

Trends in Public Finance 1998

DEPARTMENT OF FISCAL POLICY AND ECONOMIC AFFAIRS
GENERAL TREASURY
MINISTRY OF FINANCE AND PLANNING
COLOMBO, SRI LANKA.

CONTENTS

PART I

FISCAL DEVELOPMENTS

—	07	Fiscal Policy
—	09	Fiscal Performance in 1998 – Highlights
—	10	Cost of Reform Causes Short Term Fiscal Burden
—	11	Fiscal Outlook – 1999
—	13	Trends in Government Revenue
—	16	Trends in Government Expenditure
—	17	Key Components of Recurrent Expenditure
—	20	Public Investment
—	23	Foreign Assistance
—	34	Public Debt

PART II

ECONOMIC REFORMS

—	37	Financial Sector Reforms
—	41	Towards Improved Corporate Governance
—	42	Direction in Trade and Tariff Policy
—	45	Taxation Reforms
—	47	Best Practices
—	48	Privatization
—	50	Private Sector Participation in Infrastructure Projects
—	51	Helping the Poor and Vulnerable Groups

PART III

BACKGROUND INFORMATION

—	55	Trends in the Economy – 1998
—	57	Key Economic Indicators
—	61	Production Data
—	63	Basic Information on Taxation in Sri Lanka 1999
—	70	Tax Concessions and Incentives under the Inland Revenue Act
—	72	Basic Information on Non-Tax Revenue

TABLES

—	12	Analytical Presentation of the Budget
—	15	Revenue Trends
—	17	Debt Service
—	17	Defence and National Security
—	17	Public Service
—	18	Pensions
—	18	Provincial Councils
—	19	Poverty Alleviation and Welfare
—	19	Expenditure Trends
—	21	Selected Public Investment Projects
—	24	Foreign Funded Projects – Concessional Loans
—	29	Foreign Funded Projects – Grants
—	34	Public Debt
—	57	Key Economic Indicators
—	61	Production Data

GRAPHS

—	10	Trends in Budget Deficit and Cost of Reform
—	13	Composition of Revenue in 1998
—	14	Consumption Tax
—	14	International Trade Tax
—	14	Income Tax
—	14	Non-Tax Revenue
—	16	Composition of Recurrent Expenditure
—	16	Total Expenditure
—	16	Trends in Recurrent Expenditure
—	16	Public Investment
—	34	Trends in Government Debt
—	43	Distribution of Tariff Lines under Different Duty Rate – end 1998
—	43	Movement Towards a Low Tariff Regime

PART I

FISCAL DEVELOPMENTS

FISCAL POLICY

Against the background of successive large budget deficits which had resulted in double digit inflation, high rates of interest, undue pressure on exchange rates, excessive growth in money supply and rise in public debt, the Government in 1995 directed its fiscal policy thrust on the correction of structural deficiencies of Government fiscal operations with a view to attaining a target of a low budget deficit over the medium term. While placing emphasis on a gradual reduction in the budget deficit, the underlying policy strategy aimed at reducing inflation, creating productive employment opportunities, alleviating poverty, raising savings and investments and promoting private sector led economic activities to place the economy on a path of rapid economic development.

Ad-hoc revenue enhancing and expenditure reducing measures are distortionary and counter productive in bringing about a sustainable solution to the prevailing fiscal imbalances which have been compounded over a long period of time and require fundamental structural changes. Therefore, a deficit reduction strategy consisting of short term as well as medium term measures integrated into an overall macro economic policy framework was adopted. The primary emphasis in the implementation of short-term measures was to ensure consistency with medium term policy reforms and to have a systemic consolidation of the overall policy strategy, which revolves around fiscal prudence, enhanced efficiency and competitiveness of the economy.

The short-term revenue measures included re-rating of excise taxes and the National Security Levy and the introduction of new taxes such as Save the Nation Contribution and motor vehicle levies. On the basis of the cost recovery approach administrative fees and charges and social security contribution were also raised to enhance non-tax revenue growth. On the expenditure side, elimination of wasteful and unproductive expenditures, improved cadre management, the use of privatisation proceeds to restructure debt, restraint on operational expenditure, reduction in operational losses of public enterprises, removal of the flour subsidy and the rationalisation of welfare expenditure programmes through better targeting, enforcement of borrowing limits on public enterprises and improved cash management and budget execution procedures were adopted to moderate the growth of public expenditure. The

positive impact of these measures was not clearly visible due to the escalation of defence spending. The unavoidable one off costs on the budget resulting from economic restructuring efforts through tax and tariff reforms (short term loss in revenue) as well as restructuring expenses of public enterprises (once and for all cost) is another short term factor acting against a fast fiscal consolidation.

The medium-term reform strategy includes the elimination of distortionary taxes and move towards a simple value added form of taxation, widening of the tax base, improvement in tax administration, restructuring of public debt, rationalisation of public sector activities, progressive expansion in public enterprise reforms, a phased reduction in defence and security related expenditures and improvement in fiscal management. Adjustments in revenue and recurrent expenditure flows through these measures are expected to turn around the prevailing current account deficit into a surplus in order to supplement the national savings effort and to enhance the level of public investment.

The deficit reduction programme was implemented hand in hand with fundamental economic reforms particularly in important areas such as the financial sector, corporate governance, debt and capital markets, trade and tariff, public enterprises, infrastructure and taxation. These reforms have been carried out in order to intensify the role of the private sector to engage in efficient and competitive economic activities, increase savings and investments, create employment opportunities and strengthen the resilience in the economy. It is also expected to supplement public sector activities with private investments in order to release the government resources to areas where private sector participation is absent. The underlying public investment strategy is to provide enhanced resources for education, health, environment, poverty alleviation, rural development and infrastructure activities. Social safety is provided to vulnerable sections of the population through numerous poverty alleviation programmes during the economic transition. Thus the overall fiscal policy strategy is designed to bring about a positive impact not only on government fiscal operations but also on the economy through efficiency gains and increased investments although the short-term costs of such reforms may continue to impose an additional burden on fiscal operations.

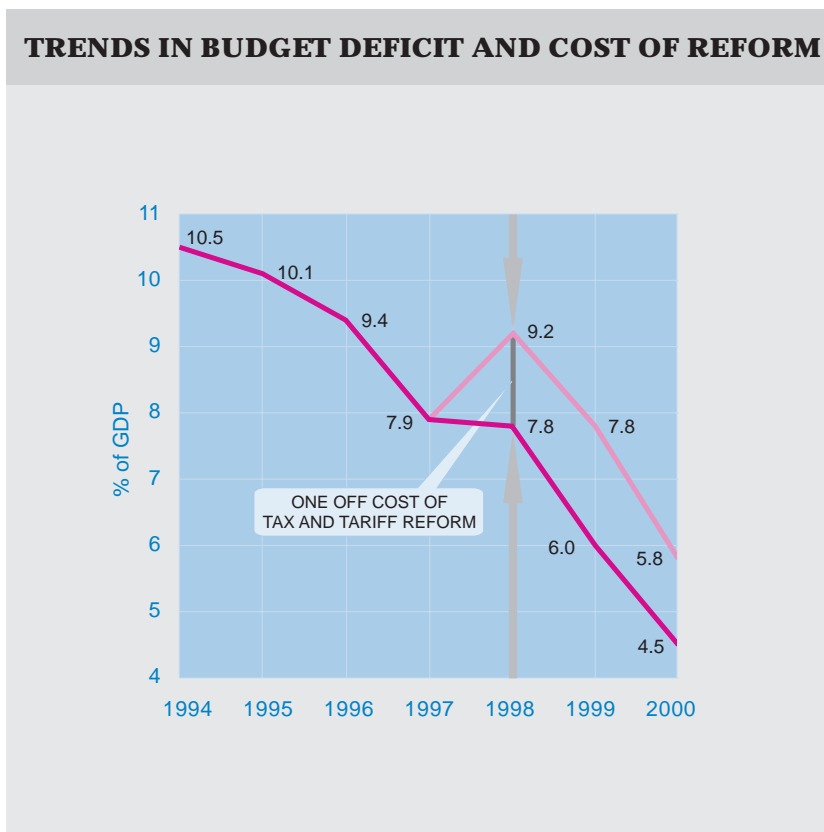
FISCAL PERFORMANCE IN 1998

HIGHLIGHTS

Reduction in current expenditure, an upsurge in public investment, a reduced growth in tax revenue, a rise in the budget deficit and increased recourse to domestic borrowings are the highlights of fiscal performance in 1998.

- Despite continued high defence spending, current expenditure in relation to GDP declined from 20.8 per cent in 1997 to 19.7 per cent in 1998. This was due to restraint on operational expenditure and a reduction in interest payments on public debt following the debt retirement of 1997 under the Public Enterprises Reform Programme.
- Reflecting improved foreign aid utilisation and speedier project implementation, public investment which declined marginally from 6.0 per cent of GDP in 1996 to 5.8 per cent of GDP in 1997 increased to 6.7 per cent in 1998.
- The introduction of the Goods and Services Tax (GST) at a low rate of 12.5 per cent in place of a cascading turnover tax with multiple rate bands (8%, 12% and 18%), lowering of effective rate of corporate income tax through investment tax allowance and tax bonus for listed companies, increased tax free threshold and widening of tax slabs for income taxes, further simplification of taxation on financial instruments and a continued reduction in customs tariff on raw material and intermediate goods resulted in a lower, tax/GDP ratio of 14.5 per cent as compared to 16.0 per cent in 1997 and 17.0 per cent in 1996.
- Recurrent expenditure exceeding government revenue resulted in a deficit in the current account of Rs. 24,618 million or 2.4 per cent of GDP in 1998. The current account deficit in the previous year was Rs. 19,880 million or 2.2 per cent of GDP. This was mainly due to lowering of taxation which was conducive to increased private savings and investments.
- Reflecting a short term fiscal burden, the restructuring expenditure of Public Enterprises increased from Rs. 2,193 million (0.2 per cent of GDP) in 1997 to Rs. 3,688 million (0.4 per cent of GDP) in 1998. This included restructuring of the Mahaweli Authority and several other enterprises.
- Funding from foreign sources by way of grants and loans increased from 1.9 per cent of GDP in 1997 to 2.4 per cent of GDP in 1998.
- Underscoring a higher current account deficit and lower divestiture proceeds resulted in an increased borrowing from domestic sources in 1998. Borrowing from the domestic banking system amounted to Rs. 12,226 million while borrowing from non bank sources increased from Rs. 32,447 million (3.6 per cent of GDP) in 1997 to Rs. 52,408 million (5.2 per cent of GDP) in 1998.
- Reflecting a higher budget deficit and depreciation of the exchange rate in 1998 public debt rose from Rs. 766 billion in 1997 (86 per cent of GDP) to Rs. 907 billion (89 per cent of GDP) in 1998.
- Despite reduced rates of interest, the cost of interest payments on public debt in 1998 at Rs. 54,898 million pre-empted almost a third of Government revenue signifying the fiscal burden of high public debt due to successive budget deficits.

COST OF REFORM CAUSES SHORT TERM FISCAL BURDEN



There was an aberration in the downward trend in budget deficit owing to a one-off revenue loss consequent to the lowering of the tax burden through the introduction of the GST at a low rate of 12.5 per cent, a further reduction in customs tariff and the impact of the investment tax allowance. The rise in public investment by almost 1 per cent of GDP and one off restructuring cost also contributed to a higher deficit in 1998.

Investment tax allowance is expected to cease at the end of the current tax year. The introduction of GST and the reduction or elimination of distortionary taxes such as custom duties, turnover taxes and stamp duties are expected to improve economic efficiency and lead to a buoyant revenue over the medium term.

The gradual reduction in current expenditure together with the improvement in revenue growth will explain the underlying adjustments towards a lower deficit over the medium term.

The deficit in 1999 is expected to be below 8 per cent of GDP - a reduction of 1.4 per cent of GDP over 1998.

FISCAL OUTLOOK - 1999

- *T*he overall budget deficit in 1999 is revised at 7.8 per cent of GDP as compared to the announced fiscal target of 6 per cent of GDP. The deficit target is revised in the background of a temporary shortfall in revenue collection from the Goods and Services Tax and the impact on debt services due to enhanced borrowings during the last quarter of 1998. However, the revised deficit is considerably lower than the deficit of 9.2 per cent recorded in 1998.
- The revenue performance during the first five months remained strong particularly from income taxes, national security levy and excise taxes. The Goods and Services Tax which is gradually being consolidated and is expected to make improvements in its collection with intensified tax audits and improved enforcement mechanism and the adoption of a modified refund mechanism for exports. The short-term negative impact of various tax concessions announced in the last two years is also levelling off. Thus, Government revenue is expected to recover to around 17.7 per cent of GDP in 1999 from 17.3 per cent of GDP in 1998.
- The continued enforcement of expenditure control and management measures is expected to contain the current expenditure/GDP ratio at 18 per cent of GDP. The defence spending is projected to remain at the budgeted level as monitoring and controls of such spending has been strengthened. In spite of slightly higher cost on interest payments and a provision for other contingencies, the revised recurrent expenditure/GDP ratio registered a decline of 1.7 per cent of GDP from its level last year.
- Sustaining the momentum gathered in the last year, Public Investment in 1999 is expected to reach 7.4 per cent of GDP from 6.7 per cent achieved in 1998. In addition to a higher level of public investments, private sector investments in infrastructure projects particularly in the Colombo Port, Gas storage capacity, electricity and telecommunications are expected to expand this year contributing to a high level of overall investment.
- The sale of a 10.5 per cent stake in Sri Lanka Telecom is expected to generate a large inflow of foreign capital and additional liquidity into the system. This, in addition to strengthening the balance of payments, will exert downward pressure on interest rates. The moderate growth in money supply witnessed during the first quarter of the year, is also conducive to further deceleration in inflation which will justify a low interest rate regime.
- The targeted deficit at 7.8 per cent of GDP is financiable from the available resources from domestic markets without creating enhanced pressure on interest rates. The over subscription of the recently floated unsecured debenture issue is a reflection that, with an effective marketing strategy for government debt instruments, the expected borrowings can be achieved at the prevailing interest rates.

ANALYTICAL PRESENTATION OF THE BUDGET

	1994	1995	1996	1997	1998	Rs. mn 1999 Revised
Total Revenue	110,038	136,258	146,279	164,869	175,032	201,352
Tax Revenue	99,417	118,543	130,202	142,429	147,368	171,977
Non Tax Revenue	10,621	17,715	16,077	22,440	27,664	29,375
Total Expenditure & Net Lending	(170,759)	(203,483)	(218,660)	(234,900)	(268,182)	(290,174)
Recurrent	(129,970)	(157,050)	(175,148)	(184,749)	(199,650)	(205,116)
Public Investment	(40,455)	(50,414)	(45,974)	(51,445)	(68,278)	(84,556)
Restructuring	(848)	(301)	(90)	(2,193)	(3,688)	(3,980)
Other	514	4,282	2,552	3,487	3,434	3,478
Current Account Surplus/(Deficit)	(19,932)	(20,792)	(28,869)	(19,880)	(24,618)	(3,764)
Budget Deficit	(60,721)	(67,225)	(72,381)	(70,031)	(93,150)	(88,822)
Financing	60,721	67,225	72,381	70,031	93,150	88,822
Grants	8,257	9,028	7,739	7,500	7,200	8,000
Foreign Borrowing	11,772	21,224	10,160	9,722	16,926	12,283
Domestic Borrowing	37,696	33,972	49,755	30,275	64,634	60,540
Divestiture Proceeds	2,996	3,001	4,728	22,535	4,389	8,000

AS A PERCENTAGE OF GDP

	1994	1995	1996	1997	1998	1999 Revised
Total Revenue	19.0	20.4	19.0	18.5	17.3	17.7
Tax Revenue	17.2	17.8	16.9	16.0	14.5	15.1
Non Tax Revenue	1.8	2.7	2.1	2.5	2.7	2.6
Total Expenditure & Net Lending	(29.5)	(30.5)	(28.4)	(26.4)	(26.4)	(25.5)
Recurrent	(22.4)	(23.5)	(22.8)	(20.7)	(19.7)	(18.0)
Public Investment	(7.0)	(7.5)	(6.0)	(5.8)	(6.7)	(7.4)
Restructuring	(0.1)	(0.0)	(0.0)	(0.2)	(0.4)	(0.3)
Other	0.1	0.6	0.3	0.4	0.3	0.3
Current Account Surplus/(Deficit)	(3.4)	(3.1)	(3.8)	(2.2)	(2.4)	(0.3)
Budget Deficit	(10.5)	(10.1)	(9.4)	(7.9)	(9.2)	(7.8)
Financing	10.5	10.1	9.4	7.9	9.2	7.8
Grants	1.4	1.4	1.0	0.8	0.7	0.7
Foreign Borrowing	2.0	3.2	1.3	1.1	1.7	1.1
Domestic Borrowing	6.5	5.1	6.5	3.4	6.4	5.3
Divestiture Proceeds	0.5	0.4	0.6	2.5	0.4	0.7

Note : Details may not add to totals due to rounding.

Source : General Treasury

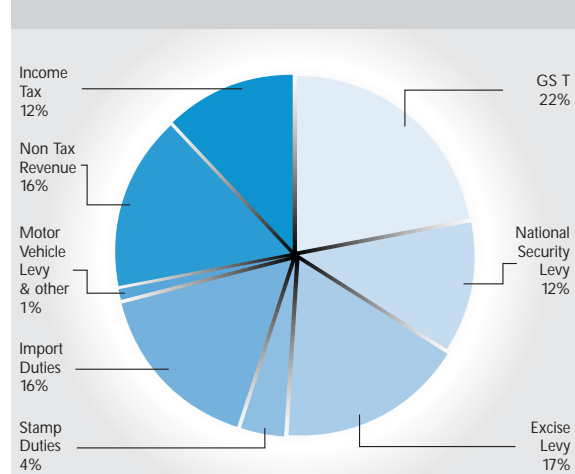
TRENDS IN GOVERNMENT REVENUE

- *I*n the context of on going tax reforms, the growth in government revenue (buoyancy) continued to decelerate further in 1998. Consequently, the revenue/GDP ratio declined to 17.3 per cent in 1998 from 18.5 per cent in 1997 and 19 per cent in 1996. This trend is expected to reverse in 1999-2000 with the lapsing of several tax incentives, GST becoming fully operational in terms of its self enforcement mechanism, intensified field audits and compliance checks and with the realisation of medium term efficiency gains through the removal or reduction of distortionary taxes such as customs duties, turnover taxes, surcharges and stamp duties on financial instruments.
- The combined revenue from Turnover Tax (Jan. - March) and GST (April - Dec.) was 3.9 per cent of GDP as compared to an average revenue yield of 4.9 per cent of GDP under Turnover Tax in 1996 and 1997 due to the following.
 - * Introduction of a low GST rate at 12.5 per cent, to facilitate the transition to GST with a minimum burden to the consumer.
 - * Provision to refund input tax for all taxable items including exports to eliminate cascading cost on production.
 - * Fully transparent standard tax rate in place of a hidden uplift provision of 10 per cent for the application of Turnover Tax on imports.
 - * Elimination of cascading effect particularly on export and production sectors which resulted in a lower effective rate of taxation.
 - * Transitional teething problems in the implementation of a new tax. Despite this, the

GST generated 83 per cent of the expected revenue as compared to 40 - 60 per cent success rate observed in some countries in the first year of implementation.

- * Reduction of Turnover Tax on banking and financial institutions to 1 per cent in view of on going commitment to reduce taxation on financial instruments.
- * Transfer of certain products such as petrol to excise taxes, telecommunication services to National Security Levy and Port Services to non tax revenue.
- * Reduced value of imports and slow down in economic activities particularly in the second half of the year which resulted in contraction in the tax base.

COMPOSITION OF REVENUE IN 1998



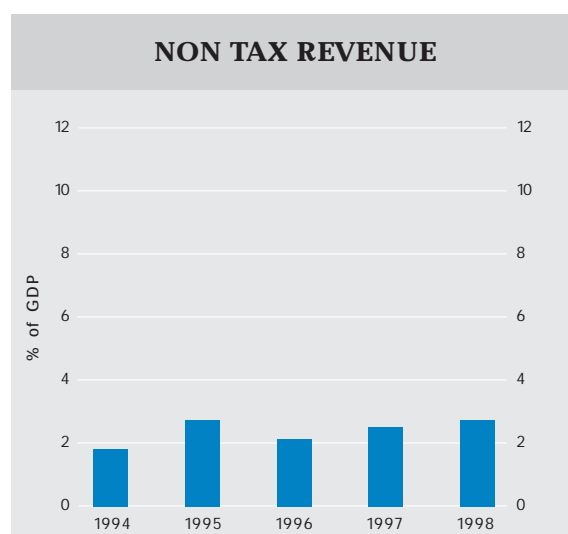
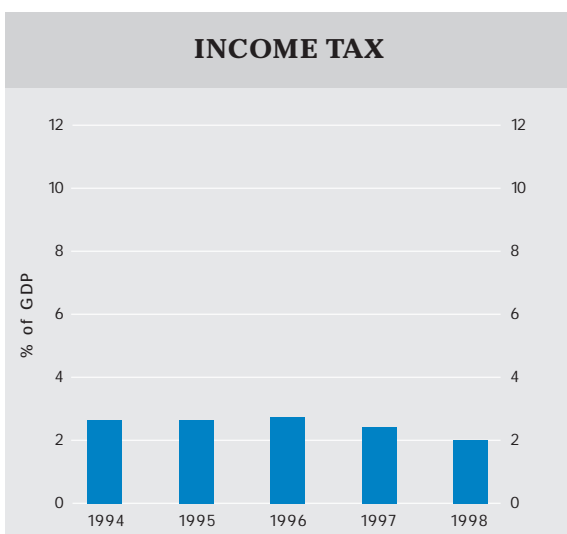
- Despite virtual stagnation in revenue from the excise tax on cigarettes, total revenue from excise taxation increased by 14 per cent, due to substantial increase in excise tax on motor vehicles and liquor. Excise revenue in relation

to GDP remained at 3 per cent as in 1997. This ratio was 2.9 per cent in 1996.

- The National Security Levy which declined from 2.1 per cent of GDP in 1996 to 1.9 per cent in 1997 due to gradual lowering of the tax rate on capital goods bounced back to 2.1 per cent in 1998 reflecting its revenue buoyancy on the new tax base.
- In the context of virtually no growth in imports, further lowering of customs duty on raw material

and investment goods and exemption of customs duty on the imports for priority sector activities, revenue from customs duty in relation to GDP declined to 2.8 per cent from 3.0 per cent in 1997 and 3.3 per cent in 1996.

- Investment tax allowance to galvanize private sector investments, high depreciation provisions to encourage long term capital formation, tax incentives to promote listed public companies, reduction in income tax rate to 15 per cent for



priority sectors such as agriculture and tourism and extension of tax holidays contributed to reduce the income tax revenue/GDP ratio to 2.0 per cent in 1998 compared to 2.3 per cent in 1997 and 2.9 per cent in 1996. However, the impact of these incentives is expected to level off and begin to show benefits in the medium term.

- Non tax revenue accounted for 2.7 per cent of GDP compared to 2.5 per cent in the previous year due to increased profit transfers mainly from the Central Bank of Sri Lanka and the Sri Lanka Ports Authority.
- Rent, sales and charges and social security contributions recorded impressive growth rates.

REVENUE TRENDS

(ECONOMIC CLASSIFICATION)

	1994	1995	1996	1997	1998	1999 Revised
1. Tax Revenue	99,417	118,543	130,202	142,429	147,368	171,977
Income tax	15,748	18,211	22,355	20,845	20,429	24,192
Goods and Services Tax*	32,300	36,429	37,631	43,259	39,343	44,200
National security Levy	9,693	14,408	16,441	17,274	21,079	27,824
Excise Levy	14,632	19,436	22,067	26,550	30,293	36,394
Stamp Duties	4,386	5,162	5,279	6,392	7,079	8,150
Import Duties	22,598	24,365	25,458	26,991	28,154	30,127
Motor Vehicle Levy and other	60	532	971	1,118	991	1,090
2. Non Tax Revenue	10,621	17,715	16,077	22,440	27,664	29,375
Rent	181	217	447	859	1,410	1,500
Interest	4,560	6,946	5,222	7,752	7,786	7,050
Profit and Dividends	1,294	4,618	2,690	4,189	6,200	7,810
Sales and Charges	2,397	3,063	4,208	4,582	6,081	5,805
Social Security Contributions	719	825	1,232	1,870	2,837	3,445
Other	1,470	2,046	2,278	3,188	3,350	3,765
TOTAL	110,038	136,258	146,279	164,869	175,032	201,352

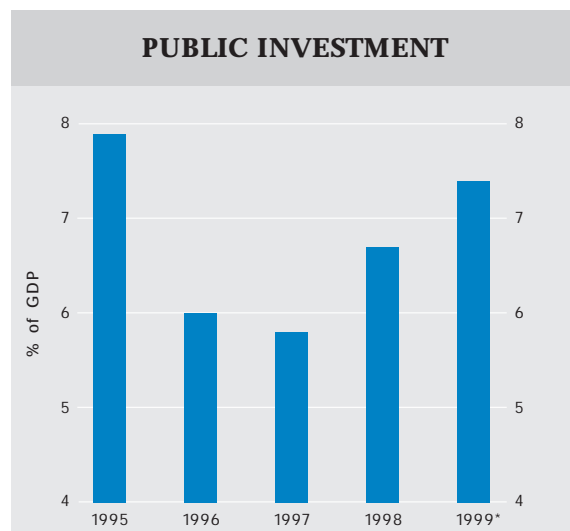
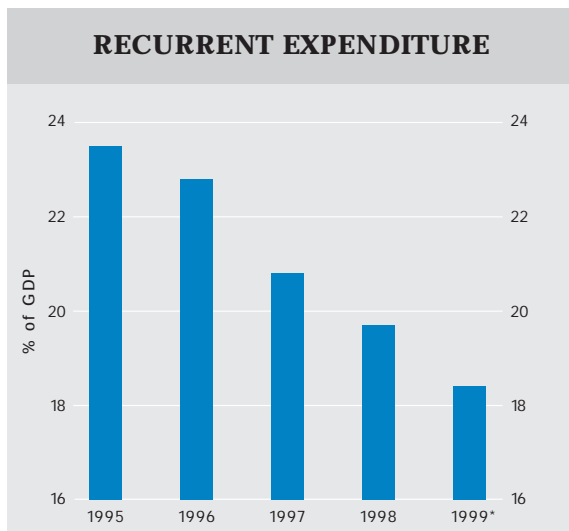
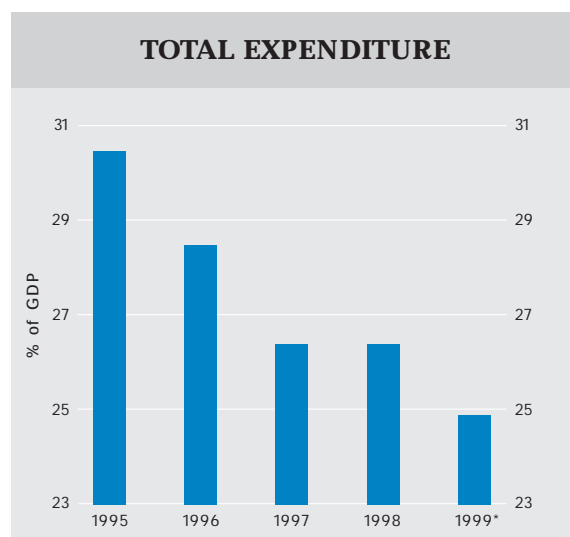
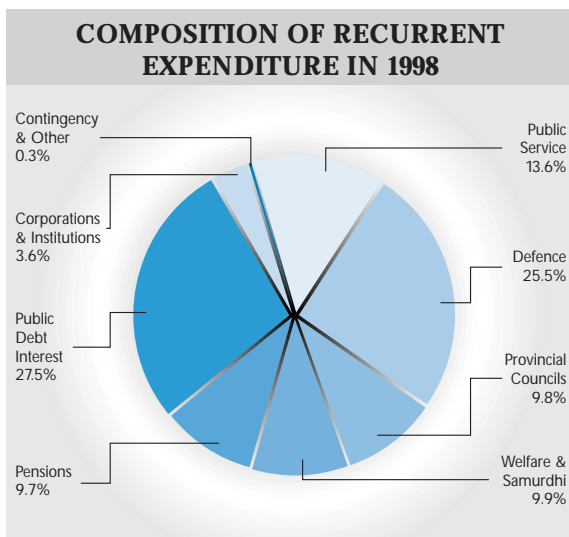
* Turnover Tax up to March 1998.

Source: General Treasury

TRENDS IN GOVERNMENT EXPENDITURE

The downward trend in recurrent expenditure/GDP ratio underscored the sustainable impact of the on going reforms towards a durable limit of operational expenditure in the government budget. The restraint on overtime, improved carder management, privatization of selected public enterprises, restructuring of public debt,

rationalization of subsidy programmes, consolidation of poverty alleviation programmes and selective cuts on non priority expenditure have contributed to contain the growth in expenditure in spite of the implementation of several rounds of salary and pension increases, and a high level of defence expenditure.



* Revised estimates

1998 witnessed the lowest level of recurrent expenditure in relation to GDP for the past ten year period. The reduction in defence expenditure and interest payments on public debt will further consolidate this trend.

1998 also witnessed a steady improvements in the use of budgetary resources for enhanced public investments over the past three years. Durable reduction in current expenditure and improvements in revenue growth will revive public investment in the medium term while maintaining government expenditure consistent with deficit targets.

KEY COMPONENTS OF RECURRENT EXPENDITURE

Debt Service:

Interest payments on public debt have emerged as the single largest expenditure component in the recurrent budget. It pre-empted a third of government revenue. The total debt stock amounted to Rs. 907 billion at the end of 1998. The average rate of interest on domestic debt is 10.66 per cent per annum while that on foreign debt is 1.58 per cent per annum. The lower rate of interest on foreign debt in spite of exchange rate depreciation underscores the concessional nature of Sri Lanka's foreign debt.

	Unit	1995	1996	1997	1998
Interest Payment on Domestic Debt	(Rs. bn)	35.0	42.2	48.6	47.6
As a percentage of domestic debt	(%)	12.2	11.8	12.7	10.7
Interest Payments on Foreign Debt	(Rs. bn.)	6.2	6.7	6.7	7.3
As a percentage of foreign debt	(%)	1.8	1.9	1.8	1.6
Total Interest / Government Revenue	(%)	30.2	32.8	33.5	31.4
Total Interest / Government Expenditure	(%)	20.2	22.4	23.5	20.5

Defence and National Security:

A heavy burden is imposed on the budget through enlarged defence expenditure which accounted for 5.0 per cent of GDP in 1998. Personnel emoluments accounted for 45 per cent of defence expenditure in 1998.

	Unit	1995	1996	1997	1998
Defence Expenditure	(Rs. bn.)	42.5	44.9	45.0	51.0
GDP Ratio	(%)	6.4	5.8	5.1	5.0
Defence Expenditure/Government Revenue	(%)	32.2	30.7	27.3	29.1
Defence Expenditure/Government Expenditure	(%)	20.9	20.5	19.1	19.0

Public Service:

Operational expenditure of the public service at national level totalled Rs. 27.18 billion and accounted for 10 per cent of total expenditure in 1998. Personnel emoluments increased by 12 per cent in 1998 reflecting the full impact of the recent salary revisions implemented in stages. Non wage operational cost continues to remain high due to high establishment cost.

	Unit	1995	1996	1997	1998
Personnel Emoluments	(Rs. bn.)	8.3	10.7	11.8	13.2
GDP Ratio	(%)	1.2	1.4	1.3	1.3
Other Recurrent Expenditure	(Rs. bn.)	8.5	8.5	9.9	14.0
GDP Ratio	(%)	1.3	1.1	1.1	1.4
Average Salary per person per month	(Rs.)	2,731	3,153	3,510	4,135
Number of Employees		253,394	284,084	279,789	266,202
Number of Ministries		24	24	24	31
Number of Departments		128	128	126	126

Pensions:

Total expenditure on pensions continued to increase raising the annual budget cost from Rs. 18.8 billion in 1997 to Rs. 19.3 billion in 1998. This increase was mainly due to the decision to grant the last two instalments of the cost of living allowance arrears in 1998. The arrears were paid in stages commencing from 1995 costing about Rs. 3.5 billion to the Government.

	Unit	1995	1996	1997	1998
Pension Payments	(Rs. bn.)	14.1	15.5	18.8	19.3
As a percentage of GDP	(%)	2.1	2.0	2.1	1.9
As a percentage of Government Revenue	(%)	10.3	10.6	11.4	11.0
W & OP Contributions	(Rs. bn.)	0.8	1.2	1.9	2.8
As a percentage of GDP	(%)	0.12	0.16	0.21	0.28
As a percentage of Government Revenue	(%)	0.61	0.84	1.13	1.62
Number of Pensioners		310,854	332,824	342,343	358,228

Provincial Councils:

(Rs. mn)

	1995	1996	1997	1998
Total Receipts	19,728	21,757	23,743	26,596
Revenue	4,440	4,884	5,395	6,002
Turnover Tax	2,335	2,464	2,734	2,980
Licence Fees	840	946	1,000	1,127
Stamp Duty	867	1,036	1,051	1,267
Sales and Charges	317	355	408	481
Other	81	83	202	148
Government Contributions	15,288	16,873	18,348	20,594
Block Grant	14,066	15,831	16,855	19,194
Criteria Based Grants	897	800	1,168	1,163
Matching Grants	325	242	325	237
Total Payments	20,852	22,128	23,455	26,736
Personnel Emoluments	16,031	16,263	17,067	19,744
Other Recurrent Expenditure	3,765	4,679	4,988	5,486
Capital Expenditure	1,057	1,187	1,400	1,507

Poverty Alleviation and Welfare:

Several programmes were in operation in 1998 with a view to improving welfare conditions and alleviating poverty among low-income families. The Samurdhi Programme has emerged as a development programme to uplift the poor through a wide array of activities including grass root banking, insurance, savings, training and skills development, rural infrastructure, self employment and community improvement programmes. The direct income transfers through the Samurdhi Programme reached 1,973,183 families. In addition to the activities under the Samurdhi Programme, the government also continued to provide relief to the people through other programmes such as free school text books, school uniforms, refugee relief, fertiliser subsidy etc.

	Unit	1995	1996	1997	1998
Samurdhi Expenditure	(Rs. bn.)	2.34	7.34	8.72	8.65
Number of Samurdhi families	(mn)	1.440	1.479	2.058	1.973
o/w Core group	(mn)	0.893	0.906	0.818	0.897
Other	(mn)	0.547	0.574	1.240	1.076
School text books and School uniform	(Rs. bn.)	1.0	1.7	1.6	1.7
Number of school children	(mn.)	4.351	4.265	4.261	4.286
Refugee expenditure	(Rs. bn.)	2.3	2.3	3.4	2.3
No. of Refugees	(mn.)	–	0.783	0.804	0.674
Fertiliser subsidy	(Rs. bn.)	1.3	1.5	1.9	2.2
Total welfare expenditure	(Rs. bn.)	14.8	18.6	20.5	18.2

EXPENDITURE TRENDS
(ECONOMIC CLASSIFICATION)

(Rs. mn)

	1994	1995	1996	1997	1998	1999 Revised
Current Expenditure	129,970	157,050	175,148	184,749	199,650	205,116
General Public Service	14,146	16,826	19,238	21,733	27,175	27,998
Salaries	7,346	8,304	10,747	11,785	13,208	13,868
Other Goods & Service	6,800	8,522	8,491	9,948	13,967	14,130
National Security and Defence	26,444	42,460	44,933	44,972	50,962	43,348
Salaries	10,604	12,098	13,337	17,324	23,004	23,720
Other Goods & Service	15,840	30,362	31,596	27,648	27,958	19,628
Interest on public debt	40,922	41,116	48,923	55,246	54,898	63,282
Domestic	35,411	34,954	42,184	48,554	47,598	55,222
Foreign	5,511	6,162	6,739	6,692	7,300	8,060
Transfers to other Institutions	18,715	26,184	26,347	22,475	26,918	29,308
Provincial Councils	14,105	16,161	15,831	17,125	19,631	20,789
Corporations	2,634	7,841	8,232	2,693	2,967	2,486
Statutory Agencies	1,976	2,182	2,284	2,657	4,320	6,033
Social Safety	29,570	30,301	33,714	39,001	39,052	39,001
Pensions	12,870	14,074	15,465	18,792	19,275	19,321
Samurdhi	0	2,336	7,340	8,718	8,652	8,374
Other Welfare	16,700	13,891	10,909	11,491	11,125	11,306
Contingency and Other	173	163	1,993	1,322	645	2,179
Capital Expenditure & Net lending	40,789	46,433	43,512	50,151	68,532	85,058
Public Investment	40,455	50,414	45,974	51,445	68,278	84,556
Acquisition of Fixed Assets	16,553	22,588	20,937	25,652	32,246	36,299
Capital Transfers	13,838	16,739	16,701	18,515	21,915	32,437
On Lending	10,064	11,087	8,336	7,278	14,117	15,820
Other Expenditure	334	(3,981)	(2,462)	(1,294)	254	502
Advance A/C Net Lending	2,462	(1,580)	630	1,226	2,784	1,500
Repayments on Lending	(2,976)	(2,702)	(3,182)	(4,713)	(6,218)	(4,978)
Restructuring Expenditure	848	301	90	2,193	3,688	3,980
TOTAL	170,759	203,483	218,660	234,900	268,182	290,174

Source: General Treasury

PUBLIC INVESTMENT

*I*n terms of the Government investment strategy, increased attention in public investment has been drawn towards education, health, environment, roads, irrigation, rural infrastructure and poverty alleviation while encouraging private sector investment in commercial infrastructure development on BOO/BOT basis.

Public investment improved from 5.8 per cent of GDP in 1997 to 6.7 per cent of GDP in 1998. The major concentration in public investment activities was on infrastructure development in transport and communication, energy, water supply, irrigation, education and health.

Total public investment in economic infrastructure amounted to Rs. 44.7 billion (4.4 per cent of GDP) in 1998 as compared to Rs. 32.5 billion (3.6 per cent of GDP) in 1997.

- Capital expenditure on telecommunication included regional telecommunication network expansion projects in Kandy, Matale, Nawalapitiya, Hatton, Kalutara and Panadura, Horana and Gampaha.
- Capital contribution to the development of power and energy was directed at power generation, system expansion and distribution projects.
- Investment on road rehabilitation and development projects covered a number of major roads such as Katunayake - Puttalam, Kurunegala - Padeniya, Katugastota - Matale, Peradeniya - Gampola, Kandy - Tennekumbura, Ratnapura - Beragala - Bandarawela and Baseline road improvement project.
- The other areas of capital expenditure on economic infrastructure covered irrigation, Mahaweli development, agriculture, fisheries, livestock, rural industries and regional development programmes.

Capital expenditure on human resources development increased from Rs. 11.6 billion (1.3 per cent of GDP) in 1997 to Rs. 15.5 billion (1.5 per cent of GDP) in 1998. Increased investment was seen in the fields of education and health where capital investment on education increased from Rs. 4.6 billion to Rs. 6.1 billion, and in respect of health from Rs. 2.6 billion to Rs. 4.3 billion.

SELECTED PUBLIC INVESTMENT PROJECTS

	(Rs. mn.)		
	1996	1997	1998
• PORTS For projects such as Jaya Container Terminal Yard, North Pier Development (Container Berth), Queen Elizabeth Quay	2,776	984	3,356
• TELECOMMUNICATIONS For improvement of networks Expansion of secondary switching areas Telecommunication improvement and expansion projects	5,171	1,395	2,426
• ROADS	4,549	6,302	7,632
* Maintenance	243	265	238
* Rural roads, bridges and rehabilitation of roads	2,661	3,518	3,285
* Baseline Road]		
* Colombo and Suburb Roads]	666	1,636
* Japan - Sri Lanka Friendship Bridge, etc.]		
* Provincial Roads]	702	715
* Rural Roads - Local authorities]		
* Fort - Pettah - Maradana Road	277	168	152
• TRANSPORT	5,034	4,191	4,597
* Buses and Engine Kits	–	17	600
* Rolling Stock			
* Purchases]		
* Local Assembling]	2,986	2,687
* Repairs]		
* Railway Lines, Signalling, etc.	2,048	1,487	1,813
• POWER AND ENERGY	2,721	3,919	6,627
* Rural Electrification	–	307	432
* Power Generation and Distribution	2,721	3,612	5,648
* Petroleum Storage Facilities	–	–	221
* LECO	–	–	326
• IRRIGATION	2,806	2,885	2,446
* Construction and Improvements to Gravity Irrigation	74	91	186
* Other Irrigation works	792	1,225	1,210
* Mahaweli Development	1,940	1,569	1,050

(Rs. mn.)

	1996	1997	1998
• INDUSTRIAL DEVELOPMENT	593	631	2,345
* Industrial Estates	228	522	2019
* BOI	365	109	326
• REGIONAL DEVELOPMENT	1,974	2,332	2,662
* Northern Province Reconstruction	918	886	996
* Southern Development Authority	–	55	150
* Regional Economic Advancement Program	1,056	1,391	1,516
• HOUSING	340	403	1,122
* Urban, Rural and Low Income Housing	163	403	867
* Plantation Housing	177		152
* Fishery Sector Housing	–	–	103
• WATER SUPPLY	3,269	2,547	2,390
• SANITATION	292	647	823
• HEALTH	2,297	2,385	3,461
* Patient Care Service	1,149	968	1,584
* Community Health Service	475	695	923
* Indigenous Medicine	–	–	52
* Health Sector – Through Provincial Council	673	722	902
• EDUCATION	4,179	4,083	5,414
* National Schools - Buildings, Furniture and Equipment	2,304	2,001	2,388
* Schools under Provincial Councils	613	690	750
* Teacher Education	272	197	487
* Advance Technical Education	–	–	186
* Universities	990	1,195	1,603
• ENVIRONMENT	2,773	1,717	2,134
* Colombo Metropolitan Environment Programme	198	118	384
* Colombo Flood Control	2,414	1,481	1,552
* Environmental Projects	161	118	198

FOREIGN ASSISTANCE

Multilateral and bilateral assistance offered by the donor community to the country's development effort by way of grants and concessional loans averaged around US \$ 800 million per year. The World Bank, the Asian Development Bank and the Government of Japan provide three fourths of assistance. The other important sources of external assistance include UN Agencies, USA, Netherlands, Germany, U.K., Australia, Canada, Sweden, Norway, France and South Korea.

The Government of Japan provides assistance for a large number of development projects with a heavy involvement in the financing of infrastructure projects such as transport, energy, telecommunication and environmental improvement programmes. Aid utilisation rate is around 27 per cent as at end 1998.

The Asian Development Bank has shown increased emphasis on infrastructure development and education through its portfolios in the country. The utilisation rate improved to 37 per cent with the improvement in project implementation in recent years.

The World Bank has increased its assistance towards general education and health services, private sector infrastructure development and Mahaweli restructuring programmes. At the end of 1998, 45 per cent of the committed aid had been realised.

At bilateral level, the USA, Norway, the U.K., Germany and Sweden are involved in highly diversified activities funded through both concessional loans and grants.

FOREIGN FUNDED PROJECTS

CONCESSIONAL LOANS

US \$ Millions

<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Loan Amount</i>	<i>Utilisation as at end 1998</i>
Asian Development Bank			
Smallholder Tea Development Project	Public Admins. Home & Plantation	18.06	17.10
Second Small & Medium Industries Project	Finance & Planning	31.47	28.76
Southern Province Rural Development Project	Plan Implement. & Parliament Aff.	39.24	33.03
N-W Province Water Resources Development	Irrigation & Power	22.68	13.19
Participatory Forestry Project	Forestry & the Environment	8.10	5.14
Second Health and Population Project	Health & Indigenous Medicine	25.44	22.12
Fisheries Sector Project	Fisheries & Aquatic Resources Dev.	26.01	20.98
Urban Development Sector Project	Housing & Urban Development	27.01	23.83
Second Water Supply & Sanitation Project	Housing & Urban Development	39.82	30.72
Secondary Education Development Project	Education & Higher Education	31.06	24.43
Financial Management Training Project	Finance & Planning	12.88	10.49
Fourth Development Financing Project	Finance & Planning	74.98	67.26
Third Road Improvement Project	Transport & Highways	53.60	19.84
Plantation Reform Project	Public Admins. Home & Plantation	57.46	17.63
Second Power System Expansion Project	Irrigation & Power	75.28	19.81
Emergency Rehabilitation of Petroleum Facilities	Irrigation & Power	23.10	12.80
N.C. Province Rural Development Project	Plan Implement. & Parliament Aff.	19.30	4.40
Small & Medium Enterprise Assistance Project	Industrial Development	5.00	0.00
Upper Watershed Management Project	Forestry & the Environment	17.21	0.33
Third Water Supply & Sanitation Sector	Housing & Urban Development	77.27	0.00
Southern Provincial Road Improvement Project	Provincial Councils & Local Govt.	31.00	1.05
Second Perennial Crops Development Project	Agriculture & Lands	20.74	1.51
Science & Technology Personnel Dev. Project	Science & Technology	20.70	0.53
Urban Devt. & Low-Income Housing Sector	Housing & Urban Development	74.31	0.00
Credit Enhancement Facility for Pvt. Enterprises	Finance & Planning	65.00	0.00
Road Network Improvement Project	Transport & Highways	79.85	0.00
Tea Development Project	Plan Implement. & Parliament Aff.	37.03	0.00
Sub Total		1,013.60	374.95
International Fund for Agricultural Development			
Second Badulla Integrated Rural Development	Plan Implement. & Parliament Aff.	13.92	4.55
N.W. Province Dry Zone Participatory Devt.	Plan Implement. & Parliament Aff.	8.65	3.14
N.C. Province Participation Rural Development	Plan Implement. & Parliament Aff.	7.67	1.32
Sub Total		30.24	9.01

		<i>US \$ Millions</i>	
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Loan Amount</i>	<i>Utilisation as at end 1998</i>
International Development Association			
Third Roads Project	Transport & Highways	43.04	37.93
Poverty Alleviation Project	Finance & Planning	47.96	37.01
Second Telecommunications Project	Posts, Telecommunication & Media	55.84	48.54
Second Power Distribution & Transmission project	Irrigation & Power	52.74	45.75
National Irrigation Rehabilitation Project	Irrigation & Power	25.67	23.80
Second Agriculture Extension Project	Agriculture & Lands	14.77	7.95
Community Water Supply and Sanitation Project	Housing & Urban Development	23.77	23.62
Private Finance Development Project	Finance & Planning	60.76	56.19
Colombo Urban Transport Project	Transport & Highways	20.25	12.68
Colombo Environmental Improvement Project	Housing & Urban Development	34.88	11.31
Telecomm. Regula. & Pub. Enterprise Reform	Posts & Telecommunication	14.63	3.57
Teacher Education & Teacher Deployment	Education & Higher Education	61.88	8.59
Private Sector Infrastructure Dev. Project	Finance & Planning	74.40	1.29
Health Services Project	Health & Indigenous Medicine	18.28	1.94
Environmental Action 1 Project	Forestry & the Environment	15.05	2.78
Energy Services Delivery Project	Irrigation & Power	23.77	2.46
Legal & Judicial Reform Project	Justice, Const. Aff., Ethni., Nat., Int.	0.45	0.10
Port Efficiency Improvement Project	Shipping, Ports, Reha. & Eastern Pro	0.65	0.34
Second General Education Project	Education & Higher Education	72.29	2.72
Mahaweli Restructuring & Rehab. Project	Mahaweli Development	58.65	18.00
Year 2000 Emergency Assistance Project	Finance & Planning	29.54	0.00
Sub Total		749.27	346.57
Government of France			
French Mixed Credit 1994 (Treasury Part)	Housing & Urban Development	3.96	3.83
French Mixed Credit 1995 (Treasury Part)	Finance & Planning	4.44	1.45
French Mixed Credit 1996 (Treasury Part)	Posts, Telecommunications & Media	4.88	0.00
Construction of Water Treat. Plant at A' pura	Housing & Urban Development	7.91	0.00
Sub Total		21.19	5.28

		<i>US \$ Millions</i>	
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Loan Amount</i>	<i>Utilisation as at end 1998</i>
Government of Japan			
Transmission & Grid Substation Dev. Project	Irrigation & Power	33.31	17.67
Railway Rehabilitation Project	Transport & Highways	91.73	69.24
Port of Colombo Extension Project III	Shipping, Ports & Rehabilitation	181.92	172.48
Gr. Colombo Flood Control & Env. Imp. (I)	Housing & Urban Development	96.75	80.90
Baseline Road Project	Transport & Highways	44.38	17.21
S.Lan. - Jap. Friendship Bridge Widening Project	Transport & Highways	25.31	4.08
The Regional Telecommunications Dev. Project	Posts, Telecommunication & Media	87.37	7.02
Greater Col. Water Sup. Sys. Extension Project	Housing & Urban Development	32.19	12.12
Gr. Colombo Flood Control & Env Project (II)	Housing & Urban Development	37.73	8.91
Industrial Estates Development Project	Industrial Development	32.82	23.79
Kukule Ganga Hydroelectric Power Project	Irrigation & Power	183.41	6.27
Port of Colombo North Pier Develop. Project	Shipping, Ports & Rehabilitation	48.97	11.11
Coal Fired Thermal Development Project	Irrigation & Power	8.43	3.16
Samanalawewa Hydro electric Power Project	Irrigation & Power	45.64	17.65
Walawe Left bank Irriga. Upgr. & Exten.	Mahaweli Development	22.22	4.32
Port of Colombo North Pier Develop. Project (II)	Shipping, Ports & Rehabilitation	109.77	0.00
Kelanitissa Combined Cycle Power Plant	Irrigation & Power	116.48	1.95
Walawe Left Bank Irriga. Upgra. & Exten. (II)	Mahaweli Development	81.16	4.77
Towns North of Colombo Water Supply Project	Housing & Urban Development	45.86	1.13
G.C. Flood control & Enviro. Imp. Project (III)	Housing & Urban Development	53.40	2.71
Plantation Reform Project	Public Admins. Home. & Plantation	35.22	22.03
Transmission & Substation Dev. Project	Irrigation & Power	26.91	0.00
Baseline Road Project (II)	Transport & Highways	20.24	0.44
Telecom. Network Expan. Project in Colombo	Posts, Telecommunication & Media	86.60	2.51
Kalu Ganga Water Sup. Project for Grater Colombo	Housing & Urban Development	97.44	0.00
Mahaweli System C Upgrading Project	Mahaweli Development	32.29	0.00
Small & Micro Ind. Leader & Entrepre. Project	Industrial Development	46.93	15.57
Transmission & Substation Develop. Project (II)	Irrigation & Power	34.82	0.00
Medium Voltage Distrib. Network Reinforcement	Irrigation & Power	51.61	0.00
Telecom. Network Expan. Pj. 2 Colombo Metro	Posts, Telecommunication & Media	115.51	0.00
Environmentally Friendly Solutions Fund	Industrial Development	23.59	0.00
Sub Total		1950.00	507.04

<i>Projects</i>	<i>Implementing Ministry</i>	<i>US \$ Millions</i>	
		<i>Committed Loan Amount</i>	<i>Utilisation as at end 1998</i>
Government of the Federal Republic of Germany			
Railway Bridges II	Transport & Highways	12.82	9.41
Commodity Aid for Electronic Equip. for CBSL	Finance & Planning	0.60	0.47
Second Ext. of Sapugaskanda Diesel Power Project	Irrigation & Power	28.02	22.38
Small Entrepreneur Promot. Project (DFCC II)	Finance & Planning	1.13	0.44
Expans of two 132/11KV Substa. In Colombo	Irrigation & Power	4.77	4.70
Private Sector Infrastructure Development Project	Finance & Planning	11.92	0.00
Grid Substation Kelaniya & Ratmalana	Irrigation & Power	8.35	0.00
NDB Small Loan Programme III	Finance & Planning	1.19	0.30
Water Supply - Nawalapitiya	Housing & Urban Development	6.26	0.00
Water Supply - Ampara	Housing & Urban Development	3.58	0.00
Sub Total		78.64	37.70
Government of the People's Republic of China			
Economic and Technical Cooperation	Finance & Planning	6.04	3.24
Acquisition of Vessels for Sri Lanka Navy	Defence	3.00	0.00
Lady Ridgeway Children's Hospital Development	Health & Indigenous Medicine	9.07	3.03
Sub Total		18.11	6.27
Government of the Republic of Korea			
Hospital Rehabilitation & Reconstruction	Health & Indigenous Medicine	8.27	2.74
Horana Area Telecom Facility Improvement	Posts, Telecommunications & Media	9.85	5.84
Expansion of Telecom Centre Gampaha	Posts, Telecommunications & Media	9.85	6.38
Power Sector Development Project	Irrigation & Power	5.42	1.03
Medical Equipment Project	Health & Indigenous Medicine	6.86	3.32
Ratnapura-Bandarawela Road Rehabilitation	Transport & Highways	20.59	0.00
Housing Project for Public Servants	Housing & Urban Development	6.86	0.00
Sub Total		67.70	19.31
Government of Norway			
Ampara Substation Project	Irrigation & Power	5.49	5.44
Anuradhapura Grid Substation Project	Irrigation & Power	2.79	1.52
Sub Total		8.28	6.96
Government of Netherlands			
Railway Signalling & Communi. Kalutara - Galle	Transport & Highways	8.67	8.32
Sub Total		8.67	8.32

		<i>US \$ Millions</i>	
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Loan Amount</i>	<i>Utilisation as at end 1998</i>
Government of India			
Line of Credit 1987 No. 13	Finance & Planning	5.85	5.67
Indian Line of Credit (2nd Tranche)	Finance & Planning	15.00	0.01
Sub Total		20.85	5.68
Government of Kuwait			
Mahaweli System C Development	Mahaweli Development	47.17	46.34
Bridges Reconstruction & Rehabilitation Project	Transport & Highways	10.96	1.73
Sub Total		58.13	48.07
Saudi Fund For Arab			
Economic Development			
Second Water Supply & Sewerage Project	Housing & Urban Development	26.65	26.46
Mahaweli Ganga Dev. Proj. System B Left Bank	Mahaweli Development	22.67	13.45
Sub Total		49.32	39.91
Government of Pakistan			
Pakistan Line of Credit	Finance & Planning	5.00	0.00
Sub Total		5.00	0.00
Nordic Development Fund			
Second Power Dist. & Transm. Project (A' pura)	Irrigation & Power	7.03	4.53
Sub Total		7.03	4.53
Swedish International			
Development Cooperation Agency			
Rehabilitation of Light Houses in Sri Lanka	Finance and Planning	2.14	0.00
Sub Total		2.14	0.00
GRAND TOTAL		4,088.17	14,19.60
UTILISATION AS AT END 1998			35%

FOREIGN FUNDED PROJECTS

GRANTS

<i>Projects</i>	<i>Implementing Ministry</i>	<i>US \$ Millions</i>	
		<i>Committed Grant Amount</i>	<i>Utilisation as at end 1998</i>
International Bank for Reconstruction & Development			
IDF - Sri Lanka Reforming Tax	Finance & Planning	0.42	0.35
Biodiver. Strate. & Medium Plan. Cons. (PPA)	Forestry & the Environment	0.35	0.00
Privatization Technical Assistance	Finance & Planning	0.49	0.43
Tech. Asst. for improvement of CBSL Library	Finance & Planning	0.24	0.09
Support for Economic Policy Formulation	Finance & Planning	0.38	0.12
Global Environment Facility Trust Fund	Irrigation & Power	5.91	0.32
Conserv. & Sustain. use of Medici. Plants Project	Health & Indigenous Medicine	4.78	0.22
Sub Total		12.57	1.53
International Development Association			
Commercialisation in Plantation Sector	Finance & Planning	1.17	0.92
Household Energy Efficiency & Devel. Project	Irrigation & Power	0.79	0.45
Private Sector Development Project	Finance & Planning	0.58	0.22
Private Sector Infrastructure Development	Plan. Implement. & Parliament.Aff.	0.96	0.53
Education Quality Improvement Project	Education & Higher Education	0.51	0.40
Second Health and Family Project	Health & Indigenous Medicine	0.47	0.29
Non-Plantation Crop Sector Improvement Project	Agriculture & Lands	0.44	0.12
Non-Plantation Crop Sector Imp. Design Project	Agriculture & Lands	0.21	0.17
TA for Clean Settlement Project	Housing & Urban Development	0.24	0.00
TA for Clean Settlement Project	Housing & Urban Development	0.22	0.19
Ports Development Assistance Project	Shipping, Ports & Rehabilitation	0.88	0.00
Non-Plantation Crop Sector Improv. (Design)	Agriculture & Lands	0.05	0.00
Non-Plantation Crop Sec. Improv. (Policy Envi)	Agriculture & Lands	0.45	0.00
Second Private Finance Development Project	Finance & Planning	0.35	0.05
Second Private Finance Development Project	Finance & Planning	0.35	0.00
Second poverty Alleviation Project	Samurdhi, Youth Affairs & Sports	0.44	0.00
Sub Total		8.11	3.34
Government of Japan			
18th Debt Relief 92 Grant (1st installment)	Finance & Planning	0.47	0.42
20th Debt Relief Grant 93 (1st installment)	Finance & Planning	0.80	0.74
21st Debt Relief Grant	Finance & Planning	0.71	0.60
Construction of the Mahaweli Road Bridge	Mahaweli Development	19.67	19.22
Improvement of Refuse Disposal in Colombo MC	Provincial Councils & Local Govern	8.49	6.80
22nd Debt Relief Grant	Finance & Planning	0.61	0.46
23rd Debt Relief Grant	Finance & Planning	0.52	0.51

		<i>US \$ Millions</i>	
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Grant Amount</i>	<i>Utilisation as at end 1998</i>
Government of Japan (Contd.)			
Improvement of Education Equipment (UOP)	Education & Higher Education	5.66	5.44
The Establishment of School of Nursing	Health & Indigenous Medicine	13.27	8.79
Imprv. of the Rupavahini National Channel	Posts, Telecommunications & Media	11.74	11.68
Educt. Equipmt. for Medical Faculty (UOSJ)	Education & Higher Education	1.88	0.08
24th Debt Relief Grant	Finance & Planning	0.43	0.00
Supply of Micro Film Equipment to Museum	Cultural & Religious Affairs	0.41	0.01
Solid Wast Mgt. in Colombo Metropolitan	Provincial Councils & Local Govern	4.56	0.24
Upgrading of Engineering Equipment (UOP)	Education & Higher Education	4.16	0.24
Supply of Musical Instruments to the Aesthetic Training College	Education & Higher Education	0.40	0.00
Reconstruction of Five Bridges	Transport & Highways	4.04	0.00
Improvement of Junior Schools	Education & Higher Education	11.48	0.00
Increase of Food production 1998	Agriculture & Lands	8.64	0.00
Sub Total		97.94	55.23
Government of Norway			
Hambanthota District IRDP	Plan Implement. & Parliament. Affairs	30.13	28.30
Norwegian Consultancy Fund	Finance & Planning	1.22	0.77
Monaragala District IRDP	Plan Implement. & Parliament. Affairs	22.66	17.01
Plantation M.T.I.P. (SWP)	Public Admins. Home. & Plantation	14.97	13.29
National Drug Quality Control Laboratory	Health & Indigenous Medicine	3.27	3.18
Batticaloa Integrated Rehab. & Recon. Project	Shipping, Ports & Rehabilitation	9.04	9.00
Environmental Fund	Forestry & the Environment	3.33	3.03
Vocational Training Pg. N & E Provinces	Shipping, Ports & Rehabilitation	0.79	0.59
Outside the Country Programme (89-97)	Dept. of External Resources	72.14	46.72
Training Research & Institution Buiding	Plan Implement. & Parliament. Affairs	1.31	0.49
The Vocational Training Plantation Sector	Vocational Training & Rural Indus.	1.74	0.26
Assistance to Natl. Building Intergrat Pg	Justice, Const. Aff., Ethni., Nat., Int.	1.90	0.00
Develop. & Rehab. Prog. for Batticaloa	Plan Implement. & Parliament. Affairs	7.86	0.02
Bhanbantota Costal Zone Management Plan	Finance & Planning	1.09	0.26
Institu. Dev. for Vocational Training Authority	Finance & Planning	0.46	0.20
Community Environmental Initiative Facility	Forestry & the Environment	0.39	0.26
Second Power System Expansion (sector) Project	Irrigation & Power	0.52	0.00
Plantation Development Support Programme	Public Admins. Home. & Plantation	6.55	0.00
Third Water Sup. & Sanitation Sector Project	Housing & Urban Development	7.34	0.00
Assist. Effluent Treatment Plant (CETP)	Finance & Planning	0.98	0.00
Sub Total		187.69	123.38

		<i>US \$ Millions</i>	
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Grant Amount</i>	<i>Utilisation as at end 1998</i>
Government of the United Kingdom			
Institutional Develop. Project (Colombo MC)	Provincial Councils & Local Govern	2.37	2.26
Sri Lanka Police Project	Defence	0.36	0.29
Distance Education	Education & Higher Education	1.51	0.83
Mother and Child Health Project	Health & Indigenous Medicine	1.43	1.06
Primary English Language Project	Education & Higher Education	4.52	1.12
Primary Education Planning Project	Education & Higher Education	1.93	0.46
Samanallowewa Dam Remedial Works Project	Irrigation & Power	0.67	0.00
Jaffna Power Rehabilitation Project	Irrigation & Power	3.54	1.44
Envi. Mgt. & Susta. Deve. in Upper Mahaweli	Mahaweli Development	3.23	0.00
Grater Colombo Severage Project	Housing & Urban Development	3.22	0.00
Sri Lanka Primary Maths Project	Education & Higher Education	5.53	0.03
Sup. to the Public Enter. Reform Comm. Project	Finance & Planning	0.49	0.00
Sub Total		28.80	7.49
Government of the United States of America			
Development Studies and Training	Finance & Planning	7.55	7.45
P. V. O. Co - Financing II	Finance & Planning	13.86	13.85
Mahaweli Agricultural and Rural Project	Mahaweli Development	15.77	15.34
Mahaweli Enterprise Development Project	Mahaweli Development	11.60	11.49
Natural Resources and Environmental Policy	Forestry & the Environment	17.43	16.98
Technology Initiative for the Private Sector	Industrial Development	12.60	12.16
Agro Enterprise Project	Agriculture & Lands	9.35	7.36
Promotion of Private Infrastructure Project	Plan Implement. & Parliament. Aff.	6.22	5.30
Citizens Participation Project	Justice, Cons. Aff., Ethni., Nat.Int.	5.68	2.51
Sustainable Economic Growth Programme	Finance & Planning	14.99	2.83
Natural Resources and Environmental Practices Programme	Forestry & the Environment	0.23	0.00
Sub Total		115.28	95.27

US \$ Millions

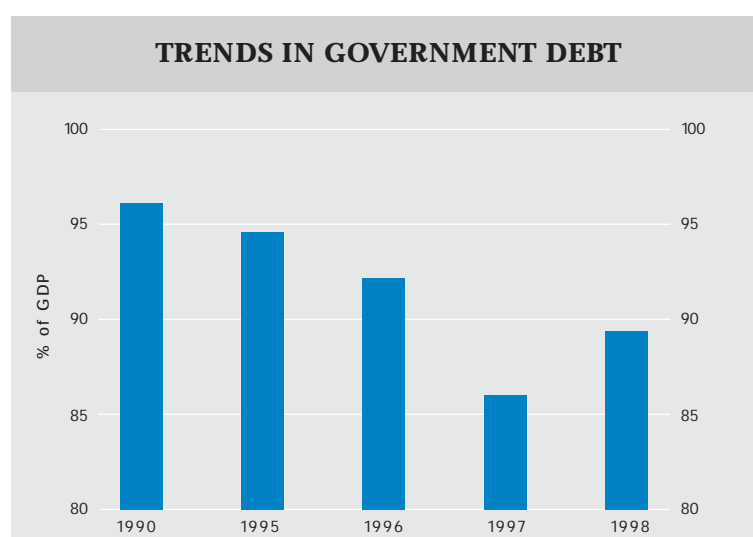
<i>Projects</i>	<i>Implementing Ministry</i>	<i>Committed Grant Amount</i>	<i>Utilisation as at end 1998</i>
Government of the Federal Republic of Germany			
Kotagala Teachers' Training School	Education & Higher Education	11.33	10.43
IRDP - Kandy	Plan Implement. & Parliament. Aff.	7.75	7.14
Strengthening of NARA - NHO	Fisheries & Aquatic Resources Dev.	5.96	4.26
Assistance to Railway Training Centre	Transport & Highways	1.61	1.54
Small Holder Integrated Livestock Project	Livestock Deve. & Estate Infrastr	3.66	2.23
Apprenticeship Training Institute Moratuwa	Vocational Training & Rural Indus.	3.50	2.14
Poverty Alleviation (Credit Program)	Finance & Planning	8.94	3.58
Promotion of National Agricu.al Rese. Project	Agriculture & Lands	2.68	1.93
Dry Zone Participatory Development - NWP	Plan Implement. & Parliament. Aff.	3.65	1.67
Private Secctor Promotion Programme	Industrial Development	4.20	2.42
Competency Based Economic Thrust for Entrepreneurs	Plan Implement. & Parliament. Aff.	1.31	0.60
Improv. in Ratmalana Railway Training Center	Transport & Highways	1.72	0.26
Support the NDB in Environmental Protect	Finance & Planning	4.47	3.58
Study and Expert Fund II	Finance & Planning	1.19	0.53
Vocational Training for Rural Women	Women's Affairs	1.07	0.45
Upper Mahaweli Watershed Management Project	Mahaweli Development	1.19	0.84
People's Bank Credit Mobilization Project	Finance & Planning	0.89	0.01
Reha. & Reintergration of Refugees in Jaffna	Shipping, Ports & Rehabilitation	2.98	0.15
Rural Water Supply & Sanitation - Vavuniya	Housing & Urban Development	0.89	0.00
Pollution Control & Abatement Fund (NDB II)	Finance & Planning	2.98	0.11
Small Entrepreneur Promotion (DFCC II)	Finance & Planning	0.06	0.00
Waste Managt. & Water Quality in Mahaweli	Mahaweli Development	2.98	0.00
Comodity Aid for Reconstruction in Jaffna	Presidential Secretariat	2.98	0.00
Funds for Studies & Experts	Finance & Planning	1.79	0.00
Enterprise Information Project	Plan Implement. & Parliament. Aff.	1.79	0.00
Formation of Entreprenure Programme	Plan Implement. & Parliament. Aff.	1.79	0.00
Water Supply in Mannar & Study & Expert	Finance & Planning	2.98	0.00
Nationwide Primary School Teacher Training	Education & Higher Education	1.85	0.00
Promote of Private Enterprises	Industrial Development	3.52	0.00
Nationwide Teacher in-service Training Project	Education & Higher Education	1.79	0.00
People's Bank Innovation in Rural Banking	Plan Implement. & Parliament. Aff.	1.79	0.00
Food Security Programme for Trincomalee	Plan Implement. & Parliament. Aff.	2.68	0.00
Poverty Impact Monitoring Unit	Samurdhi, Youth Affairs & Sports	0.05	0.00
Sub Total		98.02	43.87

<i>Projects</i>	<i>Implementing Ministry</i>	<i>US \$ Millions</i>	
		<i>Committed Grant Amount</i>	<i>Utilisation as at end 1998</i>
Swedish International Development Cooperation Agency			
Education Development Programme	Education & Higher Education	36.10	28.48
Matara - IRDP Phase III	Plan Implement. & Parliament. Aff.	7.59	7.43
Change Agent Programme	Plan Implement. & Parliament. Aff.	1.94	1.90
Consultancy Service Fund	Finance & Planning	1.20	1.01
Settlement of Kotmale Evacuees	Irrigation & Power	1.85	1.20
Anuradhapura IRDP	Plan Implement. & Parliament. Aff.	2.91	1.30
Regional Development Division	Plan Implement. & Parliament. Aff.	1.23	0.40
Strengthening of Quality Infrastructure	Finance & Planning	0.37	0.00
Strengt. the Quality Infrastructure for Fish. Indu.	Fisheries & Aquatic Resources Dev.	0.80	0.00
Equipment of the Health Service in Jaffna District	Resettle./Rehabilitation Auth. for North	0.47	0.00
Consultancy Services Fund	Finance & Planning	0.55	0.00
Insti. Dev. of the Bank Supervi. Dept. - CBSL	Finance & Planning	0.62	0.00
Sub Total		55.63	41.72
	GRAND TOTAL	604.00	371.83
	GRANT UTILISATION AS AT END 1998		62%

PUBLIC DEBT

Public debt reached Rs. 907.4 billion (89.4 per cent of GDP) at the end of 1998 as a result of additional borrowings to finance the budget deficit during the year as well as due to exchange rate depreciation which resulted in an additional liability of Rs. 65 billion on foreign debt. Despite the fact that foreign debt accounted for 50 per cent of total debt, interest burden on this was moderate due to the highly concessional nature of such loans. Average rate of interest on domestic debt was 10.66 per cent as compared to 1.58 per cent on foreign debt.

	1995	1996	1997	1998
	<i>(Rs. bn.)</i>			
Domestic Debt	285.76	349.00	382.96	446.55
Treasury Bills	113.77	125.00	115.00	120.00
Treasury Bonds	—	—	10.00	48.92
Rupee Securities	157.93	205.98	239.48	250.57
Advances and Other	14.06	18.04	18.49	27.07
Foreign Debt	346.29	359.39	383.12	460.88
Project loans	286.85	302.67	321.12	399.89
Other	59.44	56.72	61.99	60.99
Total Debt	632.05	708.40	766.08	907.43
Total Debt as a % of GDP	94.65	92.22	86.05	89.45
Concessional Foreign Loans as a % of foreign debt	97.3	97.4	94.60	96.80
Exchange Rate impact on foreign debt	28.59	-1.65	2.00	65.12
Debt Service	77.67	82.16	92.51	114.87
Repayments	36.55	33.24	37.27	59.97
Domestic	28.07	22.75	24.02	41.62
Foreign	8.48	10.49	13.25	18.35
Interest Payments	41.12	48.92	55.24	54.90
Domestic	34.96	42.18	48.55	47.60
Foreign	6.16	6.74	6.69	7.30



P A R T I I

ECONOMIC REFORMS

FINANCIAL SECTOR REFORMS

The major initiatives of financial sector reform include an increased reliance on market based instruments to conduct monetary policy, greater surveillance on domestic credit expansion particularly in the public sector, establishment of legal and regulatory framework, strengthening banking and financial institutions, improving supervision of banking and financial institutions, removal of interest rate and exchange rate restrictions, opening of financial markets to greater competition and the development of new financial instruments. These reforms aim at promoting financial stability, improving efficiency, reducing intermediation cost and promoting domestic resource mobilisation for a high level of investment.

Measures to Strengthen Monetary Policy

The Government has approved amendments to the Monetary Law Act to:

- (a) Make price stability the main objective of the Central Bank of Sri Lanka.
- (b) Revise the definition of money supply to take into account "broad money".
- (c) Remove the maximum and minimum limits on statutory reserve ratios.
- (d) Provide more flexibility to the Monetary Board to decide the basis for computation of the required reserves.
- (e) Pay interest on statutory reserves.
- (f) Enable imposition of reserve requirements on a broader spectrum of financial institutions and financial liabilities.

Domestic Resource Mobilisation

- Amendments were introduced to the Monetary Law Act, the Registered Stocks and Securities Ordinance and the Local Treasury Bills

Ordinance in 1995 to promote a trading system for government securities in scripless form. These amendments also provided for the issue of Treasury Bonds with maturities over one year in addition to the Treasury Bills with shorter maturities i.e. 3 months, 6 months and 1 year.

- The Open Market Operations (OMO) are being conducted on an increased scale. Regulations relating to OMO for outright sales, purchases repurchase and reverse purchases and sales of Central Bank securities are being drafted.
- Custodial arrangements for OMO are expected to be made by the Central Bank until such time as scripless trading in government securities is introduced.
- The issue of Treasury Bonds has been increased to match the rate at which rupee securities are maturing in order to improve market orientation in government securities. The programme of Treasury Bond issues is announced in every quarter in advance to develop the debt market.
- Work is in progress to design a system and to draw up technical specifications for hardware and software in order to set up a scripless trading system, a real time gross settlement system and an electronic fund transfer system and to set up a semi scripless depository system in the interim.
- The Credit Rating Agency is expected to be established during 1999.
- The 1999 Budget proposed further measures to remove the tax bias against debt securities and to provide an equal tax treatment for debt and equity instruments. The stamp duties have been removed for listed debt securities such as debentures and commercial paper and repurchase transactions in Treasury Bills. The 10

per cent withholding tax on interest earned on debentures and debt instruments and capital gains taxes on share warrants and derivative instruments have also been removed.

- Government also contributed Rs. 150 million for the establishment of a Settlement Guarantee Fund and a Compensation Fund to provide investor confidence in the equity market.
- The Employee Provident Fund (EPF) to be computerised and modernised to improve collection and enforcement and diversify its investment portfolio once investment guidelines are in place.
- Amendments to the National Savings Bank Act to enable The National Savings Bank (NSB) to convert dormant accounts into capital and payment of interest on reactivated accounts in the unclaimed deposit reserve have been cleared with the legal authorities and are expected to be presented to Parliament before the end of the second quarter of 1999. These amendments would enable the NSB to invest in the equity market and undertake wider banking activities and to operate on a commercial basis.

Improved Bank Supervision to Sustain a Strong Financial System

- The 1995 amendments to the Banking Act strengthened the supervisory powers of the Central Bank of Sri Lanka and extended supervision to development banks and savings banks and incorporated all prudential requirements based on international standards.
- New reporting formats relating to non-performing advances, classified advances, investments in shares, accommodation to directors and close

relatives, share ownership of banks and returned cheques and post dated cheques accepted as securities have been operative since April 1998.

- A revised format for preparation and publication of annual accounts of banks incorporating Sri Lanka standard No.23 – has been made operative since January 1998 in order to introduce better accounting standards in the banking sector.
- Formats are also being prepared to increase public disclosure of financial data relating to commercial banks through publication in the press from June 1999. The Central Bank, in May 1998 approved a panel of auditors for conducting bank audits. In addition, auditing guidelines have been issued to external auditors in the second quarter of 1998 and compliance officers at a senior level have been appointed to ensure compliance in respect of banking and other statutory requirements.
- Directives relating to prudential requirements have been issued to Licensed Specialised Banks.
- Rules and regulations were issued on pawn brokering to commercial banks in September 1998.
- A software package was developed to facilitate data processing for off-site surveillance for commercial banks.

Prudential Regulations for FCBUs

- A scheme has been formulated under the Banking Act for operations of Foreign Currency Banking Units (FCBUs) and is expected to be gazetted soon.
- A policy paper on the applicability of the provisions of the Banking Act and the Monetary Law Act (MLA) and issues relating to the

introduction of prudential regulations for FCUBUs are under consideration.

Check on Foreign Exchange Exposure

- A format for monitoring foreign exchange exposure of banks has been formulated in consultation with the Sri Lanka Banks Association (Guarantee) Ltd.

Governance for Banking

- The draft amendments to the Banking Act relating to licensing procedures, revocation of licences, qualifications, appointment and removal of bank directors and senior management, merger of banks, cease and desist orders, liquidation and closure of banks are expected to be presented to the Cabinet of Ministers by end of 1999.
- The two state banks i.e. Bank of Ceylon and Peoples' Bank were granted greater operational autonomy, and government Bonds with a maturity period of 10 years, carrying an interest rate of 14 per cent per annum were issued to them in October 1996 for the non-performing loans granted to Government Corporations with Treasury guarantees.
- The Treasury signed MOUs with the two state banks to ensure increased operational efficiency of the banks.

Deposit Insurance Scheme

- Work is in progress to undertake a feasibility study for setting up a mandatory deposit insurance scheme for all commercial banks.

Regulatory Reform towards Greater Surveillance on Money & Capital Markets

- The preparation of legislation for supervision of merchant banks.

- The formulation of a legal framework for licensing and supervision of money and foreign exchange brokers.
- The establishment of a regulatory framework and preparation of guidelines and procedures for the surveillance of primary dealers.

Other Regulatory Reforms

- Amendments are being drafted to the Securities and Exchange Commission Act to provide wider supervisory powers to SEC over listed companies, Unit Trusts, Stock Brokers and Stock Dealers.
- Sri Lanka Accounting and Auditing Standards Monitoring Board was established as the regulatory authority for the monitoring of compliance of Accounting and Auditing Standards by business enterprises as specified in the Act.
- Legislation is being finalised for the establishment of a regulatory authority for the supervision of insurance companies.
- Legislation is being formulated for the establishment of a regulatory authority for private Provident Funds.
- Introduction of a Leasing Law to regulate the activities of leasing companies by the Central Bank.
- Action has been initiated to introduce a new company law to undertake capacity building of regulatory institutions.

Towards Equal Taxation Treatment on Debt and Equity

- Exemption of Treasury Bills, Bonds and other debt securities of quoted public companies which are traded through the Stock Exchange, quoted

share transactions, repurchase agreements relating to Treasury Bills, debenture and promissory notes from Stamp Duty

- Reduction of Stamp Duty on Initial Public Offerings (IPO) to a nominal sum of 50 cts. for every Rs. 1,000/-.
- Exemption of capital gains arising from transactions in the Stock Exchange and sale of equity held in unquoted companies from income tax.
- Exemption of capital gains or profits on the sale of debentures, bonds and other instruments issued by registered companies from income tax provided that the debt instruments are listed.
- Exemptions of capital gains on share warrants and derivative instruments from income tax.
- Grant of tax bonus of 5 percentage points of the prevailing tax rate to companies seeking listing in the Colombo Stock Exchange.
- Treatment of expenditure incurred by companies seeking listing as deductible expenses for income tax purposes.
- Exemption of Government Securities, Treasury Bills, Central Bank Securities and listed debentures and debt securities from withholding tax.

Y2K Readiness:

- The Government has obtained a loan of US\$ 29 million from the International Development Agency (IDA) to address Y2K issues in the banking and other critical government agencies.
- Central Bank has set up a Y2K Task Force and a Y2K Unit which are responsible for assisting and monitoring the progress of the project.
- Central Bank has requested all banks to ensure that their 1998 audit would cover Y2K status.

TOWARDS IMPROVED CORPORATE GOVERNANCE

Accounting and Auditing Standards become Mandatory

Non-disclosure of the true financial position of listed companies and business enterprises in their published accounts has been a major concern. The Government having recognised the importance of promoting sound corporate governance introduced legislation to make the accounting and auditing standards mandatory for business entities in the country. Accordingly, the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995 was introduced in 1995 enabling for the Institute of Chartered Accountants of Sri Lanka to enforce accounting and auditing standards for business enterprises specified in the Act in the presentation of their annual audited accounts. This will compel such enterprises to maintain uniform as well as high standards in the publication of audited accounts, and will ensure greater disclosure in financial statements.

Standards have been gazetted in Gazette Extraordinary No.1056/19 dated 02.12.1998. The Act also provides for the establishment of a Sri Lanka Accounting and Auditing Standards Monitoring Board to monitor compliance with such standards by specified enterprises. Business enterprises specified under the Act are:

- Companies licensed under the Banking Act No.30 of 1988
- Companies authorised under the Control of Insurance Act No.25 of 1962, to carry on insurance business
- Companies carrying on leasing business
- Factoring Companies
- Companies licensed under the Securities and Exchange Commission Act No. 36 of 1987 to operate unit trusts, fund management companies, stockbrokers or stock dealers, stock exchange.
- Companies listed in a Stock Exchange
- Public corporations engaged in the sale of goods or the provision of services.
- Unlisted companies which have an annual turnover in excess of five hundred million rupees, shareholders equity in excess of one hundred million rupees, gross assets in excess of three hundred million rupees, liabilities to banks and other financial institutions in excess of one hundred million rupees, staff in excess of one thousand persons.

If a specified business enterprise or its Auditor fails to comply with the gazetted Accounting and Auditing Standards, the Monitoring Board has powers to take legal action against such enterprises as stipulated in Section 27 of the Act.

The Board would also bring lapses/negligence on the part of accountants in charge of preparation and finalisation of accounts to the notice of the professional institutions of which such accountants are members. Similarly, the Board would also bring instances of failure of business enterprises to comply with prescribed Accounting and Auditing Standards to the notice of relevant regulatory authority concerned in respect of business enterprises coming under their purview such as the Central Bank in the case of banks and finance companies and the Securities and Exchange Commission in the case of public companies listed on the Stock Exchange.

DIRECTION IN TRADE AND TARIFF POLICY

Background

- *T*he economy was liberalised in 1978 and most of the control measures were replaced by high tariffs.
- In 1985, a major revision of tariffs took place with the removal of license control on textiles.
- In 1989, the tariff structure was converted into the new Harmonised Commodity Description Coding System (HS Code) involving 7,500 tariff lines including around 2,500 national subheadings at the 8-digit level.
- The number of tariff bands which was reduced to 13 by 1990 was further reduced to 4 in 1991. Export duties on traditional export crops i.e. tea, rubber, coconut were removed in 1992.

Recent Developments

• 1995 - Liberalisation set in motion

- * A major tariff reform i.e. a three-band tariff structure of 10, 20 and 35 per cent was introduced in 1995.
- * Removal of EDB cess, specific duties, certification, surcharges and rationalisation of duty waivers were some of the main features in addition to the reduction of import duties.
- * Import duties on food items, refrigerators and deep freezers, electrical motors, printing paper, stationery, packaging material, tyres and tubes, parts and accessories of motor vehicles were reduced from 45 to 35 per cent. Import duties on fabrics and apparel was reduced from 50 to 35 per cent and the duties on agricultural machinery, implements and tools were reduced from 35 to 20 per cent, and components needed for assembling buses were fixed at 10 per cent.

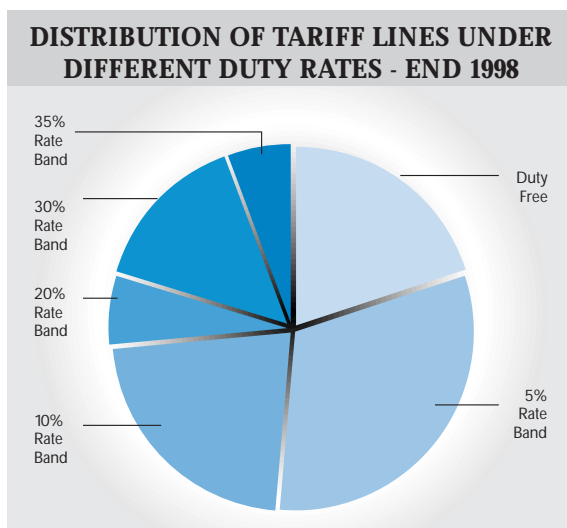
• 1996 - 1997 – Further Reforms

- * During the period 1996-1997, a sector-wise reform took place in addition to further rationalisation of tariff structure and removal of licences in the agricultural sector.
- * Import duty on timber was eliminated while reducing the import duties on certain agricultural implements, writing paper and exercise books to 10 per cent from 35 per cent.
- * Import duty was removed on movie cameras, movie projectors, screens, and certain spare parts, fibreglass and certain inputs and engines used in the construction of fishing boats.
- * The import of seed cleaning machines, sorting and grading machines, seed testing equipment, seed packing machines, tea bag packaging machinery and colour separators were made duty free. In addition, importation of agricultural tractors, lorries, prime movers, refrigerated trucks and buses was made duty free and the items imported for the manufacture of tractors, lorries and buses were exempted from import duty to encourage local industry.
- * Import duties on medical and dental equipment were removed.
- * Importation of computers, related components and software as well as telecommunication equipment and accessories was made duty free.
- * Import of yarn, thread and fabric was made duty free while the import duty on ready-made garments was reduced from 35 to 10 per cent.
- * By 1998, 13 out of 96 chapters in the HS Code System of tariffs were zero rated with sectors

like textiles being made duty free. Specifically, pharmaceuticals, fertiliser, timber, wood, books, yarn, thread, fabrics, gold, precious and semi-precious stones were made duty free.

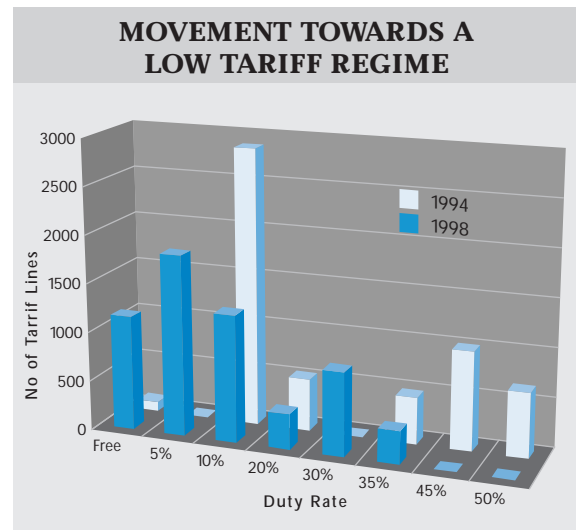
- **1998 - Steps towards a two-band tariff**

- * In 1998, the Government announced that it would be moving to a two-band tariff structure by the Year 2000.
- * The Government further reduced the standard tariff rates to 5, 10 and 30 per cent and removed most of the 8 digit HS Code items.
- * An import duty rate of 5 per cent was fixed for all industrial raw materials and machinery not manufactured in Sri Lanka. Transport, communication and medical equipment, which had import duty concessions were classified under zero rate while imports of sports equipment were made duty free.



- * Since the agricultural sector was open for competition in 1996, import duty on agricultural products was allowed to remain at 35 per cent over the medium term.

- * Import duties on motor cars and jeeps, which were at 50 - 100 per cent, were unified at 30 per cent in order to safeguard the government revenue targets.



- **Sri Lanka now has a liberal trade regime**

- * Presently, Sri Lanka's tariff schedule contains 6,000 lines (including 8-digit HS Code) with 5,142 six-digit items. Over 50 per cent of the tariff lines contain tariff rates that are 5 per cent or below while 73 per cent of the tariff lines contain rates of 10 per cent or below. Almost one fifth of the tariff lines carry a zero rate duty. Trade restrictions currently apply only in respect of health, security, environment and phytosanitary reasons.

- **Trading Arrangements**

- * Sri Lanka is a signatory to the General Agreement on Tariff and Trade (GATT), the South Asian Preferential Trading Arrangement (SAPTA), Bangkok Agreement, Generalised Scheme of Preferences (GSP), and Global System of Trade Preferences (GSTP) Schemes. Sri Lanka is also a member

of the World Trade Organisation (WTO), South Asian Association for Regional Cooperation (SAARC).

- **Consolidation**

- * Sri Lanka is a signatory to the Final Act of the Uruguay Round of Multilateral trade Negotiations which included agreement on implementation of Article VI of GATT 1994 and Agreement on Subsidies and Countervailing Measures.
- * The Government is in the process of drafting national legislation in respect of Anti-dumping and Countervailing Measures.
- * The Government is also considering the adoption of competition policies that encom-

pass the area commonly known as antitrust or anti-monopoly law and practice, as well as micro industrial policies affecting markets and governing business practices.

The present wave of tariff reforms of the Government aims at:

- Rationalising the tariff within a simple rate structure.
- Removal of certification, control and promotion of facilitator's role.
- Removal of prevailing distortions between BOI and Non-BOI industries.
- Treating competitive import substitution and export promotion on a more level playing field.

TAXATION REFORM

Taxation Strategy

As described in the 1997 Budget Speech, the taxation strategy of the Government is designed to achieve a simple, broad based and transparent tax structure with a view to improving tax administration and creating an environment conducive to promote socio-economic development in the country. The direction of reform is summarised below.

Income Taxation:

A simplified income taxation on a wider base to improve savings, investment as well as general compliance and to keep concessions to the minimum.

Customs Duty:

A consolidated two-band tariff structure with the primary focus being placed on effective protection to local industries on a uniform basis.

Excise Taxation:

A limited range of commodities to be targeted to protect government revenue needs.

Goods and Services Tax:

Taxation based on value addition principle as well as a simple rate structure, exemption on essential items and use of a manageable coverage for taxation.

The Introduction of Goods and Services Tax (GST)

Background

- Business Turnover Tax (BTT) was operational since 1964.
- BTT, which was introduced by the Finance Act No.11 of 1963, was implemented to make up the fall in revenue from customs duties.
- This was a multi stage tax levied on gross receipt on domestic transactions and covered manufacturing, wholesale and retail trade and services.
- In 1981 this tax was extended to cover imports.
- This tax had differential tax rates on manufacturing, imports, services and professionals. Rate structure was complicated and caused administrative difficulties, unequal treatments, anomalies and distortions.
- This tax not providing credit for input tax on capital goods imposed a hidden burden and raised the cost of investment.
- Since each stage of production and distribution was liable to taxation the cumulative effect of turnover tax on prices was higher than the statutory rate of taxation. Hence, it was inflationary.
- The tax was not transparent.
- Turnover tax encouraged vertical integration and discouraged specialisation in business due to weakness in input tax refund provision.
- Taxation Commission – 1990 recommended Value Added Taxation (VAT) in Sri Lanka.
- The Government in the 1992 Budget Speech announced that VAT would be introduced by April 1992.
- The new Government in its first budget in February 1995 announced its commitment to implement the Goods and Services Tax (GST) to overcome the deficiencies in the prevailing Turnover Tax system and undertake such changes as an integral part of broad taxation reform in the country.
- Having given adequate time for the people to adjust and having undertaken considerable preparation, the Government implemented GST in April 1998 replacing the current turnover tax on import, manufacturing and services.

Designing GST to Reduce Tax Burden

- **Exemption of Essential Goods to Reduce Burden on Average Households**

A large number of essential items is exempted from GST to ensure that it will not impose hardships on average households. These exemptions cover milk, milk powder, rice, flour, bread, potatoes, onion, chillies, coconut, fish, vegetable, fruits, tea, sugar, jaggery, petrol, kerosene, diesel, LP Gas, cement, fertilizer, books, pharmaceutical products, tractors, passenger transport, health services, electricity upto 90 kwh. and banking and financial institutions.

- **A High Tax Free Turnover to Exempt Small Businesses**

Tax free threshold turnover for GST is fixed at Rs. 500,000 in any quarter or Rs. 1.8 billion in a single tax year to exempt all small businesses from GST. Turnover tax was levied on a turnover in excess of Rs. 25,000 in any quarter or Rs. 100,000 in a single tax year. Hence, GST is not levied on small businesses. They should not charge this tax on the consumer unless they voluntarily register with the Inland Revenue Department.

- **A Low Rate to Provide Relief to the Consumer**

A low rate of 12.5 per cent was introduced in place of multiplicity rate structure ranging from 8-18 per cent under Turnover Tax in order to reduce the tax burden on the consumer.

- **Input Tax Credit to Reduce Effective Tax**

Full input tax credit mechanism to refund GST paid on inputs is implemented in order to eliminate cascading cost on production and distribution. This in addition to improve competitiveness of country's production and investments will reduce cost induced pressure on

prices. As a result of input tax credit, ultimate tax burden on a standard taxable item should be around 10 per cent on average.

- **A Single Rate to Make it Simple**

The use of a single rate makes it simple, efficient and eliminates administrative complexities and anomalies inherent in a multiple rate structure. This will therefore improve compliance over the medium term.

- **Incentive to Local Investment and Production**

Domestic industries and exports have been placed on an advantageous position over import of finished products through input credit system providing an investment incentive for local production. Input tax credit is not available for imports unless such imports are used in the value addition process.

- The removal of a hypothetical markup applied for the computation of Turnover tax on imports reduces the up-front cost of imports. Nearly 70 per cent of the country's imports are intermediate and investment goods.

- **Self Enforcing Compliance Mechanism to Generate Revenue**

GST is self-enforcing as the buyer insists on a proper invoice for his purchase to enable him to claim tax credit. This interconnection will facilitate revenue administration to check evasion.

- **Legal Enforcement**

GST law requires eligible business entities to register with the Inland Revenue Department. Only such persons can levy GST when supplying goods or services. Each registered supplier will be required to file tax return monthly/quarterly depending on the turnover. Inland Revenue Department undertakes regular audit. Law provides for strict penalty provisions to enforce compliance.

BEST PRACTICES

Theoretical and practical considerations have yielded a set of best practices in tax and tariff systems in developing countries (Abed, 1998; and Shome, 1995). Best tax systems are those that cause a minimum of distortion in the allocation of resources, are equitable, and are relatively easy to administer.

In practice, comprehensive tax and tariff policy reforms typically include most or all the following key elements:

- The introduction or strengthening of a broad-based consumption tax, notably a value-added tax (VAT), preferably with a single rate and minimal exemptions, and a threshold to exclude the smaller enterprises. Although VATs are often initially applied to manufactures and imports, they are typically subsequently extended to the distribution sector and agricultural inputs. Experience suggests that excise taxes should be restricted to a limited list of products, principally petroleum products, alcohol and tobacco, and some luxury items. VAT and excises should be applied equally to imports and domestic products.
- Taxes on international trade should play a minimal role. Import tariffs should have a low average rate and a limited dispersion of rates to reduce arbitrary and excessive rates of protection. Exporters should have duties rebated on inputs used for producing exports. Export duties should generally be avoided, though at times these taxes have been defended as expedients for income taxes in hard-to-tax sectors such as agriculture.
- The personal income tax should be characterized by only a few brackets and a moderate top marginal rate; limited personal exemptions and deductions; a standard exemption that excludes persons with low incomes; and extensive use of final withholding. The corporate income tax should be levied at one moderate rate. Depreciation allowances should be uniform across sectors. There should be little use of tax incentives.
- The reforms above may be usefully complemented in some countries by the introduction of a simplified tax regime for small businesses and the informal sector.
- Non-tax revenues, to the extent that they reflect the extraction of surpluses from the parastatals or profits from central banks, should decline with the development of the economy and, especially, with the devolution of the state's role in productive activities.
- Tax and customs administration reforms should modernize systems and procedures. Simplification of the tax and tariff systems is a prerequisite for administrative reforms. Typical reforms stress the reorganization of tax and customs administrations along functional lines; the adoption of effective procedures for a national system of unique taxpayer identification numbers; strengthening of audit; and improvement of taxpayer services. Computerization is generally a central component of reform along with upgrading the skills of tax and customs officers and providing them with administrative autonomy and pay incentives.

Source:
Occasional paper 180,
Revenue Implications of Trade Liberalisation,
International Monetary Fund,
Washington DC, 1999.

PRIVATISATION

REFORM FOR A STRONGER ECONOMY

BACKGROUND

- *D*ivestiture of public enterprises was recognised as a part of the Government economic reform programme over a decade ago.
- A presidential Commission was set up in the mid-1980's to study and make recommendations to the Government on public enterprise reform.
- A 'Commercialisation Division' was set up in the Ministry of Finance to coordinate the divestiture programme with the assistance of Cabinet appointed 'Divestiture Committees' in line ministries.
- Prior to 1994, 47 enterprises were divested through sale of shares (ceramic, cement, distilleries, textiles, tyres etc.) and management contracts (plantation sector).

ESTABLISHMENT OF PERC

- Due to complexity of transactions and the need to have a coordinated approach to undertake privatisation as an integral part of fundamental economic reform while ensuring public accountability and transparency, the Government, as an interim measure, appointed a Presidential Task Force in March, 1995.
- A permanent institutional structure was established with the creation of the Public Enterprise Reform Commission (PERC) by Act No. 1 of 1996.

OBJECTIVES OF PERC

- Promote economic development.
- Improve efficiency and competitiveness of the economy.

- Acquisition of new technology and expertise.
- Develop capital market and mobilise long term private savings.
- Motivate the private sector.
- Increase government revenue.

MAJOR DIVESTITURES

- **Colombo Gas Company Limited**
 - * 51% to Shell Overseas B. V. for US\$ 37 million in December 1995.
 - * 10% gifted to employees.
- **Ceylon Steel Corporation Limited**
 - * 90% to Korea Heavy Industries and Construction Co. (Hanjung) for US\$ 15 million in December 1996.
 - * 10% gifted to employees.
- **Sri Lanka Telecom Limited**
 - * 35% to Nippon Telegraph & Telephone Corporation for US\$ 225 million in August 1997.
 - * 3.5% gifted to employees.
- **National Development Bank**
 - * Convertible debentures held by the Government were converted into ordinary shares.
 - * Offered in an international and domestic offering raising US\$ 73 million in August 1997.
- **Air Lanka Limited**
 - * 40% to Emirates for US\$ 70 million in March 1998.
 - * 9% to be gifted to employees.
- **Regional Plantation Companies**
 - * 51% to strategic investors.
 - * 20% initial public offering.
 - * 10% gifted to employees.
 - * 19% on an all-or-nothing basis on Colombo Stock Exchange.

ECONOMIC IMPACT

- Divestiture program during 1995 - 1998 generated Rs. 34.7 billion (US\$ 525 million) to the Government.
- Attracted foreign inflows to the tune of US\$ 405 million easing domestic liquidity conditions and strengthened country's external assets.
- Reduced Government borrowings and reduced interest costs.
- Generated permanent revenue sources by way of lease rent, income tax and dividends.
- Reduced Government transfers to loss making enterprises.
- Encouraged large private investments in vital sectors such as gas, steel, telecommunications, plantation, and civil aviation releasing the government to increase investment in education, health, environment, rural development, infrastructure and poverty alleviation.

PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE PROJECTS

GAS

- Gas Storage Terminal
 - US \$ 100 million

POWER

- Diesel Power Plant
 - US \$ 62 million, with 51 MW commissioned at Sapugaskande.
- Barge Mounted Power Plant
 - US \$ 72 million, with 60 MW – Agreement signed.
- Combined Cycle Power Plant
 - US \$ 120 million, with 160 MW – Under negotiation.

TELECOMMUNICATION

- Operation of telecommunication services using wireless loop technology.
- Anticipated investment – US \$ 150 million per licence

PORTS

- Queen Elizabeth Quay; Colombo Port
 - US \$ 240 million
- Primary project agreements have been initiated and financial closure expected by second quarter of 1999.

HOUSING

- Athurugiriya – 1575 Housing Units
 - US \$ 24 million.
- Construction commenced in April 1999.

HELPING THE POOR AND VULNERABLE GROUPS

The Government has accorded the highest priority to poverty alleviation programs to ensure that poor and vulnerable groups secure protection and derive benefits in the process of economic reforms.

SAMURDHI PROGRAMME :

Income Supplement

Monthly income transfer programme is in place for identified poor income families. Average families under this programme receive Rs. 500 monthly allowance while extremely poor families are given Rs. 1,000 per month per family. Single member family receives Rs. 100 – 200 per month. 1.9 million families were reached through Samurdhi income supplement programme in 1998

Compulsory Savings

Samurdhi families are encouraged to maintain savings accounts. Savings generated by these families from their monthly income supplement totaled Rs. 3,500 million at the end of 1998.

Banking Societies

To promote banking habits among the poor and promote credit culture, banking and credit societies have been set up.

Samurdhi Credit Scheme

Concessional credit facilities upto Rs. 10,000 per family are available to undertake income generating activities. Nearly 40,000 families have been assisted in organising self-employment projects.

Supplementary Income Avenues

Rural infrastructure projects have been implemented to the value of Rs. 600 million. Least cost labour intensive methods are adopted to provide

supplementary employment income avenues for poor families.

Social Security Scheme

Provide protection against contingencies arising from births, deaths, marriages and distress conditions.

SURATHURA

Micro Enterprise Credit Scheme

To assist youth to start self-employment projects. Rs. 800 million has been disbursed under this programme. 15,990 people have been assisted under this credit scheme. The debt recovery is around 70 per cent.

ASSISTANCE TO SCHOOL CHILDREN

Uniforms, Text Books and Season Tickets for School Children

Free school uniforms and text books are distributed freely among 4.3 million school children once a year. Season tickets for school going children are provided at subsidised rates. The Government spends Rs. 2,000 million for these programmes.

ASSISTANCE TO SMALL SCALE AGRICULTURE

Fertilizer Subsidy

Rs. 2 billion is spent annually to provide fertilizer (urea) at subsidised prices to ensure fertilizer at affordable prices.

HEALTH SERVICES TO THE POOR

Suva Udana Health Service

Programme to provide primary healthcare (preventive and curative) services in remote areas through specialist services.

Nutrition Intervention Programme in backward areas

The Government announced a nutrition intervention programme in 1999 Budget to provide low cost, high-protein complementary food and other nutritional supplements to infants, pre school and primary school children in targeted areas.

SHELTER

Housing Programme for Targeted Families

Targetted housing programmes have been implemented to assist low-income housing needs through

credit and other means by the National Housing Development Authority. Total number of 39,807 housing units were completed in 1998 as against 34,027 housing units in 1997.

Plantation Housing and Social Welfare Trust provides housing loans and infrastructure facilities to develop and upgrade housing conditions of the estate population. During 1998, under estate housing programmes 2,224 housing units were started.

“Diyawara Gammana” Housing Programme introduced in the 1997 Budget to provide housing facilities in fisheries villages. 741 housing units have been completed during 1998.

Refugee Assistance

Nearly 800,000 persons affected the Northern conflict are being assisted by the Government through a number of welfare programmes. Total welfare expenditure during 1998 amounted to Rs. 2.1 billion.

P A R T I I I

BACKGROUND INFORMATION

TRENDS IN THE ECONOMY - 1998

Economic Growth

Sri Lanka economy recorded 4.7 per cent growth in 1998 in comparison to an average annual growth of 5.2 per cent during the past 3 years. This was achieved in the midst of a sharp economic downturn in the Southeast Asian countries, increased competition for Sri Lanka's exports and instability in financial market worldwide. Services sector (53 per cent of GDP) grew by 5.2 per cent, agriculture (21 per cent of GDP) by 2.5 per cent, manufacture (17 per cent of GDP) by 6.3 per cent and construction (7 per cent of GDP) by 7.1 per cent.

Savings

Domestic savings increased from 17.3 per cent of GDP in 1997 to 18.9 per cent of GDP in 1998. National Savings rose from 21.5 per cent to 23.2 per cent. Average domestic savings ratio during the three-year period 1994 to 1996 was 15.3 per cent whereas the national savings ratio was 19.2 per cent.

Investment

Investment expanded to 25.4 per cent of GDP in 1998 from 24.4 per cent of GDP in 1997. While public investment rose to 6.7 per cent, private investment remained at 18.7 per cent. Enhanced investments in infrastructure activities such as telecommunication, power, roads, industrial infrastructure and property development contributed to this development.

Employment

Employment opportunities continued to expand during 1998. Hence, the number of unemployed declined to 607,402 persons or 9.1 per cent of the labour force. Registered overseas employment during the year totalled 980,169 as compared to 821,882 in 1997.

Imports

Total imports at US\$ 5,891 million in 1998 recorded only a 0.5 per cent growth over the last year due to lower commodity prices on petroleum, wheat grain, sugar and fertilizer. The value of investment goods imported increased by 11.6 per cent.

Exports

Total exports at US\$ 4,735 million was an increase of 2.1 per cent over the previous year. The export of tea increased by 7.9 per cent, textiles and garments by 8.2 per cent and non-traditional agricultural crops by 17.9 per cent. The exports of rubber, coconut, gems and diamonds and petroleum products declined due to depressed export demand as well as low prices.

Balance of Payments

The overall external balance was in surplus of US\$ 37 million in 1998 as compared to US\$ 163 million in 1997. The decline in the trade deficit from US\$ 1,225 million in 1997 to US\$ 1,157 million in 1998 and increased private remittances from US\$ 787 million to US\$ 848 million were influential for this outcome in the balance of payments.

External Assets

Total external assets at US\$ 2.9 billion provided a 6 month import cover in 1998 while official reserves of US\$ 2.0 billion were adequate to finance 4 months imports.

Government Budget

The budget deficit widened to 9.2 per cent of GDP in 1998. The Government revenue declined from 18.5 per cent of GDP to 17.3 per cent of GDP due to the introduction of GST, decline in import values and investment tax allowance, which reduced the

average income taxes. Despite high defence expenditure, recurrent expenditure declined to 19.7 per cent of GDP in 1998 from 20.7 per cent in 1997. The public investment / GDP ratio increased from 5.8 per cent to 6.7 per cent. Total expenditure in relation to GDP remained at 26.4 per cent as in the previous year. Decline in Government revenue together with lower proceeds from privatisation resulted in a high level of domestic borrowings of 6.4 per cent of GDP in 1998.

Money Supply

The growth of money supply decelerated to 9.7 per cent in 1998 from 13.9 per cent. However, credit to private sector as well as the Government expanded during the year.

Prices

The Colombo Consumers' Price Index (CCPI) recorded an increase of 83.9 index points in 1998 as compared to 218.5 index points increase in 1997.

Thus, on a year to year basis, inflation declined from 10.7 per cent in December 1997 to 3.7 per cent in December 1998. The 12-month average inflation was 9.4 per cent. It was 9.6 per cent in 1997 and 15.9 per cent in 1996. In addition to a moderate growth in money supply, depressed import prices as well as favourable domestic supply conditions also helped the moderation of inflation.

Interest Rates

Interest rates remained stable. The three months treasury bill rate varied in the range of 10.44 - 12.63 per cent per annum as compared to 9.91 - 12.86 per cent per annum in the previous year. The prime lending rate recorded a modest increase.

Exchange Rates

Sri Lanka Rupee depreciated from Rs. 61.29/US\$ in December 1997 to Rs. 67.78/US\$ in December 1998. The average exchange rate was Rs. 64.59/US\$ in 1998 as against Rs. 58.99/US\$ in 1997.

KEY ECONOMIC INDICATORS

	Unit	1994	1995	1996	1997	1998
POPULATION						
Mid Year Population	<i>mn</i>	17.9	18.1	18.3	18.6	18.8
Age Composition						
00 - 14 Years	<i>mn</i>	6.3	6.4	6.4	6.5	6.6
15 - 54 Years	<i>mn</i>	9.9	10.0	10.1	10.3	10.4
55 and Over	<i>mn</i>	1.7	1.7	1.7	1.8	1.8
Annual Growth	%	1.4	1.5	1.0	1.3	1.2
Birth Rate	<i>per 1000</i>	19.9	18.9	18.6	17.9	n.a
Death Rate	<i>per 1000</i>	5.6	5.8	6.5	6.1	n.a
	Unit	'90-'94 Avg	1995	1996	1997	1998
LABOUR FORCE & EMPLOYMENT						
Labour Force Population	<i>mn</i>	6.0	6.1	6.2	6.2	6.6
Participation Rate						
Male	%	66.0	64.1	66.1	64.8	67.7
Female	%	33.1	32.7	30.7	32.3	34.8
Employed						
Public Sector	<i>mn</i>	1.3	1.3	1.2	1.1	1.1
Private Sector	<i>mn</i>	3.8	4.1	4.4	4.5	5.0
Unemployed						
Unemployment Rate	%	14.4	12.3	11.3	10.4	9.1
Foreign Employment (Departures)	<i>Persons</i>	49,911	172,496	162,579	150,281	159,078
PRODUCTION						
GDP per capita	<i>US \$</i>	559	719	759	814	837
GDP	<i>Market Prices - Rs bn</i>	439.6	667.8	768.1	890.3	1014.5
GDP	<i>Constant Prices (1982) - Rs bn</i>	143.1	168.0	174.3	185.5	194.3
Composition of GDP						
Agriculture	%	21.7	20.1	18.4	17.8	21.3
Mining	%	2.6	2.4	2.5	2.5	1.8
Manufacturing	%	18.5	20.4	20.9	21.5	16.9
Construction	%	6.8	6.9	6.9	6.8	7.0
Services	%	50.4	50.2	51.2	51.4	53.1
GDP Growth Rate	%	5.5	5.5	3.8	6.3	4.7
Sectorial Growth						
Agriculture	%	3.4	3.4	(4.7)	3.1	24.8
Mining	%	2.0	2.6	10.0	4.5	(25.3)
Manufacturing	%	8.9	9.2	6.4	9.3	(17.9)
Construction	%	5.3	5.5	3.4	5.0	8.5
Services	%	5.5	5.1	5.7	6.8	8.2
SAVINGS & INVESTMENTS (% GDP)						
Domestic Savings		14.7	15.3	15.3	17.3	18.9
National Savings		17.8	19.5	19.0	21.5	23.2
Investment						
Public		7.9	7.5	6.0	5.8	6.7
Private		16.5	18.2	18.2	18.6	18.7

	<i>Unit</i>	<i>'90-'94 Avg</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
EXPORTS						
Total Exports	<i>US \$ mn</i>	2,511	3,807	4,095	4,639	4,735
Agricultural Exports		665	829	963	1,062	1,087
Tea		421	481	616	721	778
Rubber		69	111	104	79	43
Coconut		70	103	110	118	95
Other Agriculture		105	134	132	145	171
Industrial Exports		1,699	2,833	2,975	3,399	3,509
Food, Beverage and Tobacco		52	98	95	91	117
Textile and Garments		1,122	1,853	1,906	2,279	2,466
Petroleum		80	85	104	97	72
Rubber Products		59	153	169	178	178
Ceramic Products		7	9	10	11	11
Leather Products		59	118	139	183	214
Machinery and Equipment		71	124	155	205	183
Diamond and Jewellery		122	196	193	142	68
Other		126	197	204	212	198
Mineral Exports		75	87	96	89	60
Gems		67	78	86	83	55
Other		8	9	9	6	4
Other		48	58	70	97	86
IMPORTS						
Total Imports	<i>US \$ mn</i>	3,601	5,311	5,439	5,864	5,891
Consumer Goods		883	1,179	1,234	1,223	1,254
Rice		42	2	91	73	42
Sugar		132	170	145	184	129
Wheat		112	198	204	142	140
Other Food Items		239	349	361	382	411
Other Consumer Items		359	460	433	442	532
Intermediate and Investment Goods		2,693	3,892	3,970	4,420	4,455
Petroleum		319	387	479	539	345
Fertiliser		63	86	76	66	62
Chemicals		106	143	134	136	143
Textiles and Clothes		701	1,159	1,168	1,386	1,397
Other Intermediate Goods		591	928	910	969	1,031
Machinery and Equipment		389	503	649	742	786
Transport Equipment		248	304	178	208	264
Building Materials		188	272	263	271	303
Other Investment Goods		88	110	113	103	124
Other Imports		25	240	235	221	182

	<i>Unit</i>	<i>'90-'94 Avg</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
BALANCE OF PAYMENTS						
Trade Balance	<i>US \$ mn</i>	(1090)	(1504)	(1344)	(1225)	(1156)
Exports		2511	3807	4095	4639	4735
Imports		3601	5311	5439	5864	5891
Services Balance		179	152	105	159	143
Inflows		745	821	765	875	913
Outflows		566	669	660	716	770
Factor Income		(162)	(170)	(197)	(159)	(178)
Receipts		171	226	186	234	214
Payments		333	396	383	393	392
Private Transfers		622	675	710	787	848
Receipts		707	790	832	922	999
Payments		85	115	122	135	151
Official Transfers		58	61	49	44	55
Current Account Balance		(861)	(786)	(677)	(394)	(288)
Project Grants & Other Capital Transfers		113	117	96	87	61
Foreign Direct Investments		158	16	86	129	137
Privatisation Proceeds		0	37	33	301	56
Private Long Term Borrowings		295	91	2	47	7
Government Long Term Borrowings		253	358	259	239	198
Short Term Capital		124	79	(18)	(201)	(64)
Overall balance	<i>US \$ mn</i>	240	52	(68)	163	37
Current Account Deficit	<i>US \$ mn</i>	(861)	(786)	(677)	(394)	(288)
Debt Service Ratio	%	11	14	13	11	11
Total External Assets	<i>US \$ mn</i>	2874	2902	2717	3132	2907
Total Official Assets		2022	2063	1937	2029	1984
	<i>Unit</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
GOVERNMENT FINANCE						
Revenue	<i>% of GDP</i>	19.0	20.4	19.0	18.5	17.3
Tax		17.2	17.8	16.9	16.0	14.5
Non Tax		1.8	2.7	2.1	2.5	2.7
Expenditure		29.5	30.5	28.4	26.4	26.4
Recurrent Expenditure		22.4	23.5	22.8	20.7	19.7
Public Investment		7.0	7.5	6.0	5.8	6.7
Restructuring and Other		0.0	(0.6)	(0.3)	(0.2)	(0.1)
Budget Deficit		10.5	10.1	9.4	7.9	9.2
Public Debt	<i>Rs bn</i>	550.9	632.1	708.4	766.1	907.4
Domestic Debt		249.1	285.8	349.0	383.0	446.6
Foreign Debt		301.8	346.3	359.4	383.1	460.9
Debt Service		63.6	77.7	82.1	92.5	114.9
Interest Payments		40.9	41.1	48.9	55.2	54.9
Debt Repayment		22.7	36.6	33.2	37.3	60.0
Debt Service	<i>% of GDP</i>	11.0	11.6	10.7	10.4	11.3

	Unit	1994	1995	1996	1997	1998
MONEY SUPPLY						
Growth of Money	% (M 2)	19.7	19.2	10.8	13.9	9.7
Money Supply	Rs. bn	191.7	228.5	253.2	288.3	316.2
Currency		38.9	42.2	42.6	45.7	51.8
Demand Deposits		31.6	33.0	35.6	40.2	44.5
Savings Deposits		121.2	153.3	175.0	202.4	219.9
External Assets	Rs. bn	64.5	66.5	61.9	89.3	93.7
Central Bank		65.9	74.3	73.8	89.9	101.7
Commercial Bank		(1.4)	(7.8)	(11.9)	(0.6)	(8.0)
Domestic Credit	Rs. bn	173.8	223.7	252.3	272.8	311.6
Government		28.6	35.4	48.5	46.4	58.6
Private		145.2	188.3	203.8	226.4	253.0
	Unit	'90-'94 Avg	1995	1996	1997	1998
PRICES						
CCPI	(1952 = 100)	1267.3	1644.6	1906.7	2089.1	2284.9
Growth Rate	%	13.1	7.7	15.9	9.6	9.4
INTEREST RATES % per annum						
Treasury Bill Rate						
3 Months		17.6	19.3	17.5	10.0	12.0
12 Months		18.7	19.0	17.4	10.2	12.6
Treasury Bond Rate - 2 year maturity						
					12.9	15.7
Deposit Rates						
WADR						
		13.4	12.1	12.4	11.2	9.6
12 Month Fixed Deposit Rate						
Commercial Bank		11.6-19.1	10.0-17.0	12.0-17.75	8.5-15.25	9.0-13.0
NSB Savings Rate		14.4	12.0	12.0	10.8	10.5
Lending Rates						
WAPR						
		19.3	19.9	18.4	14.2	15.1
Bill Purchased / Discounts						
		12.0-29.0	11.0-30.0	11.0-30.0	11.0-30.0	11.0-30.0
EXCHANGE RATE						
Annual average Exchange Rate (Rs. per unit of Foreign Currency)						
Indian Rupee		1.8	1.58	1.56	1.63	1.57
Pound Sterling		74.0	80.88	86.34	96.69	107.05
US \$		44.6	51.25	55.27	58.99	64.59
Yen		0.4	0.55	0.51	0.49	0.50
	Unit	1994	1995	1996	1997	1998
Year end Exchange Rate (Rs. per unit of Foreign Currency)						
Indian Rupee		1.6	1.54	1.58	1.56	1.59
Pound Sterling		78.1	84.25	95.86	101.60	112.62
US \$		50.0	54.05	56.71	61.29	67.78
Yen		0.5	0.53	0.49	0.47	0.59

PRODUCTION DATA

	Unit	'90-'94 Avg	1995	1996	1997	1998
AGRICULTURE						
Tea	<i>Kg mn</i>	225	246	258	277	280
High Grown	<i>Kg mn</i>	70	74	72	84	76
Medium Grown	<i>Kg mn</i>	47	51	48	57	54
Low Grown	<i>Kg mn</i>	108	122	138	136	150
Rubber	<i>Kg mn</i>	107	106	113	106	96
Coconut	<i>mn nuts</i>	2,360	2,755	2,546	2,631	2,547
Desiccated Coconut	*	345	465	425	524	362
Coconut Oil	*	351	516	328	289	334
Copra	*	32	50	39	42	52
Fresh nut exports	<i>mn nuts</i>	24	27	17	18	18
Domestic Consumption	<i>mn nuts</i>	1,614	1,716	1,720	1,744	1,762
Coffee	<i>MT</i>	2,850	2,159	2,158	2,165	2,343
Cocoa	<i>MT</i>	1,257	1,542	1,628	1,709	1,904
Cinnamon Quills	<i>MT</i>	9,636	10,815	10,891	11,453	11,206
Cinnamon Leaf Oil	<i>MT</i>	159	205	110	100	150
Pepper	<i>MT</i>	4,721	3,326	3,988	3,912	6,776
Cloves	<i>MT</i>	1,551	1,500	1,437	2,333	2,022
Cardamoms	<i>MT</i>	35	40	75	75	90
Nutmeg and Mace	<i>MT</i>	938	988	1,198	1,108	1,382
Citronella	<i>MT</i>	145	180	190	210	190
Paddy	<i>'000 MT</i>	2,504	2,810	2,061	2,239	2,692
	<i>'000 Bushels</i>	119,986	134,678	98,807	107,331	128,952
Sugar	<i>'000 MT</i>	65	71	70	63	61
Fish	<i>'000 MT</i>	205	238	228	240	260
Marine		184	218	206	213	230
Aquaculture		21	20	22	27	30
Milk	<i>mn Lt</i>	227	253	250	252	256
Egg	<i>mn</i>	819	862	856	855	876
Chicken	<i>'000 MT</i>	22	39	40	47	59

* Million nuts (nut equivalent)

	<i>Unit</i>	<i>'90-'94 Avg</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
INDUSTRY (1990 CONSTANT PRICES)						
Food, Beverage and Tobacco products	<i>Rs. mn</i>	26,158	33,641	35,908	37,146	40,729
Textile, Apparel and Leather Products	<i>Rs. mn</i>	38,575	55,480	58,332	69,269	72,391
Wood and Wood Products	<i>Rs. mn</i>	850	1,243	1,321	1,334	1,378
Paper and Paper Products	<i>Rs. mn</i>	2,679	3,508	3,550	3,561	3,446
Chemical, Petroleum, Rubber and Plastic Products	<i>Rs. mn</i>	22,086	27,543	31,135	32,582	36,841
Mineral Products	<i>Rs. mn</i>	9,369	12,516	13,360	13,914	14,629
Basic Metal Products	<i>Rs. mn</i>	1,240	1,377	1,636	1,671	1,856
Machinery and Equipment	<i>Rs. mn</i>	5,070	6,139	6,252	7,437	8,235
Other	<i>Rs. mn</i>	1,876	3,005	3,443	3,904	4,093
SERVICES						
Electricity Generation	<i>GWh</i>	3,682	4,783	4,375	5,145	5,673
Electricity Sales	<i>GWh</i>	3,020	3,915	3,740	4,039	4,509
Petroleum Products - Local sales	<i>'000 MT</i>	1,365	1,721	2,120	2,321	2,436
Telephone lines	<i>Number</i>	144,245	204,350	254,500	315,241	455,598

BASIC INFORMATION ON TAXATION IN SRI LANKA - 1999

1. INCOME TAX

Legislation

Inland Revenue Act No. 28 of 1979 as amended from time to time.

Implementing Agency

Department of Inland Revenue

1.1 PERSONAL INCOME TAX

Legislation

Income tax is charged annually. A resident person is liable to tax on his income arising both in and outside Sri Lanka. A nonresident is liable to tax only on his income arising in Sri Lanka.

Residence Rule

A person who resides in Sri Lanka for a period exceeding 183 days in aggregate in any year of assessment is treated as resident.

Rate Structure

- Tax free threshold – Rs. 144,000 only for resident
- Tax unit – Individual
- Tax Rates

<i>Taxable income</i>	<i>Rate</i>
First Rs. 100, 000	10%
Next Rs. 100, 000	15%
Next Rs. 100, 000	25%
Balance	35%
- Non-Citizen employees – 15%

Terminal Benefits on Retirement

First Rs. 500,000	Exempt
Next Rs. 150,000	05%
Next Rs. 150,000	10%
Balance	15%

1.2 CORPORATE TAX

A Company for purposes of this Act means any company incorporated or registered under any law in force in Sri Lanka or elsewhere and includes a public corporation.

Residence Rule

A company is deemed to be resident if its registered or principal office is in Sri Lanka or if it is controlled and managed from Sri Lanka.

Rate Structure

<i>Category</i>	<i>Tax rate</i>
Resident & Non-Resident companies	35%
Export, Agriculture, Tourism, & construction	15%
Provident funds & Charities	10%

Capital Gains**Period of ownership of Property**

<i>Years</i>	<i>Rate (%)</i>
Over 25	0
20 - 25	5
15 - 20	12.5
05 - 15	17.5
02 - 05	25

Less than 2 Years Taxed as normal income

Capital gain on sale of Quoted Company shares is fully exempt.

Rates of Depreciation**Type of asset**

Plant, Machinery and Fixtures, Computer Software	50%
Motor Vehicles and Office Furniture	25%
Qualified buildings	6 ² / ₃ %
Motor Coach used for employee transport	100%

2. SAVE THE NATION CONTRIBUTION**Legislation**

Save the Nation Contribution Act No. 5 of 1996 as amended from time to time.

Implementing Agency

Department of Inland Revenue

Tax Liability

All employees including self employed persons and pensioners excluding the members of armed forces and police.

Applicable Rates

Emoluments* Rs. 15,000 to Rs. 30,000 per month 2%

Emoluments* Rs. 30,000 and above per month 3%

** Emolument - total income excluding arrears*

3. CUSTOMS DUTY

Legislation

Customs Ordinance No.17 of 1869 as amended from time to time

Implementing Agency

Department of Customs

Tax Liability

Customs duty is levied on all goods, wares, and merchandise imported into Sri Lanka.

Duty Structure

Zero duty	-	Wheat, Lentils, Dried Fish, Fertilizer, Seeds, Pharmaceuticals, Yarn, Textiles, Tractors, Lorries, Timber Computers, Sports equipment etc.
Standard rate bands	-	05% - Raw Material
	-	10% - Intermediate goods
	-	30% - Finished products
Special rate band	-	35% - Agricultural Products
Specific Duty	-	Tobacco, Cigarettes, Liquor, Sugar.

Date of Payments

At the point of Import

Computation of Duty

Duty rate is applied on Cost, Insurance and Freight (CIF) value.

4. GOODS AND SERVICES TAX (GST)

Legislation

Goods and Services Tax Act No: 34 of 1996 and amendment Act No: 11 of 1998.

Implementing Agency

Department of Inland Revenue

Tax Liability

Domestic supply or imports of goods & services

GST Threshold

Turnover in excess of Rs. 500, 000 in any quarter or in excess of Rs. 1,800,000 in four successive quarters.

Applicable Rates

- i. Exempt
 - * Essential food items i.e. rice, flour, sugar, milk and milk powder, bread
 - * Pharmaceuticals
 - * Petroleum products, Fertiliser
 - * Cement, timber
 - * Financial services

- ii. Zero Rate
 - * Export of goods.
 - * International transportation (including transshipment) of goods and passengers.
 - * Services directly connected with any movable or immovable property outside Sri Lanka.
- iii. Standard rate of 12.5 per cent on domestic supply or imports
- iv. Refunds
 - * GST on inputs for zero rated and taxable goods & services are recoverable.

Computation of Duty**On Manufacturing**

Wholesale price (WSP) excluding GST & National Security Levy (NSL) multiplied by the GST rate.

On Services

Final consumer price excluding GST & NSL multiplied by the GST rate.

On Imports

CIF with all fiscal levies excluding GST & NSL multiplied by the GST rate.

Date of payment

Monthly return if the value of taxable supplies exceeds Rs. 30 million per annum or make zero rated supplies, otherwise quarterly.

5. EXCISE (SPECIAL PROVISIONS) DUTY**Legislation**

Excise (Special Provisions) Act No: 13 of 1989 and Amendments Act No. 40 of 1990 and Act No: 8 of 1994.

Implementing Agency

Excise (Special Provisions) unit of Department of Customs.

Tax liability

On the following articles manufactured locally or imported.

- Cigarettes
 - > 60 mm in length Rs. 1,468 per 1000 sticks
 - 60 mm – 67 mm Rs. 2,362 per 1000 sticks
 - 67 mm – 72 mm Rs. 3,392 per 1000 sticks
 - 72 mm – 84 mm Rs. 3,526 per 1000 sticks
 - 84 mm < Rs. 4,042 per 1000 sticks
- Pipe tobacco Rs. 250/- per Kg
- Malt Liquor 10%
- Hard Liquor 30%
- Diesel 15%
- Petrol 50%
- Motor vehicle
 - Petrol cars 10%
 - Diesel cars 60%
 - Vans 30%

Computation of Duty

- **Domestic**

Wholesale price excluding Excise (Special Provisions) duty multiplied by the Excise (Special Provisions) duty rate.

- **Imports**

105% of CIF with all fiscal levies excluding Excise (Special Provisions) Duty, multiplied by the Excise (Special Provisions) Duty rate.

Date of payment

Cigarettes & Petroleum products	–	monthly payment
Liquor	–	quarterly payment
Motor vehicles	–	at the point of import

6. EXCISE (ORDINANCE) DUTY**Legislation**

Excise Ordinance No. 8 of 1912 and subsequent amendments.

Implementing Agency

Department of Excise

Liability

Domestically produced hard & soft liquor only

Duty structure

• Coconut and processed Arrack	Rs. 200.80 per proof litre
• Country Made Foreign Liquor	Rs. 234.80 per proof litre
• Molasses and Palmyrah Arrack	Rs. 184.80 per proof litre
• Malt liquor above 5% in strength	Rs. 25 per litre
• Malt liquor less than 5% in strength	Rs. 15 per litre

** Standard proof is 57.1% in alcohol*

Date of payment

Monthly

7. NATIONAL SECURITY LEVY**Legislation**

The National Security Levy (NSL) is imposed under the National Security Levy Act No.52 of 1991 as amended from time to time.

Implementing Agency

Department of Inland Revenue

Liability

Manufacture & imports & selected services such as insurance, banking, finance & telecommunication.

Exempted

Exports, re-exports, imports & manufacture of gems & jewellery & electricity.

Duty structure

Standard rate	5.5%
Concessionary rate for plant & machinery	0.5%

Computation of Duty

• **Domestic**

Wholesale price (WSP) excluding Excise (Special Provisions) duty, multiplied by the NSL rate.

• **Imports**

The aggregate of CIF, Customs Duty (CD), 25% mark-up of CIF & CD to be multiplied by the NSL rate.

$[(CIF + CD) 1.25] \times NSL \text{ Rate.}$

Date of payment

Monthly payment if the turnover exceeds Rs. 5mn per month, otherwise quarterly.

8. TURNOVER TAX

Legislation

Turnover Tax Act No, 69 of 1981 as amended from time to time.

Implementing Agency

Department of Inland Revenue

Tax Liability

TT is applicable to Banking & Financial Services which are not liable to GST.

9. STAMP DUTY

Legislation

Stamp Duty Act No. 43 of 1982 as amended from time to time.

Liability

Section 2 of the Stamp Duty Act imposes the duty to be paid and specifies the documents and instruments in respect of which the duty is chargeable.

Following are the main instruments liable for Stamp Duty

- (a) Debt acknowledgments.
- (b) Letters of credit, bills of exchange, promissory notes.
- (c) Bonds, pledges, mortgages, share certificates, bank guarantees.
- (d) Deed or instruments for the exchange of any property, lease or hire agreements.
- (e) Documents filed in civil proceedings & other court documents affidavits, affirmations.

Rates

Rates of duty as fixed by Regulations made under Section 69 of this Act.

	<i>For every Rs. 1,000 or part thereof</i>
• Letter of Credit	
Imports	Rs. 20.00
Re-exports & sale in Duty Free Shops	Rs. 0.50
• Agreements relating to mortgages, transfers, pawning, pledges	Rs. 2.00

10. MOTOR VEHICLE TAX

Legislation

The motor vehicle levy was introduced in Sri Lanka by the Finance Act No. 16 of 1995 and implemented from 1st April 1995.

Implementing Agency

Department of Motor Traffic

Tax liability

An annual levy of Rs. 5,000 is levied on diesel motor vehicles.

Luxury motor vehicles as classified below are also liable to a levy which is imposed on an annual depreciation over a period of 7 years.

<i>Vehicle</i>	<i>Type / Capacity</i>	<i>Levy in the first year</i>
Luxury	Diesel - exceeding 2500cc	50,000/-
	Petrol - exceeding 2000cc	
Semi luxury	Diesel - 2200cc - 2500cc	25,000/-
	Petrol - 1800cc - 2000cc	
Semi luxury dual purpose Excluding vans	Diesel - exceeding 2500 cc	10,000/-
	Petrol - exceeding 2000 cc	

TAX CONCESSIONS & INCENTIVES UNDER THE INLAND REVENUE ACT

EXEMPTIONS

1. EXEMPTIONS

i. Capital gains on the sale of

- a. quoted shares
- b. quoted bonds, debentures or debt instruments
- c. rights to shares under a rights issue or a bonus issue of a quoted public company
- d. treasury bills, treasury bonds etc., in the secondary market
- e. quoted debt instruments

(Section 14)

ii. Trade profits

- a. from the sale of gold, gems, or jewellery
- b. from dealing in the secondary market in treasury bills, registered stock or other security, by any primary dealer
- c. from entrepot trade in certain specified articles
- d. of unit trusts, if 70% of such profits are distributed within one year

(Section 15 & 8)

2. TIME BOUND EXEMPTIONS

i. Income from residential properties for -

- 7 years if floor area is between 2000 and 1500 sq.ft,
- 10 years if floor area does not exceed 1500 sq.ft

(Section 12)

ii. Five year tax holiday for profits of new and incremental profits of existing companies for manufacture or for provision of any service utilizing advanced technology, if the investment is not less than Rs. 4 million and the employment generation is not less than 50.

(Section 17 JJ) & (Section 17 KK)

iii. Five year tax holiday in respect of profits from the provision of refrigerated transport or cold-room storage etc.

(Section 17 L)

iv. Ten year tax holiday in respect of the profits of any company from -

- cultivation of plants (other than tea, rubber, coconut).
- production of quality planting materials.
- research work for improving the quality and character of planting materials.

(Section 17 M)

v. Ten year tax holiday in respect of the profits of any company from the export of fresh or processed vegetables or fruits, if cultivating not less than 5 acres with vegetables or fruits.

3. EXEMPTION OF DIVIDENDS

i. Dividends paid out of profits which are exempt, (subject to a few exceptions)

v. Dividends out of dividends referred to in paragraph (i) above, if paid within a specified period, are exempt in the hands of the recipient shareholder.

(Section 11)

4. INVESTMENT RELIEF

Any investment in new shares during the period 6.11.97- 31.3.99 in any company, which is a quoted public company as at 31.3.99, qualifies for investment relief. (For individuals only.)
Deduction is available up to 1/3rd of assessable income. (Separate 1/3rd)

5. INVESTMENT TAX ALLOWANCE

The allowance is a deduction in arriving at taxable income of a person, and is available in the following manner until 31.3.2000.

Level and nature of investment

Rate of investment tax allowance for any one year of assessment (starting from the year of assessment in which the investment is made)

- | | |
|---|--|
| a) Investment exceeds Rs. 250 million or is undertaken outside the Municipal Council areas of the Colombo District | 100% of the cost of the investment can be off-set against 75% of assessable income |
| b) Investment does not exceed Rs. 250 million and is undertaken within the Municipal Council areas of the Colombo District. | 75% of the cost of the investment can be off-set against 50% of assessable income |

(Section 31 A)

6. RATE REDUCTIONS

Profits from

- the export of non traditional goods;
 - Agriculture, fisheries, livestock or tourism; and
 - Companies engaged in the construction work in the following fields
 - Buildings
 - Roads and Bridges
 - Water supply, Drainage and Sewerage systems
- qualify for the 15% concessionary rate of tax

(Section 32 DDD & 32 DDDD)

7. TAX CREDITS

Where for any tax year, the number of shareholders of a quoted company remains at 300 or above throughout that year, the company is entitled to a deduction from the tax otherwise payable by it, of an amount equal to 5% of its trade or business profits included in its taxable income for that year.

(Section 32 EEEE & 32 EEEEE)

BASIC INFORMATION ON NON-TAX REVENUE 1999

1. RAILWAY

Legislation

Railway Ordinance No. 9 of 1902

Basis of Liability

Passengers and Freight

- **Passenger fares per km**

1st Class :- 0.984 cts

2nd Class :- 0.564 cts

3rd Class :- 0.204 cts

- **Freight fares per Tonne kilometre**

<i>Class</i>	<i>Below Rambukkana (Rs)</i>	<i>Above Rambukkana (Rs)</i>
1	0.60	0.90
2	0.80	1.20
3	1.20	1.80
4	2.00	3.00

2. POSTAL

Legislation

Ceylon Post Office Ordinance No. 11 of 1908

Basis of Liability

Letters	Rs. 3.50	for 30 gms
Post cards	Rs. 2.00	
Registration fees	Rs. 10.00	
Aerogrammes	Rs. 12.00	
Printed matter	Rs. 2.00	for 30 gms

3. RENT

- **Government Quarters**

A fixed rate of Rs. 1000/- per month for summit flats

Economical rent decided by the Ministry of Public Administration. The rate depends on the area and the facilities provided.

Rents are imposed on Government Buildings in terms of the schemes stipulated in chapter XVIII-XX of the Establishments Code.

Base

Government Officers Quarters	- Married	- 12 1/2% of basic salary
	- Unmarried	- 7 1/2% of basic salary

Circuit Bungalows: Nuwara Eliya & Diyatalawa - Rs. 50.00 per day

Diyatalawa & Bandarawela - Rs. 35.00 per day

Rent for office space depends on the floor area

• **Lease Rental from Regional Plantation Companies: -**

Revenue Base for Lease Rental –

The base lease rental value adjusted each year by the GDP deflator of the preceding year.

<i>Name of Company</i>	<i>Lease Rental Base (1994/95)</i> <i>Rs. mn</i>
• Hapugastenne Plantations Ltd	13.566
• Watawala Plantations Ltd	20.320
• Balangoda Plantations Ltd	5.673
• Kahawatte Plantations Ltd	4.829
• Bogawantalawa Plantations Ltd	29.371
• Malwatte Valley Plantations Ltd	8.589
• Maskeliya Plantations Ltd	8.744
• Agalawatte Plantations Ltd	13.717
• Talawakelle Plantations Ltd	8.129
• Kelani Valley Plantations Ltd	19.598
• Horana Plantations Ltd	5.228
• Maturata Plantations Ltd	3.133
• Elpitiya Plantations Ltd	10.310
• Madulsima Plantations Ltd	1.954
• Kagalle Plantations Ltd	15.744
• Pussellawa Plantations Ltd	13.607
• Kotagala Plantations Ltd	22.170
• Namunukula Plantations Ltd	13.186
• Chilaw Plantations Ltd	6.508
• Kurunegala Plantations Ltd	8.186

4. INTEREST

Interest levied on lending to commercial enterprises. Interest rate is determined in terms of the provisions of the respective sub-loan agreements.

5. PROFITS & DIVIDENDS

- Profit received from public enterprises
- Dividend received on the Government share of public companies
- Levies imposed under the Finance Act No. 38 of 1971

6. SALES AND CHARGES

Legislation

Under Relevant Legislation

- Administrative Fees and Charges eg. Passport fees, examination fees etc.
- Sales by Government Departments eg – sale of publications by the Government Press. Sale of used goods, scrap and waste by the Government Departments.
- Fines and Forfeits - Fines, penalties and forfeits.

7. SOCIAL SECURITY CONTRIBUTION

Legislation

Widows & Orphans Ordinance No. 1 of 1898

Base

- On salary
 - upto Rs. 45,600 per annum – 4%
 - Rs. 45,601 - 70,260 per annum – 6%
 - Rs. 70,261 & above per annum – 7%
- The W&OP scheme for female officers who joined the public service prior to 1983 was optional.
- The following officers serving in the police and armed services are exempt.
 - * Police – Home Guards
Police Security Assistants
 - * Army, Navy, Air Force – Volunteers and all female staff

8. CURRENT TRANSFERS

Central Bank profit transfers

Monetary Law Act No. 58 of 1949 - Chapter 2 Section 39 (C)

In terms of Section 39 of the Monetary Law Act any net profit after liquidation of the Monetary Adjustment Account and maintaining at least 15 percent of the difference between total assets and assets in gold and in foreign currencies can be used to liquidate any outstanding government obligations to the Central Bank of Sri Lanka or be credited to the Consolidated Fund in consultation with the Minister of Finance.

9. CAPITAL REVENUE

• Divestiture Proceeds

Public Enterprises Reform Commission Act No. 1 of 1996. All divestiture proceeds are to be credited to the Consolidated Fund.

• Repayment of Loans

Principal amount received by the Government on lending to commercial enterprises.