>

Sources : SOBEs and Department of Public Enterprises