

Securing Stability Annual Report 2012 Ministry Of Finance And Planning



2012 was a challenging year for the Sri Lankan economy where extreme and unusual weather conditions such as drought and then heavy rains resulting in floods demonstrated the susceptibility of several growth sectors such as agriculture, power generation, wildlife and biodiversity to climate change, which is a factor that had not been seriously considered previously. Furthermore, the rapid deterioration in the global economy especially in major export markets in Europe and the US was also a great challenge to the Sri Lankan economy. Increase in imports and rising oil prices had a major effect throughout the economy, where the stability of the Balance of Payments was undermined in 2011 due to the widening trade deficit. This also led to an accumulation of large losses in several state sector enterprises such as CPC, CEB and SriLankan Airlines compelling the Government and State banks to finance such losses.

Therefore 'securing stability' became the strategic economic priority while protecting welfare expenditure and planned public investments. The Annual Report 2012 of the Ministry of Finance and Planning, presented to President Mahinda Rajapaksa, encapsulates the challenges, strategies taken to mitigate negative impacts on the economy as well as the performance of all sectors, where Sri Lanka amidst both domestic and international pressures generated 6.4 percent annual

growth in 2012.

Dr P B Jayasundera

Secretary to the Treasury and Secretary, Ministry of Finance and Planning

Today we are gathered to present the Annual Report 2012 under the Finance Act, which was to be presented by the Ministry of Finance and Planning to the Parliament by May 31, to His Excellency the President. This Annual Report, according to the Act was uploaded to our website and made public on May 31. Due to His Excellency's busy schedule and having been occupied with other official engagements, this ceremony that was supposed have been held by May 31, is being held today. It is a special day for our Ministry as this is an occasion where we are fulfilling our duty. However, when we read the newspapers this morning, we found out that today the President completes 43 years in his political life. Therefore, first I would like to extend my good wishes to him to be able to rule the country as a strong leader and serve the nation for years to come.

The Annual Report that we present today represents a very challenging year. Especially the year 2012 was extremely challenging. The year dawned with climatic changes that we are yet to take seriously which is affecting not only our country but most countries in the world, making it a formidable period. In January 2012 we saw that the entire agricultural economy of our country being affected by extreme floods. It not only affected the 2011-2012 Maha season, it was also a big threat to the security of our irrigation system. The officials of the irrigation department successfully managed the situation at the time. In 2012, the Yala season, was completely ruined because of the drought that lasted months, which prevailed in our country resulting in further losses to the economy. It was not the small tanks but large reservoirs such as Kala Wewa and Victoria Dam that were almost completely dried out. While the climatic changes affected both Yala and Maha seasons badly, the world economy also collapsed. The Euro currency was unstable and completely shattered as described by the respective financial institutions of those countries. And also the financial crisis in Greece, was reflected in our country by the name of Greek bond crisis. We saw how the people in Europe walked on the streets trying to find a solution to their economic downfall. The US Fiscal Cliff, which was a severe economic condition was a result of the United States refusing to increase income tax on the one side and on the other the Government's refusal to curtail expenditure.

The economy of our country still relies on fuel and imports, where USD 5,000 million, that is 50 percent of the total export revenue is spent on oil imports. The Central Bank's greatest challenge is to manage the payment of USD 5,000 million without getting into debt. Apart from the sanctions against obtaining oil in the world market, the price of oil has remained consistently in the range of USD 90, 110, 115. You might remember that we faced this type of situation in 2001. In 2001 when this happened our economic growth was at a minus value. -1.2 percent was reported by the Central Bank under these conditions. However, in 2012, this situation was not repeated. In 2012, despite all the challenges such as the fall of the world economy, downturn in our export markets, paying over USD 5,000 million for fuel, and the Yala and Maha seasons being affected, with all these challenges our country did not have to face the situation of 2001. The economy in 2001 not only took a value of -1.2 percent in 2002 we were faced with a food crisis. There was a dearth in food distribution. The economy was in a situation where civil society had to distribute food rations to many districts.

The Main Reason For That Is That There Was No Terrorist War In 2012 Which Would Have Affected Our National Security And Economic Security In A Negative Way. That Is Why Even While We Faced... Floods, Droughts And The Fall Of The Global Economy, And While Paying USD 5,000 Million For Oil, Our Country Showed A... Growth Of 6.4 Percent

Then, what was the change in 2012? The change was that many reasons that had been a cancerous to the economy in 2001 was not there in 2012. The main reason for that is that there was no terrorist war in 2012 which would have affected our national security and economic security in a negative way. That is why even while we faced with such serious problems such as floods, droughts and the fall of the global economy, and while paying USD 5,000 million for oil, our country showed a huge economic upturn of 6.4 percent and we were able to keep the growth rate higher than in other financial years. That's not all. If we take 2012 and 2001, in 2001 the Victoria Dam completely dried up as well, which resulted in 12 hour power cuts during that time. Generators that worked on oil was brought down to this country during that time because there was no alternative. Even with that there were daily power cuts of more than 12 hours. Those who are here today know about that period.

However in 2012, there was no power shortages. The reason being that our country

made significant investment since 2006, therefore according to the needs of the country power generation, construction of roads and expressways was developed continuously to form a national infrastructure system. This is the second reason as to why the economy did not collapse in 2012. The third reason is that a new series of programmes are being implemented in our country to take the economy to the village through the Mahinda Chintana vision, and connecting the village with the country's development process. That is not all. By 2012, not only had the war ended but also the conflict affected areas had been cleared of land mines, the displaced resettled and peace restored, which resulted in development in those areas. And it is for these reasons that we did not see the unpleasant story of 2001 in 2012.

Therefore, in 2011 when we issued our Annual Report we focussed on how to manage these challenges. Our theme in 2011 was 'Managing Challenges.' From January 1, 2011 to December 31, 2011 it was a very serious situation. The foremost of this situation was the fuel crisis. Previously when there was a drought we lost our crops. However, now when there is a drought there is no electricity, no drinking water, the irrigation system cannot function, and therefore not only food security and fuel security but essential drinking water is also lost to the country.

During This Year The Economy Ensured That These Challenges Were Transformed Into Opportunities. The Drought Was Made Into An Opportunity To Restore A Large Number Of Tanks. About USD 4,000 Million Was Invested During This Time To Renovate Large Tanks Such As Kala Wewa.

The biggest problem was how to manage the economy of the country with the rising fuel prices. We saw according to our analysis that the fuel prices will not go below USD 90-100 for the foreseeable future. Therefore, stabilising these conditions is a primary economic duty of our country. It is with that responsibility that in 2012 even while Europe was tumbling, when America was faced with unsolvable problems, when the whole world was faced with economic problems, His Excellency the President, having analysed the situations across the world, gave us the leadership to decide what could most likely happen in the future. During 2012, all actions that we took, which are; increase of fuel prices, increase in electricity rates, transport costs increased, the exchange rate controlled, interest rates increased, vehicle taxes heavily increased, the income and expenditures balanced, the banks were restricted in giving loans, foreign reserves were developed, food security safeguarded, rather than importing goods from foreign countries, we were able to increase production of our own goods, the whole country had to be encouraged into

the production process. Every household was made a partner in this process, Trade Unions were also brought in, and what we had to do was to secure the country's economy again. That is why in the analysis of the Annual Report 2012, with every single sentence you will realise that what we have done is to stabilise and secure our economy. As such the theme of this Annual Report is 'Ensuring Stability', because that was our priority.

However, during this year the economy ensured that these challenges were transformed into opportunities. The drought was made into an opportunity to restore a large number of tanks. About USD 4,000 million was invested during this time to renovate large tanks such as Kala Wewa. Even the President stepped down into such a tank to evaluate and to ensure that the tank was renovated to its original capacity. We are proud of the fact that even while their harvest was affected during the Maha season, farmers in those areas made a request to the President not to grant them subsidies but to rebuild their tanks before the next season and the rains. Likewise, from the point of the individual, family and society, a comprehensive plan was formulated for development according to the wider theme of the Mahinda Chintana vision for the economy. Not only developing villages, every person, every family and every society is connected to this process through Gama Neguma and Divi Neguma programmes and other such programmes which were initiated in 2011, especially as it was the drought year. Apart from developing other livelihood processes, as part of the national food security programme 700,000 plants of Murunga were distributed and by now the people who have grown the plants are expecting the harvest.

Not only that, maternity homes, that will help to solve the remaining issues regarding living standards in the country; education facilities to popularize computer technology education amongst the children; mobilising citizens by upgrading and bringing back the Sathipola concept; and in every city, not only in Colombo, programmes such as building facilities to fulfill the needs of the public were initiated. All these measures were done in the economy – continuously – in the midst of many challenges in 2012.

That's not all, the modern infrastructure system that we see today, is something we had not seen in our country before. New roads are being expanded around the country. Most of the time we can see the amount of money that has been spent for

these roads when it is divided by the number of kilometres, but we have built these roads according to high standards, protecting the environment while providing the necessary security for those areas. The country has now commenced on a new road structure that is built using various modern engineering methods. Likewise, we were able to upgrade the irrigation system where a large number of irrigation schemes are being built and implemented in the country, developing many drinking water plants, creating many electricity power stations and furthermore developing infrastructure such as ports and airports that are needed for the modern economy in 2012 in our country.

Moreover, we were able to witness during this period the strengthening of the hospital system and the school system, development of the vocational education system and the university education system needed for human resource development. Going further, we have also restored many neglected and ancient buildings to ones that we could be proud of using architectural methods. But when the Government expenditure was kept at six percent of the GDP, every year for seven years consecutively, some questioned as to where the private institutions were, saying that all this is expenditure borne by the Government. The port that we see and the cities that we see are the results of private investments.

A port that we did not see in Colombo last week is seen here this week. It is the result of an investment that has been continuing for two to three years and it is one of the biggest ports in Asia with a large capacity. It was built under a private and international investment. You will be able to see similar national and international investments in the future, especially tourist hotels if you go towards Passekudah. And within the next two to three years in the area near Galle Face, we will be able to see a private investment - reflecting modern facilities for a modern country without any expenditure and without being a burden to the country - that will change the face of the Sri Lankan economy. We were able to see these types of results largely, by enhancing Government institutions, by bringing the war to an end, by restructuring the tax system in the country, by reducing the budget deficit, by stabilising the finances and reserves, due to building an economic system that centres on villages and by creating a secure environment for the private sector in our country.

When we take the whole economy and its operation throughout the country, results

have extended to all parts of Sri Lanka. First and foremost we have created stability, that is when the economy moves forward and where there is growth that growth should be stable. Otherwise the economy would collapse. We brought investments to about 30 percent of the national income. The budget deficit was maintained and managed at 6.4 percent amidst many difficulties for the third consecutive year. Government debt, which was at 100 percent when compared to the national income was reduced to 79 percent. Reserves were maintained at USD seven billion while USD five billion was spent on oil. For the first time for four years inflation was maintained at single digit levels while reconstruction was done through the increase of prices in fuel, transport and electricity. Especially, as a result of the increase of food production in the country the transportation system was able to become more systematic and was maintained at eight percent. The unemployment was brought to four percent. Not only that according to the vision of His Excellency, the President's Mahinda Chintana, the first priority is given to create a country without poverty. And according to the information obtained, the poverty levels in our country has gone down to 6.5 percent. Earlier the poverty level was at 15-20 percent. Furthermore, poverty was mostly prevalent in the plantations. But now we can be proud as the poverty level in the plantations have also gone down to the national level. While an overall development was continuing, the 'Doing Business Index' set out by the World Bank to measure the business activity in the country has further improved. There were many improvements in the country centering that process. Further, our country was highlighted as a tourist destination, and our country stood out in many ways. We have included all that and more in this Annual Report.

We Cannot Undermine The Expenditure That Had To Be Borne To Cover The Costs Of The War That Took Nearly 30 Years. We Did Not Realise It At The Time, How Harmful Terrorism Was For The Country And How Many Development Opportunities It Consumed.

That's not all, in order to reap the benefits of all these economic activities, it has to be measured that whether every family and citizen of this country benefitted from this system. Therefore, we looked to see that by 2012 whether 100 percent of the population has access to electricity and according to our data about 93 percent of the population use electricity 365 days of the year without any power cuts. Those who have access to clean drinking water has risen to 84 percent. The condition of the roads have risen to 85 percent, which is a high standard. Furthermore, there

was an increase in the use of telephones and computers among the citizens. Also we were able to see that 98.3 percent were registered to receive primary education. For every group of 18 children there is a teacher in our country. And the life expectancy in our country has increased up to 75 years and the rate of infant mortality at birth in our country has been brought down to the lowest levels not only in Asia but in the whole world. When we take all this into consideration, through challenges that I mentioned before, we were able to see an advanced and consistent development progression in our country. That is why we saw in 2012 when taking into consideration all aspects, to achieve a country without poverty is not only through economic development or foreign institutions or the stock exchange.

We cannot undermine the expenditure that had to be borne to cover the costs of the war that took nearly 30 years. We did not realise it at the time, how harmful terrorism was for the country and how many development opportunities it consumed. However, four years after the war, when we saw the benefits from this economic development, we realise how much terrorism had affected the country in a negative way and the need to understand that. That is why we are seeing today that a huge area of land that was lost to the country has been integrated once more into the economic process. Due to the terrorist activities, our airline service was destroyed, the Central Bank was destroyed, our financial institutions and religious institutions were destroyed and there was no proper atmosphere for the economic development of the country.

In this Annual Report we depict many challenges. Through this Annual Report we not only show that we have improved economically or the poverty levels have reduced or even under challenges, the economic development is maintained at a rate of 6-7 percent, but we have also identified our challenges. One fact is, now our country is moving towards a National Production level of 60 percent and the contribution of the agricultural sector as a percentage of the national production is 11-12 percent. But 20-25 years ago the contribution from the agriculture sector was 30 percent. Goods were imported through that, and they were taxed at the customs. Through that we have moved towards a traditional economic system. But today our economy consists more of industrial productions and services. Therefore without taxing the poor, we have had to increase taxes for those who avoid taxes, those who are in the workforce, lawyers, doctors, those who are in other services,

self employed persons, who are very difficult to reach when it comes to taxes.

D E W Gunasekara, Senior Minister and the Chairman of the Committee on Public Enterprises, is still striving to get those who are under the mentality of not paying taxes such as Government businesses and banks, to pay their taxes. We have reduced the tax burden and now nobody's paying taxes. Now we have a challenge of getting the services sectors to pay taxes. The private sector in this country has to accept that challenge. To get the lowest tax rates, everyone in the country has to pay taxes and the country has to reach that state. In that way, there are many restructuring schemes happening in the Inland Revenue Department and the Customs Department. We are hoping that the Inland Revenue Department and the Customs Department will put in their vocational capacity to strengthen the tax system of our country.

The Government Which Has Moved Away From Privatisation, Has Invested Hugely On These Commercial Enterprises Which Include Banks, Electricity, And Ports.

Furthermore, we have another huge resource in our country. That is our Government enterprises. We have identified that there are 55 Government enterprises in this country. We did a special analysis on those 55. From the ten enterprises have more assets than in the share market. The Government which has moved away from privatisation, has invested hugely on these commercial enterprises which include banks, electricity, and ports. Sometimes in the midst of short term criticism, the SriLankan Airline services have been strengthened through investments. Investments have been made for ports to be modernised and for airports to be turned into international airports and the Water Management Board to be strengthened. This type of investments have been made throughout eight years continuously. Now the time has come for the Chairmen, Directors, Senior Officers of these enterprises, to give back the profits from these enterprises that the people expect to the Government. Especially enterprises such as banks are turning into and have become a part of the national income earners of our country.

We have shown that the income that is at two percent now can be increased to four percent if these enterprises become very strong. We can see during the next three years that we have to create that strength from these enterprises. There is a

criticism when it comes to policy of this country that there were no reforms. There is a separate chapter in this Annual Report in all areas such as education, health, taxation, customs, the Department of Inland Revenue, banking sector, the actions that the Central Bank has taken to strengthen the financial sector, the programme to expand computer technology for which the Secretary to the President is personally looking into developing technology in Government institutions. All these have been depicted in this Annual Report and according to my belief, as a country that has developed silently, when taking into account the 2012 period, we have to talk about our country. And therefore, I especially request the working community and the private sector to get together in addition to the Government sector to voice about this change that is happening in this country and talk about ways that they can contribute to the development process in the country.

We did a special study on the Government service in our country in this Annual Report. Sometimes it is seen that there are too many employees in the Government service. What we saw from this report is the challenge of positioning the employees who were taken into Government service to carry out their tasks properly. Especially when we take periods of droughts and floods into consideration, if not for our Government servants, we cannot even think where our economy might be. But in general matters where the market cannot do anything at the level of the home, families, individuals or the village, that is where the Government servant comes in. Teachers, doctors and agricultural officers who distribute fertilizers have taken the task of connecting to the SMEs. Therefore, we have depicted here the importance of taking the Government services into the village. The reason for this is that the grants that we give the public through our budget, the special grants such as fertilizer and Samurdhi, exceeds 100 billion rupees. In order for these benefits to reach them and to create a pathway to attain their goals, the time has come to create a Government service at village level because Government servants are not necessary to look after the stock market.

And there is an economic gap in our country. There is no point blaming the Central Bank or the Finance Ministry for this. To reduce this process we have to restrict imports, and what we should do is to make every importer an exporter in this country. Not only the policies that are needed for that have been made, we have also structured law policies to create a free zone of air and port travel from Colombo to Hambantota. The President has come into agreements recently under the Indo-

Lanka and Pakistan-Lanka agreements rather than importing from those countries to Sri Lanka to export items from Sri Lanka to the two countries. And in the recent travel to China we have embarked on a path of exporting to China in order to create an export oriented system to make our country's economy an export economy. Also instead of relying on fuel imports for all power generated tasks, to use our own power supplies wherever possible, producing anything that can be produced here – especially in the agriculture sector such as rice, corn; being self sufficient and producing most of the goods that we are currently importing, even commodities such as milk and sugar; and to increase efficiency that poses as a threat to the production process has been outlined in this Annual Report.

If we take fertilizer into consideration, we now use twice as much fertilizer as we used in 2006. Therefore these fertilizers should be used to maximize profits, to reap maximum benefits and to increase the income of people by expanding the amount of the produce that they are used for. There are more than 30 Government institutions. We have shown here the challenge of utilizing the services of those institutions. Apart from that, we should not undermine the effects of climate change. In terms of climate change, we have shown that Sri Lanka can provide leadership to the rest of the world and to strengthen the mechanisms of the Government, the private sector should join with the Government sector in formulating programmes to address climate change.

We have also introduced in this Annual Report about the future of our country as these are facts that our country needs to know. We studied some countries from 1960 to 2010 to see where we rank among them. Singapore, Japan, Korea and Sri Lanka were at very close levels during the 60's. However, countries such as Japan, Singapore and Korea became developed countries in the world at a very fast pace. They achieved great heights in science and technology. But we could not get there. On the other hand we looked at some other countries such as Brazil, India, China, and South Africa. They were also at the same level with us. Yet, we could not even achieve what they have achieved. The reason being that, during the time since the 1960s till about 2010, we spent 30 years with the threat of terrorism. Other countries solved all their problems and became strong countries of the world. The obstacle we had for not getting as strong as them was terrorism in our country. That is why we mention in this Annual Report that we cannot measure how much we have lost as a country due to terrorism.

This immeasurable development that we lost, especially what our generation lost we must ensure that it does not happen to future generations. Then we must work towards making a strong economy and moving towards development where there is no terrorism. We saw that after 2006 and 2007 that we have created the development path that those countries followed. That was why the country which was at a growth rate of 4.5 percent went to an economic growth around seven to eight percent. It is our duty to safeguard that status. We have come to the conclusion in the 2012 Annual Report that a conducive environment prevails in the country to achieve that development. This is an Annual Report that we are presenting with great responsibility. This is not an annual report that carries pictures of ministers, secretaries or high ranking officials like in annual reports of corporates. This report consists of all the information from all the departments which have been analysed and presented using scientific methods. We have not included the information for the sake of providing information but we have researched, checked and analysed all the information that has been presented in the Annual Report.

We have inserted fourteen paragraphs to analyse these information. We believe that this is an instance where Government financial management has been at its best. Government funds, the budget process that is accepted by Parliament, Government businesses, Government audit processes, are all included with the balance sheet that has been signed by the President, and has been presented in a very comprehensive manner. As Government servants, our duty has been fulfilled to the maximum in this process. Therefore, we sincerely hope that the Chairman of the Government Audit Committee, Chairman of the Committee on Public Enterprises, and especially our Minister of Economic Development, will be able to use this information in their work and programmes as well as to strengthen their work and the information provided should be of help in the future.

Finally, we are geographically a small country. Sri Lanka can be seen in the world map only if it is circled. That is geographically. However, we see that the location of our country and especially after the war, the acceptance of our country internationally as well as the countries that have developed around us and also the political relationships that we have formed with powerful countries, we are able to make our country a big country in terms of economic development and that is what we have shown in this report.

Your Excellency, Ladies and Gentlemen, the story I briefly presented to you is a story of a turnaround nation. That turnaround truly has happened and the journey has begun. And I think it is the responsibility of every stakeholder including the private sector, civil society, trade unions, farmers and everybody else and public servants and also our development partners and the diplomatic community to get together and become a partner of this success story, and I once again thank everybody who joined in this occasion to launch the Finance Ministry 2012 Annual Report.

**Ajith Nivard Cabraal
Governor, Central Bank of Sri Lanka**

I am very happy to have received an invitation for this ceremony today, A very comprehensive analysis was given to all of us today by my friend Dr P B Jayasundera. I think that he has an extensive and analytical knowledge of our economy, and while sharing that knowledge with all of you, I am glad that I was able to attend this function. Further, I would like to extend my congratulations and appreciation to His Excellency the President who has served this country for the past 43 years of his political career. In the past seven years, I was able to work closely with him as the Governor of the Central Bank and before that as the Secretary of the Ministry of Planning. On all these occasions I saw that the President has a keen interest in the country and an in-depth knowledge about the problems faced by the country. As such I understood him as a person that we could receive advice from when taking the country forward, and on this occasion I wish him the strength and the blessings to continuously lead the country.

The Central Bank And The Finance Ministry Were Able To Undertake The Pressure And Problems That Were Present In The Environment, Without Directing Them Straight To The Public, And We Were Able To Create A Better Environment In The Country For Businesses To Function.

Today we were well and clearly informed by Dr P B Jayasundera about the economic successes of this country. He also gave a thorough explanation about the environment that was present when achieving these successes. He showed us that the environment present was an austere one. Within that environment, we could have said that this was a very tough job, therefore, we couldn't achieve it due to such and such issues. If this was said, most probably, our public would have believed us as these functions were done in a very tough environment with great

hardships. Even then, the Central Bank and the Finance Ministry were able to undertake the pressure and problems that were present in the environment, without directing them straight to the public, and we were able to create a better environment in the country for businesses to function. As Dr Jayasundera mentioned, we were able to keep the rate of inflation to single digits and also maintain the financial stability of the country for 52 months. As other countries in the world were recording a rate of development of 1-2 percent, we were able to record a rate of 6.4 percent. After ending the terrorism that was present in our country, we were able to achieve a growth rate of 7.5 percent. As the Secretary said we were able to reduce the poverty level that was at 15 percent to six percent. We see these as huge successes. However, in order to accomplish these success, the Government departments and the private sector had to work closely together. I need to remind, that during that particular time that coordination was there.

Dr Jayasundera depicted how the infrastructure facilities were developed in our country. If we go back in memory to six to seven years ago, we can see how our infrastructure was. We can remember how the Colombo city and other cities were. I remember His Excellency the President, when I was first appointed to the Central Bank, I pointed out of the window towards the sea and said to my friends that a new port will be built there. But they said that these things will never happen and that they are only words. Today I am proud to see that these kind of new things have emerged in our country. Today when Dr P B Jayasundera mentioned that a new city will be built, I don't think anyone will laugh now as they know that these things will be done. I believe that those positive thoughts have come into our country because the environment that was present has been changed completely.

The Main Role Of Central Bank Is To Keep The Financial Stability And The Stability Of The Monetary System Of The Country. For That The Full Support Of The Government Is Needed.

Mr Atygalle when introducing me, outlined the mutual trust and the co-operation between the Central Bank and the Ministry of Finance. We were able to develop the Monetary Policy, Tax Policy and the Development Policies of our country, to take the country forward. Here, the vision and the leadership provided by the His Excellency President is very valuable, because we knew exactly what needs to be done and went forward with a very good understanding. I need to remind about those here. The main role of Central Bank is to keep the financial stability and the stability of

the Monetary system of the country. For that the full support of the Government is needed. When the Government budget deficit was at ten percent, the Central Bank was not able to keep inflation at single digits. However, during the past four years, systematically the budget deficit was decreased and the Central Bank was able to do our job properly and give the country the needed financial stability. I have to be thankful about that on this occasion, because when the inflation is low the honour goes to the Central Bank. But to do that we need a great support and strength from the Government and I have to remind on this occasion that we received that strength.

Furthermore, Dr P B Jayasundera also reminded us about the investments in our country. Money is needed for investment. In order to invest, the Tax Policy in a country needs to be properly implemented. Therefore, he requested from the private sector here, to pay their share. I also believe that is a fair request as anyone can see that a rapid development is taking place with the money paid by taxes. Therefore, I would like to remind that if everyone paid their taxes, we would be able to speed up the development process of this country.

Dr P B Jayasundera gave an introduction on the years, 2011 and 2012. I believe that I should also give a brief view of the year 2013. I like to introduce 2013 as another year that we will maintain the financial stability of the country - a year of consolidation or a year of stability. As such if we can stabilise all sections in 2013 and maintain a growth rate of about 7 - 8 percent continuously, then we can - as he mentioned about Korea, Japan and Singapore - I believe, be on the same level as those countries. In the Mahinda Chintana Vision for the future, there are targets set by the His Excellency the President for this country. That is to bring the economy of our country to a USD 100 billion economy; at the same time to make the per capita income USD 4,000; to reduce the poverty levels of our country to at least two percent; and to reduce unemployment to three percent. These are not things that will happen automatically as we need to work towards these targets. Therefore, I am thankful to the Finance Ministry for their guidance given to us today about that.

In the future, also, we will have to face many challenges in our economy. Dr Jayasundera spoke to us about these challenges and also about the difficulties embedded in these challenges. Therefore, what we can do is to build our country's strength in order to face these challenges in the future. We have to build spaces,

and build cushions, in order to be able to bear with any external shock when they will arise. There's no question about shocks coming. But at the same time we have to build the strength in order to be able to deal with them as and when they arise. We spoke about the US fiscal cliff, we spoke about the Eurozone problems, we spoke about the massive changes in the currency rates today where the Japanese Yen had a depreciation of more than 35 percent in such a short period of time. These are all massive shocks that we all had to encounter. Even then, if we are strong, we believe we can face any pressure or problem. Today we have reached a point where we can face that kind of situation.

I also need to talk about one more issue. According to our reasonings, the interest rates present in our country should be less than what it is today. Recently we did a survey how the other countries match the deficit between their inflation and the interest rate. We saw that many countries have been able to keep their interest rates at 3-5 percent against inflation. But in our country the gap is still about eight percent. Even yesterday we discussed about this in the Monetary Board. We hope to give advice on that in the future. In order to continue the economic development of our country, we hope to bring the interest rates to match with other countries of the world. Therefore, while hoping to create such a situation and to enhance opportunities for continuing business in our country, and expecting the cooperation of everyone to do that, again I thank the HE the President for providing us with a vision for the way forward. And, Minister Sarath Amunugama, Senior Minister for International Monetary Co-operation, who always speaks on behalf of us in Parliament against those who try to criticize us. We would also like to thank the Minister of Economic Development for guiding us on many occasions, and Minister DEW Gunasekera, Minister for Human Resources and Chairman of COPE who always advises us and even privately advised me on several occasions. I also thank the Secretary to the Finance Ministry who works closely with us very keenly, and also everyone at the Finance Ministry for their inputs for creating such a wide and clear report and wishing all of you strength, courage and luck in your forward journey, I conclude my speech.

All These Bodies, Local And International Have Recognised The Positive Direction Of The Path Of Our Economy. We Should Be Proud Of This Fact.

**Basil Rajapaksa,
Minister of Economic Development**

I'm not going to speak on the Annual Report that was presented today by the Ministry of Finance, since the Secretary to the Ministry of Finance and Governor of the Central Bank have given a detailed analysis on the topic. We know that this isn't the only report about the economy of this country. There are other reports that are published annually like the Central Bank Report and the Department of Census and Statistics Report, the report by the Centre for Policy Alternatives and internationally, Asian Development Bank, World Bank and the International Monetary Fund all issue reports. All these reports were published in recent times. What was common to all these reports is that the economy of Sri Lanka is moving in the right direction. Therefore, this isn't just the view of the Government or an isolated body. All these bodies, local and international have recognised the positive direction of the path of our economy. We should be proud of this fact.

This report especially mentions the Governmental regulation of monetary funds. There are two working committees in the Parliament and the chairpersons of both those committees are here today. In the history of the Parliament, I doubt that there have been working committees that have inspected so many organisations. Not only have these committees brought in and inspected different departments of all the state organisations under their purview in the past year, they have also looked into the progress of annual report publications of these organisations. In addition to the timely publication of the annual reports of each of these organisations, under the guidance of President Mahinda Rajapaksa as the Minister of Finance, these two committees have had a positive impact towards the efficient management of monetary funds of all public sector organisations.

Even if it's not mentioned here, the year of 2012 has given birth to many newspapers. They include two Sinhala daily newspapers, an English daily newspaper and three Tamil daily newspapers. Many new TV channels have also been introduced in 2012. Through this broad media spectrum, the public has gained the right to be well informed. Today at this time of presenting this Report, I'm very happy to see not only those who have been in support of the economy, but also segments who have once been critical of the economy attending this meeting.

We must appreciate the efforts of the Finance Ministry for giving due recognition to groups that weren't included till now in the honourable President's financial strategy such as pavement hawkers and three-wheel drivers, and others who have a

substantial impact on the economy. They have now been integrated in a successful attempt to systemise the economy through the involvement of the Finance Ministry. We must appreciate these attempts.

Within the rural economy there is substantial economic activities taking place at each household. Today in this country 80 percent of the people are living in estates and villages, they carry out most of their productions in their gardens or homes. Attempts to integrate these people into the economic system and giving them their due recognition should be appreciated. So recognising these special groups in this report, who form a vital part of our economy is praiseworthy.

We hope that through reports like this, in addition to informing the public, we are also informing groups attached to the Government administration and the public sector providing them the right direction and knowledge so that they may contribute in taking our country from strength to strength. While the private sector makes a considerable contribution to the economy we must also acknowledge the service rendered by Government officials who facilitates the private sector activities. Particularly officials in the villages and the various departments are carrying out a great service to contribute towards not only the economic activities of the private sector but also the economy of Sri Lanka as a whole.

I would like to conclude my speech by thanking the Secretary of the Finance Ministry as well as everyone involved in the publication of this report.

D E W Gunasekara

Chairman COPE and Minister (Senior) of Human Resources

Firstly I am thankful to the Secretary of the Ministry of Finance for giving me this opportunity to participate at this event. I must also commend him on his illustrious, in-depth, complete speech where he gave an analysis of the entire economy. A special attribute of this report that wasn't present in previous ones, especially relevant to my subject, that is to the Committee on Public Enterprises, is the detailed report of 41 institutions. Therefore, it's unnecessary to refer to individual reports to find details of the 41 institutions as all the information is present in this single publication, which can be read in a few minutes. There's a general notion in the media and the public that all the public sector organisations will collapse. This

report has presented 41 main institutions, in fact there are 235 institutions, which are being looked into by the committee.

I must again mention what Minister Basil Rajapase said, the Committee on Public Enterprises was appointed in 1921. From then till 2009 only 25 to 30 and in one particular year a maximum 75 institutions have been reviewed. In 2010/11 alone we have reviewed 219 companies. This year, 2012, we have reviewed all 235 institutions. A year has only 365 days, but we have reviewed all 235 companies. This is a record achievement, there has never been a feat like this in history of the constitution. We were meant to come together only on the days that the Parliament gathered as per the instructions of the Speaker, but we gathered even on other days, from morning till night. This has had a great impact.

The impact is that we have been able to add many more companies when compared with previous publications. Out of these 41 companies, only 11 companies are running at a loss. Institutions that had been making losses are now making profits. When you take the proportion of the amounts of losses made by loss making institutions, 95 percent of the losses are from four companies.

These companies as everyone knows – because there is nothing to hide – are Ceylon Electricity Board, Petroleum Corporation, SriLankan Airlines and Mihin Lanka. It is these four that make up to 95 percent of the losses. These companies are being especially studied. In a few weeks I will be presenting my report to the Parliament, it is currently being compiled. At that time all of you will be able to read the detailed report. There are many reasons not just one reason and many factors for the losses incurred. When talking about the CEB, there are so many reasons and factors that contribute to their situation.

When talking in general, my personal opinion is that in a large organisation where there is a workforce of about 18,000 and there is production, distribution and complex operations without proper updated, accounting systems of standard, these recorded losses and profits might not even be accurate. There is still no cost accounting system in the public sector. This is my personal view, we will be presenting records for discussions for the Government that unless we bring our accounting systems up to date according to international standards, we will not be

able to acquire loans. When we look at these institutions we can see that. I want to bring to the attention of HE the President, Cabinet of Ministers, Government officials and policy makers that the revenue made by the Government is decreasing everyday. Right now the revenue made by the Government from GDP is only 13 percent, there are reports to prove this. This is a problem. Our GDP has doubled and our per-capita income has also doubled, but where is this being reflected? Can we see this increase in the lifestyle of the people or is this reflected in the Treasury? That is a big issue. I had a debate with the IMF delegation regarding this issue when they visited the country. And, they too had to accept my view. Therefore we need to do an in-depth study of this issue.

As the Secretary of the Ministry of Finance stated, there are two ways that the Government makes money, which are non-tax and tax. Non-tax is only two percent and tax is 11 percent, so that gives a total of 13 percent. There's a question of whether the two percent can be increased to four percent, yes it is possible. Due to our operations we have been able to increase that non-tax revenue by 12.5 percent. However, from what I know, especially from our institutions and from what we have found out in the previous years, is that 28 institutions had not paid their taxes, they had not even paid PAYE tax.

Today There's A Disparity Of Income. It's An Accepted View By Economists Around The World That With The Increase In GDP Poverty Is Reduced By Two-Thirds But The Remaining One-Third Will Not Be Reduced Unless Gap In Society Is Not Solved.

In 2010, 2,000 million has been paid by the Treasury. The Commissioner of the Inland Revenue Department knows this very well as we have discussed about this issue. This is a fundamental problem, a problem in our policies. There is a reason as to why taxes are charged. It is to narrow the gap in society. Today there's a disparity of income. It's an accepted view by economists around the world that with the increase in GDP, poverty is reduced by two-thirds but the remaining one-third will not be reduced unless the gap in society is not solved. This is an internationally accepted view, so we must focus our tax laws and tax policies towards this task. It is necessary to look at this problem and revisit our taxes. I am sure the President will be agreeing with me by now. Government revenue should be increased to 20 percent of GDP. Compared to other countries we are at a very low level. The development of the country needs to be reflected in the Treasury. When the

Treasury has no funds, the direct effect is that there are no funds to pay the salaries and pensions of public servants. They fall to the lowest levels of society, there is no one at the top level. Reductions in Government revenue is effectively widening social disparity. This is a social problem.

During the last few years, we have put in place mechanisms to improve this situation. We have done this in a very cordial manner. Public Sector officials are not reluctant to come to the COPE anymore. We do question them and we have arguments, but at the end of the day we encourage and motivate the senior officers. This has resulted in a very positive and healthy environment in the Parliament. The GDP has to increase by one percent for poverty to reduce by seven percent, this is what we have experienced in the last 20 years. I am sure that when the UN discussed the Millennium Development Goals this will also be taken into consideration. We must maintain our GDP and also strive to increase it so that poverty can be reduced. But that is not enough. Through taxation we need to reduce the disparity within society. Therefore, the three income houses that is, the Inland Revenue, Customs and Excise Department need to be efficient and work with dedication. If not all our attempts are in vain. Therefore, we need to look closely and revise our tax policies, tax administration and tax laws. I have checked tax percentages of all the countries via the internet and we have the lowest rates. I had a look at the Annual Report that was presented just now, we need 100 million to get 24 percent.

There is massive tax evasion. I have worked at the Department of Inland Revenue, therefore, I know this. That is a great injustice to the people of this country. As Government revenue decreases this affects public servants and pensioners, free education and free health services. We cannot provide these with loans. Loans are for the development of infrastructure. We can do roads, culverts and bridges with loans but not for living expenses. We have regular discussions on this. In this regard I'm asking the President, in attendance of all these distinguished guests, to concentrate on the revenue of the Government in the interest of the public.

Dr Sarath Amunugama

Chairman COPA, Minister (Senior) of International Monetary Co-operation and Deputy Minister of Finance and Planning

Firstly we should all be thankful to the Secretary of the Treasury and everyone who

was involved with the preparation of this report, for providing an extremely vital report concerning our economy. Today, we are managing our economy and finances in a completely changed environment. Today, world economy is based on technology and data. The ways in which money was exchanged, laws were implemented and investments were brought in the past do not apply anymore. Because today in the world, labour and assets move across boundaries very easily. The perception the world has on an economy is critical in this day and age and the first factor considered the world over is whether the economy is headed in an upward direction or downward direction. We are lucky today in the world to have achieved a global perception that Sri Lanka is moving ahead in terms of its economy.

When we consider the conflict in the European Union today and the global financial crisis before that, the main concern is that there is no trust in the economies, for instance whether or not the economy of Cyprus can sustain its progress without collapsing. There is no trust that the European economy will move ahead without collapsing. When there is no trust, the financial convergence changes greatly. Therefore, it's very important to base our economic management on modern technological tools and necessary data. Even a small economy cannot remove itself from this.

For instance behind our economy, as explained by the Governor of the Central Bank, money exchange is taking place at a very large scale. Daily, there is foreign currency flowing in, sometimes through the stock market and loans, and we pay debts as well. Daily financial business occur on a massive scale. All of this happens on the basis of our forecast data, financial security and policies. That's why the main objective of this report is mainly targeted towards sustainability or security; how to maintain this success and progress further. Some countries show great progress for a few years, but they can't sustain it and return to an economic crisis.

A positive attribute of our country that the world has acknowledged as well is that, within policies, investments and performance, we have a progressive environment that we can move forward in. In this context all of us can decide on facts and figures how our economy will progress. Take the progress we've made in our GDP, last year it was 6.4 percent, the year before that 8.3 percent, and eight percent before that - approximately we have a growth rate of 6.5 percent on average. These are very

good figures. When we decreased our GDP growth from eight percent to six percent, China and India have decreased by about two to three percent. Our targets were higher than the targets set by India, India has reduced their targets to five percent.

Policies, Should Be For Sustainable Development And An Economy Where Everyone In Society Can Benefit. We Are On That Path. Specially Poverty Has Declined Over The Years.

First we must consider these three factors. One is whether our policies are in place, second is if our investments are accordingly in place and thirdly if our performance is right. Only by completing all of these factors can we achieve economic growth.

These policies, should be for sustainable development and an economy where everyone in society can benefit. We are on that path. Especially poverty has declined over the years. And as the honourable Secretary pointed out, the Millennium Development Goals globally demonstrate indicators that eliminate poverty and develop society. I recently saw in an international paper that although Sri Lanka is a third-world country, we have targets set by first world countries. Today, if we take the life expectancy of America, Europe and Sri Lanka it's all the same. That's a huge difference. In the past we had a life expectancy of 55-60, and today it's 77. Today in Asia and Africa, when we consider infant mortality, our country has levels comparable with Europe and America. So Sri Lanka is a country that has first world social factors.

Especially we should focus on investments, one is what we get from tax. One thing I should mention is that, our income tax was detailed before. Especially the way our income tax is classified, some factors that were in income tax field in the past have been classified as something else and resulted in a shortcoming in our tax collection. We can see this in the comparison of data. Therefore, what we are doing here is important. Through these statistics and data, we give a clear message to the Parliament on one hand, the Government on another and also international financial institutions that substantiate the progress of our country. If you look at the world they all have rating agencies, not only to communicate the country's economic state, but also institutions are rated.

Something we rarely tell the country is that we receive a great advantage in every sphere, thanks to the economic development. For instance, insurance, may it be public sector or private sector, when we export goods, we needn't pay the insurance rates (premiums) we paid during the war times. Today the percentage is much less. Other taxes and international bonus payments we make provide much relief because of the progress of our economy.

As the Governor of the Central Bank has explained in his report, the demand for our bonds has increased. Previous bond issue was a billion dollars and now it has increased by tenfolds. We can even go for ten billion dollars as per the demand. The interest we give the bonds have also reduced when we compare with the past. So this report and the report given by the Central Bank represents the bigger picture and it's a very good picture. It is something that we can give to the world, the World Bank and Finance Ministry can utilise it and is very advantageous for our economic process.

Finally I have a duty to thank the Secretary of the Treasury, P B Jayasundera and all other officials, for the fulfillment of their duties. I know very well the hard work and commitment that was invested in this. Every department in the Government has contributed to this success story and it's critical that we embrace technology and accept new concepts and principles, because as we progress we will reach a point where we can develop a very efficient culture. I see this as a giant step in the right direction. I would like to extend my thanks to everyone in the Ministry of Finance and all other officials.

President Mahinda Rajapaksa
Minister of Finance and Planning

I believe it has been discussed at length today – about the economy, development and tax policy in the country. I thank the Finance Ministry and recognise the fact that in the past Annual Reports were not provided. We have become very transparent. During these seven years, the Finance Ministry not only completed their responsibilities honestly, but presented their Annual Reports in a very transparent manner.

Annual reports of some ministries were not given in 10-15 years in the past. After

we came, every ministry presents their annual report. Some criticise that there is no transparency. However, time and again we have had discussions with the general public on everything that we do.

During the time of the budget preparation and when we discussed about the country's economy, looking at the audience even today, I see that all levels of society are here in the presentation of this Annual Report. I have seen these faces in the preparation of the budget as well. We have taken the collective ideas from various levels - farmers from remote villages, business people, self employed people and more - to take steps that suit all levels of society. We see this as a new tendency. It is because of this tendency that today many political analysts, economists and various others, declare that by April the Government will fall apart and the economy will deteriorate. They always say that the Government cannot be taken forward beyond that point. I too waited till April last year. We have passed the month of April this year as well. Therefore, I believe when you see the bigger picture and fully understand what is happening in the country, and be aware of the realities it is best for everyone.

We ended a 30 year terrorist threat and are in the process of developing the country. We are going forward while strengthening our economy, raising the standards of living, working towards alleviating poverty and taking the necessary steps to move forward. Some see the infrastructure facilities today as a waste. There is a negative perception in everything and they do not appreciate anything.

When a port is built, why a port? Where are the ships for that port? They ask if there are so many ships in the world. It is the same when an airport is built. They ask whether someone else should go to chase the birds away and say that still there is not enough traffic.

Do we only have to think of the economy today? Don't we have to live today and think of tomorrow as well? Why are we so selfish? When we think of the country, when we think of the development of the country, the economy of the country, we not only have to think of today, but for the children that are yet to be born as well, in order to build the country for them. That is where we should reach. What we are doing today is with their future in mind as well.

When We Try To Obtain A Loan For Development Work Of The Country, They Strike In Front Of Banks Saying Not To Give Loans. They Say Not To Give Aid. They Say That Human Rights Are Violated. These Kind Of Hindrances Were Created. It Was The Same During The War. We Have To Continue On Our Journey Through These Obstacles.

We are happy that we came forward and presented the Mahinda Chinatana during the time of the elections. After we won the election, we did not discard that. We started to carry out the tasks and policies detailed in it for all Government departments.

Various obstacles come our way. When we try to obtain a loan for development work of the country, they strike in front of banks saying not to give loans. They say not to give aid. They say that human rights are violated. These kind of hindrances were created. It was the same during the war. We have to continue on our journey through these obstacles, a journey of economic development and the country's development. At one point, people said that there is no development to be seen or felt.

Maybe some don't see the development, because when they travel on the roads now they don't fall into pot holes. Today the roads have been built. The ports have been built. For investments, those days we imported everything. But today we are manufacturing. Today the country is self sufficient in rice. We worked on developing the village, family and growing home gardens. We are acting today with the experiences that we gained during many eras under the policies of different rulers. When we look at taxation, some are not paying taxes now. They avoid paying taxes. They give various reasons for that. There are problems that have to be faced when paying taxes. There is a saying for that in our villages, that goes as 'take the nectar without damaging the flower'. We have to take a similar approach in the case of collecting taxes as well.

When we put this programme into action, we can move forward with the people. Today, we can see that we are going in search of new markets. For not just exports, for imports as well we are going into agreements with countries like China - free trade agreements. People of our country, the business people and industrialists in

the private sector must be prepared for that. Don't take the profits from these to overseas banks. Bring them here. There are no restrictions for that now.

The right to free expression is there. We are always ready to respect your ideas.

Our thanks go to the Secretary of the Finance Ministry and all officials who were committed in presenting the Finance Ministry Annual Report.

May you have a Bright Future!







