

Budget at a Glance 1998

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KEY ECONOMIC INDICATORS						
		1994	1995	1996	1997	1998*
POPULATION						
Mid-Year	(Mn)	17.9	18.1	18.3	18.5	18.8
Growth Rate	(per cent)	1.4	1.4	1.1	1.1	1.1
OUTPUT						
GDP	(Market Prices / Rs.Bn.)	579.1	667.8	768.9	888.4	1,026.5
GDP Growth Rate		5.6	5.5	3.8	6.0	6.2
GDP Per capita	(US\$)	656	719	760	820	900
INVESTMENT & SAVINGS						
Investment / GDP	(%)	27.0	25.7	24.2	25.8	27.0
National Savings / GDP	(%)	19.1	19.5	19.2	20.0	21.0
TRADE						
Imports	(US\$ Mn.)	4,759	5,311	5,445	5,980	6,419
Exports	(US\$ Mn.)	3,200	3,798	4,097	4,467	4,983
BALANCE OF PAYMENT						
Trade Balance	(US\$ Mn.)	-1,559	-1,512	-1,348	-1,521	-1,436
Overall Balance	(US\$ Mn.)	248	-94	-92	412	305
Debt Service Ratio	(Per cent)	11.2	11.6	12.9	11.4	11.2
GOVERNMENT FINANCE (As a Percentage of GDP)						
Revenue		19.0	20.4	19.0	19.2	18.4
Expenditure		29.0	30.0	27.9	24.0	24.1
Current		22.4	23.5	22.7	20.4	18.2
Public Investment		7.0	7.5	6.2	6.4	7.0
Budget Deficit (before grants)		10.0	9.6	8.9	4.9	5.7
Budget Deficit (excluding divestiture proceeds)		10.5	10.1	9.5	7.6	6.5
MONEY SUPPLY						
Narrow Money	(M1)	18.7	6.7	4.0	5.1	6.5
Broad Money	(M2)	19.7	19.2	10.8	14.5	15.0
PRICES						
CCPI	(1952 = 100)	1,527.4	1,644.6	1,906.7	2,078.3	2,238.2
Growth Rate	(per cent)	8.4	7.7	15.9	9.0	6.5
UNEMPLOYMENT RATE (Excluding Northern & Eastern Provinces)						
Total		13.0	12.0	11.8	10.1	9.0
Urban		13.2	17.4	13.0	-	-
Rural		11.8	10.7	11.6	-	-

* Projections

Sources: Central Bank Annual Reports
Budget Speech 1998

* Projections

Sources: Central Bank Annual Reports
Budget Speech 1998

ECONOMY IN BRIEF

■ Gross Domestic Product (GDP) is set to exceed 6 per cent growth in 1997 with signs for further acceleration next year.

■ The rate of inflation declined from 20 per cent in October last year to 7 per cent in October this year. Average inflation for the year is estimated to decline to 9 per cent from 16 per cent in 1996.

■ Interest rates declined with yield on one year Treasury bills falling to 10 per cent in 1997 from 17 percent in 1996 and the prime lending rate declining to 12 per cent from 18 per cent.

■ Unemployment declined to around 10 per cent of the labour force.

■ Investment reached 26 per cent of GDP and National Savings 21 per cent.

■ Exports increased by 14 per cent, overseas remittances by 9 per cent and long term foreign aid by 27 per cent. Current account deficit declined to 4 per cent of GDP.

■ Foreign investments exceed US\$ 550 million and inflows of long term foreign capital are on the rise.

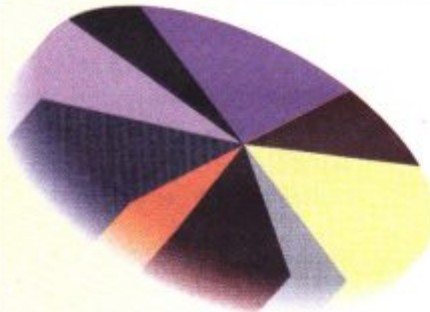
■ The burden of external debt continues to ease with the debt service ratio falling to 13 per cent and the external debt to GDP declining to 62 per cent.

■ Short term external borrowings remain less than 1 per cent of total capital inflows insuring Sri Lanka's economy against volatile capital movements.

■ Balance of Payments records a surplus of over US\$ 400 million.

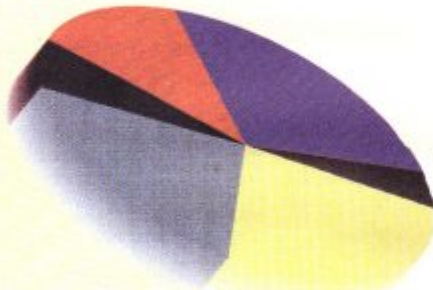
■ Gross External Assets at US\$ 2.5 billion provides over 5 months import cover.

■ Budget deficit excluding grants and proceeds from Public Enterprises Reform Programme is estimated to decline to about 7.6 per cent of GDP.



Turnover Tax	18.1%
Income Tax	9.3%
Non Tax Revenue	9.4%
Other Tax Revenue	3.8%
Import Duty	11.9%
Excise Tax	12.1%
National Security Levy	7.9%
Repayments & Divest. Proceeds	5.0%
Borrowing & Grants	22.5%

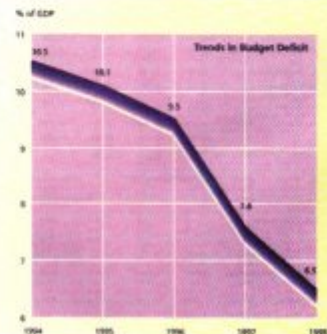
How a Rupee is Earned in 1998



Salaries & Pensions	25.4%
Other Expenditure	4.6%
Investment	27.3%
Interest Payments	21.3%
Welfare	6.6%
Operational Expenses	14.8%

How a Rupee is Spent in 1998

Fiscal Consolidation for Sustained Economic Growth



ANALYTICAL PRESENTATION OF THE BUDGET

	1994	1995	1996	1997 Revised	Rs. Mn. 1998 Budget
Total Revenue and Grants	118,295	145,286	154,779	178,776	197,438
Total Revenue	110,038	136,258	146,279	170,276	188,438
Tax Revenue	99,417	118,543	130,202	147,533	164,049
Non Tax Revenue	10,621	17,715	16,077	22,743	24,389
Grants	8,257	9,028	8,500	8,500	9,000
Total Expenditure & Net Lending	- 167,768	- 200,482	- 214,710	- 213,612	- 247,085
Recurrent	- 129,974	- 157,049	- 174,391	- 181,086	- 187,091
Public Investment	- 40,455	- 50,414	- 47,497	- 56,775	- 70,996
Other	2,661	6,981	7,178	24,249	11,002
Current Account Surplus/Deficit (-)	- 19,936	- 20,791	- 28,112	- 10,810	1,347
Deficit Excluding Grants	- 57,730	- 64,224	- 68,431	- 43,336	- 58,647
Deficit Excluding Grants & Divestiture Proceeds	- 60,726	- 67,225	- 73,159	- 67,086	- 66,647
Deficit Including Grants & Divestiture Proceeds	- 49,473	- 55,196	- 59,931	- 34,836	- 49,647
Financing	49,474	55,196	59,931	34,836	49,647
Foreign Borrowing	11,778	21,224	10,911	13,416	16,426
Domestic Borrowing	37,696	33,972	49,020	21,420	33,221

as a percentage of GDP

	1994	1995	1996	1997 Revised	1998 Budget
Total Revenue and Grants	20.4	21.8	20.1	20.1	19.2
Total Revenue	19.0	20.4	19.0	19.2	18.4
Tax Revenue	17.2	17.8	16.9	16.6	16.0
Non Tax Revenue	1.8	2.7	2.1	2.6	2.4
Grants	1.4	1.4	1.1	1.0	0.9
Total Expenditure & Net Lending	-29.0	-30.0	-27.9	-24.0	-24.1
Recurrent	-22.4	-23.5	-22.7	-20.4	-18.2
Public Investment	-7.0	-7.5	-6.2	-6.4	-7.0
Other	0.5	1.0	0.9	2.7	1.1
Current Account Surplus/Deficit (-)	-3.4	-3.1	-3.7	-1.2	0.1
Deficit Excluding Grants	-10.0	-9.6	-8.9	-4.9	-5.7
Deficit Excluding Grants & Divestiture Proceeds	-10.5	-10.1	-9.5	-7.6	-6.5
Deficit Including Grants & Divestiture Proceeds	-8.5	-8.3	-7.8	-3.9	-4.8
Financing	8.5	8.3	7.8	3.9	4.8
Foreign Borrowing	2.0	3.2	1.4	1.5	1.6
Domestic Borrowing	6.5	5.1	6.4	2.4	3.2

Note: Details may not add to total due to rounding

Sources: Central Bank Annual Reports
Budget Speech 1998

REVENUE AND EXPENDITURE TRENDS (Economic Classification)

	1994	1995	1996	1997 Revised	1998 Budget
1. Tax Revenue	99,417	118,543	130,202	147,533	164,049
Income Taxes	15,748	18,211	22,355	22,832	24,064
Turnover Tax/GST	32,300	36,429	37,631	42,037	47,130
National Security Levy	9,693	14,408	16,441	18,426	20,500
Excise Levy	14,632	19,436	22,067	28,979	31,464
Stamp Duties	4,386	5,162	5,279	7,010	8,050
Import Duties	22,598	24,365	25,458	26,780	30,961
Motor Vehicle Levy and Other	60	532	971	1,469	1,880
2. Non Tax Revenue	10,621	17,715	16,077	22,743	24,389
Rent	181	217	447	600	660
Interest	4,560	6,946	5,222	9,237	7,108
Profit and Dividends	1,294	4,618	2,690	3,600	4,760
Sales and Charges	2,397	3,063	4,208	4,900	5,194
Social Security Contribution	719	825	1,232	2,200	3,200
Other	1,470	2,046	2,278	2,206	3,467
Total	110,038	136,258	146,279	170,276	188,438
	1994	1995	1996	1997 Revised	1998 Budget
1. Current Expenditure	129,974	157,049	174,391	181,086	187,091
Salaries - Public Service	7,346	8,304	10,747	11,630	11,845
Other goods and Services	6,800	8,522	8,665	9,547	10,687
Pensions	13,271	14,549	15,465	18,825	18,285
Interest	40,921	41,115	48,911	54,086	55,368
Defence	26,444	42,460	44,186	42,014	42,427
Provincial Councils	14,105	16,161	15,831	18,785	20,645
Corporations	2,634	7,841	8,232	1,900	2,374
Institutions	1,976	2,182	2,284	3,731	5,381
Samurdhi	-	5,130	8,591	8,325	8,670
Other Welfare	14,992	9,465	7,894	8,804	8,472
Contingency and Other	1,485	1,320	3,585	3,439	2,937
2. Capital Expenditure & Net lending	37,794	43,433	40,319	32,526	59,994
Public Investment	40,455	50,415	47,497	56,775	70,996
Acquisition of Fixed Assets	16,553	22,589	22,461	27,500	35,185
Capital Transfers	13,838	16,739	16,701	17,775	22,153
On lending	10,064	11,087	8,335	11,500	13,658
Repayments and Other	- 2,661	-6,982	-7,178	-24,249	-11,002
Total	167,768	200,482	214,710	213,612	247,085

Sources: Central Bank Annual Reports
Budget Speech 1998

LEADING PUBLIC INVESTMENT PROJECTS -1998

		Rs. Mn
1	Port	2,682
2	Telecommunication	3,425
3	Power & Energy	8,061
4	Industrial Estates	1,547
5	Railways	5,329
6	Highways	7,512
7	Education	5,200
8	Health	4,351
9	Water Supply	2,919
10	Flood Control & Environment	1,800

Source: Budget Speech 1998 Public Investment Programme

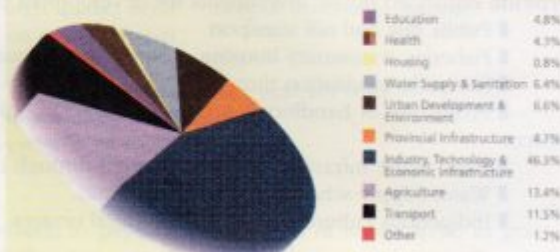
URGENT DEVELOPMENT PROJECTS -1998

		Rs. Mn.
1	Paddy Cultivation	100
2	Intercropping on Coconut Lands	100
3	Tea Small Holder Sector	200
4	Fruits & Vegetable	100
5	Export Agriculture	150
6	Handloom & Handicraft	200
7	Public Transport - 1500 Buses	750
8	Fisheries Community Development Programme	250
9	Samurdhi Graduation Scheme	300
10	Estate Infrastructure & Livestock	150
11	Water Supply Schemes in Backward Areas	200
12	Indigenous Culture & Arts	400

Source: Budget Speech 1998

Public Investment
in 1998

Source: Public Investment Programme

Foreign Aid in Public Investment
- 1998

Source: Public Investment Programme

PEOPLE'S BUDGET FOR A STABLE ECONOMY TO THE 21ST CENTURY OBJECTIVES

1. **Achieve** rapid development in following priority sectors:

■ Research and Development

■ Agriculture

■ Tourism

■ Gold, Gem and Jewellery

■ Textiles Through outright grants and concessional credit, lower taxation, investment tax allowance for increased investments, duty free import of material, equipment, accessories, machinery and other concessions.

2. **Accelerate** investments on thrust industries through BOI incentives and

infrastructure facilities:

- Electronics and computer assembly
- Ceramic and glassware manufacture
- Rubber based industries
- Light and heavy engineering industries
- Cutting and polishing of gems, diamonds and manufacture of jewelry

3. **Promote** regional industrialization through BOI incentives and the development of industrial infrastructure and guaranteed quotas and other facilities:

- Industrial relocation
- Establishment of dedicated economic centres
- Establishment of 50 new garment factories in the South and selected districts in other provinces.

4. **Liberalise** textiles, gem, gold and jewellery industries.

5. **Reduce** the overall cost of production and improve productivity through the removal of customs duty on basic raw materials and intermediate inputs such as fertilizer, agrochemical, seed processing equipment and machinery, tea packaging machinery, agricultural tractors, lorries, refrigerator trucks, spare parts for fishing boats, fish finding devices, rattan and bamboo, computers and communication equipment, medical and dental equipment and accessories, fabrics, yarn, equipment and consumable items, handloom material and equipment.

6. **Encourage** young entrepreneur development through venture capital companies – Ruhunu 2001 through concessional lending.

7. **Expand** capital market through increased listing of companies in the stock market – tax bonus, lower stamp duties, tax deduction for expenses in respect of listing, investment tax allowance for share purchases, the establishment of a settlement guarantee fund, removal of capital gains from income tax for purposes of listing and release of funds from NSB, ETF, EPF and insurance for investments in

stock market, incentives for unit trusts and relaxation of direct foreign investment entry.

8. **Deepen debt** market through the reduction of stamp duties on financial instruments, incentives for private debt instruments and reduction in turnover tax on banking and financial institutions from 2 per cent to 1 percent.

9. **Promote** Special Development Programs

- President's Fund for Innovators

- Two tier private hospitals

- Low cost housing complexes

- Development of software industry

- Incentives for worker transport through the release of long term funds, tax concessions and housing loan schemes.

10. Provide enhanced public investments for development of: equipment

- Public bus and rail transport

- Fisheries community housing program and infrastructure facilities

- Samurdhi graduation through leasing facilities to provide three wheelers, two wheel tractors etc.

- Promotion of handlooms and handicrafts through soft loans and duty free imports of raw material, accessories,

- Basic estate infrastructure development through community projects

- Water supply schemes in backward areas

- Indigenous culture and arts - 25 cultural centres; Jaffna Library and National Cultural Complex.

11. **Provide** relief to public servants

- Reduction of interest on loans to 4.2 per cent

- 60 per cent salary revision to those below Rs.7,500 from January 1, 1998 and for others from July 1, 1998

- 5 per cent increase to pensioners

- Performance incentives res

12. Improve expenditure controls and management

- 10 per cent cut on selected expenditure items other than those on salaries, pensions and household transfers except on education and health

- Public corporations, state banks. statutory agencies to conform to 10 cent cut in expenditure

- Borrowing limits on public enterprises to be strictly enforced

- Additional levies on profit making public enterprises

13. **Reduce** Treasury bill borrowing limit from Rs.125,000 million to Rs.115,000 million and redeem Government bonds issued to state banks.

14. **Rationalisation** of Government revenue:

- Retirement benefits under voluntary retirement schemes to be free from income tax

- Simplification of Advance Company Tax (ACT)

- The reduction in income tax from 35 per cent to 15 per cent on agriculture, fisheries, livestock and tourism

- Turnover tax rates of 7, 11 and 20 replaced with 8, 12 and 18 with a lower mark-up of 10 per cent on imports and replaced with Goods and Services Tax (GST) from April 1, 1998 at 12.5 per cent

- Medical charges, local dairy products exempt from turnover tax

- Turnover tax on banking and financial institutions to continue at 1 per cent

■ National Security Levy and Save the Nation Contribution to be continued.

■ Excise taxation confined to revenue items with adjustments in tax rates on cigarettes, liquor and selected motor vehicles to off set revenue loss from turnover tax.

15. **Achieve** a current account surplus of Rs.1.3 billion (0.1 per cent of GDP) and contain the overall deficit inclusive of grants and divestiture proceeds to Rs.49.6 billion (4.8 per cent of GDP) and exclusive of grants and divestiture proceeds to Rs 66.7 billion (6.5 per cent of GDP).

■ How deficit is arrived at:			
		(Rs bn.)	GDP (%)
i.	Total Revenue	188.4	18.4
ii.	Current expenditure	-187.1	- 18.3
iii.	Current Account Surplus (i-ii)	1.3	0.1
iv.	Other budgetary transaction	3.1	0.4
v.	Public Investment	- 71.0	- 7.0
vi.	Budget Deficit (iii+iv+v)	- 66.6	- 6.5
■ How the deficit is financed:			
		(Rs bn.)	GDP (%)
i.	Foreign Grants	9.0	0.9
ii.	Foreign Concessional Loans	16.4	1.6
iii.	Divestiture Proceeds	8.0	0.8
iv.	Domestic Non-Bank Borrowings	33.2	3.2