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## **Sri Lanka: Recent Economic Developments**

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SRI LANKA

**Recent Economic Developments**

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Approved by the Asia and Pacific Department

July 13, 1998

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## I. INTRODUCTION

1. Over the last two decades, Sri Lanka's economy has grown at an average of about 4 percent per year, with erratic performance from year to year. While progress has been made in increasing the outward orientation of the economy since steps toward market liberalization were initiated in 1977, several significant macroeconomic and structural constraints continue to hamper economic performance. These include low rates of savings and investment—with limited domestic resources absorbed by persistently high fiscal deficits—and rigidities in the labor market. Fiscal consolidation has, in turn, been slowed by delays in addressing the need for fundamental structural reforms in the areas of civil service and pensions. Finally, inefficiencies in the banking system have also been a drain on public finances (in order to recapitalize state banks), and have reduced the overall effectiveness of financial intermediation.
2. The on-going civil conflict continues to absorb the attention of policy makers and to affect economic performance. Meanwhile some progress has been achieved in re-establishing normal life in the North and the government continues to focus on forging a domestic political consensus on the greater devolution of authority as a means of resolving ethnic tensions.
3. After slowing to 4 percent in 1996, economic growth recovered to 6½ percent in 1997. The slowdown in 1996 had been mainly due to a severe drought which affected the agricultural sector and disrupted the power supply, affecting manufacturing and other economic activity. A deterioration in the security situation had also reduced business confidence and tourism, though manufacturing exports had continued to grow. The recovery in 1997 was strongest in agriculture and manufacturing, supplemented by continued good performance in the services sector, including a rebound in tourism. In addition, significant accomplishments were achieved in economic restructuring, including several successful privatizations and an initial step toward fiscal adjustment.
4. This paper provides background information on economic developments and key policy issues. The main economic developments in 1997 and the first quarter of 1998 are discussed in Chapter II. Sri Lanka's recent experience in trying to sustain its history of strong performance with respect to social issues is discussed in Chapter III. Background information on key policy issues facing the authorities are elaborated on throughout the paper in the form of text boxes and more detailed annexes. These topics include labor market reform, the pension system, the size of the public sector, the privatization program, and banking system soundness.

## II. RECENT ECONOMIC DEVELOPMENTS

### A. Real Sector<sup>1</sup>

#### Growth, saving, and investment

5. Sri Lanka's economic growth rebounded to 6.4 percent in 1997, from 3.8 percent in 1996, spurred by a strong recovery in the output of some traditional agricultural products (tea and paddy production); higher output and exports of manufacturing products (textiles and garments), and continued good performance in the services sector (electricity, telecommunications, and tourism). Preliminary indications suggest that the real economy grew by 5.8 percent in the first quarter of 1998, reflecting broad based growth across most sectors of the economy, especially services and manufacturing.

6. Gross domestic savings increased to 17.3 percent of GDP in 1997, from 15.3 percent in 1996, as a result of increased private transfers from abroad, faster growth in real incomes, and higher corporate savings, as well as less negative public savings, following reductions in current expenditures. With respect to capital formation, the share of gross fixed investment in GDP remained at about 24 percent of GDP. While private investment increased from 18 percent of GDP to 19 percent of GDP, because of higher imports of investment goods and a recovery in the stock market, this was offset by a decline in public investment, reflecting binding capacity constraints and the slow rate of implementation of the development budget.

7. As a result of these developments, the savings–investment gap narrowed from 5 percent of GDP in 1996 to 3 percent of GDP in 1997. Reliance on foreign savings was halved to 3 percent of GDP, on account of strong export performance, higher transport and travel receipts, and lower interest payments.

#### Sectoral developments

##### *Agriculture*

8. Agricultural output, which accounts for over 20 percent of GDP, increased by 3 percent in 1997, mainly reflecting increased production of tea, a recovery in paddy production, and a rebound in fish catch. The increase in coconut production was modest, while rubber production fell in response to lower prices.

9. The output of tea rose sharply during the year on account of continued increases in prices and a favorable supply response to the recent privatization of several tea plantations. The average Colombo auction price rose by a further 15 percent in 1997, following a 44 percent increase in 1996, while the average export price rose by 6 percent in U.S. dollar

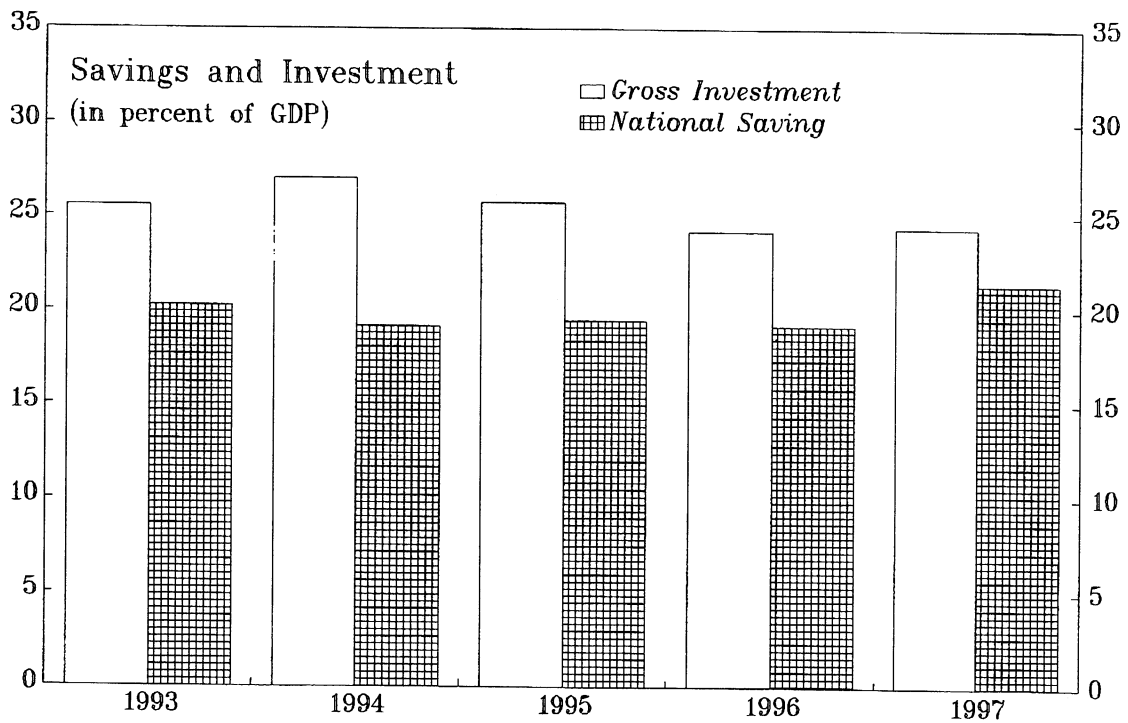
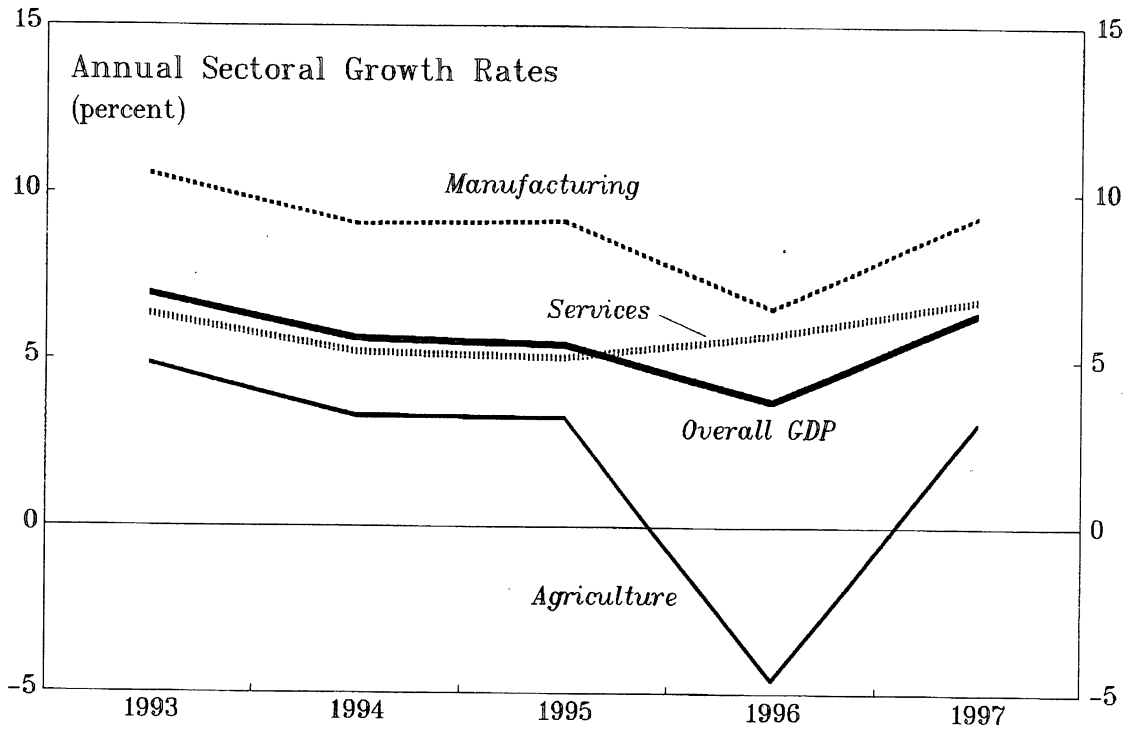
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<sup>1</sup>See Appendix Tables 11 to 23, and Charts 1 and 2.

CHART 1

SRI LANKA

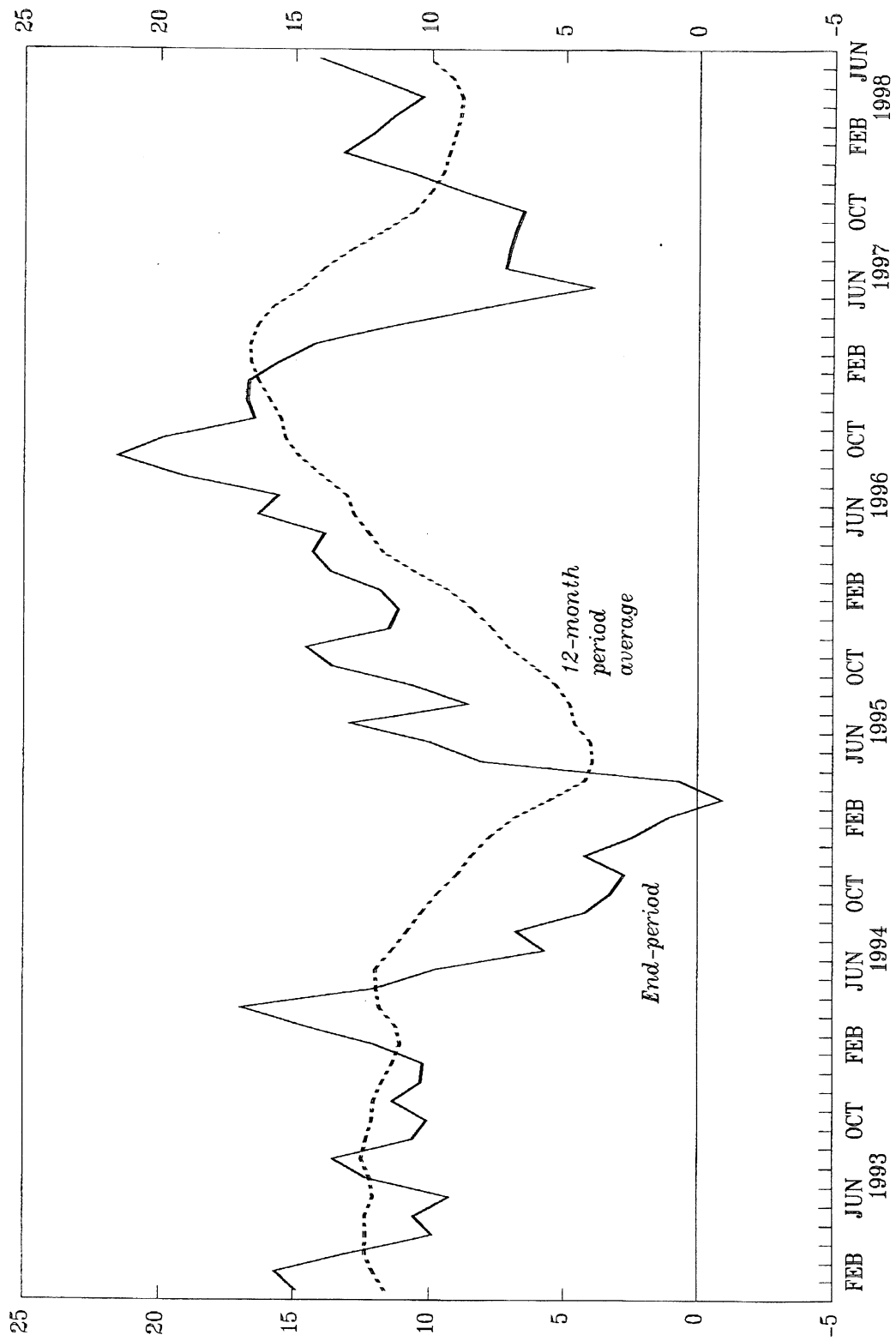
REAL SECTOR DEVELOPMENTS, 1993-97



Source: Information provided by the Sri Lanka authorities.



CHART 2  
SRI LANKA  
INFLATION, 1993-98 1/  
(In percent)



Source: Information provided by the Sri Lanka authorities.

1/ Colombo Consumer Price Index.

terms, partly owing to a drought in Kenya. As a result of these higher prices, and a slower increase in the cost of production following efficiency improvements, overall tea production increased by 7 percent over the previous year's peak output.

10. Though yields did not recover to the high pre-1995 levels, paddy production rose sharply (9 percent) on account of increased fertilizer use and favorable weather conditions during the two harvesting seasons.<sup>2</sup> Fish catch increased during the year on account of the partial reopening of sea fishing areas in the North and East, and an expansion of inland fisheries. Coconut production recovered slowly from the impact of the drought in 1996, and increased by only 3 percent over the year as a tight supply situation in the first few months of the year was offset by higher production in the second and third quarters. Rubber production declined by 6 percent, owing to the combination of a decline in prices, which affected the profitability of the sector, labor shortages—as producers were unable to pay competitive wages—and heavy rains toward the end of the year, which prevented tapping.

11. The production of other agricultural crops was mixed. Output of peppers, cloves, cinnamon, and citronella all increased, while production of subsidiary food crops, such as chillies and potatoes declined, as the removal of licensing restrictions on these items in 1996 led to higher imports during the year.

#### ***Mining and quarrying***

12. Production of quarrying products (bricks and tiles) increased by a modest 3 percent in 1997, despite the rebound in construction activity. However, exports of gems and semi-precious stones slowed sharply in the second half of the year, in response to the drop in demand from Japan and other countries in the wake of the East Asian financial turmoil.

#### ***Manufacturing***

13. Manufacturing output increased by 9 percent during 1997. This reflected, for the most part, continued expansion of the textile and garments sector, which grew by 19 percent in 1997. The industry raised its share in GDP to 5 percent from 4½ percent in 1996, following better quota utilization (to the U.S.A.) and continued increase in demand for Sri Lanka apparel and textiles from countries outside the quota system. In addition, the production of many other industrial items, such as plastics, paints, milk products, processed tea, beverages, sweets, meat products, electrical items, batteries and rubber products also showed high growth rates. Finally, manufacturing production was also boosted by a 44 percent increase in financing from the National Development Bank (NDB) and the Development Finance Corporation of Ceylon (DFCC), and, in part, in response to an increase in the number of companies eligible for investment incentives, mainly in the form of income tax and import duty concessions.

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<sup>2</sup>These are the Maha (October–April) and the Yala (April–October) harvests. The Maha is the major harvesting season.

## ***Services***

14. The services sector continued to grow steadily during the year, spurred by higher output in the electricity, telecommunication, and tourism sectors, along with increased activity in port services.

15. In the power sector, the addition of thermal power capacity raised the overall power-generating capacity of the national grid by 13 percent in 1997, and reduced its reliance on hydro power from 81 to 71 percent, thereby improving the availability of supply. The telecommunication sector continued to expand rapidly—by 33 percent—through improved performance by Sri Lanka Telecom Ltd, following the sale of a 35 percent share of Sri Lanka Telecom to Nippon Telegraph and Telephone Corp. (NTT) of Japan for \$225 million, and increased private sector participation. In particular, the number of new telephone connections surged during the year, to more than 70,000; the largest increase in any single year, and equivalent to 23 percent of total existing land telephone lines in the country.

16. The tourism sector recovered during the year as tourist arrivals increased by 21 percent over 1996, reaching 366,000. As a result, the average room occupancy rate in graded hotels rose from 39 percent to 48 percent, and gross earnings from tourism increased by 26 percent to US\$ 209 million. Preliminary figures on tourist arrivals indicate a small annual increase in the first four months of 1998. Port services continued to expand in 1997, although container handling facilities, especially in the Port of Colombo, reached full capacity. In particular, transshipment container handling, which accounts for about 75 percent of total container handling, rose by a further 26 percent in 1997, following a 40 percent increase in 1996. In response, the government formulated a National Ports and Shipping Policy during the year, which seeks to elevate Sri Lanka to the position of the premier shipping center in South Asia, with Colombo operating as the hub port. The main initiatives under this new policy include the development of container handling capacity at the Port of Colombo; infrastructure development of secondary ports; and greater involvement of the private sector in providing ancillary port services to enhance efficiency and productivity.

## **Prices, wages, and employment**

### ***Prices***

17. All four main aggregate price indicators, as measured on an annual average basis, indicate that inflation declined in 1997, mainly as a result of improved supply conditions. The Colombo Consumer Price Index (CCPI), which is compiled by the Department of Census and Statistics (DCS) and which acts as the official measure of inflation, increased by 10 percent in 1997, down from 16 percent in 1996,<sup>3</sup> while the Greater Colombo Consumer

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<sup>3</sup>Deficiencies in the CCPI, stemming from an outdated consumption basket and system of  
(continued...)

Price Index (GCPI), also compiled by the DCS and which has a wider coverage than CCPI, increased by only 7 percent in 1997, less than half the increase of the previous year. The higher inflation rate indicated by the CCPI could be attributable to the different weighting structure of the two indices, as administered prices and items such as vegetables, both of which registered sharp price increases during the year, have relatively higher weights in the CCPI. The two indicators compiled by the Central Bank of Sri Lanka (CBSL) also show inflation declining in 1997. The Wholesale Price Index (WPI) increased by 7 percent in 1997, sharply down from 21 percent recorded in 1996, reflecting lower increases in the price of tea and declines in the prices of rubber and coconut, all of which have high weights in the index. The GDP deflator indicates an inflation rate of 9 percent in 1997, down from 12 percent in 1996, partly reflecting a continued improvement in the terms of trade.

18. As indicated by the CCPI, the decline in average inflation relative to 1996 was attributable to sharply lower increases in the prices of fuel and food items, mainly due, respectively, to the decline in imported prices and an improvement in the domestic supply situation. In particular, prices of major subsidiary food crops, such as chillies, onions, and potatoes, declined during the year following the removal of licensing requirements in 1996. However, on an end-of-period basis, the decline in inflation was uneven, as the sharp decline of inflation in the first half of 1997 was partially offset by the resurgence of inflationary pressures in the second half of 1997, following the relaxation of monetary policy at the beginning of the year; increases in the administered prices of wheat flour, electricity, and cigarettes towards mid-year; and heavy rains in the last two months of the year which affected the supply of rice and vegetables.

19. As a result of some monetary tightening toward the end of 1997 and improved supply conditions, average inflation continued to decline in the first four months of 1998. The CCPI index declined to 8.9 percent in April, but rose to 10.1 percent by June, owing, in part, to continued excess liquidity in the banking system and to some effects from the introduction of the Goods and Services Tax (GST) on April 1. On a twelve-month basis, CCPI-measured inflation reached 14 percent by end-June.

20. The DCS is working to finalize, by end-1998, a new consumer price index based on the consumption patterns in the Greater Colombo Area, as recorded in the latest Labor Force and Socio-Economic Survey of 1995/96. In the meantime, the CBSL intends to revise the WPI and is also preparing, for publication by end-1998, a new CPI index which uses the consumption pattern of a sample group taken from the lowest 40 percent of households ranked by income. The new index aims to measure underlying inflation. It assigns a lower weight to food items than the CCPI (60 percent versus 72 percent), and uses more recent base weights (average of October-December 1996). However, it excludes the effects of the changes in administered prices, including those of wheat flour, bread, kerosene, electricity,

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<sup>3</sup>(...continued)

weights, make it difficult to get a precise picture of inflation developments.

transport fares, cigarettes and liquor, which together account for a significant share of the consumption basket.

### *Wages*

21. In 1997, the government took the first step in a major overhaul of public sector salaries by accepting the recommendations of the Salaries Review Committee. The new salary scales recommended by the committee were consolidated, incorporating all allowances paid hitherto to each service post or grade. In the first phase, 40 percent of the proposed increase subject to a minimum of Rs 325 was paid with effect from January 1, 1997. The balance of the payment was effected on January 1, 1998 for employees at the low end of the pay scale, with the others deferred until July 1998.

22. As a result of these developments, wages of public sector employees increased by 11 percent in 1997. Given an inflation rate of 10 percent, this increase represents a real wage improvement of around 1 percent, compared to 3 percent in 1996. In the organized private sector, minimum wages applicable to several wages boards were revised upwards by 6 percent in 1997 compared to 8 percent in 1996. In the unorganized sector, nominal wages increased significantly, by 9–19 percent, for most activities, including building construction, paddy, tea and coconut cultivation.

### *Labor and employment*

23. The unemployment rate<sup>4</sup> declined to 10 percent in 1997 from 12 percent in 1996. The Sri Lanka economy generated about 75,000 additional employment opportunities, mainly from increased activities in the private sector fields of computer, electronic media, and financial services. As in previous years, Board of Investment (BOI) companies contributed to a major share of new employment creation during the year. Continuation of high migration for foreign employment also appeared to be a major contributory factor to the slow growth of the labor force and decline in unemployment (over 1 million Sri Lankans work abroad).

24. Total public sector employment is estimated to be 1.1 million in 1997, indicating a decline of 8 percent over 1996. This was solely due to a decline of 24 percent in the employment of quasi-governmental institutions. The transfer of 22 plantation companies in 1997 to the private sector under long-term lease agreements, coupled with the public sector reform policies, led to the decline. However, employment in the government sector, which includes the central government, provincial councils and local authorities, registered a 1 percent increase in 1997—largely among clerical, administrative and managerial workers.

25. As regards the domestic labor market, 1.2 million people are unemployed and seeking jobs. Most of them are highly educated, but they do not have the appropriate skills for

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<sup>4</sup>Defined as the number of unemployed people as a percent of the total labor force.

employment in the business sector, and need more technical education. The Ministry of Vocational Training was set up to provide such services.

26. Existing labor laws and the apparatus for dispute resolution in Sri Lanka are not well-adapted for a modern, market economy.<sup>5</sup> The two major regulations that continued to impede the flexibility of employment termination are the Termination of Employed Workmen Act and the Gratuity Act. Under these laws, employers (with 15 or more workmen working for five years or more) must seek prior permission from the Labor Commissioner before terminating employment. Compensation is often costly and the arbitration procedure conducted by the Ministry of Labor is fraught with long delays and high administrative costs. As a result, labor disputes in Sri Lanka have, to a large extent, been caused by the poor quality of the dialogue between employers and employees. Strike action is, therefore, usually taken to get the government involved in resolving the differences. In 1997, a total of 156 strikes were recorded both in the plantations and other parts of the private sector, which was, however, a decrease from 224 in 1996.

## **B. Public Finances<sup>6</sup>**

### **Structure of the public sector**

27. The public sector in Sri Lanka comprises the government, public enterprises, and a wide range of public institutions. The relative size of the public sector in Sri Lanka has historically been large, dating back to the large-scale nationalization of many industries in the 1970s. In recent years, there has been a moderate decline in the size of the public sector owing primarily to recent successful divestitures of public enterprises.<sup>7</sup> The central government includes the presidential secretariat, the parliament, the judiciary, and 28 line ministries. In addition, several other departments and agencies are covered by the central government budget. Provincial councils form the next level of government, which are district, municipal, urban, and village councils. The lower levels of government provide financial, technical, and other services, and oversee the implementation of social development projects. A major focus of the government's efforts on constitutional reform will involve the devolution of significant responsibilities to the provincial councils. To ensure the overall efficiency and accountability of fiscal operations, this exercise will require improvements in the administration of the budgetary process and increased transparency in the relationship between the central government and lower levels of government, including through the presentation of sufficient detail on the revenue and expenditure of lower levels of government.

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<sup>5</sup>See Annex I for details on labor market issues, including legislation.

<sup>6</sup>See Appendix Tables 24 to 31 and Charts 3-5.

<sup>7</sup>See Annex II.

## **Overall direction of fiscal policy and adjustment**

28. Persistently large budget deficits, often exceeding 10 percent of GDP, have been a major problem in macroeconomic management in Sri Lanka for more than two decades. Despite several attempts, sustainable progress has not yet been achieved. The adjustment that was achieved during earlier efforts was often at the expense of development spending while large current account deficits persisted. Factors that contributed to the past failures at fiscal adjustment include: (i) spending pressures created by the on-going civil conflict; (ii) reliance on short-term once-and-for-all adjustments to limit the deficit at the expense of longer-term improvements in the structure of the budget; (iii) adoption of off-budget spending units, public enterprises, and government guarantees to carry out quasi-budgetary operations; and (iv) lack of expenditure control and proper management of government expenditure programs.

29. The most recent effort to address these long-standing fiscal issues was initiated in late 1994 with a new government. The underlying philosophy was contained in the President's policy statement of 1994, which concentrated on improving the efficiency of the public sector, reducing the fiscal deficit on a sustainable basis, and also contained a firm commitment that the government would retreat from the production and distribution of marketable goods and services. While much of the job remains to be done, this renewed effort has succeeded in reducing the overall deficit from 10½ percent of GDP in 1994 to 8 percent of GDP in 1997 (6½ percent of GDP budgeted for 1998) with a firm commitment to further reduce the deficit to 4 percent of GDP by 2000. The deficit excluding defense expenditure declined from 6 percent of GDP in 1994 to 3 percent in 1997.

30. The main policy measures associated with this effort have included:

a. Measures to improve the structure and buoyancy of the tax system. These included a widening of the tax base by bringing public corporation employees and other entities that were previously outside the tax system under income taxation; rationalization of excise taxation on key commodities; introduction of a motor vehicle tax; application of a standard National Security Levy on the basis of turnover and imports (with a concessionary rate on capital goods); periodic revisions on administrative fees and charges in line with inflation; conversion of stamp duty on trade documents to an ad valorem rate; increased social security contributions on an ad valorem basis; measures to improve the recovery of interest and loan repayments and increase profit dividends from public enterprises; and the introduction in April 1998 of a single rate goods and services tax (GST) on a value added basis to replace the business turnover tax (see Box 1). At the same time, customs tariffs and income tax rates have been simplified and lowered in order to give a boost to private sector development. Several specific industrial incentives for priority sectors have also been introduced.

### Box 1. Sri Lanka: Goods and Services Tax (GST)

Sri Lanka introduced a Goods and Services Tax (GST) on April 1, 1998, replacing the Turnover Tax (TT). As a transitional measure, some remnants of the TT continue in order to maintain the revenue yield (e.g., in the financial services sector). The GST is a derivative of a Value Added Tax and applies to all imports, manufacturing and service sectors. Wholesale and retail trading is in theory excluded from the scope of the tax but if such trading is combined with import or manufacture, registration is mandatory. Registered taxpayers may opt to pay GST on wholesale and retail sales but they must also pay Turnover Tax, normally 1 percent, to the Provincial Council. As a result of this option, the base of the GST may cover 60 percent of trade down to the retail level.

The GST was introduced with a single rate of 12.5 percent and a registration threshold of 1.8 million rupees per annum. Zero-rating applies to exports of goods and a narrow range of services, including international transportation of goods and passengers. Exemptions are wide ranging and apply to health care; education; public transport; the financial services sector; the primary produce of agriculture,<sup>1</sup> horticulture, fisheries, animal husbandry and poultry; certain specified foodstuffs; and a number of major commodities (e.g., sugar, cement, gold, and precious stones).

The performance of the GST and the ability to generate revenue will be affected by the wide-ranging scope of the exemptions. Where a zero-rating, at export, overrides the exemption, it could lead to vertical integration in supply chains and distortions to competition. Moreover, some exemptions occur in the beginning or the middle of supply-chains and not at final consumption—as a consequence some cascading or non-recoverable tax will occur. The structure of the GST is not ideal but could be improved if exemptions were reduced and the GST extended to a full VAT.<sup>2</sup>

While some products such as oil, petrol, diesel and LPG are exempt from GST, they are subject to excises and price control. Although liability to GST would be preferable from a structure of the tax point of view this would decrease revenue receipts through increased input tax credits to GST registered businesses.<sup>3</sup> On the other hand, removing the exemptions from forestry, timber, cement and precious stones would generate revenue and increase the base of the tax. The exemption of cement increases costs for the construction industry and fails to raise significant revenue on domestic consumption. Exemption from GST on precious stones and precious metals removed an opportunity to police a largely non-compliant sector. This already gives rise to misdescription of type of supply and disaggregation of business activities in order to avoid GST.

Commercial transactions are somewhat complex because the GST exists alongside the National Security Levy, Stamp Duty and in some cases Provincial Council Tax. The National Security Levy was intended to be a temporary tax but the likelihood is that the revenue will be required for some years to come. Stamp Duty, on the other hand, is an anachronism which produces unnecessary bureaucracy and places substantial burdens on business in comparison with the revenue raised.

The Department of Inland Revenue administers the GST in Sri Lanka. The Provincial Councils collect Turnover Tax on wholesale and retail activity. There is, therefore, duplication of administration, producing unnecessarily high collection costs. The number of registered GST taxpayers is expected to exceed 10,000. In fact, the registration threshold may have to be increased so that the burden on the Department of Inland Revenue does not exceed their administrative capacity. In the future, more resources will also have to be devoted to audit systems and procedures.

<sup>1</sup>All processed foodstuffs are subject to GST.

<sup>2</sup>Extending the GST down to the retail level would require constitutional reform and revenue sharing with Provincial Councils.

<sup>3</sup>Taxing petrol and similar products would reduce the cost to industry but would tax consumption.



b. **Rationalization of government expenditure.** To control the growth in public emoluments (5 percent of GDP) the following measures have been implemented: introduction of a consolidated salary structure in order to monitor and control overtime and other allowances; a freeze on employment recruitment in government services; and increased scrutiny of the management of the cadre with a view to both current and future obligations (by way of pension). In addition, expenditure on non-priority items has been curtailed by adopting strict financial controls and improved management practices. For example, the use of unspent provisions and savings to accommodate other expenditure programs has been restricted to improve financial discipline in spending departments. Spending on welfare programs has been rationalized and brought under one overall program, and adjustments in the wheat flour price have eliminated a large subsidy element in the budget.

c. **Improvements in debt management.** Interest payments on domestic debt have become a major component of recurrent expenditure, representing 28 percent of total recurrent expenditure (6½ percent of GDP) during 1994–96. Reductions in the overall deficit, together with increasing receipts from the privatization program, allowed for a significant drop in domestic debt relative to GDP and have already reduced interest costs. In addition, steps have been taken to improve overall debt management through the retirement of short term debt and the issuance of medium term bonds, improved cash management, and restraints on short-term borrowing.

d. **Efforts to improve fiscal transparency.** Recent efforts to improve the conduct of fiscal policy have also included a cleaning of public accounts, rationalization of off-budget transactions; and the implementation of a new tender procedure to limit corruption and strengthen financial controls and accountability.

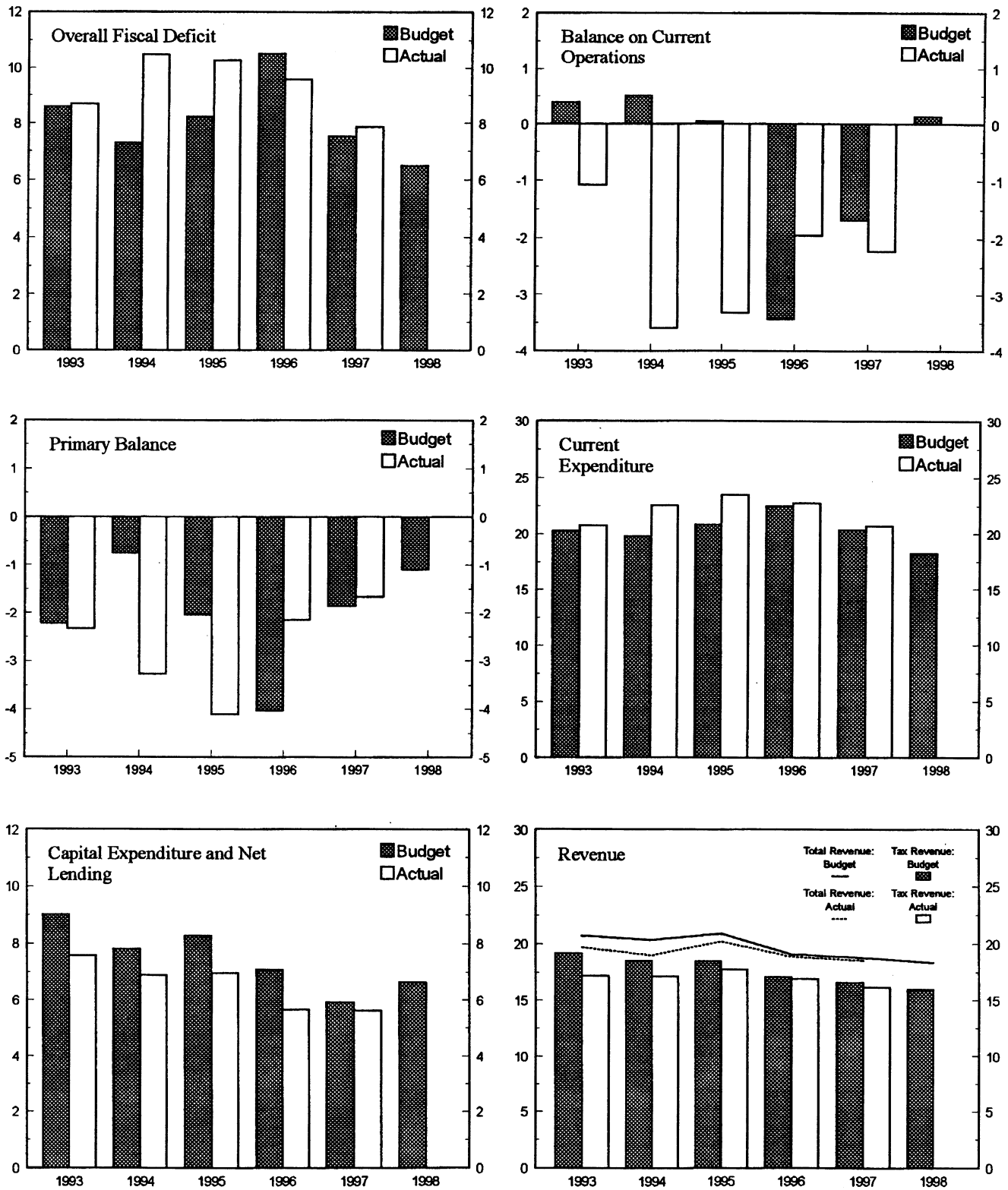
### **Budgetary developments in 1997**

31. The 1997 budget sought to contain overall expenditure, improve fiscal management, reduce the overall fiscal deficit to 8 percent of GDP from 9½ percent of GDP in 1996, continue the privatization program, and limit budget financing to noninflationary sources.<sup>8</sup> These overall objectives were largely achieved, but only at the expense of lower-than-budgeted development expenditure that more than offset a revenue shortfall. As a result, the current account deficit was only reduced from 4 percent of GDP in 1996 to 2¼ percent of GDP in 1997 compared to the budget target of 1½ percent of GDP. Higher-than-expected receipts from the privatization program (treated as financing) allowed government debt with the banking system to be marginally reduced, including a large repayment of Rs 10 billion to the Central Bank of Sri Lanka (CBSL).

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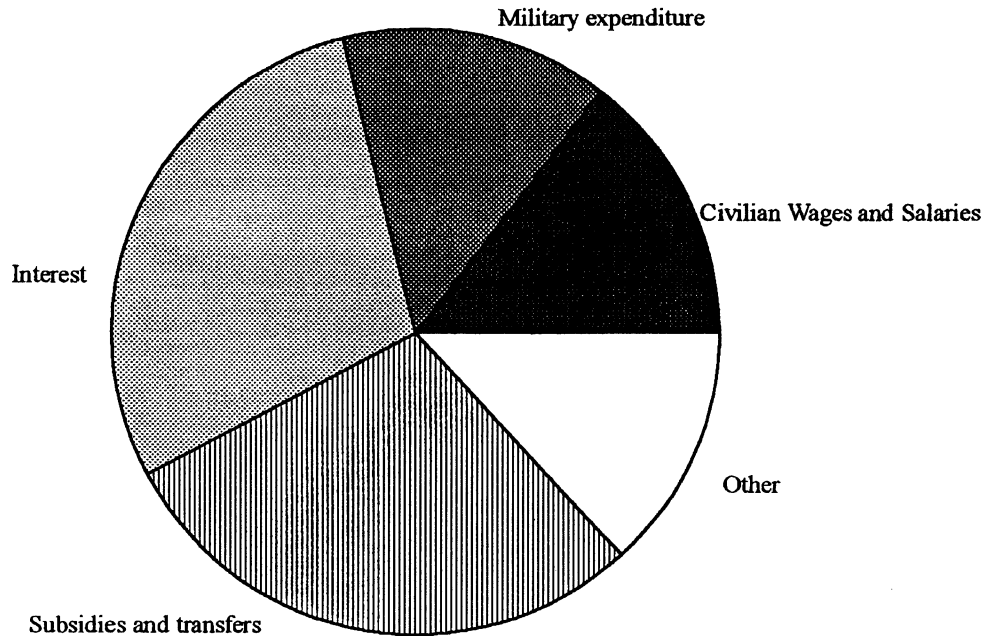
<sup>8</sup>See SM/97/182 p. 22 for a detailed listing of measures introduced in the 1997 budget.

CHART 3  
SRI LANKA  
FISCAL DEVELOPMENTS, 1993-98  
(In percent of GDP)

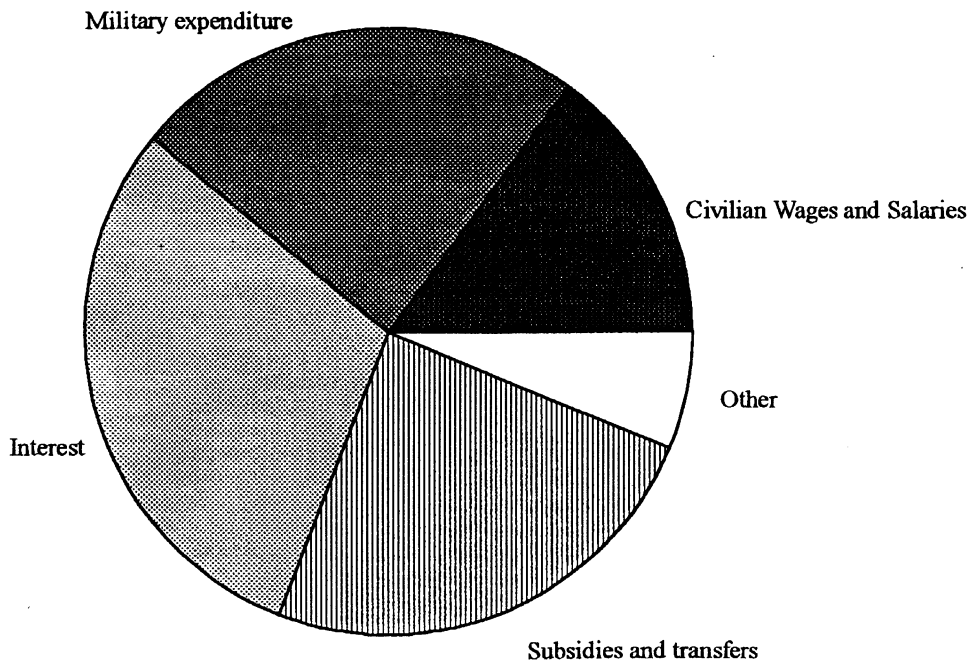


Source: Data provided by the Sri Lanka authorities.

CHART 4  
SRI LANKA  
COMPOSITION OF EXPENDITURE, 1990-97  
(In percent of current expenditure)



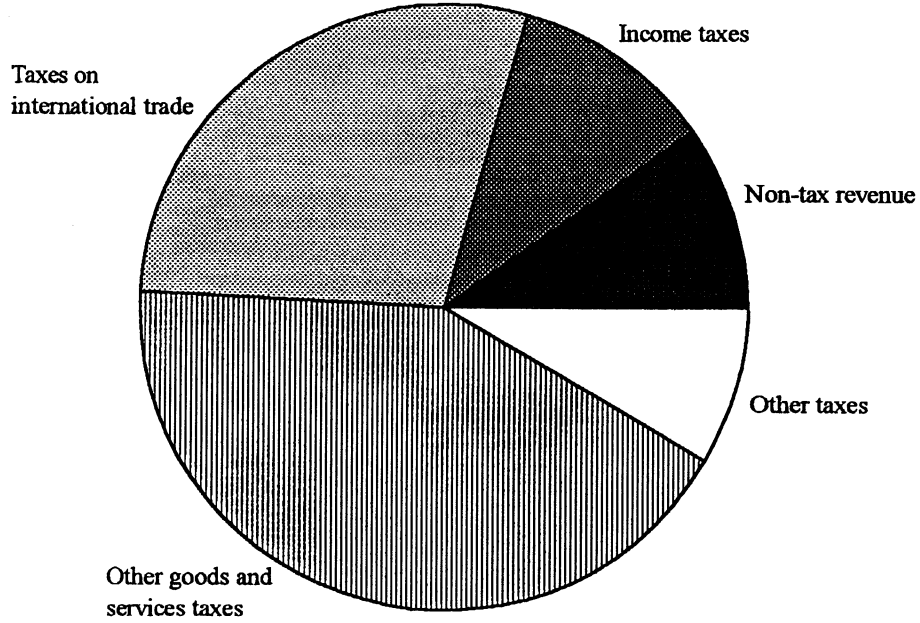
1990



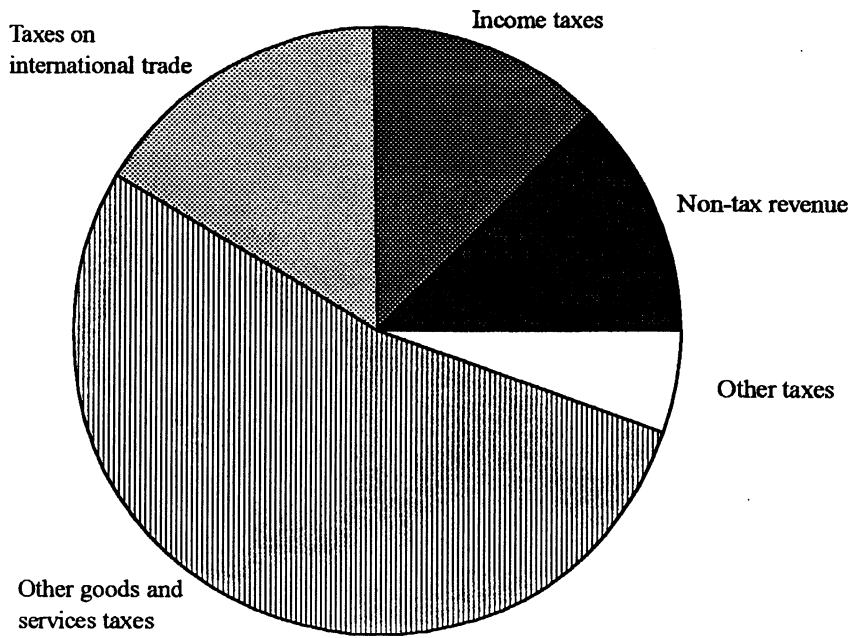
1997

Source: Data provided by the Sri Lanka authorities.

CHART 5  
SRI LANKA  
COMPOSITION OF REVENUE, 1990-97  
(In percent of total revenue)



1990



1997

Source: Data provided by the Sri Lanka authorities.

### *Revenue*

32. Total domestic revenues amounted to 18½ percent of GDP reflecting an erosion in revenue performance from the 20 percent of GDP recorded in 1995, and also less than the 19 percent of GDP envisaged in the 1997 budget. This shortfall was more than accounted for by tax revenue which fell to 16¼ percent of GDP in 1997. Foreign grants have been declining and amounted to only less than 1 percent of GDP in 1997.

33. The shortfall in tax revenue relative to budget estimates was largely on account of taxes on goods and services and, more especially customs duties. Income tax collections were as expected, declining in terms of GDP because of the increase in tax thresholds and a widening of the tax bands introduced in the 1997 budget. Indirect taxes now account for 86 percent of tax revenue as many sectors have been completely exempted from income taxes. Taxes on goods and services had been budgeted to increase to 10½ percent of GDP, but declined to 9¾ percent of GDP. Despite increases in excise tax rates, excise taxes on liquor were lower than expected (and lower than in 1996) because of a drop in production and sales. However, the primary shortfall was recorded in customs duties. These had been budgeted to increase slightly relative to GDP because of the introduction of a minimum customs duty of 5 percent on a number of products. The shortfall occurred despite an increase in import values by 15 percent because of duty waivers granted during the year. In particular, the waiver granted on petroleum products in January 1997 to improve the liquidity position of the Ceylon Petroleum Corporation (CPC) is estimated to have cost the budget about Rs 2 billion (0.2 percent of GDP) in revenue. In line with the reduction in dutiable imports, as well as the lower rate applied to imports of machinery, the National Security Levy also fell short of budget estimates. In contrast, non-tax revenue exceeded budget estimates owing to improved collection of interest, levies, profits, and dividends from public enterprises (primarily the CEB, NDB, Telecom, the state-owned banks, and the Ports Authority), and an increase in the contribution rate for the Widows and Orphans Fund.

### *Expenditure*

34. Total expenditure and net lending declined significantly during the last two years from 30½ percent of GDP in 1995 to 26½ percent of GDP in 1997. While there was some compression in capital expenditure and net lending, about three-fourths of this adjustment has been through lower current expenditure.

35. As had been budgeted, current expenditure in 1997 was reduced to 20½ percent of GDP from 22¾ percent of GDP in 1996. This reduction was primarily accounted for by lower defense expenditures, which declined in nominal terms, and lower subsidies and transfers. Defense, salaries, interest, and pensions now account for 80 percent of current expenditure. Additional compression of expenditure was achieved by imposing a 20 percent cut in nominal terms for other current expenditure on goods and services excluding those related to health and security. Items affected were expenditure for traveling, fuel and lubricants, office equipment, transport, communication and utilities, and other supplies.

36. The decline in subsidies and transfers primarily reflects the effective removal of the wheat subsidy following the adjustment in the wheat price in 1997, and better targeting of the fertilizer subsidy. The railway and the Postal Department continued to be the major public institutions incurring losses and requiring budgetary support. It was also noteworthy that domestic interest payments in 1997 declined to below 5 percent of GDP reflecting sharply lower recourse to debt financing in 1997 as well as improved debt management. Government salaries were kept in check at 5 percent of GDP, despite the acceptance of the recommendations of the salaries commission which were designed to correct distortions in pay relativities between civil service grades. The new salary scales were made effective, allowing for 40 percent of the increase to take place in 1997. The remaining increases took place in 1998.

37. The Samurdhi scheme was created in 1996 to consolidate several transfer programs (food and kerosene stamps and the Janasaviya program) into one program. In addition to Samurdhi, a few specifically targeted social transfers such as those related to the provision of school uniforms and textbooks have been retained.<sup>9</sup> As a result of consolidating these programs, the actual cost of social programs (excluding pensions and refugees) declined slightly relative to GDP in 1997. Overall savings on social transfers in 1997 were offset, however, by the need for increased transfers to refugees from the civil conflict in the north and for drought victims. Government transfers to pensioners remained at 2 percent of GDP in 1997, but the current structure of the pension system has substantial longer-term implications for government expenditure that will need to be addressed in coming years (see Box 2).

38. With respect to the functional classification of expenditure and in line with the overall reduction in total expenditure, expenditure on general public service, social services, and economic services have all declined in recent years. Defense expenditure is still relatively high at 4 percent of GDP but has declined from the peak of 1995–96. Despite expenditure reductions relative to GDP in other areas, expenditure on education and health has also declined from 4½ percent of GDP in the early 1990s to 4 percent of GDP in 1997. However, owing to cuts in other areas, expenditure on health and education accounted for 46 percent of expenditure on social services compared to 43 percent in 1996. (For a more complete discussion of social issues see Chapter III).

39. Capital expenditure and net lending of 5½ percent of GDP remained at about the same level as in 1996, but was short of the budget estimates of 6½ percent of GDP. This reflected lower on-lending to state enterprises. Capital expenditure, at 5 percent of GDP was also the same as in 1996, but below the budget estimates. The shortfall in development expenditure illustrated the significant underutilization of available foreign resources, which are mostly of a concessional nature. This was caused by delays in project implementation, particularly in port development, power, energy and telecommunication, owing to disputes at project

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<sup>9</sup>A detailed description of the social transfer system in Sri Lanka is contained in SM/97/182, pp. 130–8.

## Box 2: The Sri Lankan Pension System

**The impact of demographic ageing in Sri Lanka will be substantial.** It is projected that by 2025 Sri Lanka will have the third oldest population in Asia (after Japan and Korea). As a result of high life expectancy and a falling fertility rate, Sri Lanka may have already achieved below replacement fertility, and will be the only low- or middle-income country in the world to have an elderly population greater than 20 percent by 2025. (See Rannan-Eliya, et. Al., Institute of Policy Studies). Accordingly, the need to provide retirement income support will have serious consequences in the next two decades and beyond, and will become a growing social and economic issue.

The retirement income system consists of a pension scheme and provident funds. The only pension scheme is the **Civil Service Pension Scheme (CSPS)** which covers civil servants, the armed services, teachers, and provincial and local government employees. This is supplemented by a separate program that provides pension payments for widows and orphans of the above-mentioned groups, partially financed by employee contributions of 4-7 percent of salary. Mandatory provident fund schemes exist for other employees in the formal sector. The **Public Sector Provident Fund (PSPF)** is mandatory for those public sector employees not covered by the CSPS, and it is mandatory that every non-government employee in the formal sector participate in the government administered **Employees' Trust Fund (ETF)**, the **Employees' Provident Fund (EPF)** or another approved provident fund. The EPF and the ETF provide lump-sum benefits and do not contain a pension component. Outside the mandatory schemes, there are several government administered voluntary pension schemes that offer retirement benefits for farmers, fishermen, and the self-employed. These schemes require contributions of 3-6 percent of wages from members but a separate fund is not maintained. Both coverage and pension benefits offered by these schemes are marginal. New private pension or provident funds are banned pending the development of a new regulatory and supervisory framework.

**Structural reform of the existing retirement income schemes to facilitate increased coverage and sustainable financing has become imperative.** Less than half of the labor force is covered by the existing retirement income systems. The CSPS has relatively generous provisions and is largely unfunded. For the Provident funds have serious problems with administration and coverage.

While mandatory in principle, there has been large-scale evasion in terms of coverage of the EPF/ETF. The incentive to participate in these schemes has been limited by low returns. For example, it has been estimated that for the EPF, an employee that started work in 1960 and retired in 1995 would have received a negative real rate of return on their contributions (Rannan-Eliya et al.). Rules governing the different retirement income schemes also contribute to problems of labor mobility from the public sector to the private sector, affecting the ability of the government in effectively reducing the authorized cadre.

The generosity of the CSPS scheme derives from high life expectancy, the relatively young age at which workers can start collecting benefits, and political pressure for ad hoc increases in benefits to keep pace with wage and price inflation. In recent years the pension bill has been growing at about 15 percent per annum and stood at Rs. 18 billion (2 percent of GDP) in 1997. Pension benefits are in the form of monthly payments, a gratuity upon retirement, and disability insurance, and are not explicitly indexed to wages or inflation. The CSPS is funded by general tax revenues and makes payments which are calculated as 85-90 percent of the last drawn salary, after completing 30 years of service, with reduced benefits for years of service below 30, and a mandatory retirement age of 60. Based on the possibility of retirement from the public sector with full benefits as early as age 55, Sri Lanka has the second highest expected duration of retirement benefits in the world (22 years). A recent simulation model has estimated that if pension benefits are revised in line with government wages in the future as envisaged under current policy, costs will escalate to more than 5 percent of GDP purely as a result of population ageing.

implementing agencies and a lack of sufficient domestic funds to fully absorb foreign resources.

### *Financing and debt*

40. Net external financing of the budget amounted to only 1 percent of GDP, less than had been budgeted owing to the weaknesses in project implementation referred to above. Total domestic financing amounted to 6 percent of GDP; slightly more than the budget estimates. However, the composition of domestic financing was different than anticipated in the budget as receipts from the privatization program totaled Rs 22½ billion (2.5 percent of GDP), far exceeding the budget estimates. This allowed the government to make repayments on its outstanding debt to the banking system of about Rs 1 billion, including a Rs 14 billion repayment to the central bank.

41. Total central government debt increased to Rs 759 billion at end-1997, but continued its declining trend relative to GDP falling to 85 percent, compared to a peak of 97 percent in 1993. Outstanding debt is split almost equally between domestic and foreign debt, with most of the latter consisting of project loans on concessional terms. Foreign debt also reflects a small amount of commercial borrowing and suppliers credits, including money raised through a US\$50 million floating rate note issued in 1997. Three-fourths of domestic debt is held by the nonbank sector, mostly by provident funds, insurance companies, and other savings institutions. This proportion has increased in the last two years as the government has been able to reduce its reliance on financing from the banking system.

42. The government's objectives in the management of domestic debt have been to retire high-cost debt, move into medium and long-term borrowing, and rely more on market-based instruments. The reduction in the overall deficit, together with the existence of privatization proceeds, substantially reduced the domestic borrowing requirement in the last two years and enabled the government to repay some of its highest cost debt. The government has also started issuing treasury bonds with a maturity of 2-4 years to extend the maturity structure and eventually to act as a market-based instrument to replace the use of rupee loans with captive sources.<sup>10</sup> Despite these efforts, the placement of rupee loans with the Employees Provident Fund (EPF) and other captive sources continues to be the main source of domestic financing. The rupee loans issued in 1997 were at maturities of 2-8 years with an administratively set interest rate that generally moves in line with market developments and stood at 11-11½ percent at the end of the year. More treasury bonds are planned to be issued in 1998.

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<sup>10</sup>Reflecting these developments, the official ceiling on outstanding treasury bills was lowered in the 1998 budget from Rs 125 billion to Rs 115 billion.



## **The 1998 budget**

43. The 1998 budget was formulated in the context of the improved macroeconomic performance in 1997 and sought to consolidate these gains and help pave the way for accelerated growth in order to provide more employment opportunities for youth in the growing sectors of the economy. The budget is based on a further reduction in the overall fiscal deficit to 6½ percent of GDP to reduce inflationary pressures and contain the build-up in domestic debt. The budgetary strategy was also based on the targeting of priority sectors for incentives in order to encourage additional job generation. Key measures introduced with the budget are summarized in Box 3.

44. Revenue is projected at 18½ percent of GDP; about the same as that recorded in 1997 and ½ percent of GDP below the 1997 budget. The key structural measure on the revenue side was the introduction of the GST on April 1, 1998 at a standard rate of 12½ percent. Although it had been previously estimated that the revenue-neutral rate was 15–16 percent, the budget assumed no overall revenue loss would result from the GST because it would lead to improved compliance for other taxes.

45. Current expenditure was budgeted to fall by 2½ percent of GDP. The bulk of this adjustment was to be achieved by a relative decline in military spending (1 percent of GDP), a reduction in interest payments (½ percent of GDP), and lower subsidies and transfers (½ percent of GDP). The civilian wage bill was expected to remain at about 3 percent of GDP owing to a partial delay in the implementation of previously agreed salary increases until mid-year. Capital expenditure was budgeted to increase to 6½ percent of GDP.

## **Public enterprises**

46. The approximately 150 public institutions in Sri Lanka encompass a broad range of organizational forms, including commercial enterprises, boards, bureaus, authorities, corporations, agencies, and institutes. In 1997, the central government made budgetary transfers to about 75 enterprises, down from more than 100 in 1995. Total current transfers in 1997 amounted to Rs 5.4 billion (½ percent of GDP), compared to more than Rs 10 billion (1½ percent of GDP) in 1995 and 1996, while capital transfers were Rs 17 billion (2 percent of GDP). The largest recipients of current transfers were the Cooperative Wholesale Establishment (CWE), and the CEB. The largest recipients of capital transfers were the Road Development Authority, the Mahaweli Authority, the National Water Supply and Drainage Board, and the Sri Lanka Land Reclamation and Development Corporation.

47. The operations of a large number of public enterprises have been a major burden on the budget. Annual transfers to these enterprises have been large, and, as a whole, public enterprises have made inadequate contributions to government revenue. Despite the successes achieved by the privatization program (see Annex III), a large number of entities still engage in commercial activities in almost all sectors of the economy—the government presence is

### **Box 3. Sri Lanka: Key Measures Introduced in the 1998 Budget**

#### **Revenue measures:**

- Reduction in the corporate income tax to 15 percent for agriculture, fisheries, livestock, and tourism with effect from April 1, 1998;
- Introduction of a value added based goods and services tax (GST) at a rate of 12.5 percent with effect from April 1, 1998;
- Adjustment of selected turnover tax rates to ease the transition to the GST;
- Increased excise taxes on some products (cigarettes and liquor) to compensate for effective reduction of turnover tax rate with the introduction of the GST;
- Contingency to increase the National Security Levy (currently 4.5 percent) if defense expenditure exceeds Rs 45 billion;
- Extension of the Investment Tax Allowance for another 2 years (it had been set to expire at end-March 1998);
- Extension of fiscal incentives for advanced technology industries for another 2 years; and
- The import tariff structure was maintained but exemptions were announced for a number of products and industries.

#### **Expenditure measures:**

- 10 percent cut on recurrent expenditures other than salaries, pensions, and household transfers, applicable to all spending agencies, including public corporations, state banks and statutory agencies (except for the Ministries of Health, Education, and Defense);
- Enforce specific borrowing limits on public enterprises; and
- The approved increase in public sector salaries beginning in January 1, 1998 to be limited to those earning less than Rs 7,500 per month with the other increases granted on July 1, 1998.

#### **Debt management:**

- Reduce the authorized borrowing limit on treasury bills from Rs 125 billion to Rs 115 billion; and
- Replace Rs 16 billion in high cost rupee securities (issued in 1994 at 15-16 percent interest) with new treasury bonds at prevailing rates.

#### **Investment incentives:**

- 100 percent foreign-owned international reputable companies and franchises allowed into retail and wholesale trading with a minimum initial investment of \$150,000;
- Foreign participation in non-deposit-taking financial institutions allowed subject to approval by the central bank; and
- Various incentive programs were introduced for priority sectors (textiles, tourism).

especially significant in the services sector (including banking). Weaknesses include a lack of modern commercial and management practices, inflexible pricing and procurement policies, and inadequate capital investments. Efforts to reform enterprises and minimize government transfers to enterprises have involved adjustment of tariffs on electricity, postal services, water, telecommunication, and petroleum. On-going reforms include strategies to further improve efficiency through divestiture, corporatization of vital enterprises, and imposition of budgetary ceilings on transfers and prescribed limits on other borrowing to impose a harder budget constraint. Participation of the private sector in infrastructure development in areas such as telecommunication, power and ports are also being encouraged. For example, private investment in these areas over the medium term is projected to be around \$1 billion.

48. Despite some attempts at deregulation, monopolistic influences by government enterprises continue in many infrastructural services and commodity marketing, although some progress has been made recently. Imports of wheat grain and the internal distribution of wheat flour and several agricultural products remain under the monopoly of the CWE. The CPC remains the exclusive importing and marketing agency for petroleum and petroleum products. A deregulation program in 1994 eliminated commodity subsidies for wheat flour, fertilizers, and kerosene and introduced flexible pricing policies. However, subsidies were then reintroduced later that year. Adjustment in administered wheat prices in 1997, together with a decline in international prices, have eliminated the costly budgetary subsidy for wheat flour, although a flexible pricing policy has not yet been put in place. Declines in international petroleum prices have also eliminated subsidies for petroleum products (although a cross subsidy for diesel and kerosene remains). While no formal subsidy to the CPC was paid in 1997, concerns over its cash flow position led to the introduction of duty waivers for petroleum products, an implicit subsidy to CPC. Initial, but limited, steps to liberalize trade monopolies of major enterprises have been taken as the operations of the Paddy Marketing Board (PMB) have been discontinued, imports of wheat flour for industrial users are now permitted, and CPC has not expanded its network of retail outlets since 1994 with all new stations owned by the private sector.

49. The Public Enterprise Reform Program generated Rs 22½ billion in 1997, which substantially reduced the government's borrowing requirement. Most of the amount raised (Rs 13 billion) was from the sale of a 35 percent stake in Sri Lanka Telecom Limited. Other major divestitures in 1997 included the sale of convertible debentures of the National Development Bank (Rs 4½ billion)—the largest single public offering made through the Colombo Stock Exchange. Other revenues derived from the divestiture of 51 percent shares in each of seven plantations companies, further divestiture of minority shares in several other plantations, two salt companies and a ceramics company. Further divestitures are planned for 1998 (see Annex III).

## C. Monetary Developments and Banking System Soundness<sup>11</sup>

### Monetary policy and developments, 1997–98

#### *Monetary policy*

50. The objectives of monetary policy are to promote price stability, stabilize the external value of the rupee, and promote economic growth. Monetary policy is conducted through the CBSL, which is governed by a three-person Monetary Control Board (MCB) comprising the Governor, the Secretary to the Minister of Finance, and a third member appointed by the President. In addition to conducting monetary policy, the CBSL is also responsible for regulating the exchange rate, maintaining international official reserves, advising the Treasury on public debt management, and regulating and supervising commercial banks, finance companies, and specialized banks. While the CBSL operates with a considerable degree of independence from government, the representative from the Ministry of Finance retains, in certain cases, veto power over MCB monetary policy decisions, and government influence remains pervasive throughout the financial sector (see Box 4).

51. Over the last year or so, the CBSL has continued its gradual move toward indirect instruments of monetary control. In addition to formulating (though not publicly announcing) indicative monthly programs for reserve and broad money, from early 1997 the CBSL began to pay greater attention to other indicators, such as the overnight interbank interest rate and developments in the foreign exchange market. At present, the CBSL uses reserve money and short-term interest rates as its operational targets and conducts monetary policy principally through open-market type operations in domestic government securities (treasury bills with maturities of 3, 6 and 12 months and, since March 1997, treasury bonds, with maturities ranging between 2–4 years) in a bid to influence interbank interest rates and broad money growth in line with the desired monetary stance (see Box 5 for a brief description of available instruments). In practice, the CBSL creates a large demand for reserves through its relatively high statutory reserve requirements (SRR), and affects the level of reserve money through the amount of treasury bills it takes into its own portfolio at the weekly auctions, and the conditions it sets on transactions through the secondary window.

52. After focusing in the first three quarters of 1997 on supporting economic recovery, following the drought of the previous year, monetary policy was tightened in late 1997, following pressure on the exchange rate from events in neighboring Asian countries. Thus, in the first quarter of 1997, there was an orderly reduction in interest rates to help boost credit to the private sector and support economic recovery, which was reversed toward the end of the year, to preserve stability in the domestic financial market amidst external uncertainty in the wake of the East Asia currency crisis.

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<sup>11</sup>See Appendix Tables 32 to 39, and Charts 6 and 7.

#### **Box 4. Sri Lanka: Overview of Financial System and Pervasiveness of Government Influence**

The financial system of Sri Lanka is made up of the following five types of institutions:

- **Banking institutions**, comprising the Central Bank, 25 commercial banks (including foreign currency banking units (FCBUs)), of which 2 are state-owned banks, 6 are private domestic banks, and 19 are branches of foreign banks;
- **Deposit institutions**, comprising the National Savings Bank (NSB), 25 finance companies, and 8 Regional Development Banks (encompassing 17 Regional Rural Development Banks);
- **Long-term lending institutions**, comprising several development finance institutions, including the Development Finance Corporation of Ceylon (DFCC) and the National Development Bank (NDB), and 3 housing finance institutions (the State Mortgage and Investment Bank (SMIB), the National Housing Development Authority (NHDA), and the Housing Development Finance Authority (H DFA));
- **Contractual savings institutions**, comprising 6 insurance companies (IC), 2 government-sponsored provident funds for private sector employees (the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF)), and private provident funds; and
- **Specialized financial institutions**, comprising 5 leasing companies, 10 merchant banks, 7 venture capital companies, and a few unit trusts.

While considerable progress has been made over the years in laying the foundation for a modern financial system, the government continues to exert excessive influence over it, thereby impeding the country's growth potential. In particular:

The government continues to dominate the **banking sector**, despite the introduction over the years of new banks and branches of foreign banks. The 2 state-owned banks, which account for about 2/3 of banking system assets and liabilities, still do not operate on a fully commercial basis despite two recent recapitalizations. As a result, the quality of their loan portfolios has deteriorated and interest rate spreads remain large (see Section C). Moreover, the government continues to repress a market determination of savings rates by administering the deposit rates of the NSB, effectively setting a floor on deposit rates for the entire banking system.

The government requires some **nonbank financial institutions** to hold a specified amount of treasury securities in meeting their liquid asset requirements (almost 2/3 of total government debt is sold directly to such captive investors, including the NSB, insurance companies, and the two government-sponsored pension funds). While these fixed-rate, non-marketable securities ('Rupee loans') keep the government's cost of borrowing artificially low, they distort the allocation of savings to finance investment, and prevent the development of a secondary market in government debt. In addition, the recent decision to allow treasury bonds to be discountable (at a non-penal interest rate) and freely usable to meet the liquid asset requirement, could prevent the determination of a market-determined yield curve, which would provide a benchmark for the issuance of private debt securities.

### **Box 5. Sri Lanka: Instruments of Monetary Policy**

The Monetary Law Act provides the Central Bank of Sri Lanka (CBSL) with an array of instruments to influence the money supply, the availability of credit, and interest rates. In the last few years, the CBSL has continued its gradual move toward more indirect instruments of monetary control.

#### **1. Statutory reserve requirements**

Statutory reserve requirements (SRR) for commercial banks are uniform at 12 percent for rupee demand deposits, time and savings deposits, and foreign currency deposits not invested outside Sri Lanka (no currency matching requirement is applied). Foreign currency deposits held outside the country are not subject to SRR. Not less than 2 nor more than 4 percent of total deposits can be held in the form of vault cash, and holdings of treasury bills cannot be included in SRR. SRR are calculated weekly, must be maintained on a daily basis, and are not remunerated.

#### **2. Credit operations with banks, quantitative restrictions, and interest rates**

In the last few years, the CBSL has moved away from direct controls on credit or interest rates. In particular, while the CBSL can still provide credit to commercial banks through its lender-of-last-resort facility, its refinance facility has been gradually phased out, and all credit ceilings were removed in 1992. In addition, commercial banks are free to set their deposit and loan rates.

#### **3. Open market operations**

- **Repurchase facilities:**

Repurchase agreements or repos (selling treasury bills to absorb liquidity with the simultaneous agreement to repurchase them) were introduced in October 1993 in order to stabilize the lower end of the call market. Access is at the discretion of the banks but limited by the size of the CBSL's portfolio of treasury bills; the CBSL cannot for legal reasons do repos in its own securities. Repos are currently available with maturities up to 91 days, but in practice are mostly overnight. Reverse repos (purchasing treasury bills to inject liquidity with the agreement to resell) have been used in the past (e.g. November 1995), although such advances are subject to pre-specified limits.

- **CBSL secondary window:**

The CBSL stands ready to sell ("discount") and buy ("rediscount") treasury bills through its secondary window. Transactions are at a penalty interest rates, which are usually set once a week in reference to the relevant rates in the primary market. The CBSL increases (decreases) the spread depending on whether it wants to discourage (encourage) transactions.

- **Primary market:**

The CBSL organizes weekly auctions of treasury bills (and, since 1997, treasury bonds) on behalf of the government, mainly for government debt management purposes. Treasury bills have maturities of 3, 6, and 12 months, and are offered solely to 23 "accredited primary dealers," after first having satisfied the requests from the provident funds and the National Savings Bank on a noncompetitive basis. Treasury bonds have maturities ranging from 2 to 4 years. On occasion (e.g. 1997), the CBSL has also issued its own securities with maturities ranging from 7 to 28 days.

### *Monetary developments*

53. In a move designed to provide a boost to the economy, the CBSL eased its monetary stance in early 1997. In January, the SRR on rupee deposit liabilities of commercial banks was lowered to 14 percent from 15 percent, and the SRR of foreign currency deposits placed abroad was abolished (previously 5 percent). In addition, commercial banks were granted permission to extend foreign currency loans to non-Board of Investment (BOI) exporters from either their domestic banking units (DBUs) or their foreign currency banking units (FCBUs).<sup>12</sup> In March, the SRR on all deposit liabilities was further reduced to 12 percent, including on foreign currency deposits lent domestically (from 15 percent). The lowering of the SRR was expected to increase bank credit to the private sector by about Rs 20–25 billion, through the multiplier effect and lower bank lending rates.

54. In the event, credit expansion remained slower than expected in the first half of 1997 as both lenders and borrowers remained cautious—the former because of concerns over rising nonperforming loans (see section below). As a consequence, there was no immediate impact on the growth of monetary aggregates as the funds released were initially invested in treasury bills from the CBSL's secondary window. In the second half of the year, a surge in capital inflows from privatization receipts, disbursement of foreign funds destined for the development finance institutions, and the inflow of compensation payments to the victims of the Gulf War, led to an additional increase in banking system liquidity, and a new wave of sterilization operations by the CBSL in a bid to ensure an orderly reduction in interest rates. By September, the CBSL had exhausted its holdings of treasury bills, and had to issue some of its own short-term securities—the first time since 1994—with maturities of 7 and 28 days, in an effort to stabilize the lower end of short-term interest rates (interbank rates). During this time, the implementation of monetary policy was assisted by improved fiscal management, and some of the monetary expansion was also offset by a build-up of government deposits with the CBSL and the retirement of Rs.10 billion of treasury bills held by the CBSL. Toward the end of the year, despite some moderate tightening of monetary policy to ease exchange rate pressure, through increases in the repo rate and in the spread vis-à-vis the discount rate, commercial banks continued to find themselves in a position of excess liquidity during the first quarter of 1998, and they opted to roll over their excess funds in the CBSL's overnight repurchase facility rather than through its discount facility to take advantage of the former's higher returns.

55. After declining by 13 percent in the year to end-March 1997, in response to the lowering of the SRR, the annual growth of reserve money remained negative for the remainder of the year, hovering around minus 2 percent (Table 32). The rise in international official reserves, which contributed significantly to reserve money growth, was more than

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<sup>12</sup>FCBUs are units of commercial banks which accept deposits from, and extend loans to, non-residents; commercial banks; BOI enterprises; and other residents approved by the CBSL. Foreign borrowings by commercial banks are limited to 15 percent of their capital reserves, and borrowers are required to repay in foreign currency.

offset by a concomitant negative contribution of net domestic assets in the third and fourth quarters of 1997, following the reduction in net credit to government from the CBSL from the retirement of government debt, as well as government receipt of substantial privatization proceeds (Chart 6). Reserve money growth picked up sharply in the first quarter of 1998, fueled by a further increase in net foreign assets of the monetary authorities. In contrast to 1996 when it remained stable throughout the year, the money multiplier surged to 4.1 in the first quarter of 1997, before settling in the 3.8–4.1 range during the remainder of the year and the first quarter of 1998 (Table 35).

56. Including FCUBs, broad money grew by 14.6 percent in the year to end–1997 (excluding FCUBs, broad money growth was 13.8 percent, less than the CBSL’s indicative target of 14.5 percent).<sup>13</sup> Just under two thirds of the increase in broad money mirrored the sharp improvement in the balance of payments, reflecting the combination of a \$162 million build-up in international official reserves and a sharp rise in net foreign asset position of commercial banks in response to declining domestic interest rates and concerns about the East Asia currency crisis. Net claims on government declined by 2 percent, stemming from a contraction in the fiscal deficit as well as an increase in nonbank financing, including privatization receipts. Total claims on public corporations declined by over 5 percent, although loans and advances to both the Ceylon Petroleum Corporation (CPC) and the Cooperative Wholesale Establishment (CWE) rose sharply during the year (by an average of just under 50 percent) because of liquidity problems of the former, and to cover operational losses and reduced budgetary support of the latter. Credit to the private sector increased by 13.8 percent. While commercial banks proved cautious in increasing the amount of credit extended by their domestic banking units (11.4 percent), and some borrowers postponed some large scale investments, credit extended by FCUBs to BOI enterprises surged by 28 percent, and more than offset the decline in credit extended to other (non-BOI) approved enterprises (minus 13 percent). In addition, although not captured in the monetary survey, loans granted by long-term credit institutions more than doubled during the year to Rs 21 billion (equivalent to 8 percent of private sector credit), of which half went to industrial enterprises.

57. In the first quarter of 1998, annual broad money growth (including FCUBs) accelerated to 15.7 percent, despite moderate tightening in the last quarter of 1997, driven mostly by the continued build-up in the net foreign asset position of commercial banks and net official international reserves of the monetary authorities. Net domestic assets grew by a modest annual rate of 6 percent as public sector credit declined, owing to a renewed build-up of government deposits and sharply lower credit to public corporations. Private sector credit increased at an annual rate of 13 percent, driven by the continued surge in credit extended by FCUBs since mid–1997 (averaging 30 percent on an annual basis).

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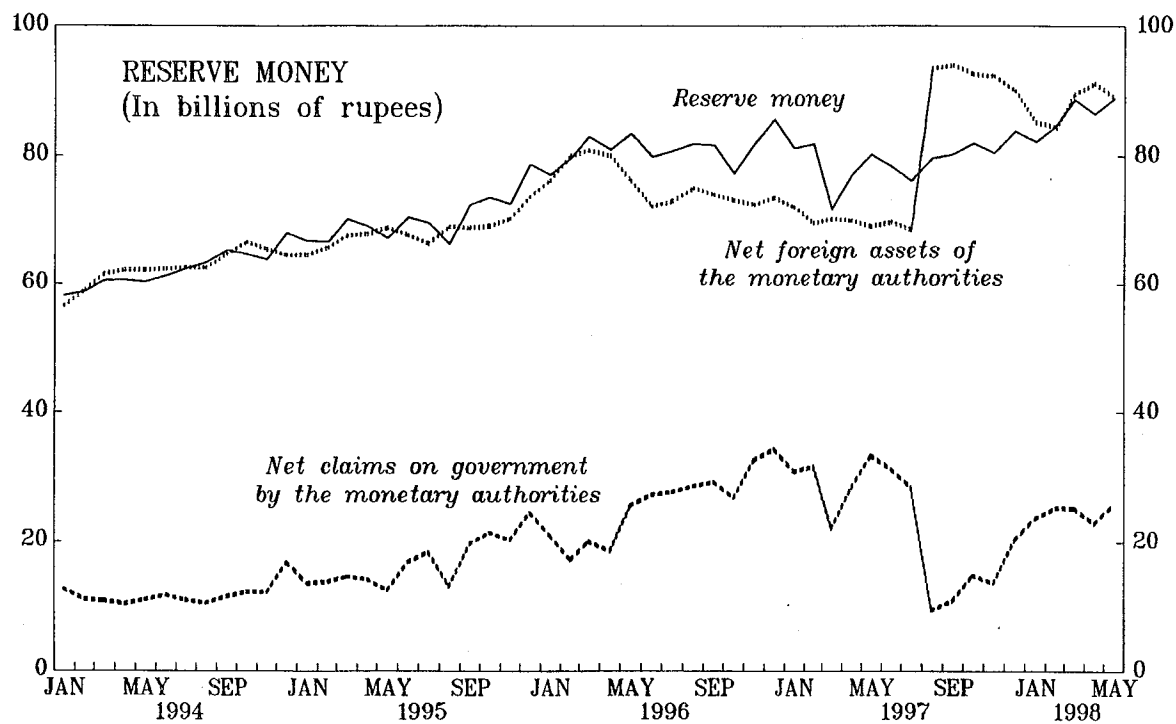
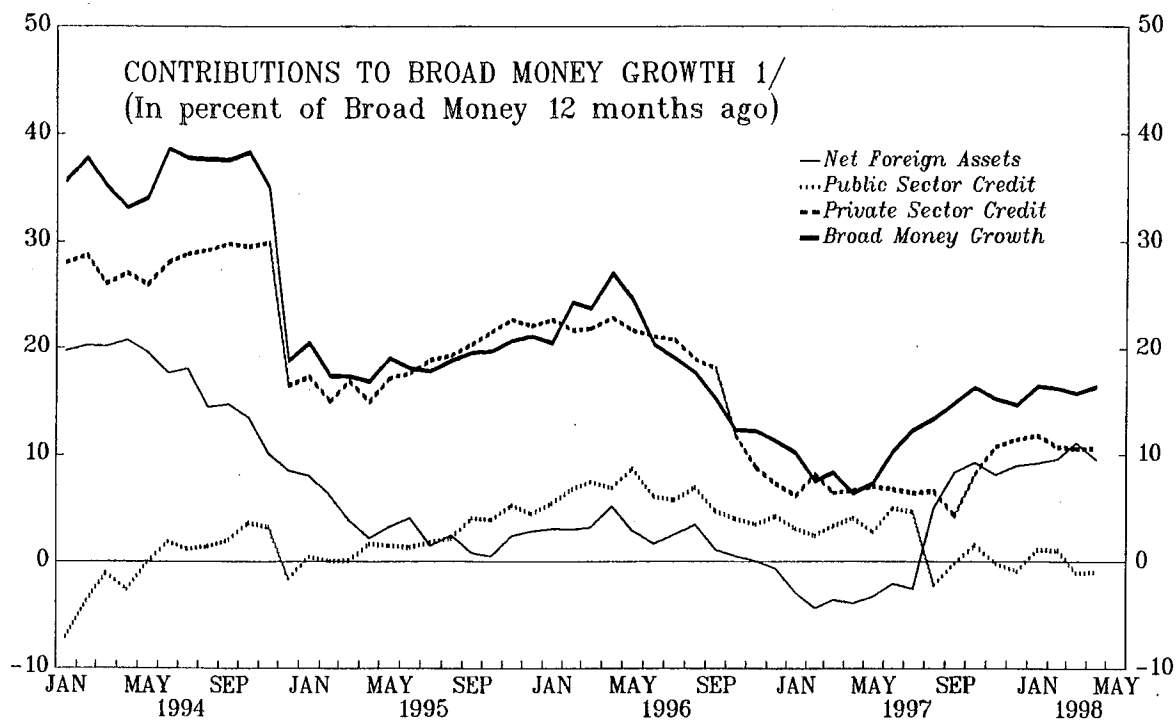
<sup>13</sup>Currently, the CBSL’s indicative broad money target excludes FCUBs. See Box 6 and associated Table 1 for details of the adjustments necessary to compile a monetary survey inclusive of FCUBs.



CHART 6

SRI LANKA

MONETARY AGGREGATES, 1994-98



Source: Data provided by the Sri Lanka authorities.

1/ Broad money includes foreign currency banking units (FBCUs).

### **Box 6. Sri Lanka: Foreign Currency Banking Units, Non-Resident Foreign Currency Balances, and the Monetary Survey**

This Box reviews the evolution of foreign currency banking unit (FCBU) transactions; the reasons for the recent reclassification of non-resident foreign currency (NRFC) balances; and the impact of both on the monetary survey. A numerical example, based on end-1996 data, is given in the attached table.

#### **Foreign Currency Banking Units**

FCBUs were established in mid-1979 to develop non-resident offshore banking activities and facilitate operations of companies in the Export Processing Zones. In the past, transactions of FCBUs were treated as foreign assets and liabilities in the balance sheets of domestic banking units (DBUs), and included under net foreign assets in the monetary survey. Until a few years ago, the size of FCBU transactions, and their corresponding impact on the monetary survey, remained limited. However, in recent years, FCBUs have become an important source of credit to resident Board of Investment (BOI) enterprises. Moreover, the decision taken towards end-1996 to permit non-BOI exporters to obtain foreign currency loans from FCBUs has increased the level of FCBU transactions with residents.

#### **Non-Resident Foreign Currency Balances**

In the past, NRFC deposits were treated as foreign liabilities of DBUs, while investments of these deposits by the DBUs in the FCBUs were treated as foreign assets of DBUs. In fact, about 50 percent of NRFC deposits are held by residents, mainly returnee migrants, and these deposits should therefore be treated as domestic deposits denominated in foreign currencies, rather than as foreign liabilities. Moreover, since FCBUs are in fact mostly domestic entities, the investments of foreign currency deposits by the DBUs in FCBUs should be treated as domestic assets denominated in foreign currencies rather than as foreign assets. Only the final investments made by the FCBUs with non-residents should be treated as foreign assets.

#### **Impact on the Monetary Survey**

The changes described above have the following implications for the compilation of the monetary survey:

- **Net domestic assets** rise because of the inclusion of credit extended by FCBUs to both the private and public sectors;
- **Net foreign assets** change as foreign liabilities decline because of the reclassification of foreign currency deposits as domestic deposits denominated in foreign currencies, and foreign assets decline following reclassification of DBUs' investments in FCBUs; and
- **Broad money** rises owing to the reclassification of foreign currency deposits as domestic deposits denominated in foreign currencies.

Table 1. Sri Lanka: Bridging Table Between Unadjusted and Adjusted Monetary Surveys, December 1996

(In millions of Sri Lankan Rupees)

	Monetary authorities (1)	Unadjusted DBUs (2)	Unadjusted monetary survey (3)	Adjusted DBUs (4)	FCBUs (5)	Adjusted monetary survey (5)
Net foreign assets	73,541	-11,925	61,616	-4,186	-6,281	63,074
Foreign assets	106,668	28,549	135,217	15,614		122,282
Foreign liabilities, net	40,194	40,474	80,668	19,800		59,994
Government, net	5	0	5	0	0	5
Treasury IMF account, net	7,062	0	7,062	0	0	7,062
Net domestic assets	11,968	181,876	191,585	194,811	21,063	225,583
Domestic credit	36,550	218,025	252,316	218,025	40,078	292,394
Claims on government, net	34,291	14,245	48,536	14,245	-1,406	47,130
Claims on banks	2,259	0	0	0	0	0
Credit to public corporations	0	9,938	9,938	9,938	5,553	15,491
Credit to private sector	0	193,842	193,842	193,842	35,931	229,773
Other items, net	-24,582	-36,149	-60,731	-23,214	-19,015	-66,811
Reserve money	85,509					
Broad money	49,602	217,429	253,201	238,103	14,782	288,657
Narrow money	49,602	42,431	78,203	42,431	0	78,203
Currency	49,480	6,915	42,565	6,915	0	42,565
Demand deposits	122	35,516	35,638	35,516	0	35,638
Quasi-money	0	174,998	174,998	195,672	14,782	210,454
<b>Memorandum items:</b>						
Reclassification of foreign liabilities		Foreign liabilities	=====>		Domestic liabilities	
Foreign currency deposits						
Non-resident		28,084			14,042	
Resident non-national		1,215			0	
Resident		4,913			4,913	
Exporters		1,719			1,719	
Banks abroad		2,936			0	
Other		1,607			0	
Totals		40,474			20,674	
DBU investments in FCBUs					12,935	

Source: Central Bank of Sri Lanka.

## Interest rates

58. While interest rates are now generally free of direct controls, the government retains some influence on the interest rate structure by transacting government securities in primary and secondary markets, and through its dominance in the banking sector (Box 4). Reflecting declining inflationary expectations and excess liquidity in the market in 1997, interest rates generally declined steadily during most of the year, except from a brief period in mid-year, before firming slightly from the end of the year and into 1998 on mounting regional concerns from the East Asia crisis (Table 37 and Chart 7). However, real interest rates remained negative in the first half of the year, and turned positive only around mid-year as average inflation dipped. In late 1997–early 1998, as inflation turned upwards again, real interest rates were barely positive.

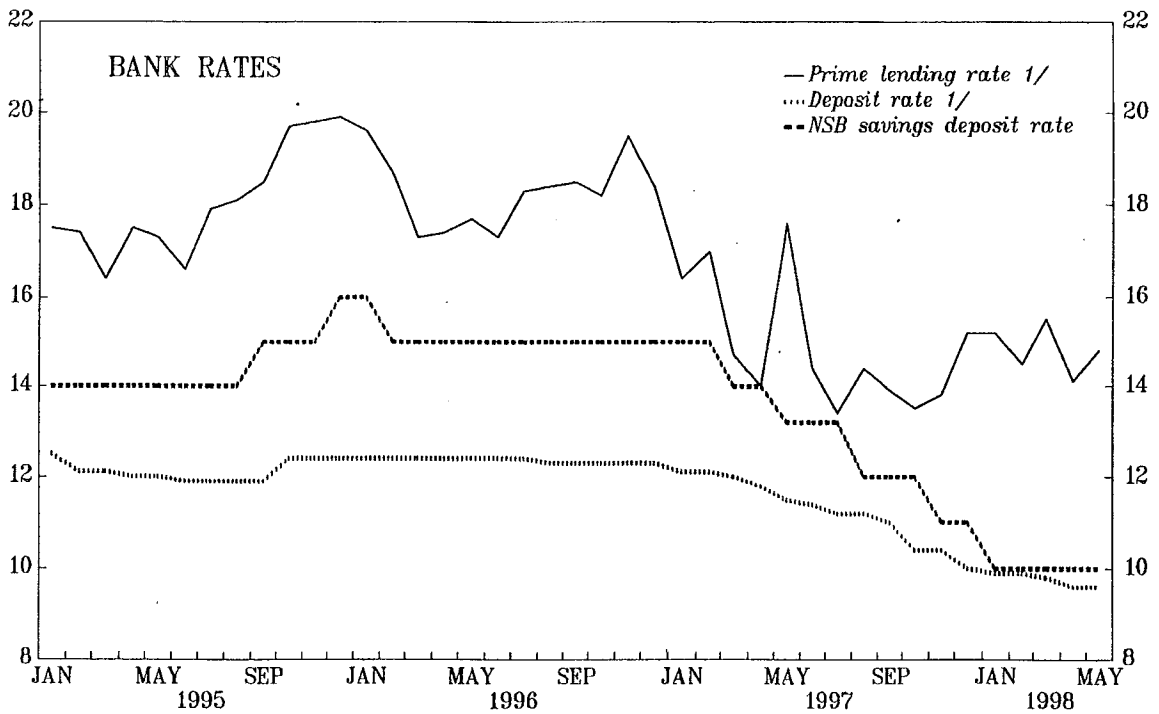
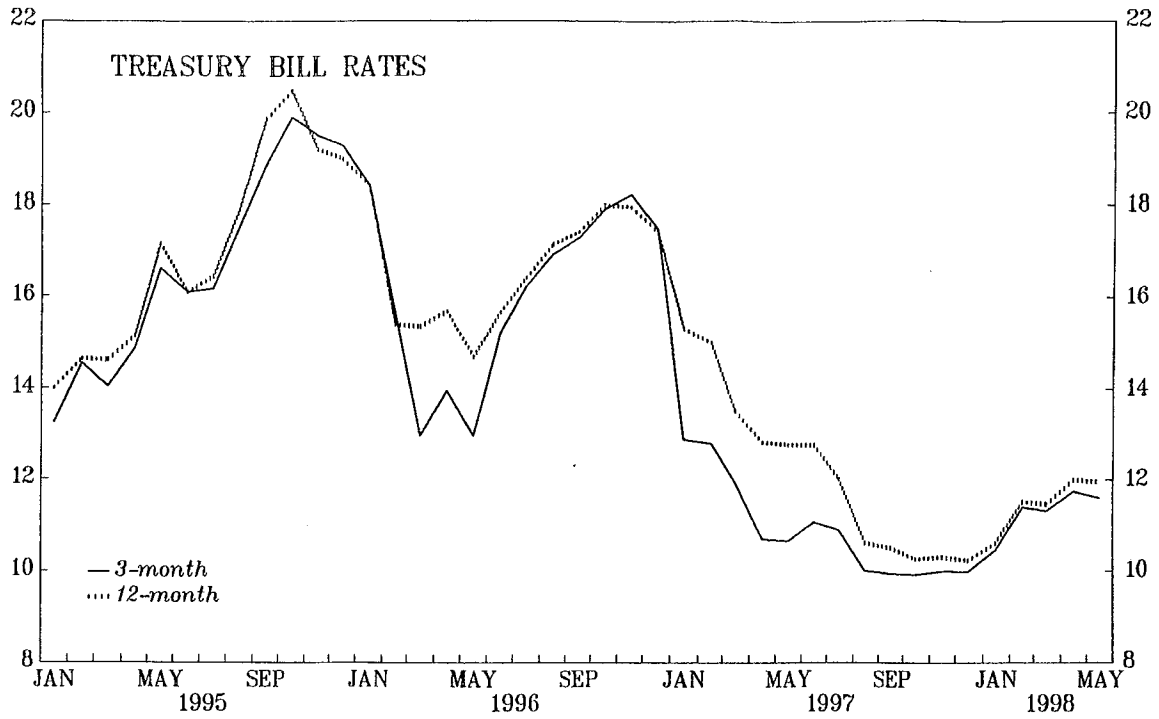
59. At the short end of the market, the CBSL's repo rate was reduced from 12.8 percent to 7 percent in the first quarter of 1997, raised again to 9 percent by the fourth quarter; while the discount rate on 3-month treasury bills in the secondary market fell from 17.2 percent to 9.7 percent by end-October, 1997. Beginning in the last quarter, in response to the combination of higher than anticipated inflation, uncertainty in the foreign exchange market, and the attendant downward pressure on the rupee, short-term interest rates rose as the CBSL increased the margin between the discount and rediscount rates for treasury bills toward end-1997 and again in early 1998, and raised the repo rate from 9 percent to 11 percent in December, and further to 12 percent in January 1998.

60. As a consequence of their excess liquidity position throughout most of the year, commercial banks reduced the range of interest rates on short-term interbank call loans as well as the average lending rate offered to *prime* customers steadily throughout the first three quarters of 1997, from 13–31 percent to 7–12 percent, and from 18.4 percent to 13.9 percent, respectively. In the last quarter, both sets of interest rates were raised, to 9–20 percent and 15.2 percent, respectively, as the CBSL raised key rates under its control. However, banks' average lending rates, weighted by the shares of *all* their customers, declined by only 0.9 percentage points to 20.1 percent during the year (and remained significantly positive in real terms). For the most part, this reflected the oligopolistic banking practices of the two state-owned banks, which account for over half of total private sector credit, and which continued to be burdened by large nonperforming loans and high intermediation costs (see C.2 below). Moreover, the average weighted deposit rate of commercial banks declined more gradually throughout the year, from 12.3 percent to 10 percent—exceeding the decline in the average weighted lending rate—and fell further to 9.8 percent during the first quarter of 1998.

61. Long-term interest rates, which include yields on nontradable rupee loans and on newly introduced tradeable treasury bonds, as well as lending rates of specialized banks and other long-term credit institutions, also showed a declining trend in 1997. In particular, yields on 5–7 year rupee loans, which are administratively set, were reduced from 14 percent to a range of 11.25–12.25 percent; while the yield on 12-month fixed deposits of the NSB

CHART 7

SRI LANKA  
INTEREST RATES, 1995-98  
(In percent)



Source: Data provided by the Sri Lanka authorities.

1/ Weighted average.

was reduced from 15 percent at end-1996 to 11 percent in November. However, except for the lending rate of the DFC, the decline in long-term lending rates over the year was less pronounced.

### **Banking system soundness**

62. The role of financial sector weaknesses in the unfolding of the recent currency crises in Asia have added urgency to the CBSL's efforts to strengthen the country's banking system. Struggling with the consequences of a large volume of nonperforming loans, the state of the banking system, already fragile, appears to have deteriorated in 1997. The CBSL has concentrated on issuing and implementing regulations that make the financial condition of the banks more transparent.

### ***Regulation and supervision***

63. The 1995 amendments to the Banking Act strengthened the CBSL's regulatory powers and extended its mandate beyond commercial banks to specialized banks, foreign currency banking units, and rural development banks (see Box 7). The Bank made considerable progress in issuing directives so that, by and large, core regulations are now up to international standards. In 1997, the Bank issued directives, replacing mere guidelines, with respect to: capital adequacy; loan classification, suspension of interest and provisioning; limits on investments in equity; limits on the acquisition of immovable property; and single borrower limits. In particular, loans must now be classified as non-performing when they are more than 90 days past due, and at that time, interest must be suspended. Provisioning is required only once the loans are past due more than 180 days, although at only 20 percent. Furthermore, the CBSL introduced additional periodic returns for commercial banks as of April 1998 to be able to monitor compliance. For the near future, the Bank has announced a raise in the Basle-standard weighted capital adequacy ratio from 4 to 5 percent for core capital and from 8 to 10 percent overall.

64. In May 1998, the CBSL issued guidelines for external auditors. It also introduced a short list of auditors from which banks henceforth have to choose, and announced removal from the short list in case of noncompliance with the guidelines. The purpose of the guidelines is to assist the auditors and enlist their support with the CBSL's prudential supervision. Audits must conform with Sri Lanka Accounting Standards (SLAS), which aside from some variations to accommodate local circumstances, are based on International Accounting Standards. Banks listed on the Colombo Stock Exchange are already required to maintain their accounts according to SLAS. Other banks have been directed by the CBSL to do so as of 1998. Once the SLAS have been translated into Sinhalese and Tamil and subsequently gazetted, they will become mandatory for all companies.

65. The CBSL has made progress in effectively extending its supervision to the specialized banks. A comprehensive set of directives and return forms was issued and on-site inspections have started. However, the CBSL has yet to implement its new mandate with respect to the foreign currency banking units (FCBUs) of the commercial banks. Since the

FCBUs lend mostly to the export industries, the expectation is that their loan portfolios will be in better shape than those of the banks' domestic units. The CBSL will also issue limits on foreign exchange exposure. In an attempt to strengthen market discipline, the CBSL is considering a proposal that will require banks to publicly disclose a broad range of financial information. It is also preparing amendments to the Banking Act to strengthen its hand in dealing with errant institutions.

### *Financial condition of the banks*

66. Pending the implementation of the new offsite inspection system, bank monitoring is done on the basis of quarterly reports.<sup>14</sup> The financial indicators include the volume of non-performing loans and its impact on capital adequacy and liquidity. In Table 2, this information is presented in aggregate form for the three distinct categories of banks, namely the two state banks, the six private domestic banks, and the 19 foreign bank branches.

67. Since the beginning of 1996, the ratio of non-performing loans to total advances has increased for all three categories of banks. For banks as a whole, the ratio has reached the high level of 17 percent, mostly on account of the state banks whose average is 21 percent. Deducting specific provisions against expected loan losses and interest in suspense, the volume of net-non-performing loans is much smaller but has also been rising in relation to total advances. Net-non-performing assets amount to 2.2 percent of GDP. The fact that state and domestic private banks have not raised additional capital to offset their loan losses is reflected in a steep increase in the ratio of net-non-performing loans to capital, to 150 percent and 77 percent, respectively. For the same reason, the risk-weighted capital adequacy ratios are slowly decreasing for all except the foreign banks. On average, the overall capital adequacy ratio of the state banks is just below, and that for the domestic banks is just above, the announced new limit of 10 percent. Finally, the liquidity ratio of private domestic banks has deteriorated, although it is still above the 20 percent limit.

68. There are several qualifications to be made to these bank soundness data. On the one hand, the situation may be better than indicated by the data. Banks have become more careful in accounting and provisioning for non-performing loans, encouraged by more vigorous enforcement by the CBSL of loan classification and provisioning regulations. That may explain a part of the observed deterioration of loan portfolios. Banks in Sri Lanka are, also, reluctant to write off loans as long as there is even the most remote chance of collection. This inflates the non-performing loan ratios (a breakdown of non-performing loans into substandard, doubtful, and loss is presently not available from the offsite monitoring database), although this would not affect the net-non-performing loan ratios.

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<sup>14</sup>These reports are available only from 1996 because previous reporting material was burned in the January 1996 bombing of the CBSL building.

Table 2. Sri Lanka--Indicators of Banking System Soundness, 1996Q1-1998Q1

	96Q1	96Q2	96Q3	96Q4	97Q1	97Q2	97Q3	97Q4	98Q1
<b>Capital adequacy ratios 1/</b>									
(In percent; risk weighted)									
<b>Core capital (minimum 4 percent)</b>									
State commercial banks	9.1	9.2	7.7	9.1	9.0	8.7	8.3	8.7	8.1
Private domestic banks	10.2	10.1	9.4	10.6	9.9	10.3	10.3	10.1	9.6
Foreign banks	12.1	13.0	12.4	11.4	11.5	12.7	11.6	13.0	12.4
All banks	9.8	9.9	8.7	9.8	9.6	9.7	9.4	9.7	9.1
<b>Total capital (minimum 8 percent)</b>									
State commercial banks	10.1	9.9	8.7	10.7	9.2	9.0	9.1	9.2	8.6
Private domestic banks	11.4	11.3	10.6	11.8	10.7	11.2	11.2	10.9	10.6
Foreign banks	13.2	12.3	12.8	13.8	11.5	13.2	13.6	13.9	12.6
All banks	10.8	10.6	9.7	11.5	10.0	10.2	10.4	10.4	9.7
<b>Liquid assets ratio 1/</b>									
(In percent)									
State commercial banks	...	...	...	23.3	25.0	25.4	25.0	26.9	26.6
Private domestic banks	...	...	...	26.2	25.1	25.7	27.6	24.9	22.9
Foreign banks	...	...	...	38.0	51.4	42.2	34.9	34.4	40.2
All banks	...	...	...	26.2	28.7	27.6	27.2	27.3	27.0
<b>Nonperforming loans</b>									
(In percent)									
<b>Nonperforming loans/total advances</b>									
State commercial banks	17.4	17.6	17.7	18.9	18.4	18.5	21.1	20.2	20.7
Private domestic banks	9.6	9.9	11.2	12.0	12.3	12.8	13.7	12.4	12.8
Foreign banks	8.5	9.7	9.1	8.3	8.6	10.4	9.2	10.4	11.6
All banks	14.3	14.6	14.9	15.4	15.2	15.7	17.2	16.4	16.9
<b>Net-nonperforming loans/total advances 2/</b>									
State commercial banks	4.2	4.3	4.3	7.2	6.9	7.5	9.7	10.0	10.5
Private domestic banks	3.6	4.1	5.6	7.2	6.6	6.9	7.6	6.4	6.5
Foreign banks	3.8	4.8	4.4	3.7	3.2	3.9	2.6	4.0	3.7
All banks	4.0	4.3	4.7	6.7	6.3	6.8	8.0	8.1	8.3
<b>Net-nonperforming loans/capital 2/</b>									
State commercial banks	30.8	41.4	50.2	116.2	115.7	109.7	127.4	142.4	147.2
Private domestic banks	30.1	34.9	60.7	80.0	78.4	83.1	87.9	75.1	76.9
Foreign banks	22.9	27.1	23.1	16.4	17.2	19.9	12.0	21.7	8.1
All banks	29.6	37.9	49.7	91.7	90.7	90.2	99.2	105.1	106.9
<b>Provisions/nonperforming loans 3/</b>									
State commercial banks	...	...	...	...	...	61.2	57.8	53.7	52.2
Private domestic banks	...	...	...	...	...	101.7	61.1	64.9	62.4
Foreign banks	...	...	...	...	...	74.0	81.4	73.2	75.6
All banks	...	...	...	...	...	75.1	62.1	59.9	58.5
<b>Total advances</b>									
(In percent of total)									
State commercial banks	61.8	61.7	60.9	56.6	55.7	56.9	55.3	54.8	54.4
Private domestic banks	25.6	26.2	26.9	29.6	30.3	30.4	30.9	32.1	33.7
Foreign banks	12.6	12.1	12.2	13.8	13.9	12.6	13.9	13.0	11.9
All banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(Percent annual growth rate)									
State commercial banks	...	...	...	...	-2.7	0.0	-7.9	9.7	7.7
Private domestic banks	...	...	...	...	27.6	25.9	16.2	23.0	22.6
Foreign banks	...	...	...	...	19.3	12.8	15.2	6.7	-5.5
All banks	...	...	...	...	7.9	8.3	1.4	13.2	10.4
<b>Memorandum items:</b>									
All banks (In percent)									
Nonperf. loans/total assets	...	8.3	8.4	8.7	8.3	8.1	8.3	8.7	8.6
Net-nonperf. loans/total assets	...	2.3	2.5	2.7	3.6	3.4	3.6	4.1	4.2
Nonperf. loans/GDP	...	4.2	4.2	4.4	4.2	4.1	4.2	4.4	4.4
Net-nonperf. loans/GDP	...	1.2	1.2	1.4	1.8	1.7	1.8	2.1	2.2

Source: Central Bank of Sri Lanka; based on quarterly bank reporting.

1/ Weighted by total advances.

2/ Net nonperforming loans are defined as nonperforming loans less provisions and accrued interest.

3/ Specific provisions plus accrued interest over total non-performing loans.



69. On the other hand, there are several reasons why the actual situation may be less favorable than it seems:

- Off-site supervision is still in an embryonic stage, and on-site inspections occur only once every two years so that one cannot be confident of the degree of compliance with prudential regulations;
- Overdraft loans, which account for some 30 percent of lending, may not be classified properly;
- Provisioning is less stringent than international best practice;<sup>15</sup>
- Lending by the private domestic banks is growing at a brisk pace of twice the average rate for all banks (an annual growth rate of 23 percent as of March 1998). This has the temporary effect of improving the non-performing loan ratio but in the medium term may lead to a sharp deterioration depending on the quality of the loan decisions;
- In the absence of data on the sectoral concentration of (non-performing) loans, lending to related parties, and observance of single borrower limits, it is difficult to judge the riskiness of the loan portfolios; and
- The individual bank data underlying these aggregate ratios are quite heterogeneous, so that in each category one or several banks are considerably worse than the average.

70. Spurred on by the CBSL, banks are trying in various ways to improve their financial situation. The state banks have slowed their lending and are particularly careful when approving large loans. All banks have stepped up loan recovery but find the legal environment not conducive. Even the option of parate execution of real estate collateral, i.e. outside the court system, is often frustrated by borrowers who still manage to take their case to court. Mid-1998, several banks announced plans to place subordinated debt in order to raise their tier two capital, while others are looking to revalue their assets (permitted once every seven years) in an attempt to achieve the same.

### ***State commercial banks***

71. Despite the recent loss in market share to the private domestic banks, the two state commercial banks, the Bank of Ceylon (BOC) and the People's Bank (PB), still dominate banking. Together they account for 55 percent of total assets and total advances. It is also clear that they are considerably weaker financially than the banking system on average. Many of their problems can be attributed to the government interference to which they are susceptible given their state-owned nature: politically and socially motivated loans; excessively generous salaries, especially for lower level staff; poor incentive structures, especially for management; overstaffing; and over-branching for social reasons.

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<sup>15</sup>International best practice calls for 20 percent provisioning after 90 days.

### **Box 7. Financial Sector Regulation and Supervision in Sri Lanka**

Sri Lanka's banking system is regulated and supervised by the Central Bank of Sri Lanka (CBSL). It does so within a legal framework consisting of the Monetary Law Act and the Banking Act (both amended in 1995). The main objective is to safeguard the interest of depositors. The CBSL is empowered to issue detailed regulations in the form of directives. The CBSL's mandate covers the country's commercial banks (two state banks; six private domestic banks; and nineteen foreign banks, all branch offices), and since 1995 also the specialized banks (savings bank and long-term lending institutions), the Foreign Currency Banking Units (FCBUs), and the Regional Rural Development Banks (RRDBs). With its staff of about 75, the CBSL Bank Supervision Department conducts both on-site and off-site supervision. On-site inspections must take place at least once every two years. The off-site supervision is done on the basis of periodic returns for which a computerized system is about to be put in operation.

Insurance companies are presently regulated by the Controller of the Insurance, who heads a department in the Ministry of Finance. Upon passage of the pending Regulation of Insurance Industry Act, an Insurance Board will take over the regulation and supervision. The Colombo Stock Exchange and companies listed on it are regulated and supervised by the Securities and Exchange Commission. The location of the new regulator and supervisor for pension funds still has to be decided as a new law is under preparation. At present, the CBSL manages the Employees' Provident Fund, the country's largest fund, while private pension funds must be registered with the Commissioner of Labor.

72. The state banks have benefited from major official support operations twice in recent years. In 1993, they were recapitalized at a cost of 3.4 percent of GDP in order to meet the then new eight percent capital adequacy ratio requirement. Unfortunately, lending did not improve and, in 1994, there was an upsurge in politically motivated lending, with and without explicit government guarantee. As the guaranteed lending turned non-performing, the government was forced in 1996 to place bonds in the state banks equivalent to 1.8 percent of GDP. Since then, the financial position of the PB has weakened again, and that of the BOC did not improve convincingly. In the case of the PB, the overall risk-weighted capital adequacy ratio dropped below the eight percent minimum towards the end of 1996.<sup>16</sup>

73. At the time of the 1993 recapitalization, the state banks were subjected to performance agreements setting profitability and cost targets. These have not been successful in improving their financial position fundamentally. In light of this experience, the

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<sup>16</sup>People's Bank's 1996 Annual Report received a qualified approval from its auditors who observed that the bank had charged only 10 percent of its provisions to the profit and loss account. Consequently its expenses were understated and its assets overstated by Rs 3,706 million. If fully charged to profits, those provisions would have wiped out the bank's capital which stood at only Rs 3,184 million.

government and CBSL have been drafting new agreements, Memoranda of Understandings (MOUs), that would impose performance targets in return for explicit protection against political interference with the lending process. The CBSL is also undertaking portfolio audits of the two banks.

#### **D. Balance of Payments and External Debt<sup>17</sup>**

##### **Overall developments**

74. In the unfavorable regional environment of 1997, Sri Lanka's overall balance of payments improved, shifting back into surplus after a deficit year in 1996.<sup>18</sup> This development is mainly a result of the continuing decline in the current account deficit (from 5 percent of GDP in 1996 to 3 percent of GDP in 1997), accompanied by a slight improvement in the capital and financial accounts. Gross international reserves recovered almost to 1995 levels in absolute terms (to \$2 billion at end-1997), and remained at slightly above four months of import cover.

75. For the first half of 1997, the Central Bank of Sri Lanka pursued an exchange rate policy which kept the value of the Sri Lankan rupee roughly constant in real effective terms, thus maintaining the 12.4 percent real appreciation which occurred in 1996. After the onset of the Asian crisis, as there were no strong market pressures on the rupee, the Central Bank kept the same rate of nominal depreciation of the exchange rate during the second half of the year as it had for the first half. Over the year as a whole, the rupee depreciated by 7.2 percent against the dollar, which, given the developments in Sri Lanka's trading partners, translated into a nominal effective appreciation of 6.1 percent and a real effective appreciation of 14.8 percent. This appreciation in the real effective exchange rate reached a peak in January 1998 (at 18.1 percent from January 1997), and has since begun to subside.

##### **Current account transactions**

76. The current account deficit was reduced from \$730 million in 1996 to \$430 million in 1997, due to continuing improvements in the trade balance, high growth in port services, and compensation payments in the form of private transfers to migrant workers employed in Kuwait for losses incurred during the Gulf War.

77. In 1997 the trade deficit shrank from \$1.3 billion (10 percent of GDP) to \$1.2 billion (8 percent of GDP). Export growth continued to outpace import growth in value terms, spurred by strong performance in textiles, garments, and tea. Non-traditional exports

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<sup>17</sup>See Appendix Tables 40 to 51, and Charts 8 and 9.

<sup>18</sup>Two changes have been introduced in the presentation of the balance of payments this year: a shift from reporting in SDR units to U.S. dollars, and a move to publishing the accounts according to the Fifth (1993) Edition format of the IMF's *Balance of Payments Manual*.

(industrial exports, minor agricultural products, gems and other miscellaneous categories) have consistently grown at double-digit rates over the past 5 years, and now account for 80 percent of exports. Traditional exports have performed more unevenly due to weather and global supply conditions. Sri Lanka's tea industry received a boost in 1997, as its major competitor Kenya suffered from drought. Prices increased by a further 6 percent in 1997, after an increase of 26 percent in 1996. At the same time, a bumper crop allowed Sri Lanka to reap full advantage of the price gains.

78. The Asian crisis has not had a large effect on Sri Lankan exports so far; textiles and garments, the largest export sector, has performed well. Possible competition from the troubled countries seems to have been limited due to various factors, such as difficulties of exporters in obtaining credit in crisis countries, and the Sri Lanka garment industry's own efforts at producing higher value-added products. However, smaller sectors have been adversely affected, including rubber, and gems and jewelry. While rubber prices had been weak even before the onset of the crisis, since then their continued decline has wreaked havoc on the industry, with a decline of 24 percent in export value, following a smaller decline of 7 percent in 1996. The value of gem exports declined by 14 percent, due to jewelry company closures in Japan as well as effects from the Asian crisis.

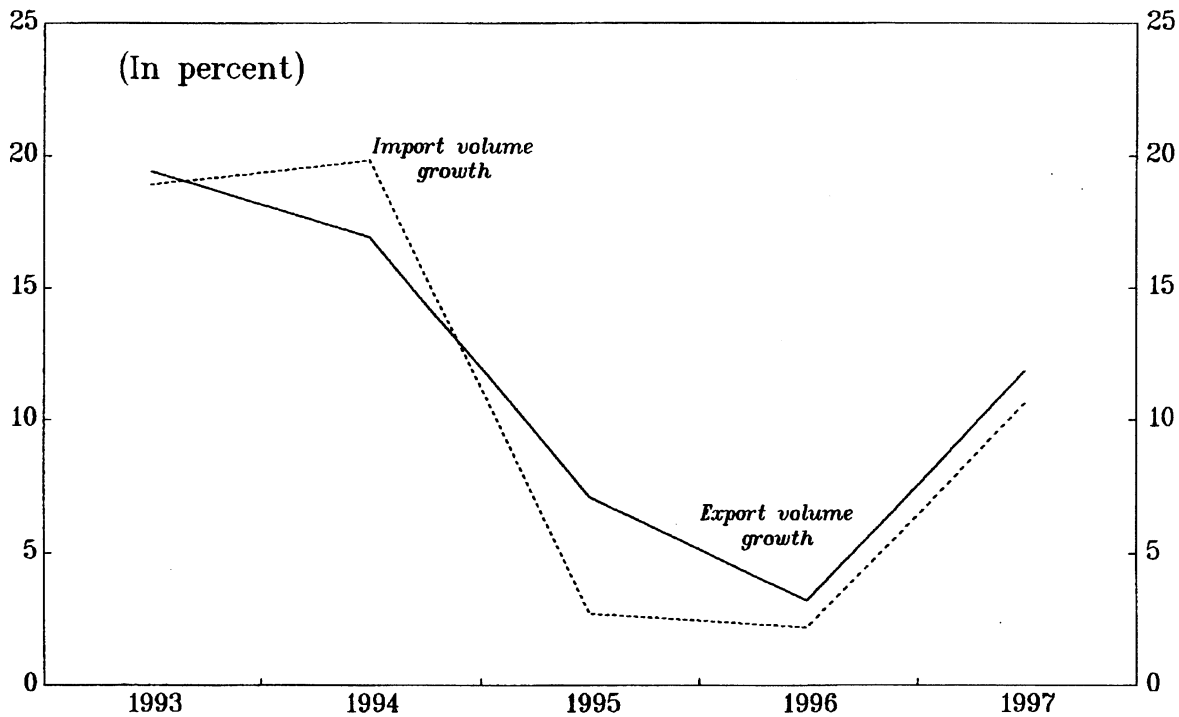
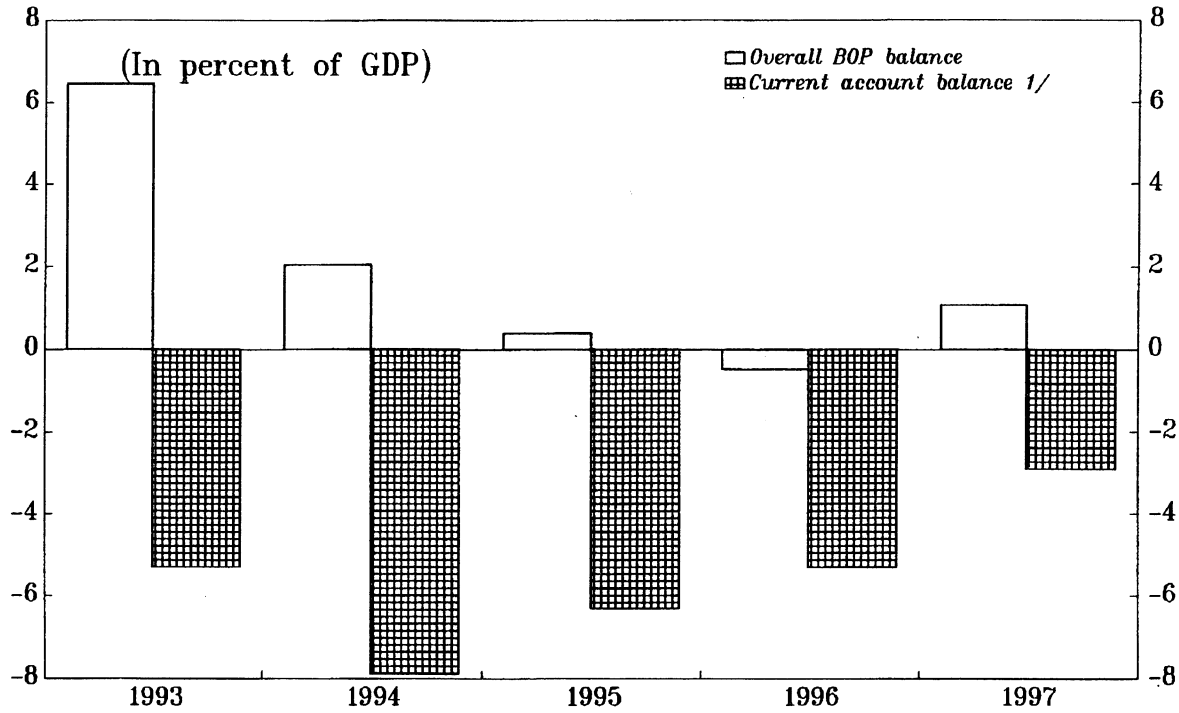
79. While import volume growth was over 10 percent, declining world prices for many of Sri Lanka's imported products limited the growth of import values to 7.6 percent. Most of the import growth in 1997 can be attributed to increased intermediate and investment goods imports. Consumer goods imports remained largely unchanged in 1997; rice and wheat, which had been substantial in 1996, declined in 1997 because of the good harvest and were replaced by imports of sugar and other consumer goods. Imports associated with the textiles industry grew in line with exports; in other areas, investment imports for the telecommunications industry also increased as the sector upgraded and expanded its services.

80. Sri Lanka's trade patterns remain largely unchanged, with the European Union and the United States accounting for almost 70 percent of exports. Countries of the former Soviet Union are growing customers for Sri Lankan tea, but their combined share of exports remain below 5 percent. Import trade still originates mainly from Asia (including Japan), accounting for close to 60 percent of the total.

81. The change to reporting balance of payments data in the *Balance of Payments Manual* 5th edition format has highlighted some features of Sri Lankan services and income accounts. The service account has been in surplus of over \$150 million over the past five years, except for 1996 when it fell to \$105 million. All categories within the services account have generally been in surplus except for other business services and government expenditure (n.i.e.), which have been jointly recording a deficit of \$30-\$40 million since 1993. In 1997 transportation services registered healthy growth (15 percent) due to increases in port services, reflecting Sri Lanka's position as a shipping gateway to the region and improved management of the port. The ports have been handling increased trans-shipment trade, and there are major expansion plans over the next five years.

CHART 8

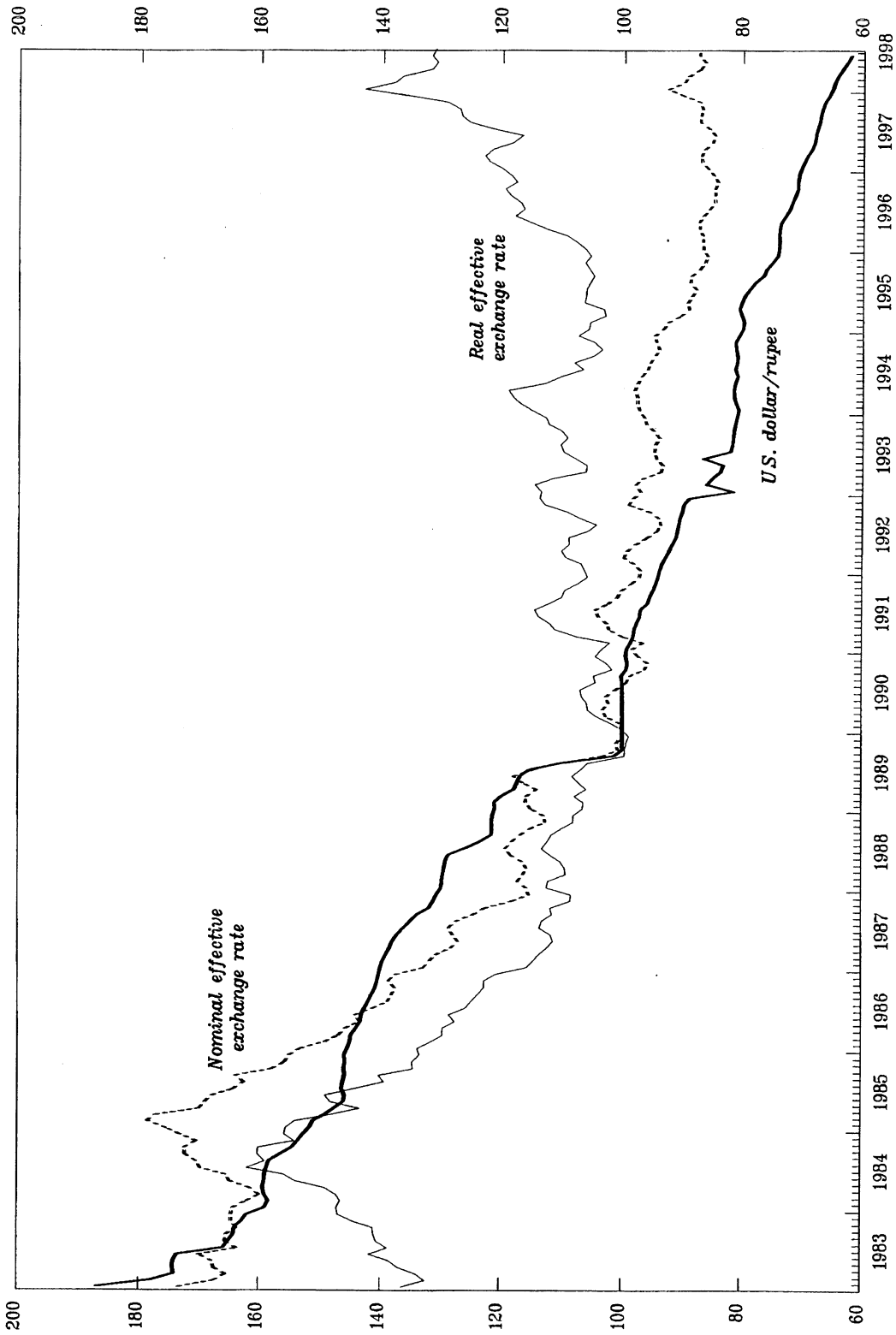
SRI LANKA  
EXTERNAL SECTOR INDICATORS, 1993 - 97



Source: Data provided by the Sri Lanka authorities.

1/ Excluding official transfers.

CHART 9  
SRI LANKA  
EXCHANGE RATE INDICES, 1983-98  
(January 1990=100)



Sources: IMF, International Financial Statistics, Information Notice System; and staff estimates.

82. Income accounts have consistently been in deficit since 1993, reflecting the interest payments and dividend and profit remittances made which exceed such income from abroad. The deficit was reduced from \$200 million in 1996 to \$170 million in 1997, mainly as a result of high central bank securities and foreign exchange trading profits for the year.

83. Private transfers in 1997 were boosted by inflows of United Nations compensation payments to migrant workers employed in Kuwait for losses incurred during the Gulf War. These payments amounted to \$65 million for the year.

### **Capital and financial account transactions**

84. Capital transfers, which mostly consist of official capital transfers, fell over the past two years, with an inflow of \$90 million in 1997. The decline is a result of lower utilization of concessional assistance.

85. The financial account improved slightly (by almost \$50 million) to \$480 million in 1997, reflecting a surge in foreign direct investment (\$130 million) and privatization proceeds from the sale of Sri Lanka Telecom (\$300 million). The higher-than-expected inflows were offset by accumulation of foreign assets by the commercial banks (of \$200 million) and a continued decline in official disbursements (from \$670 in 1995, to \$460 in 1996, and \$420 in 1997). Private net inflows increased due to a decline in amortization payments following extraordinary repayments made in 1996 on outstanding loans for hotel projects and Air Lanka.

86. While foreign investors had been withdrawing some of their portfolio investment in the Colombo Stock Exchange during the second half of the year in response to regional turmoil, there was still a net inflow of \$13 million for 1997 as a whole.

### **External debt**

87. Sri Lanka's external debt position improved, with total external debt outstanding falling from 68 percent of GDP in 1996 to 61 percent of GDP in 1997. Medium and long-term debt (including the IMF) also fell from 56 to 50 percent of GDP during this period. In terms of exports of goods and services, MLT debt declined from 161 to 136 percent, and debt service declined from 14 percent to 12 percent.

88. Much of the decline in these ratios is a result of exchange rate movements during the year; 65 percent of Sri Lanka's debt is denominated in SDR or Yen, both of which lost ground against the U.S. dollar in 1997. In addition, the worsening utilization rate of foreign concessional loans for public capital expenditures has also kept public debt levels from increasing. However, non-concessional loans to the public sector increased as the government issued a \$50 million floating rate note (at 1.5 percent over LIBOR) during the year. Private debt increased slightly owing to Sri Lanka Telecom borrowing for expansion projects, and a floating rate note issued by the National Development Bank (guaranteed by the AsDB).

89. Short-term debt relative to GDP was stable at 11 percent; in absolute terms it increased slightly owing to more trade-related financing during the year and increased commercial bank foreign currency liabilities.

### **Exchange and trade system**

90. In 1997 no major changes were introduced in Sri Lanka's exchange system. Sri Lanka accepted the obligations of Article VIII, Sections 2, 3, and 4 on March 15, 1994, and maintains an exchange system free of current restrictions. Capital inflows are largely unrestricted (although limits on foreign ownership exist in certain industries, and all applications must be channeled through the Board of Investment), as are capital outflows of profits or repatriation of capital from investment in Sri Lanka. Other capital outflows are generally restricted (decided on a case-by-case basis) unless they will provide positive benefits to the country. In recent years, a few overseas investment projects have been deemed to satisfy this criterion and were approved<sup>19</sup>.

91. The Central Bank does not participate in forward market activities. Commercial banks are allowed to transact in forward markets for foreign exchange, and mainly engage in 6-month contracts for trade-related purposes. No other derivative operations are permitted in Sri Lanka.

92. There were few permanent changes in the trade policy regime in Sri Lanka in 1997. The three-band system of 10, 20, and 35 percent remained in effect, along with the few items which incur non-standard duty rates. However, duty exemptions or remissions were granted on several products, such as petroleum, sugar, and wheat. The effective import duty collection rate continued to fall from 8.5 percent in 1996 to 7.4 percent in 1997, reflecting decreases in dutiable imports in relation to total imports, particularly in intermediate goods.

93. Sri Lanka's trade reforms in the 1990s have been substantial<sup>20</sup>. The Fund's restrictiveness of trade index for Sri Lanka declined from 7 in 1990 to 4 in 1993 and has remained at that level since<sup>21</sup>. During this period maximum tariff rates were substantially reduced (in steps from 60 percent to 45 percent in 1993, to the current 35 percent since 1995), while most of the remaining export taxes and import licensing requirements were removed. The current government has announced its intention to continue this process.

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<sup>19</sup> A detailed description of the exchange system in Sri Lanka can be found in the *Annual Report on Exchange Arrangements and Restrictions, 1997*.

<sup>20</sup> For details of Sri Lanka's trade and exchange rate policies since 1977, see *Sri Lanka—Selected Issues* (SM/97/182), Section V.

<sup>21</sup> Based on estimates using simple average tariff rates. In *Trade liberalization in IMF-supported programs* (1998), the case study for Sri Lanka reported a trade restrictiveness index measure of 2 based on collection rates.



94. Licensing requirements on imports and exports have not been changed in 1997; trade is generally unrestricted, with controls imposed on certain items due to environmental, public health, phytosanitary, or public security reasons. The licensing requirement on wheat grain remains, due to the contractual obligation by the government to supply grain to a particular flour miller until 2004. Sri Lanka also maintains export quotas on textiles and apparel used to implement bilateral quotas under the Multi-Fiber Arrangement.

95. In February 1997, Sri Lanka submitted its commitments to the WTO in the telecommunications sector. In December 1997 it submitted its draft conditional offers on insurance, banking, and other financial services. In some cases liberalized policies already in place were given as offers. New offers included the waiver of the restriction on the number of branches that foreign-incorporated commercial banks can open in Sri Lanka (the former limit was 10 branches). Also, whereas before, non-nationals were only permitted to hold up to 49 percent equity of a commercial bank incorporated in Sri Lanka, they can now also hold up to 49 percent of share capital of any institution providing financial services.

96. Sri Lanka is a participant in a number of regional trading arrangements, the most important of which is the South Asian Preferential Trading Arrangement (SAPTA). Concessions received in 1996 were made effective from 15 July 1997 by a Gazette notification. In May 1997, member countries agreed to advance the South Asia Free Trade Area (SAFTA) to the year 2001. However, there remain a number of obstacles to overcome, the most difficult of which is the reluctance to abolish non-tariff barriers on the part of many member countries.

### III. SOCIAL ISSUES<sup>22</sup>

97. In general, Sri Lanka adopted policies since the 1940s which fostered greatly improved social sector indicators over the course of the years. Decisions were made which have borne fruit in the form of a relatively healthy, well-educated population, with no destitute poverty. However, as the country's economic development continued and more open-market policies were adopted, some of these policies have proved unsustainable and are in need of fundamental reform in order for the gains to be consolidated and further improved upon.

#### **The health sector**

98. Sri Lanka has lifted the health standards of its population by emphasizing preventive care, supporting this with well-developed primary health care as well as hospital systems, and providing free health care to all citizens. Most of the indicators in this sector compare well to countries at similar income levels (see Table 3). However, in recent years the improvement rate has slowed; Sri Lanka has had to tackle both health problems associated

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<sup>22</sup>This section relies heavily on the World Bank's recent report *Sri Lanka Social Services: A Review of Recent Trends and Issues*.

Table 3. Sri Lanka: Social and Demographic Indicators

	15-20 years ago	Most recent estimate	Region/income group		
			South Asia	Low-in come	Next higher income group
GNP per capita (U.S. dollars)	370	700	350	430	1,670
<b>Public Expenditures (percent of GDP)</b>					
Health	1.8 1/	1.4	0.8	1.5	...
Education	2.9 1/	2.5	3.0	3.6	...
<b>Population characteristics</b>					
Life expectancy at birth (years)	69	72	61	63	67
Age dependency ratio (percent) 2/	70	60	70	67	63
<b>Health and nutrition</b>					
Incidence of tuberculosis (per 100,000)	...	167	108	66 3/	...
Access to safe water (percent of population)	37	57	63	53	...
Infant mortality rate (per thousand live births)	30	16	73	58	36
<b>Education</b>					
Adult illiteracy (percent of population) 4/	13	10	51	35	...
Of which: Female (percent of female population)	19	13	64	46	...
Primary school enrollment (percent of school-age population)	103	106	98	105	105
Tertiary school enrollment (includes all post-secondary education)	...	6	...	...	20

Sources: *World Bank, World Development Indicators, 1997. Sri Lanka. Social Services: A Review of Recent Trends and Issues, 1998.*

1/ In 1988.

2/ Ratio of dependents (total number of individuals aged less than 15 yrs and greater than 64 years) to working age population (number of individuals ages between 15 and 64 years).

3/ Low and middle income.

4/ Fifteen years old or older.

with a less-developed country while also encountering emerging problems more symptomatic of a higher-income country. For example, malnutrition, malaria, and iron deficiency anemia among pregnant women have remained problem areas, while the new challenges come from a population which has come through the full cycle of demographic transition<sup>23</sup> while the country remains at a relatively low level of income. By 2010, Sri Lanka have the oldest population in Asia after Japan and Singapore. In addition, emerging threats such as a high incidence of tuberculosis, STDs and AIDS will also impose demands on scarce resources.

99. Some of the current problems in the public health care system include management weaknesses and inadequate financing. Administrative policies have resulted in a system in which the budget is non-transparent, there is a lack of clear responsibility and accountability, as well as lack of management capacity. Also, donor financing which concentrated more on providing physical infrastructure in tertiary care has skewed the allocation of health expenditures towards tertiary care at the expense of primary and secondary care<sup>24</sup>.

100. Private health care service has acted as an important safety valve in Sri Lanka; institutions operate on a two-tier basis, in which fee-based emergency health care helps to subsidize free health for the poor. The provision of these services guarantees eligibility for other incentives (tax concessions and duty waivers) which have encouraged the development of private financing of health care in Sri Lanka, such that in 1997 it accounted for 40 percent of overall national health expenditures.

101. Some of the key issues for reform in the health sector include preparing the system for handling the problems of an aging population, determining the future role of the public health care system, and quality control for private health care. As the population ages, different and more highly specialized skills will be required than those needed in caring for the current population. A rethink of health policy needs to be conducted to search for ways to improve resource mobilization and expenditure allocation, as well as to determine the future role of the public health care system and its sustainable financing. The mix and interrelations between the public and private sector provision of health care need to be redefined and some incentives changed so as to prevent the current over reliance on the public sector for expensive treatments. In addition, quality control in the private sector needs to be addressed; currently there is no appropriate regulatory framework.

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<sup>23</sup>This refers to a shift from an equilibrium condition of high birth and death rates to a newer equilibrium in which both birth and death rates are at much lower levels, with a transition phase in which death rates drop faster than birth rates, leaving a temporary bulge in the population.

<sup>24</sup> In health, primary care refers to the first contact with a doctor for treatment of illness, while tertiary care refers to a specialized, highly technical level of health care, usually conducted at sophisticated, large research and teaching hospitals.

102. In 1997 a Presidential Task Force on Health Reforms was established to review and make recommendations. Since then, the Health Sector Reforms Implementation Unit was established to oversee the implementation of the changes. Some of the recommendations include measures to strengthen administration and management of the system, further development of infrastructure and services, and strengthening the link between the private and public health sectors, as well as encouraging further development of private health care provision. The development of private health insurance is also being explored. The plans have been evaluated as going in the right direction, but do not fully address the fundamental problems in the sector in a comprehensive and sustainable way; in particular, at the secondary and tertiary health care levels. Also lacking is a sound implementation plan which is both politically feasible and economically affordable.

### **Education**

103. While the education system in Sri Lanka also enjoyed priority status for many years, with resources dedicated to free delivery, wide coverage of primary and secondary schools throughout the country as well as development of post-secondary education, in recent years problems have beset the system that perhaps stem from the government's virtual control of the entire educational system in the country. This has manifested itself in problems of low quality of instruction, politicization of the teacher recruitment process, and an unsatisfied demand for university education.

104. With the increased unsatisfied demand for higher education, there has been an expansion in the number of vocational/technical institutions in the country. However, these have not greatly eased the situation, as they provide poor quality training with little relevance to labor market needs, and underutilized facilities.

105. A radical reform of the educational system is needed; a National Education Commission was appointed in 1992 to identify reform issues in general, higher, vocational and technical education. In early 1997 a Presidential Task Force was established to recommend reforms and to begin to implement them in 1998. Some of the recommendations include allowing for unit-expenditure-based financing of general education, private sector provision of vocation training, and a contract system for new university lecturers (vs. the current tenure system.) There are also a host of other more detailed suggestions aimed at improving quality and relevance of the curriculum, evaluation procedures, as well as administrative procedures.

106. The reform effort will have to address the following challenges more directly: an outdated education system which churns out graduates with few marketable skills (as evidenced by high unemployment rates among the educated young), a restricted and weak university system, insufficient financing (relative to GDP), and the education system's contribution to social and ethnic cohesion (the segregated schools for Sinhala and Tamil students).

## Poverty and social welfare

107. Sri Lanka provides a wide-ranging program of assistance to its population. While this has virtually eliminated destitute poverty, such that under the international poverty line of \$1 a day Sri Lanka's poverty rate is only 4 percent, under more reliable measures based on local poverty lines and nutritional needs almost 25 percent of the population lives below the poverty line.

108. There are three remaining large programs of assistance: Samurdhi, emergency relief, and the Integrated Rural Development Plan (IRDP), which is mostly donor-funded and is currently being revamped in order to better achieve its objectives and reduce its overlap with other poverty programs. Samurdhi covers 1.8 million families (over 50 percent of the population), and provides assistance through two components; direct income support in the form of food coupons, and training, credit and savings schemes to promote self-reliance and rural entrepreneurship. The emergency relief program provides food for refugees displaced by the civil conflict.

109. While the achievements of the social welfare programs are impressive in many respects, it is disturbing that the poverty rate in the country remains high, and that the major achievements in health and education policies above have not been matched by those in poverty reduction policies. The virtual elimination of starvation and destitute poverty were achieved by the provision of subsidies or direct handouts by the government, but the programs to promote self-reliance and entrepreneurship have not been successful, such that the poor cannot lift themselves out of poverty after having been given a boost by the government. Some reasons for this problem are as follows. Insufficient adaptation of the human resource base – with the adoption of more open, market-oriented policies, the provision of education has not followed, such that the educated young at this point are not equipped with the skills to take advantage of the new opportunities. Insufficient emphasis on broad-based economic growth – Sri Lanka's average annual growth rate of under 5 percent over the past 15 years has not been sufficient to lift substantial portions of the population out of poverty. Structural reforms necessary for improved growth performance were not implemented, for example in agriculture and public enterprises. Finally, the social welfare programs themselves were weak and poorly implemented. They were not well-targeted, lacked the coordination and flexibility to respond to local conditions and needs, became politicized (leading to a large administrative bureaucracy), and also were unsustainable and myopic in that their design did not incorporate the incentives for the recipients to eventually lift themselves out of poverty. In fact, they may have encouraged dependency.

110. Sri Lanka is in need of better information on poverty, in order to be able to formulate a comprehensive and consistent plan for long-term poverty alleviation. The government has asked for assistance from donors in this matter, and analytic work is being undertaken in order to analyze the progress made in poverty reduction and assess the country's poverty profile. Armed with this knowledge, the government can then set about planning a strategy for poverty alleviation which will require coordinated policies in other sectors of the economy in order to promote strong and broad-based economic growth. Some of these

policies should include investment in rural infrastructure, removal of distortions in land and labor markets, and strong macroeconomic management. At the same time however some features of the social safety net will temporarily remain in order to provide a cushion for those disadvantaged by the ongoing reforms.

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## The Need For Labor Market Reform

### The case for labor market reform

111. Since abandoning the closed, controlled economy in favor of an open and liberalized one in 1977, Sri Lanka has undertaken many far reaching reforms: trade liberalization; a shift from pegged to floating exchange rate; interest rate deregulation and foreign competition in banking; the lifting of price controls; and the privatization of many state enterprises. However, little headway has been made in reforming the labor market to meet the demands of the new economic model. Indeed, the failure to reform the labor market may well have forestalled some of the benefits from the other structural reforms. Sri Lanka's core labor laws date from before independence and acquired a distinct pro-labor orientation during the country's socialist period. Programs for labor market reforms, unveiled on two occasions (1997 and 1989), were unsuccessful because of successive governments' commitment to social development and equity, and the strength of organized labor. Because of many piecemeal changes, a most unwieldy body of law has emerged, and enforcement is haphazard. The present government has taken some legislative initiatives, but mainly to strengthen the enforcement of the existing body of labor laws.

112. There are several compelling arguments for labor market reform. One is that unemployment and underemployment are serious problems in Sri Lanka, in an economic sense and from a social and political point of view, given the high incidence of long-term unemployment among educated youth (World Bank, 1996).<sup>1</sup> Flexible labor markets tend to be better at generating employment. There is also the widespread conviction that the labor laws are dampening productivity and thereby retarding industrial progress (IPS, December 1996).<sup>2</sup> Moreover, the current obstacles to laying off redundant labor make it difficult to proceed with dismantling the protection of the sizeable import-substituting industries that remain.

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<sup>1</sup>The unemployment rate is high despite its recent decline from 15 percent in the early nineties to just below 11 percent in 1998. This decline must be qualified because of the substantial hiring that took place into a public service (incl. military and police) that was already significantly overstaffed.

<sup>2</sup>The implication is that there is scope for improvements in productivity. Thus, improving labor productivity in Sri Lanka would seem to constitute an argument for reform even if productivity compares favorably with countries in the same stage of development, as Athukorala (1997) concludes from his empirical research.



### **Main controversies<sup>3</sup>**

113. Surveying various possible labor market distortions, Rama (1994) concluded that in Sri Lanka the main problem is with the laws that provide job security;<sup>4</sup> in particular, the Termination of Employment of Workmen Act (TEWA). The TEWA prevents any termination on non-disciplinary grounds, including enterprise restructuring or liquidation, in private sector firms with more than 15 employees without the written consent of the affected workers and that of the Commissioner of Labor. In practice, the major problem is the uncertainty regarding the duration of the review process—during which firms must continue to pay salaries—and regarding the amount of compensation they must ultimately pay—ranging from one to nine months' salary for each year of service. The implicit costs to laying off labor dampen labor demand and stifle job generation. Moreover, the job security the TEWA provides may have a negative impact on work ethic and productivity, and, firms seem to prefer overtime, subcontracting and casual or contract labor over hiring more permanent staff. Proposals include repeal of the TEWA or amending it so as to place upper limits on both the length of the review and amount of compensation.

114. Settlement of industrial disputes in Sri Lanka relies heavily on conciliation and arbitration. Collective agreements are not popular, principally because unions often fail to honor their obligations under them while the employers have no effective legal recourse. Both employers and trade unions complain about the availability of conciliation and arbitration services by the Department of Labor. The Labor Commissioner is empowered by the Industrial Disputes Act to help settle a dispute through conciliation or voluntary arbitration. In addition, the Minister can refer a dispute for mandatory arbitration. In practice, parties are not eager to seek arbitration voluntarily, and the Minister has become reluctant to refer cases for mandatory arbitration, so that the large majority of cases is conciliated. Even though conciliation is less labor intensive than arbitration, the staff resources of the Ministry of Labor are inadequate to deal properly and speedily with the great number of cases every year, which is well in excess of 10,000.<sup>5</sup> The proposals for improvement are threefold. The Industrial Disputes Act should be amended to streamline the procedures for conciliation and arbitration. The Ministry of Labor should have more and better trained staff. In addition,

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<sup>3</sup>An enlightening analysis of the main controversies and various proposed solutions can be found in IPS (December 1996).

<sup>4</sup>Otherwise Rama (1994) concluded that "...real wages are neither excessively high nor excessively rigid" and that "...freedom for trade unions does not lead to conflictive labor relations nor to wildcat strikes, except in tea plantations and state corporations, where employment decisions are basically political" (page 22).

<sup>5</sup>In 1996, 11,054 disputes were conciliated and 41 arbitrated. In 1997, 14,542 disputes were conciliated and 51 arbitrated.

voluntary collective bargaining should be promoted by spelling out the responsibilities of unions and employers in facilitating the process.<sup>6</sup>

115. A great impediment to unions in collective bargaining is that there is no legal requirement for union recognition.<sup>7</sup> Employers deal with unions when they consider it in their interest, and often they do not, particularly employers in the Export Processing Zones (EPZ). Given this legal vacuum it is not surprising that some three quarters of all strikes deal with the issue of recognition. However, amending the Trade Union Ordinance to provide for union recognition without at the same time permitting de-recognition would leave employers exposed to irresponsible behavior by unions. One proposed solution is therefore to list in either the Industrial Disputes Act or the Trade Union Ordinance “unfair labor practices” for employers as well as for employees or their unions.<sup>8</sup> Other proposals call for making unions more responsive to their members, for instance, by insisting that they account properly for their finances and hold secret ballots in advance of every strike action. These proposals may also be helpful in ending the dominance of political patronage in industrial relations in Sri Lanka.

116. Another problem is the complexity of labor legislation. Since independence, the number of laws dealing with labor issues has grown from 7 to 49; moreover, there are innumerable amendments. There is only one case of a law ever having been repealed (Amarasinghe, 1998). Even if one accepts the argument that only 10 of those laws are of real importance, the overlap and inconsistencies between them leave plenty of scope for confusion. A project is underway, with support from the International Labor Organization, to prepare an index that would make it easier to navigate the labor laws. The more fundamental approach is to combine a radical overhaul of the labor legislation, consolidating it into one piece of industrial relations law.

117. Aside from the deficiencies in the labor laws, their implementation suffers from weaknesses in the institutional infrastructure. The staffing problems of the Ministry of Labor in carrying out its role in dispute settlement have already been noted. Another weakness are the **Labor Tribunals** conceived to deal speedily with cases of unjustified dismissal on

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<sup>6</sup>Sri Lanka has ratified both International Labor Organization (ILO) Convention 87, on the freedom of association, and Convention 82, on the right to collective bargaining.

<sup>7</sup>Other reasons cited in the literature are the low rate of unionization (approximately 30 percent of formal sector workers but only 10 percent if the plantations and the public sector are excluded); and the multiplicity of unions (it takes a minimum of seven workers to form a union).

<sup>8</sup>An unfair practice for an employer would be victimizing workers for trade union activities. For unions unfair practices would include use of force on the picket lines and threats to non-striking employees.

disciplinary grounds. In practice they satisfy neither workers nor employers. The inquiries that the Tribunals conduct to determine whether a worker must be reinstated or deserves a compensation are beset with procedural complexities which either party can exploit to delay settlement of the case.<sup>9</sup> In the end, the Tribunal has no powers to enforce its judgment and the complainant ends up in the congested appellate court system. Given the long delays in obtaining redress, workers often resort to industrial action.

### **Recent legislative initiatives**

118. The legislative initiatives taken so far by the present government were primarily motivated by a desire to put a stop to the widespread evasion of labor laws and the often violent repression of trade union activities. To that end, the government promulgated in September 1995 a National Workers' Charter that for the most part reaffirmed rights already provided for under existing legislation.<sup>10</sup> Even though the Charter was formulated in consultation with employers, business representatives and unions, it was seen as a pro-labor policy statement by the government. In the Charter the government promised to prepare and bring into force a Code of Industrial Harmony of mutual obligations of employers and workers. To provide legal basis to the Charter where necessary, the Government undertook to draft an Employment and Industrial Relations Act (EIRA).

119. For the most part, taken by themselves, the clauses in the Charter are not controversial. For instance, the Government pledges to provide workers with adequate transportation and accommodation close to work, to ensure adequate labor inspection services, and to strengthen conciliation and arbitration. More controversial is the Government announcement that it will guarantee and protect the rights of workers to form and join trade unions, and to organize and bargain collectively. The Charter also states that anti-union discrimination by employers will be made an unfair labor practice. All of these rights were already supported by laws or ILO conventions and were included only because of their widespread evasion.<sup>11</sup> Nonetheless, given the strong pro-labor credentials of the parties making up the PA coalition, these clauses have aroused the suspicion of the business community.

120. Most controversial is that in the Charter the Government undertakes to ensure that employers recognize trade unions and deal with them on matters pertaining to their members. Even though this does not entail compulsory recognition, resistance and even hostility by

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<sup>9</sup>A survey showed that of applications received between 1985 and 1995, little more than a quarter was settled (IPS 1997).

<sup>10</sup>The analysis of the Workers' Charter draws heavily on IPS (1996).

<sup>11</sup>Moreover, the previous government used Emergency Regulations to curtail labor rights on several occasions.

employer groups to this clause is widespread. At a minimum it is argued this should have been accompanied with provisions for de-recognition in cases of unfair labor practices.

121. Two other clauses of the Charter proved controversial. The first is the plan to regularize certain forms of employment because they are being used to circumvent the restrictions of the TEWA, such as apprentices and trainees, and casual labor. The other is the decision to grant to workers employed by contractors full protection under existing labor laws, creating potentially serious financial liabilities for firms using subcontractors.

### **The state of the debate**

122. The work on the drafting of the EIRA continues, mostly within the Ministry of Labor and with little involvement of the tripartite National Labor Advisory Council (NLAC) as was announced in the Charter. A draft published in 1996 met severe criticism from the business community for not addressing the concerns expressed with regard to the Charter. Notably, it obliged employers to deal with unions representing at least 40 percent of the workforce in the establishment without placing any obligations on unions to act responsibly. The liability with respect to subcontractors was extended beyond wages to the contributions to the Employees' Provident Fund and Employees' Trust Fund, and to compensation in case of termination of employment. The draft act also gave responsibility to the Commissioner of Labor for determining what constituted temporary work, adding to his already excessive burden. The draft was also criticised for not covering the 700,000 government employees.

123. In view of these criticisms, the President appointed a tri-partite Task Force on Employment. It had a mandate to look at the issues of investment, job creation and union rights and proposed considerable changes to the draft act, including with respect to union recognition. Subsequent to the Task Force's report, the Ministry issued a new draft early 1998. Disappointed that this latest draft had taken on board few of the Task Force's proposals, the employers boycotted the NLAC where the consultative process was to continue. Likewise, the discussions on the Code of Industrial Harmony appear in a stalemate. Employers prefer that the mutual obligations for employers and unions be incorporated in the EIRA rather than in the Code since, like the Charter, the Code has no legal powers but is merely an enunciation of principles.

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### **Relative Size of the Public Sector, 1992-97<sup>1</sup>**

124. Summary measures point to some decline in the size of the public sector in Sri Lanka relative to the development of the overall economy during the past five years (see Tables 4-8 and Chart 10). The most significant declines were recorded in employment and the value of industrial production accounted for by public enterprises. In contrast, public sector purchases of goods and services have declined by a smaller amount, and value added of the public sector relative to gross national expenditure has actually increased since 1992. Changes in all of these measures are influenced by trends in defense expenditure which increased significantly in 1994-95.

125. The data cover the central government (including government ministries, school teachers, and defense personnel) and quasi-governmental institutions (including universities, public corporations, boards and state-owned banks). Transfers from the central government are used as a proxy for spending by provincial councils and local governments, and actual spending by these entities may be higher to the extent that they finance operations from their own sources of revenue. However, total spending by these entities is small relative to the overall size of the public sector and this does not seriously bias the analysis of overall trends.

#### **Public sector employment**

126. Table 4 highlights relevant data available for total employment and total public sector employment. The latter is broken down into two main categories—central government and quasi-governmental institutions. While the absolute number of employees has dropped since 1994, this decline reflects primarily the privatization of government plantations. In contrast, central government employment has increased, in part because of the build-up in defense personnel during 1994-95. As a percent of total employment, public sector employment declined from 27 percent in 1992 to 19 percent in 1997, with all of this decline accounted for by quasi-governmental institutions. Central government employment remained constant at about 13½ percent of total formal sector employment.

#### **Capital spending by the public sector**

127. Table 5 provides estimates for Government capital expenditures plus investment outlays of state enterprises. Comprehensive data on capital spending of the central government (adjusted for transfers to public corporations and institutions) are combined with data on investment outlays for statutory boards, commercial corporations, fully owned government companies, and subsidiary government companies. This measure reveals that capital spending has declined moderately in relation to GDP, particularly when compared to

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<sup>1</sup>The public sector includes the central government, quasi-governmental institutions, public sector enterprises, provincial councils, and local government.

the peak years of 1993 and 1994. The high level of investment in these years was primarily due to the Mahaweli project.

### **Government spending on final goods and services**

128. Government spending on goods and services as reported in the fiscal accounts, together with the data on investment outlays of other government entities are used to estimate total government spending (Table 6). Total government spending on final goods and services peaked in 1994 (because of investment spending) and 1995 (because of defense spending). Since then, estimated total spending has declined to 19 percent of GDP.

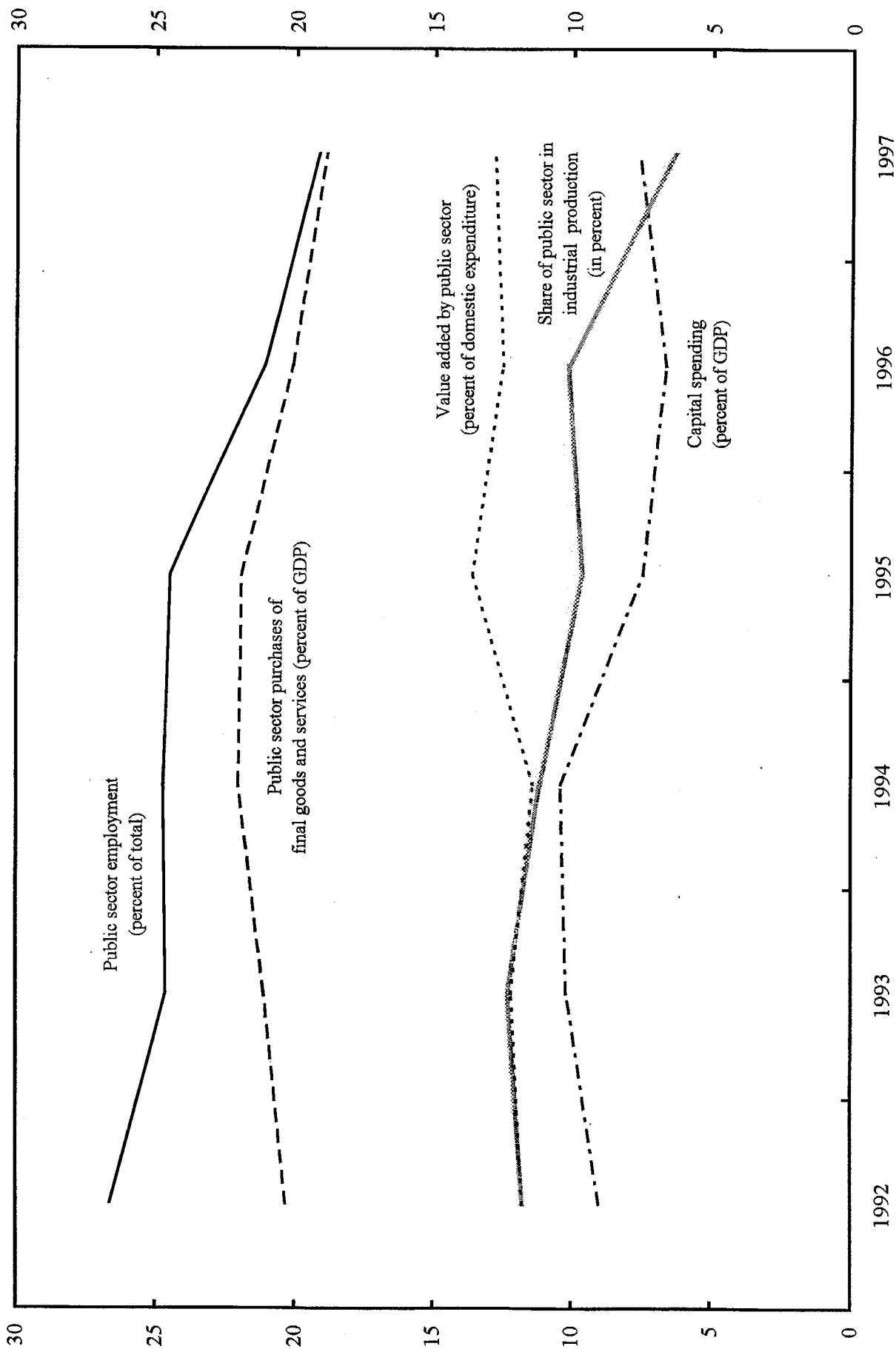
### **Value added of public sector to gross national expenditure**

129. National accounts data provide sufficient breakdown to identify the contribution of spending by the public sector to total gross national expenditure. This breakdown, shown in Table 7, includes public consumption of goods and services and spending on gross fixed capital formation. This measure shows that the public sector's share of national spending has increased (but declined since 1995), mainly due to the rise in the public consumption of goods and services.

### **Value of industrial production by the public sector**

130. Public enterprises continue to be strongly represented in the services sector, and dominate in banking and insurance. However, the share of industrial production accounted for by public enterprises has declined dramatically from 12 percent in 1992 to 6 percent in 1997 (Table 8) reflecting sharp reductions in government involvement in several key industries—namely basic metal products; non-metallic mineral production; chemical, petroleum, and rubber products; and paper and paper products.

CHART 10  
SRI LANKA  
INDICATORS OF PUBLIC SECTOR SIZE



Source: Data provided by the Sri Lanka authorities.



**Table 4: Sri Lanka: Employment in the Public Sector, 1992-97**

	1992	1993	1994	1995	1996	1997
	(millions of persons)					
Employment in the public sector 1/	1.29	1.30	1.33	1.31	1.16	1.07
Central government 2/	0.65	0.68	0.70	0.74	0.75	0.76
Quasi-governmental institutions 3/	0.63	0.62	0.63	0.57	0.41	0.31
of which State Industries	0.04	0.04	0.04	0.04	0.04	0.04
Total labor force	5.80	6.08	6.17	6.06	6.22	6.23
Total Employed	4.85	5.26	5.36	5.34	5.50	5.59
	(in percent)					
Public sector employment in relation to total formal employment						
Total public sector employment	26.6	24.6	24.7	24.5	21.1	19.2
Central government 2/	13.5	12.9	13.1	13.8	13.7	13.6
Quasi-governmental institutions 3/	13.1	11.8	11.7	10.7	7.4	5.5
of which State Industries	0.9	0.8	0.7	0.8	0.7	0.7
Unemployment rate (percent)	16.4	13.5	13.1	11.9	11.6	10.3

Sources: Table 23, CBSL Annual Report; Appendix Tables 11 and 12; and data provided by the Sri Lanka authorities.

1/ 1997 data are based on the third quarter position.

2/ Includes employees of government ministries, school teachers, and defense personnel, as well as employees of provincial councils and local governments, but excludes employees in the Northern and Eastern province.

3/ Includes universities, public corporations, boards, and state-owned banks.

**Table 5. Sri Lanka: Public Sector Capital Spending, 1992-97**

	1992	1993	1994	1995	1996	1997
	(billions of Sri Lanka rupees)					
Total public sector capital spending 1/	34.8	46.1	54.4	44.3	45.9	60.9
Government capital expenditures	24.9	33.7	30.4	39.3	37.6	44.2
of which transfers to						
Public corporations	4.6	4.3	4.2	5.2	6.0	5.9
Public institutions	6.7	8.6	8.4	10.4	9.6	11.0
Capital expenditure of govt. entities 2/	21.1	25.3	36.7	20.7	23.8	33.6
	(percent of GDP)					
Total public sector capital spending	9.0	10.2	10.4	7.4	6.6	7.6
Government capital expenditures	6.4	7.4	5.8	6.6	5.4	5.5
of which transfers to						
Public corporations	1.2	1.0	0.8	0.9	0.9	0.7
Public institutions	1.7	1.9	1.6	1.7	1.4	1.4
Capital expenditure of govt. entities	5.5	5.6	7.0	3.5	3.4	4.2

Sources: CBSL Annual Report (1997), Table 59, and data provided by the Department of Public Enterprises.

1/ Central government capital expenditure less transfers to public corporations and public institutions plus capital expenditure of government entities. Capital transfers from the central government are used as a proxy for actual capital expenditure for local governments and provincial councils.

2/ Consists of statutory boards, commercial corporations, fully-owned government companies and subsidiary government companies.

**Table 6. Sri Lanka: Public Sector Purchases of Final Goods and Services, 1992-97**

	1992	1993	1994	1995	1996	1997
	(billions of Sri Lanka rupees)					
Public sector purchases of final goods & services 1/	78.7	95.7	115.3	131.1	140.0	152.0
Current expenditure on goods and services	43.9	49.6	60.8	86.8	94.1	91.1
Expenditure on goods and services	39.7	44.9	54.7	75.4	80.0	83.8
Transfer payments	24.0	27.2	34.4	40.5	46.1	45.7
Less transfer payments to households	19.8	22.5	28.2	29.1	32.0	38.4
Capital expenditure 2/	34.8	46.1	54.4	44.3	45.9	60.9
Acquisition of fixed capital assets	12.6	19.7	16.7	22.6	20.9	25.7
Capital transfers	12.3	13.9	13.6	16.7	16.7	18.5
less transfers to						
Public corporations	4.6	4.3	4.2	5.2	6.0	5.9
Public institutions	6.7	8.6	8.4	10.4	9.6	11.0
Capital expenditure of govt. entities 3/	21.1	25.3	36.7	20.7	23.8	33.6
	(percent of GDP)					
Public sector purchases of final goods & services	20.3	21.1	22.0	21.9	20.1	18.9
Current expenditure on goods and services	11.3	10.9	11.6	14.5	13.5	11.3
Expenditure on goods and services	10.3	9.9	10.5	12.6	11.5	10.4
Transfer payments	6.2	6.0	6.6	6.8	6.6	5.7
Less transfer payments to households	5.1	5.0	5.4	4.9	4.6	4.8
Capital expenditure	9.0	10.2	10.4	7.4	6.6	7.6
Acquisition of fixed capital assets	3.3	4.4	3.2	3.8	3.0	3.2
Capital transfers	0.3	0.2	0.2	0.2	0.2	0.2
Capital expenditure of govt. entities 2/	5.5	5.6	7.0	3.5	3.4	4.2

Sources: CBSL Annual Report (1997), Table 59; and Appendix Table 15.

1/ Transfers from the central government are used as a proxy for actual expenditure for local governments and provincial councils.

2/ Excluding changes in Treasury deposits and expenditure under provision

3/ Consists of statutory boards, commercial corporations, fully-owned government companies and subsidiary government companies.

**Table 7. Sri Lanka: Value Added of Public Sector to Gross National Expenditure, 1992-97**

	1992	1993	1994	1995	1996	1997
	(billions of Sri Lanka rupees)					
Value added of public sector 1/	54.7	66.5	73.7	100.2	104.5	122.1
Public consumption on goods and services	41.0	45.8	56.0	76.6	81.0	92.2
Central government	39.9	44.9	54.7	75.4	79.4	90.5
Local government	1.1	0.9	1.3	1.2	1.6	1.7
Gross domestic fixed capital formation of government and public enterprises	13.6	20.6	17.6	23.6	23.3	29.9
Changes in stocks of government and public enterprises	0.1	0.2	0.1	0.1	0.2	0.0
Gross domestic expenditure	464.7	547.3	647.4	737.5	836.7	953.1
	(percent of gross domestic expenditure)					
Value added of public sector	11.8	12.2	11.4	13.6	12.5	12.8
Public consumption on goods and services	8.8	8.4	8.6	10.4	9.7	9.7
Central government	8.6	8.2	8.4	10.2	9.5	9.5
Local government	0.2	0.2	0.2	0.2	0.2	0.2
Gross domestic fixed capital formation of government and public enterprises	2.9	3.8	2.7	3.2	2.8	3.1
Changes in stocks of government and public enterprises	0.0	0.0	0.0	0.0	0.0	0.0

Source: CBSL Annual Report (1997), Table 5.

1/ Transfers from the central government are used as a proxy for actual expenditure for local governments and provincial councils.

**Table 8. Sri Lanka: Value of Industrial Production of Public Sector Industries, 1992-97**

	1992	1993	1994	1995	1996	1997
(millions of Sri Lanka rupees)						
1. Food, beverages and tobacco	342	397	451	549	682	757
Total	34,157	39,709	45,054	54,927	68,209	75,713
Percent public	1	1	1	1	1	1
2. Textile sector	0	0	0	0	0	0
Total	53,929	70,057	78,211	89,944	101,627	126,440
Percent public	0	0	0	0	0	0
3. Wood and wood products	191	234	304	367	499	414
Total	1,005	1,230	1,601	1,929	2,171	2,299
Percent public	19	19	19	19	23	18
4. Paper and paper products	931	1,031	1,098	965	912	929
Total	2,586	3,438	4,066	4,595	5,069	5,462
Percent public	36	30	27	21	18	17
5. Chemical, petroleum, rubber and plastics	11,909	15,882	18,029	18,394	22,999	16,725
Total	23,817	28,876	34,017	38,321	46,936	50,682
Percent public	50	55	53	48	49	33
6. Non-metallic mineral prod.	1,587	1,976	146	167	190	214
Total	10,582	12,351	14,580	16,740	18,997	21,403
Percent public	15	16	1	1	1	1
7. Basic metal products	1,011	943	1,222	851	1,124	0
Total	1,424	1,497	1,909	1,736	2,248	2,439
Percent public	71	63	64	49	50	0
8. Fabricated metal products	0	0	0	0	0	0
Total	5,948	5,915	7,122	7,977	8,807	11,327
Percent public	0	0	0	0	0	0
9. Manufactured products	0	0	0	0	0	0
Total	2,658	3,402	4,083	5,271	6,183	7,324
Percent public	0	0	0	0	0	0
10. Public sector industry	15,971	20,463	21,249	21,293	26,407	19,039
Total industrial activity	136,106	166,475	190,643	221,440	260,247	303,089
Percent public activity	12	12	11	10	10	6

Sources: CBSL Annual Report (1997), Tables 16 and 19.

### **Sri Lanka: Privatization Program and Public Enterprise Reform**

131. Government policies supporting nationalization and widespread protectionist measures during the late-1950s through the mid-1970s led to the creation of a large public enterprise sector. By 1977, there were 107 public enterprises (not counting statutory boards) that accounted for nearly 24 percent of GDP, 30 percent of investment, and 40 percent of formal sector employment. While a market-oriented liberalization program was implemented in 1977, government support to state-owned enterprises did not decline.<sup>1</sup> Privatization was not formally adopted as a government policy until 1987 when the Presidential Commission on Privatization (PCP) was created and two legislative enactments were passed. The implementation of the privatization program did not actually begin until 1989 and has been carried out in two phases, 1989-94 and 1995-97.<sup>2</sup> The activities of privatized enterprises are generally governed by existing commercial legislation and enforced by the Fair Trading Commission (FTC). The Plantation Restructuring Unit (1992-94) was in operation for two years to overlook and regulate the activities of the plantation sector and the National Transport Commission (NTC) came into operation in 1991 to regulate the bus transport sector.

132. A total of 77 enterprises have been privatized, 42 enterprises from 1989-94 and 35 more from 1994-97. The bulk of the privatizations were in the manufacturing sector followed by some in the services sector. However, there are still 151 enterprises and statutory boards in the public sector (Table 9) with 181,000 employees (3¼ percent of total employment), a book value of Rs 295 billion, and estimated annual turnover of Rs 167 billion.<sup>3</sup> Enterprises are spread throughout the economy with the largest numbers in agriculture, construction, the financial sector, manufacturing, and other services. In terms of employment, only six have more than 10,000 employees (Janatha Estates Development Board, Sri Lanka State Plantations Corp., Ceylon Electricity Board (CEB), Bank of Ceylon, People's Bank, and the Sri Lanka Ports Authority). In terms of book value of assets the largest are the Mahaweli Authority, CEB, and the Ports Authority, and with reference to annual turnover the largest are the Cooperative Wholesale Establishment (CWE), the Ceylon Petroleum Corporation (CPC), CEB, and the two state banks.

133. The privatization strategy being followed calls for a major shareholding in an enterprise to be divested through the stock market or open tender to a corporate investor. The most common procedure has been to sell a majority of the shares (51 percent to 90 percent) in a single tranche giving the buyer a controlling interest over management and policies. To make

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<sup>1</sup>This was partly due to the large Mahaweli river project.

<sup>2</sup>In August 1994 there was a change in government and, as a result, there was a change in the focus of the program aimed at improving transparency and realizing better selling prices.

<sup>3</sup>Data on employment, book value, and turnover are as of end-1996.

privatization attractive to employees, 10 percent of the shares are given to them free of charge, and the remaining shares are issued to the general public.

134. There have been, however, several exceptions to this general strategy. The plantation industry had been managed by 2 large public enterprises and were divided into 23 regional plantation companies owned by the government. The management of these companies was handed over to 23 private sector management companies in 1990 on a contract basis for a initial period of 5 years. In 1992, the management of the plantations was privatized under five-year contracts that were extended to 50 years in late 1995. Since then, government shares in the plantations have been gradually sold off. In the bus transport sector, the policy initiated in late 1990 was to give away 50 percent of the shares to employees with the remaining shares held by the Treasury. The Air Lanka privatization in early 1998 involved the sale of 40 percent of government shares to a foreign investor and the transfer of management control.

135. In the early years, the results of the privatization effort were somewhat disappointing. Actual receipts typically fell below budget estimates, and in several cases the realization of the full benefits of privatization was constrained by regulatory restrictions and government intervention. In some cases (e.g. sugar, wheat flour) competition has been limited by restrictive import arrangements, high specific import levies, or minimum guaranteed prices for private sector producers. Restrictions were placed on the retrenchment of workers, usually for a period of up to two years. The government also continued to intervene in wage setting and production decisions in many privatized or corporatized entities, such as in the plantation sector. Some of these problems were evidenced by the passage of the Rehabilitation of Public Enterprises Act in 1996 under which the government "renationalized" 7 companies where the privatization process was thought to have failed. This action seems to have been related to behavior by the privatized firms that was deemed to not be in the national interest, and included retrenchment of labor, nonpayment of workers in these companies, and other actions seen to be in violation of workers rights. The government has indicated that this legislation would only apply to these 7 companies and that they would be "re-privatized" once they were rehabilitated. Several of these companies were privatized again, successfully, in 1997.

136. To reformulate and accelerate the privatization program the government established the Public Enterprise Reform Commission (PERC) in March 1995. Forty-seven enterprises were targeted for divestiture over a three year period including strategic enterprises such as gas, steel, telecommunications, plantations, and development banking . This approach also fell short of expectations in the first two years as only 21 enterprises were privatized and receipts fell short of budget estimates. The slow progress was attributed to the unfavorable investment climate following the deterioration in the security situation and the adverse supply shocks experienced in 1996. However, substantial progress was achieved in 1997 as an additional 14 enterprises were privatized. Several large divestitures in 1997, including the National Development Bank and Telecom, swelled privatization receipts to Rs 22½ billion (2½ percent of GDP), far in excess of budget estimates, and substantially reducing the budget's financing needs (see Box 8).

**Box 8. The Treatment of Privatization Receipts in the Fiscal Accounts**

Contrary to the national presentation, and the earlier version of the IMF's Government Finance Statistics Manual (1986), sales of shares in privatized enterprises in the *Annotated Outline* for the revised GFS manual (IMF, 1996) are considered to be exchanges of one financial asset for another and are treated as a financial transaction. Therefore, the treatment of privatization receipts in the IMF presentation of the fiscal accounts has no impact on the overall fiscal deficit, only on how that deficit is financed.

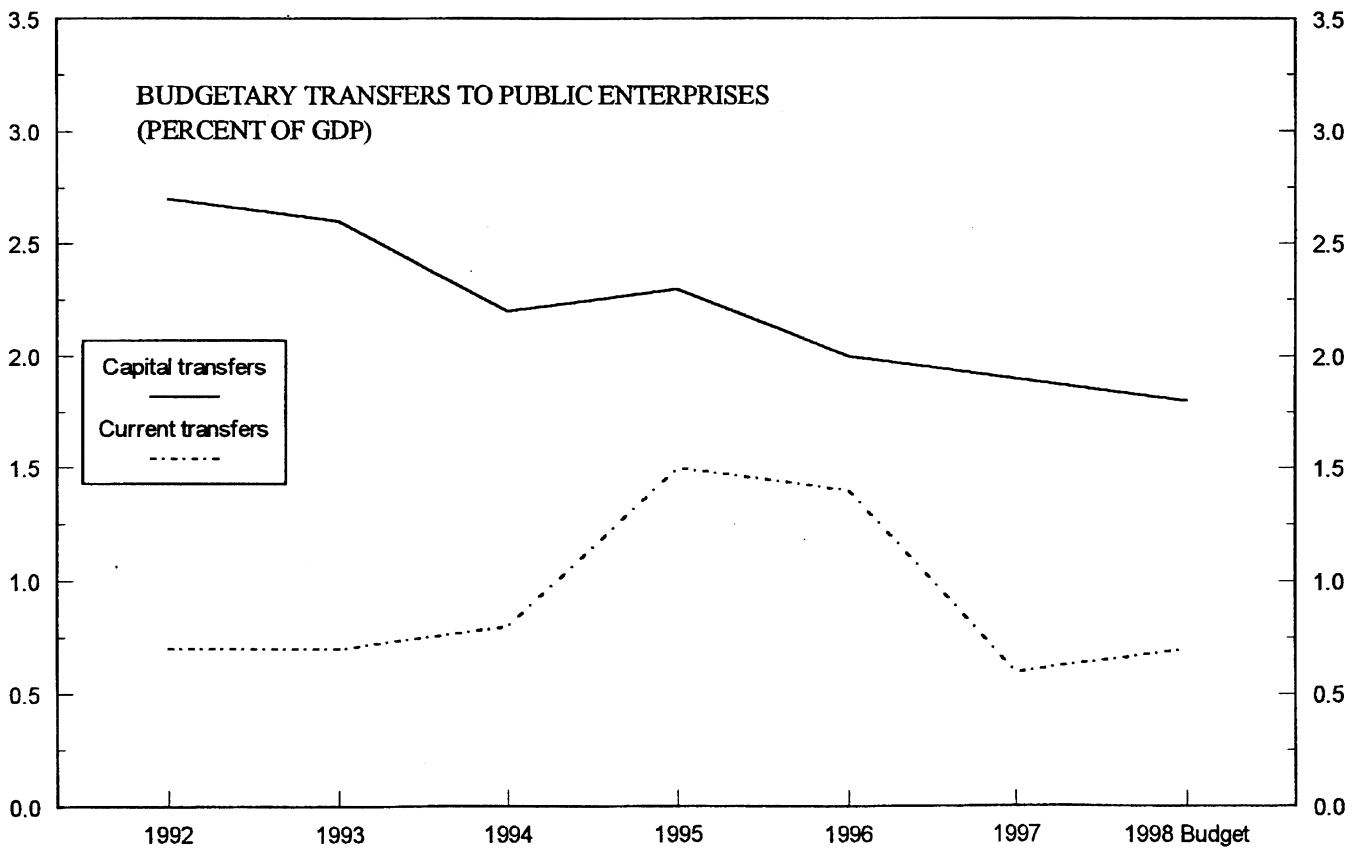
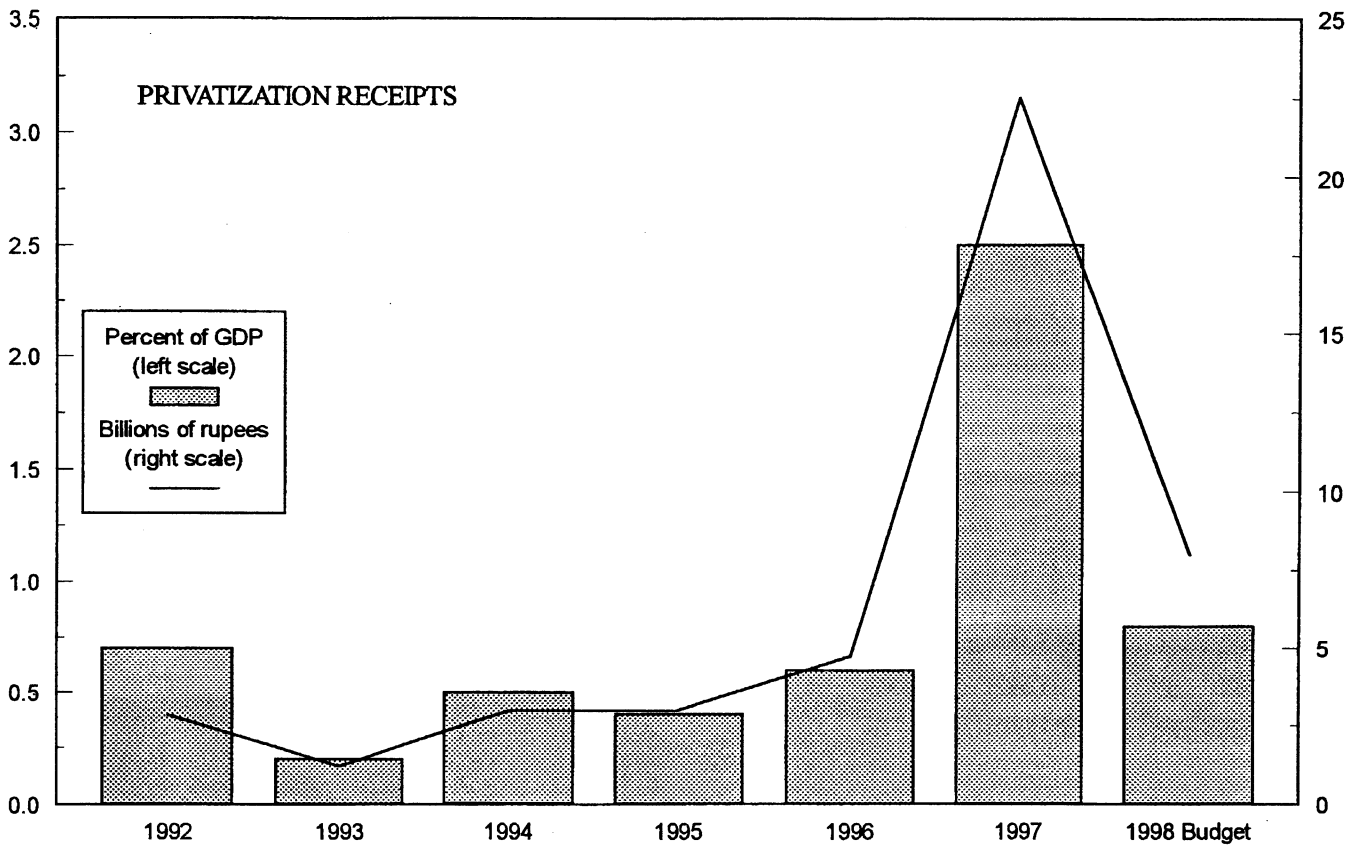
137. Another ambitious program has been set for 1998 (Table 10). With the sale of a 40 percent share and management control in Air Lanka in the first half of 1998, and several other divestitures planned for the rest of the year, privatization receipts in 1998 should also exceed the budget estimate of Rs 8 billion. The privatizations have continued to take place mainly through offerings on the Colombo Stock Exchange and in some cases by offering a strategic share to foreign investors along with management control. Employee support continues to be sought through the use of some employment and wage guarantees as well as free share allocations to employees.

138. The government has also been increasingly encouraging private sector participation in infrastructure. The largest private sector involvements in infrastructure are in telecommunications while several private sector BOO/BOT projects in energy have also been concluded. A project for private investment in ports is in the final stages of negotiation.

139. In addition to the direct receipts from the sale of shares, budgetary savings have also been achieved through lower transfers to public enterprises (see Chart 11). PERC estimates that transfers in 1997 were Rs 2½-3 billion lower because of the divestiture program than otherwise would have been the case as several enterprises that had been big consumers of budgetary support in the past have been divested (e.g. Telecom and Air Lanka). Moreover, adjustments in administered prices have, at least temporarily, reduced transfers to the CWE and CPC. Among the divestitures planned for 1998, several in the agriculture sector (cashew and livestock farm) will not bring in much in the way of receipts, but should provide additional budgetary savings in the future in the form of reduced transfers.



CHART 11  
SRI LANKA  
BUDGETARY IMPACT OF PUBLIC ENTERPRISE REFORM



Source: Data provided by the Sri Lanka authorities.

Table 9: Sri Lanka: Public Enterprises and Statutory Boards 1/

	No. of employees	Book value (Rs. Mn.)	Turnover (Rs. Mn.)	
<b>AGRICULTURE</b>				
<b>Enterprises</b>				
1	Agriculture Insurance Board	370	4	63
2	Cey-Nor Foundation	229	87	108
3	Ceylon Fertilizer Co.	225	825	1,110
4	Ceylon Fisheries Corp.	480	181	467
5	Dairy Development Foundation	5	4	2
6	Janatha Estates Development Board	11,250	580	260
7	Janatha Fertilizer Enterprises	310	110	630
8	Kalubovitiyana Tea Factories	76	122	94
9	National Livestock Development Board	472	28	585
10	Paddy Marketing Board 2/			
11	Sri Lanka Rubber Manufacturing and Export Corp.	300	159	297
12	Sri Lanka State Plantations Corp.	10,450	317	250
13	Sri Lanka Sugar Co.	13	581	4
14	State Timber Corp.	1,518	591	1,106
15	Thamankaduwa Agro Fertilizer Co.	44	58	12
<b>Statutory Boards</b>				
16	Agrarian Research and Training Institute	229	61	31
17	Agricultural Development Authority	580	79	61
18	Ceylon Fishery Harbours Corp.	340	396	14
19	Coconut Cultivation Board	791	157	282
20	Coconut Development Authority	192	390	145
21	Coconut Research Board	394	130	94
22	Land Reform Commission	256	2,377	32
23	Mahaweli Authority of Sri Lanka	7,729	68,711	...
24	National Aquatic Resources Agency	281	87	45
25	National Institute of Plantation Management	71	54	16
26	Palmyrah Development Board	220	13	32
27	Rubber Research Institute of Sri Lanka	275	43	78
28	Sri Lanka Council for Agricultural Research Policy	22	12	5
29	Sugarcane Research Institute	130	164	94
30	Tea Research Institute	250	151	5
31	Tea Small Holdings Development Authority	525	104	145
<b>CONSTRUCTION</b>				
<b>Enterprises</b>				
32	Buildings Materials Corporation	757	(92)	1,555
33	Central Engineering Consultancy Bureau	616	130	108
34	Devco Showa (Pvt.) Ltd.	152	20	126
35	Hevyquip Ltd.	27	0	1
36	Land Reclamation and Development Co.	105	10	143
37	Lanka Machine Leasers Ltd.	275	8	40
38	Road Construction and Development Co.	4,500	1,095	2,000
39	Sri Lanka Land Reclamation and Development Co.	1,500	91	560
40	State Development and Construction Corp.	444	197	330
41	State Engineering Corp. of Sri Lanka	3,125	204	868
<b>Statutory Boards</b>				
42	Institute of Construction Training and Development	394	1,728	71
43	National Engineering Research and Development Center	260	53	37
44	National Building Research Organization	185	17	25
45	Sri Lanka Press Council	37	2	6

Table 9: Sri Lanka: Public Enterprises and Statutory Boards (continued) 1/

	No. of employees	Book value (Rs. Mn.)	Turnover (Rs. Mn.)	
<b>ENERGY AND WATER SUPPLY</b>				
<b>Enterprises</b>				
46	Ceylon Electricity Board	16,287	115,252	19,828
47	Ceylon Petroleum Corp.	6,913	(388)	33,127
48	Lanka Electricity Company	1,300	4,823	2,429
49	National Water Supply and Drainage Board	7,560	8,565	1,910
<b>Statutory Boards</b>				
50	Atomic Energy Authority	68	22	8
51	Energy Conservation Fund	11	28	8
52	National Resources Energy and Science Authority	90	111	17
53	Water Resources Board	424	130	47
<b>FINANCIAL SECTOR</b>				
<b>Enterprises</b>				
54	Bank of Ceylon	10,355	9,476	16,743
55	BOC Management and Support Services		599	...
56	BOC Property Development and Management	205		...
57	BOC Travels, Ltd.	9	2	46
58	Lady Lahore Loan Fund	29	29	9
59	Management Services Rakshana	10	...	...
60	National Equipment and Machinery Organization	898	930	176
61	National Savings Bank	3,119	1,590	9,687
62	People's Bank	10,833	6,182	17,128
63	Sri Lanka Export Credit Insurance Corp.	33	318	73
64	Sri Lanka Insurance Corporation	2,750	2,743	5,203
65	State Mortgage and Investment Bank	276	1,480	819
<b>Statutory Boards</b>				
66	Board of Investment of Sri Lanka	1,386	2,945	591
67	Credit Information Bureau	20	49	10
68	National Housing Development Authority	3,787	7,758	768
69	National Institute of Business Management	135	113	69
70	Securities and Exchange Commission	40	21	4
71	Sri Lanka Tea Board	333	129	467
<b>MANUFACTURING</b>				
<b>Enterprises</b>				
72	Ceylon Ceramics Corp.	961	24	190
73	Lanka Textiles and Emporium Ltd.	433	(18)	19
74	National Packaging Centre	3	2	1
75	National Paper Co. Ltd.	2,826	923	1,530
76	Paranthan Chemicals Company Ltd.	244	41	116
77	Sri Lanka Aryurvedic Drugs Corp.	346	11	91
78	Sri Lanka Cement Corporation	750	1,741	36
79	Sri Lanka Handicrafts Board	699	124	135
80	State Pharmaceuticals Corp. of Sri Lanka	604	382	705
81	State Pharmaceuticals Manufacturing Corp.	106	736	352
<b>Statutory Boards</b>				
82	Ayurvedic Medical Council	12	0	1
83	Ceylon Institute of Scientific & Industrial Research	280	145	56
84	Clothing Industry Training Institute	42	19	10
85	Industrial Development Board	650	135	20
86	Institute of Indigenous Medicines	145	71	29
87	National Apprentice & Industrial Training Authority	771	428	184
88	National Dangerous Drugs Control Board	26	70	25
89	Silk & Allied Products Development Authority	500	82	38
90	Sri Lanka Export Development Board	335	764	629
91	Sri Lanka Institute of Printing	5	6	2
92	Textile Training & Services Centre	105	31	19

Table 9: Sri Lanka: Public Enterprises and Statutory Boards (continued) 1/

		No. of employees	Book value (Rs. Mn.)	Turnover (Rs. Mn.)
<b>MINING &amp; QUARRYING</b>				
<b>Enterprises</b>				
93	Lanka Mineral Sands Ltd.	759	1,145	452
94	Lanka Phosphate Ltd.	250	104	75
<b>Statutory Boards</b>				
95	National Gem & Jewellery Authority	302	149	94
96	Geological Survey & Mines Bureau	161	147	73
<b>OTHER SERVICES</b>				
<b>Enterprises</b>				
97	Development Lottery Trust	56	133	1,627
98	Employees Trust Fund Board	650	16,538	1,890
99	Mushroom Development & Training Centre	10	1	1
100	National Film Corp. of Sri Lanka	470	49	80
101	National Lotteries Board	200	164	1,776
102	Sevana Lottery	...	...	...
103	Sri Lanka Bureau of Foreign Employment	321	251	302
104	Sri Lanka Convention Bureau	7	1	1
105	Urban Development Authority	1,154	5,255	431
<b>Statutory Boards</b>				
106	Arthur C. Clarke Centre for Modern Technologies	55	72	22
107	Buddhasravaka Dharmaphithaya	79	25	10
108	Central Cultural Fund	3,690	73	363
109	Central Environmental Authority	191	102	27
110	Common Amenities Board	855	7	13
111	Computer & Information Technology Council of SL	34	12	4
112	Fair Trading Commission	27	5	5
113	Gampaha Wickramarachchi Ayurvedic Vidyalaya	125		20
114	Hadabima Authority	152	373	2
115	Institute of Aesthetic Studies	233	110	39
116	Institute of Computer Technology	30	14	10
117	Institute of Fundamental Studies	164	92	38
118	Institute of Workers Education	40	8	7
119	Marine Pollution Prevention Authority	4	1	4
120	National Crafts Council	34	16	12
121	National Institute of Education	660	307	236
122	National Institute of Social Development	66	20	
123	National Youth Services Council	1,150	537	271
124	Rehabilitation of Persons, Property & Industries Authority	50	264	27
125	Sir John Kotalawala Defence Academy	860	274	80
126	Sir Jayawardenapura General Hospital Board	1,744	710	333
127	Sri Lanka Foundation	123	115	40
128	Sri Lanka Institute of Development Administration	85	68	14
129	Sri Lanka Inventors Commission	12	2	
130	Sri Lanka National Design Centre	77	7	8
131	SL National Freedom from Hunger Campaign Board	67	47	9
132	Sri Lanka National Library Services Board	189	124	28
133	Sri Lanka Standards Institution	398	550	18
134	Superior Courts Complex Fund	175	78	30
135	Tower Hall Theatre Foundation	38	115	16
136	University Grants Commission	175	136	29
137	Vocational Training Authority	554	69	27

Table 9: Sri Lanka: Public Enterprises and Statutory Boards (concluded) 1/

		No. of employees	Book value (Rs. Mn.)	Turnover (Rs. Mn.)
<b>TRANSPORT &amp; COMMUNICATION</b>				
<b>Enterprises</b>				
138	Airport & Aviation Services (Sri Lanka) Ltd.	2,300	338	356
139	Ceylon Port Services Ltd.	45	5	74
140	Ceylon Shipping Agency (Pvt.) Ltd.	5	(2)	2
141	Ceylon Shipping Corp. Ltd.	228	(207)	2,888
142	Lanka Tankers Ltd.		222	
143	SL Port Management & Consultancy Services Ltd.	8	2	2
144	Sri Lanka Broadcasting Corp.	2,300	1,751	485
145	Sri Lanka Central Transport Board	3,888	2,498	
146	Sri Lanka Ports Authority	23,548	11,863	6,567
147	Sri Lanka Rupavahini Corporation	826	878	529
<b>Statutory Boards</b>				
148	Central Freight Bureau of Sri Lanka	35	15	8
<b>TOURISM</b>				
<b>Enterprises</b>				
149	Ceylon Tourist Board	411	124	11
<b>WHOLESALE &amp; RETAIL TRADE</b>				
<b>Enterprises</b>				
150	The Cooperative Wholesale Establishment	4,000	319	22,472
<b>Statutory Boards</b>				
151	Sri Lanka Institute of Cooperative Management	65	12	10
<b>TOTALS</b>		181,253	294,751	167,240

Source: Data provided by the Sri Lanka authorities.

1/ List comprises 100 percent government owned entities, except People's Bank which is 92 percent government owned excluding those listed in the 1998 program (Table 1.2). Statutory Boards do not include universities and post-graduate institutions.

2/ The operations of the Paddy Marketing Board were suspended at the end of 1997.

**Table. 10. Sri Lanka: Public Enterprise Reform, 1998 Program**

Enterprises	Strategy
<b>Plantations</b>	
Hapugastenna, Uda Pussellawa Balangoda, Madulsima Kahawatta, Elpitiya, Agarapathana Namunukulla, Maturata, Malwatte Valley, Talawakella & Pussellawa	IPOs (20%) followed by additional sales of minority shares later in the year.
<b>Non-plantation agriculture</b>	
Higurana Sugar	Sale of govt. shares (100%)
Pelwatte Sugar	Sale of minority holdings (53%)
Sevanagala Sugar Industries	Sale of govt. Shares (60%)
Kantale Sugar Industries	Liquidation
Seed Paddy farm Pelwehera	Long-term lease
Seed Paddy farm Hingurakgoda	Long-term lease
Cashew Corporation	Sale of govt. shares (90%)
Livestock farms	Long-term lease
<b>Transport</b>	
Air Lanka	Sale of govt. shares (40%) and transfer of mangement control
Ceylon Shipping Corporation	Sale of assets/liabilities
<b>Communication</b>	
Telecom	Sale of additional 10% of govt. shares (international placement)
Postal Department	Corporatization
<b>Manufacturing</b>	
BCC	Sale of govt. shares (90%)
Silk and Allied Products	Sale of govt. shares (90%)
Colombo Sack Makers	Sale of govt. shares (90%)
Pugoda Textiles	Sale of govt. shares (60%)
Prima Mill	Renegotiate BOT agreement
<b>Services</b>	
Hotels Corporation	Sale of govt. shares (55%)
<b>Energy</b>	
Lubricants Market	Issuance of license to import
<b>Mining</b>	
Bogala Graphite/Kahatagaha	Sale of remaining govt. shares (51%)
<b>Financial</b>	
NIC	Sale of govt. shares (35% and transfer of management control)
Ruhuna Development Bank	Incorporate and change structure
NDB	Sale of CBSL shares (10%)

Source: Data provided by the Sri Lanka authorities.

Table 11. Sri Lanka: Gross Domestic Product and Expenditure Components, 1993-97 1/

	1993	1994	1995	1996	1997
(In millions of Sri Lanka rupees at current prices)					
Consumption	419,576	490,935	565,661	650,437	736,035
Private	373,785	434,933	489,057	569,416	643,839
Public	45,791	56,002	76,604	81,021	92,196
Gross investment	127,675	156,510	171,825	186,264	217,103
Private 2/	87,793	116,106	119,033	138,766	168,493
Public 3/	39,882	40,404	52,792	47,498	48,610
Domestic demand	547,251	647,445	737,486	836,701	953,138
Exports of goods and nonfactor services	168,858	195,805	237,711	268,640	324,923
Aggregate demand	716,109	843,250	975,197	1,105,341	1,278,061
Imports of goods and nonfactor services	216,544	264,166	307,425	337,213	387,576
Expenditure on gross domestic product	499,565	579,084	667,772	768,128	890,485
Net factor income from abroad	-5,979	-8,310	-6,958	-11,258	-9,934
Gross national income	493,586	570,774	660,814	756,870	880,551
Net current transfers from abroad	27,090	30,989	34,820	39,242	46,449
National disposable income	520,676	601,763	695,634	796,112	927,000
(In percent of GDP)					
Consumption	84.0	84.8	84.7	84.7	82.7
Gross fixed investment	25.6	27.0	25.7	24.2	24.4
Private 2/	17.6	20.0	17.8	18.1	18.9
Public 3/	8.0	7.0	7.9	6.2	5.5
(In millions of Sri Lanka rupees at constant 1982 prices)					
Consumption	139,729	148,657	156,741	162,027	173,716
Gross investment	40,271	43,958	44,163	45,407	47,213
Domestic demand	180,000	192,615	200,904	207,434	220,929
Exports of goods and nonfactor services	55,016	62,168	63,971	66,018	73,689
Aggregate demand	235,016	254,783	264,875	273,452	294,618
Imports of goods and nonfactor services	76,808	87,715	88,618	90,497	99,954
Resource gap	-21,792	-25,547	-24,647	-24,479	-26,265
Expenditure on gross domestic product	158,208	167,068	176,257	182,955	194,664
Gross domestic product at factor cost	150,783	159,269	167,953	174,261	185,500
(Annual percentage change, constant prices)					
Consumption	7.1	6.4	5.4	3.4	7.2
Gross investment	11.8	9.2	0.5	2.8	4.0
Domestic demand	8.2	7.0	4.3	3.3	6.5
Exports of goods and nonfactor services	13.1	13.0	2.9	3.2	11.6
Aggregate demand	9.3	8.4	4.0	3.2	7.7
Imports of goods and nonfactor services	14.5	14.2	1.0	2.1	10.5
Gross domestic product	6.9	5.6	5.5	3.8	6.4
Memorandum items:					
Population (midyear, in millions)	17.6	17.9	18.1	18.3	18.5
Gross national income per capita, in rupees	28,357	32,215	36,357	41,348	47,409
Gross national income per capita, in SDRs	421	455	468	515	584

Sources: Data provided by the Sri Lanka authorities, and staff estimates.

1/ At market prices.

2/ Includes investment by public corporations not financed through the government budget.

3/ Capital expenditure and net lending by the central government, excluding privatization proceeds.

Table 12. Sri Lanka: Saving, Investment, and the Current Account, 1993-97

	1993	1994	1995	1996	1997
(In millions of Sri Lanka rupees at current prices)					
Gross investment	127,675	156,510	171,825	186,264	217,103
Current account balance	-26,575	-45,682	-41,852	-40,589	-26,138
National saving	101,100	110,828	129,973	145,675	190,965
Net factor income from abroad	-5,979	-8,310	-6,958	-11,258	-9,934
Net private transfers	27,090	30,989	34,820	39,242	46,449
Domestic saving	79,989	88,149	102,111	117,691	154,450
Private	83,938	105,195	120,012	146,560	174,330
Public	-3,949	-17,046	-17,901	-28,869	-19,880
(In percent of GDP)					
Domestic saving	16.0	15.2	15.3	15.3	17.3
Private	16.8	18.2	18.0	19.1	19.6
Public 1/	-0.8	-2.9	-2.7	-3.8	-2.2
Gross investment	25.6	27.0	25.7	24.2	24.4
Private 2/	17.6	20.0	17.8	18.1	18.9
Public 3/	8.0	7.0	7.9	6.2	5.5
National saving	20.2	19.1	19.5	19.0	21.4
Of which: Private 4/	21.0	22.1	22.1	22.7	23.7
Balance of payments current account	-5.3	-7.9	-6.3	-5.3	-2.9
Private sector saving minus investment	3.5	2.0	4.3	4.7	4.8
Public sector saving minus investment	-8.8	-9.9	-10.6	-9.9	-7.7

Sources: Data provided by the Sri Lanka authorities; and staff estimates.

1/ Current revenue minus current expenditure.

2/ Includes investment by public corporations not financed through the government budget.

3/ Capital expenditure and net lending by the central government, excluding privatization proceeds.

4/ Includes net factor income and transfers from abroad.



Table 13. Sri Lanka: Gross Domestic Product by Industrial Origin  
at Current Prices, 1993-97

	1993	1994	1995	1996	1997
(In millions of Sri Lanka rupees at current prices)					
Agriculture 1/	111,659	124,370	137,678	156,108	175,774
Plantation crops 2/	18,699	19,231	20,560	27,181	30,777
Paddy	21,586	21,241	21,645	19,892	24,469
Fishing	11,930	14,376	16,604	18,763	21,413
Other	59,444	69,522	78,869	90,272	99,115
Mining and quarrying	8,446	10,473	11,510	13,927	16,587
Manufacturing	68,881	80,482	94,098	112,724	131,876
Plantation crop processing	8,427	9,994	11,853	16,203	19,476
Other	60,454	70,488	82,245	96,521	112,400
Construction	32,615	38,323	44,455	48,234	56,434
Services	231,491	269,652	310,586	364,941	423,027
Gross domestic product	453,092	523,300	598,327	695,934	803,698
Net factor income from abroad	-5,979	-8,310	-6,958	-11,259	-9,934
Gross national product	447,113	514,990	591,369	684,675	793,764
(In percent of GDP)					
Agriculture 1/	24.6	23.8	23.0	22.4	21.9
Plantation crops 2/	4.1	3.7	3.4	3.9	3.8
Paddy	4.8	4.1	3.6	2.9	3.0
Fishing	2.6	2.7	2.8	2.7	2.7
Other	13.1	13.3	13.2	13.0	12.3
Mining and quarrying	1.9	2.0	1.9	2.0	2.1
Manufacturing	15.2	15.4	15.7	16.2	16.4
Plantation crop processing	1.9	1.9	2.0	2.3	2.4
Other	13.3	13.5	13.7	13.9	14.0
Construction	7.2	7.3	7.4	6.9	7.0
Services	51.1	51.5	51.9	52.4	52.6
Gross domestic product	100.0	100.0	100.0	100.0	100.0
Memorandum items:					
Annual percentage increase					
in implicit GDP deflator 3/	9.5	9.3	8.4	12.1	8.5
CPI Inflation	11.7	8.4	7.7	15.9	9.6

Sources: Data provided by the Sri Lanka authorities; and staff estimates.

1/ Including forestry and fishing.

2/ Tea, rubber, and coconuts.

3/ Based on factor costs.

Table 14. Sri Lanka: Gross Domestic Product by Industrial Origin  
at Constant Prices, 1993-97

	1993	1994	1995	1996	1997
(In millions of Sri Lanka rupees at 1982 factor costs)					
Agriculture 1/	31,554	32,593	33,659	32,109	33,095
Plantation crops 2/	6,465	7,180	7,408	7,343	7,646
Paddy	6,447	6,750	7,067	5,180	5,625
Fishing	2,811	2,850	2,990	2,873	3,017
Other	15,831	15,813	16,194	16,713	16,807
Mining and quarrying	3,693	3,915	4,048	4,408	4,558
Manufacturing	28,806	31,418	34,294	36,539	39,943
Plantation crop processing	3,157	3,567	3,724	3,761	3,874
Other	25,649	27,851	30,570	32,778	36,069
Construction	10,400	11,024	11,564	11,957	12,603
Services	76,330	80,319	84,388	89,248	95,301
<i>Of which:</i>					
Public administration and defense	6,642	6,848	7,218	7,579	7,912
Wholesale and retail trade	32,584	34,667	35,906	37,765	40,234
Gross domestic product	150,783	159,269	167,953	174,261	185,500
Net factor income from abroad	-2,039	-2,698	-2,056	-3,085	-2,550
Gross national product	148,744	156,571	165,897	171,176	182,950
(Annual percentage change)					
Agriculture 1/	4.9	3.3	3.3	-4.6	3.1
Plantation crops 2/	8.8	11.1	3.2	-0.9	4.1
Paddy	9.6	4.7	4.7	-26.7	8.6
Fishing	7.1	1.4	4.9	-3.9	5.0
Other	1.2	-0.1	2.4	3.2	0.6
Mining and quarrying	11.9	6.0	3.4	8.9	3.4
Manufacturing	10.5	9.1	9.2	6.5	9.3
Plantation crop processing	8.4	13.0	4.4	1.0	3.0
Other	10.8	8.6	9.8	7.2	10.0
Construction	6.5	6.0	4.9	3.4	5.4
Services	6.3	5.2	5.1	5.8	6.8
<i>Of which:</i>					
Wholesale and retail trade	8.3	6.4	3.6	5.2	6.5
Gross domestic product	6.9	5.6	5.5	3.8	6.4

Sources: Data provided by the Sri Lanka authorities; and staff estimates.

1/ Including forestry and fishing.

2/ Tea, rubber, and coconuts.

Table 15. Sri Lanka: Basic Data on the Tea Sector, 1993-97

	1993	1994	1995	1996	1997 1/
(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield and exports					
Planted area	193	187	189	189	194
Production	232	242	246	258	277
By type:					
High grown	73	77	74	72	84
Medium grown	47	47	51	48	57
Low grown	112	118	122	138	136
Exports	218	230	241	244	269
Yield per hectare	1,202	1,295	1,302	1,365	1,428
Replanting area	1.31	1.22	1.21	0.94	0.93
(In Sri Lanka rupees per kilogram)					
Prices and costs					
Average f.o.b. export price	91.16	91.32	102.31	139.60	158.40
Average Colombo auction price (net)	68.88	65.12	72.21	103.90	119.40
Cost of production 2/	75.81	75.67	76.74	87.04	90.26
Producer's margin 3/	-6.93	-10.55	-4.53	16.84	29.14

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ Estimated weighted average cost of production of the privatised plantation companies and the public sector estates.

3/ Average Colombo auction price minus cost of production.

Table 16. Sri Lanka: Basic Data on the Rubber Sector, 1993-97

	1993	1994	1995	1996	1997 1/
(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield, and exports					
Area under cultivation	161	161	162	162	163
Area under tapping	119	121	124	122	129
Production	104	105	106	113	106
Exports	70	69	68	72	62
Domestic use	33	36	37	40	44
Yield (kg/ha)	873	870	853	927	823
Fertilizer use (in '000 metric tons)	18	17	15	17	12
Replanting area	2.42	1.62	3.24	3.44	1.03
(In Sri Lanka rupees per kilogram)					
Prices and costs					
Average f.o.b. export price 2/	44.34	51.81	83.69	79.78	75.42
Average Colombo auction price 2/	35.48	50.36	72.04	67.85	56.62
Cost of production	30.22	30.85	33.37	36.70	40.37
Producer's margin 3/	5.26	19.51	38.67	31.15	16.25

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ For RSS No.1 category of rubber.

3/ Average Colombo auction price for RSS No.1 minus cost of production.

Table 17. Sri Lanka: Basic Data on the Coconut Sector, 1993-97

	1993	1994	1995	1996	1997 1/
(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield, and exports					
Planted area	416	412	416	417	417
Production	2,164	2,622	2,755	2,546	2,631
By type:					
Desiccated coconut 2/	269	380	465	425	524
Coconut oil 2/	176	480	516	328	289
Copra 2/	24	32	50	39	42
Fresh nut exports	22	25	27	17	18
Domestic nut consumption 3/	1,668	1,687	1,716	1,720	1,744
By sector:					
Yield (nuts/ha)	5,202	6,364	6,623	6,106	6,309
Exports	293	437	579	475	505
Fertilizer use (in '000 metric tons)	35	31	34	39	35
Replanting area	1.55	0.84	0.99	0.58	1.22
Replanting subsidy (in SL Rs per ha)	25,000	25,000	25,000	38,750	38,750
(In Sri Lanka rupees per thousand nuts)					
Prices and costs					
Average f.o.b. export price	6,309	5,672	6,080	9,400	9,630
Average Colombo market price (fresh nuts)	6,470	6,300	5,450	9,410	11,850
Cost of production (private sector)	2,030	1,840	2,020	2,180	2,260
Producer margin 4/	4,440	4,460	3,430	7,220	9,590

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ In nut equivalent per metric ton; desiccated coconut = 6,800 nuts; oil = 8,000 nuts; and copra = 4,925 nuts.

3/ Estimated on the basis of per capita consumption of 94.8 nuts per year, excluding industrial use.

4/ Average Colombo market price minus cost of production.

Table 18. Sri Lanka: Paddy and Other Agricultural Production, 1993-97

(Volume in thousands of metric tons, area in thousands of hectares, and yield in kilograms per hectare)

	1993	1994	1995	1996	1997 1/
Paddy production	2,570	2,684	2,810	2,061	2,239
Gross area sown	835	930	915	749	730
Net area harvested	732	798	795	587	619
Yield on net area harvested	3,511	3,363	3,535	3,513	3,618
Fertilizer use (in '000 metric tons)	248	270	257	238	245
<i>Of which : Maha 2/</i>					
Production	1,692	1,670	1,761	1,331	1,457
Net area harvested	480	499	489	377	397
Yield on net area harvested	3,516	3,345	3,603	3,534	3,670
<i>Of which : Yala 3/</i>					
Production	878	1,014	1,049	730	782
Net area harvested	252	299	306	210	222
Yield on net area harvested	3,481	3,393	3,427	3,477	3,529
Memorandum items:					
Paddy wholesale (market) price 4/	183	168	163	213	231
Guaranteed price scheme 4/	155	155	155	155	155
Purchases under Guaranteed Price Scheme (in percent of total production)	1.8	4.4	10.0	0.05	0.00
Rice imports (in '000 metric tons)	209	58	9	341	306
Other agricultural products:					
Sugarcane	802	874	858	862	783
Tobacco 5/	12	12	11	11	11
Fish	221	224	238	229	240

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ October-April season.

3/ April-October season.

4/ In rupees per bushel. One bushel is 20.9 kilograms.

5/ Includes beedi/cigar tobacco and cigarette tobacco.

Table 19. Sri Lanka: Consumption and Prices of Petroleum and Electricity, 1993-97

	1993	1994	1995	1996	1997
Gross consumption of selected petroleum products ('000 MT)					
Kerosene	192	206	222	228	225
Gasoline	173	183	190	198	194
Auto diesel	666	725	789	1,045	1,295
Heavy diesel	18	53	80	87	...
Furnace oil	221	228	241	341	371
Consumption of electricity 1/ (In '000 metric tons oil equivalent)					
	3,270	3,587	3,932	3,740	4,226
	824	891	979	899	1,051
(In percent)					
Composition of electricity generation					
Hydro power	95.4	93.2	94	71.7	67.5
Thermal power	4.6	6.3	5.6	21.5	20.6
Private power	...	...	...	3.4	8.1
Self generation	...	0.5	0.4	3.4	3.7
(In Sri Lanka rupees per liter)					
Prices of petroleum products 2/ 3/					
Kerosene	8.8	11.8	9.5	10.4	10.4
Gasoline	33.0	35.0	40.0	50.0	50.0
Auto diesel	11.7	12.0	12.4	13.2	13.2
Heavy diesel	11.2	11.4	11.7	11.7	...
Fuel oil	6.8	6.8	6.8	7.5	7.5
Cost price of petroleum products 4/ 5/					
Kerosene	13.2	12.1	11.7	12.5	13.0
Gasoline	19.4	21.5	25.8	32.2	30.3
Auto diesel	13.4	11.1	13.1	14.0	14.5
Heavy diesel	12.9	11.5	12.1	...	...
Fuel oil	5.7	6.5	7.0	7.5	8.8
Crude oil (c.i.f., in US\$ per barrel)	17.6	16.4	17.6	20.2	19.4
Price of electricity 2/ 6/	2.6	3.7	3.7	4.0	4.2
Price of electricity for domestic units >150 Kwh 2/ 6/	2.1	3.0	3.0	3.5	3.6

Source: Data provided by the Sri Lanka authorities; Ceylon Petroleum Corporation; and Ceylon Electricity Board.

1/ Including use for electricity generation.

2/ End of period.

3/ Price includes taxes. From December 1995, taxes consist of a 20 percent turnover tax on gasoline, a 6 percent turnover tax on all other petroleum products, and a 4.5 percent National Security Levy on all products. There are also excise duties of Rs 7 per liter.

4/ Period average.

5/ Unit cost of production including customs duty (all customs duties are charged to domestic sales), turnover taxes, and all other expenses.

6/ Basic rate on household consumption of electricity between 50 and 500 kilowatt hours per month, excluding fuel surcharge levied on all users of electricity exceeding 150 kwh per month, in SL Rs. per Kwh.

Table 20. Sri Lanka: Price Indicators, 1993-97

	1993	1994	1995	1996	1997
	(Annual average percentage change)				
GDP deflator 1/	9.9	9.3	8.4	12.1	8.5
Colombo consumer price index	11.7	8.4	7.7	15.9	9.6
<i>Of which:</i>					
Food (61.9 percent) 2/	11.2	8.9	6.9	19.2	10.9
Rice (6.4 percent)	2.1	0.3	2.1	25.8	7.7
Bread, wheat flour (9.4 percent)	7.7	2.7	20.4	59.7	30.5
Clothing (9.4 percent)	8.1	1.7	1.0	2.2	2.7
Fuel and light (4.3 percent)	17.0	14.9	6.1	8.1	4.5
Kerosene (4.0 percent)	18.8	7.3	15.4	2.4	6.9
Rent (5.7 percent) 3/	0.0	0.0	0.0	0.0	0.0
Miscellaneous (18.7 percent)	13.0	5.9	14.1	10.8	8.2
Wholesale price index	7.6	5.0	8.8	20.5	6.9
Domestic goods	5.8	13.0	6.8	11.7	6.5
Imports	5.9	4.5	10.1	11.6	8.2
Exports	11.4	-5.4	11.0	40.4	6.7
	(Annual percentage change)				
Colombo consumer price index (end-period)	10.3	4.2	11.5	16.8	10.7
Wholesale price index	7.7	1.8	16.2	18.1	6.6

Source: Data provided by the Sri Lanka authorities.

1/ Based on market prices.

2/ Data between brackets represent the weight in the overall index.

3/ Low-income housing is under rent control.



Table 21. Sri Lanka: Selected Wage and Employment Developments, 1993-97

	1993	1994	1995	1996	1997
	(Index, December 1978 = 100)				
Nominal wages					
Minimum wage 1/	685.8	712.4	740.3	801.7	849.1
Agriculture	803.7	821.5	830.9	907.9	971.8
Industry and commerce	528.7	555.8	651.6	682.8	710.8
Services	365.9	431.4	456.7	487.2	487.2
Government employees 2/	675.5	735.5	792.5	818.2	906.5
Real wages					
Minimum wage	116.6	111.7	107.7	100.7	97.3
Agriculture	136.6	128.8	121.1	113.9	111.4
Industry and commerce	89.9	87.2	94.8	85.9	81.4
Services	62.2	67.6	66.5	61.3	55.9
Government employees	114.8	115.4	115.4	103.0	104.0
	(Annual average percentage change)				
Real wages					
Minimum wage	4.1	-4.2	-3.6	-6.6	-3.4
Agriculture	8.3	-5.7	-6.0	-5.9	-2.2
Industry and commerce	-7.4	-3.0	7.9	-9.4	-5.2
Services	-10.6	8.7	-1.6	-7.8	-8.8
Government employees	8.3	5.2	0.0	-10.7	1.0
	(In thousands of persons)				
Employment in the public sector 3/	1,295	1,325	1,307	1,161	1,072
Central government 4/	676	700	738	752	762
Quasi-governmental institutions 5/	619	625	569	409	310
Employment in formal private sector	3,931	3,990	4,126	4,374	4,499
Board of Investment (BOI) companies	180	206	233	242	258
Other	3,751	3,784	3,893	4,132	4,241

Source: Data provided by the Sri Lanka authorities.

1/ Weighted average nominal wage for workers covered by Wage Boards; weights are based on the number employed in each trade as of end-December 1978.

2/ Average of initial salary grades for non-executive and minor employees, skilled and non-skilled; excludes school teachers.

3/ Takes into account the changes since 1987 owing to the Government's privatization program.

4/ Includes employees of government ministries, school teachers, and defense personnel.

5/ Includes universities, public corporations, boards, and state-owned banks.

Table 22. Sri Lanka: Labor Force, Employment, and Unemployment, 1993-97 1/

	1993	1994	1995	1996	1997
(In millions of persons)					
Total labor force	6.08	6.17	6.06	6.22	6.23
Male	4.06	4.18	4.11	4.19	4.17
Female	2.02	1.99	1.95	2.03	2.06
Urban	1.11	1.07	1.20	0.80	0.90
Rural	4.97	5.01	4.86	5.41	5.33
Total employed	5.26	5.36	5.34	5.50	5.59
Male	3.66	3.80	3.75	3.85	3.87
Female	1.60	1.56	1.59	1.65	1.72
Urban	0.90	0.90	1.04	0.71	0.80
Rural	4.36	4.46	4.30	4.79	4.79
Total unemployed	0.83	0.80	0.72	0.71	0.64
Male	0.40	0.38	0.36	0.34	0.30
Female	0.43	0.42	0.36	0.38	0.34
Urban	0.22	0.17	0.16	0.09	0.09
Rural	0.61	0.63	0.56	0.62	0.54
(In percent of labor force)					
Unemployment rate	13.6	13.0	11.9	11.5	10.2
Male	9.9	9.2	8.8	8.0	7.2
Female	21.0	21.2	18.4	18.7	16.3
Urban	19.5	16.0	13.7	11.7	10.4
Rural	12.3	12.4	11.5	11.5	10.2
(In percent of unemployed)					
Male	48.6	47.6	50.3	46.9	47.3
Female	51.4	52.4	49.7	53.1	52.7
Urban	26.3	21.3	22.8	13.1	14.6
Rural	73.7	78.7	77.2	86.9	85.4
Age 24 years or younger	61.5	67.0	61.6	64.5	60.8
Less than 9 years of schooling 2/	56.2	49.6	49.7	54.5	51.9

Source: Department of Census and Statistics, Labor Force Survey.

1/ Annual data as of April, excluding northern and eastern provinces.

2/ Less than General Certificate of Education (Ordinary Level).

Table 23. Sri Lanka: Employment by Economic Sectors, 1993-97 1/

	1993	1994	1995	1996	1997
(In millions of persons)					
Total employed	5.26	5.36	5.34	5.50	5.59
By economic sector:					
Agriculture	2.37	2.19	1.81	2.14	2.09
Mining and quarrying	0.08	0.04	0.06	0.10	0.07
Manufacturing	0.66	0.72	0.69	0.78	0.86
Utilities	0.04	0.03	0.02	0.03	0.01
Construction	0.20	0.26	0.27	0.25	0.29
Trade and hotels	0.54	0.56	0.84	0.66	0.71
Transportation, communications, storage	0.16	0.25	0.26	0.26	0.30
Insurance and real estate	0.07	0.13	0.10	0.09	0.09
Personal services	0.85	0.97	0.95	1.00	1.00
Other	0.29	0.20	0.32	0.18	0.16
(In percent of total employment)					
Agriculture	45.1	40.9	33.9	38.9	37.4
Mining and quarrying	1.5	0.7	1.1	1.8	1.3
Manufacturing	12.5	13.4	12.9	14.2	15.4
Utilities	0.8	0.6	0.4	0.5	0.2
Construction	3.8	4.9	5.1	4.5	5.2
Trade and hotels	10.3	10.4	15.7	12.0	12.7
Transportation, communications, storage	3.0	4.7	4.9	4.7	5.4
Insurance and real estate	1.3	2.4	1.9	1.6	1.6
Personal services	16.2	18.1	17.8	18.2	17.9
Other	5.5	3.7	6.0	3.3	2.9

Source: Department of Census and Statistics, Labor Force Survey.

1/ Annual data as of April, excluding northern and eastern provinces.

Table 24. Sri Lanka: Summary of Central Government Operations, 1993-98

	1993	1994	1995	1996	1997		1998 Budget
					Budget	Est.	
(In millions of Sri Lanka rupees)							
Total revenue	98,339	110,047	134,875	144,898	168,645	164,869	188,437
Tax	85,891	99,417	118,543	130,202	151,451	144,009	164,048
Nontax	12,448	10,630	16,332	14,696	17,194	20,860	24,389
Total expenditure and net lending	141,660	170,759	203,483	218,488	240,642	234,899	255,085
Current expenditure	103,753	130,818	157,050	174,976	183,693	184,747	187,091
Capital expenditure	33,662	30,391	39,327	37,639	47,879	44,168	57,338
Net lending	4,245	9,550	7,106	5,873	9,070	5,984	10,656
Overall deficit (before grants)	-43,321	-60,712	-68,608	-73,590	-71,997	-70,030	-66,648
Grants	8,025	8,257	9,028	8,500	10,208	7,500	9,000
Net foreign borrowing	9,855	11,778	21,224	10,160	14,194	9,722	16,426
Net domestic borrowing	25,441	40,677	38,356	54,930	47,595	52,808	41,222
Of which: Banking system	6,079	1,156	7,547	7,723	--	-902	0
Asset sales 1/	1,200	2,996	3,001	4,728	5,000	22,535	8,000
(In percent of GDP)							
Total revenue	19.7	19.0	20.2	18.8	18.9	18.5	18.4
Tax	17.2	17.2	17.8	16.9	17.0	16.2	16.0
Nontax	2.5	1.8	2.4	1.9	1.9	2.3	2.4
Total expenditure and net lending	28.4	29.5	30.5	28.4	27.0	26.4	24.9
Current expenditure	20.8	22.6	23.5	22.8	20.6	20.7	18.2
Capital expenditure	6.7	5.2	5.9	4.9	5.4	5.0	5.6
Net lending	0.8	1.6	1.1	0.8	1.0	0.7	1.0
Current account balance	-1.1	-3.6	-3.3	-3.9	-1.7	-2.2	0.1
Overall deficit (before grants)	-8.7	-10.5	-10.3	-9.6	-8.1	-7.9	-6.5
Grants	1.6	1.4	1.4	1.1	1.1	0.8	0.9
Net foreign borrowing	2.0	2.0	3.2	1.3	1.6	1.1	1.6
Net domestic borrowing	5.1	7.0	5.7	7.1	5.3	5.9	4.0
Of which: Banking system	-1.2	0.2	1.1	1.0	0.0	-0.1	0.0
Asset sales 1/	0.2	0.5	0.4	0.6	0.6	2.5	0.8
Memorandum items:							
Overall deficit (auth. definition) 2/	-8.4	-10.0	-9.8	-9.0	-7.5	-5.3	-5.7
GDP (SL Rs. bn.)	499.6	579.1	667.8	768.9	891.9	890.5	1026.5

Sources: Data provided by the Ministry of Finance; and Fund staff estimates.

1/ Asset sales are treated here as a component of financing. The authorities classify asset sales as negative net lending.

2/ Before grants; including privatization proceeds; military expenditures on cash basis (i.e., excluding external debt-financed military expenditure).

Table 25. Sri Lanka: Economic Classification of Expenditure, 1993-98

	1993	1994	1995	1996	1997		1998
					Budget 1/	Est.	Budget 1/
(In millions of Sri Lanka rupees)							
Current expenditure	103,753	130,818	157,050	174,976	183,693	184,747	187,091
Expenditure on goods and services	44,895	54,695	75,447	80,002	83,158	83,831	85,604
Salaries and wages	26,332	29,304	34,909	38,332	44,603	44,677	47,855
Other goods and services	18,563	25,391	40,538	41,670	38,555	39,154	37,749
Interest payments	31,668	41,770	41,116	48,923	55,491	55,246	55,368
Foreign	5,102	5,511	6,162	6,739	8,338	6,692	7,418
Domestic	26,566	36,259	34,954	42,184	47,153	48,554	47,950
Subsidies and current transfers	27,190	34,353	40,487	46,051	44,044	45,670	45,419
To public corporations	1,571	2,634	7,841	8,232	2,239	2,693	2,374
To public institutions	2,031	1,976	2,182	2,284	3,931	2,657	5,381
To other levels of government	896	1,307	1,157	1,592	1,464	1,941	1,524
To households	22,483	28,222	29,144	31,950	35,571	37,057	35,427
To private institutions and abroad	209	214	163	1,993	839	1,322	713
Capital expenditure	33,662	30,391	39,327	37,639	47,879	44,168	57,338
Acquisition of capital assets	19,719	16,747	22,588	20,938	28,726	25,653	35,185
Capital transfers	13,943	13,644	16,739	16,701	19,153	18,515	22,153
To public corporations	4,311	4,246	5,219	6,017	6,371	5,880	6,396
To public institutions	8,551	8,433	10,446	9,603	11,532	11,041	13,980
To other levels of government	1,036	914	1,057	1,042	1,200	1,511	1,745
To abroad/other	45	51	17	39	50	83	32
Lending minus repayments	4,245	9,550	6,805	5,783	8,269	3,791	9,156
Total expenditure and net lending	141,660	170,759	203,182	218,398	239,841	232,706	253,585
(In percent of GDP)							
Current expenditure	20.8	22.6	23.5	22.8	20.6	20.7	18.2
Subsidies and current transfers	5.4	5.9	6.1	6.0	4.9	5.1	4.4
Capital expenditure	6.7	5.2	5.9	4.9	5.4	5.0	5.6
Net lending	0.8	1.6	1.0	0.8	0.9	0.4	0.9
Total expenditure and net lending	28.4	29.5	30.4	28.4	26.9	26.1	24.7
(In percent of total expenditure)							
Current expenditure	73.2	76.6	77.3	80.1	76.6	79.4	73.8
Subsidies and current transfers	19.2	20.1	19.9	21.1	18.4	19.6	17.9
Capital expenditure	23.8	17.8	19.4	17.2	20.0	19.0	22.6
Net lending	3.0	5.6	3.3	2.6	3.4	1.6	3.6
Memorandum items:							
Military expenditure (mill. of rupees)	20,463	27,067	42,460	44,933	43,124	44,972	43,127
In percent of GDP	4.1	4.7	6.4	5.8	4.8	5.1	4.2

Sources: Data provided by the Ministry of Finance; and Fund staff estimates.

1/ Budget estimates include unallocated expenditure as a contingency of Rp. 1,000 million in 1997 and Rp. 700 million in 1998.

Table 26. Sri Lanka: Summary of Central Government Revenue by Component, 1993-98

	1993	1994	1995	1996	1997		1998
					Budget	Est.	Budget
(In millions of Sri Lanka rupees)							
Tax revenue	85,891	99,417	118,543	130,202	151,451	144,009	164,048
Income tax	12,543	15,277	17,148	20,751	21,345	20,845	24,064
Personal	5,235	5,621	7,358	7,440	8,075	8,283	9,214
Corporate	7,308	9,656	9,790	13,311	13,270	12,562	14,850
Stamp duty and taxes on property	3,493	4,386	5,162	5,279	6,788	7,754	8,056
Tax on Central Bank holdings of treasury bills	1,073	471	1,050	1,604	350	1,080	0
Taxes on goods and services	47,963	56,685	70,810	77,105	92,890	87,701	100,968
Turnover tax	29,663	32,300	36,429	37,631	43,478	43,259	47,130
Excises	11,655	14,632	19,406	22,067	28,936	26,050	31,464
<i>Of which</i> : Liquor	4,063	4,686	6,184	5,839	7,780	6,187	8,369
Tobacco	6,866	7,888	9,492	12,833	15,175	15,175	16,050
License fees	56	60	567	966	2,050	1,118	1,874
National security levy	6,589	9,693	14,408	16,441	18,426	17,274	20,500
Taxes on international trade	20,819	22,598	24,373	25,463	30,078	26,629	30,960
<i>Of which</i> : Imports	20,762	22,598	24,365	25,458	30,078	26,629	30,960
Nontax revenue	12,448	10,630	16,332	14,696	17,194	20,860	24,389
Property income	8,154	7,459	13,073	10,059	11,871	14,300	15,178
Fees and charges	1,303	1,439	1,751	2,827	3,009	2,248	2,858
Other	2,991	1,732	1,508	1,810	2,314	4,312	6,353
Total revenue	98,339	110,047	134,875	144,898	168,645	164,869	188,437
(In percent of GDP)							
Tax revenue	17.2	17.2	17.8	16.9	17.0	16.2	16.0
Income tax	2.5	2.6	2.6	2.7	2.4	2.3	2.3
Taxes on property	0.7	0.8	0.8	0.7	0.8	0.9	0.8
Taxes on goods and services	9.6	9.8	10.6	10.0	10.4	9.8	9.8
Taxes on international trade	4.2	3.9	3.6	3.3	3.4	3.0	3.0
Nontax revenue	2.5	1.8	2.4	1.9	1.9	2.3	2.4
Total revenue	19.7	19.0	20.2	18.8	18.9	18.5	18.4

Source: Data provided by the Ministry of Finance.

1/ Includes "save the nation contribution" in 1996 budget.

Table 27. Sri Lanka: Current and Capital Transfers to Public Corporations and Public Institutions, 1993-98

	1993	1994	1995	1996	1997		1998
					Budget	Est.	Budget
(In millions of Sri Lanka rupees)							
Total	16,464	17,289	28,083	26,135	24,073	22,271	28,131
Public corporations	5,882	6,880	15,455	14,248	8,610	8,573	8,770
Public institutions	10,582	10,409	12,628	11,887	15,463	13,698	19,361
Current transfers	3,602	4,610	10,023	10,515	6,170	5,350	7,755
Public corporations	1,571	2,634	7,841	8,231	2,239	2,693	2,374
Public institutions	2,031	1,976	2,182	2,284	3,931	2,657	5,381
Capital transfers	12,862	12,679	18,060	15,620	17,903	16,921	20,376
Public corporations 1/	4,311	4,246	7,614	6,017	6,371	5,880	6,396
Public institutions	8,551	8,433	10,446	9,603	11,532	11,041	13,980
Total transfers to selected corporations and institutions							
Cooperative Wholesale Establishment	--	--	5,000	5,500	1,000	1,000	--
Shipping Corporation	--	--	2,395	--	--	--	--
Mahaweli Authority	2,810	2,598	3,090	1,940	1,655	1,626	2,390
Plantation Corporations	215	411	305	12	10	12	16
Ceylon Electricity Board	384	1,162	1,240	504	1081	1139	1690
Transport Board	300	500	524	518	156	248	651
Housing Development Authority	246	162	495	223	695	454	860
Water Supply and Drainage Board	2,387	2,363	3,236	3,392	2,524	2,601	2,997
Road Development Authority	3,793	3,747	5,131	4,648	6,262	6,102	7,830
(In percent of GDP)							
Total transfers	3.3	3.0	4.2	3.4	2.7	2.5	2.7
Current	0.7	0.8	1.5	1.4	0.7	0.6	0.8
Capital	2.6	2.2	2.7	2.0	2.0	1.9	2.0
Public corporations	0.9	0.7	1.1	0.8	0.7	0.7	0.6
Public institutions	1.7	1.5	1.6	1.2	1.3	1.2	1.4
Total, excluding Mahaweli	2.7	2.5	3.7	3.1	2.5	2.3	2.5

Source: Data provided by the Ministry of Finance.

1/ The 1995 estimate includes Rs. 2,395 million transferred to the Shipping Corporation to clear the loan balance appearing in treasury books. An offsetting amount is included as repayment under net lending.

Table 28. Sri Lanka: Transfer and Subsidy Payments to Households, 1993-98

	1993	1994	1995	1996	1997		1998 Budget
					Budget	Est.	
(In millions of Sri Lanka rupees)							
Total	22,362	28,263	29,144	32,567	35,571	37,057	35,427
<i>Of which</i> : Excluding pensions	11,846	14,992	14,595	17,102	17,496	19,141	17,142
Food subsidy and food stamps	2,575	2,454	1,396	446	125	101	75
Infant milk	125	125	34	52	125	101	75
Food stamps	2,450	2,329	1,362	394	--	--	--
Pensions	10,516	13,271	14,549	15,465	18,075	17,916	18,285
Kerosene stamps	450	580	437	112	--	--	--
NSB interest subsidy 1/	130	60	--	--	--	600	--
Fertilizer subsidy	--	630	1,345	1,500	1,500	1,895	1,500
Samurdhi	--	--	2,793	7,340	8,692	8,718	8,670
Department of Welfare payments	268	600	237	1,311	1,503	2,395	2,049
Free textbooks	275	400	409	523	700	701	948
Midday meal	1,700	1,240	1,778	--	--	--	--
Jana Saviya/school uniform	5,150	4,956	3,423	2,418	1,100	899	1,000
Other	1,298	4,072	2,777	3,452	3,876	3,832	2,900
(In percent of GDP)							
Total	4.5	4.9	4.4	4.2	4.0	4.2	3.5
Pensions	2.1	2.3	2.2	2.0	2.0	2.0	1.8
Other transfers and subsidies	2.4	2.6	2.2	2.2	2.0	2.1	1.7

Source: Data provided by the Ministry of Finance.

1/ National Savings Bank.



Table 29. Sri Lanka: Functional Classification of Expenditure, 1993-98

	1993	1994	1995	1996	1997		1998
					Budget	Est.	Budget
(In millions of Sri Lanka rupees)							
General Public Services	31,649	32,834	53,664	57,076	58,766	62,553	64,475
Civil Administration	10,868	6,390	10,524	12,142	17,241	17,583	20,104
Defense	15,413	19,415	35,186	38,117	33,528	37,062	36,457
Public Order and Safety	5,368	7,029	7,954	6,817	7,997	7,908	7,914
Social Services	43,551	55,332	67,504	69,616	72,417	71,295	79,415
Education	14,070	17,713	18,908	20,402	17,959	22,349	27,877
Health	7,064	9,185	10,952	11,798	16,019	12,135	14,577
Welfare	21,339	26,241	33,796	33,692	32,676	32,002	31,254
Housing	604	802	1,610	1,174	1,526	792	1,647
Community services	474	1,391	2,238	2,550	4,237	4,017	4,060
Economic Services	33,928	35,499	44,184	40,216	50,341	39,900	57,389
Agriculture and irrigation	7,165	7,685	9,886	8,612	10,408	7,503	11,699
Fisheries	231	467	466	459	724	636	1,123
Manufacturing and mining	1,874	373	502	638	1,906	2,041	2,934
Energy and water supply	4,821	6,036	5,993	6,625	8,677	7,302	11,077
Transport and communication	11,511	16,546	20,902	15,059	20,290	14,620	23,208
Trade and commerce	567	254	192	996	562	341	1,152
Other	7,759	4,138	6,243	7,827	7,774	7,457	6,196
Other	34,001	43,873	41,620	54,213	62,644	62,646	56,810
of which: interest	30,203	38,031	38,687	48,923	55,492	55,246	55,368
Total expenditure and net lending 1/	143,129	167,538	206,972	221,121	244,168	236,394	258,089
(In percent of GDP)							
General Public Service	6.3	5.7	8.0	7.4	6.6	7.0	6.3
of which: Defense	3.1	3.4	5.3	5.0	3.8	4.2	3.6
Social Services	8.7	9.6	10.1	9.1	8.1	8.0	7.7
of which: Education	2.8	3.1	2.8	2.7	2.0	2.5	2.7
Health	1.4	1.6	1.6	1.5	1.8	1.4	1.4
Economic Services	6.8	6.1	6.6	5.2	5.6	4.5	5.6
Interest	6.0	6.6	5.8	6.4	6.2	6.2	5.4
(In percent of total expenditure)							
General Public Service	22.1	19.6	25.9	25.8	24.1	26.5	25.0
of which: Defense	10.8	11.6	17.0	17.2	13.7	15.7	14.1
Social Services	30.4	33.0	32.6	31.5	29.7	30.2	30.8
of which: Education	9.8	10.6	9.1	9.2	7.4	9.5	10.8
Health	4.9	5.5	5.3	5.3	6.6	5.1	5.6
Economic Services	23.7	21.2	21.3	18.2	20.6	16.9	22.2
Interest	21.1	22.7	18.7	22.1	22.7	23.4	21.5

Source: Data provided by the Ministry of Finance.

1/ Figures are derived from national presentation and do not precisely correspond to total expenditure and net lending reported in other tables.

Table 30. Sri Lanka: Sri Lanka: Deficit Financing (Economic Classification), 1993-98

(In millions of Sri Lanka rupees)

	1993	1994	1995	1996	1997		1998
					Budget	Est.	Budget
Total financing	43,321	60,710	68,608	73,590	71,997	70,030	66,648
Foreign grants	8,025	8,257	9,028	8,500	10,208	7,500	9,000
Net foreign borrowing	9,855	11,776	21,224	10,160	14,194	9,722	16,426
Gross foreign borrowing	16,876	19,384	29,702	20,651	27,665	22,973	31,500
Repayments	-7,021	-7,608	-8,478	-10,491	-13,471	-13,251	-15,074
Net foreign borrowing by type	9,855	11,776	21,224	10,160	14,194	9,722	16,426
Net project loans	6,483	13,197	14,216	14,288	...	15,251	...
Gross project loans	11,272	18,244	19,768	20,274	...	22,382	...
Repayments	-4,789	-5,047	-5,552	-5,986	...	-7,131	...
Net commodity loans	-1,328	-1,739	-1,251	-2,370	...	-2,193	...
Gross commodity loans	815	619	1,530	377	...	591	...
Repayments	-2,143	-2,358	-2,781	-2,747	...	-2,784	...
Net other loans	4,700	318	8,259	-1,758	...	-3,336	...
Gross loans	4,789	521	8,404	0	...	0	...
Repayments	-89	-203	-145	-1,758	...	-3,336	...
Net domestic financing	25,441	40,677	38,356	54,930	47,595	52,808	41,222
Nonbank borrowing	31,520	39,521	30,809	47,207	47,595	53,710	41,222
Nonmarket	2,012	-680	2,159	8,841	2,163	-9,372	0
Market	28,308	37,205	25,649	30,923	40,432	40,547	33,222
Asset sales	1,200	2,996	3,001	4,728	5,000	22,535	8,000
Bank financing	-6,079	1,156	7,547	7,723	0	-902	0
Central Bank	-13,664	1,761	7,662	9,873	0	-13,991	0
Commercial bank	7,585	-605	-115	-2,150	0	13,089	0

Sources: Data provided by the Ministry of Finance; and Fund staff estimates.

Table 31. Sri Lanka: Outstanding Central Government Debt, 1993-97 1/

(In millions of Sri Lanka rupees, end of period)

	1993	1994	1995	1996	1997
Total domestic debt	213,705	249,119	285,759	349,007	382,962
Rupee securities	105,707	137,554	157,928	205,975	239,475
Treasury bills	97,196	98,896	113,771	124,996	114,996
National defense bonds	--	--	--	--	--
Treasury CDs	114	145	200	212	83
Other	10,688	12,524	13,860	17,824	28,408
Banking system	90,134	100,044	113,355	103,553	101,966
Central Bank	16,480	21,345	28,684	34,807	24,999
Rupee loans	--	--	--	--	--
Treasury bills	5,978	8,979	14,984	17,114	6,692
Advances	10,502	12,366	13,700	17,693	18,307
Commercial banks					
By debt instrument	73,654	78,699	84,671	68,746	76,967
Rupee loans	24,088	24,840	24,928	44,321	44,321
Treasury bills	49,566	53,858	59,742	24,424	30,857
Other	--	1	1	1	1,789
By institution	73,653	78,699	84,671	68,746	76,967
Bank of Ceylon	40,333	39,469	42,298	37,224	43,658
People's Bank	15,690	18,363	17,802	15,953	18,711
Other	17,630	20,867	24,571	15,569	14,598
Sinking Fund	239	137	100	100	100
Rupee loans	239	137	100	100	100
Nonbank sector					
By debt instrument	123,311	148,939	172,304	245,354	280,896
Rupee loans	81,379	112,577	132,900	161,554	195,054
Treasury bills	41,652	36,059	39,044	83,458	77,447
National defense bonds	--	--	--	--	--
Treasury certificates	114	145	200	212	83
Other	166	158	160	130	8,312
By institution	123,311	148,939	171,781	245,354	280,896
National Savings Bank	37,767	46,407	48,406	47,794	62,498
Other savings institutions	13,165	15,813	19,349	44,416	40,201
Employees' Provident Fund	65,645	79,745	95,000	113,236	134,867
Insurance companies	244	312	303	9,000	9,292
Other	6,490	6,662	8,723	30,908	34,038
Total foreign debt	270,224	301,812	346,286	359,390	375,752
Project loans	216,355	246,075	286,848	302,666	320,547
Nonproject loans	53,869	55,737	59,438	56,724	55,205
Concessional loans	260,557	292,463	335,656	348,936	361,430
Multilateral	109,284	123,016	144,593	160,402	173,265
Bilateral	151,273	169,447	191,063	188,534	188,165
Commercial loans	9,667	9,350	10,630	10,454	14,322
External suppliers' credits	1,065	950	1,020	923	499
Total outstanding debt	483,929	550,931	632,045	708,397	758,714

Source: Data provided by the Ministry of Finance.

1/ Includes external debt-financed military expenditure.

Table 32. Sri Lanka: Balance Sheet of the Monetary Authorities, 1994-98

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In billions of Sri Lankan rupees; end of period)										
<b>Net foreign assets</b>	64.6	73.7	73.5	70.2	69.8	94.0	89.9	85.1	84.3	89.5
Central Bank (net)	60.2	66.7	66.5	63.1	62.2	86.4	82.4	77.6	76.8	81.9
Assets	97.2	108.3	106.7	100.4	100.0	122.3	121.5	115.1	117.1	116.3
Cash and balances abroad	11.3	39.0	34.8	24.4	36.3	60.6	51.9	46.6	42.0	42.6
Foreign securities	82.6	65.9	67.9	73.1	60.3	58.4	67.1	65.8	72.5	71.0
Other	3.2	3.3	3.9	2.9	3.5	3.3	2.5	2.7	2.6	2.7
Liabilities	37.0	41.6	40.2	37.2	37.8	35.8	39.1	37.5	40.3	34.4
Government (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury IMF account (net)	4.3	7.0	7.1	7.1	7.5	7.5	7.5	7.5	7.5	7.5
<b>Net domestic assets</b>	3.5	4.9	12.0	1.6	8.6	-13.7	-6.2	-3.0	0.3	-0.9
Net claims on government	16.8	24.4	34.3	22.0	31.2	10.8	20.3	23.6	25.3	25.2
Claims on government	19.6	27.5	37.8	25.8	35.0	19.1	26.8	29.6	33.0	30.0
Advances	13.0	14.3	18.3	18.4	19.0	18.8	18.9	21.1	21.2	21.0
Treasury bills	5.1	12.5	17.1	6.0	15.0	0.0	7.2	7.2	10.6	9.0
Cash items in collection	1.5	0.6	2.4	1.4	1.1	0.3	0.7	1.3	1.2	0.1
Government deposits	-2.8	-3.0	-3.5	-3.7	-3.8	-8.3	-6.5	-6.0	-7.7	-4.9
Claims on commercial banks	3.4	2.8	2.3	2.2	2.2	2.1	1.7	1.7	1.7	1.6
Medium- and long-term	3.3	2.8	2.2	2.2	2.1	2.1	1.7	1.6	1.6	1.6
Short-term	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Other assets (net)	-16.6	-22.3	-24.6	-22.6	-24.8	-26.7	-28.2	-28.3	-26.6	-27.7
<b>Reserve money</b>	68.1	78.6	85.5	71.8	78.3	80.2	83.7	82.1	84.6	88.6
Currency in circulation	43.1	46.7	49.5	50.5	49.2	50.5	53.1	52.5	53.9	57.3
Commercial banks deposits	24.8	31.9	35.9	21.3	28.9	29.7	30.5	29.6	30.8	31.3
Deposits of government agencies	0.1	0.0	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.0
(In annual percent change)										
<b>Net foreign assets</b>	21.9	14.1	-0.2	-13.2	-3.4	27.0	22.3	18.1	21.0	27.5
<b>Net domestic assets</b>	-0.1	41.4	143.0	-21.8	12.3	-279.7	-151.8	-133.1	-97.3	-152.5
Net claims on government	11.7	45.7	40.4	10.0	14.5	-62.9	-40.8	-23.4	-20.0	14.2
Claims on commercial banks	-31.2	-16.7	-19.6	-21.0	-22.1	-22.6	-25.1	-25.7	-25.7	-26.1
Medium- and long-term	-20.4	-16.8	-19.7	-21.1	-22.3	-23.0	-25.0	-25.5	-25.5	-25.8
Short-term	-90.4	-15.3	-14.8	-14.8	-13.3	0.0	-32.7	-32.7	-32.7	-38.5
<b>Reserve money</b>	20.5	15.5	8.8	-13.4	-1.9	-1.7	-2.1	1.3	3.5	23.4
(Contributions to Reserve Money as percent of outstanding balance 12 months ago)										
<b>Net foreign assets</b>	20.5	13.4	-0.2	-12.8	-3.0	24.5	19.2	16.1	17.9	26.8
<b>Net domestic assets</b>	0.0	2.1	9.0	-0.5	1.2	-26.2	-21.2	-14.8	-14.4	-3.5
Net claims on government	3.1	11.3	12.6	2.4	4.9	-22.5	-16.4	-8.9	-7.7	4.4
Claims on commercial banks	-2.7	-0.8	-0.7	-0.7	-0.8	-0.8	-0.7	-0.7	-0.7	-0.8
Other assets (net)	-0.4	-8.3	-2.9	-2.2	-3.0	-2.9	-4.2	-5.2	-6.0	-7.0

Source: Central Bank of Sri Lanka.

Table 33. Sri Lanka: Balance Sheet of Commercial Banks (Adjusted), 1994-98 1/

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In billions of Sri Lankan rupees; end of period)										
Foreign assets	15.6	14.3	15.6	17.3	19.7	20.2	25.8	26.0	27.0	28.9
Banks abroad	10.1	8.2	8.7	10.0	12.4	12.7	18.3	17.9	18.7	20.6
Other	5.5	6.1	6.9	7.2	7.3	7.5	7.5	8.1	8.3	8.3
Cash and deposits	45.7	54.6	61.2	50.5	61.3	61.3	65.8	64.0	72.2	71.0
Cash in till	4.2	4.5	6.9	6.4	6.7	6.7	7.5	6.2	6.4	8.4
Deposits with CBSL	23.8	31.0	34.3	19.9	29.1	29.7	29.0	23.6	30.1	28.6
FCBUs 2/	13.7	13.1	12.9	15.7	17.4	19.2	22.8	25.2	26.0	26.4
Due from other banks	4.0	6.0	7.1	8.5	8.1	5.8	6.5	9.1	9.7	7.6
Claims on government	20.7	20.3	27.1	39.2	38.3	45.8	39.8	39.0	35.3	35.5
Treasury bills	15.1	11.6	15.5	26.3	21.3	32.7	20.5	19.8	16.9	17.1
Two-year Treasury notes	0.0	0.0	0.0	0.1	0.8	1.3	1.8	2.5	2.3	2.5
Other government securities	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.3	0.3
Other	4.2	8.0	10.8	12.0	15.4	11.1	16.7	15.8	15.9	15.6
Claims on public corp.	5.2	8.5	9.9	10.4	8.6	9.6	10.3	11.3	10.3	9.8
Claims on private sector	140.5	180.1	193.8	200.7	203.4	206.2	216.0	216.2	217.5	220.3
Other assets	53.5	57.7	82.1	84.5	83.5	86.2	85.0	94.3	89.0	96.9
<b>Assets = Liabilities</b>	<b>281.1</b>	<b>335.5</b>	<b>389.8</b>	<b>402.5</b>	<b>414.8</b>	<b>429.3</b>	<b>442.8</b>	<b>450.7</b>	<b>451.4</b>	<b>462.4</b>
Foreign liabilities	15.2	17.4	19.8	24.4	24.6	24.1	25.7	27.6	26.9	28.7
Banks abroad	2.5	3.0	2.9	5.4	5.8	4.2	4.0	5.4	4.8	6.3
FCBUs 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRFC 3/	10.8	12.3	14.0	12.7	12.7	13.1	14.3	14.4	14.7	14.9
RNNFC 4/	0.7	0.9	1.2	5.1	5.2	5.8	6.0	6.3	6.3	6.4
Other	1.3	1.2	1.6	1.1	0.8	1.2	1.4	1.5	1.1	1.1
Demand deposits	31.4	33.0	35.5	36.6	36.9	38.5	40.1	39.1	39.8	43.3
Domestic NRFC deposits	15.5	17.8	20.7	20.2	20.3	21.0	23.5	23.9	24.8	26.6
Time and savings deposits	121.2	153.3	175.0	179.8	185.4	194.7	202.4	203.5	204.2	205.0
Government deposits	9.3	9.5	12.9	10.5	11.6	12.6	13.7	13.1	10.6	11.0
Demand	8.4	8.2	10.9	7.9	8.5	8.9	9.8	9.6	7.2	8.5
Time and savings	0.9	1.3	2.0	2.6	3.1	3.7	3.9	3.5	3.3	2.5
Due to CBSL	4.1	3.6	4.1	4.4	4.5	5.0	4.8	4.5	4.5	4.4
Due to banks	6.0	9.9	21.0	21.1	19.6	9.4	8.7	11.0	11.0	10.6
Due to OFIs	0.6	0.8	1.1	0.9	0.9	8.5	10.7	11.6	11.3	11.5
Capital	28.3	33.5	39.2	41.1	41.0	43.9	44.4	46.3	46.8	47.1
Other liabilities	49.5	56.8	60.5	63.5	70.0	71.6	68.8	70.1	71.7	74.2

Source: Central Bank of Sri Lanka.

1/ Adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units.

2/ A foreign currency banking unit is a unit in a commercial bank which accepts deposits and grants advances in foreign currency from and to non-residents, commercial banks, Board of Investment (BOI) enterprises, and other approved residents.

3/ Non-Resident Foreign Currency accounts.

4/ Resident Non-National Foreign Currency accounts.

Table 33. Sri Lanka: Balance Sheet of Commercial Banks (Adjusted), 1994-98 (concluded) 1/

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In percent of total assets and liabilities)										
Foreign assets	5.6	4.3	4.0	4.3	4.7	4.7	5.8	5.8	6.0	6.3
Banks abroad	3.6	2.4	2.2	2.5	3.0	3.0	4.1	4.0	4.1	4.4
Other	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.8	1.8	1.8
Cash and deposits	16.2	16.3	15.7	12.5	14.8	14.3	14.9	14.2	16.0	15.3
Cash in till	1.5	1.3	1.8	1.6	1.6	1.6	1.7	1.4	1.4	1.8
Deposits with CBSL	8.5	9.2	8.8	4.9	7.0	6.9	6.6	5.2	6.7	6.2
FCBUs	4.9	3.9	3.3	3.9	4.2	4.5	5.2	5.6	5.8	5.7
Due from other banks	1.4	1.8	1.8	2.1	1.9	1.3	1.5	2.0	2.2	1.6
Claims on government	7.4	6.0	7.0	9.7	9.2	10.7	9.0	8.6	7.8	7.7
Treasury bills	5.4	3.4	4.0	6.5	5.1	7.6	4.6	4.4	3.7	3.7
Two-year treasury notes	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.6	0.5	0.5
Other government securities	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other	1.5	2.4	2.8	3.0	3.7	2.6	3.8	3.5	3.5	3.4
Claims on public corp.	1.8	2.5	2.5	2.6	2.1	2.2	2.3	2.5	2.3	2.1
Claims on private sector	50.0	53.7	49.7	49.9	49.0	48.0	48.8	48.0	48.2	47.6
Other assets	19.0	17.2	21.1	21.0	20.1	20.1	19.2	20.9	19.7	21.0
Foreign liabilities	5.4	5.2	5.1	6.0	5.9	5.6	5.8	6.1	6.0	6.2
Banks abroad	0.9	0.9	0.8	1.3	1.4	1.0	0.9	1.2	1.1	1.4
FCBUs 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRFC 3/	3.8	3.7	3.6	3.2	3.1	3.0	3.2	3.2	3.3	3.2
RNNFC 4/	0.2	0.3	0.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Other	0.5	0.4	0.4	0.3	0.2	0.3	0.3	0.3	0.2	0.2
Demand deposits	11.2	9.8	9.1	9.1	8.9	9.0	9.1	8.7	8.8	9.4
Domestic NRFC deposits	5.5	5.3	5.3	5.0	4.9	4.9	5.3	5.3	5.5	5.7
Time and savings deposits	43.1	45.7	44.9	44.7	44.7	45.4	45.7	45.1	45.2	44.3
Government deposits	3.3	2.8	3.3	2.6	2.8	2.9	3.1	2.9	2.3	2.4
Demand	3.0	2.5	2.8	2.0	2.0	2.1	2.2	2.1	1.6	1.8
Time and savings	0.3	0.4	0.5	0.6	0.8	0.9	0.9	0.8	0.7	0.5
Due to CBSL	1.4	1.1	1.0	1.1	1.1	1.2	1.1	1.0	1.0	1.0
Due to banks	2.1	2.9	5.4	5.2	4.7	2.2	2.0	2.4	2.4	2.3
Due to OFIs	0.2	0.2	0.3	0.2	0.2	2.0	2.4	2.6	2.5	2.5
Capital	10.1	10.0	10.1	10.2	9.9	10.2	10.0	10.3	10.4	10.2
Other liabilities	17.6	16.9	15.5	15.8	16.9	16.7	15.5	15.5	15.9	16.0

Source: Central Bank of Sri Lanka.

1/ Adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units.

2/ A foreign currency banking unit is a unit in a commercial bank which accepts deposits and grants advances in foreign currency from and to non-residents, commercial banks, Board of Investment (BOI) enterprises, and other approved residents.

3/ Non-Resident Foreign Currency accounts.

4/ Resident Non-National Foreign Currency accounts.

Table 34. Sri Lanka: Balance Sheet of Commercial Banks (Unadjusted), 1994-98 1/

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In billions of Sri Lankan rupees; end of period)										
Foreign assets	29.3	27.4	28.5	32.9	37.1	39.4	48.6	51.2	53.0	55.3
Banks abroad	10.1	8.2	8.7	10.0	12.4	12.7	18.3	17.9	18.7	20.6
FCBUs 2/	13.7	13.1	12.9	15.7	17.4	19.2	22.8	25.2	26.0	26.4
Other	5.5	6.1	6.9	7.2	7.3	7.5	7.5	8.1	8.3	8.3
Cash and deposits	31.9	41.5	48.2	34.8	43.9	42.1	43.0	38.8	46.2	44.5
Cash in till	4.2	4.5	6.9	6.4	6.7	6.7	7.5	6.2	6.4	8.4
Deposits with CBSL	23.8	31.0	34.3	19.9	29.1	29.7	29.0	23.6	30.1	28.6
Due from other banks	4.0	6.0	7.1	8.5	8.1	5.8	6.5	9.1	9.7	7.6
Claims on government	20.7	20.3	27.1	39.2	38.3	45.8	39.8	39.0	35.3	35.5
Treasury bills	15.1	11.6	15.5	26.3	21.3	32.7	20.5	19.8	16.9	17.1
Two-year Treasury notes	0.0	0.0	0.0	0.1	0.8	1.3	1.8	2.5	2.3	2.5
Other government securities	1.3	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.3	0.3
Other	4.2	8.0	10.8	12.0	15.4	11.1	16.7	15.8	15.9	15.6
Claims on public corp.	5.2	8.5	9.9	10.4	8.6	9.6	10.3	11.3	10.3	9.8
Claims on private sector	140.5	180.1	193.8	200.7	203.4	206.2	216.0	216.2	217.5	220.3
Other assets	53.5	57.7	82.1	84.5	83.5	86.2	85.0	94.3	89.0	96.9
<b>Assets = Liabilities</b>	<b>281.1</b>	<b>335.5</b>	<b>389.8</b>	<b>402.5</b>	<b>414.8</b>	<b>429.3</b>	<b>442.8</b>	<b>450.7</b>	<b>451.4</b>	<b>462.4</b>
Foreign liabilities	30.7	35.2	40.5	44.5	44.8	45.2	49.2	51.5	51.7	55.3
Banks abroad	2.5	3.0	2.9	5.4	5.8	4.2	4.0	5.4	4.8	6.3
FCBUs 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRFC, RNNFC, and RFC 3/	26.9	31.0	35.9	38.0	38.2	39.9	43.8	44.7	45.7	47.9
Other	1.3	1.2	1.6	1.1	0.8	1.2	1.4	1.5	1.1	1.1
Demand deposits	31.4	33.0	35.5	36.6	36.9	38.5	40.1	39.1	39.8	43.3
Time and savings deposits	121.2	153.3	175.0	179.8	185.4	194.7	202.4	203.5	204.2	205.0
Government deposits	9.3	9.5	12.9	10.5	11.6	12.6	13.7	13.1	10.6	11.0
Demand	8.4	8.2	10.9	7.9	8.5	8.9	9.8	9.6	7.2	8.5
Time and savings	0.9	1.3	2.0	2.6	3.1	3.7	3.9	3.5	3.3	2.5
Due to CBSL	4.1	3.6	4.1	4.4	4.5	5.0	4.8	4.5	4.5	4.4
Due to banks	6.0	9.9	21.0	21.1	19.6	9.4	8.7	11.0	11.0	10.6
Due to OFIs	0.6	0.8	1.1	0.9	0.9	8.5	10.7	11.6	11.3	11.5
Capital	28.3	33.5	39.2	41.1	41.0	43.9	44.4	46.3	46.8	47.1
Other liabilities	49.5	56.8	60.5	63.5	70.0	71.6	68.8	70.1	71.7	74.2

Source: Central Bank of Sri Lanka.

1/ Not adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units.

2/ A foreign currency banking unit is a unit in a commercial bank which accepts deposits and grants advances in foreign currency from and to non-residents, commercial banks, Board of Investment (BOI) enterprises, and other approved residents.

3/ Non-Resident Foreign Currency accounts, Resident Non-National Foreign Currency accounts, and Resident Foreign Currency accounts.

Table 34. Sri Lanka: Balance Sheet of Commercial Banks (Unadjusted), 1994-98 (concluded)

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In percent of total assets and liabilities)										
Foreign assets	10.4	8.2	7.3	8.2	8.9	9.2	11.0	11.4	11.7	12.0
Banks abroad	3.6	2.4	2.2	2.5	3.0	3.0	4.1	4.0	4.1	4.4
FCBUs 2/	4.9	3.9	3.3	3.9	4.2	4.5	5.2	5.6	5.8	5.7
Other	2.0	1.8	1.8	1.8	1.8	1.7	1.7	1.8	1.8	1.8
Cash and deposits	11.4	12.4	12.4	8.6	10.6	9.8	9.7	8.6	10.2	9.6
Cash in till	1.5	1.3	1.8	1.6	1.6	1.6	1.7	1.4	1.4	1.8
Deposits with CBSL	8.5	9.2	8.8	4.9	7.0	6.9	6.6	5.2	6.7	6.2
Due from other banks	1.4	1.8	1.8	2.1	1.9	1.3	1.5	2.0	2.2	1.6
Claims on government	7.4	6.0	7.0	9.7	9.2	10.7	9.0	8.6	7.8	7.7
Treasury bills	5.4	3.4	4.0	6.5	5.1	7.6	4.6	4.4	3.7	3.7
Two-year treasury notes	0.0	0.0	0.0	0.0	0.2	0.3	0.4	0.6	0.5	0.5
Other government securities	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other	1.5	2.4	2.8	3.0	3.7	2.6	3.8	3.5	3.5	3.4
Claims on public corp.	1.8	2.5	2.5	2.6	2.1	2.2	2.3	2.5	2.3	2.1
Claims on private sector	50.0	53.7	49.7	49.9	49.0	48.0	48.8	48.0	48.2	47.6
Other assets	19.0	17.2	21.1	21.0	20.1	20.1	19.2	20.9	19.7	21.0
Foreign liabilities	10.9	10.5	10.4	11.1	10.8	10.5	11.1	11.4	11.4	12.0
Banks abroad	0.9	0.9	0.8	1.3	1.4	1.0	0.9	1.2	1.1	1.4
FCBUs 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRFC, RNNFC, and RFC 3/	9.6	9.2	9.2	9.4	9.2	9.3	9.9	9.9	10.1	10.4
Other	0.5	0.4	0.4	0.3	0.2	0.3	0.3	0.3	0.2	0.2
Demand deposits	11.2	9.8	9.1	9.1	8.9	9.0	9.1	8.7	8.8	9.4
Time and savings deposits	43.1	45.7	44.9	44.7	44.7	45.4	45.7	45.1	45.2	44.3
Government deposits	3.3	2.8	3.3	2.6	2.8	2.9	3.1	2.9	2.3	2.4
Demand	3.0	2.5	2.8	2.0	2.0	2.1	2.2	2.1	1.6	1.8
Time and savings	0.3	0.4	0.5	0.6	0.8	0.9	0.9	0.8	0.7	0.5
Due to CBSL	1.4	1.1	1.0	1.1	1.1	1.2	1.1	1.0	1.0	1.0
Due to banks	2.1	2.9	5.4	5.2	4.7	2.2	2.0	2.4	2.4	2.3
Due to OFIs	0.2	0.2	0.3	0.2	0.2	2.0	2.4	2.6	2.5	2.5
Capital	10.1	10.0	10.1	10.2	9.9	10.2	10.0	10.3	10.4	10.2
Other liabilities	17.6	16.9	15.5	15.8	16.9	16.7	15.5	15.5	15.9	16.0

Source: Central Bank of Sri Lanka.

1/ Not adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units.

2/ A foreign currency banking unit is a unit in a commercial bank which accepts deposits and grants advances in foreign currency from and to non-residents, commercial banks, Board of Investment (BOI) enterprises, and other approved residents.

3/ Non-Resident Foreign Currency accounts, Resident Non-National Foreign Currency accounts, and Resident Foreign Currency accounts.



Table 35. Sri Lanka: Monetary Survey (Adjusted), 1994-98 1/

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In billions of Sri Lankan rupees; end of period)										
Net foreign assets	58.8	64.7	63.1	59.4	59.8	87.3	88.8	85.9	86.5	92.2
Monetary authorities	64.6	73.7	73.5	70.2	69.8	94.0	89.9	85.1	84.3	89.5
Commercial banks	-5.8	-8.9	-10.5	-10.7	-9.9	-6.6	-1.2	0.8	2.1	2.7
Net domestic assets	155.6	194.7	225.6	235.7	240.4	228.5	242.1	247.9	250.2	249.4
Domestic credit	206.0	262.7	292.4	301.8	314.8	304.7	322.6	328.6	329.0	329.8
Public sector	42.3	51.7	62.6	64.5	68.9	55.6	59.9	63.5	62.4	61.4
Claims on government (net)	30.9	38.4	47.1	49.1	56.5	42.6	45.3	48.4	49.0	48.5
Monetary authorities	16.8	24.4	34.3	22.0	31.2	10.8	20.3	23.6	25.3	25.2
Commercial banks	14.1	14.0	12.8	27.1	25.3	31.7	25.0	24.8	23.7	23.4
Claims on public corp.	11.4	13.3	15.5	15.4	12.4	13.1	14.7	15.2	13.5	12.8
Claims on private sector	163.8	210.9	229.8	237.3	245.9	249.1	262.7	265.0	266.6	268.4
Other items (net)	-50.5	-68.0	-66.8	-66.1	-74.4	-76.2	-80.5	-80.7	-78.8	-80.4
Broad money	214.3	259.4	288.7	295.1	300.3	315.8	330.9	333.8	336.7	341.5
Narrow money	70.5	75.2	78.2	80.8	79.7	82.3	85.9	85.5	87.3	92.2
Currency	38.9	42.2	42.6	44.2	42.5	43.8	45.7	46.4	47.5	48.9
Demand deposits	31.6	33.0	35.6	36.6	37.2	38.5	40.2	39.2	39.8	43.3
Quasi-money	143.8	184.2	210.5	214.3	220.6	233.5	245.0	248.3	249.4	249.3
(Annual percentage change)										
Net foreign assets	35.2	10.2	-2.6	-14.1	-8.7	35.6	40.7	43.9	47.2	55.0
Monetary authorities	21.9	14.1	-0.2	-13.2	-3.4	27.0	22.3	18.1	21.0	27.5
Commercial banks	-38.9	53.2	17.4	-7.6	48.9	-30.9	-88.8	-106.1	-119.7	-125.0
Net domestic assets	13.5	25.2	15.9	15.9	16.3	8.5	7.3	9.1	8.3	5.8
Domestic credit	14.9	27.5	11.3	9.6	11.2	3.8	10.3	12.6	11.5	9.3
Public sector	-6.4	22.3	21.0	16.4	24.2	-0.8	-4.3	5.0	4.9	-4.9
Claims on government (net)	3.7	24.4	22.6	14.3	38.0	4.4	-4.0	2.5	4.1	-1.2
Monetary authorities	11.7	45.7	40.4	10.0	14.5	-62.9	-40.8	-23.4	-20.0	14.2
Commercial banks	-4.4	-0.8	-8.4	18.1	84.7	174.4	94.3	-51.0	53.2	-13.7
Claims on public corp.	-26.0	16.6	16.4	23.8	-14.4	-14.6	-5.4	14.0	8.0	-16.7
Claims on private sector	22.0	28.8	8.9	7.9	8.0	4.9	14.3	14.6	13.1	13.1
Other items (net)	19.3	34.6	-1.7	-8.1	-2.5	-8.0	20.4	24.9	22.8	21.6
Broad money	18.7	21.1	11.3	8.3	10.3	14.8	14.6	16.3	16.2	15.7
Narrow money	18.7	6.7	4.0	-1.2	4.9	7.4	9.8	9.8	12.5	14.1
Currency	21.1	8.5	0.9	-2.0	-0.5	3.7	7.3	11.2	11.2	10.6
Demand deposits	15.9	4.6	7.9	-0.2	11.8	11.8	12.7	8.3	14.0	18.2
Quasi-money	18.7	28.1	14.2	12.3	12.3	17.7	16.4	18.8	17.6	16.3
(Contributions to broad money growth)										
Net foreign assets	8.5	2.8	-0.6	-3.6	-2.1	8.3	8.9	9.1	9.6	11.1
Net domestic assets	10.3	18.3	11.9	11.9	12.4	6.5	5.7	7.2	6.6	4.6
Domestic credit	14.8	26.4	11.5	9.7	11.7	4.1	10.5	12.8	11.7	9.5
Public sector	-1.6	4.4	4.2	3.3	4.9	-0.2	-0.9	1.1	1.0	-1.1
Private sector	16.4	22.0	7.3	6.4	6.7	4.2	11.4	11.8	10.7	10.5
Other assets (net)	-4.5	-8.2	0.4	2.2	0.7	2.4	-4.7	-5.6	-5.1	-4.8
<b>Memorandum</b>										
Money multiplier (BM/RM)	3.1	3.3	3.4	4.1	3.8	3.9	4.0	4.1	4.0	3.9
Velocity (GDP/geom. avg. BM)	3.0	2.9	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Monthly exp. GDP (Bn. Rp.)	579.1	667.8	768.9	799.0	830.3	862.8	890.5	900.6	910.8	921.1

Source: Central Bank of Sri Lanka.

1/ Adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units. For details on the adjustments, see Box 6.

Table 36. Sri Lanka: Monetary Survey (Unadjusted), 1994-98 1/

	1994	1995	1996	1997				1998		
				Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
(In billions of of Sri Lankan rupees; end of period)										
Net foreign assets	63.2	65.9	61.6	58.6	62.0	88.1	89.3	84.9	85.7	89.5
Monetary authorities	64.6	73.7	73.5	70.2	69.8	94.0	89.9	85.1	84.3	89.5
Commercial banks	-1.4	-7.8	-11.9	-11.6	-7.8	-5.9	-0.6	-0.3	1.4	0.1
Net domestic assets	128.5	162.6	191.6	202.1	203.1	188.9	199.0	204.2	205.8	207.7
Domestic credit	173.8	223.8	252.3	261.8	269.9	259.8	272.7	277.0	277.8	279.8
Public sector	33.3	43.7	58.5	61.1	66.5	53.7	56.7	60.8	60.3	59.4
Claims on government (net)	28.1	35.2	48.5	50.7	57.9	44.1	46.4	49.5	50.1	49.7
Monetary authorities	16.8	24.4	34.3	22.0	31.2	10.8	20.3	23.6	25.3	25.2
Commercial banks	11.4	10.8	14.2	28.7	26.7	33.2	26.1	25.9	24.8	24.5
Claims on public corp.	5.2	8.5	9.9	10.4	8.6	9.6	10.3	11.3	10.3	9.8
Claims on private sector	140.5	180.1	193.8	200.7	203.4	206.2	216.0	216.2	217.5	220.3
Other items (net)	-45.3	-61.2	-60.7	-59.7	-66.8	-70.9	-73.8	-72.8	-72.0	-72.1
<b>Broad money</b>	<b>191.7</b>	<b>228.5</b>	<b>253.2</b>	<b>260.7</b>	<b>265.1</b>	<b>277.0</b>	<b>288.3</b>	<b>289.0</b>	<b>291.4</b>	<b>297.2</b>
Narrow money	70.5	75.2	78.2	80.8	79.7	82.3	85.9	85.5	87.3	92.2
Currency	38.9	42.2	42.6	44.2	42.5	43.8	45.7	46.4	47.5	48.9
Demand deposits	31.6	33.0	35.6	36.6	37.2	38.5	40.2	39.2	39.8	43.3
Quasi-money	121.2	153.3	175.0	179.8	185.4	194.7	202.4	203.5	204.2	205.0
(Annual percentage change)										
Net foreign assets	31.3	4.3	-6.5	-16.1	-6.5	40.7	44.9	38.8	45.0	52.8
Monetary authorities	21.9	14.1	-0.2	-13.7	-4.0	26.3	22.3	18.1	21.0	27.5
Commercial banks	-71.3	456.1	53.5	1.0	21.8	-50.4	-94.6	-97.6	-112.8	-100.7
Net domestic assets	14.7	26.6	17.8	19.4	16.7	5.5	3.9	6.3	5.1	2.8
Domestic credit	15.3	28.8	12.7	10.9	10.1	1.1	8.1	10.1	8.9	6.9
Public sector	-4.2	31.3	33.7	29.3	31.5	1.0	-3.0	7.5	7.7	-2.7
Claims on government (net)	4.3	25.1	37.8	27.1	37.4	2.5	-4.5	1.4	3.0	-2.1
Monetary authorities	11.7	45.7	40.4	10.0	14.5	-62.9	-40.8	-23.4	-20.0	14.2
Commercial banks	-5.0	-5.2	31.9	44.3	79.5	141.4	83.0	43.9	45.5	-14.5
Claims on public corp.	-33.6	65.2	16.5	41.6	1.7	-5.7	4.0	46.4	38.6	-5.9
Claims on private sector	21.2	28.2	7.7	6.3	4.6	1.2	11.4	10.9	9.2	9.8
Other items (net)	17.1	35.0	-0.7	-10.4	-5.8	-8.8	21.5	22.5	21.5	20.7
<b>Broad money</b>	<b>19.7</b>	<b>19.2</b>	<b>10.8</b>	<b>9.0</b>	<b>10.3</b>	<b>14.6</b>	<b>13.8</b>	<b>14.2</b>	<b>14.3</b>	<b>14.0</b>
Narrow money	18.7	6.7	4.0	-1.2	4.9	7.4	9.8	9.8	12.5	14.1
Currency	21.1	8.5	0.9	-2.0	-0.5	3.7	7.3	11.2	11.2	10.6
Demand deposits	15.9	4.6	7.9	-0.2	11.8	11.8	12.7	8.3	14.0	18.2
Quasi-money	20.3	26.5	14.1	14.3	12.8	18.0	15.7	16.1	15.1	14.0
(Contributions to broad money growth)										
Net foreign assets	9.4	1.4	-1.9	-4.7	-1.8	10.6	10.9	9.4	10.4	11.9
Net domestic assets	10.3	17.8	12.7	13.7	12.1	4.1	2.9	4.8	3.9	2.1
Domestic credit	14.4	26.1	12.5	10.8	10.3	1.2	8.1	10.1	8.9	6.9
Public sector	-0.9	5.4	6.4	5.8	6.6	0.2	-0.7	1.7	1.7	-0.6
Private sector	15.3	20.6	6.0	5.0	3.7	1.0	8.8	8.4	7.2	7.5
Other assets (net)	-4.1	-8.3	0.2	2.9	1.7	2.8	-5.1	-5.3	-5.0	-4.8
<b>Memorandum</b>										
Money multiplier (BM/RM)	2.8	2.9	3.0	3.6	3.4	3.5	3.4	3.5	3.4	3.4
Velocity (GDP/geom. avg. BM)	3.4	3.3	3.2	3.2	3.3	3.3	3.3	3.3	3.3	3.3
Monthly exp. GDP (Bn. Rp.)	579.1	667.8	768.9	799.0	830.3	862.8	890.5	900.6	910.8	921.1

Source: Central Bank of Sri Lanka.

1/ Not adjusted to reflect the reclassification of foreign liabilities of domestic banking units and the inclusion of foreign currency banking units. For details on the adjustments, see Box 6.

Table 37. Sri Lanka: Selected Interest Rates, 1993-98  
(in percent; end-of-period)

	CBSL Rates		Money Market Rates			Bank Rates		Memorandum: CPI Inflation Annual Rate
	Repos	Bank Rate	Interbank Call Rate	Treasury Bills 3 Months	Treasury Bills 12 Months	Prime Lending 1/ Time and Savings 1/ Rate		
1993	...	17.0	16.5-28.0	15.9-18.6	15.9-17.9	20.4	...	10.3
1994	20.0	17.0	14.0-28.0	18.7	12.8-18.1	17.8	12.6	4.2
1995	16.5	17.0	16.0	19.3	19.0	19.9	12.4	11.5
1996	12.8	17.0	13.0	17.5	17.4	18.4	12.3	16.8
1997	11.0		12.0	10.0	10.2	15.2	10.0	10.7
96Q1	13.8	17.0	14.9	18.4	18.4	19.6	12.4	11.2
96Q2	12.8	17.0	12.5	15.2	15.7	17.3	12.4	11.8
96Q3	13.0	17.0	13.3	17.3	17.4	18.5	12.3	13.6
96Q4	12.8	17.0	13.0	17.5	17.4	18.4	12.3	14.3
Jan-97	11.5	17.0	14.5	12.9	15.3	16.4	12.1	16.7
Feb	11.0	17.0	13.8	12.8	15.0	17.0	12.1	15.6
Mar	7.0	17.0	9.0	11.9	13.5	14.7	12.0	14.3
Apr	8.8	17.0	9.1	10.7	12.8	14.0	11.8	11.3
May	9.0	17.0	17.0	10.6	12.7	17.6	11.5	7.8
Jun	9.0	17.0	9.9	11.0	12.7	14.4	11.4	3.9
Jul	8.5	17.0	9.0	10.9	12.0	13.4	11.2	7.2
Aug	8.3	17.0	7.3	10.0	10.6	14.4	11.2	7.1
Sep	9.0	17.0	8.9	9.9	10.5	13.9	11.0	6.8
Oct	9.0	17.0	10.1	9.9	10.3	13.5	10.4	6.5
Nov	9.0	17.0	8.9	10.0	10.3	13.8	10.4	8.8
Dec	11.0	17.0	13.5	10.0	10.2	15.2	10.0	10.7
Jan-98	12.0	17.0	15.6	10.4	10.6	15.2	9.9	13.2
Feb	12.0	17.0	12.6	11.4	11.5	14.5	9.9	12.1
Mar	12.0	17.0	12.6	11.3	11.4	15.5	9.8	11.4

Source: Central Bank of Sri Lanka.

1/ Weighted average.

Table 38. Sri Lanka: Advances by Purpose and According to Maturity, 1996-97 1/

	96Q4	97Q1	97Q2	97Q3	97Q4
(In billions of Sri Lankan rupees; end of period)					
<b>By Category</b>					
Commercial	89.1	92.7	92.2	93.0	99.2
Financial	8.3	7.3	7.1	7.6	7.6
Agriculture	10.6	11.0	12.0	10.8	11.8
Industrial	26.0	25.4	25.6	25.4	25.3
Tourism	3.4	3.3	3.3	3.3	3.3
Housing 2/	24.0	24.2	24.2	25.7	25.1
Consumption	16.4	17.5	17.6	18.3	19.5
Other loans	19.3	21.8	21.1	22.4	25.0
Total	197.1	203.1	203.1	206.4	216.7
(In percent annual growth)					
Commercial	10.6	11.0	10.4	4.8	11.3
Financial	5.0	-3.6	-16.3	-11.0	-8.3
Agriculture	-8.8	-1.3	7.9	-1.1	10.9
Industrial	8.5	0.6	-8.2	-8.5	-2.6
Tourism	19.5	9.5	15.1	2.0	-2.4
Housing 2/	8.2	1.5	-0.7	-0.5	4.6
Consumption	18.4	18.6	22.2	20.1	18.8
Other loans	-8.3	0.0	4.9	0.5	29.3
Total	7.1	6.5	5.4	2.0	10.0
(In percent of total)					
Commercial	45.2	45.6	45.4	45.1	45.8
Financial	4.2	3.6	3.5	3.7	3.5
Agriculture	5.4	5.4	5.9	5.2	5.4
Industrial	13.2	12.5	12.6	12.3	11.7
Tourism	1.7	1.6	1.6	1.6	1.5
Housing 2/	12.2	11.9	11.9	12.4	11.6
Consumption	8.3	8.6	8.6	8.8	9.0
Other loans	9.8	10.7	10.4	10.9	11.5
Total	100.0	100.0	100.0	100.0	100.0
<b>By Maturity</b>					
Short term	66.0	65.9	66.1	65.2	63.9
Medium term	21.7	21.7	21.9	22.7	23.9
Long term	12.3	12.5	12.0	12.1	12.2
Total	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Sri Lanka.

1/ Domestic banking units only. Advances include loans, overdrafts, and bills discounted; and exclude cash items in process of collection.

2/ Housing covers: personal housing (including purchase, construction, and repairs); construction of business premises; and property development.

Table 39. Sri Lanka: Reserve Position of Commercial Banks, 1993-97

(In billions of Sri Lankan rupees)

	Deposits			Required reserves			Actual reserves				Excess reserves (12)-(7) (14)		
	Demand (1)	Time and Savings (2)	Foreign currency (3)	Demand (4)	Time and Savings (5)	Foreign currency (6)	Total (4)+(5)+(6) (7)	Deposits (8)	DFCC bonds (9)	Government securities (10)		Till cash (11)	Total (8)+(9)+(10)+(11) (12)
1993	32.8	97.6	22.2	4.9	14.6	3.3	22.9	20.5	0.3	1.4	0.9	23.2	0.3
1994	38.1	119.5	27.0	5.7	17.9	2.8	26.4	24.8	0.4	0.0	1.8	27.0	0.6
1995	39.0	151.5	32.1	5.8	22.7	3.4	32.0	31.9	0.3	0.0	1.3	33.5	1.5
1996	35.2	154.8	30.6	5.3	23.2	3.0	31.5	30.4	0.3	0.0	1.4	32.1	0.6
January	39.0	161.1	30.6	5.9	24.2	3.1	33.1	31.8	0.3	0.0	1.4	33.5	0.3
February	42.1	162.5	30.9	6.3	24.4	3.2	33.9	33.2	0.3	0.0	1.8	35.3	1.3
March	44.5	168.6	31.2	6.7	25.3	3.3	35.2	30.7	0.3	0.0	2.7	33.7	-1.6
April	42.6	171.4	31.3	6.4	25.7	3.1	35.2	35.1	0.3	0.0	1.8	37.2	2.0
May	39.3	170.3	32.4	5.9	25.5	3.1	34.6	32.0	0.3	0.0	1.7	34.0	-0.6
June	37.8	172.1	32.8	5.7	25.8	3.3	34.8	32.9	0.3	0.0	1.9	35.2	0.4
July	38.9	172.0	33.4	5.8	25.8	3.3	35.0	34.0	0.3	0.0	1.3	35.6	0.7
August	40.3	171.7	33.6	6.0	25.8	3.4	35.2	33.4	0.3	0.0	1.6	35.3	0.2
September	39.7	175.2	34.6	6.0	26.3	3.5	35.7	30.3	0.3	0.0	2.2	32.8	-2.9
October	42.3	177.2	35.4	6.3	26.6	3.6	36.5	35.2	0.3	0.0	1.9	37.4	0.9
November	42.0	179.5	35.1	6.3	26.9	3.7	36.9	35.9	0.3	0.0	1.6	37.8	0.9
December	42.5	183.2	22.7	5.9	25.6	3.4	35.0	33.5	0.3	0.0	2.2	36.0	1.0
1997	41.4	186.0	22.0	5.8	26.0	3.3	35.1	33.7	0.3	0.0	1.9	36.0	0.8
January	42.8	188.8	23.0	5.1	22.7	2.8	30.6	21.3	0.3	0.0	2.2	23.7	-6.8
February	42.3	190.9	24.1	5.1	22.9	2.9	30.9	26.7	0.3	0.0	3.8	30.8	-0.1
March	44.9	191.7	22.7	5.4	23.0	2.7	31.1	30.9	0.3	0.0	2.6	33.8	2.7
April	44.4	194.8	23.0	5.3	23.4	2.8	31.5	28.9	0.3	0.0	2.0	31.2	-0.3
May	43.6	197.9	22.8	5.2	23.7	2.7	31.7	27.0	0.3	0.0	2.7	30.0	-1.7
June	44.2	202.1	21.9	5.3	24.3	2.6	32.2	29.8	0.3	0.0	3.0	33.1	0.9
July	45.2	203.8	27.0	5.4	24.5	3.2	33.1	29.7	0.3	0.0	2.8	32.8	-0.3
August	42.4	205.8	20.9	5.1	24.7	2.5	32.3	31.0	0.3	0.0	2.2	33.5	1.3
September	46.5	208.8	21.1	5.6	25.1	2.5	33.2	29.2	0.3	0.0	2.4	31.9	-1.2
October	46.6	210.7	20.4	5.6	25.3	2.5	33.3	30.5	0.3	0.0	2.7	33.6	0.2
November													
December													

Source: Central Bank of Sri Lanka.

Table 40. Sri Lanka: Balance of Payments, 1993-1997

	1993	1994	1995	1996	1997
	(In millions of U.S. dollars)				
Trade balance	-1,148	-1,559	-1,505	-1,343	-1,213
Exports	2,864	3,209	3,807	4,095	4,639
Imports	4,011	4,767	5,311	5,438	5,852
Services, net	164	180	153	105	159
Receipts	628	746	821	766	876
Payments	464	566	668	661	716
Income, net	-124	-169	-138	-203	-165
Receipts	119	152	223	175	219
Payments	243	321	361	378	384
Of which: Interest	201	237	277	302	294
Private transfers, net	557	622	675	710	787
Current account (excluding grants)	-551	-926	-815	-731	-432
Official transfers	56	59	61	49	44
Current account (including grants)	-494	-867	-754	-682	-388
Capital and financial account	1,108	1,045	839	536	570
Capital account (net)	109	113	117	99	87
Financial account	1,000	932	722	437	483
Long-term:	640	714	581	339	631
Direct investment	187	158	53	120	430
Foreign direct investment, net	147	158	16	87	129
Privatization proceeds	40	0	38	34	301
Private, long-term (net)	188	310	75	20	77
Disbursements	303	403	222	176	176
Amortization	115	93	147	156	98
Government, long-term (net)	265	246	453	199	124
Disbursements	466	445	669	456	420
Amortization	201	199	216	257	296
Short-term, net	360	218	141	98	-148
Portfolio investment, net (CSE)	67	28	-2	7	13
Private short-term, net	147	260	27	24	39
Commercial banks (net) 1/	146	-70	116	67	-200
Errors and omissions	49	62	-34	78	-20
Overall balance	663	240	51	-68	162
Net international reserves	-663	-240	-51	68	-162
Increase in gross official reserves (-)	-738	-347	-41	126	-92
Central bank borrowing, net 2/	22	40	24	-13	-4
Use of Fund credit, net	53	67	-34	-45	-66
Memorandum items:	(In percent of GDP)				
Current account (excl. official transfers)	-5.4	-7.9	-6.3	-5.3	-2.9
Overall balance	6.4	2.0	0.4	-0.5	1.1
Total debt	78.0	77.0	77.4	67.5	61.0
Total debt service (percent of exports of goods and services)	6.5	8.6	11.3	13.6	16.2
Gross official reserves (in millions of U.S. dollars)	1,675	2,022	2,063	1,937	2,029
(In months of imports)	5.0	5.1	4.7	4.3	4.2

Sources: Data provided by the Central Bank of Sri Lanka; and staff estimates.

1/ Monetary data in the balance of payments currently do not reflect the reclassification activity associated with the foreign currency banking units which have now been incorporated in the monetary accounts. See Box 6 for details.

2/ Includes valuation effects.

Table 41. Sri Lanka: Exports by Commodity, 1993-97

	1993	1994	1995	1996	1997 1/
	(Value in millions of U.S. dollars)				
Total	2,864	3,209	3,807	4,095	4,639
Agricultural products	654	701	828	961	1,060
Tea					
Value	412	424	480	615	719
Volume (million kg)	218.4	229.6	240.8	244.1	268.5
Unit value (US\$)	1.89	1.85	2.00	2.52	2.68
Rubber					
Value	64	72	112	104	79
Volume (million kg)	69.6	69.1	68.3	72.1	61.5
Unit value (US\$/kg)	0.92	1.05	1.64	1.45	1.29
Coconuts					
Value	38	50	69	81	82
Volume (million nuts)	292.7	436.5	578.6	474.5	505.1
Unit value (US\$/nut)	0.13	0.11	0.12	0.17	0.16
Coconut products (value)	20	26	34	29	35
Other agricultural products					
Value	121	129	133	132	145
Volume (million kg)	64.8	101.6	92.4	54.6	58
Unit price (US\$/kg)	1.86	1.27	1.44	2.41	2.49
Industrial products	2,088	2,393	2,856	2,989	3,422
Gems (value)	212	225	240	243	208
Of which: Processed diamonds (value)	98.7	145.7	163.4	156.3	125.0
Garments and textiles					
Value	1,409	1,549	1,849	1,902	2,274
Volume (million pieces)	457.6	529.5	593.1	324.7	360.4
Unit value (US\$/piece)	3.1	2.9	3.1	5.9	6.3
Other industrial products (value)	467	620	767	845	940
Petroleum products					
Value	79	80	85	104	97
Volume ('000 metric tons)	597.9	611.8	616.1	660.9	538.1
Unit value (US\$/ton)	132.0	131.1	138.1	157.2	180.3
Miscellaneous exports	43	36	37	41	59
	(In percent of total exports)				
Traditional exports 2/	18.7	17.9	18.3	20.3	19.7
Of which: Tea	14.4	13.2	12.6	15.0	15.5
Nontraditional exports	81.3	82.1	81.7	79.7	80.3
Other agricultural products	4.2	4.0	3.5	3.2	3.1
Garments and textiles	49.3	48.4	48.7	46.4	49.0
Gems	7.4	7.0	6.3	5.9	4.5
Other industrial products	16.3	19.4	20.2	20.6	20.3
Petroleum products	2.8	2.5	2.2	2.5	2.1
Other	1.3	0.8	0.8	1.0	1.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Central Bank of Sri Lanka.

1/ Preliminary estimates.

2/ Consists of tea, rubber, coconuts, and coconut products.

Table 42. Sri Lanka: Imports by Commodity, 1993-97

	1993	1994	1995	1996	1997 1/
(Value in millions of U.S. dollars)					
Total	4,011	4,767	5,311	5,438	5,852
Consumer goods	892	1,046	1,181	1,234	1,223
Rice					
Value	49	13	2	91	73
Volume ('000 metric tons)	208.8	58.4	9.5	341.2	306.1
Unit value (US\$/ton)	236.6	220.9	252.6	267.0	238.8
Wheat					
Value	116	119	199	204	139
Volume ('000 metric tons)	771.3	826.4	1,057.9	913.0	789.0
Unit value (US\$/ton)	150.5	143.8	187.7	223.8	175.7
Sugar					
Value	117	178	171	145	184
Volume ('000 metric tons)	393.5	491.7	417.9	381.2	545.2
Unit value (US\$/ton)	298.3	362.0	409.2	380.4	336.8
Other food	251	291	349	361	386
Other consumer goods	358	445	460	433	442
Intermediate goods	2,032	2,301	2,699	2,767	3,084
Crude petroleum					
Value	234	231	240	304	263
Volume (million barrels)	13.2	14.2	13.7	15.1	13.5
Unit value (US\$/barrel)	17.7	16.3	17.5	20.1	19.5
Refined petroleum	75	65	146	175	276
Fertilizer					
Value	64	63	87	76	54
Volume ('000 metric tons)	464.5	426.1	452.4	360.6	332.5
Unit value (US\$/ton)	138.6	146.9	191.4	209.9	161.2
Textiles	861	1,035	1,157	1,168	1,386
Other intermediate goods	797	908	1,069	1,045	1,105
Investment goods	1,047	1,363	1,189	1,204	1,325
<i>Of which:</i> Machinery and equipment	463	558	502	649	742
Transport equipment	313	448	303	179	208
Building materials	193	241	272	263	271
Unclassified 2/	40	55	242	233	220
(In percent of total imports)					
Food	13.3	12.6	13.6	14.7	13.3
Petroleum	7.7	6.2	7.3	8.8	9.2
Textiles	21.5	21.7	21.8	21.5	23.7
Other intermediate goods 3/	21.5	20.4	21.8	20.6	19.8
Investment goods	26.1	28.6	22.4	22.1	22.6
Other 4/	9.9	10.5	13.2	12.2	11.3
Total	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Central Bank of Sri Lanka; and staff estimates.

1/ Preliminary estimates.

2/ Includes non-monetary gold and military equipment.

3/ Includes fertilizer.

4/ Includes non-food consumer goods and unclassified imports.



Table 43. Sri Lanka: Minor Nontraditional Industrial Exports, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
Food, beverages, and tobacco	63.5	85.5	98.4	95.5	90.5
Fruits and vegetable juices	1.0	1.3	0.8	0.4	0.5
Fish, fresh and frozen	15.5	13.7	8.8	8.6	11.6
Fish, salted	3.1	2.7	3.9	3.0	3.9
Crustaceans and mollusks	24.2	44.8	53.9	57.0	50.7
Manufactured tobacco	3.8	6.2	12.6	5.3	5.9
Other	15.9	16.8	18.4	21.2	17.9
Chemical products	43.1	40.9	57.1	25.1	25.2
Glycerol, glycerine	2.0	3.4	3.8	0.0	0.6
Soap	0.4	0.4	0.6	0.7	0.2
Activated carbon	15.6	14.3	17.3	16.7	19.4
Other	25.1	22.8	35.4	7.7	5.0
Leather, rubber, paper, wood, and ceramics	256.1	351.1	364.2	412.8	477.6
Footwear	25.8	38.9	44.5	50.5	70.1
Rubber tires	25.3	37.5	62.1	68.0	73.0
Other rubber products	46.1	62.7	88.9	101.0	104.9
Wood products	21.8	34.8	26.3	13.5	11.0
Wall tiles	7.4	9.0	9.3	9.8	11.2
Domestic items	35.5	38.9	17.3	48.0	52.3
Other	94.2	129.3	115.8	122.0	155.1
Mining and quarrying	5.2	7.5	8.7	9.3	6.3
Natural graphite	2.0	2.0	2.0	2.7	2.8
Ilmenite	1.5	3.4	2.4	1.1	1.8
Ores and iron, pyrites	0.0	0.4	1.7	3.8	0.1
Other	1.7	1.7	2.6	1.7	1.6
Machinery, mechanical and electrical appliances	73.2	92.2	124.0	154.4	204.1
Total	441.1	577.2	652.4	697.1	803.7
(As percent of total exports)	15.4	18.0	17.2	17.0	17.3
Memorandum items:					
Garments and textiles	1,409.0	1,548.5	1,849.2	1,901.7	2,274.1
Gems and jewelry	224.8	249.7	272.2	121.9	100.5

Source: Data provided by the Central Bank of Sri Lanka.

1/ Preliminary estimates.

Table 44. Sri Lanka: Minor Agricultural Exports, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
Fruits and vegetables	10.2	15.0	9.7	9.9	8.3
Coffee	1.0	7.6	2.4	1.0	1.5
Cinnamon	34.1	32.9	33.5	34.8	46.7
Cloves	1.5	0.9	1.2	1.6	2.2
Peppers	8.2	6.4	7.0	7.1	13.7
Other spices	0.8	1.0	1.2	1.3	1.6
Cashew nuts	6.1	2.3	2.1	1.9	3.1
Sesame and other oilseeds	0.1	0.1	0.2	0.0	0.5
Essential oils	2.7	3.4	5.2	3.3	3.9
Unmanufactured tobacco	36.3	32.6	35.8	42.4	34.4
Betel leaves	2.7	1.3	1.2	1.3	0.9
Other	17.0	25.5	33.7	27.1	28.3
Total	120.7	129.0	133.2	131.7	145.1
(As percent of total exports)	4.2	4.0	3.5	3.2	3.1

Source: Data provided by the Central Bank of Sri Lanka.

1/ Preliminary estimates.

Table 45. Sri Lanka: Direction of Trade, 1993-97

(In percent)

	Exports					Imports				
	1993	1994	1995	1996	1997 1/	1993	1994	1995	1996	1997 1/
European Union	30.9	30.9	31.8	29.7	30.1	16.5	18.1	17.9	17.7	16.9
<i>Of which:</i>										
France	3.0	2.7	2.2	2.6	2.2	1.3	1.2	1.2	1.0	0.9
Germany	8.0	6.9	6.7	5.8	5.0	3.6	3.8	3.5	3.1	3.2
Netherlands	3.8	3.5	3.7	3.0	3.0	1.4	1.6	1.8	1.6	1.4
United Kingdom	7.1	8.9	9.1	9.5	11.3	4.9	5.5	5.1	5.0	5.0
United States	35.3	34.7	35.5	34.1	35.9	3.6	6.3	3.6	3.9	3.3
Japan	5.2	5.1	5.3	6.3	5.0	12.0	11.7	10.5	9.9	8.5
Middle East	9.1	8.7	7.1	7.4	7.2	5.5	5.3	7.3	8.3	9.3
<i>Of which:</i>										
Egypt	0.9	1.0	0.9	0.6	0.9	0.5	0.3	0.6	0.3	0.3
Iran, Islamic Rep. of	0.7	0.5	0.7	0.9	0.5	2.6	2.0	1.8	3.0	1.8
Iraq	--	--	--	--	0.1	--	--	--	--	--
Saudi Arabia	1.0	1.2	0.5	0.8	0.8	0.3	0.5	1.7	2.2	3.2
Asia 2/	7.9	9.5	9.2	8.5	8.3	52.2	48.1	50.0	50.0	50.1
<i>Of which:</i>										
China	0.1	0.3	0.1	0.3	0.2	4.1	3.5	3.4	2.9	3.0
India	0.7	0.7	0.8	1.0	1.0	9.1	9.0	9.8	11.2	9.9
Pakistan	1.2	1.4	1.1	0.9	0.8	1.4	1.3	1.1	1.4	1.5
Singapore	1.7	2.4	1.9	1.5	1.3	5.5	5.2	5.2	5.1	5.1
Former Soviet Union	1.8	1.2	1.3	2.8	3.7	0.3	0.1	0.2	0.4	0.2
Other countries	9.8	9.9	9.8	11.2	8.9	10.2	10.4	10.5	9.8	11.7
All countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data provided by the Central Bank of Sri Lanka.

1/ Preliminary estimates, based on data excluding military imports.

2/ Excluding Japan.

Table 46. Sri Lanka: Indicators of Trade Performance, 1993-97

	1993	1994	1995	1996	1997
	(In percent of GDP)				
Exports	27.8	27.5	29.3	29.5	30.8
Imports	39.0	40.9	40.9	39.2	38.8
Consumption	9.2	8.9	9.1	8.9	8.1
Food	5.2	5.1	5.6	5.8	5.2
Other	4.1	3.8	3.5	3.1	2.9
Intermediate 1/	19.7	19.9	20.8	19.9	20.4
Petroleum	3.0	2.5	3.0	3.5	3.6
Other	16.8	17.4	17.8	16.4	16.8
Investment	10.1	11.6	9.2	8.7	8.8
Other	0.1	0.5	1.8	1.7	1.5
Trade balance	-11.3	-13.4	-11.6	-9.7	-8.0
	(Annual percentage change)				
Export volume	19.4	16.9	7.1	3.2	11.8
Of which:					
Traditional 2/	9.5	18.7	4.3	2.0	9.5
Nontraditional 3/	22.8	18.1	11.7	11.5	12.3
Export unit value 4/ (U.S. dollar terms)	-2.5	-4.2	10.8	4.2	1.3
Of which:					
Traditional	8.0	-4.7	13.1	2.9	4.1
Nontraditional	-11.6	-9.2	8.8	7.0	-1.7
Import volume	18.9	19.8	2.7	2.2	10.6
Import unit value 4/ (U.S. dollar terms)	-3.8	-0.8	8.5	0.2	-2.7
Terms of trade	1.3	-3.4	2.1	4.1	4.1
Real effective exchange rate 5/	-1.5	4.0	-2.2	12.3	14.8

Sources: Data provided by the Central Bank of Sri Lanka; and staff estimates.

1/ Consists of fertilizer, petroleum, textile and other intermediate goods.

2/ Consists of tea, rubber, coconuts, and coconut products.

3/ Consists of gems, garments and textiles, other industrial exports, minor agricultural products, and miscellaneous exports; includes petroleum products.

4/ From 1990 = 100 index.

5/ Changes are December to December as calculated by the IMF, Information Notice System. The 1994 calculation is based on an adjusted consumer price index that excludes the impact of 1994 cuts in administered prices of wheat flour, bread, and kerosene.

Table 47. Sri Lanka: Services and Income, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
<b>Total services</b>	163.6	179.8	152.5	105.1	159.8
Receipts	627.9	745.4	821.0	765.5	876
Payments	464.3	565.6	668.5	660.4	716.2
Transportation	103.8	138.7	134.5	138.3	155.7
Receipts	236.6	293.3	335.7	339.2	389.0
Payments	132.8	154.6	201.2	200.9	233.3
Travel	83.9	61.3	39.6	-9.5	29.1
Receipts	204.1	230.6	225.8	166.3	208.7
Payments	120.2	169.4	186.2	175.8	179.6
Insurance services	9.4	7.9	16.6	9.5	9.8
Receipts	17.2	20.5	27.0	27.5	29.8
Payments	7.8	12.6	10.3	18.0	20.0
Other business services	-18.6	-20.6	-27.5	-26.7	-29.1
Receipts	154.8	176.0	212.8	208.2	222.8
Payments	173.3	196.6	240.3	234.9	251.9
Government Expenditure n.i.e.	-14.9	-7.4	-11.1	-6.6	-6.4
Receipts	15.2	24.9	19.4	24.3	25.0
Payments	30.2	32.4	30.5	30.9	31.5
<b>Total income</b>	-124.2	-168.3	-137.3	-203.7	-165.5
Receipts	119.0	152.3	223.3	175.1	218.7
Compensation of Employees	8.1	9.3	11.2	11.0	11.7
Direct Investment (Profits and div.)	5.7	0.7	1.1	1.4	2.1
Other (interest)	105.1	142.3	211.1	162.6	204.9
Payments	243.2	320.6	360.6	378.8	384.2
Compensation of employees	9.1	10.3	12.6	12.2	13.3
Direct investment (profits and dividends)	32.8	73.6	71.3	64.3	76.9
Other (interest)	201.3	236.7	276.6	302.3	294.1
Memorandum items:					
Exports of goods and nonfactor svcs.	3,491.6	3,954.0	4,627.2	4,860.6	5514.2
(In percent of GDP)	33.7	33.7	35.5	34.9	36.6
Imports of goods and nonfactor svcs.	4,475.6	5,332.9	5,979.6	6,099.2	6567.7
(In percent of GDP)	43.2	45.5	45.9	43.8	43.6

Source: Data provided by the Central Bank of Sri Lanka.

1/ Provisional.

Table 48. Sri Lanka: Financial Account, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
Total, net	999.7	932.1	721.5	437.4	482.7
Central government, net	264.8	246.1	453.0	199.3	124.3
Concessional medium- and long-term	253.1	284.1	306.1	284.0	183.6
Disbursements	372.7	415.2	446.8	424.3	332.5
Amortization	119.6	131.1	140.8	140.3	148.9
Nonconcessional medium- and long-term	11.7	-37.9	146.9	-84.7	-59.2
Disbursements	93.0	29.8	241.0	31.9	87.8
Amortization	81.2	67.7	94.2	116.6	147.0
Private sector medium- and long-term 2/	187.9	309.8	75.0	20.1	78.3
Disbursements	303.2	402.6	222.0	176.0	175.8
Amortization 3/	115.3	92.8	147.0	156.0	97.5
Direct investment, net 4/	187.0	158.0	53.0	120.0	430.0
Short-term, net 5/	360.0	218.0	141.0	98.0	-148.0
Memorandum items:					
Total aid disbursements	626.4	612.1	851.5	597.5	547.3
Loans	465.7	445.0	677.9	457.1	420.3
Project loans 6/	372.7	415.2	446.8	424.3	332.5
Commodity and program loans	93.0	29.8	231.0	32.8	87.8
Grants	160.7	167.1	173.6	140.4	127.0
Project grants	104.4	108.6	112.8	91.3	82.5
Commodity and technical assistance grants	56.2	58.5	60.8	49.1	44.4

Sources: Data provided by the Central Bank of Sri Lanka; and staff estimates.

1/ Preliminary estimates, including external debt-financed military imports.

2/ Consists of public corporations and private companies.

3/ Including progress payments for acquisition of commercial aircraft by Air Lanka.

4/ Includes foreign direct investment, and privatization proceeds.

5/ Includes portfolio investment, net short-term private, net foreign assets of commercial banks, and net short-term government.

6/ Includes nonconcessional project loans.

Table 49. Sri Lanka: External Debt-Service Payments, 1993-97 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 2/
Interest	204.4	233.7	246.6	290.1	277.7
Government	108.0	117.5	123.9	120.3	109.5
Concessional	93.2	104.3	110.9	106.8	97.0
Multilateral	19.2	21.4	23.5	24.0	23.9
Bilateral	74.0	82.9	87.4	82.8	73.1
Nonconcessional	14.8	13.2	13.0	13.5	12.5
Private	42.9	59.4	48.1	64.8	66.0
Public corporations 3/	22.1	27.6	30.9	47.9	46.7
Private sector 3/	12.4	16.9	8.4	6.0	4.3
Other public corporations	0.3	1.7	0.1	0.2	0.1
Other private sector	8.1	13.2	8.6	10.7	14.9
Fund	7.4	7.3	7.7	7.4	7.2
Short-term debt 4/	46.1	49.5	66.9	87.6	95.0
Amortization	237.5	192.1	286.1	348.7	328.7
Government	140.8	152.4	157.3	158.3	164.1
Concessional	114.3	125.7	133.4	137.1	144.5
Multilateral	18.7	18.3	21.6	23.3	33.3
Bilateral	95.6	107.4	111.8	113.8	111.2
Nonconcessional	26.5	26.7	23.9	21.1	19.6
Private	71.8	77.5	95.6	143.6	98.5
Public corporations 3/	38.4	50.3	29.6	38.0	53.1
Private sector 3/	4.7	4.3	6.1	24.8	6.6
Other public corporations	1.4	0.1	0.1	0.1	0.1
Other private sector	27.2	22.8	59.7	80.8	38.6
Fund repurchases	24.9	13.0	33.2	46.8	66.1
Memorandum items:					
Total debt-service ratio 5/	13.1	11.2	12.1	13.6	11.4
Of which: Interest payments	6.0	6.1	5.6	6.2	5.2
Medium- and long-term official debt-service ratio 6/	8.3	7.6	7.3	7.1	6.5
Interest payments/total outstanding debt	2.5	2.6	2.4	3.1	3.0
Average interest rate on concessional debt	1.8	1.8	1.8	1.8	1.7
Average interest rate on non-concessional debt	4.8	4.7	3.7	10.8	8.0

Source: Data provided by the Central Bank of Sri Lanka.

1/ Excludes debt service payments arising from loans on buses, wheat, defense, and CGR, which are not captured in the External Debt Monitoring Unit.

2/ Provisional.

3/ With government guarantee.

4/ Includes interest payments on trade credits, borrowings from FCUBs, Central Bank and commercial bank liabilities and foreign currency deposits of nonresidents.

5/ Including Fund credit, private sector debt, and short-term debt, excludes net inflows of short-term debt.

6/ Including Fund credit.

Table 50. Sri Lanka: External Debt Outstanding, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 1/
Total medium and long term	6,370	7,242	7,746	7,275	7,079
Government	5,598	6,155	6,581	6,464	6,223
Concessional	5,290	5,874	6,234	6,178	5,920
Multilateral	2,194	2,443	2,662	2,820	2,827
IDA	1,220	1,344	1,463	1,517	1,511
AsDB	901	1,026	1,124	1,231	1,245
Other	73	74	74	71	72
Bilateral	3,095	3,430	3,572	3,359	3,093
Japan	1,492	1,786	1,879	1,762	1,613
United States	689	695	699	693	685
Germany	482	500	537	480	416
Other	432	449	457	424	379
Commercial	308	281	348	286	302
Multilateral	18	16	13	12	10
Bilateral	18	2	3	3	17
Financial markets	148	148	159	151	196
Supplier credits	125	116	172	120	79
Public corporations 2/ 3/	339	509	559	570	608
Private sector 2/ 3/	198	232	234	73	58
Other public corporations 3/ 4/	2	2	2	2	2
Other private sector 3/ 4/	233	346	370	167	189
Short-term debt 3/ 5/	639	893	1,079	854	891
IMF	517	615	596	530	433
Total debt	7,526	8,750	9,420	8,658	8,403
Memorandum items:					
Total medium- and long-term debt 6/	6,887	7,857	8,342	7,805	7,512
(In percent of GDP)	67	67	64	56	50
(In percent of exports of goods and nonfactor services)	197	199	180	161	136

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ With government guarantee.

3/ Debt stocks prior to 1996 are to be reviewed and revised.

4/ Without government guarantee.

5/ Includes acceptance credits of Ceylon Petroleum Corporation, trade credits and short-term borrowings from FCBUs.

6/ Including use of Fund credit.



Table 51. Sri Lanka: Net International Reserves, 1993-98

(In millions of U.S. dollars; end of period)

	1993	1994	1995	1996	1997	1998 Mar.
I. Central Bank, net	1,558.7	1,904.6	1,940.8	1,803.1	1,874.1	1,816.5
a. Assets	1,614.7	1,969.7	2,015.4	1,885.6	1,982.0	1,855.0
Gold	5.6	5.6	5.1	4.9	4.5	4.4
SDR holdings	0.4	0.3	0.9	1.9	0.4	0.7
Liquid balances abroad	349.4	246.7	728.8	613.5	841.8	674.2
Bilateral credit balances	0.2	0.2	0.2	0.3	0.2	0.3
Foreign securities	1,175.8	1,653.6	1,219.6	1,197.4	1,094.2	1,132.9
ACU credit balance 1/	16.1	7.8	4.6	2.9	0.6	0.5
Statutory reserves on foreign deposits of com. Banks	67.2	55.5	56.2	64.7	40.3	42.0
b. Liabilities	56.0	65.1	74.6	82.5	107.9	38.5
Nonresident deposits	2.0	0.5	0.5	0.8	1.1	0.9
Borrowings from abroad	0.0	0.0	0.0	0.0	0.0	0.0
ACU debit balance 1/	54.0	64.6	74.1	81.7	106.8	37.6
II. Government, net	-456.9	-563.1	-548.2	-478.0	-386.6	-363.7
a. Assets	60.0	52.4	47.5	51.9	46.8	52.0
Reserve position in IMF	27.8	29.7	30.1	29.1	27.3	27.1
Investment	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	32.2	22.7	17.4	22.8	19.5	24.9
b. Liabilities	516.9	615.5	595.7	529.9	433.4	415.7
Use of Fund credit	516.9	615.5	595.7	529.9	433.4	415.7
III. Commercial banks, net 3/	-98.2	-27.9	-143.8	-210.4	-10.5	1.1
a. Assets	449.0	587.3	507.8	503.4	792.9	882.7
Liquid balances	347.8	485.0	404.0	394.0	679.3	758.7
Export bills	101.2	102.3	103.8	109.4	113.6	124.0
b. Liabilities	547.2	615.2	651.6	713.8	803.4	881.6
Foreign bank borrowings	42.1	42.0	51.5	35.0	52.8	91.9
Foreign bank deposits	9.5	7.8	4.8	16.8	12.0	8.5
Non-bank demand deposits 4/	15.1	21.2	10.7	15.2	14.6	9.8
Non-bank time deposits 4/	480.5	544.2	584.6	646.8	724.0	771.4
IV. Net international reserves (I+II+III)	1,003.6	1,313.6	1,248.8	1,114.7	1,477.0	1,453.9
Memorandum items:						
Gross official reserves (Ia+IIa)	1,674.7	2,022.1	2,062.9	1,937.5	2,028.8	1,907.0
(in months of current year imports)	5.0	5.1	4.7	4.3	4.2	3.6
Net official reserves (I+II)	1,101.8	1,341.5	1,392.6	1,325.1	1,487.5	1,452.8
Exchange rate (SL Rs/U.S. dollar, end-of-period)	49.56	49.98	54.05	56.71	61.29	62.70

Source: Data provided by the Central Bank of Sri Lanka.

1/ Asian Clearing Union.

2/ Includes special disbursement accounts and revolving credit balances.

3/ Commercial banks NFA currently do not reflect the reclassification of activity associated with the foreign currency banking units which have now been incorporated in the monetary accounts. For details on the adjustments, see Box 6.

4/ Includes NRFC and RNNFC deposits.