

## **Sri Lanka: Selected Issues and Statistical Appendix**

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SRI LANKA

**Selected Issues and Statistical Appendix**

Prepared by a staff team consisting of Daniel Kanda, Lamin Leigh (both APD),  
Anthony Annett (FAD), and Sukhwinder Singh (PDR)

Approved by Asia and Pacific Department

August 20, 2002

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## I. EXECUTIVE SUMMARY

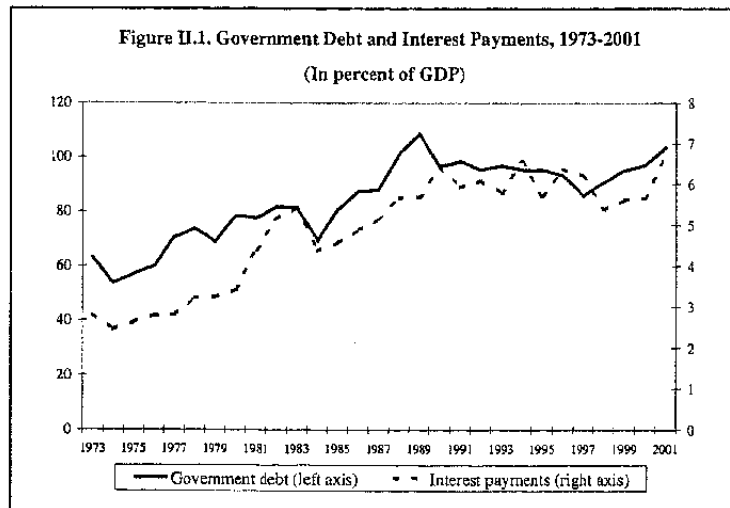
- **As part of the Article IV surveillance, the staff conducted sustainability assessments for Sri Lanka.** Given that the range of possible outcomes is vast, three aspects of sustainability were examined—in terms of the fiscal position, external debt, and the external current account.
- **Chapter II focuses on the fiscal position.** Standard analysis shows that, prior to the adjustment announced in the 2002 budget, fiscal policy was clearly unsustainable, leading to a rising debt-GDP ratio. If the adjustment, centering on tax policy reform and expenditure restraint, continues into the medium term, then fiscal policy is sustainable. However, if growth fails to take off, then fiscal policy will be unsustainable, even in the presence of strong adjustment. Other risks include: a failure of revenue reform to produce results; a fall in external financing; recourse to nonconcessional foreign borrowing; and higher capital spending.
- **Chapter III looks at external debt and complements the analysis of the public debt dynamics in the fiscal chapter.** The baseline scenario shows that the debt ratios decline significantly in the medium term, as a result of strong growth founded on renewed peace and political stability, far-reaching structural reforms, and stable macroeconomic conditions. However, this scenario is highly sensitive to assumptions on growth and, to a lesser extent, non-debt creating capital inflows. The main message from the sensitivity analysis is that if there is no radical departure from past outcomes (including on growth, exports and FDI) and the associated policies, the external debt ratio will be significantly higher than the baseline by 2006. Debt ratios are resilient to temporary shocks to interest rates, growth, and the current account, but a combination of these or any large depreciation of the exchange rate could jeopardize sustainability.
- **Chapter IV looks at the external current account using the macroeconomic balance approach.** The results indicate that during 1999-2000, the actual savings-investment balance was out of line with the estimated equilibrium savings-investment balance, reflecting mainly the larger fiscal deficit. However, by end-2001 the imbalance had been eliminated. Extending the savings-investment balance analysis to the equilibrium exchange rate, shows that the real exchange rate was also overvalued during 1999-2000. A forward looking analysis shows that, if adjustment measures continue, the external position would stay on a sustainable path that is consistent with the baseline medium-term projections. However, radical departures from the fiscal stance assumed in the baseline would pose a risk to external sustainability.
- **Chapter V provides a summary on tax policy reforms that were outlined in the 2002 Budget.** The tax changes were designed to increase revenue significantly in 2002 and to develop a sustainable resource envelope in the medium term. The main reform is the transformation of the GST and NSL into a new VAT, which came into effect on August 1, 2002. The income tax base was also broadened by phasing out special tax incentives. Stamp duties levied by the central government have been eliminated. To improve tax administration, the administrative function of the large taxpayer unit was consolidated under a single commissioner.

## II. FISCAL SUSTAINABILITY<sup>1</sup>

### A. Introduction

1. **Despite high deficits, fiscal policy in Sri Lanka has been sustainable in the past.** The budget deficit has been traditionally high in Sri Lanka, averaging 10 percent of GDP since the mid-1980s. Despite this, Sri Lanka has managed to run a sustainable fiscal policy for a number of reasons. First, growth has been robust, with real GDP increasing at an average 4½ percent a year over the past two decades. Furthermore, debt service costs were low, as Sri Lanka accessed significant quantities of concessional foreign borrowing—accounting for around half of total debt—and also engaged in financial repression, keeping domestic debt costs low. For these reasons, Sri Lanka was able to run high primary deficits.

2. **The sustainability of fiscal policy has become more important in the recent past.** After encouraging signs of fiscal consolidation in the early 1990s and from 1997-1999, which helped reduce the debt-GDP ratio, fiscal consolidation was significantly reversed in 2000 and 2001, raising the concern that public debt could grow rapidly over the medium term. Public debt climbed to 104 percent of GDP in 2001, while interest payments—the largest component of the budget—rose to almost 7 percent of GDP. (Figure II.1).



3. **There are good reasons to believe that, absent consolidation, fiscal policy in Sri Lanka is no longer sustainable.** While primary deficits remain high, the old safety valve of higher growth and low effective real interest rates on government debt may no longer apply, owing to a number of developments.

- Prospects for GDP growth have dimmed. GDP contracted by about 1½ percent in 2001, the first time since independence. Moreover, with no clear signs that the U.S. economy will rebound quickly, growth in 2002 is expected to be below trend. In addition, there is a risk that slow implementation of growth-enhancing structural reforms could compromise medium-term growth prospects.

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<sup>1</sup> Prepared by Anthony Annett (FAD) and Daniel Kanda (APD).

- As part of government efforts to foster a more competitive financial sector, there has been a reduction in financial repression in recent years, such that an increasing share of new government debt attracts market-determined rates.
- With Sri Lanka now considered a lower middle-income country, the likelihood is that the share of nonconcessional aid flows will increase over the medium term, further increasing the overall interest rate on public debt.

4. **One possible counter argument is that large deficits may still be sustainable over the medium term, if the government relies on nondebt financing.** Since the state sector is pervasive in Sri Lanka, asset sales could help sustain a high primary deficit over a considerable period. There is some precedent for this: in 1997, asset sales accounted for 2½ percent of GDP. On the other hand, sustainability will be adversely affected over the longer term by rising contingent liabilities associated with civil service pensions.

5. **The purpose of this paper is to analyze the sustainability of fiscal policy in Sri Lanka, both historically and looking forward.** Using time series methods, we show that fiscal policy has been set in a sustainable fashion in the past. However, looking forward, we argue that recent fiscal policy is not sustainable, and that significant adjustment is required over the medium term. Moreover, the sustainability of fiscal policy can only be maintained if there is reasonably robust GDP growth. This makes clear the importance of rapid implementation of envisaged pro-growth structural reforms. Finally, we attempt to quantify the implicit tax arising from financial repression, and find that there has been a tendency for this tax to increase in periods of high deficits.

## B. Basic Concepts and Literature Review

### Tests Based on an Intertemporal Budget Constraint

6. **Empirical tests of fiscal sustainability often focus on assessing whether fiscal policy has been set in a manner consistent with satisfying an intertemporal budget constraint.** Chalk and Hemming (2000) give an overview of some of these tests. In this chapter we focus on using the test formulated by Bohn (1998) to evaluate fiscal sustainability. Unlike other tests, the Bohn test does not require any assumptions about interest rates, and is valid in economies with uncertainty. The Bohn test is based on estimating the following test equation:

$$s_t = \rho d_t + \alpha Z_t + \varepsilon_t \quad (1)$$

where  $s_t$  represents the primary surplus-GDP ratio,  $d_t$  represents the debt-GDP ratio,  $Z_t$  is a set of other determinants of the primary surplus (assumed to be stationary), and  $\varepsilon_t$  is the error term. Bohn shows, under very general conditions, that fiscal policy is sustainable if  $s_t$  increases at least linearly with  $d_t$  at high debt-GDP ratios. This ensures, that increases in

the debt-GDP ratio are eventually reversed through primary surpluses. Thus the Bohn test is a test of whether  $\rho > 0$  in the above test equation. However, Bohn also points out that there could be a concern that the linear relationship between  $s_t$  and  $d_t$  in the test equation is actually an approximation to a nonlinear relation that is concave to the origin at high levels of the debt-GDP ratio. To investigate this possibility, he proposes the inclusion of a quadratic term  $(d_t - \bar{d})^2$ , where  $\bar{d}$  is the mean value for  $d_t$ , in the test equation. If the estimated second derivative of  $s_t$  with respect to  $d_t$  is positive.

### Tests Based on Sustainability Indicators

7. **An alternative to testing whether the intertemporal budget constraint is satisfied is to devise indicators of how far fiscal policy has deviated from sustainability.** In this case, a sustainable policy is often defined as one that does not lead to a marked increase in the debt-GDP ratio or decrease in the ratio of government net worth to GDP. Thus, Buiter (1985) calculates the permanent primary deficit required to keep the government net worth-GDP ratio constant over time, and suggests that the difference between this permanent deficit and the actual primary deficit can be used as a sustainability indicator. However, in most cases it is difficult to obtain data on government net worth. In contrast, Blanchard (1990) looks at sustainability from the point of view of policies required to keep the debt-GDP ratio stable, and derives a "primary gap indicator" based on the gap between the actual primary surplus and the sustainable primary surplus. Note that these two measures can lead to differing conclusions about sustainability. For example, an increased recourse to asset sales for financing a deficit would reduce the buildup of debt, but leave net worth unaffected.

8. **For Sri Lanka we use the primary gap approach to derive the sustainable primary deficit.** If the actual primary deficit exceeds this sustainable primary deficit, then the debt-GDP ratio is increasing, leading to unfavorable debt dynamics. We calculate the sustainable primary deficit each year and compare it with the actual primary deficit, which gives us a rough indicator of sustainability each year.

### Previous Studies on Sri Lanka

9. **Studies done for Sri Lanka have given mixed results.** Carter (1995), using a sustainability indicator approach, found Sri Lankan fiscal policy to have been sustainable, primarily because of low interest rates on government debt. However, Cashin, Haque, Olekalns (1999), using time series methods, found that fiscal policy had been unsustainable.

## C. Empirical Results for Sri Lanka

### Sustainability Tests—Backward Looking

10. **We use the Bohn test to answer the following question: historically, has Sri Lankan fiscal policy been conducted in an unsustainable fashion?** Augmented Dickey-Fuller tests and Phillips-Perron tests, based on data from 1973-2001, were unable to reject

the hypothesis of a unit root for both the debt-GDP and the primary surplus-GDP ratios. Thus, we conclude that they are nonstationary, and so the Bohn test becomes equivalent to a test for cointegration between the two variables. We use the Johansen cointegration test, which is the most widely used test for cointegration.

11. **Test results indicate significant evidence of cointegration between the debt-GDP ratio and the primary surplus-GDP ratio.** The estimated cointegrating vector (at 5 percent significance level) is given by

$$s_t = 0.17d_t - 0.17 \quad (6)$$

Thus, we can conclude that for Sri Lanka  $s_t$  responds in linear fashion to  $d_t$ . Moreover, an examination of cointegration between  $s_t$ ,  $d_t$ , and  $(d_t - \bar{d})^2$  indicated that the second derivative of  $s_t$  with respect to  $d_t$  is nonnegative.<sup>2</sup> Hence we conclude that fiscal policy appears to have been conducted in a sustainable fashion in Sri Lanka over the sample period.

### **Sustainability Evaluation—Forward Looking**

12. **Here we use the primary gap approach to evaluate whether the current fiscal position is sustainable.** The methodology is to compare a baseline scenario based on no adjustment with a medium term adjustment scenario, and subject the latter to a sequence of stress tests. Figure II.2 shows the debt-GDP ratio under each scenario, while Figure II.3 looks at the difference between actual primary surplus and that required for sustainability.

13. **Sri Lanka has some clear advantages with regard to the structure of its public debt.** Although the current high debt-GDP ratio immediately suggests sustainability to be a major issue, Sri Lanka has the distinct advantage of owing around half of this debt stock to foreigners on highly concessional terms. The average nominal interest rate on foreign debt is around 2 percent. Moreover, over 64 percent of outstanding domestic debt at end-2001 was owed to public sector or publicly controlled institutions, thus moderating the risk of creditors forcing drastic changes in fiscal policy by a refusal to rollover debt. Even so, there is clear evidence that, absent serious fiscal consolidation, current fiscal policy is unsustainable.

#### *No Adjustment Scenario*

14. **The no-reform scenario assumes that policies in 2001 are maintained in the medium-term** (Table II.1). No fundamental tax policy or tax administration reforms are

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<sup>2</sup> Here we abstract from conceptual difficulties associated with taking deviations around the mean of a nonstationary variable. In any case, it is plausible to assume that the debt-GDP ratio for Sri Lanka is bounded, so this should not pose a serious problem.

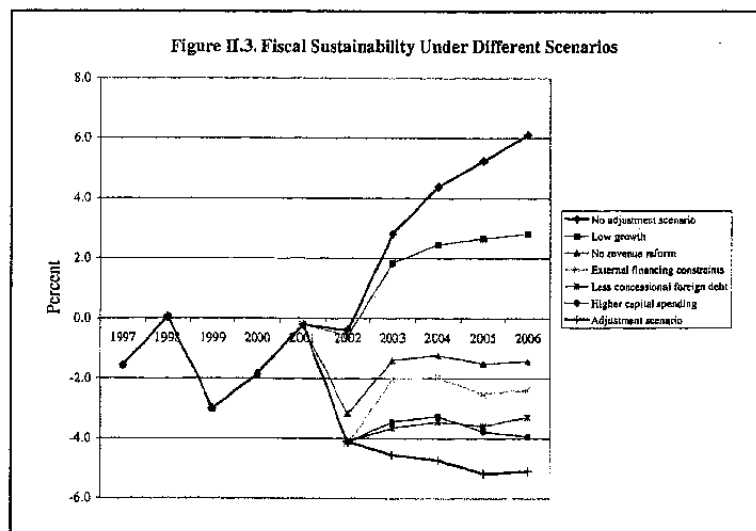
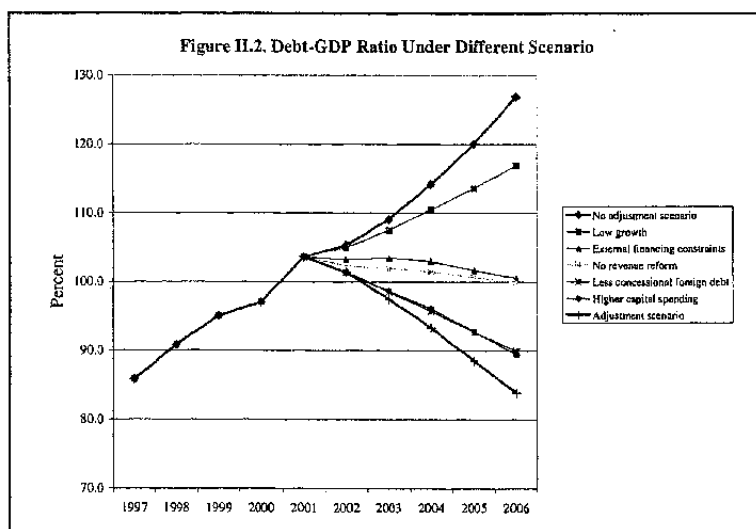


undertaken, and the revenue-GDP ratio does not increase. Likewise, the ratios of primary current spending and capital spending to GDP are maintained. In this case, the share of total expenditure in GDP rises substantially, as interest costs rise from 7 percent of GDP in 2001 to 11½ percent of GDP by 2006. Accordingly, the deficit increases to 15½ percent of GDP by 2006; as in the past, most of this is financed domestically. The increased domestic financing requirements lead to a higher average interest rate on domestic debt (13½ percent). We assume that growth rebounds only, to a relatively low medium-term rate of 3½ percent.

15. **This scenario is clearly unsustainable.** The ratio of debt-to-GDP rises from 104 percent of GDP in 2001 to 127 percent of GDP by 2006, with domestic debt rising from half to two thirds of the total (Figure II.2). The primary deficit stays constant at around 4 percent of GDP, whereas, toward the end of the period, primary surpluses would be required to achieve sustainability. The gap between the actual and required primary deficit is therefore positive and increasing (Figure II.3). Other investigations (not presented) indicate that even if the authorities managed to keep the overall deficit at the 2001 level of 11 percent of GDP, it still would not be sustainable. Thus, serious consolidation is required to bring fiscal policy back to a sustainable path.

*Adjustment Scenario*

16. **The second scenario assumes that substantial pro-growth structural reforms and strong fiscal adjustment take place from 2002, based on the announced budget** (Table II.2). The government implements high quality tax policy reforms, and embarks on a major overhaul of tax administration, causing the revenue-GDP ratio to rise steadily from 16½ percent in 2001 to 20¼ percent by 2006 back to about the average revenue ratio over the past 15 years. Much of the improvement in revenue can be traced to the administrative gains arising from the



establishment of a unified revenue authority in 2003, as well as a dramatic simplification of the tax system through the introduction of a broad based VAT and the phasing out of tax exemptions.

17. **Adjustment also takes place on the expenditure side.** Recurrent spending is compressed as both wages and transfers are kept in check, leading to the expenditure-GDP ratio falling by 3¼ percent of GDP between 2001-06. This scenario assumes civil service reform and wage increases not in excess of inflation; a review of public expenditure to weed out inefficiencies, redundancies, and overlapping responsibilities; the streamlining and improved targeting of subsidies to households; a continuation of the peace process leading to security-related expenditure declining to 3 percent of GDP in the medium-term; and a withdrawal of the state from large areas of the economy, reducing the need for subsidies to public corporations. Reflecting important infrastructure needs, but not building in the potential costs of reconstruction in the north and east, capital expenditure is assumed to rise to 7½ percent of GDP in the medium term.

18. **Strong adjustment under this scenario leads to the overall deficit falling from 11 percent in 2001 to 4 percent by 2006.** The primary balance switches from deficit to surplus in 2004. At the same time, net domestic financing falls from 8¼ percent of GDP in 2001 to 1¾ percent of GDP at the end of the period. The reduction in domestic financing pressure leads to interests rates on domestic debt falling to 10 percent. The structural and fiscal reform agenda puts Sri Lanka on a higher growth trajectory, with growth reaching 6½ percent by the end of the period.

19. **This scenario is clearly sustainable, with a falling debt-GDP ratio (both domestic and foreign) and a large negative gap between the actual and sustainable fiscal deficits.** The total debt-GDP ratio declines by nearly 20 percentage points of GDP over this period.

#### *Stress Tests*

20. **The conclusion about the adjustment scenario is contingent on a number of favorable assumptions.** To check robustness, we now subject this scenario to a number of stress tests, to see how the conclusions change if one of the assumptions does not hold. Key risks examined include: low growth; inability to implement revenue reform; a fall in external financing; recourse to nonconcessional foreign loans; and higher capital spending.

- Our initial stress test assumes that **growth is low**, a mere 1 percent in the medium term (Table II.3). This causes the debt-GDP ratio to rise to 117 percent of GDP by 2006, instead of falling back to 84 percent of GDP. Although the tax policy and administration reforms go ahead in this scenario, the weak economy is assumed to allow revenue to increase to only 18½ percent of GDP by 2006, 1½ percentage points of GDP lower than under the baseline. With interest rates exceeding the growth rate, interest payments increase as a share of GDP; combined with weaker revenue, the deficit only falls to 9 percent of GDP by 2006. Thus, one key conclusion is that the sustainability of the reform scenario depends crucially on a return to solid growth rates in the medium term. If

growth does not resume, then fiscal policy will become unsustainable, even with tax reform and expenditure adjustment.

- The second stress test assumes that Sri Lanka faces severe **external financing constraints** (Table II.4). Here, external financing does not materialize as envisioned, and the ratio of net external financing to GDP remains at just over 1½ percent in the medium term, the same as in 2001. This scenario also assumes that privatization is suspended and no grants are received. In this case, domestic sources finance a greater share of the deficit, leading to significantly **higher interest rates on domestic debt** (15 percent). No change is assumed in interest rates for foreign debt. As a result, interest costs rise dramatically to 9½ percent of GDP by 2006. Accordingly, slower overall adjustment is observed, with the deficit falling to 7¼ percent over this period. Nonetheless, this shock alone does not imperil sustainability as we have defined it; the debt-GDP ratio falls gradually over time. However, it remains at over 100 percent of GDP by 2006, suggesting sustainability hangs on a knife-edge. Also, this is a partial equilibrium analysis: a realistic scenario would be to lower growth rates in the face of such high domestic interest rates.
- Another stress test relates to **higher foreign interest rates**. This scenario assumes that Sri Lanka's foreign debt becomes increasingly less concessional over time, as would be the case if Sri Lanka opted for nonconcessional foreign borrowing (Table II.5). Specifically, the average interest rate on foreign debt rises gradually in the medium term, from 2 percent in 2001 to 7 percent by 2006. As a result, instead of falling to 5¼ percent of GDP, the interest bill rises to 7¾ percent of GDP by 2006. We assume that this is accommodated in the form of slower adjustment; accordingly, the deficit now falls to only 6½ percent of GDP in the medium term. Absent any further effects from this shock, sustainability is not directly endangered. Again, this test assumes that the high growth trajectory can be maintained.
- A fourth stress test assumes that **capital spending increases** to around 9 percent in the medium term, to finance reconstruction in the north and east, and possibly to provide for the recapitalization of Peoples Bank (Table II.6). No other assumptions are changed. As a result, the deficit only declines to 5¾ percent, instead of 4 percent, by 2006. Sustainability is not endangered, although debt falls at a slower pace, reaching 89½ percent of GDP by 2006, 5 percent of GDP above the baseline.
- Finally, we assume that there is **no tax reform**. While the government commits to fiscal adjustment, it does not implement any further tax policy or administration reforms. Thus, there are no efficiency gains from tax simplification, from broadening the base, or from re-organizing the agents of tax administration. All other assumptions are maintained. As in the no-reform scenario, the revenue-GDP ratio remains constant in the medium-term (Table II.7). Along with the higher trajectory of interest payments, lower revenue implies a deficit of 9¼ percent of GDP by 2006. Again, growth is assumed to be unaffected. Technically, fiscal sustainability is not endangered, although the debt-GDP ratio barely declines, and is a full 16 percentage points of GDP more than what it would have been in the presence of revenue reform.

#### D. Implicit Tax from Financial Repression

21. **As has been the case with other developing countries, Sri Lanka has taken advantage of financial repression to reduce the cost of government debt.** This has included issuing debt in the form of rupee loans at below market rates, and restricting pension and other social security funds to investing largely in government paper, thus creating a large pool of funds which could be tapped at lower rates.

22. **A substantial, albeit declining, proportion of Sri Lanka's domestic debt is made up of nonmarket debt instruments.** By 2001, rupee securities accounted for around 36 percent of total domestic debt, down from a peak of 62 percent in 1997. Toward the end of the decade, the authorities moved toward more market based instruments, reducing their reliance on rupee securities.

23. **Most of these securities are held by provident funds, chiefly the Employees' Provident Fund (EPF).**<sup>3</sup> Investment options are heavily restricted; as a result, the portfolios of the provident funds are dominated by rupee securities, with a miniscule amount of treasury bills, and an increasing proportion of treasury bonds in recent years.<sup>4</sup> As a result of this policy, these funds offered very low returns on their investments; the average after tax real rate of return over the past 3 decades was only around ¼ percent. In effect, this amounts to an implicit tax on pension income of all workers who are not in the civil service.

24. **The size of this implicit tax can be measured by comparing the return on rupee securities with a compatible market interest rate in a particular year.** The 364-day treasury bill rate is chosen as such a comparator, given that treasury bonds were only introduced in the last few years. Table II.8 shows that in every year except one in the last decade, the treasury bill rate was higher than the rupee security rate, sometimes substantially. Multiplying the interest rate differential by the quantity of rupee securities held by the provident funds gives an estimate of the implicit tax.

25. **Captive source funding tends to assume a larger role in periods where the deficit is high.** From 1991 to 1996—with fiscal deficits averaging 9¼ percent of GDP—the implicit tax averaged 0.3 percent of GDP. However, by 1999 fiscal adjustment had reduced the deficit

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<sup>3</sup> The EPF covers all private sector and public corporation and statutory board employees, is funded by employee and employer contributions (8 percent and 12 percent respectively), and pays out a lump sum upon retirement. Participation is compulsory and there is no cap on contributions as income increases.

<sup>4</sup> In terms of numbers, the provident funds held Rs 3.1 billion in treasury bills (2 percent of the total), Rs 64.8 billion in treasury bonds (28 percent of the total), and Rs 183.5 billion in rupee securities (63 percent of the total) at end-2001.

to 7½ percent of GDP, and the implicit tax fell sharply, as the gap between interest rates on rupee securities and market-based instruments narrowed. The gap was actually negative in 1997, and miniscule in 1998 and 1999 as the authorities made a concerted effort to switch to market based debt instruments. In 2000 and 2001, however, fiscal slippage led to a deficits averaging 10½ percent of GDP, causing the implicit tax rate on provident funds to jump to over 0.6 percent of GDP in 2001. A large increase in domestic interest rates was not reflected in rupee security returns, and the gap widened again.

26. **In conclusion, there is a temptation to resort to nonmarket financing whenever interest rates are high.** By holding debt service costs down, financial repression can bolster fiscal sustainability. The disadvantages of this policy are manifold: aside from the costly distortions it creates, resorting to financial repression for fiscal policy purposes is both nontransparent and inequitable.<sup>5</sup>

#### E. Concluding Remarks

27. **This paper has examined the sustainability of Sri Lankan fiscal policy using both backward- and forward-looking frameworks.** In general, we find that fiscal policy was conducted in a sustainable fashion in the past, as the government was able to run large primary deficits because of high growth and low real effective yields on government debt.

28. **Looking to the future, strong medium term adjustment is needed for fiscal policy to be sustainable.** Failure to adjust implies a rising deficit with mushrooming interest payments. The results are highly sensitive to assumptions about growth—even strong adjustment can lead to a rising debt-GDP ratio if growth remains low. This demonstrates the importance of early implementation of the envisaged pro-growth structural reforms outlined in the budget. In addition, fiscal adjustment should be carried out in a manner that promotes growth (see, for example, Gupta et al (2002)) rather than cutting capital spending. Although none of the other scenarios appear to directly endanger sustainability, any combination could cause problems, especially if they adversely affect medium-term growth. Also, as the government moves toward market-determined securities the implicit tax on financial repression will decline substantially, and need to be compensated for by lower deficits.

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<sup>5</sup> Private sector employees are already taxed heavily, while public sector workers are not liable for income tax and receive pension benefits directly from the consolidated fund.

Table II.1. No Adjustment Scenario

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  |
|-----------------------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 16.5  | 16.6  | 16.5  | 16.5  | 16.4  |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 28.8  | 29.4  | 30.0  | 30.9  | 31.9  |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 8.2   | 8.8   | 9.5   | 10.3  | 11.3  |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -12.3 | -12.8 | -13.5 | -14.4 | -15.5 |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -4.1  | -4.0  | -4.0  | -4.1  | -4.2  |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 12.3  | 12.8  | 13.5  | 14.4  | 15.5  |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.6   | 1.5   | 1.5   | 1.4   | 2.0   |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 7.9   | 9.9   | 11.3  | 12.3  | 12.9  |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.3   | 0.9   | 0.3   | 0.3   | 0.2   |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.6   | 0.5   | 0.4   | 0.4   | 0.4   |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 105.3 | 109.1 | 114.2 | 120.1 | 126.9 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 59.4  | 64.0  | 70.3  | 77.2  | 84.4  |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 45.9  | 45.1  | 43.9  | 42.9  | 42.5  |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 8.3   | 8.5   | 8.8   | 9.2   | 9.5   |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 13.5  | 13.5  | 13.5  | 13.5  | 13.5  |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.7   | 1.8   | 1.8   | 1.8   | 1.8   |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.5   | 3.5   | 3.5   | 3.5   | 3.5   |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2   | 5.0   | 4.6   | 4.4   |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 3.9   | 6.9   | 8.1   | 8.5   | 8.7   |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.9  | -4.1  | -3.0  | -2.7  | -2.5  |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 4.1   | 4.0   | 4.0   | 4.1   | 4.2   |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 4.5   | 1.2   | -0.4  | -1.2  | -1.9  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -0.4  | 2.8   | 4.4   | 5.2   | 6.1   |

Sources: Data provided by the authorities; and Fund staff projections.

Table II.2. Adjustment Scenario

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|------|------|------|------|-------|-------|------|------|------|------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 17.5  | 19.8 | 20.1 | 20.2 | 20.2 |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.1  | 26.4 | 25.5 | 24.8 | 24.2 |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.4   | 6.2  | 5.9  | 5.6  | 5.3  |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -8.5  | -6.6 | -5.4 | -4.6 | -4.0 |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -1.2  | -0.4 | 0.5  | 1.0  | 1.3  |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 8.5   | 6.6  | 5.4  | 4.6  | 4.0  |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.6   | 1.5  | 1.4  | 1.3  | 1.8  |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 4.1   | 3.8  | 3.3  | 2.7  | 1.7  |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.3   | 0.9  | 0.3  | 0.2  | 0.2  |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.5   | 0.5  | 0.4  | 0.4  | 0.3  |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 101.3 | 97.5 | 93.3 | 88.5 | 83.9 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 55.5  | 53.4 | 51.3 | 48.7 | 45.5 |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 45.8  | 44.1 | 42.0 | 39.8 | 38.4 |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.7   | 6.6  | 6.5  | 6.5  | 6.4  |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.3  | 10.5 | 10.3 | 10.3 | 10.3 |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 1.8  | 1.8  | 1.8  | 1.8  |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.7   | 5.5  | 6.0  | 6.5  | 6.5  |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2  | 5.0  | 4.6  | 4.4  |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.8   | 4.1  | 5.1  | 5.5  | 5.7  |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -4.1 | -3.0 | -2.7 | -2.5 |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 1.2   | 0.4  | -0.5 | -1.0 | -1.3 |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 5.3   | 5.0  | 4.3  | 4.2  | 3.8  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -4.1  | -4.6 | -4.7 | -5.2 | -5.1 |

Sources. Data provided by the authorities; and Fund staff projections.

Table II.3. Stress Test I-Low Growth

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  |
|-----------------------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 17.0  | 18.3  | 18.5  | 18.6  | 18.5  |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.6  | 27.5  | 27.3  | 27.4  | 27.4  |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.6   | 6.8   | 7.0   | 7.4   | 7.6   |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -9.6  | -9.2  | -8.8  | -8.8  | -8.9  |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -2.1  | -2.4  | -1.8  | -1.4  | -1.3  |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 9.6   | 9.2   | 8.8   | 8.8   | 8.9   |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.7   | 1.6   | 1.6   | 1.6   | 2.2   |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 5.1   | 6.2   | 6.5   | 6.5   | 6.0   |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.4   | 0.9   | 0.3   | 0.3   | 0.3   |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.6   | 0.5   | 0.5   | 0.4   | 0.4   |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 104.9 | 107.5 | 110.5 | 113.6 | 116.9 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 57.9  | 60.2  | 63.2  | 66.3  | 68.9  |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 47.0  | 47.3  | 47.3  | 47.3  | 48.0  |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.6   | 6.6   | 6.6   | 6.7   | 6.8   |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.2  | 10.5  | 10.3  | 10.3  | 10.3  |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 1.8   | 1.8   | 1.8   | 1.8   |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 1.0   | 1.0   | 1.0   | 1.0   | 1.0   |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2   | 5.0   | 4.6   | 4.4   |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.7   | 4.1   | 5.1   | 5.5   | 5.7   |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -4.1  | -3.0  | -2.7  | -2.5  |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 2.1   | 2.4   | 1.8   | 1.4   | 1.3   |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 2.6   | 0.5   | -0.7  | -1.2  | -1.5  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -0.6  | 1.8   | 2.5   | 2.7   | 2.8   |

Sources. Data provided by the authorities; and Fund staff projections.



Table II.4. Stress-Test II-External Financing Constraints

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  |
|-----------------------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 17.5  | 19.8  | 20.1  | 20.2  | 20.2  |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.1  | 29.4  | 29.1  | 28.7  | 28.5  |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.4   | 9.2   | 9.4   | 9.5   | 9.5   |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -8.5  | -9.6  | -9.0  | -8.5  | -8.3  |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -1.2  | -0.4  | 0.4   | 1.0   | 1.2   |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 8.5   | 9.6   | 9.0   | 8.5   | 8.3   |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 1.6   | 1.6   | 1.6   | 1.6   | 1.6   |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 7.0   | 8.0   | 7.4   | 6.9   | 6.7   |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 103.2 | 103.5 | 102.9 | 101.7 | 100.5 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 58.4  | 60.2  | 61.5  | 62.1  | 62.6  |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 44.8  | 43.3  | 41.5  | 39.6  | 38.0  |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.6   | 9.4   | 9.6   | 9.8   | 9.9   |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.0  | 15.0  | 15.0  | 15.0  | 15.0  |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 1.8   | 1.8   | 1.8   | 1.8   |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.7   | 5.5   | 6.0   | 6.5   | 6.5   |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2   | 5.0   | 4.6   | 4.4   |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.5   | 8.3   | 9.5   | 9.9   | 10.2  |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -4.1  | -3.0  | -2.7  | -2.5  |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 1.2   | 0.4   | -0.4  | -1.0  | -1.2  |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 5.3   | 2.4   | 1.6   | 1.5   | 1.1   |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -4.2  | -2.0  | -2.0  | -2.5  | -2.4  |

Sources. Data provided by the authorities; and Fund staff projections.

Table II.5. Stress Test III-Increasingly Non-Concessional Foreign Debt

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|------|------|------|------|-------|-------|------|------|------|------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 17.5  | 19.8 | 20.1 | 20.2 | 20.2 |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.1  | 27.4 | 27.0 | 26.8 | 26.6 |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.4   | 7.2  | 7.3  | 7.5  | 7.7  |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -8.5  | -7.6 | -6.9 | -6.6 | -6.4 |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -1.2  | -0.4 | 0.4  | 0.9  | 1.3  |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 8.5   | 7.6  | 6.9  | 6.6  | 6.4  |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.6   | 1.5  | 1.4  | 1.3  | 1.8  |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 4.1   | 4.8  | 4.8  | 4.7  | 4.1  |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.3   | 0.9  | 0.3  | 0.2  | 0.2  |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.5   | 0.5  | 0.4  | 0.4  | 0.3  |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 101.3 | 98.5 | 95.7 | 92.7 | 90.0 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 55.5  | 54.4 | 53.7 | 52.8 | 51.6 |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 45.8  | 44.1 | 42.0 | 39.8 | 38.4 |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.7   | 7.6  | 8.0  | 8.5  | 8.9  |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.3  | 10.5 | 10.3 | 10.3 | 10.3 |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 4.0  | 5.0  | 6.0  | 7.0  |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.7   | 5.5  | 6.0  | 6.5  | 6.5  |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2  | 5.0  | 4.6  | 4.4  |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.8   | 4.1  | 5.1  | 5.5  | 5.7  |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -2.0 | 0.0  | 1.3  | 2.5  |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 1.2   | 0.4  | -0.4 | -0.9 | -1.3 |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 5.3   | 4.1  | 3.0  | 2.6  | 2.0  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -4.1  | -3.6 | -3.4 | -3.6 | -3.3 |

Sources. Data provided by the authorities; and Fund staff projections.

Table II.6. Stress Test IV-Higher Capital Spending  
(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003 | 2004 | 2005 | 2006 |
|-----------------------------------|------|------|------|------|-------|-------|------|------|------|------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 17.5  | 19.8 | 20.1 | 20.2 | 20.2 |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.1  | 27.6 | 27.2 | 26.6 | 25.9 |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.4   | 6.2  | 6.0  | 5.9  | 5.8  |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -8.5  | -7.8 | -7.1 | -6.4 | -5.7 |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -1.2  | -1.6 | -1.1 | -0.5 | 0.1  |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 8.5   | 7.8  | 7.1  | 6.4  | 5.7  |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.6   | 1.5  | 1.4  | 1.3  | 1.8  |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 4.1   | 5.0  | 5.0  | 4.5  | 3.4  |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.3   | 0.9  | 0.3  | 0.2  | 0.2  |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.5   | 0.5  | 0.4  | 0.4  | 0.3  |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 101.3 | 98.7 | 96.1 | 92.8 | 89.4 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 55.5  | 54.6 | 54.1 | 53.0 | 51.0 |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 45.8  | 44.1 | 42.0 | 39.8 | 38.4 |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.7   | 6.6  | 6.5  | 6.6  | 6.7  |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.3  | 10.5 | 10.3 | 10.3 | 10.3 |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 1.8  | 1.8  | 1.8  | 1.8  |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.7   | 5.5  | 6.0  | 6.5  | 6.5  |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2  | 5.0  | 4.6  | 4.4  |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.8   | 4.1  | 5.1  | 5.5  | 5.7  |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -4.1 | -3.0 | -2.7 | -2.5 |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 1.2   | 1.6  | 1.1  | 0.5  | -0.1 |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 5.3   | 5.0  | 4.3  | 4.2  | 3.9  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -4.1  | -3.4 | -3.3 | -3.8 | -3.9 |

Sources. Data provided by the authorities; and Fund staff projections.

Table II.7. Stress Test V-No Revenue Reform

(In percent of GDP)

|                                   | 1997 | 1998 | 1999 | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  | 2006 |
|-----------------------------------|------|------|------|------|-------|-------|-------|-------|-------|------|
| Total revenue                     | 18.5 | 17.2 | 17.7 | 16.8 | 16.5  | 16.5  | 16.5  | 16.5  | 16.5  | 16.4 |
| Total expenditure                 | 26.4 | 26.3 | 25.2 | 26.7 | 27.4  | 26.0  | 26.6  | 26.1  | 25.9  | 25.6 |
| Interest payments                 | 6.2  | 5.4  | 5.6  | 5.7  | 6.7   | 7.4   | 6.5   | 6.5   | 6.6   | 6.7  |
| Overall balance                   | -7.9 | -9.2 | -7.5 | -9.9 | -10.9 | -9.5  | -10.1 | -9.6  | -9.4  | -9.2 |
| Primary balance                   | -1.7 | -3.8 | -1.9 | -4.2 | -4.1  | -2.2  | -3.6  | -3.1  | -2.8  | -2.5 |
| Financing                         | 7.9  | 9.2  | 7.5  | 9.9  | 10.9  | 9.5   | 10.1  | 9.6   | 9.4   | 9.2  |
| Net external financing            | 1.1  | 1.0  | 0.1  | 0.7  | 1.6   | 2.6   | 1.5   | 1.4   | 1.3   | 1.8  |
| Net domestic financing            | 3.4  | 7.0  | 6.8  | 8.8  | 8.3   | 5.1   | 7.3   | 7.5   | 7.5   | 6.9  |
| Asset sales                       | 2.5  | 0.4  | 0.0  | 0.0  | 0.6   | 1.3   | 0.9   | 0.3   | 0.2   | 0.2  |
| Grants                            | 0.8  | 0.7  | 0.6  | 0.4  | 0.4   | 0.5   | 0.5   | 0.4   | 0.4   | 0.3  |
| Total debt                        | 85.8 | 90.8 | 95.1 | 97.1 | 103.6 | 102.3 | 101.9 | 101.5 | 100.6 | 99.9 |
| Domestic debt                     | 43.6 | 45.5 | 49.1 | 53.9 | 58.3  | 56.5  | 57.8  | 59.5  | 60.8  | 61.6 |
| Foreign debt                      | 42.3 | 45.3 | 45.9 | 43.2 | 45.3  | 45.8  | 44.1  | 42.0  | 39.8  | 38.4 |
| Interest rates on government debt | 7.5  | 6.5  | 6.3  | 6.3  | 7.1   | 7.6   | 6.7   | 6.7   | 6.9   | 7.0  |
| Domestic                          | 13.0 | 11.2 | 10.6 | 10.1 | 11.2  | 12.2  | 10.5  | 10.3  | 10.3  | 10.3 |
| Foreign                           | 1.8  | 1.7  | 1.8  | 1.8  | 1.8   | 1.9   | 1.8   | 1.8   | 1.8   | 1.8  |
| Real GDP growth                   | 6.4  | 4.7  | 4.3  | 6.0  | -1.4  | 3.7   | 5.5   | 6.0   | 6.5   | 6.5  |
| Inflation (GDP deflator)          | 8.9  | 9.2  | 4.2  | 7.3  | 13.0  | 9.2   | 6.2   | 5.0   | 4.6   | 4.4  |
| Domestic real interest rate       | 3.8  | 1.8  | 6.2  | 2.6  | -1.5  | 2.7   | 4.1   | 5.1   | 5.5   | 5.7  |
| Foreign real interest rate        | -6.5 | -6.8 | -2.3 | -5.1 | -9.9  | -6.7  | -4.1  | -3.0  | -2.7  | -2.5 |
| Actual primary deficit            | 1.7  | 3.8  | 1.9  | 4.2  | 4.1   | 2.2   | 3.6   | 3.1   | 2.8   | 2.5  |
| Sustainable primary deficit       | 3.2  | 3.7  | 4.9  | 6.1  | 4.4   | 5.3   | 5.0   | 4.4   | 4.3   | 4.0  |
| Fiscal sustainability             | -1.6 | 0.0  | -3.0 | -1.8 | -0.2  | -3.2  | -1.4  | -1.2  | -1.5  | -1.4 |

Sources. Data provided by the authorities; and Fund staff projections.

Table II.8. Financial Repression Tax

|      | Total rupee securities             | Rupee securities held<br>by provident funds | Average interest rate<br>on rupee securities | 364-day treasury<br>bill rate | Total financial<br>repression tax | Implicit income tax on<br>pension income |
|------|------------------------------------|---|--|-------------------------------|-----------------------------------|--|
|      | (In billions of Sri Lankan rupees) |   | (In percent)                                 |                               | (In percent of GDP)               |  |
| 1991 | 67                                 | 45  | 16.0   | 18.1                          | 0.38                              | 0.26                                     |
| 1992 | 69                                 | 54  | 16.0   | 18.9                          | 0.47                              | 0.36                                     |
| 1993 | 106                                | 68  | 17.3   | 20.5                          | 0.68                              | 0.44                                     |
| 1994 | 138                                | 81  | 15.0   | 15.4                          | 0.10                              | 0.06                                     |
| 1995 | 158                                | 97  | 14.0   | 16.7                          | 0.64                              | 0.40                                     |
| 1996 | 206                                | 117   | 14.0   | 16.6                          | 0.71                              | 0.40                                     |
| 1997 | 239                                | 137   | 12.9   | 12.3                          | -0.16                             | -0.09                                    |
| 1998 | 251                                | 148   | 11.8   | 12.1                          | 0.08                              | 0.05                                     |
| 1999 | 262                                | 156   | 12.3   | 12.6                          | 0.07                              | 0.04                                     |
| 2000 | 264                                | 162   | 11.5   | 14.0                          | 0.53                              | 0.33                                     |
| 2001 | 293                                | 184   | 13.0   | 17.5                          | 1.05                              | 0.66                                     |

Sources: Central Bank of Sri Lanka Annual Report; and Fund staff calculations.

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### III. EXTERNAL DEBT SUSTAINABILITY<sup>6</sup>

#### A. Introduction

1. **This chapter examines Sri Lanka's external debt**—as a complement to the preceding chapter on fiscal sustainability as well as the next chapter analyzing current account sustainability.<sup>7</sup> The issue is important for Sri Lanka for several reasons, including concerns over public debt sustainability, for gauging the scope and terms of external borrowing to finance reconstruction of the North and East, and the vulnerability of the balance of payments to external shocks given the openness of the economy. Such assessments of debt sustainability involve judgments about whether the current account can be financed through private and official flows, medium-term balance of payments and associated debt projections, assessments of the appropriate level of the exchange rate, the degree of adjustment that is politically and socially feasible, as well as the balance sheets of several interlinked sectors.<sup>8</sup>

2. **The new framework that was recently developed by Fund staff is used to gauge whether Sri Lanka's external debt dynamics over the medium term are sustainable.** Section B summarizes the baseline medium term macroeconomic scenario, and the assumptions on which the external projections are based. Section C presents a short overview of Sri Lanka's external debt history and structure. It then outlines and assesses external debt sustainability using a framework recently proposed by the staff.<sup>9</sup> This assessment decomposes the external debt dynamics of the baseline scenario and incorporates a standard set of sensitivity tests around this projection using alternative assumptions about the variables affecting the ability to service debt. These results are compared with levels that empirical data show have been associated with debt problems or corrections. Finally, since the results from these scenarios and the debt burden need to be viewed in the context of the debt structure, notably its concessionality, Section D discusses the present value of Sri Lanka's debt, comparing the debt burden with a framework—the HIPC Initiative—which is

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<sup>6</sup> Prepared by Sukhwinder Singh (PDR).

<sup>7</sup> This chapter does not examine financial sector issues linked to external and fiscal sustainability, for example contingent claims on the government. Financial sector vulnerabilities were examined under the recently completed Financial Sector Assessment Program (FSAP).

<sup>8</sup> Assessments of the exchange rate are important to assess external sustainability, for example the risks from an overvalued exchange rate in the presence of foreign currency denominated debt. This chapter only considers the impact of an exchange rate shock on debt ratios.

<sup>9</sup> See Assessing Sustainability, SM/02/166.

used for assessing the external debt sustainability of low-income countries.<sup>10</sup> Section E concludes with a summary of the external debt sustainability results and policy implications.

### **B. Medium Term Balance of Payments Prospects—the Baseline Scenario**

3. **The baseline macroeconomic scenario assumes the conflict does not escalate, and that far reaching structural reforms and the maintenance of macroeconomic stability raise the growth rate.**<sup>11</sup> The staff's central scenario also assumes a significant reduction in the political uncertainty that has plagued policy making in the recent past. The main elements of the government's strategy are elaborated in its poverty reduction strategy paper (PRSP),<sup>12</sup> which identifies reforms of investment policy, the regulatory environment, labor market, financial and public sectors, as well as governance as key for liberalizing the economy and supporting private sector led growth.

4. **Central to the baseline macroeconomic framework is the achievement of low single digit inflation and strong fiscal consolidation.** The overall fiscal deficit of the central government is forecast to be more than halved over the four years ending 2006, to 4 percent of GDP. Improvements, in the form of a simplified tax system and strengthened administration, are likely to raise total revenue by 2½ percent of GDP, while expenditure measures to reduce defense spending, reduce public employment, rationalize public departments and transfers, and improve expenditure control, account for almost 2 percent of GDP. The baseline scenario assumes that economic growth will increase steadily to 6½ percent over the medium term, driven by higher investment, exports and consumption.

5. **Structural reforms and infrastructure development would allow the economy to adjust to the shock from the removal of textile quotas and increased regional competition.** Improved business and investor confidence in response to the economic reforms and peace is likely to encourage a shift toward higher value added garment exports, a growth of other industrial exports, and a resumption of agricultural and fisheries exports from the North and East. From 2005, however, export volume growth tapers off as total apparel and textile exports are programmed to remain flat in value terms due to the adverse

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<sup>10</sup> The comparison with the HIPC Initiative is purely illustrative and in no way intended to suggest Sri Lanka is eligible for HIPC Initiative relief. To the contrary, the country's exemplary debt service record and income level clearly sets it apart from HIPC countries.

<sup>11</sup> Uncertainties associated with the peace process mean the baseline does not assume fiscal outlays or external borrowing associated with reconstruction in the North and East. Clearly, medium term external debt sustainability depends on the magnitude of any such expenditure as well as the terms of its financing.

<sup>12</sup> See "Connecting to Growth," Sri Lanka's Poverty Reduction Strategy, Government of Sri Lanka's draft presented to the Development Forum in Colombo in June, 2002.



impact on smaller scale garment producers—from the loss of “secure access” and heightened competition from more competitive producers—of the elimination of quotas on textiles and clothing exports under the Agreement on Textiles and Clothing.<sup>13</sup> Growth of services is expected to average 5½ percent between 2002-06, led by increased tourism resulting from peace and further infrastructure development. As a result of these developments, and fairly stable income account and private transfers as a share of GDP, the external current account deficit is forecast to remain around 2½ percent of GDP into the medium term.

6. **The capital and financial account is expected to grow in line with GDP as donor flows and FDI respond to the reform effort.** The capital and financial account recovers in 2002 based on the inflow of program loans and delayed asset sales, as well as foreign direct and portfolio investment buoyed by increased investor confidence and private sector participation in infrastructure and utilities. Capital inflows are projected to remain at these levels over the medium term as the authorities implement their reform agenda and accelerate project implementation, with the large majority assumed on concessional terms. Gross reserves would increase steadily to just over \$3 billion by 2006, equivalent to 4 months of import cover, with this cushion being justified by the narrow export base and vulnerability to shocks, and the dependence on official capital inflows.

### C. External Debt Sustainability

#### Evolution and Structure of External Debt

7. **After a rapid increase over the first half of the 1990s, Sri Lanka’s external debt has remained fairly stable, as creditors have contained their exposure.** External debt increased sharply between 1990-95 from around \$6.5 billion to \$9.7 billion but net inflows have been limited over the last six years (Table III.1).<sup>14</sup> Reflecting the predominance of the state in the economy and its failure to raise per capita incomes above low income country thresholds, the increase has largely been in public and publicly guaranteed debt associated

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<sup>13</sup> Under the Agreement on Textiles and Clothing (ATC), WTO members that maintain import restrictions on textiles and clothing must progressively reduce the restrictions and integrate the products concerned into GATT rules. All products have to be integrated by the end of a ten-year transition period (2005). Implementation of the integration process has been slow so far, suggesting a large impact from 2005 (see AITIC, 1999). Although estimates of the simultaneous effects of ATC quota elimination and China’s WTO accession on Sri Lanka are not available, general equilibrium estimates suggest a dramatic shift in textile and clothing trade toward China and India and lost market share for most other developing countries (see Francois, T. and Spinanger, D., 2002).

<sup>14</sup> Debt figures are inclusive of approximately \$1 billion in banking system liabilities.

with concessional disbursements from IDA, the AsDB and Japan.<sup>15</sup> In terms of the debt burden, the external debt-to-GDP and debt-to-exports ratios averaged close to 80 percent and 250 percent respectively over the first half of the 1990s, reflecting low growth, inefficient public investment and poor export performance through the late 1980s and early 1990s.<sup>16</sup> Debt ratios, however, declined noticeably over the second half of the decade, with the debt-to-GDP and debt-to-exports ratios averaging 63 and 170 percent respectively. This was mainly the result of very limited net debt inflows, rather than exceptionally strong growth and export performance. The concessionality of the external debt and lengthy grace periods have moderated debt service ratios, which averaged 15 percent over the 1990s.

**8. At end-2001, total external debt was around 60 percent of GDP but the majority was concessional public sector liabilities to official creditors.** Over 80 percent was public external debt, with the large majority being claims on central government. In terms of maturity, about four fifths of the total debt stock is medium-and long-term, although the proportion of short term debt declines to around 7 percent if banking system liabilities are excluded. The large majority of public debt is held by multilateral and bilateral official creditors, who each account for around 40 percent of total liabilities. IDA and the AsDB together account for almost one half of central government debt and Japan, which is the largest official creditor, a further one third. Sri Lanka's eligibility for low income country facilities is reflected in the concessionality of the debt structure with over 90 percent of public external debt and between 65-75 percent of total external debt (depending on whether banking sector liabilities are included) on concessional terms. In NPV terms the total and public debt stock is estimated to be around 51 and 39 percent of GDP respectively, reflecting a grant element of approximately 20 percent (see Table III.3).<sup>17</sup> Total private sector and public corporation debt which is not covered by a government guarantee (mainly trade credits to BOI companies) was less than 3 percent of the total debt stock, rising to 14 percent if banking sector liabilities are excluded.

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<sup>15</sup> Debt to the Fund declined over the 1990s reflecting repurchases of the SAF and limited new disbursements, but rose from 2001 when a new Stand-By Arrangement was approved.

<sup>16</sup> Part of the increase in the debt stock, particularly over the first half of the decade reflects the significant appreciation of yen and SDR against the U.S. dollar. In terms of currency composition, about 90 percent of the debt is in one of three currencies (40 percent in SDRs, 27 percent in yen, and 22 percent in U.S. dollars).

<sup>17</sup> Because the NPV of the debt takes into account its concessionality, it is a more accurate measure of a country's effective debt burden. The grant element is defined as the difference between the nominal and NPV of the debt, expressed in terms of its nominal value.

## External Sustainability Framework

9. **The framework for assessing external debt recently developed by Fund staff seeks to build on existing best practices in the assessment of sustainability.**<sup>18</sup> Of the two main elements of the framework, the first is the centrality of the staff's baseline medium-term scenario. The historical and projected debt dynamics resulting from this scenario are decomposed, allowing identification of whether the stability or otherwise in the debt ratio arises from the behavior of interest rates, growth rates, inflation or real exchange rate movements or through adjustment in the trade balance. In terms of debt dynamics, a country is sustainable if it satisfies the present value budget constraint (i.e., the present discounted value (PDV) of its current and future primary spending is no greater than the PDV of current and future income, net of initial indebtedness) without a major correction in the balance of income and expenditure given the costs of financing it faces in the market. Formally, the decomposition of the change in the external debt ratio is based on the debt dynamics equation:

$$D_{t+1} = (1+r)D_t - TB_{t+1}$$

where  $D$  is end-period debt in U.S. dollars,  $r$  is the external interest rate, and  $TB$  is the debt-creating component of the noninterest current account of the balance of payments. Expressed in terms of the change in the external debt ratio, the debt dynamics equation can be written:

$$d_{t+1} - d_t = \frac{(r - g - \rho - g\rho)}{(1 + g + \rho + g\rho)} d_t - tb_{t+1}$$

where the change in the net debt ratio is a function of real GDP growth ( $g$ ), the external interest rate ( $r$ ), the growth rate of the U.S. dollar value of the GDP deflator ( $\rho$ ), the external debt-to-GDP ratio ( $d$ ), and the debt-creating component of the noninterest current account as a percent of GDP ( $tb$ ).

10. **The second part of this framework consists of a set of standard sensitivity tests around the medium-term scenario, examining the implications of alternative assumptions about policy variables, macroeconomic developments and the costs of financing.** The first sensitivity test sets the key parameters to their historical averages, thereby assessing the realism of the baseline projection given past outturns. The other tests consider adverse two-standard deviation shocks lasting two years to each of the key parameters—the current account, growth, interest rates, and dollar GDP—and a one-standard deviation combined shock to each of these variables. Finally, since the volatility of the real

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<sup>18</sup> Even though this approach is primarily intended to be applied to countries with significant market access, the analysis of the debt dynamics is useful for low income countries, especially when combined with an assessment of the debt's concessionality.

exchange rate may, historically, be low under a crawling band regime of the type operated by Sri Lanka prior to 2001, a scenario in which there is a 30 percent real exchange rate depreciation is also considered.

11. **While the focus is on the debt dynamics, these need to be viewed against the level of the debt ratio.** It is difficult to establish any definitive danger levels for the external debt-to-GDP ratio given the importance of country specific factors. Existing cross country empirical work suggests that an external debt ratio of about 40 percent of GDP provides a useful benchmark, with an appreciable increase in the likelihood of a debt crisis or debt correction at ratios above this level.<sup>19</sup> Moreover, debt ratios have to be viewed in terms of the concessionality of the debt, which is typically an important consideration for low income countries such as Sri Lanka. In this regard, the thresholds under the HIPC Initiative framework provide a reference point, where a country is considered unsustainable if the NPV of public debt-to-exports is above 150 percent or, for very open economies, the NPV of public debt to government revenue exceeds 250 percent.<sup>20</sup>

#### **Baseline Scenario**

12. **Under the baseline scenario, the external debt-to-GDP ratio declines gradually through the forecast horizon.** The debt ratio rises modestly in 2002 to 63 percent of GDP and then declines by 12 percentage points of GDP over the forecast horizon through 2007 (Table III.2). With the exception of 2002, the decline is driven by a fall in net debt creating external flows, which more than offsets any increase in gross foreign assets. In 2002, the increase in the debt ratio is primarily the counterpart of the large accumulation of international reserves by the central bank and the reconstitution of commercial banks' net foreign assets. This build up of foreign assets is primarily supported by official capital inflows (albeit on concessional terms), which outweigh the impact of higher growth, a recovery in foreign direct and portfolio investment, relatively low interest rates on external debt, and favorable projected impact of changes in the U.S. dollar value of the GDP deflator

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<sup>19</sup> A survey of the empirical work is provided in Appendix I of "Assessing Sustainability," SM/02/166. Specifically, the conditional probability of a debt crisis or correction rises to 15-20 percent for countries where the debt ratio is above 40 percent of GDP, from 2-5 percent where the ratio is below. Moreover, it is worth noting that the debt ratios that can be supported before a crisis occurs are likely to be higher the greater the export to GDP ratio; this ratio is over 30 percent for Sri Lanka, suggesting the 40 percent threshold may be conservative.

<sup>20</sup> Recent empirical work using a large panel data set for 93 developing countries over 1969-98 finds that the average impact of debt on growth becomes negative at close to the 150 percent of exports threshold set under the HIPC Initiative (see Patillo et.al., 2002). Moreover, this work indicates that debt levels beyond 35-40 percent of GDP (measured in either nominal or NPV terms) may be detrimental to growth.

on the debt ratio. From 2002 onwards, however, there is a significant and continuous decline in the external debt ratio that averages about 2 percentage points each year. While continued reserve accumulation over the medium term contributes to debt accumulation, albeit at a slower pace, the decline in the external debt-to-GDP ratio is primarily being driven by lower net debt creating inflows. This is despite a current account deficit (net of interest) of around 1 percent of GDP throughout the projection period. The key variable driving this reduction is the growth rate, and to a lesser extent continued high foreign direct and portfolio investment and the impact of the exchange rate (and domestic prices) on dollar GDP.

13. **This decomposition of the external debt dynamics highlights the crucial role of higher growth and FDI for both a continuous decline in the debt ratio and securing a more comfortable reserves cushion.** In turn, this growth clearly depends on the returns on foreign borrowing and FDI. In this regard, it is imperative that the government implement its reform agenda to increase the marginal efficiency of investment and total factor productivity more generally, and for donors to align their assistance behind these reforms.<sup>21</sup> This requires liberalizing product and factor markets where extensive regulations misallocate resources by distorting economic incentives, and a major reduction and reorientation of the role of the public sector. Macroeconomic stability also needs to be secured—indeed, this is inextricably related to the excessive role of the state in the economy, resulting in large fiscal deficits that reflect large public claims on output.

### Sensitivity Analysis

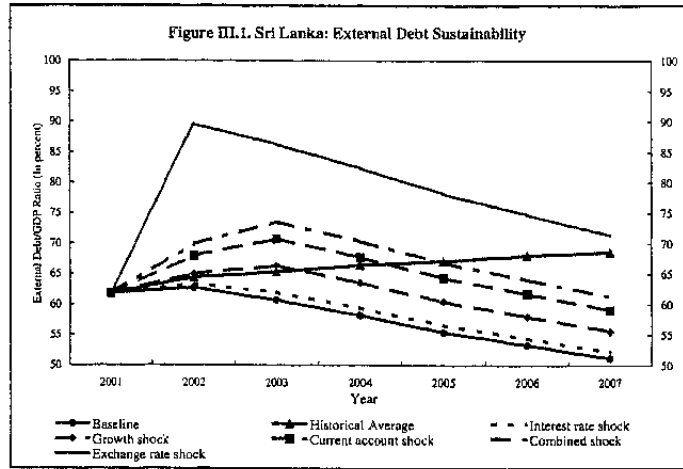
14. **If the new policy agenda is not implemented vigorously, debt ratios could rise well into unsustainable territory.** The baseline can be compared with various shocks (see Figure III.1).<sup>22</sup> The implications of the status quo are illustrated by comparing the difference between the baseline with simulations based on historical values of the key variables (Stress Test 1). Under these assumptions, the debt ratio increases steadily from 2001 to 69 percent of GDP by 2007, or 17 percentage points of GDP above the baseline. The main factors are the higher current account deficit and the lower growth rate. More specifically, the baseline assumes growth will average 5.8 percent or about 1 percentage point above the historical

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<sup>21</sup> The baseline scenario builds in such improvements in the efficiency of investment with the incremental capital output ratio (ICOR) declining from 6.6 to 4.5 between 2002 and 2007.

<sup>22</sup> These shocks are applied as (i) temporary deviations from the baseline, (ii) with all other variables unchanged, (iii) without feedback effects, and (iv) with magnitudes based on historical standard deviations over the past ten years. A key assumption in the framework is that the level of asset accumulation is invariant to the shock—neither the authorities nor the banking system varies its build up of reserves or borrowing in response to the shock, but undertakes the necessary adjustment in macroeconomic policies to return to the baseline path. This may be unrealistic, but serves to highlight the debt implications of securing a “comfortable” level of foreign assets in the presence of shocks.

average. As for the current account, the baseline assumes that the deficit will be 1-1½ percentage points lower than the average of the past ten years, driven primarily by an improved trade deficit. The stress test makes explicit the assumptions underlying the baseline, highlighting the urgency of increasing growth—through openness, good governance, investing in and rewarding human capital, and building sound institutions—if the poverty reduction goals in the PRSP are to be realized. Indeed, to the extent that historical performance overestimates future prospects in the absence of reform—in the sense that market access was guaranteed in the past and regional competitors such as China and India were at earlier stages of reform—the opportunity costs of delaying structural reform will be greater.



15. **Other stress tests highlight that the sensitivity of Sri Lanka’s external debt dynamics to macroeconomic shocks is closely related to the type of shock.** The interest rate shock (Stress Test 2) would have relatively little impact, raising the external debt-to-GDP ratio by only 1 percentage point of GDP, due to the low historical volatility and level of interest rates. A large shock to the growth rate in 2002 and 2003 (Stress Test 3) that resulted in no growth in those years would see the debt ratio increase to 66 percent by 2003—some 10 percentage points above the baseline—but the resumption of high growth through the rest of the projection period would prevent an explosion of the external debt-to-GDP ratio. A large deterioration in the current account deficit in 2002 and 2003 to 7¾ percent of GDP (Stress Test 5, with the noninterest current account deficit at 6 percent of GDP) would force the debt levels to 71 percent in 2003, only returning to 2001 levels by 2006. If Sri Lanka experienced a combination of growth, interest rate, current account and exchange rate shocks—perhaps reflecting a breakdown in peace talks, stalling of structural reform, and downturn in the global economy—debt ratios would be between 10-13 percentage points above the baseline (Stress Test 6). A large real exchange rate depreciation, such as a 30 percent GDP deflator shock, which might follow a major escalation of the civil conflict and large scale reversal of the reform momentum, would translate into an explosive increase in the debt ratio in 2002 (to 90 percent of GDP), with this remaining over 20 percentage points of GDP above the baseline scenario five years later (Stress Test 7).

#### D. Concessionality

16. **In addition to analyzing the debt dynamics, assessment of the level of the debt ratio can be meaningful for low income countries once allowance is made for the concessionality of the debt.** To this end, a simple estimation was undertaken to determine

the NPV of the total and public and publicly guaranteed external debt, and how this is projected to evolve over the medium term under the baseline scenario. Although actual repayment profiles are used for the three largest creditors—Japan, IDA and the AsDB—these estimates should be interpreted with caution since they are based on aggregate debt stocks by groups of creditors (as opposed to a loan by loan decomposition, with loan specific terms applied), and stylized assumptions on the terms of new borrowing.<sup>23</sup> The results are summarized in Table III.3.

**17. Even after the concessionality of the external debt is taken into account, Sri Lanka's debt sustainability depends on an aggressive modernization of the economy.** Results from the NPV calculations indicate a total debt-to-GDP ratio of around 50 percent, or 11 percentage points of GDP below the nominal debt ratio, implying a grant element of around 20 percent. For publicly and publicly guaranteed debt, the ratio is 39 percent of GDP.<sup>24</sup> Under the baseline scenario, the NPV public external debt ratio declines steadily through the projection period to 34 percent by 2006, reflecting the strong growth assumed over the medium term. At the same time, however, the NPV public external debt to exports ratio increases from 100 percent in 2001 to 127 percent by 2006. In part this reflects the gradual decline in the exports to GDP ratio into the medium term due to the slowdown in export volumes of textiles and clothing. It is also being driven by the significant increase (almost 30 percent) in the NPV of public debt over the projection period, entirely reflecting the rapid accumulation of new (mainly public) external debt.<sup>25</sup> While the ratios to GDP and exports remain well below the averages for HIPCs, the fiscal burden of external debt is

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<sup>23</sup> Key assumptions underlying the NPV analysis are: (i) use of actual projected debt service through 2010 for Japan, IDA, and the AsDB and average maturity and interest rates to calculate the debt service profile thereafter (these creditors account for 2/3 of total public debt); (ii) other bilateral and multilateral debt has a 5 year grace and twenty year maturity; (iii) publicly guaranteed debt is on IDA terms and has the same remaining maturity as IDA; (iv) private debt is repayable over 4 years; (v) public commercial debt, banking sector liabilities (whose maturity is typically less than one year) and short term debt are all at market rates and their NPV is equivalent to their nominal value; (vi) all new central government borrowing and 80 percent of gapfill financing is on IDA terms; and (vii) the OECD's average six month currency specific commercial interest reference rates (CIRRs) for the last semester of 2001 are used as the discount rates, as per HIPC Initiative methodology.

<sup>24</sup> The NPV and grant element projections are highly sensitive to the discount rate applied. For example, the NPV of Japan's claims is higher than its nominal value since the average interest rate on the debt exceeds the CIRR of the yen, which was close to historically low levels at end-2001 (less than 1.5 percent).

<sup>25</sup> The NPV of existing public debt would fall by \$1.3 billion between 2001 and 2006.

notable in that ratios to central government revenues are initially in the unsustainable range under the HIPC Initiative, although they decline rapidly thereafter.<sup>26</sup>

### E. Conclusions

18. The analysis of external debt sustainability suggests the following conclusions:

- **First, Sri Lanka's external debt dynamics are favorable under the baseline scenario and external debt ratios (based on nominal debt stocks) move toward sustainability** when structural reform efforts are reinvigorated and macroeconomic stability is maintained. However, the sensitivity analysis shows clearly how dependent this outcome is on attaining higher growth rates than the recent past and the implications of failing to adjust to the type of shocks to which Sri Lanka is vulnerable.
- **Second, although most public debt is on concessional terms, the grant element in the debt stock is not particularly high** (given low international interest rates). Over the medium term, the debt ratios (in present value terms) border levels that empirical work has identified as cause for concern. This is primarily on account of the large volume of new borrowing, even if assumed to be on concessional terms.
- **Finally, the policy implications of these conclusions highlight the critical importance of accelerating structural reforms that support innovation and diversification of the export base, of fiscal consolidation and of a prudent debt management strategy.** Contracting of non concessional debt should be strictly limited and grant financing of the PRSP sought as far as possible. Establishing the conditions that encourage non debt creating inflows is imperative.

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<sup>26</sup> The simple average of the total NPV of public and publicly guaranteed debt for a group of 24 HIPCs that had reached their decision point by February 2002 was 60 percent for NPV debt-to-GDP, 290 percent for debt to exports and 278 percent for NPV of debt to revenues. These ratios are after the full application of traditional debt relief mechanisms but before HIPC relief.



Table III.1. External Debt Outstanding, 1990-2001

(In millions of U.S. dollars)

|   | 1990  | 1993  | 1995  | 1997  | 1999  | 2000   | 2001  |
|---|-------|-------|-------|-------|-------|--------|-------|
| Total medium and long term                              | 4,786 | 6,301 | 7,556 | 7,286 | 8,355 | 8,269  | 7,800 |
| Government  | 4,312 | 5,652 | 6,637 | 6,346 | 7,125 | 6,963  | 6,808 |
| Concessional  | 3,887 | 5,290 | 6,237 | 5,915 | 6,910 | 6,660  | 6,375 |
| Multilateral  | 1,387 | 2,194 | 2,662 | 2,820 | 3,156 | 3,027  | 3,104 |
| <i>Of which:</i> IDA                                    | 818   | 1,220 | 1,464 | 1,509 | 1,650 | 1,555  | 1,576 |
| AsDB  | 495   | 901   | 1,124 | 1,243 | 1,444 | 1,406  | 1,461 |
| Bilateral   | 2,501 | 3,095 | 3,575 | 3,095 | 3,754 | 3,633  | 3,271 |
| <i>Of which:</i> Japan                                  | 925   | 1,492 | 1,879 | 1,611 | 2,286 | 2,159  | 1,987 |
| Commercial  | 418   | 308   | 400   | 431   | 215   | 303    | 433   |
| Public corporations and private sector 1/               | 330   | 468   | 640   | 670   | 944   | 1,028  | 744   |
| Other public corporations and private sector 2/         | 144   | 181   | 279   | 270   | 286   | 278    | 248   |
| Short-term debt 3/                                      | 481   | 338   | 542   | 478   | 475   | 575    | 557   |
| IMF   | 390   | 517   | 596   | 433   | 258   | 161    | 209   |
| Total debt (excl. banking sector liabs.)                | 5,657 | 7,156 | 8,694 | 8,197 | 9,088 | 9,005  | 8,566 |
| Banking Sector Liabilities                              | 859   | 941   | 1,078 | 1,202 | 885   | 1,076  | 1,119 |
| Total debt (incl. banking sector liabs.)                | 6,516 | 8,097 | 9,772 | 9,399 | 9,973 | 10,081 | 9,685 |
| Memorandum items:                                       |       |       |       |       |       |        |       |
| Total medium- and long-term debt 4/                     | 5,176 | 6,818 | 8,152 | 7,719 | 8,613 | 8,430  | 8,009 |
| Total public and publicly guaranteed debt 4/            | 5,032 | 6,637 | 7,873 | 7,449 | 8,327 | 8,152  | 7,761 |
| Total external debt 5/                                  |       |       |       |       |       |        |       |
| (In percent of GDP)                                     | 81    | 78    | 75    | 62    | 63    | 61     | 62    |
| (In percent of exports of goods and nonfactor services) | 270   | 232   | 211   | 170   | 179   | 156    | 159   |
| Debt service ratio                                      | 15.9  | 14.3  | 16.5  | 13.3  | 15.2  | 14.7   | 13.3  |

Source: Data provided by the Sri Lankan authorities.

1/ With government guarantee.

2/ Without government guarantee.

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

Excludes nonresident foreign currency deposits.

4/ Including use of Fund credit.

5/ Includes banking sector liabilities.

Table III.2. External Debt Sustainability Framework

|   | Actual<br>2001 | Projections |       |       |       |       |       |
|---|----------------|-------------|-------|-------|-------|-------|-------|
|   |                | 2002        | 2003  | 2004  | 2005  | 2006  | 2007  |
| <b>I. Baseline Medium-Term Projections</b>  |                |             |       |       |       |       |       |
| 1 External debt/exports of G&S  | 159.1          | 170.9       | 162.7 | 155.5 | 152.0 | 149.7 | 146.3 |
| 2 External debt/GDP   | 61.8           | 62.7        | 60.7  | 58.2  | 55.4  | 53.3  | 51.2  |
| 3 Change in external debt/GDP (4+15)  | 1.0            | 0.9         | -2.0  | -2.5  | -2.8  | -2.1  | -2.1  |
| 4 Net debt-creating external flows/GDP (5+6+9)  | 5.5            | -2.1        | -3.4  | -4.1  | -4.0  | -3.6  | -3.3  |
| 5 Current account deficit, excluding interest payments/GDP  | 0.7            | 0.9         | 1.0   | 0.9   | 1.1   | 1.2   | 1.3   |
| 6 Minus net non-debt creating capital inflows/GDP (-7-8)  | -0.5           | -1.6        | -1.5  | -1.6  | -1.6  | -1.6  | -1.5  |
| 7 Net foreign direct investment, equity/GDP   | 0.5            | 1.4         | 1.2   | 1.2   | 1.2   | 1.2   | 1.1   |
| 8 Net portfolio investment, equity/GDP  | -0.1           | 0.2         | 0.4   | 0.4   | 0.4   | 0.4   | 0.4   |
| 9 $(r-g-(\rho+g\rho))/(1+g+\rho+g\rho)$ debt/GDP (11/10)  | 5.2            | -1.4        | -2.9  | -3.4  | -3.5  | -3.2  | -3.1  |
| 10 Adjustment factor: $1+g+\rho+g\rho$  | 0.9            | 1.0         | 1.1   | 1.1   | 1.1   | 1.1   | 1.1   |
| 11 $(r-g-(\rho+g\rho))$ debt/GDP (12+13+14)   | 4.9            | -1.4        | -3.1  | -3.7  | -3.8  | -3.5  | -3.4  |
| 12 r (interest rate) times debt/GDP   | 1.5            | 1.6         | 1.5   | 1.6   | 1.5   | 1.4   | 1.3   |
| 13 minus g (real GDP growth rate) times debt/GDP  | 0.9            | -2.3        | -3.4  | -3.6  | -3.8  | -3.6  | -3.5  |
| 14 minus $(\rho + g\rho)$ ( $\rho$ = U.S. dollar value of GDP deflator, growth rate) times debt/GDP   | 2.5            | -0.7        | -1.2  | -1.6  | -1.5  | -1.3  | -1.2  |
| 15 Residual, incl. change in gross foreign assets/GDP (3-4)   | -4.5           | 3.0         | 1.4   | 1.6   | 1.2   | 1.5   | 1.1   |
| <b>Memorandum items: Key macro and external assumptions</b>   |                |             |       |       |       |       |       |
| Nominal GDP (in billions of U.S. dollars)   | 15.7           | 16.4        | 17.6  | 19.2  | 20.9  | 22.8  | 24.8  |
| Real GDP growth (in percent per year)   | -1.4           | 3.7         | 5.5   | 6.0   | 6.5   | 6.5   | 6.5   |
| Nominal GDP deflator (in U.S. dollars, change in percent per year)  | -4.2           | 1.1         | 1.8   | 2.5   | 2.4   | 2.2   | 2.2   |
| External interest rate (percent per year)   | 2.5            | 2.5         | 2.4   | 2.6   | 2.6   | 2.6   | 2.4   |
| Growth of exports of G&S (U.S. dollar terms, in percent per year)   | -6.0           | -1.0        | 9.1   | 9.0   | 6.3   | 6.3   | 6.9   |
| Growth of imports of G&S (U.S. dollar terms, in percent per year)   | -13.4          | 0.9         | 8.8   | 8.5   | 6.8   | 6.6   | 6.9   |
| <b>II. Sensitivity Analysis for External Debt-to-GDP Ratio</b>  |                |             |       |       |       |       |       |
| 1. If interest rate, real GDP growth rate, US\$ GDP deflator growth, non-interest current account, and non-debt flows (in percent of GDP) are at average of past 10 years |                | 64.4        | 65.3  | 66.4  | 67.1  | 68.0  | 68.6  |
| 2. If interest rate in 2002 and 2003 is average plus two standard deviations, others at baseline  |                | 63.3        | 62.0  | 59.4  | 56.6  | 54.4  | 52.2  |
| 3. If real GDP growth rate in 2002 and 2003 is average minus two standard deviations, others at baseline  |                | 65.0        | 66.3  | 63.5  | 60.4  | 58.0  | 55.6  |
| 4. If US\$ GDP deflator in 2002 is average minus two standard deviations, others at baseline  |                | 67.6        | 65.3  | 62.6  | 59.5  | 57.2  | 54.8  |
| 5. If non-interest current account (in percent of GDP) in 2002 and 2003 is average minus two standard deviations, others at baseline                                      |                | 67.9        | 70.7  | 67.7  | 64.3  | 61.7  | 59.1  |
| 6. Combination of 2-5 using one standard deviation shocks   |                | 69.8        | 73.5  | 70.3  | 66.8  | 64.0  | 61.3  |
| 7. One time 30% depreciation in year 2002 (-30% GDP deflator shock), others at baseline.  |                | 89.6        | 86.3  | 82.4  | 78.2  | 74.7  | 71.3  |
| <b>Memorandum items:</b>  |                |             |       |       |       |       |       |
| Current account deficit, excluding interest payments (percent of GDP, average of past 10 years)   |                | 2.5         | 2.5   | 2.5   | 2.5   | 2.5   | 2.5   |
| Current account deficit, excluding interest payments (percent of GDP, standard deviation of past 10 years)  |                | 1.8         | 1.8   | 1.8   | 1.8   | 1.8   | 1.8   |
| Net non-debt creating capital inflows (percent of GDP, average of past 10 years)  |                | 1.3         | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   |
| Interest rate (average of past 10 years)  |                | 3.1         | 3.1   | 3.1   | 3.1   | 3.1   | 3.1   |
| Interest rate (standard deviation of past 10 years)   |                | 0.3         | 0.3   | 0.3   | 0.3   | 0.3   | 0.3   |
| Real GDP growth rate (average of past 10 years)   |                | 4.6         | 4.6   | 4.6   | 4.6   | 4.6   | 4.6   |
| Real GDP growth rate (standard deviation of past 10 years)  |                | 2.4         | 2.4   | 2.4   | 2.4   | 2.4   | 2.4   |
| GDP deflator, U.S. dollar terms (average of past 10 years)  |                | 1.1         | 1.1   | 1.1   | 1.1   | 1.1   | 1.1   |
| GDP deflator, U.S. dollar terms (standard deviation of past 10 years)   |                | 3.8         | 3.8   | 3.8   | 3.8   | 3.8   | 3.8   |

Source: Data provided by the Sri Lankan authorities and staff projections.

Table III.3. Net Present Value of External Debt

|  | 2001                          | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|-------------------------------|------|------|------|------|------|
|  | (In billions of U.S. dollars) |      |      |      |      |      |
| <i>Stocks</i>  |                               |      |      |      |      |      |
| Nominal Debt   |                               |      |      |      |      |      |
| Total external debt  | 9.7                           | 10.3 | 10.7 | 11.2 | 11.6 | 12.1 |
| Total external debt (excluding banking liabilities)                        | 8.6                           | 9.0  | 9.3  | 9.7  | 10.1 | 10.5 |
| Total public and publicly guaranteed external debt 1/                      | 8.3                           | 8.7  | 8.9  | 9.1  | 9.4  | 9.7  |
| Net Present Value  |                               |      |      |      |      |      |
| Total external debt 2/   | 7.9                           | 8.4  | 8.8  | 9.3  | 9.9  | 10.4 |
| Total external debt (excluding banking liabilities)                        | 6.8                           | 7.2  | 7.6  | 8.1  | 8.7  | 9.3  |
| Total public and publicly guaranteed external debt 1/                      | 6.0                           | 6.4  | 6.7  | 7.0  | 7.4  | 7.7  |
|  | (In percent)                  |      |      |      |      |      |
| <i>Ratios</i>  |                               |      |      |      |      |      |
| To GDP   |                               |      |      |      |      |      |
| Total nominal external debt  | 62                            | 63   | 61   | 58   | 55   | 53   |
| Total nominal public and publicly guaranteed external debt 1/              | 53                            | 53   | 50   | 47   | 45   | 42   |
| Total NPV of external debt   | 51                            | 51   | 50   | 48   | 47   | 46   |
| Total NPV public and publicly guaranteed external debt 1/                  | 39                            | 39   | 38   | 36   | 35   | 34   |
| To Exports 3/  |                               |      |      |      |      |      |
| Total nominal external debt  | 160                           | 170  | 177  | 184  | 192  | 201  |
| Total nominal public and publicly guaranteed external debt 1/              | 138                           | 144  | 146  | 150  | 155  | 160  |
| Total NPV of external debt   | 131                           | 138  | 145  | 153  | 163  | 172  |
| Total NPV public and publicly guaranteed external debt 1/                  | 100                           | 106  | 111  | 115  | 123  | 127  |
| To Central Government Revenues 4/  |                               |      |      |      |      |      |
| Total nominal public and publicly guaranteed external debt 1/              | 391                           | 346  | 298  | 275  | 254  | 240  |
| Total NPV public and publicly guaranteed external debt 1/                  | 336                           | 292  | 247  | 224  | 206  | 191  |
|  | (In billions of U.S. dollars) |      |      |      |      |      |
| Memorandum items:  |                               |      |      |      |      |      |
| Exports of Goods and Services  | 6.1                           | 6.0  | 6.6  | 7.2  | 7.6  | 8.1  |
| Exports of Goods and Services (3 year moving average)                      | 6.0                           | 6.2  | 6.2  | 6.6  | 7.1  | 7.6  |
| GDP  | 15.7                          | 16.4 | 17.6 | 19.2 | 20.9 | 22.8 |
| Central Government Revenue   | 2.6                           | 2.9  | 3.3  | 3.7  | 4.0  | 4.4  |
| Central Government Revenue (at base year exchange rate) 4/                 | 2.5                           | 3.0  | 3.6  | 4.0  | 4.6  | 5.1  |
| Grant element of public and publicly guaranteed external debt (in percent) | 27                            | 26   | 24   | 23   | 21   | 20   |

1/ Includes IMF debt.

2/ Includes new disbursements on existing and new debt.

3/ Uses the three year moving average of exports of goods and services ending in the current year.

4/ Uses central government revenue excluding grants converted at end-2001 exchange rates.

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## IV. EXTERNAL CURRENT ACCOUNT SUSTAINABILITY<sup>27</sup>

### A. Introduction

1. **As a prior action for the approval of the stand-by arrangement (SBA), the Central Bank of Sri Lanka (CBSL) floated the rupee on January 23, 2001.** The move to the floating exchange rate regime was preceded by a period of high interest rates low reserves, large import bills and an exchange rate level and regime (crawling band) that was no longer credible.

2. **Despite the adoption of a flexible exchange rate regime and the subsequent monetary easing, the exchange rate remained broadly stable during most of the year.** Specifically, during 2001 the reverse repo rate was reduced by 900 basis points, thus dwarfing the reduction in both the U.S. federal funds rate and neighboring countries' rates for the same period. Notwithstanding the monetary easing and the elimination of the exchange market regulations that were imposed soon after the float, the rupee showed remarkable stability and remained at Rs 90/US\$ during most part of 2001.<sup>28</sup>

3. **Against this background, the principal objective of this chapter is to assess the sustainability of the external current account balance (both historically and looking forward) given the level of the real exchange rate.** The chapter is organized as follows. Section B summarizes the background prior to the float in January 2001. Section C provides a brief summary of the empirical methodology used to judge the consistency of the external current account and the real exchange rate—the macroeconomics balance approach, which uses the saving-investment balance method. Section D presents the estimated equilibrium savings-investment balance equation, its extension to both equilibrium real exchange rate analysis and an analysis of external current account sustainability over the medium term. Section E summarizes the findings and the policy implications of the results.

### B. Background

4. **Serious macroeconomic imbalances began to emerge in late 1999, and by late 2000 Sri Lanka was on the verge of a foreign exchange crisis.** Whereas GDP growth was buoyant, external reserves fell to vulnerable levels, and inflation picked up.

- **Real GDP grew at 6–6½ percent between mid-1999 and the third quarter of 2000, boosted by strong exports, but growth eased in the fourth quarter** as poor monsoons affected agricultural output and high interest rates dampened domestic demand.

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<sup>27</sup> Prepared by Lamin Leigh (APD).

<sup>28</sup> At meetings with bankers during various missions, a few argued that the rupee was somewhat “overvalued” and artificially held up by the CBSL’s foreign exchange regulations.

- **The rupee was allowed to depreciate by progressively widening the exchange rate band (to +/-5 percent in early January 2001).** Due to political concerns in the run up to the parliamentary elections in December 2000, the required policy adjustments were delayed, resulting in accelerated market pressures on the rupee.
- **In response to these pressures, the CBSL raised domestic interest rates sharply and intervened heavily in the foreign exchange market to defend the rupee.**<sup>29</sup> By late 2000, Sri Lanka had low reserves, large import bills due, and an exchange rate level and regime (a crawling band) that was no longer credible.
- **Inflation rose sharply to 11 percent (on a 12-month basis) by December 2000,** reflecting largely the depreciation of the rupee and increased administered prices.

5. **Against this background, the authorities made a fundamental shift in exchange rate policy on January 23 2001, moving to a floating exchange rate regime.** Initially, to support the float, monetary conditions were kept tight during the first quarter of 2001 with high real interest rates (about 9 percent) and some temporary foreign exchange regulations were put in place to curb speculative activities. After some initial volatility, the exchange rate stabilized at about Rs 90/US\$ with no significant premium in the parallel market. The imposition of foreign exchange regulations raised concerns about the true commitment of the authorities to the flexible exchange rate regime. However, most of these regulations were removed by end-August 2001. Moreover, from April 2001, interest rates were progressively reduced—by end-2001 the reverse repo rate was 9 percent below its peak level of 23 percent in January, 2001.<sup>30</sup> Notwithstanding these policy changes, the exchange rate remained generally stable during most of the year.

6. **Subsequent developments in the foreign exchange market, however, did not suggest a clear pattern of whether the rupee was overvalued.** The CBSL purchased about \$90 million in August 2001 alone with no pressure on the exchange rate and despite the significant reduction in policy rates. Moreover, a rising parallel market premium combined with foreign exchange rationing are classic symptoms of an overvalued exchange rate, but during most of 2001, parallel market rates in Sri Lanka were in fact slightly more appreciated than the official rate.

7. **Developments in the overall net foreign assets position of the country were also not conclusive.** Although the SBA program's NIR targets for the monetary authorities were

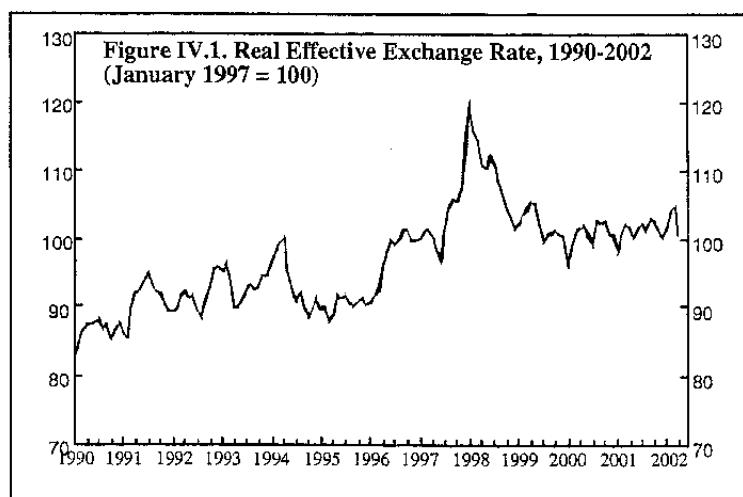
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<sup>29</sup> During the second half of 2000, official reserves (excluding Asian Clearing Account balances) dropped by more than \$600 million.

<sup>30</sup> During policy discussions the authorities argued that drastic reduction in policy rates was aimed at bolstering economic activity given the marked slowdown of the economy in 2001— at end-2001, GDP contracted by about 1½ percent.

met, NFA of the banking system as whole was about Rs 55 billion lower than programmed at end-December 2001 which suggests that the build-up of the monetary authorities' NFA was at the cost the large decline of the NFA of the commercial banks (which became significantly negative by end-2001).

8. **In summary, the basic behavioral pattern of the foreign exchange market and key macroeconomic indicators did not suggest that the rupee was overvalued in the short run.** At the same time, the remarkable stability of the rupee raised concerns about the consistency of the real exchange rate with medium-term external sustainability.<sup>31</sup> These developments provide the basis to conduct an empirical analysis of the sustainability of the external current account deficit.



### C. Empirical Methodology

9. **The literature on equilibrium real exchange rates is vast and this partly reflects the considerable difficulties in estimating equilibrium real exchange rates (ERER).**<sup>32</sup> These models aim at determining the level of the real exchange rate that is consistent with both external equilibrium (sustainable current account) and internal equilibrium (in terms of goods and labor market).

10. **In this chapter, we use the macroeconomic balance approach to assess the overall consistency of the external current account and the real exchange rate.**<sup>33</sup> The macroeconomic balance approach makes quantitative assessments of exchange rates that are consistent with “appropriate” current account positions (external balance) when economies

<sup>31</sup> We should note that the absence of overvaluation in the short-run does not preclude medium-term misalignment.

<sup>32</sup> An excellent survey of the literature is available in Chapter 1 of Williamson ed (1994).

<sup>33</sup> We used this methodology given the limitations of the purchasing power parity (PPP) hypothesis and the difficulties of interpreting meaningful single-equation or systems of reduced-form models for Sri Lanka. For instance, the assumption of the constancy of the ERER is a basic flaw of the PPP approach, while single-equation reduced reform specifications do not yield explicit estimates of equilibrium current account positions.

are operating at potential output (internal balance). In operational terms, it essentially involves two broad steps which can be readily applied on the Sri Lankan data. First, the measures of equilibrium savings-investment balances are derived from a model-based savings-investment estimated equation, based on the econometric estimates of the relationship between the saving-investment balance and a set of medium-term macroeconomic determinants. Second, the actual savings-investment balance is compared with this equilibrium model-based norm. The difference between the actual current account and the norm is then used to calculate the degree of exchange rate misalignment (Isard and Mussa, 1998).

#### D. Application of the Macroeconomic Balance Approach on Sri Lanka

11. This section presents the application of the macroeconomic balance approach to the Sri Lanka data.<sup>34</sup> The first step is to estimate a basic current account (savings-investment=S-I) balance equation as specified in equation 1 below,

$$(\text{Current Account} = S - I)_t = \alpha_0 + \alpha_1(\text{MACROFUNDAMENTALS})_t + \mu_t \quad (1)$$

where MACROFUNDAMENTALS are the determinants of the medium-term savings and investment (current account) balance. Specifically,

- *Fiscal policy* will affect national saving through changes in public saving unless full Ricardian equivalence holds.<sup>35</sup> Fiscal policy may also affect investment through real interest rates and its impact on business confidence.
- *Demographic factors* affect private saving if, as the life cycle hypothesis suggests, older people save less. If a country has a relatively low dependency ratio, it would be expected to have a higher private saving rate than one with higher dependency ratio. The dependency ratio may also affect public saving through its impact on the fiscal accounts. To the extent that capital-labor ratios are affected by the number of available workers, demographics may also affect investment.
- *Terms of trade volatility* may induce countries to save more as a buffer against the variability of their income. Systematic changes in terms of trade volatility could affect savings and the current account balance.

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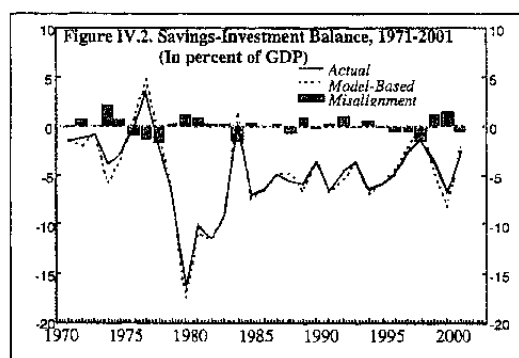
<sup>34</sup> Based on the Chinn and Prasad (2000) data set, extended to end-2001.

<sup>35</sup> Ricardian equivalence implies that fiscal deficits have no effect on aggregate saving or investment and, through the S-I identity, on the external current account.

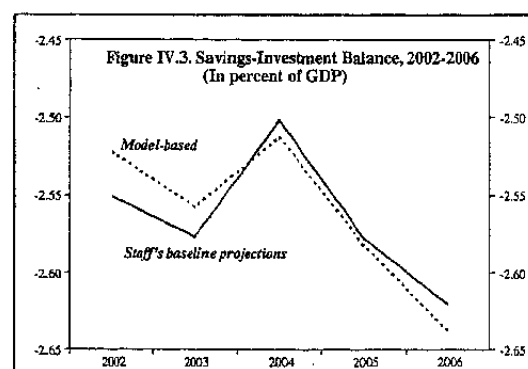


- Countries with a greater degree of *openness* to international trade may be able to finance larger current account deficits, as more open economies can have a greater capacity to generate earnings through exports, and hence be better able to service their external debt.
- *Financial deepening* can induce greater saving by providing a vehicle for the accumulation of surplus funds, and thus be positively correlated with the current account balance.

12. **The estimated regression equation for the “equilibrium” savings-investment (current account) balance for Sri Lanka appears in Table IV.1.** The estimated equation suggests that the larger public sector deficit was the most significant contributor to the larger current account deficit in Sri Lanka. Large fiscal imbalances, averaging more than 9 percent of GDP during the period 1980-2001, led to prolonged periods of public dissaving. This is consistent with the point made in Chapter II that in recent years fiscal policy led to a rising debt-GDP ratio.<sup>36</sup> Other variables such as demographic factors and terms of trade volatility did not seem to have significantly affected the estimated equilibrium savings-investment balance. Specifically, the relatively low and declining dependency ratio did not have a significant impact on the external current account via its impact on private savings. Moreover, Sri Lanka’s relatively low level of financial development and openness to trade do not seem to have been major factors driving the external current account balance.



13. **Figure IV.2 shows the plot of the actual underlying savings-investment balance, the estimated equilibrium savings-investment balance, and the deviation of the actual savings-investment balance from the norm.** The estimated model tracks well the actual savings-investment balance. It also shows that during the period 1995-1998 the actual savings-investment balance was below its estimated equilibrium level. However, the disequilibrium emerged in 1999 and widened

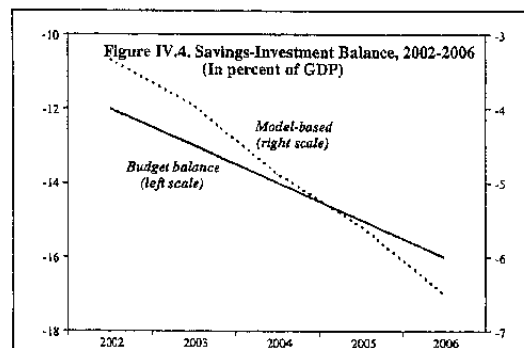


<sup>36</sup> However, one caveat here is that despite the fiscal deficit rising from about 10 percent in 2000 to about 11 percent in 2001, the overall savings-investment balance improved in 2001. This is largely related to the decline in private sector investment (due to the combination of the economic contraction and the impact of the adjustment policies), which more than compensated the public sector dissaving.

in 2000. By end-2000, the savings-investment balance was 1½ percent larger than the equilibrium savings-investment balance. Further analysis shows that this yielded a real exchange rate misalignment of about 8 percent at end-2000. However, the results also show that by end-2001, the external current account imbalance had been eliminated.

**14. Moving to a forward looking analysis, we used our estimated equilibrium model to generate medium-term forecasts for the savings-investment balance through 2006 based on a policy adjustment scenario.**

The results from our *ex ante forecasts* (Figure IV.3) show that with policy adjustments (in particular fiscal consolidation), the savings-investment balance would stay on a sustainable path that is broadly consistent with the baseline medium-term projections.<sup>37</sup> Further sensitivity analysis was conducted by employing a VAR and generating selected impulse response functions from the basic model. The results show that fiscal shocks (with a shock dying out after four years) have a significant impact on the savings-investment balance (Figure IV.4). Thus, any radical departure from the fiscal stance assumed in the baseline scenario would pose a risk to medium-term external current account sustainability.



The results show that fiscal shocks (with a shock dying out after four years) have a significant impact on the savings-investment balance (Figure IV.4). Thus, any radical departure from the fiscal stance assumed in the baseline scenario would pose a risk to medium-term external current account sustainability.

### E. Conclusions

**15. Sri Lanka's experience with the flexible exchange rate system has been generally favorable.** The current account deficit balance has narrowed and the overall external position has strengthened considerably. However, the general stability of the rupee since the adoption of a floating exchange rate regime has raised questions about the overall consistency of the real exchange rate with medium-term external sustainability.

**16. This paper has attempted to provide an analytic basis for external current account sustainability using both backward and forward looking analysis.** Using the macroeconomic balance approach, this paper finds that during the period 1999-2000, the actual savings-investment balance was out of line with the estimated equilibrium savings-investment balance, reflecting the large public sector deficit. However, by end-2001 the imbalance had been eliminated. Extending the savings-investment balance analysis to

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<sup>37</sup> While this suggest that the estimated equilibrium savings-investment balance equation is reasonably robust, we should note that medium-term forecasts of the external current account balance that are based on an estimated regression equation have their own limitations. For a start, they assume that the established historical relationship would remain stable and continue over the medium term. Furthermore the analysis here assumes a sustainable level of capital inflows.

equilibrium real exchange rate analysis, shows that the real exchange rate was overvalued during 1999-2000, compared with the estimated equilibrium values. A forward looking analysis shows that, if adjustment measures continue, the external current account deficit would stay on a sustainable path. However, any radical departures from the fiscal stance assumed in the baseline would pose a risk to medium-term external sustainability.

17. **The empirical methods and the results presented in this chapter have limitations.** First, an analysis of current account sustainability that is partly based on an estimated equilibrium relationship implicitly assumes that the established historical relationship would remain stable and continue over the medium term. Moreover, a sustainable level of current account deficit for the medium-term would also depend on the sustainable level of capital inflows.

Table IV.1. The Estimated Current Account = S – I Equation <sup>1/2/</sup>  
 (Sample period: 1971–2001)

| Variable                                    | Model Coefficient Estimates | T-ratios |
|---|-----------------------------|----------|
| Constant                                    | -0.256                      | -1.245   |
| Govt. budget balance/GDP                    | 0.846                       | 3.747    |
| Relative income (to the U.S.)               | -3.717                      | -1.618   |
| Relative income squared                     | 22.74                       | 1.918    |
| Young dependency ratio                      | -0.151                      | -0.660   |
| Old dependency ratio                        | -3.888                      | -1.341   |
| Standard deviation of Terms<br>Of Trade/100 | 0.023                       | 1.610    |
| Openness ratio                              | -0.069                      | -0.498   |
| M2/GDP                                      | 0.103                       | 0.564    |
| Diagnostics statistics                      |                             |          |
| R-squared                                   | 0.692                       |          |
| Normality- $\chi^2(2)$                      | 0.845                       |          |
| Autocorrelation- F(2, 20)                   | 1.880                       |          |
| Heteroscedasticity- F(1, 20)                | 0.104                       |          |
| RESET - F(1, 21)                            | 6.969                       |          |

<sup>1/</sup>The savings-investment balance is specified in percent of GDP.

<sup>2/</sup>Initially, all the variables were tested for stationarity and the results of both the augmented Dickey-Fuller and Phillips-Perone tests indicate that the variables are either I(0) – stationary or borderline I(0)/I(1) series. The results of the regression analysis presented here are broadly consistent with a co-integrated long-run solution for these variables.

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## V. TAX POLICY DEVELOPMENTS, 2002<sup>38</sup>

1. **The government embarked on a major reform of tax policy in 2002, aimed at making the tax system simpler and more transparent.** Prior to this, the tax system was becoming increasingly complex: the authorities yielded persistently to pressure for exemptions and resorted to ad hoc initiatives, an ever narrower tax base, and an array of different taxes, often on the same transaction. Consequently, tax administration became increasingly difficult. These developments led the revenue-GDP ratio to decline by 4 percentage points between 1995-2001. The new government recognized that urgent tax reform was needed. Most of the reforms announced in the budget (March 22, 2002) are consistent with the recommendations of a November 2001 FAD technical assistance report.

### A. Value Added Tax

2. **Before the recent reform, Sri Lanka operated parallel taxes on goods and services.** The Goods and Services Tax (GST), was a tax on value added. Its single rate was 12½ percent, although its efficiency was hampered by wide-ranging exemptions. The National Security Levy (NSL) was a cascading turnover tax, with a 6½ percent rate including a 25 percent markup for imports. It had a wide base with few exemptions.

3. **The government announced that these two taxes would be eliminated, and replaced by a dual rate VAT.** There would be two rates: 20 percent and 10 percent, with the lower rate designed to cover those goods and services which had been subject to NSL, but exempt from GST. This category includes petroleum products, electricity exceeding 30 kwh, fertilizer, water, and most basic foodstuffs (including coconut poonac, tea, spices, eggs, coconut oil, potatoes, onions, chilies, lentils, powdered and condensed milk, dried fish, Maldives fish, and sugar).<sup>39</sup> The exempt category would still include a number of basic food items—unprocessed agricultural goods, unprocessed farm or poultry products, desiccated coconuts, rice, rice flour, wheat, wheat flour, bread, liquid milk, and infants milk powder—as well as crude petroleum, kerosene, financial services, public transportation, electricity below 30 kwh, gems, health services, and medical equipment.<sup>40</sup> The budget speech also announced

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<sup>38</sup> Prepared by Anthony Annett (FAD).

<sup>39</sup> Other items taxed at 10 percent include: hotels and restaurants; construction contractors; travel agents; film production and importation; education services; magazine and journals; pharmaceutical products; ayurvedic, unani, or homeopathic preparations; rubber; vegetable seeds and planting materials; motor coaches; agricultural tractors; agricultural machinery; photovoltaic and solar batteries; industrial machinery; and foreign employment bureau.

<sup>40</sup> Other exempt goods and services include: books; postage stamps; public library services; excursion tours and taxi services; leasing of motor coaches; diplomatic missions; duty free shops; services consumed outside Sri Lanka; residential accommodation; goods and services

(continued...)

the intention of the authorities to extend the VAT to the retail sector in 2003. Based on a June 1 introduction, the authorities anticipated a small (Rs 3.5 billion) revenue gain from replacing with GST and NSL with the VAT. The aim of the reform was not to raise significantly more revenue, but to simplify the tax system and broaden the VAT base.

4. **The VAT was not introduced as planned on June 1, 2002.** The authorities decided to wait until July, so as not to burden taxpayers and the tax administration with both GST and VAT quarterly returns. The introduction was postponed further, as a consumer group issued a court challenge to the new tax. After minor modifications to the law, the VAT was introduced on August 1. The two month delay led to an estimated revenue loss of Rs 1 billion.

5. **The authorities also made some changes to the schedules.** A number of goods—eggs; pharmaceutical products; spices; bunker and aviation fuel; and agricultural tractors and equipment—were removed from the 10 percent schedule to the exempt schedule. Another group of goods had their rate lowered from 20 percent to 10 percent; these include motor bikes and bicycles, poultry feed and prawn feed, unprocessed meat and chicken; CFL and solar batteries; professions and vacations; leasing; goods transport; LP gas; and agricultural tractors and equipment. The estimated loss from these additional changes is Rs 0.8 billion.

## **B. Individual Income Tax**

6. **The budget introduced a number of reforms aimed at simplifying the personal income tax system.** The personal income tax bands were reduced from 4 to 3; the two middle bands of 15 percent and 25 percent were merged into a 20 percent band, while the upper and lower bands remain unchanged at 35 percent and 10 percent respectively. The tax exemption threshold was raised from Rs 144,000 to Rs 240,000. The tax threshold for retirement benefits was also raised; from Rs 500,000 to Rs 1,000,000. However, the government opted not to extend income taxation to civil servants, but left the option open for 2003. The medium-term strategy is to eliminate the top band and reduce the top personal tax rate to 20 percent by 2004. The Save the Nation Contribution, an income tax surcharge, was eliminated prior to the budget by the previous government, toward the end of 2001.

7. **A number of other changes were made.** For individuals, the 10 percent tax on interest earnings was made a final withholding tax. Similarly, individuals' dividend income

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provided beyond immigration point; burials and cremations; free meals provided to employees; personal baggage under Customs Ordinance; duty free reimportation; ex-bond clearance of ships stores; project related imports by GST exempt BOI companies for 2 years; artificial limbs; import of donated goods by approved organizations; infants milk powder; temporary import of plant and machinery for a period not exceeding 12 months; ships, aircraft, and helicopters; nonbusiness imports less than Rs 10,000; and supply of services by an agent or freight forwarder for payment in foreign currency.

became subject to a 10 percent final withholding tax. A 10 percent withholding tax was also introduced on nonresidential rent above Rs 500,000 per year.

### **C. Corporate Income Tax**

8. **The budget also announced plans to simplify the corporate tax regime, based on a uniform low rate.** The government eliminated the 20 percent corporate income tax surcharge and announced plans for a low general rate in the medium term. Specifically, the rate will be reduced from 35 percent to 30 percent in 2003, and again to 20 percent in 2004. Given that many enterprises enjoying tax holidays receive long-term concessional corporate tax rates upon expiration of the holiday, reducing the standard rate was seen as a way of to level the playing field. The 20 percent rate was introduced this year for companies with taxable income below Rs 5 million. The Advance Corporate Tax and the capital gains tax were also eliminated. The provisions allowing accelerated depreciation over two years were maintained, and reduced to one year for investment in information technology and software.

9. **The budget proposed to rationalize, but not eliminate, tax incentives.** While honoring all existing commitments, the government committed to grant no new exemptions under either the Board of Investment (BOI) or Inland Revenue department (IRD) regimes. There are two exceptions to this policy, however. First, limited incentives will be allowed for a number of sectors—including nontraditional exports, agriculture, information technology, electronics, industrial and machine tool manufacture, and food processing — as well as for “other designated enterprises” and investments in excess of Rs 500 million in specified industrial and agricultural services. These incentives will take the form of a three year tax holiday, a concessionary 10 percent rate for two years, followed by the standard 20 percent rate. Second, there will be 5-10 year tax holidays for “pioneering investment” in power generation, transmission and distribution and the development of highways, seaports and airports, railways and water services. These enterprises will be taxed at 15 percent upon expiration of the tax holiday.

### **D. Taxes on Financial Transactions**

10. **A debit tax was introduced to compensate for the loss of stamp duty revenue.** The government abolished stamp duty—widely regarded as a nuisance tax—on April 30, 2002. A residual turnover tax on banking and finance was abolished by the previous government toward the end of 2001. To compensate for these changes, a debit tax was introduced on May 1, 2002, at a rate of 0.1 percent on debits including checks, credit cards, travelers’ checks, and bank debit transactions on accounts maintained with banks and other financial institutions. The authorities regard this as a transitional measure, designed to compensate for the loss of stamp duty and turnover tax on financial transactions.

### **E. Trade Taxes**

11. **A number of trade tax reforms were implemented.** The budget announced the immediate halving of the import surcharge, from 40 percent to 20 percent, with a



commitment to eliminate it entirely at the beginning of 2003. Partly to compensate for the loss of stamp duty on imports, a "Port and Airport Development Levy" was introduced at a general 1 percent rate, and a concessionary 0.75 percent rate for exporters. Part of the rationale for this levy was the need to bring BOI imports into the tax net. The budget also replaced a number of ad valorem duties and import licenses on certain agricultural imports—mainly rice, chilies, onions, potatoes and edible oil—with specific duties equivalent to a 60 percent tariff. The customs duty on maize and textile fabrics was eliminated. To facilitate trade policy reform, a permanent Tariff Commission was established. Duty reductions consistent with the Indo-Sri Lanka free trade agreement were also implemented.

#### F. Excise Taxes

12. **Some rationalization of excise taxes took place.** The collection of excises on beer and liquor was rationalized by unifying the excise rate and assigning responsibility to a single department. Prior to this, these goods were taxed separately by the Excise Department, and by the Excise (Special Provisions) unit of the Customs Department. The budget announced the elimination of the Excise (Special Provisions) 10 percent duty on beer, and 30 percent on liquor, while adjusting the excise duty on domestic liquor and the customs duty on imported liquor to ensure revenue-neutrality. The excise duty on wine was increased, as was the customs duty. A new excise was imposed on aerated water. To facilitate the automatic petroleum pricing formula, the excises on gasoline and diesel were transformed from ad valorem to specific duties before the budget, on February 1, 2002.

#### G. Other Tax Policy Changes

- Annual levies of Rs 12 million and Rs ½ million, to be paid quarterly, were imposed on casinos and off-course betting, respectively.
- With respect to importation of used vehicles, the depreciation was reduced by 2½ percent for cars more than 2½ years old, and other vehicles more than 4 years old.
- All duties, surcharges, and levies on imports with a value of less than Rs 10,000 sent through parcel post were removed.
- A tax amnesty was announced.
- The Rs 20,000 resident visa tax was abolished.
- Rent on government property was increased and all administrative fees and charges were raised by 15 percent.
- A flat fee of Rs 25 per piece will be charged on garments sold in the local market.
- The 100 percent transfer tax on the purchase of immovable property by nonresidents was abolished.

## H. Tax Administration

13. **The need to simplify tax administration underpins the government's tax reform strategy.** Some measures to improve tax administration directly were also announced. All of the administrative functions of the Large Taxpayers Unit (LTU) were placed under a single commissioner with responsibility for administering all taxes owed by large taxpayers. The Inland Revenue Department registered an additional 30,000 taxpayers over the past year. Moreover, efforts are underway to strengthen the LTU audit program and intensify the collection of tax arrears; all of this was recommended by the November 2001 FAD technical assistance report. On the customs front, the authorities intend to shift toward a system of pre-clearance based on risk analysis.

14. **The linchpin of the government's tax administration strategy is the creation of a single revenue authority, comprising the Inland Revenue department, the Customs department, the Excise department and the tax administration component of the BOI.** A seven member Revenue Management Advisory Committee was established on May 21, with a mandate to advise on the steps needed to set up a revenue authority. The government intends to pass enabling legislation in August, so its initiation can be announced with the 2003 budget (scheduled for November 6, 2002). It has also advertised for a CEO, outside the civil service pay scales. An FAD mission visited Colombo in August 2002 to provide technical assistance on this issue. The AsDB has also pledged to provide \$500,000, mainly in the form of consultants; it will work closely with FAD.

15. **Following the creation of the revenue authority, the BOI can be turned into a pure investment promotion agency, without tax or customs functions.** The main reason for the continued existence of the BOI, especially after its incentives granting powers are being curtailed, is the perceived inefficiency by investors of customs administration. The government views amalgamation of all tax administration entities—including the BOI—into a single unified revenue authority as a politically acceptable way out of this impasse.

### Tax Summary

| <b>I. Income Tax</b>  |  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
|---|--|-----------------------|-------------|--------------------|--------|-----------------|-----|-----------------|-----|---------------------|-----|---------------------|--|
| <b>Legislation:</b>   | <ul style="list-style-type: none"> <li>Inland Revenue Act No. 38 of 2000</li> </ul>  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Implementation agency:</b>                                       | <ul style="list-style-type: none"> <li>Department of Inland Revenue</li> <li>The global system is adopted in computing taxable income. Income from all sources computed according to the provisions of the Inland Revenue Act is considered as total statutory income from which certain specific deductions are made to arrive at the assessable income. Tax free allowance and qualifying payment allowance (on certain specific payments) are deducted from the assessable income to arrive at the taxable income. As a result of budget proposals 2002 interest on deposits (including interest on Government T Bills and T Bonds) and dividends received by noncompany entities are considered under a scheduler system.</li> </ul> |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Date of payment:</b>   | <ul style="list-style-type: none"> <li>Any income tax shall be paid in four installments on or before the 15<sup>th</sup> day respectively of August, November, February, in the year of assessment and 15<sup>th</sup> May of the next year of assessment with the final payment on 30<sup>th</sup> September.</li> </ul>   |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>A. Personal Income Tax</b>                                       |  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Tax free threshold:</b>  | <ul style="list-style-type: none"> <li>Rs 240,000 per year (only for residents), w.e.f. 4/1/2002</li> </ul>  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Tax rates:</b>   | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><b>Taxable income</b></th> <th style="text-align: left;"><b>Rate</b></th> </tr> </thead> <tbody> <tr> <td>First Rs 180,000</td> <td>10%</td> </tr> <tr> <td>Next Rs 180,000</td> <td>20%</td> </tr> <tr> <td>Balance</td> <td>35%</td> </tr> <tr> <td colspan="2">Effective: 4/1/2002</td> </tr> </tbody> </table>  | <b>Taxable income</b> | <b>Rate</b> | First Rs 180,000   | 10%    | Next Rs 180,000 | 20% | Balance         | 35% | Effective: 4/1/2002 |     |                     |  |
| <b>Taxable income</b>   | <b>Rate</b>  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| First Rs 180,000  | 10%  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Next Rs 180,000   | 20%  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Balance   | 35%  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Effective: 4/1/2002   |  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Terminal benefits on retirement:</b>                             | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th style="text-align: left;"><b>Rate</b></th> </tr> </thead> <tbody> <tr> <td>First Rs 1,000,000</td> <td>Exempt</td> </tr> <tr> <td>Next Rs 500,000</td> <td>5%</td> </tr> <tr> <td>Next Rs 500,000</td> <td>10%</td> </tr> <tr> <td>Balance</td> <td>15%</td> </tr> <tr> <td colspan="2">Effective: 4/1/2002</td> </tr> </tbody> </table>  |                       | <b>Rate</b> | First Rs 1,000,000 | Exempt | Next Rs 500,000 | 5%  | Next Rs 500,000 | 10% | Balance             | 15% | Effective: 4/1/2002 |  |
|   | <b>Rate</b>  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| First Rs 1,000,000  | Exempt   |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Next Rs 500,000   | 5%   |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Next Rs 500,000   | 10%  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Balance   | 15%  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| Effective: 4/1/2002   |  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Retiring gratuity:</b>   | <ul style="list-style-type: none"> <li>Retiring gratuity in excess of Rs 1.8 million or average salary of last 3 years multiplied by number of years of service (whichever is more)—taxed as normal income.</li> <li>Compensation under approved voluntary retirement schemes or retrenchment—exempt.</li> </ul>   |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |
| <b>Capital gains:<br/>(Also applicable to Corporate Income Tax)</b> | <ul style="list-style-type: none"> <li>Abolished from 4/1/2002</li> </ul>  |                       |             |                    |        |                 |     |                 |     |                     |     |                     |  |

**Tax Summary (Continued)**

| <p><b>Rates of Depreciation:</b><br/>(Also applicable to Corporate Income Tax)</p>                | <table border="1"> <thead> <tr> <th>Type of Asset</th> <th>Rate (%)</th> </tr> </thead> <tbody> <tr> <td>Plant, machinery or fixtures</td> <td>50</td> </tr> <tr> <td>Motor vehicles or office furniture</td> <td>25</td> </tr> <tr> <td>Qualified buildings</td> <td>6.67</td> </tr> <tr> <td>Motor coaches used for transport of employees</td> <td>100</td> </tr> <tr> <td>Information technology equipment and software</td> <td>100</td> </tr> </tbody> </table>  | Type of Asset | Rate (%) | Plant, machinery or fixtures                 | 50  | Motor vehicles or office furniture  | 25  | Qualified buildings   | 6.67 | Motor coaches used for transport of employees  | 100 | Information technology equipment and software | 100       |  |  |
|---|--|---------------|----------|--|-----|---|-----|---|------|--|-----|---|-----------|--|--|
| Type of Asset   | Rate (%)   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Plant, machinery or fixtures  | 50   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Motor vehicles or office furniture  | 25   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Qualified buildings   | 6.67   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Motor coaches used for transport of employees   | 100  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Information technology equipment and software   | 100  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>B. Corporate Income Tax</b></p>   |  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Tax rates:</b></p>  | <table border="1"> <thead> <tr> <th></th> <th>Rate (%)</th> </tr> </thead> <tbody> <tr> <td>Taxable Income &lt; Rs.5Mn</td> <td>20%</td> </tr> <tr> <td>Taxable Income &gt; Rs.5 Mn</td> <td>35%</td> </tr> <tr> <td>Exports, Tourism, Construction and Agriculture</td> <td>15%</td> </tr> <tr> <td>Provident Funds, Charities</td> <td>10%</td> </tr> <tr> <td>Clubs and Associations</td> <td>20%</td> </tr> <tr> <td>Quoted Company (with 300 shareholders or more) would receive a 5% tax credit</td> <td></td> </tr> </tbody> </table>   |               | Rate (%) | Taxable Income < Rs.5Mn                      | 20% | Taxable Income > Rs.5 Mn  | 35% | Exports, Tourism, Construction and Agriculture                        | 15%  | Provident Funds, Charities   | 10% | Clubs and Associations                        | 20%       | Quoted Company (with 300 shareholders or more) would receive a 5% tax credit |  |
|   | Rate (%)   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Taxable Income < Rs.5Mn   | 20%  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Taxable Income > Rs.5 Mn  | 35%  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Exports, Tourism, Construction and Agriculture  | 15%  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Provident Funds, Charities  | 10%  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Clubs and Associations  | 20%  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Quoted Company (with 300 shareholders or more) would receive a 5% tax credit                      |  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Advanced Company Tax (Act):</b></p>   | <ul style="list-style-type: none"> <li>Abolished from 4/1/2002</li> </ul>  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Withholding taxes:</b></p>  | <table border="1"> <thead> <tr> <th></th> <th>Rate (%)</th> </tr> </thead> <tbody> <tr> <td>On interest, royalties paid out of Sri Lanka</td> <td>20</td> </tr> <tr> <td>Interest paid in Sri Lanka (on deposits including investments in government bonds and securities)</td> <td>10</td> </tr> <tr> <td>This is final tax in case of noncompany entities Dividends (4/1/2002)</td> <td>10</td> </tr> <tr> <td>This is final tax in case of noncompany entities on specified fees paid to specified persons</td> <td>5</td> </tr> <tr> <td>On nonresidential rent income</td> <td>Rs 50,000</td> </tr> </tbody> </table> |               | Rate (%) | On interest, royalties paid out of Sri Lanka | 20  | Interest paid in Sri Lanka (on deposits including investments in government bonds and securities) | 10  | This is final tax in case of noncompany entities Dividends (4/1/2002) | 10   | This is final tax in case of noncompany entities on specified fees paid to specified persons | 5   | On nonresidential rent income                 | Rs 50,000 |  |  |
|   | Rate (%)   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| On interest, royalties paid out of Sri Lanka  | 20   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| Interest paid in Sri Lanka (on deposits including investments in government bonds and securities) | 10   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| This is final tax in case of noncompany entities Dividends (4/1/2002)                             | 10   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| This is final tax in case of noncompany entities on specified fees paid to specified persons      | 5  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| On nonresidential rent income   | Rs 50,000  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>II. Goods and Services Tax (GST)</b></p>  |  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Legislation:</b></p>  | <ul style="list-style-type: none"> <li>Goods and Services Tax Act No.34 of 1996 and Amendment Act No: 11 of 1998, No.26 of 2000 and No.05 of 2001</li> </ul>   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Implementing agency:</b></p>  | <ul style="list-style-type: none"> <li>Department of Inland Revenue</li> </ul>   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>Date of payment:</b></p>  | <ul style="list-style-type: none"> <li>Payable on or before the last day of the month following the end of the taxable period (month or quarter)</li> </ul>  |               |          |  |     |   |     |   |      |  |     |   |           |  |  |
| <p><b>GST threshold:</b></p>  | <ul style="list-style-type: none"> <li>Turnover in excess of Rs 500,000 in any quarter ending on the month of March, June, September, December.</li> <li>In excess of Rs 1,800,000 in any four successive quarters. However, there is no threshold for imports.</li> </ul>   |               |          |  |     |   |     |   |      |  |     |   |           |  |  |

**Tax Summary (Continued)**

|  |  |
|--|--|
| <b>Tax liability:</b>                    | <ul style="list-style-type: none"> <li>• On taxable supplies of goods or services made in Sri Lanka, and</li> <li>• On the importation of goods taxable into Sri Lanka</li> </ul>  |
| <b>Tax rates:</b>                        | <ul style="list-style-type: none"> <li>• Standard rate of 12.5 per cent on all taxable supplies of goods and services and import of goods</li> <li>• Zero rate                         <ul style="list-style-type: none"> <li>➢ Export of goods</li> <li>➢ International transportation</li> <li>➢ Services directly connected with any moveable or immovable property outside Sri Lanka</li> </ul> </li> <li>❖ GST on inputs for zero rated and taxable goods and services are refundable.</li> </ul> |
| <b>Exemptions:</b>                       | <ul style="list-style-type: none"> <li>• Essential food items, i.e., rice, flour sugar, milk and milk powder, bread, dried fish etc.</li> <li>• Coconut, paddy, tea, potatoes, onion, chillies, etc.</li> <li>• Pharmaceutical products &amp; health care</li> <li>• Petroleum products, fertilizer</li> <li>• Public passenger transport</li> <li>• Financial services, etc.</li> </ul>   |
| <b>Computation of GST:</b>               | <ul style="list-style-type: none"> <li>• <b>On manufacturing</b>, sale price excluding GST and NSL multiplied by the GST rate</li> <li>• <b>On services</b>, final consumer price, excluding GST and NSL, multiplied by the GST rate</li> <li>• <b>On imports</b>, CIF with all fiscal levies, excluding GST and NSL, multiplied by the GST rate</li> <li>❖ Abolished with introduction of VAT on 08/01/2002</li> </ul>  |
| <b>III. National Security Levy (NSL)</b> |  |
| <b>Legislation:</b>                      | <ul style="list-style-type: none"> <li>• The NSL is imposed under the National Security Levy Act No. 52 of 1991 as amended from time to time.</li> </ul>   |
| <b>Implementing agency:</b>              | <ul style="list-style-type: none"> <li>• Department of Inland Revenue</li> </ul>   |
| <b>Date of payment:</b>                  | <ul style="list-style-type: none"> <li>• Returns to be furnished on a quarterly basis and payment should be settled monthly basis.</li> </ul>  |
| <b>NSL threshold:</b>                    | <ul style="list-style-type: none"> <li>• There is no threshold for NSL except for service providers. Service providers whose turnover in excess of Rs.100,000 per quarter or over are liable.</li> </ul>   |
| <b>Tax liability:</b>                    | <ul style="list-style-type: none"> <li>• Manufacturers, importers and many service providers including insurance, banking, finance &amp; telecommunications.</li> </ul>  |
| <b>Tax rates:</b>                        | <p>Standard rate 6.5%</p> <p>Concessionary rate for<br/>Import or manufacture of<br/>Plant, machinery &amp; equipment 0.5%</p>   |
| <b>Exemptions:</b>                       | <ul style="list-style-type: none"> <li>• Exports</li> <li>• Re-exports</li> <li>• Imports to manufacture exportable goods</li> <li>• Essential services and services related to exports</li> </ul>   |

**Tax Summary (Continued)**

|   |  |            |     |               |     |
|---|--|------------|-----|---------------|-----|
| <p><b>Computation of NSL:</b></p>       | <ul style="list-style-type: none"> <li>• <b>Domestic:</b> Sale price including NSL tax amount multiplied by the NSL rate:<br/>E.g., <u>Price inclusive NSL</u> X 6.5 % = 93.5<br/><b>Note:</b> Sale price should be adjusted by removing Excise ( Sp.Pr) Duty where applicable.</li> <li>• <b>Imports:</b> The aggregate of CIF value, customs duty (CD) and 25 per cent mark up of CIF value and CD to be multiplied by the NSL rate.<br/>E.g. 125% (CIF +CD) X NSL rate</li> <li>❖ Abolished on 08/01/2002 with introduction of VAT.</li> </ul>  |            |     |               |     |
| <p><b>IV. Value-Added Tax (VAT)</b></p> |  |            |     |               |     |
| <p><b>Legislation:</b></p>              | <ul style="list-style-type: none"> <li>• Value-Added Tax Act</li> </ul>  |            |     |               |     |
| <p><b>Implementing agency:</b></p>      | <ul style="list-style-type: none"> <li>• Department of</li> <li>• Inland Revenue</li> </ul>  |            |     |               |     |
| <p><b>Date of payment:</b></p>          | <ul style="list-style-type: none"> <li>• Payable on or before the last day of the month following the end of the taxable period (month or quarter).</li> </ul>   |            |     |               |     |
| <p><b>VAT threshold:</b></p>            | <ul style="list-style-type: none"> <li>• Turnover in excess of Rs 500,000 in any quarter ending on the month of March, June, September, December.</li> <li>• In excess of Rs 1,800,000 in any four successive quarters. However, there is no threshold for imports.</li> </ul>   |            |     |               |     |
| <p><b>Tax liability:</b></p>            | <ul style="list-style-type: none"> <li>• On taxable supplies of goods or services made in Sri Lanka, and</li> <li>• On the importation of taxable goods into Sri Lanka</li> </ul>  |            |     |               |     |
| <p><b>Tax rates:</b></p>                | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">Lower rate</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Standard rate</td> <td style="text-align: right;">20%</td> </tr> </table> <ul style="list-style-type: none"> <li>• Zero rate             <ul style="list-style-type: none"> <li>➢ Export of goods</li> <li>➢ International transportation</li> <li>➢ Services directly connected with any moveable or immovable property outside Sri Lanka.</li> </ul> </li> <li>❖ VAT on inputs for zero rated and taxable goods and services is refundable.</li> </ul> | Lower rate | 10% | Standard rate | 20% |
| Lower rate                              | 10%  |            |     |               |     |
| Standard rate                           | 20%  |            |     |               |     |
| <p><b>Exemptions:</b></p>               | <ul style="list-style-type: none"> <li>• Essential food items, i.e., rice, flour, milk, bread, fish, vegetables, etc.</li> <li>• Coconut, paddy, tea, potatoes, onion, chillies, etc.</li> <li>• Public passenger transport</li> <li>• Financial services, etc.</li> </ul>   |            |     |               |     |
| <p><b>Computation of VAT:</b></p>       | <ul style="list-style-type: none"> <li>• <b>On manufacturing,</b> sale price excluding VAT multiplied by the VAT rate</li> <li>• <b>On services,</b> final consumer price, excluding VAT multiplied by the VAT rate</li> <li>• On imports, CIF with the addition of duty any surcharge, cess and any excise duty payable and multiplied the VAT rate</li> <li>❖ Effective from 8/1/2002</li> </ul>   |            |     |               |     |

**Tax Summary (Continued)**

| <b>V. Stamp Duty</b>        |  |
|-----------------------------|--|
| <b>Stamp duty:</b>          | <ul style="list-style-type: none"> <li>Abolished from 5.1.2002.</li> <li>However, stamp duty devolved to the Provincial Councils remains unchanged.</li> </ul>   |
| <b>VI. Customs Duty</b>     |  |
| <b>Legislation:</b>         | <ul style="list-style-type: none"> <li>Customs Ordinance No.17 of 1869 as amended from time to time.</li> </ul>  |
| <b>Implementing agency:</b> | <ul style="list-style-type: none"> <li>Department of Customs</li> </ul>  |
| <b>Tax liability:</b>       | <ul style="list-style-type: none"> <li>Customs duty is levied on the CIF value of all goods, wares and merchandise imported into Sri Lanka.</li> <li>Zero duty—Live fish, live plants, wheat grain, seeds, petroleum, crude oil, pharmaceuticals, fertilizer, wood, wood pulp, books, yarn, sewing thread, fabrics, pearls, diamonds, precious stones, gold, silver, platinum, heavy machinery for construction works, tractors, buses, refrigerated trucks, lorries, medical, dental, and veterinary instruments and appliances, maize, news prints, raw materials.</li> <li>Standard rate bands:                         <ul style="list-style-type: none"> <li>5% - Machinery</li> <li>10% - Intermediate goods</li> <li>25% - Finished products</li> <li>35% - Vegetable (frozen), Green gram, T/dhal, Cowpea</li> </ul> </li> </ul> |
| <b>Computation of duty:</b> | <ul style="list-style-type: none"> <li>Duty rate is applied on CIF value or quantity of imports.<br/> <math>CD = \text{value of CIF} \times \text{Rate of Customs Duty}</math><br/>                     or<br/> <math>= \text{Quantity} \times \text{unit rate of duty}</math> </li> </ul>   |
| <b>Date of payment:</b>     | <ul style="list-style-type: none"> <li>At the point of import.</li> </ul>  |
| <b>VII. Turnover Tax</b>    |  |
| <b>Legislation:</b>         | <ul style="list-style-type: none"> <li>Turnover Act No. 69 of 1981 as amended from time to time.</li> </ul>  |
| <b>Implementing agency:</b> | <ul style="list-style-type: none"> <li>Department of Inland Revenue. Turnover Tax on wholesale and retail trade is devolved to the provincial councils.</li> </ul>   |
| <b>Tax liability:</b>       | <ul style="list-style-type: none"> <li>TT is applicable to banking &amp; financial services which are not liable to GST. However, turnover of wholesalers or retailers is liable to TT and is collected by the Provincial Councils.</li> </ul>   |

**Tax Summary (Continued)**

|   |  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
|---|--|-------------------|--|-----------------|---------------------------|---------------|---------------------------|---------------|---------------------------|---------------|---------------------------|-------|---------------------------|--------------|-----------------|--------|---------------------|--------|-----------------|----------------------|--|-------------|-----|-------------|-----|------|-----|
| <b>Tax rates:</b>                             | Bankers, Financiers, Money Lenders, 1%<br>Pawn brokers<br>Trade (payable to Provincial Councils) 1%-5%<br>❖ TT collected by the Central Government was abolished from 10/12/2001.  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>VIII. Excise (Special Provisions) Duty</b> |  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Legislation:</b>                           | <ul style="list-style-type: none"> <li>Excise (Special Provisions) Act No: 13 of 1989 and Amendments Act No. 40 of 1990 and Act No. 8 of 1994.</li> </ul>  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Implementing agency:</b>                   | <ul style="list-style-type: none"> <li>Excise (Special Provisions) unit of Department of Customs.</li> </ul>   |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Tax liability:</b>                         | <ul style="list-style-type: none"> <li>On the following articles manufactured locally or imported.</li> </ul>  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Tax rates:</b>                             | <table> <tr> <td colspan="2"><b>Cigarettes</b></td> </tr> <tr> <td>60 mm in length</td> <td>Rs 1,300 per 1,000 sticks</td> </tr> <tr> <td>60 mm – 67 mm</td> <td>Rs 3,142 per 1,000 sticks</td> </tr> <tr> <td>67 mm – 72 mm</td> <td>Rs 4,503 per 1,000 sticks</td> </tr> <tr> <td>72 mm – 84 mm</td> <td>Rs 4,965 per 1,000 sticks</td> </tr> <tr> <td>84 mm</td> <td>Rs 5,156 per 1,000 sticks</td> </tr> <tr> <td>Pipe tobacco</td> <td>Rs 250/- per kg</td> </tr> <tr> <td>Diesel</td> <td>Rs 6.50/- per liter</td> </tr> <tr> <td>Petrol</td> <td>Rs.30 per liter</td> </tr> <tr> <td colspan="2"><b>Motor vehicle</b></td> </tr> <tr> <td>Petrol cars</td> <td>15%</td> </tr> <tr> <td>Diesel cars</td> <td>65%</td> </tr> <tr> <td>Vans</td> <td>35%</td> </tr> </table> <p>w.e.f. 3/22/2002</p> | <b>Cigarettes</b> |  | 60 mm in length | Rs 1,300 per 1,000 sticks | 60 mm – 67 mm | Rs 3,142 per 1,000 sticks | 67 mm – 72 mm | Rs 4,503 per 1,000 sticks | 72 mm – 84 mm | Rs 4,965 per 1,000 sticks | 84 mm | Rs 5,156 per 1,000 sticks | Pipe tobacco | Rs 250/- per kg | Diesel | Rs 6.50/- per liter | Petrol | Rs.30 per liter | <b>Motor vehicle</b> |  | Petrol cars | 15% | Diesel cars | 65% | Vans | 35% |
| <b>Cigarettes</b>                             |  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| 60 mm in length                               | Rs 1,300 per 1,000 sticks  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| 60 mm – 67 mm                                 | Rs 3,142 per 1,000 sticks  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| 67 mm – 72 mm                                 | Rs 4,503 per 1,000 sticks  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| 72 mm – 84 mm                                 | Rs 4,965 per 1,000 sticks  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| 84 mm   | Rs 5,156 per 1,000 sticks  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Pipe tobacco                                  | Rs 250/- per kg  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Diesel  | Rs 6.50/- per liter  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Petrol  | Rs.30 per liter  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Motor vehicle</b>                          |  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Petrol cars                                   | 15%  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Diesel cars                                   | 65%  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| Vans  | 35%  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Computation of duty:</b>                   | <ul style="list-style-type: none"> <li><b>Domestic:</b> Wholesale price excluding excise (Special Provisions) duty multiplied by the excise (Special Provisions) duty rate.</li> <li><b>Imports:</b> 105% of CIF with all fiscal levies, excluding excise (Special Provisions) duty, multiplied by the excise (Special Provisions) duty rates.</li> </ul>  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |
| <b>Date of payment:</b>                       | <ul style="list-style-type: none"> <li>Cigarettes &amp; Petroleum products monthly</li> <li>Liquor quarterly</li> <li>Imports at the point of import</li> </ul>  |                   |  |                 |                           |               |                           |               |                           |               |                           |       |                           |              |                 |        |                     |        |                 |                      |  |             |     |             |     |      |     |



**Tax Summary (Continued)**

| <b>IX. Excise (Ordinance) Duty</b>                       |  |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
|--|--|------------------------------|-----------|------------------------|-----------------------------|---|-----------------|------------------------------|--|-----------------|----------------------------------|--|-----------|--------------------------------------|-------|-----------|--|--------|--|
| <b>Legislation:</b>                                      | <ul style="list-style-type: none"> <li>Excise Ordinance No. 8 of 1912 and subsequent amendments.</li> </ul>  |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Implementing agency:</b>                              | <ul style="list-style-type: none"> <li>Department of Excise</li> </ul>   |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Tax liability:</b>                                    | <ul style="list-style-type: none"> <li>Domestically produced hard &amp; soft liquor only.</li> </ul>   |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Tax rates:</b>  | <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Coconut and processed Arrack</td> <td style="width: 20%; text-align: right;">Rs 299.00</td> <td style="width: 20%;">per proof litre</td> </tr> <tr> <td>Country Made Foreign Liquor</td> <td style="text-align: right;">Rs 399.00</td> <td>per proof litre</td> </tr> <tr> <td>Molasses and Palmyrah Arrack</td> <td style="text-align: right;">Rs 299.00</td> <td>per proof litre</td> </tr> <tr> <td>Malt liquor above 5% in strength</td> <td style="text-align: right;">Rs 25</td> <td>per litre</td> </tr> <tr> <td>Malt liquor less than 5% in strength</td> <td style="text-align: right;">Rs 15</td> <td>per litre</td> </tr> <tr> <td>Wine containing more than 4% in Strength per proof liter</td> <td style="text-align: right;">Rs 149</td> <td></td> </tr> </table> <p>w.e.f. 3/22/2002</p>  | Coconut and processed Arrack | Rs 299.00 | per proof litre        | Country Made Foreign Liquor | Rs 399.00   | per proof litre | Molasses and Palmyrah Arrack | Rs 299.00                                    | per proof litre | Malt liquor above 5% in strength | Rs 25  | per litre | Malt liquor less than 5% in strength | Rs 15 | per litre | Wine containing more than 4% in Strength per proof liter | Rs 149 |  |
| Coconut and processed Arrack                             | Rs 299.00  | per proof litre              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Country Made Foreign Liquor                              | Rs 399.00  | per proof litre              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Molasses and Palmyrah Arrack                             | Rs 299.00  | per proof litre              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Malt liquor above 5% in strength                         | Rs 25  | per litre                    |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Malt liquor less than 5% in strength                     | Rs 15  | per litre                    |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Wine containing more than 4% in Strength per proof liter | Rs 149   |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>X. Luxury and Diesel Motor Vehicle Tax</b>            |  |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Legislation:</b>                                      | <ul style="list-style-type: none"> <li>The motor vehicle levy was introduced in Sri Lanka by the Finance Act No. 16 of 1995 and implemented from 1<sup>st</sup> April 1995.</li> </ul>   |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Implementing agency:</b>                              | <ul style="list-style-type: none"> <li>Department of Motor Traffic</li> </ul>  |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Tax liability:</b>                                    | <ul style="list-style-type: none"> <li>An annual levy of Rs 5,000 on diesel motor vehicles. Luxury motor vehicles as classified below are also liable to a levy which is imposed on an annual depreciation over a period of 7 years.</li> </ul>  |                              |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| <b>Tax rates:</b>  | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Vehicle Type</th> <th style="text-align: left;">Capacity</th> <th style="text-align: left;">Levy in the First Year</th> </tr> </thead> <tbody> <tr> <td>Luxury</td> <td>Diesel-exceeding 2500cc<br/>Petrol-exceeding 2000c</td> <td style="text-align: right;">50,000/-</td> </tr> <tr> <td>Semi luxury</td> <td>Diesel-2200cc-2500cc<br/>Petrol-1800cc-2000cc</td> <td style="text-align: right;">25,000/-</td> </tr> <tr> <td>Semi luxury</td> <td>Diesel-exceeding 2500cc<br/>dual purpose, Petrol-exceeding 2000cc<br/>excluding vans</td> <td style="text-align: right;">10,000/-</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>❖ All Diesel vehicles other than public passenger and goods transport are liable for Rs 5000 per year.</li> <li>❖ Diesel Motor Vehicle Tax was abolished w.e.f. 10/12/2001.</li> </ul> | Vehicle Type                 | Capacity  | Levy in the First Year | Luxury                      | Diesel-exceeding 2500cc<br>Petrol-exceeding 2000c | 50,000/-        | Semi luxury                  | Diesel-2200cc-2500cc<br>Petrol-1800cc-2000cc | 25,000/-        | Semi luxury                      | Diesel-exceeding 2500cc<br>dual purpose, Petrol-exceeding 2000cc<br>excluding vans | 10,000/-  |                                      |       |           |  |        |  |
| Vehicle Type   | Capacity   | Levy in the First Year       |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Luxury   | Diesel-exceeding 2500cc<br>Petrol-exceeding 2000c  | 50,000/-                     |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Semi luxury  | Diesel-2200cc-2500cc<br>Petrol-1800cc-2000cc   | 25,000/-                     |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |
| Semi luxury  | Diesel-exceeding 2500cc<br>dual purpose, Petrol-exceeding 2000cc<br>excluding vans   | 10,000/-                     |           |                        |                             |   |                 |                              |  |                 |                                  |  |           |                                      |       |           |  |        |  |

**Tax Summary (Continued)**

| <b>XI. Ports and Airports Development Levy</b><br>(Effective from 05/01/2002) |  |        |                         |                                |                      |                                   |                    |   |  |   |  |
|---|--|--------|-------------------------|--------------------------------|----------------------|-----------------------------------|--------------------|---|--|---|--|
| <b>Legislation:</b>   | <ul style="list-style-type: none"> <li>• Finance Act</li> </ul>  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Implementing agency:</b>   | <ul style="list-style-type: none"> <li>• Department of Customs</li> </ul>  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Tax liability:</b>   | <ul style="list-style-type: none"> <li>• A levy at the rate of one per centum on the cost, insurance and freight value of imported article.</li> <li>• A concessionary levy at the rate of 0.75 per centum on the articles imported for processing and re-export.</li> </ul>   |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Exemptions:</b>  | <ul style="list-style-type: none"> <li>• Imports by any diplomatic mission or any other organization within the provisions of Diplomatic Privileges Act No. 9 of 1996.</li> <li>• Imports of diamonds, gems, gold, jewelry and any electronic items or components import for processing and re-export.</li> </ul>  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>XII. Betting and Gaming Levy</b>   |  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Legislation:</b>   | <ul style="list-style-type: none"> <li>• Betting and Gaming Levy Act No. 40 of 1990</li> </ul>   |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Implementing agency:</b>   | <ul style="list-style-type: none"> <li>• Department of Inland Revenue</li> </ul>   |        |                         |                                |                      |                                   |                    |   |  |   |  |
| <b>Tax liability:</b>   | <table style="width: 100%; border: none;"> <tr> <td style="padding-right: 20px;">Gaming</td> <td style="text-align: right;">Rs. 12 million per year</td> </tr> <tr> <td>Bookmaking, with live telecast</td> <td style="text-align: right;">Rs. 500,000 per year</td> </tr> <tr> <td>Bookmaking, without live telecast</td> <td style="text-align: right;">Rs 10,000 per year</td> </tr> <tr> <td colspan="2">❖ Each place of business will be liable to the above duty</td> </tr> <tr> <td colspan="2">❖ The above rates are effective from 4/1/2002</td> </tr> </table> | Gaming | Rs. 12 million per year | Bookmaking, with live telecast | Rs. 500,000 per year | Bookmaking, without live telecast | Rs 10,000 per year | ❖ Each place of business will be liable to the above duty |  | ❖ The above rates are effective from 4/1/2002 |  |
| Gaming  | Rs. 12 million per year  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| Bookmaking, with live telecast  | Rs. 500,000 per year   |        |                         |                                |                      |                                   |                    |   |  |   |  |
| Bookmaking, without live telecast   | Rs 10,000 per year   |        |                         |                                |                      |                                   |                    |   |  |   |  |
| ❖ Each place of business will be liable to the above duty                     |  |        |                         |                                |                      |                                   |                    |   |  |   |  |
| ❖ The above rates are effective from 4/1/2002                                 |  |        |                         |                                |                      |                                   |                    |   |  |   |  |

**Tax Summary (Continued)**

| <b>XIII. Debits Tax</b><br>(Effective from 01/06/2002) |   |
|--|---|
| <b>Legislation:</b>                                    | <ul style="list-style-type: none"><li>• Debits Tax Act (awaits parliamentary approval)</li></ul>  |
| <b>Implementing agency:</b>                            | <ul style="list-style-type: none"><li>• Department of Inland Revenue</li></ul>  |
| <b>Tax liability:</b>                                  | <ul style="list-style-type: none"><li>• The Debits Tax at the rate of one tenth of one per centum (0.1%) will be charged on all debits on current account transactions, proceeds realized by the encashment of certificates of deposits and travelers cheques.</li></ul>  |
| <b>Exemptions:</b>                                     | <ul style="list-style-type: none"><li>• If tax liability of a current account during a particular month is not more than Rs. 10.</li><li>• Debits made on tax payments and loan /interest payments to the government</li><li>• Payments in relation to:<ul style="list-style-type: none"><li>➤ pension fund benefits</li><li>➤ settlement of transactions for licensed produce brokers</li><li>➤ trading in government securities for primary dealers</li><li>➤ outright and repurchase and reverse repurchase transactions of government and corporate debt securities in the secondary market</li><li>➤ settlement of transactions in the Colombo Stock Exchange</li></ul></li><li>• Debits in relation to:<ul style="list-style-type: none"><li>➤ inter- and intra-bank transactions</li><li>➤ collection accounts</li><li>➤ any exempt account</li><li>➤ dishonored cheques and error corrections</li></ul></li></ul> |

### Tax Incentives Under Inland Revenue Act

| Category  | Incentives   |
|---|--|
| <p>Agriculture, cultivation of land, and animal husbandry<br/>Fishing</p> | <ul style="list-style-type: none"> <li>▪ Profits sourced from export of nontraditional goods are subject to 15 percent concessionary tax rate until April 1, 2014 (for companies commencing activity after November 10, 1993) and until April 1, 2015 (for companies commencing business before November 10, 1993).</li> </ul>   |
| <p>Agriculture, tourism, and construction<br/>Exports</p>                 | <ul style="list-style-type: none"> <li>▪ Dividends out of qualified export profits are subject to 15 percent tax rate.</li> <li>▪ Companies that supply to export operations also benefit from 15 percent tax rate. Dividends are also taxed at 15 percent.</li> <li>▪ 10-year tax holiday for the export and fruit and vegetables.</li> </ul>   |
| <p>Housing</p>  | <p>Tax Exemptions:</p> <ul style="list-style-type: none"> <li>▪ Net annual value of any one place of residence owned and occupied is exempt from income tax;</li> <li>▪ Rent is exempt from income tax for 7 year period including the year when construction is completed;</li> <li>▪ 75 percent of profits from construction and sale of houses is exempt from income tax, and dividends out of such profits are exempt.</li> </ul> <p>Relief for Investment</p> <p>The following expenses are deductible from income as 'qualifying payments':</p> <ul style="list-style-type: none"> <li>▪ Expenditure incurred after April 1, 2002 in the construction or purchase of the first house;</li> <li>▪ Repayment of the capital of any approved housing loan for the construction or purchase of the first house after April 1, 2002.</li> </ul> |
| <p>Export of handicraft</p>   | <ul style="list-style-type: none"> <li>▪ Tax holiday (3 years)</li> </ul>  |
| <p>Infrastructure facilities</p>  | <ul style="list-style-type: none"> <li>▪ Tax holiday (up to 20 years) if business commenced</li> </ul>   |
| <p>Gems and jewelry trade</p>   | <ul style="list-style-type: none"> <li>▪ Profits and income from the sale of gold, gems, and jewelry are exempt from tax</li> <li>▪ Dividends out of such profits are also exempt.</li> </ul>  |

**Overview of Tax Incentives Under Section 17 of BOI Law <sup>1/</sup>**

| Category  | Incentives   |
|---|--|
| <b>Group I:</b>   |  |
| <b>1. Nontraditional exports:</b>   |  |
| <ul style="list-style-type: none"> <li>▪ Manufacturing (minimum investment of Rs 50 million and exporting at least 80 percent of output).</li> <li>▪ Export oriented services (exporting at least 70 percent of output).</li> <li>▪ Regional operating headquarters (exporting at least 70 percent of output).</li> </ul> | <ul style="list-style-type: none"> <li>▪ Three year tax holiday, a concessionary 10 percent rate for 2 years, followed by a 20 percent rate.</li> <li>▪ Import duty exemption on capital goods and raw materials for manufacturing and export oriented services.</li> <li>▪ Import duty exemption on capital goods for regional operating headquarters during project establishment period.</li> </ul>                 |
| <b>2. Agriculture and agro processing (including traditional export crops):</b>   |  |
| <ul style="list-style-type: none"> <li>▪ Minimum investment of Rs 5 million.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Three year tax holiday, a concessionary 10 percent rate for 2 years, followed by a 20 percent rate.</li> <li>▪ Import duty exemption on capital goods.</li> </ul>   |
| <b>1. Information technology and IT enabled services and IT related training institutes:</b>  |  |
| <ul style="list-style-type: none"> <li>▪ Minimum of 15 technically qualified persons for IT enabled services and 300 students in IT related training institutes.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Three year tax holiday, a concessionary 10 percent rate for 2 years, followed by a 20 percent rate.</li> <li>▪ Import duty exemption on capital goods.</li> </ul>   |
| <b>Group II:</b>  |  |
| <b>Pioneering investments:</b>  |  |
| <ul style="list-style-type: none"> <li>▪ Power generation, transmission, and distribution.</li> <li>▪ Development of highways, seaports, airports, railways, water services, and other infrastructure projects.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Five year tax holiday (investment Rs 12.5-Rs 25 billion).</li> <li>▪ Eight year tax holiday (investment Rs 25-Rs 50 billion).</li> <li>▪ Ten year tax holiday (investment above Rs 50 billion).</li> <li>▪ Concessionary tax at 15 percent upon expiration of tax holiday.</li> <li>▪ Import duty exemption on capital goods during project implementation period.</li> </ul> |

<sup>1/</sup> These rationalized BOI incentives will be administered under the Inland Revenue Act.

Table 1. Sri Lanka: Gross Domestic Product and Expenditure Components, 1996–2001 <sup>1/</sup>

|  | 1996    | 1997    | 1998    | 1999    | 2000    | 2001<br>Prov. |
|--|---------|---------|---------|---------|---------|---------------|
| (In billions of Sri Lanka rupees at current prices)          |         |         |         |         |         |               |
| Consumption  | 650.4   | 736.0   | 823.3   | 890.2   | 1,038.4 | 1,185.5       |
| Private  | 569.4   | 643.8   | 723.5   | 790.4   | 906.2   | 1,043.9       |
| Public   | 81.0    | 92.2    | 99.7    | 99.9    | 132.2   | 141.5         |
| Gross investment   | 183.5   | 216.9   | 255.7   | 301.7   | 352.6   | 308.4         |
| Private 2/   | 160.2   | 187.0   | 221.8   | 266.5   | 311.5   | 266.4         |
| Public   | 23.3    | 29.9    | 34.0    | 35.2    | 41.1    | 42.0          |
| Domestic demand  | 833.9   | 952.9   | 1,079.0 | 1,192.0 | 1,391.0 | 1,493.9       |
| Exports of goods and nonfactor services                      | 268.6   | 325.3   | 369.0   | 392.4   | 490.7   | 517.5         |
| Aggregate demand   | 1,102.6 | 1,278.2 | 1,447.9 | 1,584.4 | 1,881.6 | 2,011.4       |
| Imports of goods and nonfactor services                      | 337.2   | 388.2   | 430.1   | 478.5   | 624.0   | 611.3         |
| Expenditure on gross domestic product                        | 765.4   | 890.0   | 1,017.8 | 1,105.9 | 1,257.6 | 1,400.1       |
| Net factor income from abroad                                | -11.3   | -9.4    | -11.6   | -17.8   | -23.1   | -25.0         |
| Gross national income 3/                                     | 754.1   | 880.6   | 1,006.3 | 1,088.0 | 1,234.5 | 1,375.1       |
| Net current transfers from abroad                            | 42.3    | 49.1    | 58.2    | 64.1    | 75.6    | 85.7          |
| National disposable income                                   | 796.4   | 929.7   | 1,064.4 | 1,152.2 | 1,310.1 | 1,460.8       |
| (In percent of GDP)  |         |         |         |         |         |               |
| Consumption  | 85.0    | 82.7    | 80.9    | 80.5    | 82.6    | 84.7          |
| Gross fixed investment                                       | 24.0    | 24.4    | 25.1    | 27.3    | 28.0    | 22.0          |
| Private 2/   | 20.9    | 21.0    | 21.8    | 24.1    | 24.8    | 19.0          |
| Public   | 3.0     | 3.4     | 3.3     | 3.2     | 3.3     | 3.0           |
| (In billions of Sri Lanka rupees at constant 1996 prices) 4/ |         |         |         |         |         |               |
| Consumption  | 650.4   | 696.8   | 745.6   | 785.2   | 824.8   | 828.0         |
| Gross investment   | 186.3   | 192.9   | 222.3   | 236.6   | 260.2   | 215.5         |
| Domestic demand  | 836.7   | 889.7   | 968.0   | 1,021.8 | 1,084.9 | 1,043.6       |
| Exports of goods and nonfactor services                      | 268.6   | 299.9   | 302.9   | 315.0   | 371.7   | 347.5         |
| Aggregate demand   | 1,105.3 | 1,189.5 | 1,270.8 | 1,336.8 | 1,456.6 | 1,391.1       |
| Imports of goods and nonfactor services                      | 337.2   | 372.5   | 415.3   | 444.4   | 510.6   | 458.8         |
| Resource gap   | -68.6   | -72.6   | -112.4  | -129.4  | -138.9  | -111.2        |
| Expenditure on gross domestic product                        | 768.1   | 817.1   | 855.6   | 892.4   | 946.0   | 932.3         |
| Gross domestic product at factor cost                        | 695.9   | 739.8   | 774.8   | 808.3   | 857.0   | 844.6         |
| (Annual percent change, constant prices) 5/                  |         |         |         |         |         |               |
| Consumption  | 3.4     | 7.1     | 7.0     | 5.3     | 5.0     | 0.4           |
| Gross investment   | 2.8     | 3.5     | 15.3    | 6.4     | 10.0    | -17.1         |
| Domestic demand  | 3.3     | 6.3     | 8.8     | 5.6     | 6.2     | -3.8          |
| Exports of goods and nonfactor services                      | 3.2     | 11.6    | 1.0     | 4.0     | 18.0    | -6.5          |
| Aggregate demand   | 3.2     | 7.6     | 6.8     | 5.2     | 9.0     | -4.5          |
| Imports of goods and nonfactor services                      | 2.1     | 10.5    | 11.5    | 7.0     | 14.9    | -10.1         |
| Gross domestic product                                       | 3.8     | 6.3     | 4.7     | 4.3     | 6.0     | -1.4          |
| Memorandum items:  |         |         |         |         |         |               |
| Population (midyear, in millions)                            | 17.5    | 17.7    | 17.9    | 18.2    | 18.5    | 18.7          |
| Gross national income per capita, in rupees (thousand)       | 43.1    | 49.7    | 56.1    | 59.8    | 66.8    | 73.4          |
| Gross national income per capita, in SDRs                    | 537     | 613     | 640     | 621     | 669     | 645           |

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

1/ At market prices.

2/ Includes changes in stocks and investment by public corporations not financed through the government budget.

3/ Including statistical discrepancy.

4/ New series of GDP estimates, with 1996 as the base year. Estimates for 1995 and before have not been compiled on the new basis.

5/ Growth rates for 1995–96 are based on the accounts at 1982 constant prices. See SM/98/183 for details.

Table 2. Sri Lanka: Saving, Investment, and Current Account, 1996-2001

|   | 1996  | 1997  | 1998  | 1999  | 2000  | 2001<br>Prov. |
|---|-------|-------|-------|-------|-------|---------------|
| (In billions of Sri Lanka rupees at current prices) |       |       |       |       |       |               |
| Gross investment                                    | 186.3 | 217.1 | 255.9 | 301.8 | 352.6 | 308.5         |
| External current account balance                    | -40.2 | -25.8 | -17.9 | -41.2 | -82.6 | -35.0         |
| National saving                                     | 145.7 | 191.3 | 238.0 | 260.3 | 270.0 | 273.5         |
| Net factor income from abroad                       | -11.3 | -9.4  | -11.6 | -17.8 | -23.1 | -25.0         |
| Net private transfers                               | 39.2  | 46.5  | 54.8  | 62.4  | 73.8  | 83.8          |
| Domestic saving                                     | 117.7 | 154.2 | 194.7 | 215.7 | 219.3 | 214.7         |
| Private   | 146.6 | 174.0 | 219.4 | 227.1 | 262.3 | 283.7         |
| Public  | -28.9 | -19.7 | -24.6 | -11.4 | -43.0 | -69.0         |
| (In percent of GDP)                                 |       |       |       |       |       |               |
| Domestic saving                                     | 15.4  | 17.3  | 19.1  | 19.5  | 17.4  | 15.3          |
| Private   | 19.1  | 19.5  | 21.6  | 20.5  | 20.9  | 20.3          |
| Public 1/   | -3.8  | -2.2  | -2.4  | -1.0  | -3.4  | -4.9          |
| Gross investment                                    | 24.0  | 24.4  | 25.1  | 27.3  | 28.0  | 22.0          |
| Private 2/  | 20.9  | 21.0  | 21.8  | 24.1  | 24.8  | 19.0          |
| Public  | 3.0   | 3.4   | 3.3   | 3.2   | 3.3   | 3.0           |
| National saving                                     | 19.0  | 21.5  | 23.4  | 23.5  | 21.5  | 19.5          |
| <i>Of which</i> : Private 3/                        | 22.8  | 23.7  | 25.8  | 24.6  | 24.9  | 24.5          |
| External current account balance                    | -5.2  | -2.9  | -1.8  | -3.7  | -6.6  | -2.5          |
| Private sector saving minus investment              | 1.9   | 2.7   | 4.0   | 0.5   | 0.1   | 5.4           |
| Public sector saving minus investment               | -6.8  | -5.6  | -5.8  | -4.2  | -6.7  | -7.9          |

Sources: Data provided by the Sri Lankan authorities.

1/ Total revenue minus current expenditure.

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

3/ Includes net factor income and transfers from abroad.

Table 3. Sri Lanka: Gross Domestic Product by Industrial Origin at Current Prices, 1996–2001

|   | 1996  | 1997  | 1998  | 1999  | 2000    | 2001<br>Prov. |
|---|-------|-------|-------|-------|---------|---------------|
| (In billions of Sri Lanka rupees at current prices) |       |       |       |       |         |               |
| Agriculture 1/                                      | 156.1 | 175.8 | 192.7 | 205.6 | 218.4   | 242.5         |
| Plantation crops 2/                                 | 27.2  | 30.8  | 32.5  | 32.2  | 31.3    | 31.0          |
| Paddy   | 19.9  | 24.5  | 26.8  | 30.2  | 26.5    | 28.8          |
| Fishing   | 18.8  | 21.4  | 23.7  | 25.8  | 29.4    | 31.5          |
| Other   | 90.3  | 99.1  | 109.7 | 117.3 | 131.2   | 151.2         |
| Mining and quarrying                                | 13.9  | 16.6  | 17.4  | 18.3  | 21.5    | 23.9          |
| Manufacturing                                       | 112.7 | 131.9 | 151.0 | 163.1 | 189.3   | 198.1         |
| Plantation crop processing                          | 16.2  | 19.5  | 23.2  | 24.8  | 28.2    | 27.9          |
| Other   | 96.5  | 112.4 | 127.8 | 138.3 | 161.1   | 170.2         |
| Construction  | 48.2  | 56.4  | 69.3  | 75.5  | 82.7    | 94.5          |
| Services  | 364.9 | 423.0 | 482.4 | 532.2 | 613.3   | 693.8         |
| Gross domestic product                              | 695.9 | 803.7 | 912.8 | 994.7 | 1,125.3 | 1,252.8       |
| Net factor income from abroad                       | -11.3 | -9.4  | -11.6 | -17.8 | -23.1   | -25.0         |
| Gross national product                              | 684.7 | 794.3 | 901.3 | 976.9 | 1,102.2 | 1,227.8       |
| (In percent of GDP)                                 |       |       |       |       |         |               |
| Agriculture 1/                                      | 22.4  | 21.9  | 21.1  | 20.7  | 19.4    | 19.4          |
| Plantation crops 2/                                 | 3.9   | 3.8   | 3.6   | 3.2   | 2.8     | 2.5           |
| Paddy   | 2.9   | 3.0   | 2.9   | 3.0   | 2.4     | 2.3           |
| Fishing   | 2.7   | 2.7   | 2.6   | 2.6   | 2.6     | 2.5           |
| Other   | 13.0  | 12.3  | 12.0  | 11.8  | 11.7    | 12.1          |
| Mining and quarrying                                | 2.0   | 2.1   | 1.9   | 1.8   | 1.9     | 1.9           |
| Manufacturing                                       | 16.2  | 16.4  | 16.5  | 16.4  | 16.8    | 15.8          |
| Plantation crop processing                          | 2.3   | 2.4   | 2.5   | 2.5   | 2.5     | 2.2           |
| Other   | 13.9  | 14.0  | 14.0  | 13.9  | 14.3    | 13.6          |
| Construction  | 6.9   | 7.0   | 7.6   | 7.6   | 7.3     | 7.5           |
| Services  | 52.4  | 52.6  | 52.8  | 53.5  | 54.5    | 55.4          |
| Gross domestic product                              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0   | 100.0         |
| Memorandum items:                                   |       |       |       |       |         |               |
| Annual percentage increase                          |       |       |       |       |         |               |
| in implicit GDP deflator 3/                         | 12.1  | 8.6   | 8.4   | 4.4   | 6.7     | 13.0          |
| CPI Inflation                                       | 15.9  | 9.6   | 9.4   | 4.7   | 6.2     | 14.2          |

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

1/ Including forestry and fishing.

2/ Tea, rubber, and coconuts.

3/ Based on factor costs.



Table 4. Sri Lanka: Gross Domestic Product by Industrial Origin at Constant Prices, 1996–2001 1/

|  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001<br>Prov. |
|--|-------|-------|-------|-------|-------|---------------|
| (In billions of Sri Lanka rupees at 1996 prices) |       |       |       |       |       |               |
| Agriculture 2/                                   | 156.1 | 160.8 | 164.8 | 172.2 | 175.3 | 170.1         |
| Plantation crops 3/                              | 27.2  | 28.1  | 27.5  | 28.8  | 30.5  | 28.5          |
| Paddy  | 19.9  | 22.1  | 26.2  | 27.9  | 27.8  | 26.2          |
| Fishing  | 18.8  | 19.7  | 21.3  | 23.0  | 23.5  | 22.6          |
| Other  | 90.3  | 90.8  | 89.8  | 92.6  | 93.5  | 92.7          |
| Mining and quarrying                             | 13.9  | 14.5  | 13.7  | 14.2  | 14.9  | 15.0          |
| Manufacturing                                    | 112.7 | 122.9 | 130.7 | 136.5 | 149.1 | 143.2         |
| Plantation crop processing                       | 16.2  | 16.8  | 16.6  | 17.2  | 17.9  | 17.0          |
| Other  | 96.5  | 106.2 | 114.1 | 119.3 | 131.2 | 126.2         |
| Construction                                     | 48.2  | 50.8  | 54.5  | 57.1  | 59.8  | 61.3          |
| Services   | 364.9 | 390.8 | 411.2 | 428.3 | 457.9 | 455.1         |
| <i>Of which:</i>                                 |       |       |       |       |       |               |
| Public administration and defense                | 35.2  | 37.1  | 38.2  | 39.8  | 41.4  | 41.9          |
| Wholesale and retail trade                       | 155.3 | 165.1 | 172.5 | 174.2 | 189.4 | 177.1         |
| Gross domestic product                           | 695.9 | 739.8 | 774.8 | 808.3 | 857.0 | 844.6         |
| Net factor income from abroad                    | -11.3 | -8.8  | -9.9  | -14.0 | -16.8 | -15.5         |
| Gross national product                           | 684.7 | 730.9 | 764.9 | 794.3 | 840.2 | 829.1         |
| (Annual percentage change)                       |       |       |       |       |       |               |
| Agriculture 2/                                   | -4.6  | 3.0   | 2.5   | 4.5   | 1.8   | -3.0          |
| Plantation crops 3/                              | -0.9  | 3.5   | -2.3  | 4.9   | 5.8   | -6.4          |
| Paddy  | -26.7 | 11.2  | 18.3  | 6.6   | -0.3  | -5.7          |
| Fishing  | -3.9  | 5.0   | 8.3   | 7.6   | 2.5   | -4.0          |
| Other  | 3.2   | 0.6   | -1.1  | 3.0   | 1.0   | -0.8          |
| Mining and quarrying                             | 8.9   | 3.8   | -5.4  | 4.1   | 4.8   | 0.7           |
| Manufacturing                                    | 6.5   | 9.1   | 6.3   | 4.4   | 9.2   | -4.0          |
| Plantation crop processing                       | 1.0   | 3.5   | -1.2  | 3.8   | 4.2   | -5.3          |
| Other  | 7.2   | 10.0  | 7.5   | 4.5   | 10.0  | -3.8          |
| Construction                                     | 3.4   | 5.4   | 7.1   | 4.8   | 4.8   | 2.5           |
| Services   | 5.8   | 7.1   | 5.2   | 4.2   | 6.9   | -0.6          |
| <i>Of which:</i>                                 |       |       |       |       |       |               |
| Public administration and defense                | ...   | 5.2   | 3.0   | 4.2   | 4.2   | 1.0           |
| Wholesale and retail trade                       | 5.2   | 6.3   | 4.5   | 1.0   | 8.7   | -6.5          |
| Gross domestic product                           | 3.8   | 6.3   | 4.7   | 4.3   | 6.0   | -1.4          |

1/ New series of GDP estimates, with 1996 as the base year. Estimates for 1995 and before have not been compiled on the new basis. Growth rates for 1995–96 are based on the accounts at 1982 constant prices. See SM/98/183 for details.

2/ Including forestry and fishing.

3/ Tea, rubber, and coconuts.

Table 5. Sri Lanka: Trends in Principal Agricultural Crops, 1992-2001

| Category                         | Unit          | 1992    | 1993    | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    | 2000    | 2001<br>Prov. |
|----------------------------------|---------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------------|
| <b>Tea</b>                       |               |         |         |         |         |         |         |         |         |         |               |
| Production                       | kg mn         | 178.9   | 231.9   | 242.2   | 245.9   | 258.4   | 276.9   | 280.1   | 283.7   | 305.8   | 295.1         |
| Registered extent under tea 1/   | hectares      | 221,836 | 192,730 | 187,426 | 188,970 | 189,354 | 193,676 | 194,736 | 179,761 | 180,025 | 180,170       |
| Fertiliser used                  | mt '000       | 110.2   | 147.2   | 126.4   | 120.3   | 153.9   | 161.8   | 181.7   | 164.1   | 200.2   | 186.9         |
| Cost of Production 2/            | Rs/kg         | 72.26   | 75.81   | 75.67   | 76.74   | 87.04   | 90.26   | 100.71  | 101.29  | 110.64  | 121.43        |
| Average price                    |               |         |         |         |         |         |         |         |         |         |               |
| Colombo (net)                    | Rs/kg         | 60.51   | 68.88   | 65.12   | 72.21   | 103.88  | 119.40  | 134.35  | 115.31  | 135.53  | 143.96        |
| Export (f.o.b.)                  | Rs/kg         | 81.98   | 91.16   | 91.32   | 102.31  | 139.56  | 158.39  | 184.94  | 162.39  | 184.73  | 208.89        |
| Replanted annual                 | hectares      | 1,417   | 1,311   | 1,225   | 1,215   | 937     | 926     | 1,234   | 1,376   | 1,094   | 1,018         |
| Replanted cumulative             | hectares      | 56,122  | 57,433  | 58,658  | 59,873  | 60,810  | 61,736  | 62,970  | 64,346  | 65,440  | 66,458        |
| <b>Rubber</b>                    |               |         |         |         |         |         |         |         |         |         |               |
| Production                       | kg mn         | 106.1   | 104.2   | 105.3   | 105.7   | 112.5   | 105.8   | 95.7    | 96.6    | 87.6    | 86.0          |
| Total extent under rubber        | hectares '000 | 194,550 | 161,477 | 160,909 | 161,600 | 162,000 | 158,200 | 158,140 | 159,097 | 157,031 | 157,100       |
| Area under tapping               | hectares      | 147,265 | 119,353 | 120,883 | 123,948 | 122,252 | 123,493 | 124,608 | 127,707 | 128,300 | 131,970       |
| Fertiliser used                  | mt '000       | 13.1    | 17.9    | 17.2    | 34.9    | 16.6    | 12.3    | 15.6    | 9.9     | 13.8    | 8.8           |
| Yield                            | kg/hectare    | 725     | 873     | 870     | 853     | 927     | 868     | 768     | 755     | 683     | 653           |
| Cost of Production               | Rs/kg         | 24.50   | 30.22   | 30.85   | 33.37   | 36.70   | 40.37   | 42.00   | 43.50   | 44.50   | 48.00         |
| Average price                    |               |         |         |         |         |         |         |         |         |         |               |
| Colombo (RSS 1)                  | Rs/kg         | 29.28   | 35.48   | 50.36   | 72.04   | 67.85   | 56.71   | 49.76   | 45.33   | 54.78   | 54.70         |
| Export (f.o.b.)                  | Rs/kg         | 37.65   | 44.34   | 51.81   | 83.69   | 79.78   | 75.42   | 67.72   | 53.90   | 66.95   | 66.35         |
| Replanted annual                 | hectares      | 3,918   | 2,419   | 1,623   | 3,239   | 3,443   | 1,261   | 1,288   | 643     | 793     | 445           |
| <b>Coconut</b>                   |               |         |         |         |         |         |         |         |         |         |               |
| Production                       | mts mn        | 2,296   | 2,164   | 2,622   | 2,755   | 2,561   | 2,631   | 2,552   | 2,828   | 3,096   | 2,796         |
| Fertiliser used                  | mt '000       | 34.3    | 35.1    | 31.2    | 33.6    | 39.1    | 33.8    | 36.1    | 39.1    | 33.9    | 30.1          |
| Cost of production               | Rs/nut        | 1.97    | 2.03    | 1.84    | 2.02    | 2.18    | 2.26    | 2.40    | 2.75    | 3.27    | 3.50          |
| Average export price (f.o.b.) 3/ | Rs/nut        | 6.47    | 6.31    | 5.67    | 6.08    | 9.42    | 9.63    | 8.31    | 9.95    | 7.35    | 7.05          |
| <b>Paddy</b>                     |               |         |         |         |         |         |         |         |         |         |               |
| Production 4/                    | mt '000       | 2,340   | 2,570   | 2,684   | 2,810   | 2,061   | 2,239   | 2,692   | 2,857   | 2,860   | 2,694         |
| Area sown 4/                     | hectares '000 | 803     | 835     | 930     | 915     | 749     | 730     | 848     | 896     | 878     | 798           |
| Harvested 4/                     | hectares '000 | 766     | 820     | 897     | 890     | 660     | 690     | 829     | 874     | 832     | 765           |
| Under improved varieties 4/      |               |         |         |         |         |         |         |         |         |         |               |
| hectares '000                    |               | 627     | n.a.    | n.a.    | 888     | 734     | 662     | 790     | 872     | 862     | n.a.          |
| Fertiliser used 4/               | mt '000       | 208     | 248     | 270     | 257     | 238     | 245     | 352     | 321     | 262     | 279           |
| Yield 4/                         | kg/hectare    | 3,428   | 3,511   | 3,363   | 3,535   | 3,513   | 3,619   | 3,634   | 3,672   | 3,856   | 3,954         |
| Guaranteed price 5/              | Rs/bushel     | 136     | 155     | 155     | 155     | 155     | 155     | 155     | 155     | 155     | 155           |
| Purchases under                  |               |         |         |         |         |         |         |         |         |         |               |
| Guaranteed Price Scheme 6/       | mt '000       | 7       | 46      | 120     | 282     | 1       | ...     | ...     | ...     | ...     | ...           |

Sources: Sri Lanka Tea Board, Rubber Development Department, Coconut Development Authority, Department of Census and Statistics, Ministry of Agriculture, Paddy Marketing Board, National Fertiliser Secretariat, Plantation Companies, Central Bank of Sri Lanka.

1/ Up to 1992, registered extent. Tea Commissioner's Division (TCD) terminated the registration of new extents under tea from 1 January 1993. Data for 1993, are based on the Department of Census and Statistics Survey on Agricultural Crops and Livestock, 1993. Since 1994, data is based on a Tea and Land Survey conducted in 1994/1995 by the T.C.D. (Excluding extents in abandoned tea lands). Extents in 1999 onwards, are revised based on the 1999 estate sector survey.

2/ Since 1992, the weighted average cost of production of public sector estates and private plantation companies. Includes green leaf suppliers profit margin.

3/ Three major coconut kernel products only.

4/ On a cultivation year basis.

5/ 20.9 kg. of paddy = 1 bushel of paddy.

6/ Includes paddy purchased by the PMB above the guaranteed price in 1996.

Table 6. Sri Lanka: Consumption and Prices of Petroleum and Electricity, 1996–2001

|  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001<br>Prov. |
|--|-------|-------|-------|-------|-------|---------------|
| Gross consumption of selected                          |       |       |       |       |       |               |
| Petroleum products ('000 MT)                           |       |       |       |       |       |               |
| Kerosene   | 228   | 225   | 236   | 243   | 229   | 228           |
| Gasoline   | 197   | 193   | 204   | 213   | 224   | 250           |
| Auto diesel  | 1,048 | 1,295 | 1,224 | 1,377 | 1,728 | 1,625         |
| Furnace oil  | 336   | 372   | 706   | 676   | 737   | 749           |
| Consumption of electricity 1/                          | 3,588 | 4,039 | 4,521 | 4,809 | 5,259 | 5,238         |
| (In percent)   |       |       |       |       |       |               |
| Composition of electricity generation                  |       |       |       |       |       |               |
| Hydro power(CEB)                                       | 71.7  | 66.9  | 68.8  | 67.1  | 46.1  | 46.0          |
| Thermal power (CEB)                                    | 21.5  | 20.4  | 21.9  | 22.6  | 32.2  | 28.6          |
| Private power  | 3.4   | 7.8   | 0.4   | 8.4   | 19.3  | 23.7          |
| Self generation  | 3.4   | 4.6   | 2.0   | 1.7   | 2.3   | 1.5           |
| (In Sri Lanka rupees per liter)                        |       |       |       |       |       |               |
| Prices of petroleum products 2/ 3/                     |       |       |       |       |       |               |
| Kerosene   | 10.4  | 10.4  | 10.4  | 10.4  | 18.4  | 17.4          |
| Gasoline   | 50.0  | 50.0  | 50.0  | 50.0  | 50.0  | 50.0          |
| Auto diesel  | 13.2  | 13.2  | 13.2  | 13.2  | 24.5  | 26.5          |
| Fuel oil   | 7.2   | 7.2   | 7.2   | 7.2   | 14.6  | 16.5          |
| Cost price of petroleum products 4/ 5/                 |       |       |       |       |       |               |
| Kerosene   | 12.5  | 13.0  | 9.8   | 15.0  | 23.7  | 20.2          |
| Gasoline   | 32.2  | 30.3  | 28.4  | 33.8  | 35.8  | 29.4          |
| Auto diesel  | 14.0  | 14.5  | 11.5  | 14.7  | 25.3  | 24.8          |
| Fuel oil   | 7.5   | 8.8   | 6.6   | 10.8  | 17.3  | 15.2          |
| Crude oil (c.i.f., in US\$ per barrel)                 | 20.2  | 19.4  | 13.5  | 19.1  | 28.5  | 24.5          |
| Price of electricity 2/ 6/                             | 4.0   | 4.2   | 4.5   | 4.5   | 4.7   | 4.7           |
| Price of electricity for domestic units >150 Kwh 2/ 6/ | 3.5   | 3.6   | 5.0   | 5.0   | 5.5   | 5.5           |

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.

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 7. Sri Lanka: Price Indicators, 1996-2002

|   | Weights | 1996 | 1997 | 1998 | 1999 | 2000  | 2001 | 2002<br>Jan-Jun. |
|---|---------|------|------|------|------|-------|------|------------------|
| GDP deflator 1/   | 100.0   | 10.8 | 8.9  | 9.2  | 4.6  | 7.3   | 13.0 | ...              |
| Colombo consumer price index                                    | 100.0   | 15.9 | 9.6  | 9.4  | 4.7  | 6.2   | 14.2 | 9.6              |
| Food  | 61.9    | 19.2 | 10.9 | 10.9 | 4.0  | 4.5   | 15.2 | 10.9             |
| <i>Of which:</i> Rice   | 6.4     | 25.8 | 7.7  | -0.9 | 19.6 | -4.5  | 5.1  | ...              |
| <i>Of which:</i> Bread, wheat flour                             | 9.4     | 59.7 | 30.5 | 8.0  | 5.9  | -7.6  | 9.0  | ...              |
| Clothing  | 9.4     | 2.2  | 2.7  | 1.0  | 1.3  | 1.1   | 4.2  | 5.1              |
| Fuel and light  | 4.3     | 8.1  | 4.5  | 3.2  | 1.5  | 18.6  | 14.3 | 4.4              |
| <i>Of which:</i> Kerosene                                       | 4.0     | 2.4  | 6.9  | 0.0  | 0.0  | 45.5  | 24.7 | ...              |
| Rent 2/   | 5.7     | 0.0  | 0.0  | 0.0  | 0.0  | 0.0   | 0.0  | 0.0              |
| Miscellaneous   | 18.7    | 10.8 | 8.2  | 7.5  | 10.3 | 9.6   | 11.7 | 7.5              |
| Colombo district consumer price index                           | 100.0   | ...  | 7.4  | 7.3  | 3.6  | 3.6   | 10.3 | 8.1              |
| Food and Drinks   | 58.7    | ...  | 7.3  | 8.9  | 2.4  | 1.7   | 11.8 | 11.4             |
| Housing   | 13.3    | ...  | 4.4  | 3.3  | 4.3  | 2.6   | 0.9  | 0.3              |
| Fuel and Light  | 4.9     | ...  | 8.9  | 13.8 | 0.6  | 15.8  | 16.1 | 4.9              |
| Clothing and Foot Wear  | 6.2     | ...  | 10.1 | 2.4  | 1.9  | 1.6   | 5.2  | 3.2              |
| Liquor Tobacco and Betel and Arecanuts                          | 4.4     | ...  | 14.1 | 7.6  | 22.0 | 12.4  | 10.1 | 0.1              |
| Personal Care and Health  | 3.8     | ...  | 14.4 | 5.8  | 4.1  | 4.1   | 9.8  | 6.9              |
| Transport   | 3.7     | ...  | 1.4  | 0.2  | 3.6  | 14.3  | 17.5 | 1.7              |
| Recreation and Education  | 2.8     | ...  | 4.6  | 1.2  | 1.9  | 2.2   | 14.4 | 11.5             |
| Miscellaneous   | 2.3     | ...  | 7.0  | 9.5  | 7.1  | -0.9  | 8.0  | 17.5             |
| Sri Lanka consumer price index 3/                               | 100.0   | ...  | ...  | ...  | 4.0  | 1.5   | 12.1 | 12.6             |
| Food, beverages, and tobacco                                    | 71.2    | ...  | ...  | ...  | 4.2  | -0.7  | 12.1 | 13.2             |
| Clothing and footwear   | 4.0     | ...  | ...  | ...  | 3.5  | 1.1   | 3.7  | 8.5              |
| Housing, water, electricity, gas, & other fuels                 | 13.1    | ...  | ...  | ...  | 1.6  | 9.1   | 11.5 | 8.6              |
| Furnishing, household equipment,<br>& routine house maintenance | 2.1     | ...  | ...  | ...  | 4.5  | -13.6 | 15.4 | 19.9             |
| Health  | 2.4     | ...  | ...  | ...  | 5.9  | 18.2  | 12.4 | 24.9             |
| Transport   | 2.9     | ...  | ...  | ...  | 3.4  | 18.0  | 19.9 | 0.6              |
| Leisure, entertainment & culture                                | 0.8     | ...  | ...  | ...  | 10.2 | 2.8   | 4.2  | 6.5              |
| Education   | 1.3     | ...  | ...  | ...  | 7.9  | 8.8   | 8.5  | 12.2             |
| Miscellaneous   | 2.1     | ...  | ...  | ...  | 5.3  | 3.3   | 19.2 | 19.1             |
| Wholesale price index   | 100.0   | 20.5 | 6.9  | 6.1  | -0.3 | 1.7   | 11.7 | ...              |
| Domestic goods  | 50.3    | 11.7 | 6.5  | 5.0  | 2.9  | 2.8   | 11.0 | ...              |
| Imports   | 27.2    | 11.6 | 8.2  | 0.1  | -0.1 | 12.0  | 17.1 | ...              |
| Exports   | 22.5    | 40.4 | 6.7  | 10.9 | -4.0 | -5.3  | 9.2  | ...              |
| Memorandum items  |         |      |      |      |      |       |      |                  |
| Colombo consumer price index (end-period)                       |         | 16.8 | 10.7 | 3.7  | 4.0  | 10.8  | 10.8 | 10.7             |
| Wholesale price index (end-period)                              |         | 18.1 | 6.6  | 0.9  | -0.5 | 4.8   | 14.7 | ...              |
| Sri Lanka consumer price index (end-period)                     |         | ...  | ...  | ...  | 0.6  | 8.1   | 13.4 | ...              |

Source: Data provided by the Sri Lanka authorities.

1/ Based on market prices.

2/ Low-income housing is under rent control.

3/ 2002 data are for January-May.

Table 8. Sri Lanka: Selected Wage and Employment Developments, 1996–2001

|                                     | 1996  | 1997  | 1998    | 1999    | 2000    | 2001<br>Prov. |
|-------------------------------------|-------|-------|---------|---------|---------|---------------|
| (Index, December 1978 = 100)        |       |       |         |         |         |               |
| Nominal wages                       |       |       |         |         |         |               |
| Minimum wage 1/                     | 801.7 | 849.1 | 953.3   | 977.6   | 1,000.4 | 1,057.6       |
| Agriculture                         | 907.9 | 971.8 | 1,097.7 | 1,116.0 | 1,142.7 | 1,176.4       |
| Industry and commerce               | 682.8 | 710.8 | 807.7   | 829.2   | 857.2   | 919.7         |
| Services                            | 559.7 | 487.2 | 506.4   | 559.7   | 559.7   | 657.6         |
| Government employees 2/             | 818.2 | 906.5 | 1,001.4 | 1,001.4 | 1,084.7 | 1,310.8       |
| Real wages                          |       |       |         |         |         |               |
| Minimum wage                        | 100.7 | 97.3  | 99.9    | 97.8    | 94.3    | 87.3          |
| Agriculture                         | 113.9 | 111.4 | 115.0   | 111.7   | 107.7   | 97.1          |
| Industry and commerce               | 85.9  | 81.4  | 84.6    | 83.0    | 80.8    | 75.9          |
| Services                            | 61.3  | 55.9  | 53.0    | 56.0    | 52.8    | 54.3          |
| Government employees                | 103.0 | 104.0 | 104.9   | 100.2   | 102.1   | 108.1         |
| (Annual average percentage change)  |       |       |         |         |         |               |
| Real wages                          |       |       |         |         |         |               |
| Minimum wage                        | -6.5  | -3.4  | 2.7     | -2.1    | -3.6    | -7.4          |
| Agriculture                         | -5.9  | -2.2  | 3.2     | -2.9    | -3.6    | -9.8          |
| Industry and commerce               | -9.4  | -5.2  | 3.9     | -1.9    | -2.7    | -6.1          |
| Services                            | -7.8  | -8.8  | -5.2    | 5.7     | -5.7    | 2.8           |
| Government employees                | -10.7 | 1.0   | 0.9     | -4.5    | 1.9     | 5.9           |
| (In thousands of persons)           |       |       |         |         |         |               |
| Employment in the public sector 3/  |       |       |         |         |         |               |
| Central government 4/               | 1,161 | 1,072 | 1,091   | 1,120   | 1,156   | 1,165         |
| Quasi-governmental institutions 5/  | 752   | 762   | 790     | 822     | 857     | 864           |
| Quasi-governmental institutions 5/  | 409   | 310   | 301     | 298     | 300     | 301           |
| Employment in formal private sector |       |       |         |         |         |               |
| Board of Investment (BOI) companies | 4,374 | 4,519 | 4,945   | 5,017   | 5,153   | 5,037         |
| Other 6/                            | 242   | 258   | 294     | 327     | 368     | 391           |
| Other 6/                            | 4,132 | 4,261 | 4,651   | 4,690   | 4,785   | 4,646         |

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.

6/ The large increase in 1998 was partly due to the increase in coverage of female unpaid family workers in the agricultural sector. This is shown in the private sector 'other' category.

Table 9. Sri Lanka: Labor Force, Employment, and Unemployment, 1996–2001<sup>1/2/</sup>

|                                   | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------------------------------|------|------|------|------|------|------|
| (In millions of persons)          |      |      |      |      |      |      |
| Total labor force                 | 6.24 | 6.27 | 6.66 | 6.67 | 6.83 | 6.86 |
| Male                              | 4.19 | 4.17 | 4.30 | 4.40 | 4.50 | 4.56 |
| Female                            | 2.03 | 2.06 | 2.27 | 2.27 | 2.33 | 2.30 |
| Urban                             | 0.80 | 0.90 | 0.84 | 0.88 | 0.83 | 0.95 |
| Rural                             | 5.41 | 5.33 | 5.73 | 5.79 | 6.00 | 5.91 |
| Total employed                    | 5.54 | 5.58 | 5.95 | 6.08 | 6.31 | 6.29 |
| Male                              | 3.85 | 3.87 | 4.02 | 4.11 | 4.24 | 4.25 |
| Female                            | 1.65 | 1.72 | 1.93 | 1.97 | 2.07 | 2.04 |
| Urban                             | 0.71 | 0.80 | 0.76 | 0.80 | 0.76 | 0.87 |
| Rural                             | 4.79 | 4.79 | 5.19 | 5.28 | 5.55 | 5.42 |
| Total unemployed                  | 0.71 | 0.65 | 0.62 | 0.59 | 0.52 | 0.57 |
| Male                              | 0.34 | 0.30 | 0.28 | 0.29 | 0.26 | 0.31 |
| Female                            | 0.38 | 0.34 | 0.34 | 0.30 | 0.26 | 0.26 |
| Urban                             | 0.09 | 0.09 | 0.08 | 0.08 | 0.07 | 0.08 |
| Rural                             | 0.62 | 0.54 | 0.54 | 0.51 | 0.45 | 0.48 |
| (In percent of labor force)       |      |      |      |      |      |      |
| Unemployment rate                 | 11.3 | 10.4 | 9.5  | 8.8  | 7.6  | 8.3  |
| Male                              | 8.5  | 7.6  | 6.6  | 6.7  | 5.8  | 6.8  |
| Female                            | 18.0 | 16.2 | 14.9 | 13.0 | 11.1 | 11.1 |
| Urban                             | 11.7 | 10.4 | 9.7  | 9.5  | 8.1  | 8.9  |
| Rural                             | 11.5 | 10.2 | 9.5  | 8.8  | 7.5  | 8.2  |
| (In percent of unemployed)        |      |      |      |      |      |      |
| Male                              | 46.9 | 47.3 | 45.7 | 50.0 | 50.3 | 54.7 |
| Female                            | 53.1 | 52.7 | 54.3 | 50.0 | 49.7 | 45.3 |
| Urban                             | 13.1 | 14.6 | 13.0 | 14.1 | 12.9 | 14.9 |
| Rural                             | 86.9 | 85.4 | 87.0 | 85.9 | 87.1 | 85.1 |
| Age 24 years or younger           | 64.5 | 60.8 | 60.9 | 64.5 | 64.0 | 62.9 |
| Less than 9 years of schooling 2/ | 54.5 | 51.9 | 47.4 | 46.3 | 48.7 | 43.9 |

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 10. Sri Lanka: Employment by Economic Sectors, 1996–2001<sup>1/</sup>

|   | 1996                             | 1997 | 1998 | 1999 | 2000 | 2001<br>Prov. |
|---|----------------------------------|------|------|------|------|---------------|
|   | (In millions of persons)         |      |      |      |      |               |
| Total employed                          | 5.54                             | 5.58 | 5.95 | 6.08 | 6.31 | 6.29          |
| By economic sector:                     |                                  |      |      |      |      |               |
| Agriculture                             | 2.07                             | 2.07 | 2.21 | 2.21 | 2.27 | 2.10          |
| Mining and quarrying 1/                 | 0.09                             | 0.08 | 0.08 | 0.08 | .... | ...           |
| Manufacturing                           | 0.81                             | 0.87 | 0.93 | 0.90 | 1.04 | 1.05          |
| Utilities 2/                            | 0.03                             | 0.03 | 0.04 | 0.03 | .... | ...           |
| Construction                            | 0.30                             | 0.30 | 0.30 | 0.32 | 0.34 | 0.29          |
| Trade and hotels                        | 0.66                             | 0.72 | 0.71 | 0.74 | 0.80 | 0.82          |
| Transportation, communications, storage | 0.27                             | 0.27 | 0.28 | 0.31 | 0.30 | 0.35          |
| Insurance and real estate               | 0.11                             | 0.09 | 0.12 | 0.10 | 0.13 | 0.16          |
| Personal services                       | 1.00                             | 1.00 | 1.12 | 1.12 | 1.10 | 1.12          |
| Other                                   | 0.20                             | 0.15 | 0.16 | 0.27 | 0.33 | 0.35          |
|   | (In percent of total employment) |      |      |      |      |               |
| Agriculture                             | 37.4                             | 37.1 | 37.1 | 36.3 | 36.0 | 33.4          |
| Mining and quarrying 1/                 | 1.6                              | 1.4  | 1.3  | 1.3  | .... | ....          |
| Manufacturing                           | 14.6                             | 15.6 | 15.6 | 14.8 | 16.6 | 16.6          |
| Utilities 2/                            | 0.5                              | 0.5  | 0.7  | 0.5  | .... | ....          |
| Construction                            | 5.4                              | 5.4  | 5.0  | 5.3  | 5.5  | 4.6           |
| Trade and hotels                        | 11.9                             | 12.9 | 11.9 | 12.2 | 12.7 | 13.9          |
| Transportation, communications, storage | 4.9                              | 4.8  | 4.7  | 5.1  | 4.9  | 5.5           |
| Insurance and real estate               | 2.0                              | 1.6  | 2.0  | 1.6  | 2.1  | 2.6           |
| Personal services                       | 18.1                             | 17.9 | 18.8 | 18.4 | 17.5 | 17.9          |
| Other                                   | 3.6                              | 2.7  | 2.7  | 4.4  | 4.7  | 5.5           |

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

1/ Mining and Quarrying and utilities categorised under Other from 2000.

2/ Electricity, gas and water was reclassified under Personal Services and Other in the quarterly labor force survey from 2001Q1 onward.

Table 11. Sri Lanka: Summary of Central Government Operations, 1996–2002

|                                   | 1996    | 1997    | 1998    | 1999    | 2000     | 2001     |          | 2002<br>Budget |
|-----------------------------------|---------|---------|---------|---------|----------|----------|----------|----------------|
|                                   |         |         |         |         |          | Budget   | Outturn  |                |
| (In millions of Sri Lanka rupees) |         |         |         |         |          |          |          |                |
| Total revenue                     | 146,279 | 165,036 | 175,032 | 195,905 | 211,282  | 264,479  | 231,463  | 278,202        |
| Tax                               | 130,202 | 142,512 | 147,368 | 166,029 | 182,392  | 234,113  | 204,723  | 237,149        |
| Nontax                            | 16,077  | 22,524  | 27,664  | 29,877  | 28,890   | 30,366   | 26,740   | 41,053         |
| Total expenditure and net lending | 218,660 | 235,097 | 268,179 | 279,159 | 335,823  | 387,537  | 383,685  | 413,627        |
| Current expenditure               | 175,148 | 184,749 | 199,648 | 207,271 | 254,279  | 281,384  | 300,406  | 332,565        |
| Capital expenditure               | 37,639  | 43,982  | 54,160  | 60,340  | 67,769   | 83,942   | 67,560   | 70,632         |
| Net lending                       | 5,873   | 6,366   | 14,371  | 11,548  | 13,775   | 22,211   | 15,719   | 10,430         |
| Overall deficit (before grants)   | -72,381 | -70,061 | -93,147 | -83,254 | -124,541 | -123,058 | -152,222 | -135,425       |
| Grants                            | 7,739   | 7,329   | 7,200   | 6,761   | 5,145    | 7,579    | 5,500    | 7,929          |
| Net foreign borrowing             | 10,160  | 9,958   | 10,197  | 1,190   | 8,420    | 41,004   | 22,197   | 50,745         |
| Net domestic borrowing            | 49,755  | 30,275  | 71,362  | 75,167  | 110,577  | 49,715   | 115,933  | 57,722         |
| <i>Of which</i> : Banking system  | 13,090  | -2,171  | 18,954  | 25,995  | 53,388   | -14,700  | 54,089   | -21,300        |
| Assets sales 1/                   | 4,728   | 22,499  | 4,389   | 134     | 401      | 24,760   | 8,589    | 19,029         |
| (In percent of GDP)               |         |         |         |         |          |          |          |                |
| Total revenue                     | 19.0    | 18.5    | 17.2    | 17.7    | 16.8     | 18.3     | 16.5     | 17.5           |
| Tax                               | 16.9    | 16.0    | 14.5    | 15.0    | 14.5     | 16.2     | 14.6     | 15.0           |
| Nontax                            | 2.1     | 2.5     | 2.7     | 2.7     | 2.3      | 2.1      | 1.9      | 2.6            |
| Total expenditure and net lending | 28.4    | 26.4    | 26.3    | 25.2    | 26.7     | 26.9     | 27.3     | 26.1           |
| Current expenditure               | 22.8    | 20.8    | 19.6    | 18.7    | 20.2     | 19.5     | 21.4     | 21.0           |
| Capital expenditure               | 4.9     | 4.9     | 5.3     | 5.5     | 5.4      | 5.8      | 4.8      | 4.5            |
| Net lending                       | 0.8     | 0.7     | 1.4     | 1.0     | 1.1      | 1.5      | 1.1      | 0.7            |
| Current account balance           | -3.8    | -2.2    | -2.4    | -1.0    | -3.4     | -1.2     | -4.9     | -3.4           |
| Overall deficit (before grants)   | -9.4    | -7.9    | -9.2    | -7.5    | -9.9     | -8.5     | -10.8    | -8.5           |
| Grants                            | 1.0     | 0.8     | 0.7     | 0.6     | 0.4      | 0.5      | 0.4      | 0.5            |
| Net foreign borrowing             | 1.3     | 1.1     | 1.0     | 0.1     | 0.7      | 2.8      | 1.6      | 3.2            |
| Net domestic borrowing            | 6.5     | 3.4     | 7.0     | 6.8     | 8.8      | 3.4      | 8.3      | 3.6            |
| <i>Of which</i> : Banking system  | 1.7     | -0.2    | 1.9     | 2.4     | 4.2      | -1.0     | 3.9      | -1.3           |
| Asset Sales 1/                    | 0.6     | 2.5     | 0.4     | 0.0     | 0.0      | 1.7      | 0.6      | 1.2            |
| Memorandum item:                  |         |         |         |         |          |          |          |                |
| Nominal GDP (In billions of Rs)   | 769     | 890     | 1,018   | 1,106   | 1,258    | 1,443    | 1,403    | 1,586          |

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

1/ Asset sales are treated as a component of financing.



Table 12. Sri Lanka: Summary of Central Government Revenue by Component, 1996-2002

|  | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |         | 2002<br>Budget |
|--|---------|---------|---------|---------|---------|---------|---------|----------------|
|  |         |         |         |         |         | Budget  | Outturn |                |
| (In millions of Sri Lanka rupees)              |         |         |         |         |         |         |         |                |
| Tax revenue                                    | 130,202 | 142,512 | 147,368 | 166,029 | 182,392 | 234,113 | 204,723 | 237,149        |
| Income tax                                     | 20,751  | 21,548  | 20,429  | 28,228  | 27,457  | 34,483  | 34,618  | 38,992         |
| Personal                                       | 7,315   | 8,183   | 8,099   | 9,169   | 10,820  | 12,643  | 12,907  | 13,837         |
| Corporate                                      | 13,311  | 13,038  | 11,788  | 18,362  | 15,757  | 20,720  | 20,674  | 22,905         |
| Save the Nation contribution                   | 125     | 327     | 542     | 697     | 880     | 1,120   | 1,037   | 0              |
| Tax on interest                                | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 2,250          |
| Stamp duty and taxes on property               | 5,279   | 6,392   | 7,079   | 7,690   | 8,163   | 9,450   | 8,442   | 5,707          |
| Stamp Duty                                     | 5,279   | 6,392   | 7,079   | 7,690   | 8,163   | 9,450   | 8,442   | 3,407          |
| Debit Tax                                      | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 2,300          |
| Tax on Central Bank holdings of treasury bills | 1,604   | 1,080   | 0       | 0       | 0       | 0       | 0       | 0              |
| Taxes on goods and services                    | 77,105  | 86,750  | 91,706  | 102,391 | 122,802 | 155,180 | 135,567 | 158,475        |
| Turnover tax/ GST                              | 37,631  | 43,492  | 39,343  | 37,339  | 45,600  | 56,170  | 46,779  | 88,383         |
| Excises  | 22,067  | 24,775  | 30,293  | 35,928  | 42,655  | 50,100  | 44,911  | 52,321         |
| <i>Of which</i> : Liquor                       | 5,839   | 6,181   | 7,665   | 8,745   | 9,531   | 10,900  | 9,777   | 10,300         |
| Tobacco  | 12,833  | 14,139  | 15,051  | 17,205  | 19,268  | 21,050  | 19,474  | 21,204         |
| License fees                                   | 966     | 1,145   | 991     | 997     | 1,007   | 1,890   | 938     | 560            |
| National security levy                         | 16,441  | 17,338  | 21,079  | 28,127  | 33,539  | 47,020  | 42,939  | 17,211         |
| Taxes on international trade                   | 25,463  | 26,743  | 28,154  | 27,720  | 23,970  | 35,000  | 26,096  | 33,975         |
| Imports  | 25,458  | 26,739  | 28,154  | 27,720  | 23,970  | 35,000  | 26,096  | 29,775         |
| Port and Airport Development Levy              | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 4,200          |
| Nontax revenue                                 | 16,077  | 22,524  | 27,664  | 29,877  | 28,890  | 30,366  | 26,740  | 41,053         |
| Property income                                | 10,059  | 15,022  | 18,462  | 18,988  | 18,842  | 19,408  | 15,887  | 28,584         |
| Fees and charges                               | 2,827   | 2,800   | 2,890   | 3,375   | 3,589   | 4,290   | 4,215   | 4,764          |
| Other  | 3,191   | 4,702   | 6,312   | 7,514   | 6,459   | 6,668   | 6,638   | 7,705          |
| Total revenue                                  | 146,279 | 165,036 | 175,032 | 195,905 | 211,282 | 264,479 | 231,463 | 278,202        |
| (In percent of GDP)                            |         |         |         |         |         |         |         |                |
| Tax revenue                                    | 16.9    | 16.0    | 14.5    | 15.0    | 14.5    | 16.2    | 14.6    | 15.0           |
| Income tax                                     | 2.7     | 2.4     | 2.0     | 2.6     | 2.2     | 2.4     | 2.5     | 2.5            |
| Taxes on property                              | 0.7     | 0.7     | 0.7     | 0.7     | 0.6     | 0.7     | 0.6     | 0.4            |
| Taxes on goods and services                    | 10.0    | 9.7     | 9.0     | 9.3     | 9.8     | 10.8    | 9.7     | 10.0           |
| Taxes on international trade                   | 3.3     | 3.0     | 2.8     | 2.5     | 1.9     | 2.4     | 1.9     | 2.1            |
| Nontax revenue                                 | 2.1     | 2.5     | 2.7     | 2.7     | 2.3     | 2.1     | 1.9     | 2.6            |
| Total revenue                                  | 19.0    | 18.5    | 17.2    | 17.7    | 16.8    | 18.3    | 16.5    | 17.5           |

Source: Data provided by the Ministry of Finance.

Table 13. Sri Lanka: Economic Classification of Expenditure, 1996–2002

|  | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |         | 2002<br>Budget |
|--|---------|---------|---------|---------|---------|---------|---------|----------------|
|  |         |         |         |         |         | Budget  | Outturn |                |
| (In millions of Sri Lankan rupees)       |         |         |         |         |         |         |         |                |
| Current expenditure                      | 175,148 | 184,749 | 199,648 | 207,271 | 254,279 | 281,384 | 300,406 | 332,565        |
| Expenditure on goods and services        | 80,003  | 83,833  | 97,767  | 98,223  | 130,765 | 141,698 | 140,851 | 142,127        |
| Salaries and wages                       | 38,332  | 44,676  | 53,879  | 58,533  | 68,544  | 79,619  | 78,056  | 89,931         |
| Other goods and services                 | 41,671  | 39,158  | 43,887  | 39,690  | 62,221  | 62,078  | 62,795  | 52,196         |
| Interest payments                        | 48,923  | 55,246  | 54,898  | 62,123  | 71,200  | 90,611  | 94,307  | 117,184        |
| Foreign                                  | 6,739   | 6,692   | 7,300   | 8,752   | 9,015   | 12,923  | 9,747   | 11,389         |
| Domestic                                 | 42,184  | 48,554  | 47,598  | 53,371  | 62,185  | 77,688  | 84,560  | 105,795        |
| Subsidies and current transfers          | 46,222  | 45,670  | 46,983  | 46,925  | 52,314  | 57,953  | 65,248  | 73,255         |
| To public corporations                   | 8,232   | 2,693   | 2,967   | 3,277   | 3,370   | 3,057   | 4,316   | 4,495          |
| To public institutions                   | 2,284   | 2,657   | 4,320   | 4,834   | 5,705   | 7,038   | 6,919   | 12,574         |
| To other levels of government            | 1,592   | 1,941   | 1,977   | 1,629   | 1,424   | 777     | 694     | 715            |
| To households and other sectors          | 34,114  | 38,379  | 37,720  | 37,185  | 41,815  | 47,081  | 53,319  | 55,471         |
| Capital expenditure                      | 37,638  | 43,982  | 54,160  | 60,340  | 67,769  | 83,942  | 67,560  | 70,632         |
| Acquisition of capital assets            | 20,938  | 25,468  | 32,246  | 32,933  | 32,934  | 45,507  | 35,773  | 43,716         |
| Capital transfers                        | 16,700  | 18,515  | 21,915  | 27,407  | 34,835  | 50,151  | 31,787  | 26,916         |
| To public corporations                   | 6,017   | 5,880   | 6,801   | 9,075   | 12,048  | 10,582  | 6,973   | 6,294          |
| To public institutions                   | 9,602   | 11,041  | 13,285  | 15,968  | 14,522  | 28,141  | 18,351  | 14,884         |
| To other levels of government            | 1,042   | 1,511   | 1,764   | 2,297   | 8,218   | 11,323  | 6,251   | 5,531          |
| To abroad/other                          | 39      | 83      | 65      | 67      | 47      | 105     | 212     | 207            |
| Lending minus repayments                 | 5,873   | 6,366   | 14,371  | 11,548  | 13,775  | 22,211  | 15,719  | 10,430         |
| Total expenditure and net lending        | 218,660 | 235,097 | 268,179 | 279,159 | 335,823 | 387,537 | 383,685 | 413,627        |
| Current expenditure                      | 22.8    | 20.8    | 19.6    | 18.7    | 20.2    | 19.5    | 21.4    | 21.0           |
| Subsidies and current transfers          | 6.0     | 5.1     | 4.6     | 4.2     | 4.2     | 4.0     | 4.7     | 4.6            |
| <i>Of which</i> : To public corporations | 1.1     | 0.3     | 0.3     | 0.3     | 0.3     | 0.2     | 0.3     | 0.3            |
| Capital expenditure                      | 4.9     | 4.9     | 5.3     | 5.5     | 5.4     | 5.8     | 4.8     | 4.5            |
| Net lending                              | 0.8     | 0.7     | 1.4     | 1.0     | 1.1     | 1.5     | 1.1     | 0.7            |
| Total expenditure and net lending        | 28.4    | 26.4    | 26.3    | 25.2    | 26.7    | 26.9    | 27.3    | 26.1           |
| (In percent of total expenditure)        |         |         |         |         |         |         |         |                |
| Current expenditure                      | 80.1    | 78.6    | 74.4    | 74.2    | 75.7    | 72.6    | 78.3    | 80.4           |
| Subsidies and current transfers          | 21.1    | 19.4    | 17.5    | 16.8    | 15.6    | 15.0    | 17.0    | 17.7           |
| Capital expenditure                      | 17.2    | 18.7    | 20.2    | 21.6    | 20.2    | 21.7    | 17.6    | 17.1           |
| Net lending                              | 2.7     | 2.7     | 5.4     | 4.1     | 4.1     | 5.7     | 4.1     | 2.5            |
| Memorandum item:                         |         |         |         |         |         |         |         |                |
| Security expenditure (In millions of Rs) | 44,933  | 44,972  | 53,995  | 48,707  | 70,773  | 62,918  | 68,290  | 64,050         |
| (In percent of GDP)                      | 5.8     | 5.1     | 5.3     | 4.4     | 5.6     | 4.4     | 4.9     | 4.0            |

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

Table 14. Sri Lanka: Functional Classification of Expenditure, 1996–2002

|                                      | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |         | 2002<br>Budget |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|----------------|
|                                      |         |         |         |         |         | Budget  | Outturn |                |
| (In millions of Sri Lanka rupees)    |         |         |         |         |         |         |         |                |
| General Public Services              | 57,076  | 62,368  | 72,401  | 69,565  | 89,801  | 86,172  | 88,713  | 87,226         |
| Civil Administration                 | 12,142  | 17,398  | 21,439  | 20,858  | 19,026  | 23,254  | 20,422  | 23,176         |
| Security-related                     | 38,117  | 37,062  | 42,496  | 40,071  | 56,915  | 48,161  | 54,242  | 48,802         |
| Public Order and Safety              | 6,817   | 7,908   | 8,466   | 8,636   | 13,859  | 14,757  | 14,048  | 15,248         |
| Social Services                      | 69,616  | 71,294  | 79,123  | 83,812  | 93,631  | 116,376 | 102,527 | 132,869        |
| Education                            | 20,402  | 22,349  | 26,694  | 29,294  | 30,929  | 37,378  | 28,286  | 43,722         |
| Health                               | 11,798  | 12,135  | 14,419  | 15,671  | 20,696  | 26,288  | 18,772  | 27,721         |
| Welfare                              | 33,692  | 32,002  | 32,439  | 31,539  | 36,101  | 42,623  | 45,087  | 48,774         |
| Housing                              | 1,174   | 792     | 1,314   | 1,647   | 2,061   | 2,972   | 3,270   | 3,081          |
| Community services                   | 2,550   | 4,017   | 4,255   | 5,662   | 3,844   | 7,114   | 7,112   | 9,570          |
| Economic Services                    | 40,216  | 39,897  | 55,224  | 55,015  | 66,753  | 96,238  | 70,343  | 69,577         |
| Agriculture and irrigation           | 8,612   | 7,503   | 11,462  | 11,223  | 12,614  | 17,766  | 14,001  | 15,047         |
| Fisheries                            | 459     | 636     | 737     | 874     | 1,237   | 2,157   | 1,013   | 2,144          |
| Manufacturing and mining             | 638     | 2,041   | 2,516   | 1,228   | 1,490   | 1,412   | 743     | 2,352          |
| Energy and water supply              | 6,625   | 7,302   | 9,561   | 11,586  | 13,756  | 19,490  | 15,323  | 14,099         |
| Transport and communication          | 15,059  | 14,620  | 21,842  | 19,662  | 28,469  | 35,620  | 26,754  | 25,726         |
| Trade and commerce                   | 996     | 341     | 397     | 469     | 433     | 739     | 606     | 735            |
| Other                                | 7,827   | 7,457   | 8,710   | 9,974   | 8,755   | 19,056  | 11,904  | 9,474          |
| Other                                | 54,211  | 62,450  | 61,178  | 70,022  | 85,052  | 109,522 | 120,972 | 127,804        |
| Of which : Interest                  | 48,923  | 55,246  | 54,897  | 62,123  | 71,200  | 90,611  | 94,307  | 117,184        |
| Total expenditure and net lending 1/ | 221,122 | 236,009 | 267,925 | 278,413 | 335,237 | 387,713 | 382,556 | 417,474        |
| (In percent of GDP)                  |         |         |         |         |         |         |         |                |
| General Public Service               | 7.4     | 7.0     | 7.1     | 6.3     | 7.1     | 6.0     | 6.3     | 5.5            |
| Of which : Security                  | 5.0     | 4.2     | 4.2     | 3.6     | 4.5     | 3.3     | 3.9     | 3.1            |
| Social Services                      | 9.1     | 8.0     | 7.8     | 7.6     | 7.4     | 8.1     | 7.3     | 8.4            |
| Of which : Education                 | 2.7     | 2.5     | 2.6     | 2.6     | 2.5     | 2.6     | 2.0     | 2.8            |
| Health                               | 1.5     | 1.4     | 1.4     | 1.4     | 1.6     | 1.8     | 1.3     | 1.7            |
| Economic Services                    | 5.2     | 4.5     | 5.4     | 5.0     | 5.3     | 6.7     | 5.0     | 4.4            |
| Interest                             | 6.4     | 6.2     | 5.4     | 5.6     | 5.7     | 6.3     | 6.7     | 7.4            |
| (In percent of total expenditure)    |         |         |         |         |         |         |         |                |
| General Public Service               | 25.8    | 26.4    | 27.0    | 25.0    | 26.8    | 22.2    | 23.2    | 20.9           |
| Of which : Security                  | 17.2    | 15.7    | 15.9    | 14.4    | 17.0    | 12.4    | 14.2    | 11.7           |
| Social Services                      | 31.5    | 30.2    | 29.5    | 30.1    | 27.9    | 30.0    | 26.8    | 31.8           |
| Of which : Education                 | 9.2     | 9.5     | 10.0    | 10.5    | 9.2     | 9.6     | 7.4     | 10.5           |
| Health                               | 5.3     | 5.1     | 5.4     | 5.6     | 6.2     | 6.8     | 4.9     | 6.6            |
| Economic Services                    | 18.2    | 16.9    | 20.6    | 19.8    | 19.9    | 24.8    | 18.4    | 16.7           |
| Interest                             | 22.1    | 23.4    | 20.5    | 22.3    | 21.2    | 23.4    | 24.7    | 28.1           |

Source: Data provided by the Ministry of Finance.

1/ This total does not match the derivation of total expenditure under the economic classification, as it excludes advance accounts, restructuring costs, and loan repayments.

Table 15. Sri Lanka: Current and Capital Transfers to Public Corporations and Public Institutions, 1996-2002

|  | 1996   | 1997   | 1998   | 1999   | 2000   | 2001   |         | 2002   |
|--|--------|--------|--------|--------|--------|--------|---------|--------|
|  |        |        |        |        |        | Budget | Outturn |        |
| (In millions of Sri Lanka rupees)                        |        |        |        |        |        |        |         |        |
| Total  | 26,136 | 22,271 | 27,373 | 33,154 | 35,645 | 48,818 | 36,559  | 38,247 |
| Public corporations                                      | 14,249 | 8,573  | 9,768  | 12,352 | 15,418 | 13,639 | 11,289  | 10,789 |
| Public institutions                                      | 11,887 | 13,698 | 17,605 | 20,802 | 20,227 | 35,179 | 25,270  | 27,458 |
| Current transfers  | 10,516 | 5,350  | 7,287  | 8,111  | 9,075  | 10,095 | 11,235  | 17,069 |
| Public corporations                                      | 8,232  | 2,693  | 2,967  | 3,277  | 3,370  | 3,057  | 4,316   | 4,495  |
| Public institutions                                      | 2,284  | 2,657  | 4,320  | 4,834  | 5,705  | 7,038  | 6,919   | 12,574 |
| Capital transfers  | 15,620 | 16,921 | 20,086 | 25,043 | 26,570 | 38,723 | 25,324  | 21,178 |
| Public corporations 1/                                   | 6,017  | 5,880  | 6,801  | 9,075  | 12,048 | 10,582 | 6,973   | 6,294  |
| Public institutions                                      | 9,603  | 11,041 | 13,285 | 15,968 | 14,522 | 28,141 | 18,351  | 14,884 |
| Total transfers to selected corporation and institutions |        |        |        |        |        |        |         |        |
| Cooperative Wholesale Establishment                      | 5,500  | 1,000  | ...    | ...    | ...    | ...    | ...     | ...    |
| Shipping Corporation                                     | ...    | 213    | ...    | ...    | ...    | ...    | ...     | ...    |
| Mahaweli Authority                                       | 1,940  | 1,626  | 2,042  | 2,163  | 2,532  | 4,712  | 3,020   | 3,550  |
| Plantation Corporations                                  | 82     | ...    | ...    | ...    | ...    | ...    | ...     | ...    |
| Ceylon Electricity Board                                 | 504    | 1,139  | 1,036  | 1,665  | 1,840  | 2,967  | 1,904   | 1,177  |
| Transport Board  | 518    | 248    | 1,166  | 1,440  | 3,246  | 1,436  | 1,340   | 1,942  |
| Housing Development Authority                            | 223    | 454    | 867    | 1,032  | 1,328  | 719    | 739     | 302    |
| Water Supply and Drainage Board                          | 3,392  | 2,601  | 2,460  | 4,840  | 4,789  | 4,598  | 3,667   | 3,910  |
| Road Development Authority                               | 4,648  | 6,102  | 7,730  | 7,178  | 7,371  | 14,310 | 10,860  | 8,607  |
| (In percent of GDP)                                      |        |        |        |        |        |        |         |        |
| Total transfers  | 3.4    | 2.5    | 2.7    | 3.0    | 2.8    | 3.4    | 2.6     | 2.4    |
| Current  | 1.4    | 0.6    | 0.7    | 0.7    | 0.7    | 0.7    | 0.8     | 1.1    |
| Capital  | 2.0    | 1.9    | 2.0    | 2.3    | 2.1    | 2.7    | 1.8     | 1.3    |
| Public corporations                                      | 1.9    | 1.0    | 1.0    | 1.1    | 1.2    | 0.9    | 0.8     | 0.7    |
| Public institutions                                      | 1.5    | 1.5    | 1.7    | 1.9    | 1.6    | 2.4    | 1.8     | 1.7    |
| Total, excluding Mahaweli                                | 3.1    | 2.3    | 2.5    | 2.8    | 2.6    | 3.1    | 2.4     | 2.2    |

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 16. Sri Lanka: Transfer and Subsidy Payments to Households, 1996–2002

|                                      | 1996   | 1997   | 1998   | 1999   | 2000   | 2001   |         | 2002   |
|--------------------------------------|--------|--------|--------|--------|--------|--------|---------|--------|
|                                      |        |        |        |        |        | Budget | Outturn |        |
| (In millions of Sri Lanka rupees)    |        |        |        |        |        |        |         |        |
| Total                                | 32,122 | 37,059 | 37,075 | 36,302 | 41,513 | 45,927 | 51,318  | 54,700 |
| <i>Of which</i> : Excluding pensions | 16,657 | 19,143 | 17,598 | 17,246 | 19,911 | 21,163 | 24,825  | 22,837 |
| Pensions                             | 15,465 | 17,916 | 19,477 | 19,056 | 21,602 | 24,764 | 26,493  | 31,863 |
| Payments to disabled soldiers        | 763    | 940    | 1,202  | 1,291  | 1,992  | 2,410  | 2,721   | 3,300  |
| Food and kerosene stamps             | 506    | 0      | 0      | 0      | 0      | 0      | 0       | 0      |
| Fertilizer subsidy                   | 1,500  | 1,895  | 2,152  | 1,390  | 1,733  | 2,000  | 3,650   | 2,000  |
| Samurdhi                             | 8,591  | 8,718  | 8,652  | 8,020  | 9,661  | 10,300 | 12,574  | 9,950  |
| Nutrition program                    | 0      | 0      | 0      | 62     | 92     | 53     | 85      | 47     |
| School uniform                       | 1,167  | 899    | 1,000  | 892    | 997    | 900    | 900     | 1,000  |
| Refugee                              | 2,270  | 3,357  | 2,307  | 2,667  | 2,800  | 2,800  | 2,563   | 2,270  |
| Other                                | 1,860  | 3,334  | 2,285  | 2,924  | 2,636  | 2,700  | 2,332   | 4,270  |
| (In percent of GDP)                  |        |        |        |        |        |        |         |        |
| Total                                | 4.1    | 4.2    | 3.6    | 3.3    | 3.3    | 3.2    | 3.7     | 3.4    |
| Pensions                             | 2.0    | 2.0    | 1.9    | 1.7    | 1.7    | 1.7    | 1.9     | 2.0    |
| Other transfers and subsidies        | 2.1    | 2.1    | 1.7    | 1.6    | 1.6    | 1.5    | 1.8     | 1.4    |

Source: Data provided by the Ministry of Finance.

Table 17. Sri Lanka: Deficit Financing (Economic Classification), 1996–2002

(In millions of Sri Lanka rupees)

|                         | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |         | 2002<br>Budget |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|----------------|
|                         |         |         |         |         |         | Budget  | Outturn |                |
| Total financing         | 72,381  | 70,061  | 93,147  | 83,254  | 124,541 | 123,058 | 152,222 | 135,425        |
| Foreign grants          | 7,739   | 7,329   | 7,200   | 6,761   | 5,145   | 7,579   | 5,500   | 7,929          |
| Net foreign borrowing   | 10,160  | 9,958   | 10,197  | 1,190   | 8,420   | 41,004  | 22,197  | 50,745         |
| Gross foreign borrowing | 20,651  | 23,209  | 28,548  | 22,630  | 31,428  | 78,307  | 51,409  | 87,391         |
| Repayments              | -10,491 | -13,251 | -18,351 | -21,440 | -23,318 | -37,303 | -29,212 | -36,646        |
| Net domestic financing  | 49,754  | 30,275  | 71,362  | 75,167  | 110,577 | 49,715  | 115,933 | 57,722         |
| Nonbank borrowing       | 26,301  | 41,816  | 53,338  | 50,014  | 54,014  | 64,415  | 61,097  | 79,022         |
| Bank financing          | 13,090  | -2,172  | 18,954  | 25,995  | 53,388  | -14,700 | 54,089  | -21,300        |
| Central bank            | 9,873   | -13,991 | 5,609   | 20,807  | 44,840  | 0       | 8,280   | 0              |
| Commercial banks        | 3,217   | 11,819  | 13,345  | 5,188   | 8,548   | -14,700 | 45,809  | -21,300        |
| Other borrowing         | 10,363  | -9369   | -930    | -842    | 3175    | 0       | 747     | 0              |
| Asset Sales             | 4,728   | 22,499  | 4,389   | 134     | 401     | 24,760  | 8,589   | 19,029         |

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

Table 18. Sri Lanka: Outstanding Central Government Debt, 1996-2001<sup>1/</sup>

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

|  | 1996    | 1997    | 1998    | 1999      | 2000      | 2001 Prov. |
|--|---------|---------|---------|-----------|-----------|------------|
| Total domestic debt                                    | 356,703 | 387,740 | 463,426 | 543,465   | 676,660   | 815,965    |
| Rupee securities 2/                                    | 205,975 | 239,475 | 250,570 | 262,056   | 263,888   | 292,813    |
| Treasury bills   | 124,996 | 114,996 | 119,996 | 124,996   | 134,996   | 170,995    |
| Treasury bonds   | 0       | 10,000  | 48,915  | 104,867   | 204,124   | 229,174    |
| Treasury CDs   | 212     | 83      | 12      | 11        | 11        | 11         |
| Provisional advances                                   | 17,693  | 18,307  | 20,192  | 22,969    | 27,169    | 30,127     |
| Other  | 7,827   | 4,879   | 23,741  | 28,566    | 46,472    | 92,845     |
| Import bills held by commercial banks                  | 6,210   | 7,653   | 17,545  | 18,869    | 14,940    | 12,480     |
| Other liabilities to banking sector net of deposits 3/ | -8,586  | -9,670  | 242     | 4,616     | 23,011    | 71,398     |
| Other short and medium term liabilities                | 10,203  | 6,896   | 5,954   | 5,081     | 8,521     | 8,967      |
| Banking system   | 101,764 | 100,536 | 113,054 | 139,671   | 199,030   | 256,808    |
| Central Bank   |         |         |         |           |           |            |
| By debt instrument                                     | 34,303  | 19,770  | 27,179  | 48,867    | 97,778    | 92,871     |
| Rupee loans  | 0       | 0       | 0       | 0         | 0         | 0          |
| Treasury bills   | 17,114  | 6,692   | 9,508   | 27,322    | 42,238    | 64,842     |
| Treasury bonds   | ...     | ...     | ...     | 452       | 30,936    | 1,616      |
| Advances   | 17,693  | 18,307  | 20,192  | 22,969    | 27,169    | 30,127     |
| Other  | -504    | -5,229  | -2,521  | -1,876    | -2,565    | -3,714     |
| Commercial banks                                       |         |         |         |           |           |            |
| By debt instrument                                     | 67,461  | 80,766  | 85,875  | 90,804    | 101,252   | 163,937    |
| Rupee loans  | 44,321  | 44,321  | 44,321  | 44,068    | 44,068    | 44,068     |
| Treasury bills   | 24,424  | 30,857  | 14,850  | 12,833    | 8,368     | 11,092     |
| Treasury bonds   | 0       | 1,788   | 5,808   | 7,953     | 7,712     | 20,598     |
| Other 3/   | -1,284  | 3,800   | 20,896  | 25,950    | 41,104    | 88,179     |
| By institution   | 67,461  | 80,766  | 85,875  | 90,804    | 101,252   | 163,937    |
| Bank of Ceylon and People's Bank 3/                    | 53,177  | 62,369  | 77,565  | 83,915    | 94,093    | 140,263    |
| Other  | 15,569  | 14,598  | 8,310   | 6,889     | 7,159     | 23,674     |
| Sinking Fund   | 100     | 100     | 100     | 100       | 100       | 100        |
| Nonbank sector 4/                                      |         |         |         |           |           |            |
| By debt instrument                                     | 254,839 | 287,104 | 350,272 | 403,694   | 477,530   | 559,057    |
| Rupee loans  | 161,554 | 195,054 | 206,149 | 217,888   | 219,720   | 248,645    |
| Treasury bills   | 83,458  | 77,447  | 95,638  | 84,841    | 84,390    | 95,061     |
| Treasury bonds   | 0       | 8,212   | 43,107  | 96,462    | 165,476   | 206,960    |
| Treasury certificates                                  | 212     | 83      | 12      | 11        | 11        | 11         |
| Other  | 9,615   | 6,308   | 5,366   | 4,492     | 7,933     | 8,380      |
| By institution   | 254,839 | 287,104 | 350,272 | 403,694   | 477,530   | 559,057    |
| National Savings Bank                                  | 47,794  | 62,498  | 67,260  | 79,555    | 87,263    | 95,976     |
| Other savings institutions                             | 44,416  | 40,201  | 83,552  | 96,313    | 124,368   | 150,839    |
| Employees' Provident Fund                              | 113,236 | 134,867 | 157,711 | 181,581   | 211,742   | 245,028    |
| Insurance companies                                    | 9,000   | 9,292   | 13,052  | 16,935    | 18,969    | 21,449     |
| Finance companies                                      | 8,117   | 8,967   | 7,060   | 5,580     | 2,621     | 3,124      |
| Other  | 32,276  | 31,279  | 21,637  | 23,730    | 32,567    | 42,641     |
| Foreign Administrative Borrowings                      | 9,609   | 6,302   | 7,901   | 4,487     | 7,901     | 8,373      |
| Departments, Official Funds and other                  | 22,667  | 24,977  | 24,666  | 19,243    | 24,666    | 34,368     |
| Total foreign debt                                     | 359,685 | 376,331 | 461,273 | 507,866   | 542,040   | 634,622    |
| Project loans  | 302,960 | 320,867 | 400,284 | 444,423   | 477,845   | 542,850    |
| Nonproject loans                                       | 56,725  | 55,464  | 60,989  | 63,443    | 64,195    | 91,772     |
| Commodity loans  | 55,243  | 53,816  | 59,626  | 62,182    | 63,009    | 65,536     |
| Other  | 1,481   | 8,178   | 1,363   | 1,261     | 1,186     | 26,236     |
| Concessional loans                                     | 350,319 | 362,435 | 446,331 | 497,672   | 535,129   | 601,701    |
| Multilateral   | 161,490 | 175,315 | 213,749 | 228,294   | 249,740   | 288,823    |
| Bilateral  | 188,829 | 187,120 | 232,582 | 269,378   | 285,389   | 312,878    |
| Non-Concessional                                       | 9,366   | 13,896  | 14,942  | 10,194    | 6,911     | 32,921     |
| Multilateral   | 656     | 598     | 544     | 442       | 356       | 535        |
| Bilateral  | 162     | 7,834   | 1,618   | 1,489     | 0         | -          |
| Commercial   | 8,548   | 5,464   | 12,780  | 8,263     | 6,555     | 32,386     |
| External suppliers' credits                            | 923     | 499     | 575     | 530       | 167       | n.a.       |
| Total outstanding debt                                 | 716,388 | 764,071 | 924,699 | 1,051,331 | 1,218,700 | 1,450,587  |

Source: Data provided by the Ministry of Finance.

1/ Includes T-bills outstanding from primary market sales to 1995, and adjusted for secondary market transactions from 1996 onwards. Treasury bonds included from 1997, and adjusted for secondary market transactions.

2/ Inclusive of Rs 24.1 billion and Rs 23.9 billion of long-term bonds issued in 1993 and 1996 respectively.

3/ Includes borrowing through FCUBs: Rs 6.8 billion at end 1998, Rs 4.5 billion at end 1999, and Rs 8.3 billion in 2000.

4/ Split between bank and nonbank financing for 2000 is not entirely consistent with the fiscal tables; this is because the data in this table is based on more recent information.

Table 19. Sri Lanka: Monetary Survey, 1997-2001<sup>1/</sup>

|  | 1997   | 1998  | 1999   | 2000   |        |        |        | 2001   |        |        |        |
|--|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Dec.   | Dec.  | Dec.   | Mar.   | Jun.   | Sep.   | Dec.   | Mar.   | Jun.   | Sep.   | Dec.   |
| (In billions of Sri Lankan rupees, end of period)          |        |       |        |        |        |        |        |        |        |        |        |
| Net foreign assets   | 90.5   | 105.6 | 102.1  | 99.1   | 87.0   | 87.7   | 69.5   | 78.1   | 72.1   | 75.5   | 77.1   |
| Monetary authorities 2/                                    | 89.9   | 101.7 | 89.3   | 90.4   | 80.5   | 71.4   | 57.9   | 62.5   | 65.1   | 74.7   | 87.3   |
| Commercial banks   | 0.6    | 3.9   | 12.8   | 8.7    | 6.5    | 16.3   | 11.6   | 15.7   | 7.0    | 0.8    | -10.2  |
| Net domestic assets  | 243.2  | 272.1 | 326.2  | 342.8  | 355.8  | 369.9  | 413.9  | 415.5  | 423.6  | 440.4  | 472.1  |
| Domestic credit  | 323.0  | 369.5 | 432.9  | 444.5  | 475.5  | 494.3  | 549.9  | 569.8  | 587.4  | 599.6  | 639.0  |
| Public sector  | 59.9   | 74.6  | 107.0  | 113.9  | 129.5  | 144.7  | 185.6  | 192.4  | 201.3  | 215.0  | 242.2  |
| Claims on government (net)                                 | 45.3   | 64.6  | 93.9   | 95.3   | 106.9  | 116.0  | 147.3  | 154.6  | 154.6  | 171.9  | 201.4  |
| Monetary authorities                                       | 20.3   | 25.9  | 46.7   | 47.1   | 61.1   | 69.3   | 91.6   | 89.0   | 89.4   | 88.0   | 84.6   |
| Commercial banks   | 25.0   | 38.7  | 47.2   | 48.2   | 45.8   | 46.7   | 55.7   | 65.6   | 65.2   | 83.9   | 116.8  |
| Claims on public corp. 3/                                  | 14.7   | 10.0  | 13.0   | 18.6   | 22.6   | 28.6   | 38.3   | 37.8   | 46.6   | 43.2   | 40.8   |
| Claims on private sector 3/                                | 263.1  | 294.9 | 325.9  | 330.6  | 346.0  | 349.6  | 364.4  | 377.4  | 386.1  | 384.6  | 396.8  |
| Other items (net)  | -79.9  | -97.4 | -106.7 | -101.7 | -119.7 | -124.4 | -136.0 | -154.3 | -163.8 | -159.2 | -166.9 |
| Broad money  | 333.7  | 377.7 | 428.3  | 441.8  | 442.8  | 457.6  | 483.4  | 493.7  | 495.7  | 515.9  | 549.1  |
| Narrow money   | 85.9   | 96.3  | 108.6  | 109.8  | 108.8  | 111.7  | 118.5  | 113.9  | 108.5  | 112.1  | 122.2  |
| Currency   | 45.7   | 51.8  | 58.5   | 58.6   | 56.8   | 59.5   | 62.6   | 62.4   | 59.6   | 61.1   | 65.5   |
| Demand deposits  | 40.2   | 44.5  | 50.1   | 51.1   | 52.0   | 52.2   | 55.8   | 51.5   | 48.7   | 51.0   | 56.7   |
| Quasi-money  | 247.8  | 281.5 | 319.8  | 332.1  | 334.1  | 345.9  | 364.9  | 379.7  | 387.2  | 403.8  | 426.9  |
| (In annual percent change)                                 |        |       |        |        |        |        |        |        |        |        |        |
| Net foreign assets   | 43.5   | 16.7  | -3.4   | -9.0   | -13.8  | -13.3  | -31.9  | -21.1  | -17.1  | -13.9  | 10.9   |
| Monetary authorities                                       | 22.3   | 13.1  | -12.2  | -8.5   | -15.6  | -23.3  | -35.1  | -30.9  | -19.1  | 4.6    | 50.7   |
| Commercial banks   | -105.4 | 591.1 | 228.0  | -13.7  | 17.6   | 101.7  | -9.6   | 80.5   | 7.7    | -95.1  | -188.1 |
| Net domestic assets  | 7.8    | 11.9  | 19.9   | 21.5   | 19.9   | 20.4   | 26.9   | 21.2   | 19.1   | 19.1   | 14.1   |
| Domestic credit  | 10.5   | 14.4  | 17.2   | 17.5   | 20.8   | 22.0   | 27.0   | 28.2   | 23.5   | 21.3   | 16.2   |
| Public sector  | -4.3   | 24.6  | 43.3   | 51.1   | 52.4   | 67.0   | 73.5   | 68.9   | 55.4   | 48.6   | 30.5   |
| Claims on government (net)                                 | -4.0   | 42.8  | 45.3   | 39.7   | 38.9   | 46.6   | 56.8   | 62.2   | 44.6   | 48.2   | 36.7   |
| Monetary authorities                                       | -40.8  | 27.6  | 80.3   | 47.1   | 83.8   | 94.7   | 96.0   | 89.0   | 46.3   | 27.0   | -7.6   |
| Commercial banks   | 94.3   | 55.1  | 21.9   | 33.2   | 4.7    | 7.2    | 18.1   | 36.1   | 42.4   | 79.7   | 109.5  |
| Claims on public corp. 3/                                  | -5.6   | -31.3 | 30.1   | 159.3  | 182.6  | 285.0  | 193.2  | 103.3  | 106.2  | 51.0   | 6.7    |
| Claims on private sector 3/                                | 14.5   | 12.1  | 10.5   | 9.2    | 12.1   | 9.8    | 11.8   | 14.2   | 11.6   | 10.0   | 8.9    |
| Other items (net)  | -19.6  | -22.0 | -9.5   | -5.9   | -23.5  | -27.0  | -27.5  | -51.7  | -36.8  | -28.0  | -22.7  |
| Broad money  | 15.6   | 13.2  | 13.4   | 13.0   | 11.4   | 12.1   | 12.9   | 11.7   | 11.8   | 12.7   | 13.6   |
| Narrow money   | 9.8    | 12.1  | 12.8   | 7.0    | 8.9    | 9.4    | 9.1    | 3.7    | -0.3   | 0.4    | 3.1    |
| Currency   | 7.3    | 13.3  | 13.0   | 5.6    | 9.0    | 12.5   | 7.1    | 6.5    | 4.9    | 2.6    | 4.6    |
| Demand deposits  | 12.7   | 10.8  | 12.5   | 8.6    | 8.7    | 6.1    | 11.5   | 0.7    | -5.8   | -7.2   | 1.5    |
| Quasi-money  | 17.8   | 13.6  | 13.6   | 15.1   | 12.2   | 12.9   | 14.1   | 14.4   | 15.9   | 16.7   | 17.0   |
| (Percent contribution to broad money growth 12 months ago) |        |       |        |        |        |        |        |        |        |        |        |
| Net foreign assets   | 9.5    | 4.5   | -0.9   | -2.5   | -3.7   | -3.3   | -7.6   | -4.7   | -3.1   | -2.5   | 1.6    |
| Net domestic assets  | 6.1    | 8.7   | 14.3   | 15.5   | 14.5   | 15.4   | 20.5   | 16.5   | 15.7   | 15.2   | 12.0   |
| Domestic credit  | 10.6   | 13.9  | 16.8   | 17.0   | 19.7   | 21.8   | 27.3   | 28.4   | 25.3   | 23.0   | 18.4   |
| Public sector 3/   | -0.9   | 4.4   | 8.6    | 9.8    | 11.8   | 14.2   | 18.3   | 17.8   | 16.0   | 15.4   | 11.7   |
| Private sector 3/  | 11.6   | 9.5   | 8.2    | 7.1    | 7.9    | 7.6    | 9.0    | 10.6   | 9.4    | 7.6    | 6.7    |
| Other assets (net)   | -4.5   | -5.3  | -2.4   | -1.4   | -5.2   | -6.4   | -6.9   | -11.9  | -9.6   | -7.8   | -6.4   |
| Memorandum items:  |        |       |        |        |        |        |        |        |        |        |        |
| Money multiplier (BM/RM)                                   | 3.98   | 4.07  | 4.26   | 4.29   | 4.36   | 4.53   | 4.60   | 4.64   | 4.79   | 4.83   | 4.88   |
| Velocity (GDP/geom. avg. BM)                               | -2.90  | 2.88  | 2.78   | 2.778  | 2.796  | 2.807  | 2.812  | 2.805  | 2.794  | 2.782  | 2.765  |

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/ Cash balances held abroad by the monetary authorities have been adjusted for transactions with FCUBs.

3/ From December 1998, Sri Lanka Telecom has been reclassified as a private enterprise.



Table 20. Sri Lanka: Balance Sheet of the Monetary Authorities, 1997-2001

|                                 | 1997  | 1998  | 1999   | 2000    |         |       |       | 2001  |       |       |       |
|---------------------------------|---|-------|--------|---------|---------|-------|-------|-------|-------|-------|-------|
|                                 | Dec.  | Dec.  | Dec.   | Mar.    | Jun.    | Sep.  | Dec.  | Mar.  | Jun.  | Sep.  | Dec.  |
|                                 | (In billions of Sri Lanka rupees; end of period)      |       |        |         |         |       |       |       |       |       |       |
| Net foreign assets              | 89.9  | 101.7 | 89.3   | 90.4    | 80.5    | 71.4  | 57.9  | 62.5  | 65.1  | 74.7  | 87.3  |
| Central Bank (net)              | 82.4  | 92.6  | 74.1   | 75.1    | 64.3    | 55.1  | 41.7  | 46.2  | 41.8  | 51.4  | 63.9  |
| Assets                          | 121.5   | 131.2 | 112.1  | 108.3   | 100.9   | 86.3  | 77.2  | 75.0  | 92.0  | 95.6  | 111.9 |
| Cash and balances abroad 1/     | 51.9  | 59.4  | 20.8   | 20.6    | 18.7    | 18.7  | 23.4  | 25.4  | 37.8  | 47.3  | 40.3  |
| Foreign securities              | 67.1  | 67.7  | 87.3   | 83.4    | 77.3    | 67.3  | 53.7  | 48.0  | 53.2  | 46.7  | 71.4  |
| Other                           | 2.5   | 4.1   | 3.9    | 4.3     | 4.8     | 0.3   | 0.0   | 1.6   | 0.9   | 1.7   | 0.2   |
| Liabilities                     | 39.1  | 38.5  | 38.0   | 33.1    | 36.6    | 31.2  | 35.5  | 28.8  | 50.2  | 44.2  | 48.0  |
| Government (net)                | 0.0   | 0.0   | 0.0    | 0.0     | 0.0     | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Treasury IMF account (net)      | 7.5   | 9.1   | 15.2   | 15.2    | 16.2    | 16.2  | 16.2  | 16.2  | 23.3  | 23.3  | 23.3  |
| Net domestic assets             | -6.2  | -8.9  | 11.2   | 12.6    | 21.0    | 29.5  | 47.2  | 43.9  | 38.3  | 32.2  | 25.2  |
| Net claims on government        | 20.3  | 25.9  | 46.7   | 47.1    | 61.1    | 69.3  | 91.6  | 89.0  | 89.4  | 88.0  | 84.7  |
| Claims on government            | 26.8  | 29.0  | 49.2   | 51.1    | 63.9    | 73.3  | 94.7  | 92.4  | 92.0  | 90.4  | 89.0  |
| Advances                        | 18.9  | 20.8  | 23.6   | 28.0    | 27.8    | 27.9  | 27.8  | 30.7  | 30.6  | 30.4  | 30.7  |
| Treasury bills & Bonds          | 7.2   | 8.2   | 25.6   | 23.1    | 36.0    | 45.4  | 66.9  | 61.7  | 61.3  | 59.9  | 58.2  |
| Cash items in collection        | 0.7   | 0.0   | 0.5    | 0.0     | 0.0     | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Government deposits             | -6.5  | -3.1  | -2.5   | -4.0    | -2.8    | -4.0  | -3.2  | -3.4  | -2.6  | -2.4  | -4.3  |
| Claims on commercial banks      | 1.7   | 1.1   | 0.7    | 0.7     | 0.7     | 0.7   | 0.5   | 0.5   | 0.4   | 0.4   | 0.2   |
| Medium- and long-term           | 1.7   | 1.1   | 0.7    | 0.7     | 0.7     | 0.7   | 0.5   | 0.5   | 0.4   | 0.4   | 0.2   |
| Short-term                      | 0.0   | 0.0   | 0.0    | 0.0     | 0.0     | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Other assets (net)              | -28.2   | -35.9 | -36.3  | -35.2   | -40.8   | -40.5 | -44.9 | -45.6 | -51.5 | -56.1 | -59.6 |
| Reserve money                   | 83.7  | 92.9  | 100.4  | 102.9   | 101.5   | 100.9 | 105.2 | 106.3 | 103.4 | 106.9 | 112.5 |
| Currency in circulation         | 53.1  | 60.1  | 70.2   | 68.9    | 66.8    | 69.2  | 73.3  | 74.5  | 69.5  | 70.5  | 76.6  |
| Commercial banks deposits       | 30.5  | 32.7  | 30.2   | 34.0    | 34.7    | 31.7  | 31.8  | 31.9  | 34.0  | 36.4  | 36.0  |
| Deposits of government agencies | 0.1   | 0.0   | 0.0    | 0.0     | 0.0     | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
|                                 | (In annual percent change)                            |       |        |         |         |       |       |       |       |       |       |
| Net foreign assets              | 22.3  | 13.1  | -12.2  | -8.5    | -15.6   | -23.3 | -35.1 | -30.9 | -19.1 | 4.7   | 50.6  |
| Net domestic assets             | -151.8  | 43.3  | -225.7 | 1,900.0 | 1,179.4 | ...   | 323.2 | 248.3 | 82.5  | 9.0   | -46.6 |
| Net claims on government        | -40.8   | 27.6  | 80.3   | 47.2    | 83.8    | 94.7  | 96.0  | 88.9  | 46.3  | 26.9  | -7.5  |
| Claims on commercial banks      | -25.1   | -33.7 | -33.3  | -35.1   | -28.3   | -28.3 | -30.5 | -30.4 | -42.6 | -43.3 | -71.2 |
| Medium- and long-term           | -25.0   | -33.7 | -32.9  | -34.5   | -27.6   | -27.5 | -29.4 | -29.6 | -42.1 | -43.1 | -71.2 |
| Short-term                      | -32.7   | -34.3 | -52.2  | -65.2   | -64.7   | -78.6 | ...   | ...   | ...   | ...   | ...   |
| Reserve money                   | -2.1  | 10.9  | 8.2    | 5.0     | 8.6     | 8.5   | 4.7   | 3.3   | 1.9   | 5.9   | 7.0   |
|                                 | (Percent contribution to reserve money 12 months ago) |       |        |         |         |       |       |       |       |       |       |
| Net foreign assets              | 19.2  | 14.1  | -13.4  | -8.6    | -15.9   | -23.3 | -31.2 | -27.1 | -15.2 | 3.3   | 27.9  |
| Net domestic assets             | -21.2   | -3.2  | 21.6   | 13.5    | 24.5    | 31.8  | 35.9  | 30.4  | 17.1  | 2.6   | -20.9 |
| Net claims on government        | -16.4   | 6.7   | 22.4   | 15.3    | 29.8    | 36.2  | 44.6  | 40.7  | 27.9  | 18.5  | -6.5  |
| Claims on commercial banks      | -0.7  | -0.7  | -0.4   | -0.4    | -0.3    | -0.3  | -0.2  | -0.2  | -0.3  | -0.3  | -0.4  |
| Other assets (net)              | -4.2  | -9.2  | -0.4   | -1.4    | -5.0    | -4.2  | -8.5  | -10.1 | -10.5 | -15.5 | -14.0 |

Source: Central Bank of Sri Lanka.

1/ Cash balances held abroad have been adjusted to take into account transactions with FCBU.

Table 21. Sri Lanka: Balance Sheet of Commercial Banks, 1997-2001 <sup>1/</sup>

|  | 1997<br>Dec. | 1998<br>Dec. | 1999<br>Dec. | 2000  |       |       |       | 2001  |       |       |       |
|--|--------------|--------------|--------------|-------|-------|-------|-------|-------|-------|-------|-------|
|  |              |              |              | Mar.  | Jun.  | Sept. | Dec.  | Mar.  | Jun.  | Sept. | Dec.  |
| (In billions of Sri Lanka rupees; end of period) |              |              |              |       |       |       |       |       |       |       |       |
| Foreign assets                                   | 25.8         | 30.1         | 36.3         | 39.7  | 41.4  | 47.8  | 52.4  | 58.8  | 53.3  | 52.5  | 44.6  |
| Banks abroad                                     | 18.3         | 22.8         | 29.3         | 32.0  | 33.5  | 38.3  | 42.3  | 49.3  | 44.8  | 43.2  | 34.9  |
| Other  | 7.5          | 7.4          | 7.0          | 7.7   | 7.9   | 9.5   | 10.0  | 9.5   | 8.4   | 8.4   | 9.6   |
| Cash and deposits                                | 65.8         | 80.4         | 94.7         | 98.8  | 100.2 | 93.8  | 118.1 | 90.1  | 103.7 | 114.7 | 127.7 |
| Cash in till                                     | 7.5          | 8.3          | 11.7         | 10.2  | 10.0  | 9.6   | 10.7  | 12.0  | 9.9   | 9.4   | 11.0  |
| Deposits with CBSL                               | 29.0         | 31.3         | 28.4         | 33.0  | 34.7  | 33.3  | 28.9  | 31.3  | 30.9  | 35.4  | 38.7  |
| FCBUs 2/   | 22.8         | 28.9         | 40.0         | 43.4  | 41.3  | 36.2  | 45.5  | 37.1  | 49.5  | 55.0  | 63.3  |
| Due from other banks                             | 6.5          | 11.8         | 14.6         | 12.3  | 14.2  | 14.6  | 33.1  | 9.6   | 13.4  | 14.9  | 14.6  |
| Claims on government                             | 39.8         | 44.3         | 51.8         | 50.3  | 48.8  | 50.1  | 56.1  | 73.8  | 73.1  | 80.7  | 103.4 |
| Treasury bills                                   | 20.5         | 13.6         | 11.6         | 8.0   | 6.8   | 5.9   | 7.4   | 4.6   | 5.4   | 12.2  | 9.7   |
| Two-year Treasury notes                          | 1.8          | 5.0          | 7.5          | 7.7   | 15.1  | 13.2  | 7.2   | 5.1   | 11.2  | 8.2   | 19.1  |
| Other government securities                      | 0.8          | 0.3          | 0.1          | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| Other  | 16.7         | 25.4         | 32.6         | 34.6  | 26.9  | 30.9  | 41.4  | 64.0  | 56.5  | 60.2  | 70.2  |
| Claims on public corp.                           | 10.3         | 8.7          | 12.7         | 15.3  | 19.4  | 20.2  | 27.0  | 26.1  | 25.3  | 25.2  | 22.9  |
| Claims on private sector                         | 216.0        | 244.4        | 275.5        | 278.6 | 285.9 | 292.8 | 307.6 | 316.8 | 321.5 | 320.8 | 328.8 |
| Other assets                                     | 85.0         | 93.8         | 99.8         | 105.0 | 108.8 | 105.6 | 116.5 | 124.5 | 109.8 | 116.7 | 113.8 |
| Assets = Liabilities                             | 442.8        | 501.7        | 570.8        | 587.8 | 604.6 | 610.2 | 677.7 | 690.0 | 686.7 | 709.8 | 741.2 |
| Foreign liabilities                              | 23.7         | 29.0         | 33.1         | 37.0  | 37.3  | 35.8  | 40.7  | 42.1  | 46.1  | 46.7  | 45.7  |
| Banks abroad                                     | 4.0          | 4.3          | 5.0          | 7.6   | 5.9   | 4.4   | 6.3   | 6.9   | 8.5   | 8.6   | 5.4   |
| FCBUs 2/   | 0.0          | 0.0          | 0.0          | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| NRFC 3/  | 16.3         | 20.4         | 23.6         | 24.0  | 25.4  | 26.5  | 29.2  | 29.3  | 31.3  | 31.7  | 33.8  |
| RNNFC 4/   | 2.0          | 3.3          | 3.3          | 3.8   | 4.6   | 3.5   | 3.9   | 4.6   | 5.1   | 5.1   | 4.9   |
| Other  | 1.4          | 1.1          | 1.1          | 1.6   | 1.3   | 1.5   | 1.3   | 1.4   | 1.2   | 1.2   | 1.5   |
| Demand deposits                                  | 40.1         | 44.5         | 50.1         | 51.1  | 52.0  | 52.1  | 55.8  | 51.5  | 48.9  | 51.0  | 56.7  |
| Domestic NRFC deposits                           | 25.6         | 38.1         | 48.6         | 51.5  | 48.7  | 49.8  | 55.6  | 59.9  | 62.8  | 62.1  | 66.6  |
| Time and savings deposits                        | 202.4        | 219.9        | 249.5        | 256.5 | 261.9 | 271.9 | 286.2 | 290.0 | 297.0 | 309.3 | 328.5 |
| Government deposits                              | 13.7         | 11.6         | 12.7         | 10.0  | 9.7   | 9.9   | 13.2  | 22.7  | 21.1  | 22.9  | 26.3  |
| Demand   | 9.8          | 10.4         | 11.6         | 9.4   | 9.1   | 9.3   | 12.4  | 21.9  | 20.3  | 21.8  | 25.0  |
| Time and savings                                 | 3.9          | 1.2          | 1.1          | 0.6   | 0.6   | 0.6   | 0.8   | 0.8   | 0.9   | 1.1   | 1.3   |
| Due to CBSL                                      | 4.8          | 4.8          | 5.2          | 5.0   | 5.6   | 5.6   | 5.9   | 6.4   | 6.1   | 5.8   | 4.8   |
| Due to banks                                     | 8.7          | 11.8         | 15.6         | 11.4  | 14.4  | 16.0  | 36.2  | 12.6  | 15.7  | 21.1  | 20.8  |
| Due to OFIs                                      | 10.7         | 11.8         | 12.2         | 12.4  | 20.2  | 19.8  | 24.7  | 24.3  | 25.9  | 25.5  | 32.2  |
| Capital  | 44.4         | 50.2         | 51.6         | 53.3  | 52.8  | 52.6  | 51.8  | 46.8  | 45.0  | 44.9  | 44.5  |
| Other liabilities                                | 68.8         | 80.0         | 92.4         | 99.7  | 102.2 | 96.7  | 107.6 | 133.6 | 118.0 | 120.3 | 115.1 |

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. From 1998, Sri Lanka Telecom has been reclassified as a private enterprise.

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 22. Sri Lanka: Advances by Purpose and According to Maturity, 1997-2001<sup>1/</sup>

|  | 97Q4  | 98Q4  | 99Q4  | 00Q1  | 00Q2  | 00Q3  | 00Q4  | 01Q1  | 01Q2  | 01Q3  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| (In billions of Sri Lanka rupees, end of period) |       |       |       |       |       |       |       |       |       |       |
| By Category                                      |       |       |       |       |       |       |       |       |       |       |
| Commercial                                       | 99.2  | 102.9 | 109.7 | 117.1 | 122.2 | 127.5 | 134.9 | 132.0 | 137.1 | 135.3 |
| Financial  | 7.6   | 11.3  | 12.0  | 12.9  | 14.3  | 13.0  | 14.7  | 15.6  | 12.7  | 11.5  |
| Agriculture                                      | 11.8  | 13.1  | 16.7  | 15.9  | 15.8  | 15.3  | 15.2  | 16.8  | 15.8  | 15.5  |
| Industrial 2/                                    | 25.3  | 27.6  | 33.3  | 32.7  | 34.6  | 34.4  | 35.3  | 34.5  | 34.3  | 33.3  |
| Tourism  | 3.3   | 4.1   | 4.5   | 4.2   | 4.5   | 4.1   | 4.1   | 4.2   | 4.2   | 4.4   |
| Housing 3/                                       | 25.1  | 31.2  | 35.7  | 37.0  | 38.5  | 40.1  | 41.3  | 44.5  | 44.6  | 45.2  |
| Consumption                                      | 19.5  | 23.3  | 29.0  | 30.4  | 31.4  | 31.9  | 32.6  | 38.2  | 35.7  | 37.9  |
| Other loans                                      | 25.0  | 27.8  | 34.2  | 30.3  | 30.0  | 35.1  | 39.3  | 45.8  | 48.5  | 48.2  |
| Total  | 216.8 | 241.3 | 275.1 | 280.5 | 291.3 | 301.4 | 317.4 | 331.6 | 332.9 | 331.2 |
| (In percent annual growth)                       |       |       |       |       |       |       |       |       |       |       |
| Commercial                                       | 11.3  | 3.7   | 6.6   | 10.2  | 14.1  | 18.5  | 23.0  | 12.8  | 12.2  | 6.1   |
| Financial  | -8.3  | 48.7  | 6.2   | 11.2  | 21.2  | 3.2   | 22.5  | 21.1  | -11.5 | -11.6 |
| Agriculture                                      | 10.9  | 11.0  | 27.5  | 21.4  | 18.8  | 7.7   | -8.9  | 5.6   | 0.0   | 1.3   |
| Industrial 2/                                    | -2.6  | 9.1   | 20.7  | 19.3  | 27.2  | 19.9  | 6.1   | 6.6   | -0.8  | -3.2  |
| Tourism  | -2.4  | 24.2  | 9.8   | 2.4   | 4.7   | -2.4  | -9.5  | -0.1  | -6.3  | 7.2   |
| Housing 3/                                       | 4.6   | 24.3  | 14.4  | 16.4  | 18.5  | 19.7  | 15.6  | 20.4  | 15.9  | 12.8  |
| Consumption                                      | 18.8  | 19.5  | 24.5  | 19.2  | 21.7  | 9.2   | 12.6  | 25.3  | 13.7  | 18.7  |
| Other loans                                      | 29.3  | 11.6  | 23.0  | 7.1   | 1.0   | 16.6  | 14.8  | 50.9  | 61.6  | 37.2  |
| Total  | 10.0  | 11.4  | 14.0  | 13.1  | 15.7  | 15.9  | 15.4  | 18.2  | 14.3  | 9.9   |
| (In percent of total)                            |       |       |       |       |       |       |       |       |       |       |
| Commercial                                       | 45.8  | 42.6  | 39.9  | 41.7  | 41.9  | 42.3  | 42.5  | 39.8  | 41.2  | 40.8  |
| Financial  | 3.5   | 4.7   | 4.4   | 4.6   | 4.9   | 4.3   | 4.6   | 4.7   | 3.8   | 3.5   |
| Agriculture                                      | 5.4   | 5.4   | 6.1   | 5.7   | 5.4   | 5.1   | 4.8   | 5.1   | 4.7   | 4.7   |
| Industrial 2/                                    | 11.7  | 11.4  | 12.1  | 11.7  | 11.9  | 11.4  | 11.1  | 10.4  | 10.3  | 10.1  |
| Tourism  | 1.5   | 1.7   | 1.6   | 1.5   | 1.5   | 1.4   | 1.3   | 1.3   | 1.3   | 1.3   |
| Housing 3/                                       | 11.6  | 12.9  | 13.0  | 13.2  | 13.2  | 13.3  | 13.0  | 13.4  | 13.4  | 13.7  |
| Consumption                                      | 9.0   | 9.7   | 10.5  | 10.8  | 10.8  | 10.6  | 10.3  | 11.5  | 10.7  | 11.4  |
| Other loans                                      | 11.5  | 11.5  | 12.4  | 10.8  | 10.3  | 11.6  | 12.4  | 13.8  | 14.6  | 14.5  |
| Total  | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| By Maturity                                      |       |       |       |       |       |       |       |       |       |       |
| Short term                                       | 63.9  | 63.7  | 63.0  | 62.5  | 63.0  | 62.7  | 62.1  | 62.5  | 62.3  | 60.6  |
| Medium term                                      | 23.9  | 23.7  | 22.8  | 23.0  | 22.4  | 22.6  | 22.3  | 22.4  | 22.2  | 22.7  |
| Long term  | 12.2  | 12.6  | 14.1  | 14.5  | 14.7  | 14.7  | 15.6  | 15.1  | 15.5  | 16.6  |
| Total  | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Central Bank of Sri Lanka.

<sup>1/</sup> Domestic banking units only. Advances include loans, overdrafts, and bills discounted; and exclude cash items in process of collection.<sup>2/</sup> Includes advances granted to the Engineering and Building Trade, Mining and Fishing.<sup>3/</sup> Housing covers personal housing (including purchase, construction, and repairs); construction of business premises; and property development.

Table 23. Sri Lanka: Selected Interest Rates, 1996-2002

(In percent; end-of-period)

|      | CBSL Rates |                  | Money Market Rates        |                |           | Bank Rates          |                        | Memorandum<br>CPI Inflation<br>Annual Rate |      |
|------|------------|------------------|---------------------------|----------------|-----------|---------------------|------------------------|--|------|
|      | Repos      | Reverse<br>Repos | Interbank<br>Call Rate 1/ | Treasury Bills |           | Prime<br>Lending 1/ | Time and<br>Savings 1/ |  |      |
|      |            |                  |                           | 3 Months       | 12 Months |                     |                        |  |      |
| 1996 | 12.8       | ...              | 24.0                      | 17.5           | 17.4      | 20.2                | 12.3                   | 16.8                                       |      |
| 1997 | 11.0       | ...              | 13.5                      | 10.0           | 10.2      | 15.2                | 10.0                   | 10.7                                       |      |
| 1998 | 11.3       | 15.0             | 13.9                      | 12.0           | 12.6      | 14.9                | 9.2                    | 3.7  |      |
| 1999 | 9.25       | 13.5             | 11.5                      | 11.8           | 12.8      | 15.9                | 9.1                    | 4.0  |      |
| 2000 | 17.0       | 20.0             | 25.9                      | 17.8           | 18.2      | 21.5                | 9.9                    | 10.8                                       |      |
| 2001 | 12.0       | 14.0             | 12.7                      | 12.9           | 13.7      | 14.3                | 10.8                   | 10.8                                       |      |
| 1999 | Q1         | 10.5             | 14.2                      | 15.8           | 11.8      | 12.5                | 15.4                   | 9.2  | 5.0  |
|      | Q2         | 10.0             | 14.2                      | 11.6           | 11.8      | 12.7                | 14.2                   | 9.1  | 3.4  |
|      | Q3         | 9.5              | 13.8                      | 13.3           | 11.4      | 12.4                | 14.5                   | 9.1  | 5.4  |
|      | Q4         | 9.25             | 13.5                      | 11.5           | 11.8      | 12.8                | 15.9                   | 9.1  | 4.0  |
| 2000 | January    | 9.0              | 13.3                      | 12.0           | 11.3      | 12.0                | 13.4                   | 9.1  | 0.3  |
|      | February   | 9.0              | 13.3                      | 12.3           | 11.3      | 12.0                | 14.0                   | 9.1  | 1.9  |
|      | March      | 9.0              | 13.3                      | 13.4           | 11.5      | 12.1                | 15.1                   | 9.1  | 4.5  |
|      | April      | 9.0              | 13.0                      | 12.9           | 11.4      | 12.0                | 15.2                   | 9.0  | 3.7  |
|      | May        | 9.3              | 14.0                      | 13.8           | 11.8      | 12.4                | 15.9                   | 9.1  | 2.4  |
|      | June       | 9.5              | 15.0                      | 14.9           | 12.2      | 13.0                | 16.4                   | 9.2  | 6.8  |
|      | July       | 11.0             | 15.0                      | 14.5           | 12.4      | 13.2                | 15.2                   | 9.1  | 10.1 |
|      | August     | 11.8             | 15.0                      | 12.6           | 12.7      | 13.7                | 15.7                   | 9.1  | 9.9  |
|      | September  | 13.0             | 16.0                      | 14.5           | 13.6      | 15.3                | 16.1                   | 9.0  | 8.5  |
|      | October    | 13.0             | 16.0                      | 16.8           | 15.7      | 16.0                | 16.9                   | 9.1  | 7.8  |
|      | November   | 17.0             | 20.0                      | 21.3           | 16.6      | 18.3                | 20.4                   | 9.4  | 7.6  |
|      | December   | 17.0             | 20.0                      | 25.9           | 17.8      | 18.2                | 21.5                   | 9.9  | 10.8 |
| 2001 | January    | 20.0             | 23.0                      | 25.6           | 18.8      | 19.8                | 23.2                   | 10.2                                       | 16.2 |
|      | February   | 19.0             | 22.0                      | 22.8           | 20.2      | 21.6                | 22.7                   | 10.7                                       | 16.6 |
|      | March      | 19.0             | 22.0                      | 22.1           | 19.3      | 20.2                | 22.2                   | 10.8                                       | 13.2 |
|      | April      | 18.5             | 21.5                      | 21.2           | 18.9      | 19.0                | 22.0                   | 11.0                                       | 13.9 |
|      | May        | 18.5             | 21.5                      | 21.3           | 18.8      | 18.9                | 21.6                   | 11.0                                       | 16.3 |
|      | June       | 18.5             | 21.5                      | 21.4           | 19.6      | 19.3                | 21.9                   | 11.6                                       | 14.7 |
|      | July       | 16.0             | 19.5                      | 19.3           | 18.4      | 17.8                | 20.3                   | 11.4                                       | 13.4 |
|      | August     | 15.0             | 18.5                      | 16.3           | 16.7      | 17.2                | 18.2                   | 11.4                                       | 11.4 |
|      | September  | 13.0             | 15.0                      | 13.9           | 14.3      | 15.0                | 15.8                   | 11.3                                       | 14.9 |
|      | October    | 12.0             | 14.0                      | 12.8           | 13.7      | 14.4                | 14.5                   | 11.0                                       | 14.1 |
|      | November   | 12.0             | 14.0                      | 12.9           | 13.4      | 13.9                | 14.3                   | 11.8                                       | 14.9 |
|      | December   | 12.0             | 14.0                      | 12.7           | 12.9      | 13.7                | 14.3                   | 10.8                                       | 10.8 |
| 2002 | January    | 12.0             | 14.0                      | 12.2           | 12.9      | 13.7                | 13.9                   | 10.5                                       | 8.9  |
|      | February   | 12.0             | 14.0                      | 12             | 12.7      | 13.5                | 13.3                   | 10.4                                       | 8.5  |
|      | March      | 11.5             | 13.7                      | 12.4           | 12.8      | 13.6                | 13.6                   | 10.1                                       | 11.4 |
|      | April      | 11.5             | 13.9                      | 11.7           | 12.8      | 13.5                | 14.0                   | 10.0                                       | 8.3  |
|      | May        | 11.5             | 13.9                      | 12.8           | 13.2      | 13.8                | 13.7                   | 9.8  | 10.0 |
|      | June       | 11.5             | 13.8                      | 12.2           | 13.0      | 13.7                | 14.0                   | 9.6  | 10.7 |

Source: Central Bank of Sri Lanka.

1/ Weighted average.

Table 24. Sri Lanka: Reserve Position of Commercial Banks, 1996-2001

(In billions of Sri Lanka rupees)

|           | Deposits |                  |                  | Required Reserves |                  |                  |             | Actual Reserves    |            |                  |           |                   | Excess Reserves   |      |          |      |
|-----------|----------|------------------|------------------|-------------------|------------------|------------------|-------------|--------------------|------------|------------------|-----------|-------------------|-------------------|------|----------|------|
|           | Demand   | Time and Savings | Foreign Currency | Demand            | Time and Savings | Foreign Currency | Total       | Deposits with CBSL | DFCC bonds | Govt. Securities | Till Cash | Total             | Balance Till Cash |      |          |      |
|           | (1)      | (2)              | (3)              | (4)               | (5)              | (6)              | (4)+(5)+(6) | (8)                | (9)        | (10)             | (11)      | (8)+(9)+(10)+(11) | (12)              | (13) | (12)-(7) | (14) |
| 1996      | 42.0     | 179.5            | 35.1             | 6.3               | 26.9             | 3.7              | 36.9        | 35.9               | 0.3        | 0.0              | 1.6       | 37.8              | 5.4               | 0.9  |          |      |
| 1997      | 46.6     | 210.7            | 20.4             | 5.5               | 25.3             | 2.5              | 33.3        | 30.5               | 0.3        | 0.0              | 2.7       | 33.6              | 4.7               | 0.3  |          |      |
| 1998      | 54.1     | 222.5            | 32.3             | 6.5               | 26.7             | 3.9              | 37.1        | 32.7               | 0.3        | 0.0              | 2.9       | 35.9              | 5.4               | -1.1 |          |      |
| 1999      | 60.4     | 253.6            | 34.0             | 6.6               | 27.9             | 3.7              | 38.3        | 30.2               | 0.3        | 0.0              | 5.7       | 36.2              | 6.1               | -2.1 |          |      |
| 2000      |          |                  |                  |                   |                  |                  |             |                    |            |                  |           |                   |                   |      |          |      |
| January   | 59.1     | 258.7            | 37.6             | 6.5               | 28.5             | 4.1              | 39.1        | 35.1               | 0.3        | 0.0              | 3.8       | 39.1              | 6.2               | -0.1 |          |      |
| February  | 61.2     | 260.1            | 37.1             | 6.7               | 28.6             | 4.1              | 39.4        | 33.3               | 0.3        | 0.0              | 4.5       | 38.2              | 4.8               | -1.2 |          |      |
| March     | 59.8     | 261.8            | 38.1             | 6.6               | 28.8             | 4.2              | 39.6        | 34.0               | 0.3        | 0.0              | 4.8       | 39.1              | 5.4               | -0.5 |          |      |
| April     | 62.0     | 265.8            | 40.8             | 6.8               | 29.2             | 4.5              | 40.5        | 32.6               | 0.3        | 0.0              | 5.8       | 38.7              | 6.0               | -1.9 |          |      |
| May       | 59.1     | 266.2            | 40.8             | 6.5               | 29.3             | 4.5              | 40.3        | 33.4               | 0.3        | 0.0              | 5.3       | 39.0              | 6.3               | -1.2 |          |      |
| June      | 60.1     | 266.3            | 42.7             | 6.6               | 29.3             | 4.7              | 40.6        | 34.7               | 0.3        | 0.0              | 4.8       | 39.8              | 5.2               | -0.8 |          |      |
| July      | 59.0     | 271.2            | 44.8             | 6.5               | 29.8             | 4.9              | 41.2        | 33.6               | 0.3        | 0.0              | 4.0       | 37.9              | 6.4               | -3.3 |          |      |
| August    | 58.3     | 274.0            | n.a.             | 6.4               | 30.1             | 0.0              | 36.6        | 27.3               | 0.3        | 0.0              | 4.1       | 31.7              | 5.7               | -4.9 |          |      |
| September | 60.4     | 276.2            | 45.9             | 6.6               | 30.4             | -                | 37.0        | 31.7               | 0.3        | 0.0              | 4.8       | 36.8              | 4.8               | -0.2 |          |      |
| October   | 58.5     | 281.6            | 47.3             | 6.4               | 31.0             | -                | 37.4        | 31.0               | 0.3        | 0.0              | 5.4       | 36.7              | 5.9               | -0.6 |          |      |
| November  | 62.0     | 281.9            | 48.4             | 6.8               | 31.0             | -                | 37.8        | 30.2               | 0.3        | 0.0              | 4.9       | 35.4              | 5.5               | -2.4 |          |      |
| December  | 60.8     | 269.5            | 43.7             | 6.7               | 29.6             | -                | 36.3        | 31.8               | 0.3        | 0.0              | 5.1       | 37.2              | 5.5               | 0.9  |          |      |
| 2001      |          |                  |                  |                   |                  |                  |             |                    |            |                  |           |                   |                   |      |          |      |
| January   | 61.2     | 291.4            | 61.5             | 6.7               | 32.0             | -                | 38.8        | 32.0               | 0.3        | -                | 4.8       | 37.2              | 7.3               | -1.6 |          |      |
| February  | 60.1     | 295.0            | 57.6             | 6.6               | 32.5             | -                | 39.1        | 29.9               | 0.3        | -                | 5.4       | 35.6              | 6.6               | -3.5 |          |      |
| March     | 58.8     | 296.6            | 56.9             | 6.5               | 32.6             | -                | 39.1        | 31.9               | 0.3        | -                | 5.4       | 37.6              | 6.6               | -1.5 |          |      |
| April     | 60.4     | 298.6            | 64.3             | 6.6               | 32.9             | -                | 39.5        | 32.2               | 0.3        | -                | 6.0       | 38.4              | 6.2               | -1.1 |          |      |
| May       | 58.0     | 300.0            | 70.8             | 6.4               | 33.0             | -                | 39.4        | 32.9               | 0.3        | -                | 5.5       | 38.7              | 5.6               | -0.7 |          |      |
| June      | 57.1     | 303.0            | 69.3             | 6.3               | 33.3             | -                | 39.6        | 34.0               | 0.3        | -                | 4.8       | 39.0              | 5.1               | -0.6 |          |      |
| July      | 56.5     | 307.0            | 68.0             | 6.2               | 33.8             | -                | 40.0        | 34.1               | 0.3        | -                | 4.0       | 38.4              | 6.9               | -1.6 |          |      |
| August    | 58.3     | 309.7            | 58.5             | 6.4               | 34.1             | -                | 40.5        | 34.8               | 0.3        | -                | 4.7       | 39.8              | 5.2               | -0.7 |          |      |
| September | 57.7     | 314.0            | 61.1             | 6.3               | 34.5             | -                | 40.9        | 36.4               | 0.3        | -                | 3.9       | 40.6              | 5.5               | -0.3 |          |      |
| October   | 58.9     | 320.6            | 69.8             | 5.9               | 32.1             | -                | 38.0        | 33.6               | -          | -                | 4.9       | 38.5              | 6.0               | 0.5  |          |      |
| November  | 59.5     | 324.9            | 74.2             | 6.0               | 32.5             | -                | 38.4        | 32.9               | -          | -                | 4.6       | 37.5              | 5.5               | -1.0 |          |      |
| December  | 62.6     | 331.0            | 78.2             | 6.3               | 33.1             | -                | 39.4        | 36.0               | -          | -                | 5.0       | 41.0              | 6.0               | 1.6  |          |      |

Source: Central Bank of Sri Lanka.

Table 25. Sri Lanka: Balance of Payments, 1996-2001

|   | 1996                          | 1997   | 1998   | 1999   | 2000   | 2001   |
|---|-------------------------------|--------|--------|--------|--------|--------|
|   | (In millions of U.S. dollars) |        |        |        |        |        |
| Trade balance   | -1,344                        | -1,225 | -1,091 | -1,369 | -1,798 | -1,157 |
| Exports   | 4,095                         | 4,639  | 4,798  | 4,610  | 5,522  | 4,817  |
| Imports   | 5,439                         | 5,864  | 5,889  | 5,979  | 7,320  | 5,974  |
| Services, net   | 105                           | 159    | 145    | 148    | 38     | 109    |
| Receipts  | 765                           | 876    | 914    | 968    | 953    | 1,270  |
| Payments  | 660                           | 716    | 770    | 820    | 915    | 1,161  |
| Income, net   | -198                          | -159   | -180   | -254   | -304   | -280   |
| Receipts  | 185                           | 234    | 214    | 167    | 152    | 94     |
| Payments  | 383                           | 393    | 394    | 421    | 456    | 373    |
| <i>Of which: Interest</i>                                     | 307                           | 303    | 289    | 296    | 332    | 253    |
| Private transfers, net  | 710                           | 788    | 848    | 887    | 974    | 938    |
| Current account (excluding grants)                            | -727                          | -437   | -278   | -588   | -1,090 | -391   |
| Official transfers  | 49                            | 44     | 53     | 26     | 25     | 22     |
| Current account (including grants)                            | -678                          | -392   | -225   | -562   | -1,065 | -369   |
| Capital and financial account                                 | 459                           | 601    | 414    | 372    | 445    | 536    |
| Capital account (net)   | 96                            | 87     | 80     | 80     | 50     | 197    |
| Financial account   | 363                           | 515    | 334    | 292    | 395    | 339    |
| Long-term:  | 381                           | 716    | 398    | 435    | 307    | 163    |
| Direct investment   | 119                           | 430    | 193    | 177    | 176    | 172    |
| Foreign direct investment, net                                | 86                            | 129    | 137    | 177    | 173    | 82     |
| Privatization proceeds  | 33                            | 301    | 56     | 0      | 3      | 90     |
| Private, long-term (net)                                      | 1                             | 47     | 2      | 196    | 83     | -257   |
| Disbursements   | 156                           | 149    | 147    | 361    | 301    | 44     |
| Amortization  | 155                           | 102    | 145    | 165    | 217    | 301    |
| Government, long-term (net)                                   | 259                           | 238    | 203    | 62     | 47     | 248    |
| Disbursements   | 497                           | 500    | 493    | 381    | 355    | 575    |
| Amortization  | 238                           | 262    | 290    | 319    | 308    | 327    |
| Short-term, net   | -18                           | -201   | -64    | -143   | 88     | 176    |
| Portfolio investment, net (CSE)                               | 7                             | 13     | -24    | -13    | -45    | -11    |
| Private short-term, net                                       | -44                           | -20    | 8      | -10    | 100    | -18    |
| Commercial banks (net) 1/                                     | 19                            | -194   | -48    | -120   | 33     | 254    |
| Government short-term, net                                    | 0                             | 0      | 0      | 0      | 0      | -50    |
| Errors and omissions 2/                                       | 150                           | -45    | -152   | -73    | 99     | 53     |
| Overall balance   | -68                           | 163    | 37     | -259   | -521   | 220    |
| Net international reserves                                    | 68                            | -163   | -37    | 259    | 522    | -220   |
| Increase in gross official reserves (-)                       | 126                           | -92    | 45     | 340    | 619    | -270   |
| Central bank borrowing, net 2/                                | -13                           | -5     | 0      | 19     | 0      | -3     |
| Use of Fund credit, net                                       | -45                           | -66    | -82    | -99    | -97    | 53     |
|   | (In percent of GDP)           |        |        |        |        |        |
| Memorandum items:   |                               |        |        |        |        |        |
| Current account (excl. official transfers)                    | -5.2                          | -2.9   | -1.8   | -3.7   | -6.6   | -2.5   |
| Current account (incl. official transfers)                    | -4.9                          | -2.6   | -1.4   | -3.6   | -6.4   | -2.4   |
| Overall balance   | -0.5                          | 1.1    | 0.2    | -1.6   | -3.1   | 1.4    |
| Total debt 3/   | 68.6                          | 62.3   | 61.0   | 63.2   | 60.8   | 61.8   |
| Total debt service (percent of exports of goods and services) | 15.3                          | 13.3   | 13.3   | 15.2   | 14.7   | 13.3   |
| Gross official reserves (in millions of U.S. dollars) 4/      | 1,855                         | 1,922  | 1,910  | 1,530  | 911    | 1,182  |
| (In months of imports)  | 3.6                           | 3.5    | 3.4    | 2.2    | 1.5    | 2.0    |
| Net official reserves   | 1,325                         | 1,488  | 1,524  | 1,272  | 750    | 970    |
| GDP (in millions of U.S. dollars)                             | 13,898                        | 15,092 | 15,761 | 15,712 | 16,596 | 15,669 |

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

1/ Monetary data in the balance of payments reflect the reclassification activity associated with the foreign currency banking units, which are incorporated in the monetary accounts.

2/ Up to 1997, central bank borrowing includes valuation effects. From 1998 onwards, valuation effects are implicit in errors and omissions.

3/ Includes banking sector liabilities.

4/ Less ACU balances.

Table 26. Sri Lanka: Exports by Commodity, 1996-2001

|                                   | 1996                          | 1997  | 1998  | 1999  | 2000  | 2001  |
|-----------------------------------|-------------------------------|-------|-------|-------|-------|-------|
|                                   | (In millions of U.S. dollars) |       |       |       |       |       |
| Total                             | 4,095                         | 4,639 | 4,798 | 4,610 | 5,522 | 4,817 |
| Agricultural products             | 961                           | 1,060 | 1,088 | 947   | 1,005 | 932   |
| Tea                               |                               |       |       |       |       |       |
| Value                             | 615                           | 719   | 780   | 621   | 700   | 690   |
| Volume (million kg)               | 244.1                         | 268.5 | 271.9 | 269.3 | 288.0 | 295.0 |
| Unit value (US\$)                 | 2.52                          | 2.68  | 2.87  | 2.30  | 2.43  | 2.34  |
| Rubber                            |                               |       |       |       |       |       |
| Value                             | 104                           | 79    | 44    | 33    | 29    | 24    |
| Volume (million kg)               | 72.2                          | 61.5  | 41.5  | 42.8  | 32.4  | 32.0  |
| Unit value (US\$/kg)              | 1.44                          | 1.28  | 1.06  | 0.77  | 0.89  | 0.75  |
| Coconuts                          |                               |       |       |       |       |       |
| Value                             | 81                            | 82    | 56    | 84    | 77    | 41    |
| Volume (million nuts)             | 475                           | 505   | 437   | 600   | 787   | 516   |
| Unit value (US\$/nut)             | 0.17                          | 0.16  | 0.13  | 0.14  | 0.10  | 0.08  |
| Coconut products (value)          | 29                            | 35    | 38    | 45    | 45    | 42    |
| Other agricultural products       |                               |       |       |       |       |       |
| Value                             | 132                           | 145   | 170   | 165   | 155   | 136   |
| Volume (million kg)               | 54.6                          | 58.0  | 58.0  | 58.9  | 49.8  | 52    |
| Unit price (US\$/kg)              | 2.42                          | 2.50  | 2.93  | 2.80  | 3.11  | 2.63  |
| Industrial products               | 2,990                         | 3,422 | 3,590 | 3,539 | 4,279 | 3,725 |
| Gems (value)                      | 243                           | 208   | 177   | 222   | 273   | 248   |
| Of which: Processed diamonds      | 156.3                         | 125.0 | 121.0 | 161.0 | 179.3 | 166.1 |
| Garments and textiles             |                               |       |       |       |       |       |
| Value                             | 1,902                         | 2,274 | 2,460 | 2,425 | 2,982 | 2,543 |
| Volume (million pieces)           | 324.7                         | 360.4 | 371.3 | 370.7 | 440.0 | 387.5 |
| Unit value (US\$/piece)           | 5.86                          | 6.31  | 6.63  | 6.54  | 6.78  | 6.56  |
| Other industrial products (value) | 845                           | 940   | 953   | 892   | 1,025 | 934   |
| Petroleum products                |                               |       |       |       |       |       |
| Value                             | 104                           | 97    | 73    | 74    | 98    | 68    |
| Volume ('000 metric tons)         | 660.9                         | 538.1 | 473.5 | 413.0 | 352.4 | 280.9 |
| Unit value (US\$/ton)             | 157.4                         | 180.3 | 154.2 | 178.2 | 277.5 | 241.0 |
| Miscellaneous exports             | 41                            | 59    | 47    | 51    | 141   | 92    |
|                                   | (In percent of total exports) |       |       |       |       |       |
| Traditional exports 2/            | 20.2                          | 19.7  | 19.1  | 17.0  | 15.4  | 16.5  |
| Of which: Tea                     | 15.0                          | 15.5  | 16.3  | 13.5  | 12.7  | 14.3  |
| Nontraditional exports            | 79.8                          | 80.3  | 80.9  | 83.0  | 84.6  | 83.5  |
| Other agricultural products       | 3.2                           | 3.1   | 3.5   | 3.6   | 2.8   | 2.8   |
| Garments and textiles             | 46.4                          | 49.0  | 51.3  | 52.7  | 54.0  | 52.8  |
| Gems                              | 5.9                           | 4.5   | 3.7   | 4.7   | 4.9   | 5.2   |
| Other industrial products         | 20.6                          | 20.3  | 19.9  | 19.4  | 18.6  | 19.4  |
| Petroleum products                | 2.5                           | 2.1   | 1.5   | 1.6   | 1.8   | 1.4   |
| Other                             | 1.0                           | 1.3   | 1.0   | 1.1   | 2.6   | 1.9   |
| Total                             | 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.

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

Table 27. Sri Lanka: Imports by Commodity, 1996-2001

|   | 1996                          | 1997  | 1998  | 1999  | 2000  | 2001  |
|---|-------------------------------|-------|-------|-------|-------|-------|
|   | (In millions of U.S. dollars) |       |       |       |       |       |
| Total                                     | 5,439                         | 5,864 | 5,889 | 5,979 | 7,320 | 5,974 |
| Consumer goods                            | 1,234                         | 1,223 | 1,254 | 1,242 | 1,389 | 1,236 |
| Rice                                      |                               |       |       |       |       |       |
| Value                                     | 91                            | 73    | 42    | 46    | 4     | 11    |
| Volume ('000 metric tons)                 | 341                           | 306   | 168   | 214   | 15    | 52    |
| Unit value (US\$/ton)                     | 267                           | 238   | 251   | 216   | 262   | 204   |
| Wheat                                     |                               |       |       |       |       |       |
| Value                                     | 204                           | 139   | 127   | 111   | 127   | 110   |
| Volume ('000 metric tons)                 | 913                           | 789   | 880   | 859   | 922   | 760   |
| Unit value (US\$/ton)                     | 223                           | 176   | 144   | 129   | 138   | 144   |
| Sugar                                     |                               |       |       |       |       |       |
| Value                                     | 145                           | 184   | 129   | 106   | 141   | 115   |
| Volume ('000 metric tons)                 | 381                           | 545   | 444   | 479   | 562   | 420   |
| Unit value (US\$/ton)                     | 380                           | 337   | 290   | 222   | 252   | 274   |
| Other food                                | 361                           | 385   | 424   | 398   | 421   | 420   |
| Other consumer goods                      | 433                           | 442   | 532   | 581   | 696   | 581   |
| Intermediate goods                        | 2,767                         | 3,096 | 2,982 | 3,057 | 3,789 | 3,321 |
| Crude petroleum                           |                               |       |       |       |       |       |
| Value                                     | 304                           | 263   | 216   | 257   | 497   | 352   |
| Volume (million barrels)                  | 15                            | 14    | 16    | 14    | 17    | 14    |
| Unit value (US\$/barrel)                  | 20                            | 19    | 14    | 19    | 29    | 25    |
| Refined petroleum                         | 175                           | 276   | 129   | 243   | 404   | 379   |
| Fertilizer                                |                               |       |       |       |       |       |
| Value                                     | 76                            | 66    | 62    | 66    | 80    | 67    |
| Volume ('000 metric tons)                 | 361                           | 333   | 440   | 539   | 559   | 460   |
| Unit value (US\$/ton)                     | 211                           | 199   | 141   | 123   | 143   | 146   |
| Textiles                                  | 1,168                         | 1,386 | 1,397 | 1,320 | 1,471 | 1,320 |
| Other intermediate goods                  | 1,044                         | 1,105 | 1,178 | 1,171 | 1,337 | 1,202 |
| Investment goods                          | 1,204                         | 1,325 | 1,477 | 1,565 | 1,737 | 1,081 |
| <i>Of which</i> : Machinery and equipment | 649                           | 742   | 786   | 678   | 787   | 610   |
| Transport equipment                       | 179                           | 208   | 264   | 523   | 529   | 129   |
| Building materials                        | 263                           | 272   | 303   | 260   | 305   | 249   |
| Unclassified 2/                           | 234                           | 220   | 176   | 115   | 406   | 337   |
|   | (In percent of total imports) |       |       |       |       |       |
| Food                                      | 14.7                          | 13.3  | 12.3  | 11.1  | 9.5   | 11.0  |
| Petroleum                                 | 8.8                           | 9.2   | 5.9   | 8.4   | 12.3  | 12.2  |
| Textiles                                  | 21.5                          | 23.6  | 23.7  | 22.1  | 20.1  | 22.1  |
| Other intermediate goods 3/               | 20.6                          | 20.0  | 21.1  | 20.7  | 19.3  | 21.3  |
| Investment goods                          | 22.1                          | 22.6  | 25.1  | 26.2  | 23.7  | 18.1  |
| Other 4/                                  | 12.3                          | 11.3  | 12.0  | 11.6  | 15.1  | 15.4  |
| Total                                     | 100                           | 100   | 100   | 100   | 100   | 100   |

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

1/ Preliminary estimates.

2/ Includes non-monetary gold and military equipment.

3/ Includes fertilizer.

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



Table 28. Sri Lanka: Direction of Trade, 1996–2001

(In percent)

|                           | Exports |       |       |       |       |         | Imports |       |       |       |       |         |
|---------------------------|---------|-------|-------|-------|-------|---------|---------|-------|-------|-------|-------|---------|
|                           | 1996    | 1997  | 1998  | 1999  | 2000  | 2001 1/ | 1996    | 1997  | 1998  | 1999  | 2000  | 2001 1/ |
| European Union            | 29.7    | 30.1  | 27.3  | 28.7  | 27.4  | 26.1    | 17.7    | 16.9  | 17.6  | 14.4  | 13.0  | 14.2    |
| <i>Of which:</i>          |         |       |       |       |       |         |         |       |       |       |       |         |
| France                    | 2.7     | 2.2   | 2.2   | 2.2   | 2.1   | 2.2     | 1.0     | 0.9   | 1.3   | 1.3   | 1.1   | 1.3     |
| Germany                   | 6.0     | 5.0   | 4.9   | 4.7   | 4.2   | 4.1     | 3.1     | 3.3   | 3.6   | 2.3   | 2.1   | 2.3     |
| Netherlands               | 3.1     | 3.0   | 2.2   | 2.3   | 1.9   | 1.8     | 1.6     | 1.4   | 1.7   | 1.4   | 1.2   | 1.3     |
| United Kingdom            | 9.7     | 11.5  | 11.3  | 13.1  | 13.3  | 12.0    | 5.0     | 5.0   | 5.3   | 4.2   | 4.3   | 3.7     |
| United States             | 34.7    | 36.4  | 40.3  | 38.8  | 39.5  | 40.0    | 3.9     | 3.3   | 4.0   | 3.6   | 3.5   | 4.5     |
| Japan                     | 6.4     | 5.1   | 4.2   | 3.4   | 4.1   | 3.9     | 9.9     | 8.5   | 9.7   | 9.4   | 8.8   | 5.6     |
| Middle East               | 7.6     | 7.4   | 9.0   | 7.9   | 7.9   | 9.0     | 8.3     | 9.4   | 6.5   | 5.8   | 8.2   | 8.5     |
| <i>Of which:</i>          |         |       |       |       |       |         |         |       |       |       |       |         |
| Egypt                     | 0.6     | 0.9   | 3.1   | 0.6   | 0.6   | 0.3     | 0.3     | 0.3   | 0.1   | 0.2   | 0.1   | 0.1     |
| Iran, Islamic Republic of | 0.9     | 0.5   | 0.4   | 0.5   | 0.6   | 0.6     | 3.0     | 1.8   | 2.0   | 1.3   | 2.8   | 3.9     |
| Iraq                      | 0.0     | 0.1   | 0.3   | 0.3   | 0.3   | 0.4     | --      | --    | --    | --    | --    | --      |
| Saudi Arabia              | 0.8     | 0.8   | 1.0   | 0.8   | 0.8   | 0.6     | 2.3     | 3.2   | 1.7   | 0.8   | 1.8   | 0.6     |
| Asia 2/                   | 8.7     | 8.4   | 7.3   | 8.3   | 8.6   | 7.8     | 49.8    | 50.3  | 52.1  | 48.9  | 45.6  | 50.6    |
| <i>Of which:</i>          |         |       |       |       |       |         |         |       |       |       |       |         |
| China                     | 0.3     | 0.2   | 0.3   | 0.1   | 0.1   | 0.1     | 2.9     | 3.0   | 4.0   | 2.7   | 3.4   | 3.7     |
| India                     | 1.1     | 1.0   | 0.8   | 1.1   | 1.0   | 1.5     | 11.2    | 9.9   | 9.5   | 8.5   | 8.2   | 10.1    |
| Pakistan                  | 0.9     | 0.8   | 0.6   | 0.7   | 0.5   | 0.5     | 1.4     | 1.5   | 1.6   | 1.6   | 1.0   | 1.2     |
| Singapore                 | 1.5     | 1.3   | 0.9   | 1.0   | 1.1   | 1.2     | 5.1     | 5.1   | 5.4   | 7.5   | 6.8   | 6.9     |
| Former Soviet Union       | 3.1     | 3.7   | 3.1   | 2.3   | 2.6   | 3.4     | 0.4     | 0.3   | 0.3   | 0.3   | 0.1   | 0.1     |
| Other countries           | 9.8     | 8.9   | 8.8   | 10.5  | 9.9   | 9.8     | 9.8     | 11.7  | 9.8   | 17.7  | 20.7  | 16.5    |
| All countries             | 100.0   | 100.0 | 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 29. Sri Lanka: Indicators of Trade Performance, 1996–2001

|  | 1996                       | 1997 | 1998  | 1999 | 2000  | 2001  |
|--|----------------------------|------|-------|------|-------|-------|
|  | (In percent of GDP)        |      |       |      |       |       |
| Exports                                  | 29.5                       | 30.7 | 30.4  | 29.3 | 33.3  | 30.7  |
| Imports                                  | 39.1                       | 38.9 | 37.4  | 38.1 | 44.1  | 38.1  |
| Consumption                              | 7.4                        | 7.2  | 7.2   | 7.9  | 8.5   | 7.9   |
| Food                                     | 4.3                        | 4.3  | 3.8   | 4.2  | 4.2   | 4.2   |
| Other                                    | 3.1                        | 2.9  | 3.4   | 3.7  | 4.2   | 3.7   |
| Intermediate 1/                          | 21.4                       | 21.4 | 19.7  | 19.5 | 22.8  | 21.2  |
| Petroleum                                | 3.4                        | 3.6  | 2.2   | 3.2  | 5.4   | 4.7   |
| Other                                    | 17.9                       | 17.9 | 17.5  | 16.3 | 17.4  | 16.5  |
| Investment 2/                            | 8.7                        | 8.8  | 9.4   | 10.0 | 10.5  | 6.9   |
| Other                                    | 1.7                        | 1.5  | 1.1   | 0.7  | 2.4   | 2.2   |
| Trade balance                            | -9.7                       | -8.1 | -6.9  | -8.7 | -10.8 | -7.4  |
|  | (Annual percentage change) |      |       |      |       |       |
| Export volume                            | 3.2                        | 10.6 | -1.5  | 5.1  | 18.3  | -8.0  |
| Export unit value<br>(U.S. dollar terms) | 4.2                        | 2.4  | 5.0   | -8.6 | 1.3   | -5.2  |
| Import volume 2/                         | 2.2                        | 12.4 | 8.5   | 0.2  | 13.0  | -10.7 |
| Import unit value<br>(U.S. dollar terms) | 0.3                        | -4.0 | -7.4  | 1.3  | 8.4   | -8.6  |
| Terms of trade 3/                        | 4.0                        | 6.7  | 13.4  | -9.8 | -6.5  | 3.7   |
| Real effective exchange rate 4/          | 10.4                       | 13.4 | -10.5 | -1.2 | 0.6   | -0.1  |

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

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

2/ Includes the imports of aircraft in 1999 and 2000.

3/ Staff estimates.

4/ Changes are December to December, as calculated by the staff.

Table 30. Sri Lanka: Services and Income, 1996-2001

(In millions of U.S. dollars)

|   | 1996  | 1997  | 1998  | 1999  | 2000  | 2001 1/ |
|---|-------|-------|-------|-------|-------|---------|
| Total services 2/                         | 105   | 159   | 145   | 148   | 38    | 109     |
| Receipts                                  | 765   | 876   | 914   | 968   | 953   | 1,270   |
| Payments                                  | 660   | 716   | 770   | 820   | 915   | 1,161   |
| Transportation                            | 138   | 156   | 139   | 122   | 69    | 90      |
| Receipts                                  | 339   | 389   | 402   | 405   | 406   | 398     |
| Payments                                  | 201   | 233   | 263   | 283   | 337   | 308     |
| Travel                                    | -10   | 29    | 28    | 55    | 8     | -32     |
| Receipts                                  | 166   | 209   | 230   | 274   | 252   | 213     |
| Payments                                  | 176   | 180   | 202   | 219   | 244   | 245     |
| Insurance services                        | 10    | 10    | 16    | 17    | 19    | 109     |
| Receipts                                  | 28    | 30    | 34    | 37    | 41    | 424     |
| Payments                                  | 18    | 20    | 18    | 20    | 22    | 315     |
| Other business services                   | -27   | -29   | -29   | -47   | -50   | -48     |
| Receipts                                  | 208   | 223   | 224   | 227   | 184   | 173     |
| Payments                                  | 235   | 252   | 253   | 274   | 234   | 221     |
| Government Expenditure n.i.e.             | -7    | -6    | -9    | 0     | -6    | -5      |
| Receipts                                  | 24    | 25    | 25    | 25    | 24    | 22      |
| Payments                                  | 31    | 31    | 34    | 25    | 30    | 27      |
| Total income                              | -198  | -159  | -180  | -253  | -305  | -280    |
| Receipts                                  | 185   | 234   | 214   | 167   | 151   | 94      |
| Compensation of Employees                 | 11    | 12    | 12    | 12    | 12    | 15      |
| Direct Investment (Profits and dividends) | 1     | 2     | 2     | 2     | 2     | 2       |
| Other (interest)                          | 173   | 220   | 200   | 153   | 137   | 77      |
| Payments                                  | 383   | 393   | 394   | 420   | 456   | 374     |
| Compensation of employees                 | 12    | 13    | 13    | 14    | 14    | 17      |
| Direct investment (profits and dividends) | 64    | 77    | 91    | 111   | 110   | 104     |
| Other (interest)                          | 307   | 303   | 289   | 296   | 332   | 253     |
| Memorandum items:                         |       |       |       |       |       |         |
| Exports of goods and nonfactor services   | 4,860 | 5,515 | 5,712 | 5,578 | 6,475 | 6,087   |
| (In percent of GDP)                       | 35.0  | 36.5  | 36.2  | 35.5  | 39.0  | 38.8    |
| Imports of goods and nonfactor services   | 6,099 | 6,580 | 6,659 | 6,798 | 8,235 | 7,135   |
| (In percent of GDP)                       | 43.9  | 43.6  | 42.2  | 43.3  | 49.6  | 45.5    |

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

1/ Provisional.

2/ Includes telecommunications services.

Table 31. Sri Lanka: Financial Account, 1996-2001

(In millions of U.S. dollars)

|   | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 1/ |
|---|------|------|------|------|------|---------|
| Total, net                                | 363  | 515  | 334  | 292  | 395  | 339     |
| Central government, net                   | 259  | 239  | 203  | 61   | 47   | 248     |
| Concessional medium- and long-term        | 284  | 184  | 314  | 178  | 153  | 215     |
| Disbursements                             | 424  | 333  | 471  | 351  | 353  | 423     |
| Amortization                              | 140  | 149  | 158  | 174  | 200  | 208     |
| Nonconcessional medium- and long-term     | -25  | 55   | -111 | -116 | -106 | 33      |
| Disbursements                             | 73   | 168  | 22   | 29   | 2    | 152     |
| Amortization                              | 98   | 113  | 132  | 145  | 108  | 119     |
| Private sector medium- and long-term 2/   | 2    | 47   | 2    | 196  | 83   | -257    |
| Disbursements                             | 156  | 150  | 147  | 361  | 301  | 44      |
| Amortization 3/                           | 155  | 102  | 145  | 165  | 217  | 301     |
| Direct investment, net 4/                 | 120  | 430  | 193  | 177  | 176  | 172     |
| Short-term, net 5/                        | -18  | -201 | -64  | -142 | 88   | 176     |
| Memorandum items:                         |      |      |      |      |      |         |
| Total aid disbursements                   | 638  | 627  | 620  | 484  | 423  | 637     |
| Loans                                     | 497  | 500  | 493  | 382  | 355  | 575     |
| Project loans 6/                          | 424  | 333  | 471  | 351  | 353  | 423     |
| Commodity and program loans               | 73   | 168  | 22   | 30   | 2    | 152     |
| Grants                                    | 140  | 127  | 127  | 103  | 68   | 62      |
| Project grants                            | 91   | 83   | 74   | 77   | 44   | 40      |
| Commodity and technical assistance grants | 49   | 45   | 53   | 26   | 24   | 22      |

Sources: Data provided by the Central Bank of Sri Lanka; and Fund 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-government.

6/ Includes nonconcessional project loans.

Table 32. Sri Lanka: External Debt-Service Payments, 1996–2001

(In millions of U.S. dollars)

|  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001 1/ |
|--|-------|-------|-------|-------|-------|---------|
| Interest   | 315.6 | 303.4 | 288.8 | 297.2 | 331.2 | 252.9   |
| Government   | 148.1 | 134.2 | 129.4 | 133.5 | 129.1 | 122.7   |
| Concessional   | 134.3 | 120.9 | 100.4 | 111.7 | 115.2 | 116.0   |
| Multilateral   | 24.7  | 25.0  | 25.1  | 27.0  | 22.5  | 28.1    |
| Bilateral  | 109.6 | 95.9  | 75.3  | 84.7  | 92.7  | 87.9    |
| Nonconcessional                                      | 13.8  | 13.3  | 29.0  | 21.8  | 13.9  | 6.7     |
| Private  | 74.2  | 71.7  | 68.3  | 71.4  | 87.7  | 69.2    |
| Public corporations and private sector 2/            | 55.6  | 52.2  | 50.4  | 52.8  | 68.4  | 58.2    |
| Other public corporations and private sector 3/      | 18.6  | 19.5  | 17.9  | 18.6  | 19.3  | 11.0    |
| Fund   | 6.6   | 6.1   | 6.2   | 5.1   | 5.1   | 4.5     |
| Short-term debt 4/                                   | 86.7  | 91.4  | 84.9  | 87.2  | 109.3 | 56.5    |
| Amortization   | 428.3 | 438.2 | 469.6 | 550.7 | 621.8 | 558.5   |
| Government   | 258.1 | 281.4 | 290.0 | 318.8 | 307.7 | 326.9   |
| Concessional   | 140.7 | 149.6 | 158.4 | 173.1 | 199.7 | 211.9   |
| Multilateral   | 23.8  | 34.5  | 31.7  | 34.5  | 41.0  | 52.3    |
| Bilateral  | 116.9 | 115.1 | 126.7 | 138.6 | 158.7 | 159.6   |
| Nonconcessional                                      | 117.4 | 131.8 | 131.6 | 145.7 | 108.0 | 115.0   |
| Private  | 123.4 | 90.7  | 96.9  | 132.3 | 217.1 | 153.6   |
| Public corporations and private sector 2/            | 79.0  | 67.7  | 73.8  | 97.8  | 173.7 | 96.6    |
| Other public corporations and private sector 3/      | 44.4  | 23.0  | 23.1  | 34.5  | 43.4  | 57.0    |
| Fund repurchases                                     | 46.8  | 66.1  | 82.7  | 99.6  | 97.0  | 78.0    |
| Memorandum items:                                    |       |       |       |       |       |         |
| Total debt-service ratio 5/                          | 15.3  | 13.3  | 13.3  | 15.2  | 14.7  | 13.3    |
| Of which: Interest payments                          | 6.5   | 5.5   | 5.1   | 5.3   | 5.1   | 4.2     |
| Medium- and long-term official debt-service ratio 6/ | 9.5   | 8.8   | 8.9   | 10.0  | 8.3   | 8.7     |
| Interest payments/total outstanding debt             | 3.7   | 3.7   | 3.3   | 3.3   | 3.7   | 3.0     |
| Average interest rate on concessional debt           | 1.8   | 1.7   | 1.6   | 1.6   | 1.5   | 1.4     |
| Average interest rate on non-concessional debt       | 3.7   | 3.1   | 3.9   | 4.7   | 3.1   | 3.0     |

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

1/ Provisional.

2/ With government guarantee.

3/ Without government guarantee.

4/ Includes interest payments on trade credits, Central Bank and commercial bank liabilities, CPC, 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 33. Sri Lanka: External Debt Outstanding, 1996–2001

(In millions of U.S. dollars)

|   | 1996  | 1997  | 1998  | 1999  | 2000  | 2001 1/ |
|---|-------|-------|-------|-------|-------|---------|
| Total medium and long term                              | 7,458 | 7,286 | 7,897 | 8,355 | 8,269 | 7,800   |
| Government  | 6,554 | 6,346 | 6,902 | 7,125 | 6,963 | 6,808   |
| Concessional  | 6,180 | 5,915 | 6,642 | 6,910 | 6,660 | 6,375   |
| Multilateral  | 2,819 | 2,820 | 3,123 | 3,156 | 3,027 | 3,104   |
| IDA   | 1,517 | 1,509 | 1,654 | 1,650 | 1,555 | 1,576   |
| AsDB  | 1,231 | 1,243 | 1,395 | 1,444 | 1,406 | 1,461   |
| Other   | 71    | 68    | 74    | 62    | 66    | 67      |
| Bilateral   | 3,362 | 3,095 | 3,519 | 3,754 | 3,633 | 3,271   |
| Japan   | 1,761 | 1,611 | 1,953 | 2,286 | 2,159 | 1,987   |
| United States   | 692   | 684   | 676   | 655   | 643   | 616     |
| Germany   | 482   | 420   | 445   | 380   | 321   | 274     |
| Other   | 426   | 380   | 446   | 433   | 510   | 395     |
| Commercial  | 374   | 431   | 314   | 215   | 303   | 433     |
| Multilateral  | 12    | 10    | 8     | 6     | 4     | 7       |
| Bilateral   | 3     | 17    | 24    | 18    | 13    | 2       |
| Financial markets                                       | 151   | 200   | 186   | 147   | 69    | 157     |
| Supplier credits  | 209   | 204   | 96    | 44    | 217   | 267     |
| Public corporations and private sector 2/ 3/            | 637   | 670   | 718   | 944   | 1,028 | 744     |
| Other public corporations and private sector 3/ 4/      | 267   | 270   | 277   | 286   | 278   | 248     |
| Short-term debt 3/ 5/                                   | 498   | 478   | 484   | 475   | 575   | 557     |
| IMF   | 530   | 433   | 367   | 258   | 161   | 209     |
| Total debt  | 8,487 | 8,197 | 8,748 | 9,088 | 9,005 | 8,566   |
| Memorandum items:                                       |       |       |       |       |       |         |
| Total medium- and long-term debt 6/                     | 7,988 | 7,719 | 8,264 | 8,613 | 8,430 | 8,009   |
| (In percent of GDP) 7/                                  | 57    | 51    | 53    | 55    | 51    | 51      |
| (In percent of exports of goods and nonfactor services) | 164   | 140   | 146   | 154   | 131   | 132     |

Source: Data provided by the Sri Lankan 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. Excludes nonresident foreign currency deposits.

6/ Including use of Fund credit.

7/ Excludes banking sector liabilities.

Table 34. Sri Lanka: Net International Reserves, 1996-2001

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

|  | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    |
|--|---------|---------|---------|---------|---------|---------|
| I. Central Bank, net                                       | 1,803.1 | 1,874.1 | 1,842.9 | 1,433.2 | 826.4   | 1,092.3 |
| a. Assets  | 1,885.6 | 1,982.0 | 1,935.4 | 1,553.8 | 964.2   | 1,201.4 |
| Gold   | 4.9     | 4.5     | 4.1     | 4.0     | 3.5     | 3.0     |
| SDR holdings   | 1.9     | 0.4     | 1.3     | 1.0     | 0.4     | 0.9     |
| Liquid balances abroad                                     | 613.5   | 841.8   | 871.7   | 285.0   | 288.7   | 429.1   |
| Bilateral credit balances                                  | 0.3     | 0.2     | 0.2     | 0.0     | 0.4     | 0.2     |
| Foreign securities   | 1,197.4 | 1,094.2 | 999.1   | 1,210.8 | 671.2   | 766.7   |
| ACU credit balance 1/                                      | 2.9     | 0.6     | 0.1     | 0.0     | 0.0     | 1.5     |
| Statutory reserves on foreign deposits of commercial banks | 64.7    | 40.3    | 58.9    | 53.0    | 0.0     | 0.0     |
| b. Liabilities   | 82.5    | 107.9   | 92.5    | 120.6   | 137.8   | 109.1   |
| Nonresident deposits                                       | 0.8     | 1.1     | 0.3     | 0.1     | 0.4     | 1.8     |
| Borrowings from abroad                                     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| ACU debit balance 1/                                       | 81.7    | 106.8   | 92.2    | 120.5   | 137.4   | 107.3   |
| II. Government, net  | -478.0  | -386.6  | -300.1  | -161.7  | -76.2   | -122.0  |
| a. Assets  | 51.9    | 46.8    | 67.2    | 96.2    | 84.3    | 86.9    |
| Reserve position in IMF                                    | 29.1    | 27.3    | 28.5    | 65.0    | 62.2    | 58.5    |
| Investment   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Other 2/   | 22.8    | 19.5    | 38.7    | 31.2    | 22.1    | 28.4    |
| b. Liabilities 2/  | 529.9   | 433.4   | 367.3   | 257.9   | 160.5   | 208.9   |
| Use of Fund credit   | 529.9   | 433.4   | 367.3   | 257.9   | 160.5   | 208.9   |
| III. Commercial banks, net                                 | -184.6  | 9.3     | 57.5    | 177.6   | 144.8   | -109.6  |
| a. Assets  | 779.6   | 1,102.9 | 923.0   | 942.2   | 1,082.8 | 899.7   |
| Liquid balances  | 165.9   | 307.0   | 343.8   | 413.9   | 544.3   | 393.0   |
| Export bills   | 109.4   | 113.6   | 100.5   | 89.6    | 109.8   | 85.2    |
| FCBU assets  | 504.3   | 682.3   | 478.7   | 438.7   | 428.7   | 421.5   |
| b. Liabilities   | 964.2   | 1,093.6 | 865.5   | 764.6   | 938.0   | 1,009.3 |
| Foreign bank borrowings                                    | 35.0    | 52.8    | 53.5    | 60.7    | 74.3    | 52.8    |
| Foreign bank deposits                                      | 16.8    | 12.0    | 9.3     | 9.1     | 4.8     | 5.6     |
| Non-bank demand deposits 3/                                | 15.2    | 14.6    | 13.3    | 13.3    | 13.1    | 14.5    |
| Non-bank time deposits 3/                                  | 282.2   | 306.9   | 351.5   | 375.5   | 416.6   | 417.3   |
| FCBUs Liabilities with Nonresidents                        | 615.0   | 707.3   | 437.9   | 306.0   | 429.2   | 519.1   |
| IV. Net international reserves (I+II+III)                  | 1,140.5 | 1,496.8 | 1,600.3 | 1,449.1 | 895.0   | 860.7   |
| Memorandum items:  |         |         |         |         |         |         |
| Gross official reserves (Ia+IIa)                           | 1,937.5 | 2,028.8 | 2,002.6 | 1,650.0 | 1,048.5 | 1,288.3 |
| Gross official reserves (excl. ACU balances)               | 1,858.7 | 1,922.6 | 1,910.5 | 1,529.5 | 911.1   | 1,182.5 |
| (in months of next year's imports)                         | 3.4     | 3.5     | 3.4     | 2.2     | 1.5     | 2.0     |
| Net official reserves (I+II)                               | 1,325.1 | 1,487.5 | 1,542.8 | 1,271.5 | 750.2   | 970.3   |
| Exchange rate (Rs/U.S. dollar, end-of-period)              | 56.7    | 61.3    | 67.8    | 72.1    | 77.5    | 93.2    |

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

1/ Asian Clearing Union.

2/ Includes special disbursement accounts and revolving credit balances. Excludes war risk deposit in 2001.

3/ Includes Non Resident Foreign Currency (NRFC) and Resident Non National Foreign Currency (RNNFC) deposits.

Table 35. Sri Lanka: Vulnerability Indicators, 1996–2001

(In percent of GDP, unless otherwise indicated)

|   | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  |
|---|-------|-------|-------|-------|-------|-------|
| Official risk indicators 1/   |       |       |       |       |       |       |
| Share of nonperforming loans (as percent of total loans)                              |       |       |       |       |       |       |
| State-owned commercial banks  | 18.9  | 20.2  | 19.5  | 18.5  | 15.4  | 18.2  |
| Domestic private banks  | 12.0  | 12.4  | 13.4  | 15.9  | 14.9  | 15.7  |
| Risk-based capital asset ratio (capital over risk-weighted assets) 2/                 |       |       |       |       |       |       |
| State-owned commercial banks  | 10.7  | 9.2   | 8.2   | 8.4   | 2.2   | 0.1   |
| Domestic private banks  | 11.8  | 10.9  | 12.3  | 12.2  | 11.4  | 10.4  |
| Foreign banks   | 13.8  | 13.9  | 13.9  | 12.4  | 13.0  | 16.0  |
| Financial sector risk indicators  |       |       |       |       |       |       |
| Public sector debt  | 93.3  | 85.8  | 90.8  | 95.1  | 96.8  | 103.6 |
| Broad money (percent change, 12-month basis) 3/                                       | 11.3  | 15.6  | 13.2  | 13.4  | 12.9  | 13.6  |
| Private sector credit (percent change, 12 month basis) 3/                             | 8.9   | 14.5  | 11.8  | 10.5  | 11.8  | 8.9   |
| Share of deposits in broad money 3/   | 85.3  | 86.3  | 86.3  | 86.3  | 87.3  | 88.1  |
| Share of foreign currency deposits in total deposits 3/                               | 14.6  | 15.2  | 18.9  | 20.4  | 21.1  | 21.3  |
| Share of foreign exchange loans in total loans 3/                                     | 19.0  | 19.0  | 20.0  | 17.0  | 19.0  | ...   |
| Share of private credit collateralized by immovable property, plant, and machinery 4/ | 26.9  | 25.7  | 26.6  | 26.9  | 28.6  | 28.2  |
| Share of housing and property development in private credit 4/                        | 12.3  | 11.6  | 12.9  | 13.0  | 13.0  | 14.0  |
| Market assessment indicators  |       |       |       |       |       |       |
| Stock market index (1985=100)   | 618   | 698   | 597   | 573   | 448   | 621   |
| Share price index of financial institutions (1985=100)                                | 1,728 | 1,772 | 1,356 | 1,214 | 870   | 1,356 |
| External indicators   |       |       |       |       |       |       |
| Exports (percent change, 12-month basis in US\$)                                      | 7.6   | 13.3  | 3.4   | -3.9  | 19.8  | -12.8 |
| Imports (percent change, 12-month basis in US\$)                                      | 2.4   | 7.8   | 0.4   | 1.5   | 22.4  | -18.4 |
| Current account balance (excluding official transfers)                                | -5.2  | -2.9  | -1.8  | -3.7  | -6.6  | -2.5  |
| Capital and financial account balance   | 3.3   | 4.0   | 2.6   | 2.4   | 2.7   | 3.4   |
| Of which: Inward portfolio investment   | 0.0   | 0.1   | -0.1  | -0.1  | -0.3  | -0.1  |
| Medium- and long-term inflows, net  | 2.7   | 4.7   | 2.5   | 2.8   | 1.8   | 1.0   |
| Foreign direct investment   | 0.6   | 0.9   | 0.9   | 1.1   | 1.0   | 0.5   |
| Gross official reserves excl. ACU balances (in millions of US\$)                      | 1,937 | 2,029 | 1,899 | 1,530 | 911   | 1,182 |
| Central Bank short-term foreign liabilities (in millions of US\$)                     | 82    | 107   | 92    | 0     | 0     | 0     |
| Short-term foreign assets of commercial banks (in millions of US\$) 5/                | 709   | 974   | 832   | 850   | 1,001 | 1,198 |
| Short-term foreign liabilities of commercial banks (in millions of US\$) 5/           | 903   | 1,023 | 817   | 722   | 885   | 948   |
| Foreign currency exposure of commercial banks 3/ 6/                                   | 107   | 96    | 103   | 100   | 100   | 100   |
| Gross official international reserves (as percent of imports of goods & services)     | 31.8  | 30.8  | 28.5  | 22.5  | 11.1  | 16.6  |
| Gross official international reserves (as percent of broad money)                     | 36.4  | 35.3  | 33.9  | 25.8  | 15.6  | 20.0  |
| Short-term debt 7/  | 11.1  | 11.1  | 9.1   | 8.7   | 9.9   | 10.7  |
| Gross official international reserves (as percent of short-term debt) 8/              | 104.1 | 101.8 | 111.5 | 92.4  | 45.7  | 59.3  |
| Total external debt   | 68.6  | 62.3  | 61.0  | 63.2  | 60.8  | 61.8  |
| External interest payments (as percent of exports goods & services)                   | 6.3   | 5.5   | 5.1   | 5.3   | 5.1   | 4.2   |
| Debt service (as percent of exports of goods & services)                              | 15.3  | 13.3  | 13.3  | 15.2  | 14.7  | 13.3  |
| Exchange rate (Rupee per US\$, period average)  | 55.3  | 59.0  | 64.6  | 70.4  | 75.8  | 89.4  |

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

1/ Excluding foreign currency banking units (FCBUs).

2/ Weighted averages of individual bank data.

3/ Including foreign currency banking units (FCBUs).

4/ Based on quarterly survey of loans and advances of commercial banks.

5/ Domestic and foreign currency banking units.

6/ Foreign currency liabilities as a percent of foreign currency assets.

7/ Includes CPC acceptance credits, other trade credits, borrowings from FCBUs, Central Bank ACU balances, and commercial bank liabilities.