

Sri Lanka: Recent Economic Developments

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SRI LANKA

Recent Economic Developments

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Approved by Asia and Pacific Department

March 21, 2001

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I. INTRODUCTION AND SUMMARY

1. **With the benefits of a more favorable external environment, Sri Lanka's economy accelerated its economic growth from 4¼ percent in 1999 to 6 percent in 2000.**

- The moderate growth registered in 1999 was in part due to weak export performance. As currencies of neighboring countries appreciated in real terms, Sri Lanka's economy became more competitive, laying the foundations for an export-led growth in 2000, led by manufacturing, mining and services.
- Buoyancy in overall economic activity led to a decline in the unemployment rate in both 1999 and 2000, reflecting growth of employment in the private sector particularly in tourism, manufacturing and small business.

2. **Inflation declined steadily throughout 1999, falling from 9½ percent in 1998 to 4¾ percent at end-1999, but picked up again to near 11 percent in 2000.**

- The decline of inflation in 1999 was helped by prudent demand management. However, during 2000, inflation rose because of the surge in international oil prices and other administered price increases, and the depreciation of the rupee.

3. **On the external front, the current account deficit increased from 1½ percent of GDP in 1998 to 3¾ percent in 1999, widening further to 7 percent in 2000.**

- The increase in the current account deficit in 1999 reflected a weaker export performance due to a severe loss of competitiveness, subdued external demand in the aftermath of the Asian crisis and large purchases of aircraft.
- In contrast, the widening of the current account balance in 2000 was largely due to the significant increase in imports mainly in the form of energy and military-related imports. This weakened the balance of payments and consequently gross official reserves declined by more than \$600 million to 1¼ months of imports cover.

4. **Fiscal consolidation deepened in 1999 mainly through compression of non-interest expenditure.** However, this gain was reversed in 2000, with the overall deficit (excluding grants) increasing to 9¾ percent of GDP.

- The worsened fiscal position was largely due to significantly higher security-related expenditures and some revenue shortfalls.

5. **These developments in the external and fiscal accounts had significant implications for monetary management during 1999 and 2000.**

- Credit to government from the banking system increased at a faster pace during 1999, as foreign financing was limited and privatization receipts were below target. Similarly, there was a significant increase in domestic credit to the public sector in 2000, due to very little foreign financing as well as the impact of the oil price shock on financial conditions of several public enterprise.
- The resulting increase in net domestic assets of the Central Bank of Sri Lanka (CBSL) was offset by the significant decline in net foreign assets. As a result, broad money expanded by only 13 percent during both 1999 and 2000, within the CBSL's internal operating target.

6. After lowering interest rates in 1999, as inflation declined, the CBSL was forced to push rates higher in 2000 in defense of the exchange rate.

- The CBSL's repo and reverse repo rates declined by two percentage points by the end of 1999. However, short-term interest rates firmed up in the second half of 2000 because of the CBSL's tighter monetary policy stance, with the reverse repo rate raised to 23 percent in January 2001.

7. Although limited progress took place on the structural front during 1999 and first half of 2000, structural reforms were put at the backburner during the second half of the year as the authorities wrestled with short-term macroeconomic stabilization measures.

- The authorities made some progress on civil service reform by taking steps to restructure the Ministry of Finance and initiating the internal reorganization of the CBSL.
- Management changes in the two state banks (People's Bank and Bank of Ceylon) did advance in 2000, as scheduled.

8. This paper provides background information on economic developments during 1999–2000. Also included is an updated assessment of banking soundness.

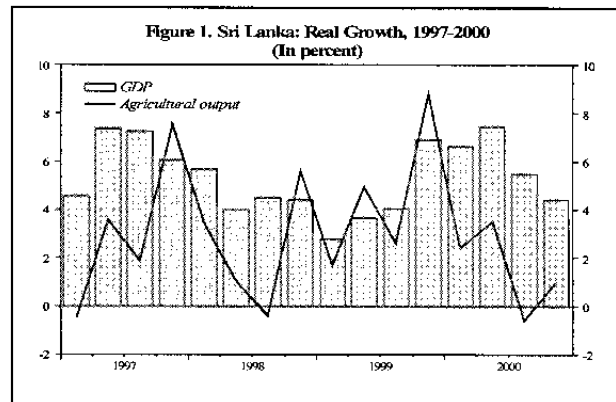
- Detailed analysis of key policy issues appear in text boxes. The topics include changing dynamics in the tax structure, the 2000 Budget proposals, the impact of the oil shock on Sri Lanka's balance of payments, recent developments on bilateral trading arrangements and regional dynamics of poverty in Sri Lanka.
- Detailed tables on all sectors are provided in the Appendix.
- A summary of the current tax system and incentives is provided in Annex I.

II. RECENT ECONOMIC AND POLITICAL DEVELOPMENTS, 1999–2000

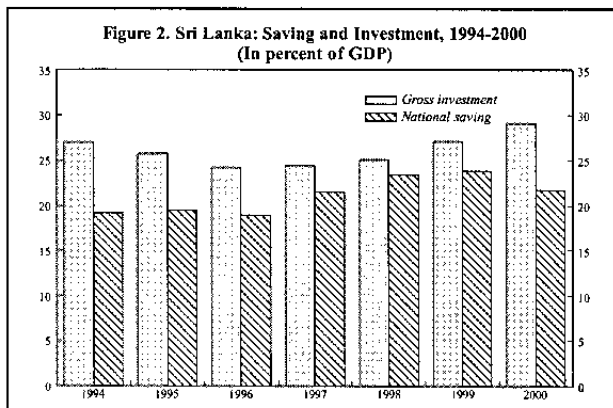
A. Real Sector ¹

Growth, saving and investment

9. **After weakening in 1999, GDP growth increased strongly in 2000, led by exports.** The first half of 1999 was difficult, with exports falling by 10 percent. However, starting in the second half of 1999 a recovery in Sri Lanka's main export markets spurred a turnaround in the industrial sector, thus helping to maintain overall yearly growth at 4¼ percent. This was still below the country's average annual growth rate during 1995–99 (5 percent). The turnaround continued into 2000, and GDP growth rose to a 6 percent boosted by strong export rebound. The strength in industry more than offset weaknesses in agriculture, where paddy, rubber, and fishing contracted. Services also grew strongly, led by trade related to exports and imports, and electricity generation.



10. **The savings-investment gap increased from 1¾ percent of GDP in 1998 to 3¼ percent of GDP in 1999, widening further to 7 percent of GDP in 2000.** Gross domestic investment rose from 25 percent of GDP in 1998 to 27¼ percent of GDP in 1999 reflecting primarily buoyant expansions in telecommunications services and the launching of the reflecting program by the privatized Sri Lankan Airlines. The economy also maintained its appeal to foreign investors, with net FDI flows increasing to \$180 million in 1999. Gross national savings also increased marginally in 1999 to 23¾ percent of GDP. Private savings benefited from the growing per capita incomes, higher positive real interest rates and increasing private remittances from abroad. During 2000, gross national savings declined to 21¾ percent of GDP—public dissaving rose sharply because of fiscal slippage. Gross domestic investment, on the other hand, rose to 29 percent of GDP as a result of increased private investment in the garments and textiles sector, ports, and power plants.

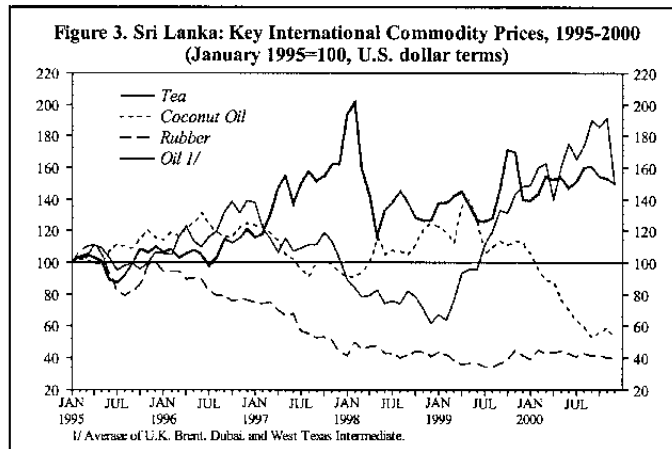


¹ See Appendix Tables 1–13 and Figures 1–4.

Agriculture

11. Agriculture grew by 4½ percent in 1999, registering broadly similar growth rate as manufacturing for the first time in many years. Paddy production expanded dramatically, benefiting from abundant rainfalls and a higher yield rate from increased fertilizer application. Fishing activity was buoyant (7½ percent) owing to resumption of fishing in the Eastern coastal belt and growth in shrimp farming. Tea production also set a

new record of 284 million kg. as a result of improved management following privatization, and good weather. Rubber production increased for the first time since 1996 due to good weather conditions and a small upturn in rubber prices. The strong performance in 1999 was still below potential of the agricultural sector since restrictions on land transfers in certain areas, and generous subsidies for irrigation undermine the price incentives to farmers and reduce the production of higher value-added crops and more commercial farming.



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12. In contrast, agricultural output performance was mixed during 2000. While tea production increased 7½ percent to a new record high, output of rubber, paddy and fishing declined. The buoyant tea output was due to favorable weather conditions and increased application of fertilizer, as well as firm prices in the wake of a drop in production in Kenya and recovery in demand from Russia/CIS countries and the Middle Eastern markets. Paddy production declined 2½ percent because of a delay in rains, flood damage in the north, and a cyclone, which caused a 9½ percent decline in the *yala* season crop. Rubber output fell to 87 million kg., the lowest in a decade, a supply response to depressed international prices that prevailed in the past couple of years. Coconut production also weakened because of a further drop in international prices following recovery in output in the Philippines. Production of other crops reported a mixed performance. Fishing contracted 3 percent as a result of declines in fish stocks in traditional fishing areas.

Industry

13. Manufacturing slowed to only 4½ percent in 1999, significantly below the average growth of nearly 8 percent recorded in 1997 and 1998. The slowdown was mainly in export industries, especially textiles and apparel and rubber and leather products, on account of the reduction in growth in Sri Lanka's main trading partners and stiff competition from recovering East Asian countries. The construction sector growth decelerated to 4¾ percent in 1999, as private and public investment slowed. After a sharp contraction in 1998, mining and quarrying grew 4 percent in 1999 as major export markets for gems in East Asia recovered, particularly in the second half of the year.

14. **The industrial sector bounced back in 2000 particularly in export-oriented industries, which account for over half of the manufacturing sector.** With the gradual appreciation of East Asian currencies, Sri Lankan exporters were able to regain their international competitiveness. This, together with robust growth in the economies of key trading partners, stimulated demand for major export items. Textile and apparel output increased by about 17 percent. Other export-oriented industries that registered good growth were small-part machinery, jewelry, manufactured rubber products, processed diamonds, plastic products, and processed tea. As a result, factory industries as a whole, accounting for over 80 percent of manufacturing, grew 11 percent, with profits at 13½ percent of sales. While not as spectacular as export industries, performance of industries catering for the domestic market was also robust in 2000.

Services

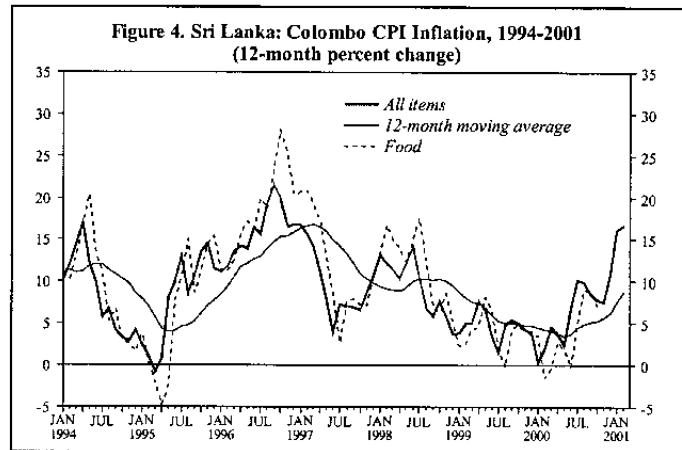
15. **The overall performance of the service sector showed a decline in the growth momentum in 1999.** Value added in services, which account for about half of GDP, grew by 4¼ percent, compared to 5–7 percent in previous years. The telecommunications sub-sector was a major contributor of this growth performance, following continued participation of the private sector in expanding the telecommunications network and provision of high value added communications services. Tourism showed a strong recovery in 1999 (14½ percent increase in arrivals) due largely to overseas promotional campaigns and an increase in actual number of tourists flying to Colombo. The good performance of these sectors helped to offset the downturn in services linked to external trade.

16. **Although tourism and the ports sector weakened in 2000, the service sector overall grew strongly, led by electricity generation, transport and communications, and wholesale and retail trade related to exports and imports.** Public sector passenger transportation increased its mileage as the Regional Transport Companies (RTCs) increased their bus fleets. With the acquisition of the new aircraft, the performance of the Sri Lanka Airlines continued to improve, despite the slowdown in tourist arrivals in 2000. The strong growth in the telecommunications sector, a trend developed in the past couple of years, also continued in 2000. Telecommunications services provided by the private sector expanded during the first half of 2000—the cellular subscriber network was increased by 20 percent. Electricity generation grew over 9 percent, reflecting substantial investments in the power sector and an annual average increase in demand of 10 percent. On the other hand, tourism suffered a setback, following the terrorist activities in Colombo in November 1999, and the escalation of the civil conflict in 2000. As a result, tourist arrivals declined 8½ percent during January-November 2000, and gross earnings from the tourist industry declined by 3 percent in U.S. dollar terms during the first half of 2000. The ports sector also weakened in the face of stiff competition from neighboring ports, which lowered vessel traffic.

Prices, wages, and employment

17. **All available consumer price indices indicate that inflation fell sharply in 1999.** Annual average inflation as measured by the Colombo Consumer Price Index (CCPI), which is the official measure of inflation, fell from 9½ percent in 1998 to 4¾ percent in 1999, as a

result of increased agricultural output, declines in import prices of wheat, sugar, and rice, and a moderation in the rate of increase of domestic fuel prices.² The policy environment was also conducive, with improved monetary controls, and greater fiscal discipline. The low inflation in 1999 helped to ease the pressure on interest rates and wages considerably, while improving international competitiveness, and thereby eased somewhat the task for overall macroeconomic management. However, inflationary expectations remained high.



18. **The favorable inflation trends continued into the first half of 2000, but were reversed in the latter part of the year.** Twelve-month average inflation declined continuously until May 2000—the CCPI registered an average inflation rate of 3¼ percent during the first half of 2000 compared to 5¼ percent in the corresponding period of 1999. Although the rupee depreciated against the U.S. dollar by about 7 percent during January–June 2000, its impact was mitigated by lower international prices of food items.

19. **Prices rose sharply during the second half of 2000 as the government increased administered prices and the rupee depreciated.** In response to the higher international oil prices, increases were implemented for administered price of fuel, wheat, electricity, transport fares and public utility charges. As a result, inflation increased to 6¼ percent (annual average) and 11 percent (on a 12-month basis) by December 2000. In January and February 2001, consumer prices continued to rise sharply.

20. **There was no significant wage increase in the public sector during 1999 but large pay rises came into force in late 2000.** With effect from August 1, 2000, an interim allowance of Rs 600 was granted to public servants drawing a monthly salary of Rs 12,000 or less. A nonpensionable interim allowance of 10 percent of the salary to all public officers, subject to a minimum of Rs 1,000 per month, then came into effect on October 1, 2000. Wages in the organized private sector were raised at different rates for different categories, resulting in an overall increase of 2½ percent in 2000.

21. **The rate of unemployment continued to decline in 1999 and early 2000, reflecting employment growth in both the private and public sectors.** Tentative estimates indicate that the economy created about 85,000–90,000 new jobs in 1999. The major

² The Greater Colombo Consumer Price Index (GCPI), and the Colombo District Consumer Price Index, which have wider geographical coverage and more recent consumption baskets than the CCPI, also indicated similar declines in annual average inflation.

generators of employment included manufacturing, light engineering, construction, and transport and communication. However, public sector employment increased faster than the total, in contrast to the recent trend of declining share of public sector employment. The latest survey conducted by the Department of Census and Statistics suggested a rise of unemployment in the third quarter of 2000—the labor force participation rate was 49½ percent, compared to 50¾ percent for the corresponding period in 1999. Union and strike activity showed a noticeable decline in 2000 compared to 1999 and as a result there was a significant reduction in the number of man hours lost in 2000.

B. Public Finances ³

Overview

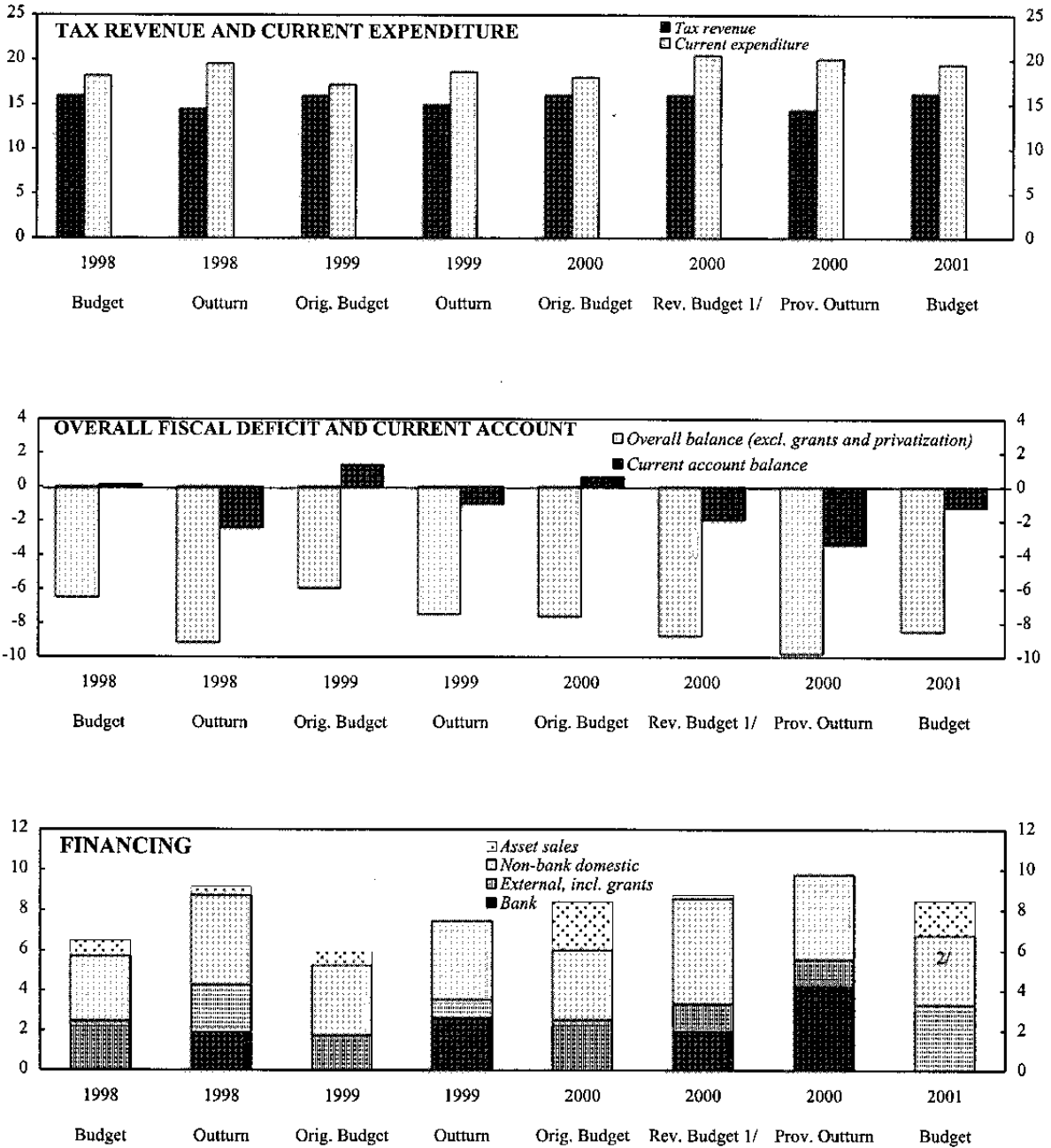
22. **The public sector in Sri Lanka is a significant part of the economy, accounting for 13 percent of gross national expenditure and 18 percent of total formal employment in 2000.** The public sector comprises the central government; provincial, municipal, urban, and local councils; public institutions and statutory boards; and public corporations. The central government budget covers the revenues, expenditures, and financing of the presidency, the judiciary, parliament, 45 line ministries, and several departments and agencies. The eight Provincial Councils operate under a separate budgetary arrangement, although most of their expenditure is financed by central government transfers.

23. **Although the government has taken steps since 1994 to achieve a low sustainable central government budget deficit, progress has been uneven.** In an attempt to reverse over two decades of persistently large budget deficits, the government adopted a policy of reducing the size of the public sector, improving its efficiency, and distancing itself from commercial activities. The consolidation resulted in a reduction in the budget deficit (excluding grants) from over 10 percent in the mid-1990s to less than 8 percent in 1997. Despite a further targeted reduction in the budget, the actual deficit rose to over 9 percent in 1998, largely from higher security-related expenditure and a revenue shortfall arising from problems with the introduction of the Goods and Services Tax (GST). Further progress was made in 1999, as the deficit once again declined to 7½ percent, resulting from improved revenue performance and containment of current expenditures.

24. **The gains from fiscal consolidation in 1999 were reversed during 2000 due largely to higher-than-budgeted security expenditure and escalating interest payments and to some extent poor revenue performance.** Specifically, the overall deficit (excluding grants) deteriorated by more than 2 percentage points of GDP in 2000 to 9¾ percent, compared to the government's budget target of 7½ percent of GDP.

³ See Appendix Tables 14–21 and Figures 5–8.

Figure 5. Sri Lanka: Selected Fiscal Indicators, 1998-2001
(in percent of GDP)



Sources: Sri Lanka authorities; and staff estimates and projections.

1/ As of October 31.

2/ The 2001 budget projection is 4.5 percent of GDP, shown here offset by bank financing of -1.0 percent of GDP.

Revenue developments

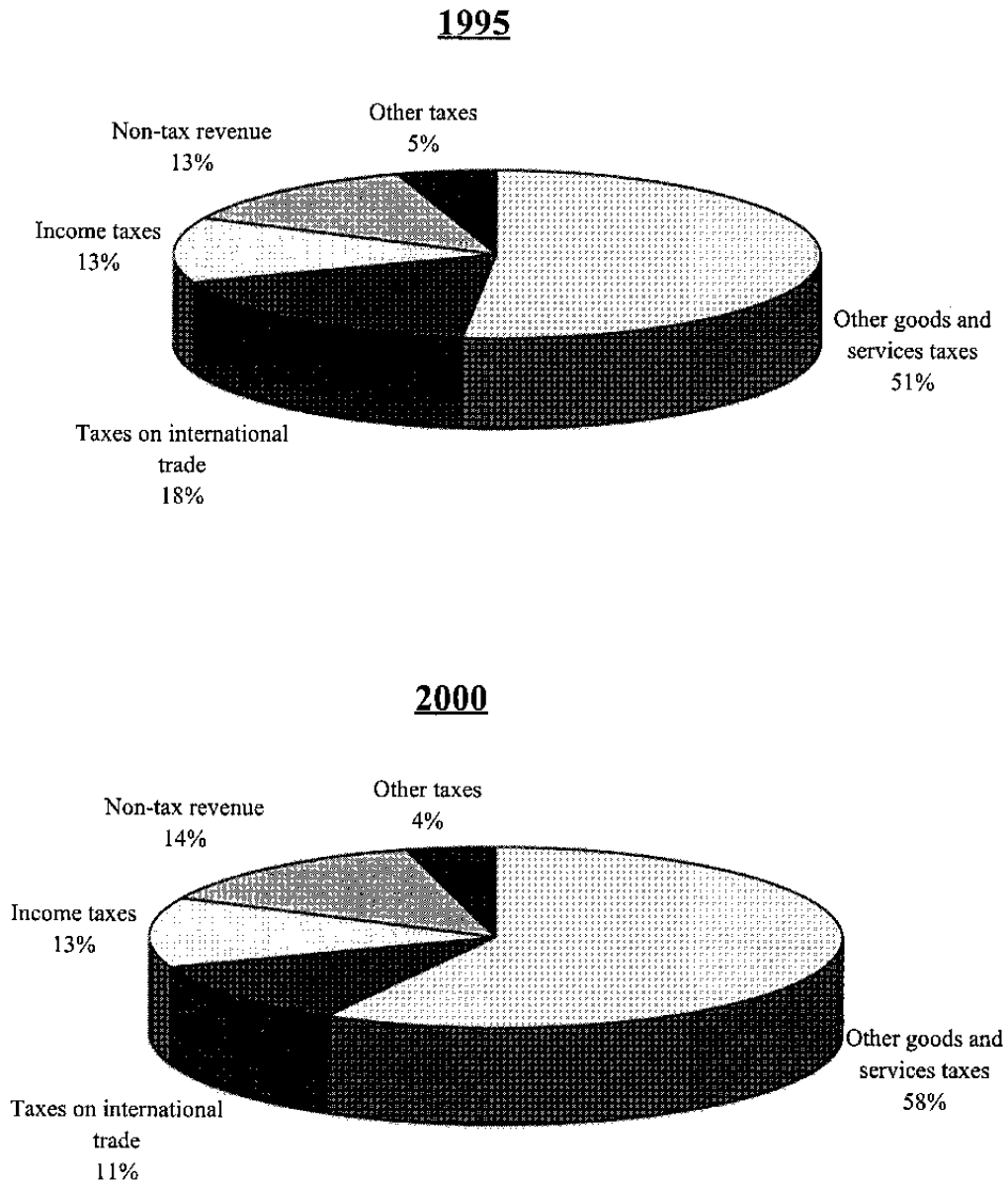
25. **After strong revenue buoyancy in 1999, the revenue outturn in 2000 was significantly less than budgeted.** While the total revenue-GDP ratio increased from around 17¼ to over 17½ percent of GDP in 1999, it fell back by 1 percentage point in 2000. Performance in 1999 was driven by higher revenue from corporate taxes, National Security Levy (NSL), and excises. The 2000 outturn reflected lower income taxes, trade taxes, and nontax revenue. In both years, GST collection was below expectation.

Box 1. The 2000 Budget Proposals

- **Having achieved a substantial improvement in the fiscal accounts in 1999, the 2000 budget aimed at building on further fiscal consolidation and encourage the development of debt and capital markets.**
- **The broad nominal framework which underpinned the 2000 budget envisaged a growth rate of 5–5½ percent and expected underlying inflation to remain low.** The overall fiscal deficit in 2000 was to be kept at 7½ percent of GDP (7 percent including grants) but public savings would be boosted by 1¾ percent.
- **Total domestic revenue was budgeted to remain at 18½ percent of GDP the target set out in the 1999 budget.** Revenue raising measures included an increase in the National Security Levy (NSL) from 5½ percent to 6½ percent and an increase in excise tax on cigarettes and liquor.
- **Current expenditure was budgeted to increase to 18 percent of GDP from 17¼ percent of GDP in the 1999 budget.** The targeted increase of ¾ percentage points of GDP reflected the budgeted increase of wages and salaries, an increase in military expenditure and interest payments. Interest payments were budgeted to rise to Rs 69 billion due largely to the increase in the stock of government debt in 1999. Capital expenditure and net lending was budgeted to rise by 1 percentage point of GDP to 8¼ percent of GDP in 2000.

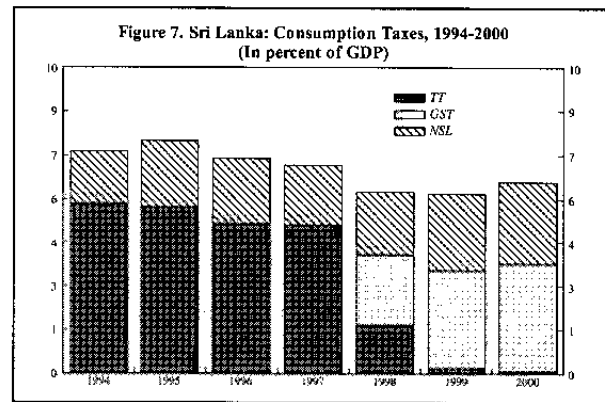
26. **Income tax revenue in 1999–2000 was largely influenced by the economic performance of the large public corporations.** Income tax revenue remains a relatively minor contributor to total revenue, rising from 2 percent to 2½ percent of GDP in 1999, and falling back to 2¼ percent of GDP in 2000. Corporate tax revenue, accounting for 60 percent of income tax revenue, increased by 56 percent in 1999, with higher payments made by the Sri Lanka Ports Authority and the Ceylon Petroleum Corporation (CPC). The decline in profitability in 2000 led to a decline in corporate tax revenue by 14 percent, driven mainly by the mounting losses of CPC. Neither CPC nor the electricity company paid corporation tax in 2000. Personal income taxes increased by 13 percent in 1999, and by a further 18 percent in 2000. This component of total revenue still suffers from problems of tax administration, with low compliance rates among professionals, traders, and other self-employed. PAYE accounts for only a third of personal income tax collections (less than ¼ percent of GDP in 2000).

Figure 6. Sri Lanka: Composition of Revenue, 1995 and 2000
(in percent of total revenue)



Source: Data provided by the Sri Lanka authorities.

27. **The impact of the GST on revenue has been disappointing, while the NSL has assumed an increasingly important role.** The GST was introduced on April 1, 1998 at a 12½ percent rate to replace the turnover tax on imports, manufacturing and most services (except financial services which remain subject to the turnover tax). While the turnover tax typically yielded 5 percent of GDP or greater, the introduction of the GST



in 1998 saw the tax take fall to below 4 percent of GDP, and again to below 3½ percent of GDP in 1999. In 1999, GST intake was only 60 percent of budgeted estimates; the shortfall largely reflected low collection on imports and domestic services. The authorities took steps in 1999 to reduce refund leakage (see Box 2 for details); as a result, refunds as a percent of gross receipts dropped and GST collection in 2000 increased by 24 percent. In the context of the 2000 budget, exemptions were removed from four items—timber, cement, meats, and LPG.⁴ In response to the deteriorating security situation, and arising from an unwillingness to change the GST rate, the NSL rate was raised from 4½ percent to 5½ percent in 1999, and again to 6½ percent in 2000. As a result, the revenue intake from this source increased from 2 percent in 1998 to 2½ percent in 1999, and 2¾ percent in 2000. By 2000, revenue from NSL was almost three quarters that of GST.

28. **Revenue from import duties decreased in 1999–2000.** Arising from a rationalization of the tariff structure, trade taxes have become less important as a source of revenue over the past decade. As a percent of GDP, revenue from import duties fell from around 3 percent to 2½ percent in 1999, and again to under 2 percent in 2000. This decline can also be explained by a fall in the value of dutiable imports, especially in 2000: although the U.S. dollar value of imports grew by 13 percent in 2000, imports subject to duty fell by 5 percent, while nondutiable imports rose by almost 58 percent. This import pattern can be explained to a large extent by rising prices of exempt items, especially oil and fertilizer.⁵

29. **Excise taxes became increasingly important, as the authorities relied on them to make up for revenue underperformance and expenditure overruns.** Excise tax collection rose from 3 percent of GDP in 1998 to 3¼ percent of GDP in 1999, and again to 3½ percent of GDP in 2000. Excise tax rates on cigarettes were raised successively over the past few years, leading to a 13 percent increase in revenue in both 1999 and 2000—revenue from this source accounts for almost half of total excise tax collection. Excises on alcohol were

⁴ The gas exemption was maintained for consumption of 15 kilograms or below, namely LPG sold in small cylinders for household consumption.

⁵ Oil accounted for 8 percent of total, and nearly 20 percent of nondutiable, imports in 2000.

Box 2: Issues in the Development and Administration of the GST

Although a GST is in place, the NSL, which acts as a turnover tax, is assuming increasing importance in Sri Lanka. The GST, a derivative of a VAT which applies to imports, manufacturing, and services was introduced on April 1, 1998 to replace the old turnover tax. To date, its revenue yield has been disappointing, reflecting a plethora of exemptions, the exclusion of the retail sector, a less than revenue-neutral rate, and a myriad tax administration problems. The NSL was originally introduced in 1991 at 1 percent, and has become increasingly important. By 2000, the rate was 6½ percent and its intake was almost three quarters that of the GST.

The authorities have defended their increasing reliance on the NSL over the GST as a revenue-enhancing measure. They refrained from raising the rate on the grounds that it would not raise further revenue benefits, absent substantial administrative improvements. The GST presents far greater challenges to the Inland Revenue Department (IRD) than a turnover tax which is levied at each stage of production and requires no administration of an input-credit mechanism or refunds.

The current state of tax administration is weak. The Large Taxpayer Unit does not include the largest GST taxpayers; accordingly it only accounts for 30 percent of total IRD revenue collection. Technology is in urgent need of upgrade; at the present time, the computer system for the GST is not linked to other systems, making cross-checking difficult. There is virtually no exchange of information with customs. The IRD also has problems ensuring compliance of taxpayers under the Board of Investment (BOI) regime. These companies tend to be lax in filing tax returns. In relation to customs, there is some concern that goods from BOI companies destined for exports are being leaked onto the local market.¹ Such goods should be liable for GST, but monitoring over this is weak.

There were particular problems with the GST refund mechanism. Before June 1999, exporters claimed refunds on their GST return, and refunds were paid within 30 days. The ability of exporters to defer payment for two months led to a situation whereby exporters used this facility to finance their trading operations. The system also led to abuses. In response to these problems, as of June 1999, refunds to exporters are paid in vouchers payable to customs for the amount of GST on imports. The difficulty in reconciling customs data on imports with declared GST on imports hinders the efficient operation of the refund mechanism. The refund audit system is not subject to systematic risk analysis, although first-time refund claims are now subject to immediate audit. The IRD also has problems verifying refund claims by BOI exporters, which account for more than half of all exporters, as these companies do not clear goods through regular customs channels.

The efficacy of the GST is hindered by the narrow base. Exemptions apply to a broad range of goods and services, including essential food items, pharmaceuticals, educational services, books, crude oil, petroleum products, fertilizer, water, financial services, public transport, tractors, electricity up to 90 KWH per month health care services, precious metals and gems. The exclusion of the retail sector reduces revenue, adds to administrative effort as turnover tax on the retail sector is collected by provincial councils, and adds to cascading as exempt traders sell to manufacturers. In contrast, the NSL offers minimal exemption, increasing its attractiveness as a revenue-enhancing measure.

¹ BOI companies are permitted import duty waivers on the condition that goods are exporters. However 10 percent of goods are allowed to be sold domestically without loss of the duty concession.

increased in 1999 and 2000; despite declining sales, revenue increase by 14 percent in 1999 and 9 percent in 2000. Other excises, mainly on petroleum products, increased by 10 percent in 1999 and 67 percent in 2000. The outturn in 2000 reflects a major shift in tax policy, as the ad valorem excise duty on the three key petroleum products was harmonized at 45 percent in February 2000; this represented an increase in the diesel excise from 15 percent, while kerosene was previously exempt. Excises on gasoline decreased from 50 percent. This common rate was subsequently reduced in November 2000 to 35 percent.

30. Reflecting corporation dividends, nontax revenue grew modestly in 1999, but declined in 2000. The share of nontax revenue remained at $2\frac{3}{4}$ percent of GDP in 1999, and fell to $2\frac{1}{4}$ percent of GDP in 2000. Profits and dividends increased by 24 percent in 1999, arising from strong performance of the public corporations, especially the Ports Authority and Ceylon Electricity Board (CEB).⁶ Interest income was buoyant in 1999 as a result of returns from CEB, the National Development Bank, and the Development Finance Corporation Bank. Other nontax revenue was bolstered by higher administrative fees and charges. Performance in 2000 saw diminished profitability in the public corporate sector. In particular, profits and dividends from the Ports Authority and the telecom company were lower than expected. Furthermore, no receipts came from the petroleum and electricity companies.

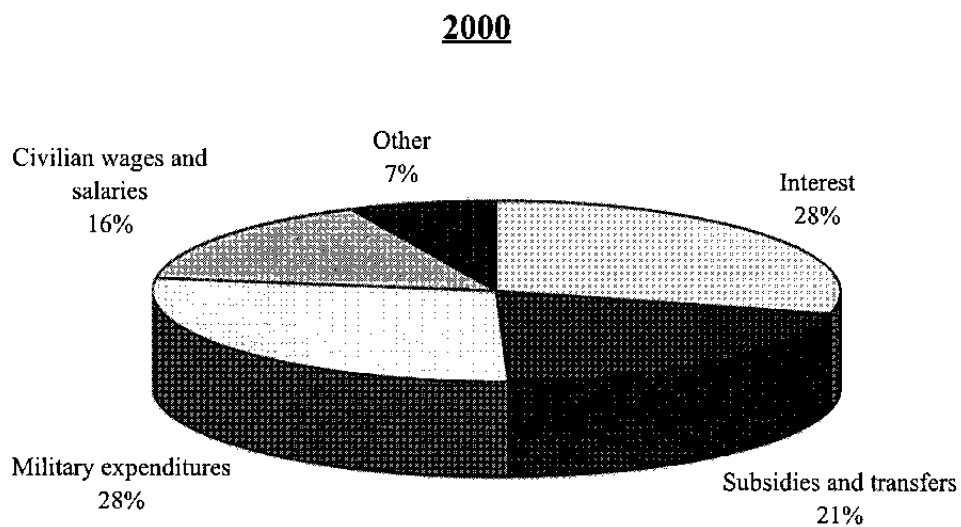
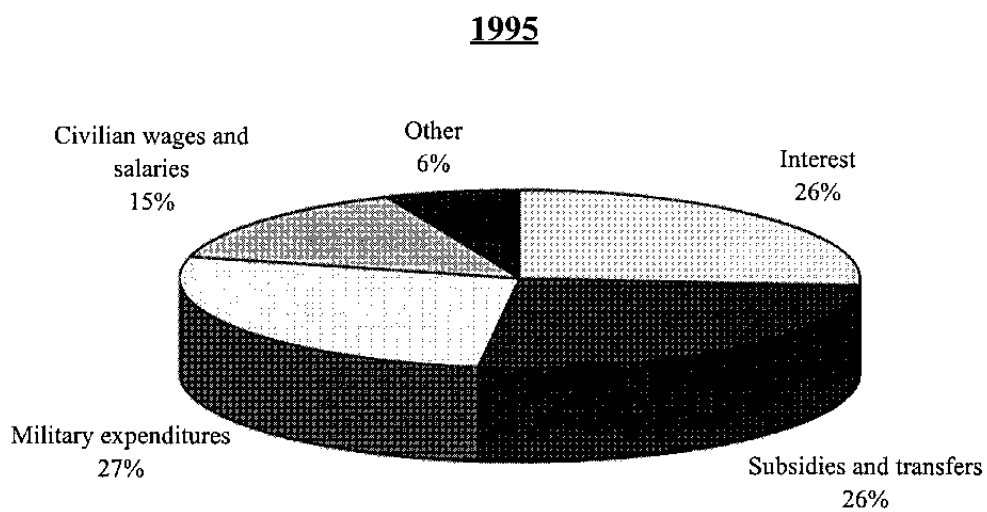
Expenditure

31. The gains from expenditure consolidation in 1999 were reversed in 2000, owing to overruns in security-related spending and higher interest payments. Total expenditure fell from $26\frac{1}{4}$ percent of GDP to 25 percent of GDP in 1999. The ratio rose again to $26\frac{1}{2}$ percent in 2000, arising from a significant increase in security-related expenditure from $4\frac{1}{2}$ percent to $5\frac{1}{2}$ percent of GDP. The performance in 1999 reflected a significant decline in outlays for security-related goods and services and tighter control over cash releases, whereby Treasury approval was required for bank payments. In response to unfavorable security developments, purchases of military goods increased by 77 percent in 2000. Reflecting the increased level of domestic debt stock, interest payments also burdened the budget, rising to $5\frac{1}{2}$ percent of GDP in 1999, and staying at that level in 2000.

32. The wage bill continued to grow in 1999–2000. The civilian wage bill, reflecting payments to central government and provincial council employees, rose by 9 percent in 1999, and by 19 percent in 2000. It reached $3\frac{1}{4}$ percent of GDP in 2000, the highest ratio since 1996. The 1999 outturn reflected the full-year impact of salary increases granted in 1998. Furthermore, workers who had previously been paid by the Samurdhi Authority came under the auspices of the central government (see below). Another wage increase was granted in the last quarter of 2000, with an average increase of 14 percent. Furthermore, the provincial councils increased staff by around 8 percent. Outlays in 2000 were also affected

⁶ The Ports Authority accounted for Rs 4 billion out of total property income of Rs 19 billion.

Figure 8. Sri Lanka: Composition of Expenditure, 1995 and 2000
(in percent of total expenditure)



Source: Data provided by the Sri Lanka authorities.

by salary arrears paid to teachers, and the full-year impact of the placing of the graduate trainees on the approved salary scales.

33. **Expenditure on other recurrent goods and services was contained during 1999–2000.** Nonwage government consumption has hovered around 1½ percent of GDP for the past three years. In 1999, a 2 percent cut was imposed on recurrent expenditure items, excluding salaries, pensions, and interest payments. Combined with improved expenditure control and prudent cash management through keeping minimal idle cash balances and closer monitoring of the government's cash flow position, this measure kept outlays in check. In 2000, as security-related expenditure increased, this item bore the brunt of the spending compression. Procurement policies were streamlined, and a compulsory savings requirement of 5 percent was imposed on the procurement costs of each spending unit.

34. **Current subsidies and transfers, especially to households, have been rationalized over the past few years.** Subsidies and transfers fell by almost ½ percent of GDP in 1999, and again marginally in 2000 to reach 4 percent of GDP.⁷ Pension expenditure, accounting for roughly half of household transfers, fell by ¼ percent of GDP in 1999, and stayed roughly constant in 2000.⁸ Expenditure on *Samurdhi*, the principal welfare program, which provides cash benefits to nearly half the population, has remained roughly constant, at ¾ percent of GDP since 1998. It declined slightly in 1999, due partly to the incorporation of 10,000 animators into central government wages and salaries. *Samurdhi* outlays were significantly higher than budgeted in 2000 as allowances for nearly a million households were increased in the last quarter. Transfers to public institutions rose by 12 percent in 1999, and 29 percent in 2000; the increase in 2000 reflects salary increases to employees of the institutions and statutory boards. While rising by 10 percent in 1999, transfers to public corporations fell by 24 percent in 2000. The operational loss of the railways, the largest drain on the budget under this item, fell in 2000, notwithstanding the cancellation of the planned increase in rail fares.

35. **Capital expenditure has stalled over the past two years, owing to project implementation delays.** Total capital expenditure and net lending fell from 6¾ percent of GDP in 1998 to 6½ percent of GDP in 1999, and remained stable at that level in 2000. Outturns were less than budgeted in each year—by 1 and 2 percentage points of GDP respectively—owing to delays in implementation and administrative constraints. In compressing expenditures in 2000, domestically-funded projects were assigned less priority. Priority areas, education, health, and infrastructure, were protected. Capital transfers to public institutions, corporations, and local government expanded rapidly, rising by 25 percent in 1999, and by 30 percent in 2000. On-lending in both years was dogged by slow project implementation and technical delays. In 1999, implementation delays led to an 87 percent underutilization of foreign funds. Restructuring costs increased by 24 percent in

⁷ Of this expenditure, more than three quarters is transfers to households.

⁸ In late-2000, pensions were increased by 10 percent, subject to a Rs 500 minimum.

1999, but declined by 9 percent in 2000—the restructuring program centered on retrenchment of employees, reform of the textiles and sugar sectors, and failed privatized enterprises.

36. The functional composition of expenditure did not change significantly in 1999, with the exception of defense expenditure and interest payments. Expenditure on social services, accounting for around a third of total expenditure, declined from over 10 percent of GDP in 1995 to 7½ percent of GDP in 1999. Over the past few years, expenditure on education and health have remained reasonably constant. The two categories of expenditures reached 2½ percent and 1½ percent of GDP (10 percent and 6 percent of total expenditure) respectively in 1999. The share of general public services fell from 27 percent in 1998 to 25 percent in 1999; of this, around 15 percent is accounted for by defense spending. At the same time, expenditure on economic services fell from 5½ percent to 5 percent of GDP in 1999 (20 percent of total expenditure).

Financing of the budget

37. With very little foreign financing in 1999–2000, domestic financing assumed an increasing role for budget financing. The share of the deficit financed domestically, excluding asset sales, rose from 20 percent in 1998 to 31 percent in 1999, and further to 36 percent in 2000. In terms of GDP, it increased from 6¾ percent of GDP in 1999 to 8½ percent of GDP in 2000. In line with the fiscal consolidation in 1999, nonbank financing (excluding asset sales) fell from 4¾ percent to 4½ percent of GDP. Notwithstanding the higher deficit in 2000, it fell again to 4¼ percent of GDP as bank financing filled the gap. Reflecting limited resources from the domestic nonbank sector, bank financing has been on the increase for the past number of years, jumping from 2 percent of GDP, in 1998 to 4¼ percent of GDP in 2000. Bank financing played an unusually large role in 2000; not since the late 1980s was it so large in terms of GDP. Due to delays, privatization accounted for hardly any revenue in 1999 and 2000. Grants fell somewhat, from ¾ percent of GDP in 1998 to ½ percent of GDP in 1999 and 2000. After accounting for virtually nothing in 1999, net foreign financing rose to 1 percent of GDP in 2000.

38. Government debt moved toward more market-based instruments, especially in the form of treasury bonds. Total government debt as a percent of GDP increased from 91 percent in 1998 to 95 percent in 1999, and 96 percent in 2000. Domestic debt continued to account for around half of the total debt stock. The Employee Provident Fund (EPF) and the National Savings Bank (NSB) remained the main holders of nonmarket rupee securities. The share of such securities in domestic debt fell from 54 percent in 1998 to 48 percent in 1999, and again to 39 percent in 2000. The slack was taken up by treasury bonds, which increased from 5 percent of GDP in 1998 to 9 percent in 1999, and to 16 percent in 2000. The issuance of treasury bonds was in line with the authorities' aim to lengthen the maturity profile of debt, and to move towards more market-based instruments. In addition to the existing 2, 3, and 4 year bonds, the government issued 5 and 6 year bonds in 1999. Foreign debt has remained around 45 percent—nearly all on concessional terms.

2001 budget

39. **The principal goal of the 2001 budget was fiscal consolidation.** The budget presented on March 8, 2001 proposed a number of new revenue measures, and contained recurrent expenditure, with the goal of reducing the budget deficit by nearly 1½ percentage points to 8½ percent of GDP. (See Table 1 for a summary of the budgetary projections).

Total revenue	18.3
Tax revenue	16.2
Nontax revenue	2.1
Total expenditure and net lending	26.9
Current expenditure	19.5
Capital expenditure and net lending	7.4
Overall balance (excl. grants and privatization)	-8.5
Overall balance (incl. grants and privatization)	-8.0
Financing	8.5
Net external financing, incl. Grants	3.3
Net domestic financing	3.4
Assets sales	1.7

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

40. **A number of revenue measures were announced with the intention of raising tax revenue by 1¼ percent to 16¼ percent of GDP.** The major revenue enhancing measures announced were: a 40 percent surcharge on pre-existing duty rates (introduced in February 2001); a 20 percent surcharge on corporate tax revenue for a period of one year; a rise in the NSL rate from 6.5 percent to 7.5 percent, and the removal of the exemption for gems and jewelry. Furthermore, administered fees and charges were raised: charges for government publications, registration fees, and other services by 15 percent; and the license fee for usage of frequency spectrum for radio and TV broadcasting by 100 percent. The embarkation tax and visa fees were also increased, as were levies on betting centers and gambling places. The scheme offering concessionary duties and taxes for importation of motor vehicles by parliamentarians and public servants was suspended. The tax and customs regime for apparel have been harmonized for BOI and non-BOI companies operating outside EPZs. Finally, a number of new tax holidays were announced.

41. **The budget aimed to control total expenditure, reducing recurrent expenditure by over ½ percent of GDP to 19½ percent, while allowing capital expenditure to increase.** Expenditure controls were strengthened over nonwage recurrent items: a minimum 10 percent reduction was applied to all recurrent expenditure programs except for salaries. Limits were imposed on a number of items of ministerial expenditure, including support staff, vehicles, fuel expenses, and telephone charges (this was introduced prior to the budget). Expenditure ceilings for public servants and government agencies were to be applied strictly, especially for utilities, traveling, and other services. Provisions pertaining to purchase of new vehicles and office equipment were frozen. Security-related spending was cut to Rs 63 billion, from Rs 71 billion in 2000. A start to the rationalization of public institutions was announced, as nearly 35 redundant entities were targeted for liquidation. Borrowing by public corporations was to be subject to Treasury approval and Treasury ceilings. Capital expenditure was increased to 7½ percent of GDP: priority was given to large infrastructure projects as well as projects in health, education, power, and road rehabilitation.

42. **The budget aimed to reduce reliance on domestic borrowing, especially from the banking system.** Net external financing was projected to increase from 1 percent of GDP to almost 3 percent of GDP in 2001. Bank financing was expected to be eliminated, and the government intended to pay back almost $\frac{1}{4}$ percent of GDP to the banking system. Privatization proceeds are expected to increase to $1\frac{1}{4}$ percent of GDP, reducing domestic financing accordingly.

Public enterprises and privatization

43. **The years 1999 and 2000 witnessed a further increase in the overall burden of public enterprises on the budget.** Several public enterprises were financially hit by the rising world prices. Accordingly, government's current transfers to institutions, corporations and other levels of government registered an increase of 25 percent. Total capital transfers to public corporations and other levels of government also rose by 25 percent to Rs 27½ billion. The effect of rising world price of oil on several public enterprises continued well into 2000. Though the government raised some public sector prices significantly during 2000, the pass-through was delayed. As a result, losses of the state oil, electricity, transport companies rose to 2 percent of GDP in 2000 compared with $\frac{3}{4}$ percent of GDP in 1999. Enterprises had to borrow heavily from the domestic commercial banks and in the form of short-term external financing.

44. **Public enterprise reform and privatization program was delayed in 1999–2000.** The continued uncertainty in the global environment and sluggish performance at the domestic stock market did not help the government's schedule on the privatization program. Compared to the target under the 1999 Budget of Rs 8 billion, the divestiture program only brought Rs 134 million in 1999. Part of these proceeds came from the divestiture of the balance of the remaining 20 percent shares in Namunukula Plantations Ltd. and Talawakele Plantations Ltd. and the sale of about 8 percent of the shares in Ceylon Glass. Notwithstanding the significant shortfall in privatization proceeds, the government was able to complete the preparatory work for the corporatization and divestiture of selected public enterprises during the year. The main emphasis was on enterprises in the service sector such as the Postal Department, Ceylon Electricity Board (CEB), National Insurance Corporation (NIC) and Ceylon Shipping Corporation (CSC). Steps were also taken to select international banks to advise on the listing of the Sri Lanka Telecom shares in international and local markets. The privatization outturn in 2000 was again disappointing, with budgetary revenue amounting to less than 1 percent of the originally-budgeted Rs 30 billion. The sale of Telecom was again delayed and privatization of state-owned banks did not progress due to political constraints. The uncertainties brought about by the further escalation of the conflict as well as the elections did not help to improve investor confidence.

C. Monetary Policy and Developments^{9,10}

Monetary policy framework

45. **Although price stability has become the main goal of monetary policy, the central bank pursues a number of other policy objectives.** A recent amendment of the Monetary Law Act (1999) singled out the maintenance of price stability as the main objective of monetary policy, but the Act also specifies: (i) the promotion of the stability of the exchange rate of the Sri Lankan rupee in relation to foreign currencies; (ii) the promotion of a competitive, sound and progressive financial system; and (iii) the encouragement and promotion of the full development of the productive resources of Sri Lanka.

46. **In both 1999 and 2000, the central bank aimed to maintain the declining trend in inflation and to secure stability in the foreign exchange market after the recovery of regional financial markets from the 1997 crises.** However, this was a challenging task given the uncertainties implied by the elections in both years, the escalation of the civil conflict (from May 2000), market jitters associated with the Y2K problem, and occasional labor unrest. The central bank had also hoped to see a decline in market interest rates, in line with the declining trend in inflation and recent financial sector reforms.

47. **One concern has been the continued high inflationary expectations in spite of the declining trend in inflation.** This has been partially attributed to the lax fiscal policy and lack of a clear, transparent, and readily monitored intermediate monetary policy target. In the last two years, the central bank has given greater attention to this matter and to the feasibility of pursuing an inflation-targeting framework in Sri Lanka. In spite of the appeal of this framework, however, CBSL officials consider it premature to implement given (i) continued dominance of fiscal concerns over monetary policy; (ii) the lack of an adequate measure of underlying inflation, the inadequacies inherent in the CCPI, and related problem of accurately forecasting the inflation rate; and (iii) the absence of commitment to target any other nominal targets. Questions also remained as to whether policy actions could be efficiently transmitted to target variables in the somewhat rigid market conditions that prevail, and the need for further financial sector reforms.

48. **The CBSL targets the reserve money, taking into account the liquidity situation in the money and foreign exchange markets, using a range of instruments.** The specific aim of monetary policy in 1999 and 2000 was to reduce inflation below the average rate of 9½ percent achieved in 1997–98 and to balance the desirability of lower interest rates with avoiding pressure on the rupee.

49. **The CBSL's primary instruments of monetary policy used in 1999 and 2000 were the overnight repurchase (repo) and reverse repo rates, and the spread between**

⁹See Appendix Tables 22–27 and Figures 9–11.

¹⁰For an overview of the financial system, see IMF Staff Country Report No. 98/118, Box 4.

the discount and rediscount rates in the secondary market for 3-month Treasury bills, and open-market type operations in the primary market for domestic government securities (3-, 6-, and 12-month Treasury bills and 2–6 year Treasury bonds). Except for one adjustment in August 1999, the reserve requirements were not used as an instrument, nor were there any issuance of CBSL's own 7-day securities to mop up liquidity. The central bank removed the Statutory Reserve Ratio (SRR) on foreign currency liabilities held abroad in August 1999, and those held domestically in August 2000.

50. **Open market operations continued to be the major tool for implementing monetary policy and the repurchase (reverse repo) rate became the primary means of conveying signals to the market.** The CBSL affects the level of reserve money through the amount of Treasury bills it takes into its own portfolio at the weekly auctions. Given the unexpected higher recourse of the government to domestic financing of its operations, the CBSL's share in total government debt rose to 9 percent in 1999 and 12½ percent in 2000 after having declined to 5 percent in 1997.

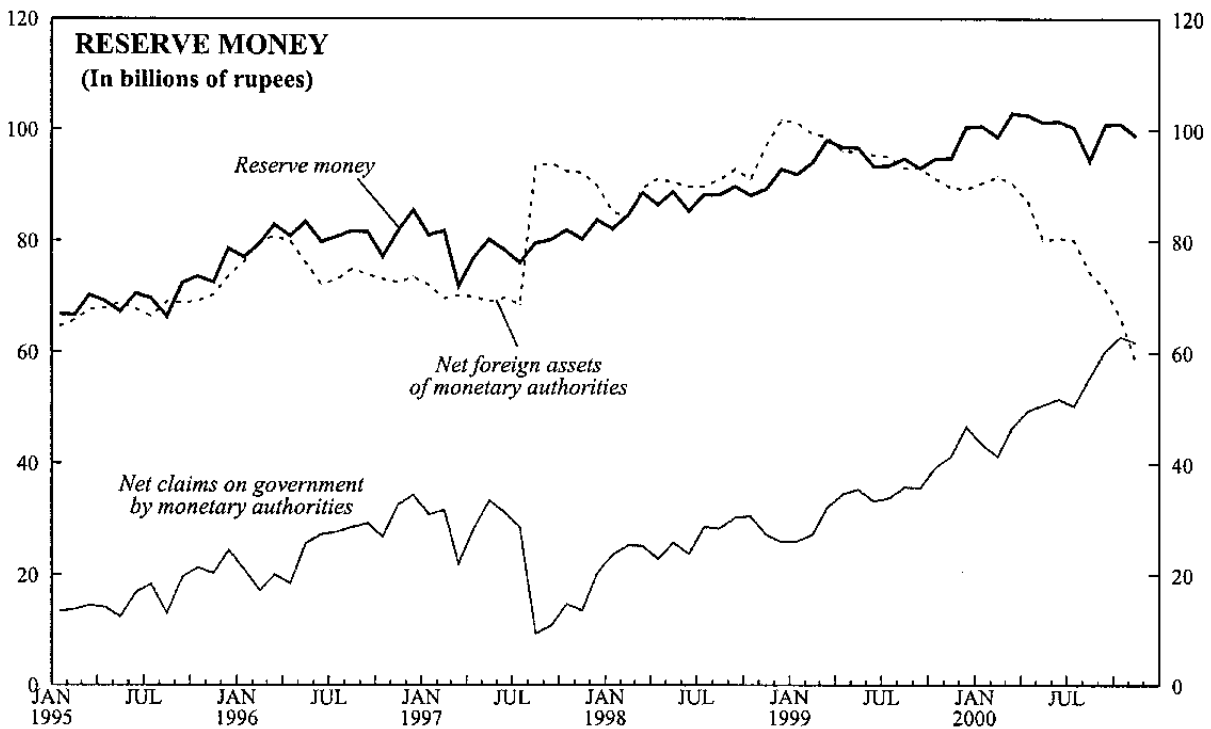
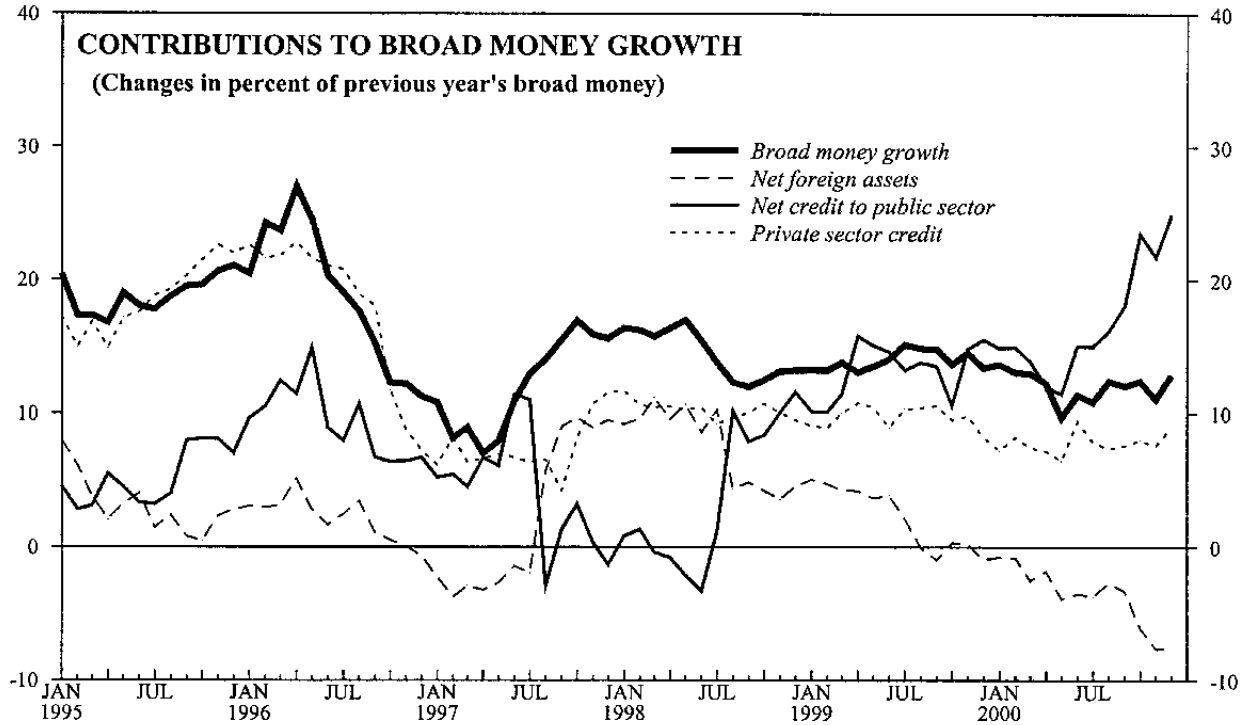
Monetary developments in 1999 and 2000

51. **Against the backdrop of a significantly weaker fiscal and external position, monetary policy was moderately tight in 1999 and 2000 and price developments were initially favorable.** Inflation averaged 4¾ percent in 1999 and 6¼ percent in 2000 incorporating the impact of some domestic administered price adjustments. Reflecting the macroeconomic imbalances, reserve losses began in the last quarter of 1999, simultaneously with a surge in credit to government. As a result, though policy interest rates were eased in early 1999, they were significantly raised in 2000 in support of the rupee and in view of the large government-financing requirement.

52. **Both the call market and the exchange market exhibited considerable stability in 1999 but the situation worsened in 2000.** With the initial signs of stability, however, the CBSL had been able to relax its monetary stance in the second half of 1999, when the statutory reserve requirement (SRR) was reduced by 1 percentage point, from 12 to 11 percent in August 1999. The Bank Rate, which had been unchanged since 1993, was also reduced by 1 percentage point from 17 to 16 percent. The additional liquidity served primarily to offset the drain of liquidity from the outflow in the balance of payments position and any excess liquidity was mopped up through open market operations. But the stability was short-lived as pressures in the foreign exchange market from the last quarter of 1999 led to gradual increases in policy interest rates. To support the rupee, and to counter the impact of rising inflation, the monetary policy stance was considerably tightened.

53. **Reserve money growth slowed as the sharp increases in credit to government were offset by large reserve losses** (Figure 8). In contrast to 1998 when it had increased by 11 percent, reserve money grew by only 8 percent in 1999 and 4¾ percent in 2000. This growth reflected an increase in net credit to government by Rs 21 billion in 1999 and Rs 45 billion in 2000 and a decline in net foreign assets of the banking system by 38 percent

Figure 9. Sri Lanka: Monetary Aggregates, 1995-2000



Source: Data provided by Sri Lanka authorities.

1/ Broad Money includes foreign currency banking units (FCBUs).

(in dollar terms). Through a rise in holdings of Treasury bills and CBSL advances, the stock of net CBSL claims on government tripled in two years. On the liabilities side, currency in circulation surged up by 17 percent in 1999, before increasing by only 4 percent in 2000. Since 1998, the money multiplier had remained relatively stable in the 3.9–4.4 range, but jumped to 4.63 in December 2000.

54. **Broad money grew by 13½ percent in 1999 and 13 percent in 2000 in line with the growth of nominal income.** Net foreign assets of the banking system fell by Rs 32 billion, as there was no build-up in net foreign assets of commercial banks and a continuous decline in net international reserves of the monetary authorities. The large valuation effects from the depreciation of the exchange rate did not offset the decline in the U.S. dollar value of net international reserves of the monetary authorities. As a consequence of the deteriorating fiscal position, net claims on government by the banking system rose by Rs 53 billion (4 percent of GDP), including a Rs 8 billion (\$100 million) loan from foreign currency banking units in October.

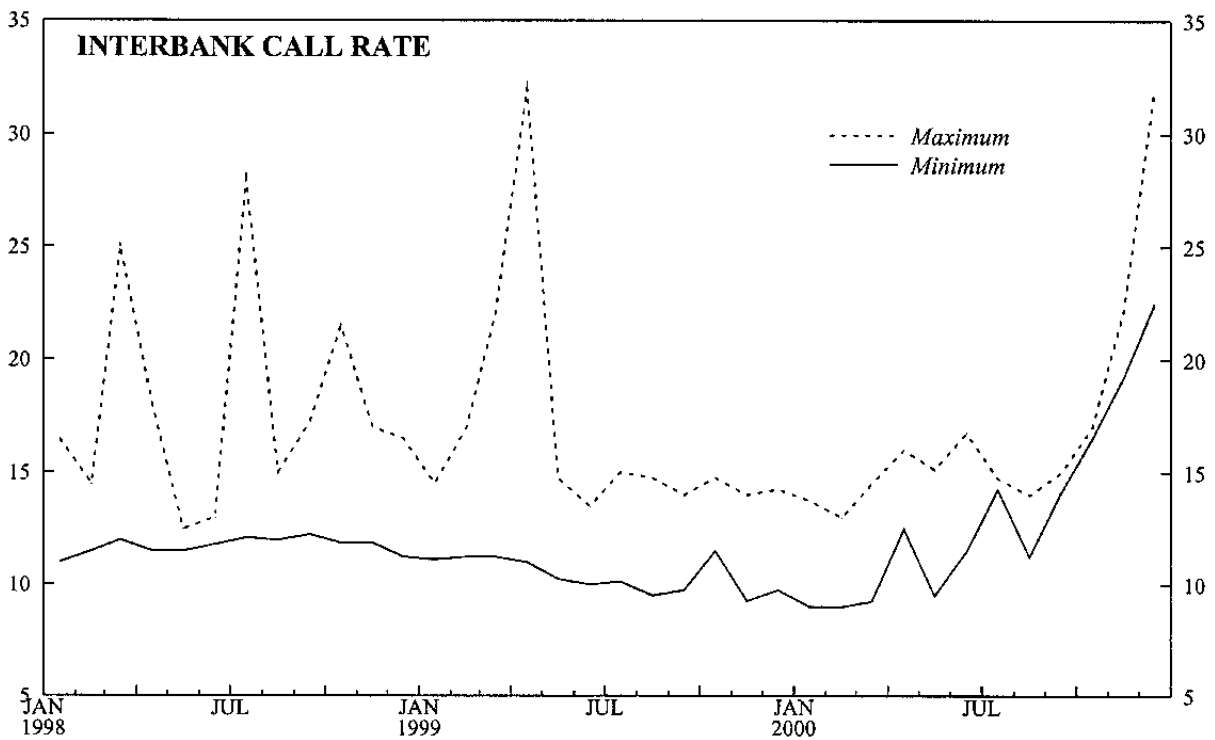
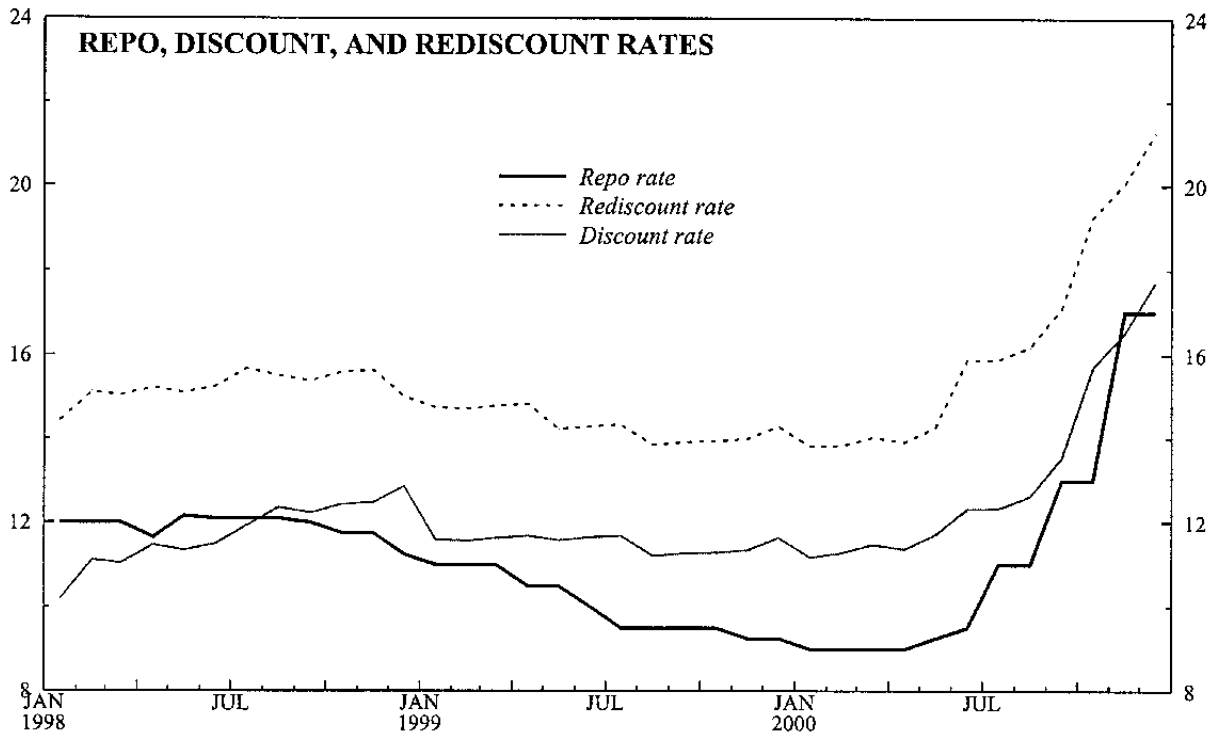
55. **In the absence of direct budgetary support, the stock of claims on public corporations tripled in size** as a result of the delayed price corrections following the gradual depreciation of the rupee. Claims on public corporations increased from Rs 13 billion to Rs 38 billion. Loans to the CWE increased by Rs 2 billion and lending to the CPC rose by Rs 19 billion and to CEB lending increased by Rs 3½ billion.

56. **There was a deceleration in the rate of growth of credit to the private sector, and a shift of credit from the two state banks to the private banks.** Part of the slowdown in credit to the private sector reflects reduced demand because of effective tax savings by the corporate sector following the introduction of the GST and downward adjustments in the corporate tax structure for some priority sectors and the lowering of tariff rates on imports. During 2000, credit to the private sector grew by a modest 12 percent, reflecting tighter bank supervision, and crowding out by the public sector. Credit extended by foreign currency banking units, mainly for trade-related activities, grew by only 12 percent as the demand for credit in foreign currency declined mainly due to the smaller interest differential in line with the increases in interest rates in foreign countries. The growth in credit came mainly from higher demand by export companies, especially from BOI enterprises. Loans to Sri Lanka Telecom (reclassified as private sector) declined in the first half of the year before increasing again to Rs 3¾ billion due to borrowings for its development program. The sectors that recorded higher growth in credit were services, agriculture and manufacturing, while tourism recorded a comparatively lower growth.

Interest rate developments in 1999 and 2000

57. **Interest rates were generally stable through the middle of 2000 before increasing as the exchange rate pressures called for further tightening of the monetary stance.** Market rates were influenced by the central bank's signaling mechanism of the repo rate and the reverse repo rate discussed in the previous section.

Figure 10. Sri Lanka: Short-term Interest Rates, 1998-2000
(In percent)



Source: Data provided by Sri Lanka authorities.

58. **Throughout 1999, short-term interest rates declined reflecting the central bank's desire to reduce market rates in line with the decline in inflation.** Reassured by a return of stability in the domestic foreign exchange market and a continued decline in inflation, the CBSL gradually reduced the repo and reverse repo rates while reducing the spread between the discount and rediscount rates. The CBSL's repo rate declined by 2 percentage points from 11¼ percent at the end of 1998 to 9¼ percent by the end of 1999. The reverse repo declined from 15 percent to 13½ percent. The two facilities contributed to maintaining an element of stability in the call market and avoid excessive fluctuations.¹¹ During 1999, the interbank rate fluctuated around 12 percent, with some wide daily fluctuations. The average rate peaked in February at around 16 percent and dropped below 10 percent in November 1999. Through August 1999, the yield on 3-month Treasury bills declined by only ¼ percent, however, in response to the government's need to finance its operations.

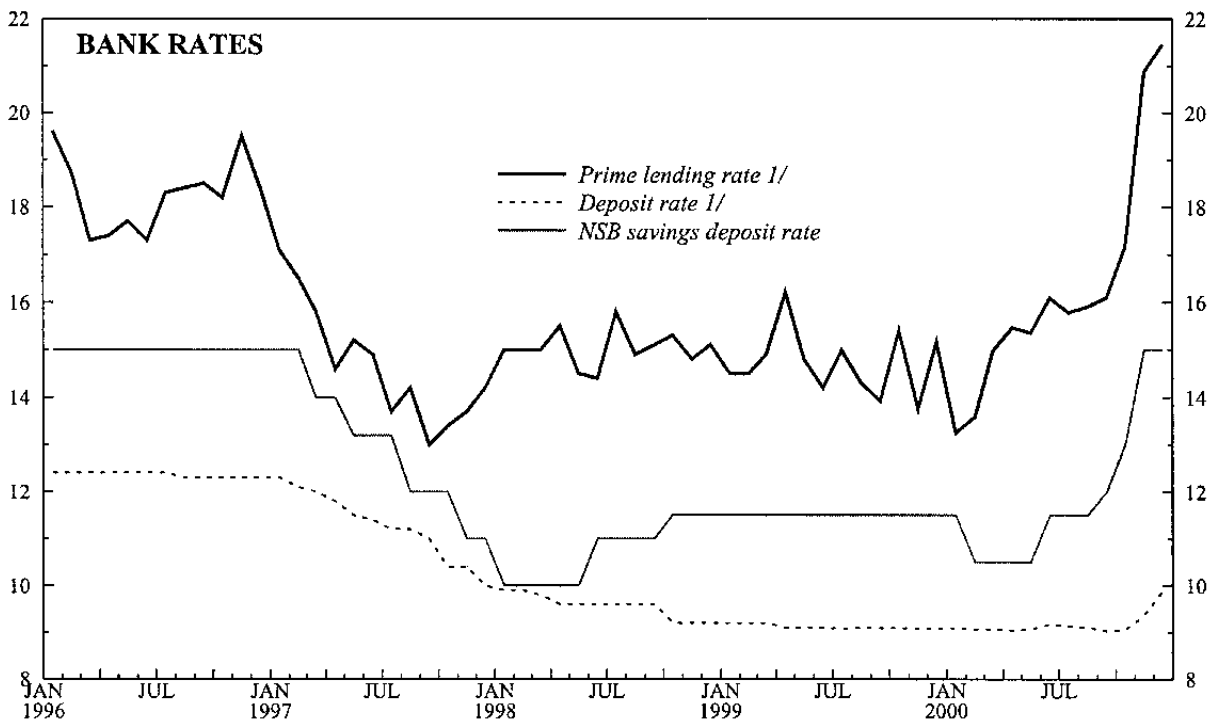
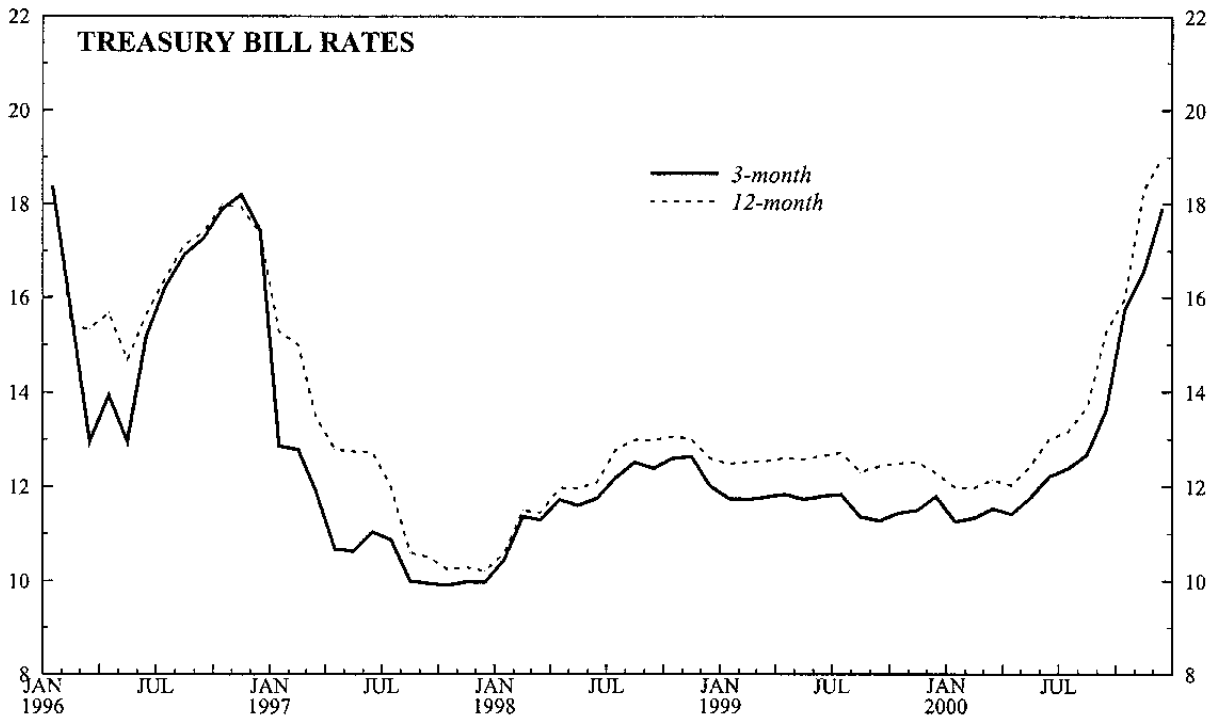
59. **In the first half of 2000, the decline in the repo and reverse repo rates was reversed to discourage central bank borrowing and reflect market conditions.** The repo rate was increased in two steps in May and June to 9½ percent while the reverse repo rate (reduced in January and April), was increased by 1 percent in May and another 1 percentage points in June and the overnight facility was extended for up to one month. The spread between the discount and rediscount rates in the secondary market, which had declined to 2½ percent at end-1999, was increased back by 1 percentage point to 3½ percent.

60. **Short-term interest rates firmed in the second half of 2000 as a result of the CBSL's tighter monetary policy stance and the reduced liquidity from the faster outflow in the balance of payments.** In a bid to raise the minimum interbank call rate and deter any speculative buying of foreign exchange, the CBSL raised the overnight repo rate a third time by 100 basis points in October 2000 to 16 percent. (Figure 9) As speculative pressures did not ease in response to higher borrowing costs, the repo rate was raised further to 20 percent in November 2000 and again in January 2001 to 23 percent, prior to floating of the exchange rate. However, it was reduced on February 26, 2001 by 1 percentage point. While the minimum interbank call rate moved in line with the repo rate, the maximum call rate experienced much greater volatility during the year, reflecting temporary bouts of liquidity shortages, peaking at 32 percent in December 2000.

61. **The rising borrowing requirements of the government led to an increase in Treasury security yields.** The yield on 3-month treasury bills in the primary market remained in the range of 11½ to 11¾ percent from the beginning of 1999 and until May 2000. It rose steadily in the second half of the year to reach 18 percent by end-December 2000, while the 12-month bill rate increased to 21½ percent. By February 2001, both the 3-month and 12-month Treasury bill rates stood at 20 percent (Figure 10). Rates at the secondary window at the Central Bank followed the same trend. The discount rate and the

¹¹ In a bid to stabilize the upper end of the interbank call rate, the CBSL re-introduced the overnight reverse repo rate in November 1998, at a rate equivalent to the discount rate at the secondary window (just under 15½ percent).

Figure 11. Sri Lanka: Other Interest Rates, 1996-2000
(In percent)



Source: Data provided by Sri Lanka authorities.

1/ Weighted average.

rediscount rate both rose from June 2000 and remained steady to 2001. In response to the widening fiscal deficit, interest yields on Treasury bonds increased during the year. Weighted average yields on 2–6 year bonds issued at the end of 2000 were in the range of 23 percent, relative to 11–14 percent in early 1999. Interest rates on rupee loans, which do not reflect market trends, remained at 12 percent throughout 1999, and increased marginally in 2000.

62. The large spread between commercial banks' average lending and deposits rates in 1998 remained throughout 1999 and 2000. Partly in response to bouts of tighter liquidity in the market as well as concerns regarding the quality of loan portfolios, the average weighted prime lending rate (AWPR), which commercial banks offer their best customers, remained in the range of 14¼ percent for most months until the last quarter of 2000. However, there were several temporary peaks to 16 percent for the months of July 1998 and December 1999. After falling in the first quarter of 2000, the AWPR remained in the range of 16 percent between May–September 2000 and increased further in the last quarter of 2000 to reach 21½ percent by December 2000. In early 2001, the rate was 23 percent.

63. Deposit rates remained stable throughout 1999 and 2000 though inflation fluctuated. The weighted average deposit rate of commercial banks (AWDR) remained between 9 and 9¼ percent through 1999 and much of 2000, increasing only in the last two months of the year by 1 percentage point. Real deposit rates, which had been negative for most of 1998 became positive in 1999 reflecting the decline in inflation. In 2000, average rates rose, with the National Savings Bank rate increasing to 15 percent.

D. Banking System Soundness

64. In spite of improvements in the last year, the financial condition of the banking sector remains a cause for concern because of the weaknesses of the state-owned commercial banks. The two state-owned commercial banks—accounting for more than half of the banking system—continue to show a relatively high ratio of nonperforming loans. The private domestic commercial banks as a group are in better financial shape, but the ratio of their provisions relative to nonperforming loans (NPL) has been declining steadily and stands at less than half that of foreign banks. Bank performance is open to foreign competition in that there is no limit to the number of branches a foreign bank may open. Foreign ownership of domestically incorporated banks was recently increased from 49 to 60 percent.

Financial condition of the banks

65. The financial condition of the banking system has not significantly improved over the past year. Banks have been adversely affected by the impact of the domestic conflict, decline in the stock market, disruption of the tea trade, and intensified competition, especially between the private domestic banks. Corporate performance weakened in the first two quarters of 1999 and only partially recovered in the third quarter. Corporate profitability continued to deteriorate in 2000. Table 2 presents banking sector indicators, based on quarterly reports by banks to the BSD, averaged for the state banks, the private domestic

banks and the foreign bank branches.¹² To some extent, however, the worsening numbers reflect the stricter enforcement of prudential regulations.

66. **The ratio of nonperforming loans (NPLs) to total advances continues to be high for all three categories of banks.** The state banks are the worst off, with a ratio of 18¾ percent, followed by the private domestic banks and foreign branches with ratios of 15¾ percent and 12¾ percent respectively.¹³ Over the past two years, the state banks recorded a slight improvement, thanks to government guarantees provided for some problematic loans, but for the private banks, the ratio significantly deteriorated. This reflects the weakening profit performance of the corporate sector and the impact of the rupee devaluation. For the foreign banks, the ratio tended to fluctuate depending on the timing of write-offs and recoveries. The ratio of net nonperforming loans (NNPLs) to total advances also increased for the private banks, from 9 percent at the end of 1999 to 10 percent by September 2000.¹⁴ NNPLs have declined relative to capital for all the banks. They now equal capital for the state banks, and have declined relative to capital for the private domestic and foreign banks—reflecting the recent infusion of new capital. Domestic banks, state and private, experienced an erosion of their capital base and have had to increase their capital to meet the new regulations.

67. **Domestic banks are provisioning at about half the rate of foreign banks, as shown by the ratio of provisions to NPLs.** For the domestic private banks, this ratio has dropped steeply since 1997, indicating increasing problems in absorbing loan losses. Assuming that foreign banks make provisions in line with international best practice, this large difference in ratios suggests that the domestic banks could be seriously under provisioned.¹⁵ Most foreign branches, at the insistence of their home supervisors, make general provisions against performing loans, while Sri Lankan banks do not.¹⁶ The impact of rising interest rates and rupee devaluation on NPL has not yet become apparent.

68. **The CBSL raised the minimum capital adequacy standards, to 4½ percent for core and 9 percent for total capital, effective January 1, 2001 and 5 percent for core and**

¹²Information before 1996 was destroyed in the bombing of the central bank (January 1996).

¹³Bank of Ceylon does not include suspended interest among its nonperforming assets, recording it as a memorandum item, which reduces its NPL ratio.

¹⁴Net nonperforming loans are defined as NPLs minus provisions and accrued interest.

¹⁵If, as is suggested, domestic banks lend more against collateral than do foreign banks, this could explain part of the difference in ratios, but not the trend.

¹⁶In addition to *host* country supervision by the CBSL, foreign bank branches are subject to *home* country supervision. Some 85 percent of foreign branches in Sri Lanka (weighted by assets) have their head office in an industrial country.

Table 2. Sri Lanka: Indicators of Banking System Soundness (1998Q1–2000Q3)

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	1998				1999				2000		
Capital adequacy ratios 1/											
(In percent, risk weighted)											
Core capital (minimum 4 percent)											
State commercial banks	8.1	8.0	8.9	7.6	7.4	7.5	7.7	7.8	8.2	7.9	7.4
Private domestic banks	9.6	9.7	9.4	9.9	9.6	9.4	9.7	10.0	10.2	9.6	9.6
Foreign banks	12.4	13.0	12.8	14.8	15.1	14.8	16.2	13.8	13.7	14.3	14.6
All banks	9.1	9.1	9.5	9.2	9.0	8.9	9.3	9.3	9.6	9.3	9.0
Total capital (minimum 8 percent)											
(In percent)											
State commercial banks	8.6	8.5	9.4	8.2	7.7	7.7	8.2	8.4	8.7	8.4	7.9
Private domestic banks	10.6	10.6	11.4	12.3	11.9	11.3	12.0	12.2	12.1	11.4	11.2
Foreign banks	12.6	14.3	14.5	13.9	14.7	13.9	13.3	12.4	12.8	13.6	13.7
All banks	9.7	9.9	10.6	10.2	9.9	9.6	10.1	10.2	10.5	10.1	9.7
Liquid assets ratio											
State commercial banks	26.6	27.6	27.3	28.5	30.6	30.9	29.0	31.0	26.6	26.7	28.2
Private domestic banks	22.9	23.7	23.0	25.1	25.7	22.9	23.2	24.3	23.4	22.0	24.0
Foreign banks	40.2	33.2	35.7	36.6	38.8	37.0	41.3	37.5	39.6	39.2	40.7
All banks	27.0	27.0	26.8	28.3	29.8	28.7	28.2	29.3	27.1	26.2	27.8
Nonperforming loans/Total advances											
State commercial banks	20.7	19.6	20.2	19.5	19.3	19.9	20.1	18.3	24.2	18.8	18.6
Private domestic banks	12.8	12.9	13.2	13.4	14.7	16.6	16.6	15.9	15.9	15.6	15.8
Foreign banks	11.6	10.6	12.7	12.7	11.3	11.7	11.4	10.7	11.3	12.5	12.7
All banks	16.9	16.3	17.0	16.6	16.8	17.8	17.9	16.6	19.8	16.9	16.9
Net nonperforming loans/Total advances 2/											
State commercial banks	10.5	9.9	10.2	9.1	9.8	10.6	10.3	9.3	15.3	9.4	8.8
Private domestic banks	6.5	7.1	6.5	6.9	8.1	9.9	9.9	9.2	9.7	9.5	10.2
Foreign banks	3.7	3.0	4.6	4.8	2.7	2.8	2.4	1.9	1.6	2.4	2.9
All banks	8.3	8.2	8.3	7.9	8.4	9.5	9.3	8.4	11.8	8.7	8.7
Net nonperforming loans/Capital 2/											
State commercial banks	147.2	116.0	125.7	109.8	117.0	103.9	106.3	93.7	148.6	95.6	99.1
Private domestic banks	76.9	82.5	84.2	84.9	98.1	82.0	82.0	77.3	77.9	79.7	85.4
Foreign banks	8.1	8.4	21.1	28.6	18.0	9.9	9.9	9.3	7.7	10.9	12.4
All banks	106.9	92.1	99.7	92.0	99.7	77.0	77.0	71.5	96.2	73.4	76.5
Provisions/Nonperforming loans 3/											
State commercial banks	52.2	53.8	52.0	58.8	52.8	46.6	48.9	49.1	37.0	49.7	50.0
Private domestic banks	62.4	71.7	68.9	52.5	49.7	40.3	40.4	42.1	39.2	39.8	34.7
Foreign banks	75.6	71.0	64.0	90.1	104.9	76.2	79.1	82.5	85.5	80.8	77.9
All banks	58.5	61.8	59.1	60.2	57.3	46.6	48.1	49.1	40.5	48.4	46.7
Total advances (in percent of total)											
State commercial banks	54.4	54.9	54.6	54.2	54.0	53.5	52.6	52.5	52.3	50.5	51.7
Private domestic banks	33.7	33.2	34.1	34.5	35.2	35.8	36.7	36.1	37.3	39.3	38.6
Foreign banks	11.9	11.9	11.4	11.3	10.8	10.8	10.7	11.3	10.4	10.2	9.7
All banks	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total advances (percent annual growth)											
State commercial banks	7.7	9.0	14.7	13.0	14.7	11.6	11.0	11.9	11.8	6.8	12.1
Private domestic banks	22.6	23.1	28.2	22.8	20.7	23.6	24.1	20.8	22.4	24.4	19.8
Foreign banks	-5.5	6.0	-4.9	-0.3	4.9	3.9	8.8	15.3	11.0	7.4	2.7
All banks	10.4	12.9	16.1	14.4	15.5	14.7	15.2	15.4	15.5	13.2	13.9
Total advances (percent quarterly growth)											
State commercial banks	0.3	5.3	1.9	5.1	1.7	2.4	1.3	6.0	1.7	-2.1	6.3
Private domestic banks	6.0	2.7	5.2	7.2	4.2	5.1	5.6	4.5	5.3	6.8	1.9
Foreign banks	-7.4	3.8	-1.9	5.8	-2.7	2.8	2.8	12.1	-6.3	-0.6	-1.7
All banks	1.1	4.3	2.5	5.9	2.1	3.4	3.0	6.1	2.1	1.4	3.8
Memorandum items:											
All banks (in percent)											
Nonperforming Loans/Total assets	8.6	8.6	8.6	8.8	8.8	9.4	9.5	8.5	10.2	8.5	8.3
Net nonperforming Loans/Total assets	4.2	4.2	4.3	4.3	4.2	5.0	4.9	4.3	6.0	4.4	4.5
Nonperforming Loans/GDP	4.4	4.4	4.3	4.4	4.5	4.6	4.8	4.7	5.0	4.3	4.3
Net nonperforming loans/GDP	2.2	2.2	2.2	2.2	2.1	2.5	2.5	2.4	3.0	2.2	2.3

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

1/ Weighted by total advances.

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

3/ Specific provisions plus accrued interest over nonperforming loans.

10 percent for total capital, effective January 2002. As of September 2000, People's Bank, with a ratio of 6 percent, was well below the minimum, whereas Bank of Ceylon comfortably met the requirements with a CAR of 10 percent. For the private domestic banks, the ratio averaged 12 percent in 1999 but declined in 2000 to around 11 percent. The foreign banks comfortably met the requirements with 13¾ percent. So far reliance on tier-two capital is very small and consequently the core and total CARs follow largely similar patterns. Beginning in 1998, several private domestic banks took the step of raising tier-two capital by issuing subordinated debt, increasing their CAR based on total capital.¹⁷

State commercial banks

69. **Despite a gradual loss in market share, the two state commercial banks, the Bank of Ceylon (BOC) and the People's Bank (PB), continue to dominate banking, making up a little over half of all assets and liabilities.** Because they are weaker than the banking system on average—requiring recapitalization in 1993 and 1996—they make it possible for other inefficient banks to operate and for the more efficient banks to make higher profits than they would otherwise. Much of their weaknesses are due to past government interference, especially with board and management appointments, dividend policy, credit activities, investments, recruitment and remuneration.

70. **Diagnostic reviews carried out in 1998, revealed that the two banks were seriously underprovisioned.** Two teams of international auditors—financed by a World Bank loan—carried out the reviews. The diagnostic review found that only 26 percent of the loan portfolio of PB was fully performing (as of 30 September 1998), the bank had negative net worth, and additional provisioning of Rs 9.5 billion (over the existing Rs 5.6 billion), and Rs 11 billion in new capital were needed to meet a 10 percent capital-adequacy ratio. For BOC, about 40 percent of the loan portfolio was deemed fully performing. The additional provisioning requirement was estimated at Rs 2.8 billion (over the existing Rs 9.9 billion) and an extra Rs 1 billion to raise capital adequacy to 10 percent.¹⁸

71. **The basic recommendation at the time was that the two banks should seek strategic investors and that privatization was the preferred approach to restoring commercial viability.** However, this did not prove to be a politically feasible approach. Instead, the Government has issued a series of performance agreements spelling out

¹⁷To be eligible for tier-two capital, subordinated debt must be of at least five-year maturity. All debt issued was for exactly five years, and BSD is amortizing the amount by one fifth every year for capital adequacy purposes. Since the subordinated debt is tradable, the differential prices quoted offer a market assessment of the soundness of the banks.

¹⁸The classification guidelines applied to PB were not as strict as those applied to BOC, and BOC values its collateral much more conservatively than PB. The banks have a lot of leeway in valuing collateral and this determines the adequacy of their provisioning. The PB review assumed that the bank would recover 28 percent of its corporate loans classified as *lost*.

reciprocal commitments.¹⁹ The banks' management teams agreed to aim for specific operational targets, and the Government agreed to respect the banks' operational autonomy.

72. Performance began to improve in 1999 after the targets were relaxed to take account of the 1998 outcomes. BOC performed much better than PB, in general and by end-1999 had basically met all the operational targets: staff costs to average assets, total overhead costs to average assets, return on assets, return on equity, rationalization of branch network and recoveries of nonperforming advances. It had also completed the additional provisioning in 1999, increased capital, and began to show a profit. PB failed to reach most of the operational targets and improvements have been slower.

73. Performance of both PB and BOC improved further in 2000 with the assistance of new private sector board members, consulting teams, and detailed restructuring plans. Both banks have implemented a program of loan recovery, tighter accounting, and begun cost-cutting measures. Both are in the process of downsizing current staff and have recruited new management teams to revamp their marketing, accounting, information technology, credit and risk analysis and treasury operations. Although its accounts have not yet been audited, PB expected to show a loss after full provisioning in 2000, leaving it with a negative net worth. The Bank is operating under a temporary letter of comfort from the government. There have been improvements in collections on new lending, but difficulty in addressing the hard-core bad loans. BOC met all the performance criteria again in 2000, registering a smaller profit than in 1999 due to retroactive payment of negotiated wage contracts and a reduction in the market value of some investments.

Regulation and supervision

74. Banking regulation and supervision have been strengthened in recent years. The directives, first issued in 1997 by CBSL's Bank Supervision Department (BSD), have been subsequently amended and cover loan classification, suspension of interest, provisioning, investments in equity, and the acquisition of immovable property; and it tightened its directives with respect to capital adequacy and single borrowers. Subsequently, the BSD expanded its reporting system to be able to monitor compliance, which has generally been good. With the exception of classification and provisioning, all directives are up to international standards.

75. Despite recent progress, a number of weaknesses remain, both in the regulatory environment and in the capacity of the BSD to effectively supervise the banking system. The Domestic Banking Units (DBUs) and Foreign Currency Banking Units (FCBUs) of the commercial banks are not supervised on a consolidated basis. FCBUs are still exempt from some requirements under the Banking Act, including capital adequacy rules, and reserve and

¹⁹The Agreements are often referred to as Memoranda of Understandings (MOUs).

liquidity requirements.²⁰ Furthermore, bank supervision concentrates on credit risks and neglects important market risks, such as foreign exchange exposure and maturity risks. BSD is in the process of surveying the banks' foreign exchange exposures in preparation of setting appropriate limits. In the meantime, foreign banking exposure is closely monitored to ensure that banks are not holding open positions.

76. The capacity of the BSD to competently supervise the banking sector is being improved by increasing the number of qualified bank supervisors and the ability to more effectively process and analyze data it regularly collects from the banks. The BSD has recently increased its staff to about 40 examiners for its off-site supervision and on-site inspections. On-site inspections must take place once every two years. In both areas, staff training and computerization, BSD is receiving technical assistance but progress is slow. BSD focused its efforts on improving the reporting from the specialized banks and FCUBUs within its reporting system. In 2000, there were 14 on-site inspections completed for the 26 banking institutions. Moreover, the reporting time was considerably shortened.

77. The inspections identified only a few immediate problems in two of the private banks. One small bank is in breach of the single borrower limit (30 percent) and two small private banks could not meet the new capital adequacy requirement (9 percent) introduced in January 2001. CBSL officials were in close contact with both banks and expected the situation to be corrected within 6 months.

78. Standards for the public disclosure of banking sector data have been raised considerably in recent years. Financial disclosure was further strengthened as the new accounting and auditing standards came into effect beginning in 1999 for all large companies, all financial companies and all public corporations engaged in commercial activities. The new reporting format provides much more information on the banks' risk profile, profitability and available capital, and highlights movements in loan loss provisions, the volume of loans on which interest is suspended, and sectoral concentration of credit risks. From 1999, all banks, including foreign bank branches, were required to publish their half-yearly financial accounts and audited annual accounts by means of newspaper advertisements.

Domestic capital markets developments

79. Although some improvements in the stock prices were seen at the Colombo Stock Exchange (CSE) in some months of 1999, the year as a whole saw an overall decline in share prices. Market commentaries attributed this to the uncertainty associated with the elections and poor performance of some major listed companies during the first half of the year. The All Share Price Index declined by 4¼ percent in 1999 and market

²⁰Conceived in the 1980s as *offshore* institutions, and therefore not subject to foreign exchange controls, the FCUBUs are in practice deeply integrated in the domestic economy, borrowing from the DBUs and lending to local nonresident companies, be it only in foreign currency. Besides freedom from regulation, they enjoy tax concessions.

capitalization declined by 3 percent and stood at about Rs 113 billion. Foreign investor participation at the Colombo Stock Market continued to be at a low level during the year. Although major regional and international stock markets recovered from the adverse impact of the Asian crisis in 1997–98, a net foreign outflow of Rs 1 billion (\$13 million) was recorded at the CSE in 1999.

80. Some progress took place in the development of the corporate debt market during 1999. Listed debenture issues were made by five companies, namely two commercial banks, a merchant bank, a development bank, and a leasing company during the year. By end-1999, market capitalization of listed debentures amounted to Rs 4½ billion compared to Rs 3¾ billion at end-1998. This expansion in listed corporate debt instruments broadened the capital market and provided an alternative avenue of investment for savers, while helping companies to raise funds. In addition, as part of their overall debt management plan, the government introduced 5-year and 6-year bonds during 1999—a further step in providing a medium-term risk free yield curve. The total issue of new treasury bonds rose from Rs 39 billion in 1998 to Rs 63½ billion in 1999—such bonds are gradually replacing rupee loans as a means by which government borrows medium and long term.

81. During 2000, share prices and turnover on the CSE continued to be depressed. As in 1999, foreigners were net sellers—net outflows amounted to Rs 3½ billion (\$44 million) during 2000. At end-December 2000, the All Share Index was 50 percent below the peak of two and half years earlier. However, in terms of administrative changes, some significant changes to the listing rules and internal systems and procedures relating to listings took place in 2000. A major change implemented related to the removal of merit-based listing rules to a disclosure-based approach to evaluating listing applications. The new listing rules came into effect in November 2000 and have been approved by the Securities and Exchange Commission (SEC). Steps have also been taken to significantly reduce the cost of listing and these changes are expected to make the CSE more efficient.

82. The government also announced a series of fiscal incentives in the 2000 budget for the development of the domestic capital market. These included the gradual liberalization of the foreign investment in the debt market, permitting up to 100 percent of foreign ownership of licensed stock brokering firms, permitting foreign ownership of up to 60 percent of listed share capital in the case of banks and 90 percent in the case of insurance companies, and permitting foreign investments in equity/growth unit trusts where such trusts do not invest more than 20 percent of their total investment in government securities.

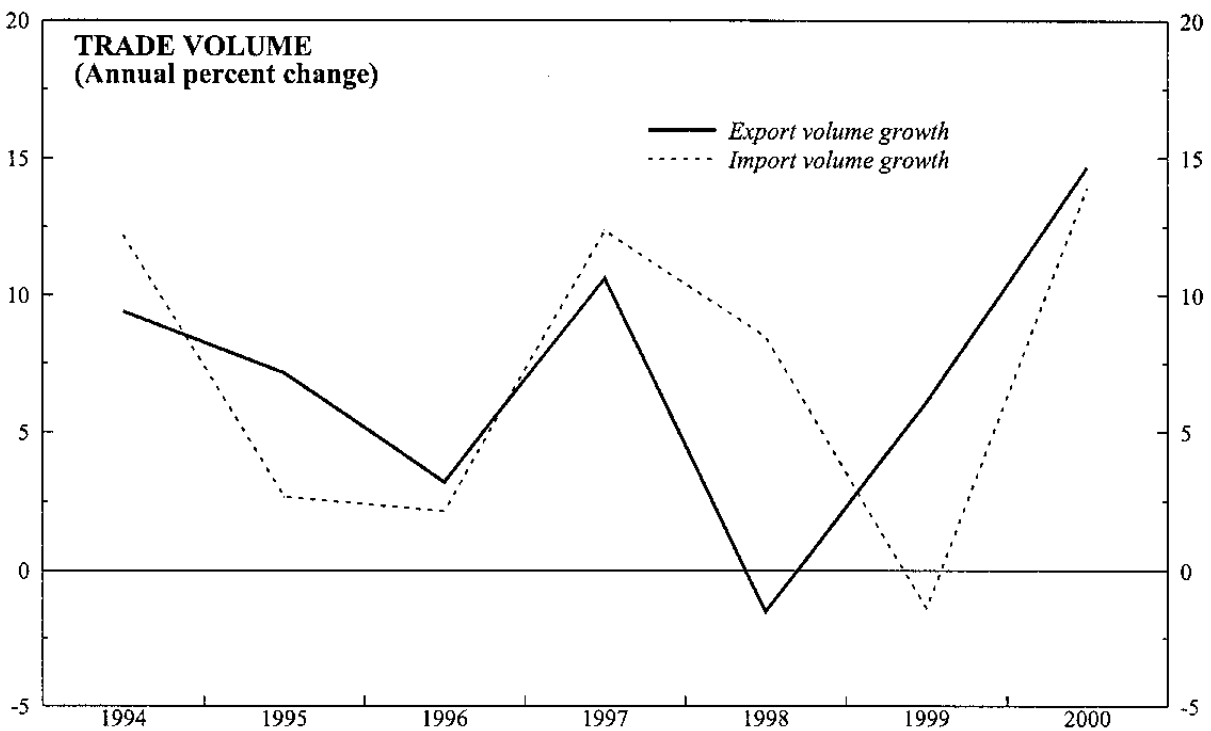
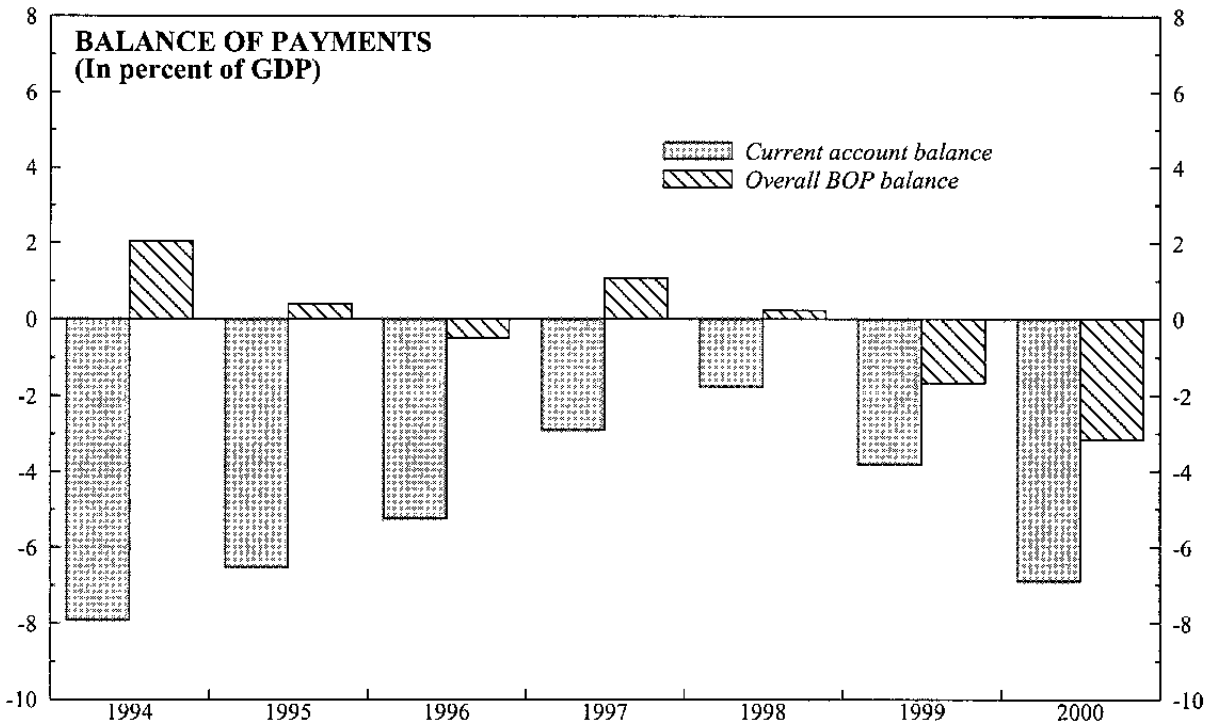
E. Balance of Payments and External Debt ²¹

Overall developments

83. Sri Lanka's external sector developments during 1999 reflected the lagged effect of depressed global demand and the impact of decline in commodity prices. However, during 2000, external trade increased sharply as the world economy recovered

²¹ See Appendix Tables 28–40 and Figures 12–15.

Figure 12. Sri Lanka: External Sector Indicators, 1994-2000



Source: Data provided by Sri Lanka authorities.

1/ Excluding official transfers.

following the Asian crisis, and the current account deficits widened further to 7 percent of GDP.²² Following a small surplus of ¼ percent of GDP in 1998, the overall balance of payments recorded a deficit in 1999 of 1¾ percent of GDP. This worsening was mainly the result of a widening in the current account, although the capital and financial account surplus also declined by ½ percent of GDP. Although exports increased by over 20 percent in 2000, higher oil imports (increased by \$400 million in 2000) and military imports (\$200 million) doubled the external current account deficit. Moreover, export proceeds were not fully repatriated, and resurgence of ethnic conflict, political concerns in the run up to the parliamentary elections and slowdown in the reform momentum led to a deterioration in the investment climate.

Box 3. Sri Lanka: Impact of Oil Price Developments on the Balance of Payments

The average world price for crude oil increased by over 80 percent between 1999 and 2000. This contributed to an increase in Sri Lanka's import prices of 8 percent and deterioration in the terms of trade of around 3 percent in 2000. The total increase in the oil import bill was about \$400 million which is more than one-half of the deterioration in the external current account balance in 2000. Sri Lanka's demand for crude oil was fairly inelastic during this period. Specifically, import volumes of crude oil and petroleum products increased by about 20 percent notwithstanding the acceleration in oil prices in part due to restocking and in part due to the substantial delay before the authorities began to pass-through the higher international oil price to domestic consumers.

The higher oil import bill was a major source of the \$613 million decline in official reserves in 2000, as most of oil imports were financed by the central bank. However, on the positive side, higher oil prices are likely to have been a significant factor behind the 8 percent increase in private transfers, which are largely remittances by Sri Lankan workers in the Middle East. Moreover, with the resumption of normal operations of the refinery, higher oil prices had a positive impact through increased exports of petroleum products (by \$25 million, or 34 percent).

The balance of payments projections for 2001 are sensitive to further terms of trade shocks. Sensitivity analysis show that a \$1 increase in the oil price would raise the average external current account deficit by \$20 million (0.1 percent of GDP) over the medium term (2001–2005). In terms of tax—equivalent terms of trade effects—that is, the net withdrawal of spending power as a result of the changes in petroleum prices—recent Fund research shows that with respect to 1999, Sri Lanka is projected to lose \$80 million in 2001 (about half of the 2000 loss) or about 0.5 percent of 1999 GDP.

84. **Gross official reserves declined by \$340 million in 1999 and fell by a further \$600 million in 2000—by end-2000 gross reserves were less than 1½ month of imports.**²³ With no official balance of payments support and lower-than-budgeted privatization receipts,

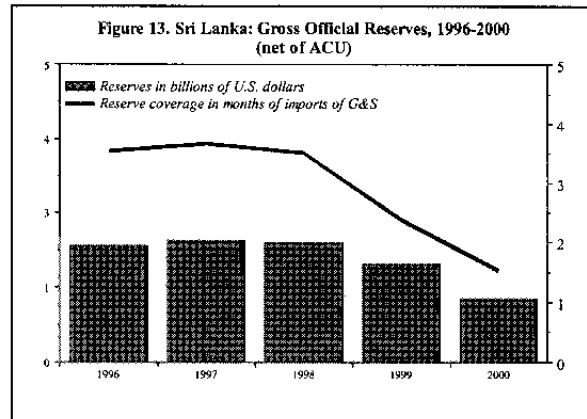
²² Unless otherwise stated, the analysis of the 2000 balance of payments is based on actuals through the first three quarters of 2000 as these are the latest complete data available.

²³ Gross reserves exclude Asian Clearing Account balances.

the rupee came under considerable pressure. The rupee depreciated by about 10 percent against the dollar during the second half of 2000. Due to the weakening of the partner country exchange rates vis-à-vis the dollar, the rupee only depreciated by 6½ percent in nominal effective terms (and appreciated in real effective terms). Gross official reserves declined, as the CBSL defended the lower end of the exchange rate band. Total external debt increased from \$8¾ billion to just over \$9 billion in 1999 (63½ percent of GDP).

Current account transactions

85. **The current account deficit (including grants) increased by \$350 million in 1999 and widened further by \$530 million during 2000.** In 1999, the deficits on the trade and income account increased and there was only a modest recovery in private transfers. The trade deficit increased from \$1.1 billion in 1998 (7 percent of GDP) to \$1.4 billion in 1999 (8¾ percent of GDP). Over the first nine months of 2000, the current account deficit was \$600 million higher than the same period of 1999, despite a very strong export performance.



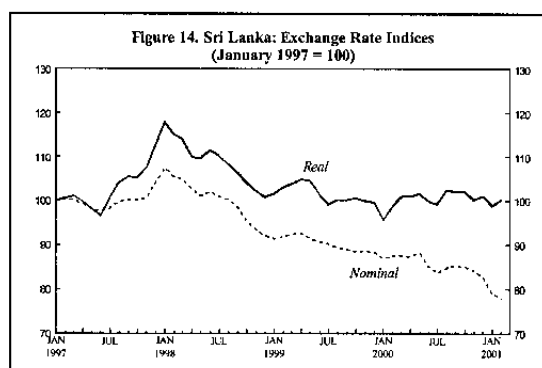
86. **Total merchandise export earnings declined to \$4.6 billion in 1999, representing a 4 percent decline over the previous year.** The weak export performance was driven by continued depressed global demand and weak commodity prices, particularly through the third quarter of 1999. Exports of textiles and garments (which accounted for 53 percent of total exports in 1999), fell by 1½ percent, mainly due to lower unit prices as Sri Lanka faced stiff competition from East Asian countries. Tea exports also fell sharply (by 20 percent), as prices declined by close to 12 percent due to a downturn in demand resulting from the currency crisis in Russia (Russia is the main importer of tea from Sri Lanka). Export earnings from tea and rubber only began to recover at the tail end of the year. Natural rubber and rubber-based products were also affected by competition from East Asian countries.

87. **Over the first three quarters of 2000, exports increased sharply (by over 20 percent) compared to the equivalent period of 1999,** responding to increased demand from strong economic growth in the United States and Europe. Moreover, the recovery in East Asia and the subsequent appreciation of those currencies helped to improve Sri Lanka's competitiveness in garments and rubber, and tea prices remained high as CIS and Middle Eastern states increased their participation in the world's tea auctions.

88. **Imports registered a marginal increase in 1999, reaching about \$6.0 billion, and rose significantly during 2000.** The trend decline observed over the years of consumer goods imports in favor of intermediate and investment goods imports continued in 1999. Excluding aircraft purchases, imports declined by about 5 percent in dollar terms. This negative growth represents both a drop in unit prices of about 4 percent and volume decline

of about 1 percent. International prices of major agricultural and dairy products fell in 1999. Imports of consumer goods declined by 2 percent and excluding the three aircraft, imports of investment goods fell by 14 percent in 1999. Consumer goods imports declined by 1½ percent due to lower international prices of major food items (sugar and wheat), whereas imports of durable goods increased by 9 percent including significant increases in vehicles (due to a partial duty waiver for public employees) and household electronics. Intermediate goods imports were broadly unchanged as a 45 percent increase in oil imports and lower international prices for textiles offset higher import volumes. Investment goods imports increased by 6 percent although this was solely due to the importation of three aircraft by Sri Lankan Airlines, which doubled transport equipment imports. Excluding aircraft, investment goods imports fell by 14 percent, due to lower volumes and prices.

89. **Continuing a recovery that began over the second half of 1999, imports increased by over 30 percent over the first three quarters of 2000, with strong growth in each import category.** Consumer goods increased driven by the liberalization of wheat and flour imports in February 2000 and continued partial duty waiver on motor vehicles. Higher volumes and prices of textiles, diamonds and a doubling of crude oil imports, due both to higher world prices and increased volumes, drove the increase in intermediate goods. Investment goods also continued to grow even after allowing for the importation of a further three aircraft by Sri Lankan Airlines. This was largely because of an \$84 million generator imported by a private company.



90. **The direction of trade remained largely unchanged in 1999 and through November 2000.** During the first eleven months of 2000, the United States and European Union accounted for approximately 40 percent and 27 percent of exports respectively, while the share of Asian (including Japan) markets remained broadly constant at 11½ percent. The United Kingdom and Germany were the second and third biggest market for Sri Lanka's garment exports followed closely by Japan. Taken together, industrialized countries accounted for about 75 percent of Sri Lanka's total exports. In terms of imports, Japan continued to be the largest single exporter to Sri Lanka. Motor vehicles, spare parts and woven fabrics were the major goods imported from Japan. Exports to the CIS countries declined in 1999 due to lower tea exports to Russia. The share of Asian economies (including Japan) in imports increased further to 65 percent in 1999 (declining to 63 percent in the first eleven months of 2000), whereas the value of imports from western industrial countries declined due to lower import prices.

91. **The surplus in the services account balance remained largely unchanged in 1999 at 1 percent of GDP, before declining dramatically in 2000.** A 19 percent increase in tourist receipts in 1999 was offset by further stagnation of receipts from port-related services due to competition from regional ports, and a 7 percent rise in transportation payments. However, the surplus in the service account plummeted in 2000—over the first nine months

of 2000 the services balance was less than one-half of the value recorded over the same period of 1999, due to higher payments on freight services and other port-related expenditures, a slowdown in tourist receipts and transshipment cargo handling revenues. The income account deficit increased sharply from 1998 and mainly because of higher net interest payments resulting from a fall in interest income on reserves (lower international interest rates and average net official reserves) and higher interest payments on external debt. In 1999, gross and net private transfers rose by 6 and 5 percent respectively, reflecting higher compensation payments from the United Nations for Sri Lankan workers displaced from Kuwait during the Gulf war (\$112 million compared to \$78 million in 1998). Through September 2000, net private transfers increased a further 13 percent, mainly reflecting higher workers remittances from the Middle East related to higher oil prices. Net official current transfers halved in 1999 to \$24 million, accounting for less than ¼ percent of GDP.

Capital and financial account transactions

92. **The surplus in the capital and financial accounts declined during 1999 mainly due to a drop in the financial flows.** Net capital transfers also continued to fall in 1999 to \$75 million, with official project grants declining to \$72 million, while private capital transfers were negligible. In 2000, capital transfers through September were in line with flows in 1999.

93. **The financial account surplus declined by \$52 million to \$282 million in 1999 due to a fall in medium- and long-term capital flows to the government and a significant decrease in net short-term flows, which more than offset a large increase in long-term private capital inflows.** Despite a \$40 million increase in net foreign direct investment, total direct investment decreased by 8 percent, due to the absence of any privatization receipts. The largest inflows were to the telecommunications (32 percent) and power sectors (18 percent).²⁴ Net medium- and long-term flows to government declined to \$379 million as projects were delayed and there was an absence of balance of payments support.²⁵ In contrast, net private inflows increased sharply due mainly to disbursements of \$290 million to Sri Lankan Airlines for the financing of three aircraft, and \$19 million borrowing by Sri Lanka Telecom to upgrade its telecommunication network. Over the nine months of 2000, the financial account surplus was much higher than the corresponding period in 1999 (\$328 million compared with \$8 million), mainly as a result of significantly higher private sector borrowing as Sri Lankan airlines tapped the international capital markets for further loan capital to fund its refueling program. However, FDI registered only

²⁴ The largest FDI projects in 1999 were the expansion of the Colombo port (\$36 million), Lanka Bell Telecoms (\$26 million), Shell Terminal Lanka (\$20 million), Colombo Power (\$16 million) and MTN Networks (\$16 million).

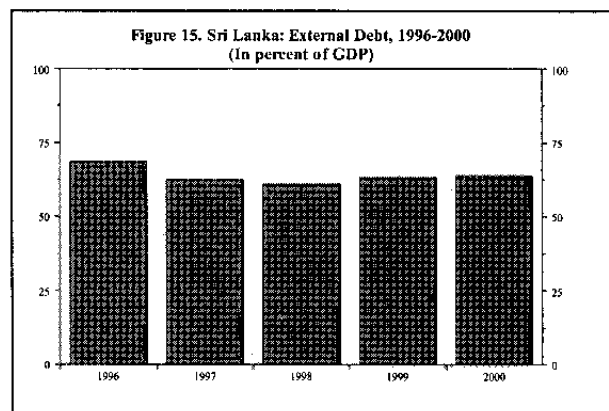
²⁵ The bulk of this (\$350 million) was on concessional terms, with the remainder being non-concessional loans/long-term trade credits to finance defense imports.

a modest increase in 2000 due to uncertainty following the elections at end-1999, and the slowdown in investment in the telecommunication sector.

94. **Total net short-term private capital inflows declined in 1999 but improved during 2000.** This was mainly due to commercial banks' net repayment of \$100 million to banks abroad in 1999, but also as result of a small net outflow in portfolio investment from the Colombo Stock Exchange, reflecting continued uncertainties over regional prospects and the security situation in Sri Lanka. The unfavorable conditions in the international capital markets forced Sri Lanka to postpone its planned debut international bond issue in 1999. Data through end-September 2000 show the short-term capital account improved significantly in 2000 even though portfolio investment outflows increased, as CPC contracted large short-term trade credits to finance its increased oil import bill, and there was a small increase in commercial banks' net foreign assets.

95. **Gross official reserves declined by one half between 1998 and 2000, to just over 1¼ months of import cover.** This was due to a combination of factors including (i) the deterioration of the current account due in part to excessive fiscal deficits and the resulting public dissaving; (ii) higher oil import costs and failure to pass-through the higher international oil price to allow petroleum import volumes to adjust to higher prices; (iii) the civil conflict that has increased military imports and reduced investor confidence that resulted in moderate foreign direct investment and negative net portfolio investment; (iv) weak capital inflows including zero privatization receipts in 1999 and 2000 (compared with a peak of \$300 million in 1997), and reduction in aid inflows; and (v) inappropriate exchange rate policy where efforts to sustain an overvalued exchange rate and finance petroleum imports resulted in sizeable reserve losses in spite of a sharp increases in interest rates.

96. **Sri Lanka's outstanding external debt increased from 61 percent of GDP in 1998 to 63 percent in 1999, and rose further to 64 percent by end of 2000.** This was entirely because of higher medium- and long-term debt, due mainly to higher concessional government debt obligations to Japan (largely due to the appreciation of the yen against the dollar), IDA and the AsDB, and aircraft purchases by Sri Lankan Airlines. In terms of exports of goods and services, external debt rose from 168 percent in 1998 to 179 percent in 1999 while the debt service ratio increased from 13¼ to 15¼ percent because of higher amortization payments. As for debtor composition, the share of government debt in total external debt declined slightly to 78 percent, while government guaranteed debt of the public and private sector increased by 2 percentage points to 10 percent (or 31 percent in nominal terms), due to the commercial borrowings by Sri Lankan Airlines. By end-2000, total external debt had increased by a further \$530 million, due to project disbursements from Japan, commercial borrowing for defense imports



and a second loan to the national airline to finance aircraft. Short-term debt increased by almost 30 percent reflecting higher trade credits to CPC. However, the debt service ratio declined to 14¼ percent as the nominal increase in exports of goods and services (16 percent) exceeded the increase in the nominal debt stock (6 percent).

Exchange and trade system

97. Sri Lanka's exchange system underwent very few changes in 1999–2000.

Sri Lanka accepted the obligations of Article VIII, Section 2,3, and 4 on March 15, 1994 and maintains an exchange system free of restrictions on current international transactions. However, Sri Lanka still maintains a broad range of capital controls. There are still limits on inward direct investment (foreign participation is prohibited in five sectors and is limited in others). However, in the 2000 Budget, the government announced further liberalization measures aimed at opening up the banking and insurance sectors to foreign investors.

98. Sri Lanka followed a crawling band exchange rate regime through 1999 and 2000. The CBSL announced the daily spot buying and selling rates of the dollar against the Sri Lanka rupee for transactions with commercial banks within margins of 2 percent, and bought and sold the dollar on a spot basis at those rates. These margins were increased to 5 percent in June 2000, 6 percent in November 2000, 8 percent in December 2000, and 10 percent in January 2001. The margins were abandoned altogether on January 23, 2001, when the CBSL announced the float of exchange rate. Under the new regime, the central bank no longer announces its daily buying and selling rates in advance, but announces the commercial banks' weighted average rates on a daily basis. The CBSL participates in the market by buying and selling at market prices, with the objective of meeting its reserves targets and smoothing out exchange rate volatility.

99. The major changes in the exchange system that were introduced in 1999 and 2000 were: (i) banks were granted general permission to provide rupee credits to nonresident-controlled companies incorporated locally (except for BOI companies); (ii) the limits for foreign equity participation in banking and insurance activities were raised to 60 percent and 90 percent, respectively, from 49 percent;²⁶ (iii) the NDB and DFCC were permitted to extend foreign currency loans to exporters from their foreign exchange lines of credit; (iv) banks were permitted to extend rupee credit facilities to BOI companies subject to prudential limits; and (v) offshore banking units were permitted to provide foreign currency accommodation to direct and indirect exporters of goods and services.

100. The trade regime was further liberalized in 1999 and 2000, following the introduction of a three-band tariff system in November 1998. The authorities continued to amend Sri Lanka's trade and tariff policy by promoting a simple, broad based and transparent tariff system with lower tariff rates. Several measures were put in place to

²⁶ In the case of stock brokering, this limit could be up to 100 percent if the Securities and Exchange Commission grants permission.

rationalize the tariff structure in 1999. Trade in gems, gold, and other precious metals was liberalized. Duty waivers were gradually removed, although a partial duty waiver on rice and other basic foodstuffs was introduced over the last two months of 1999. Moreover, the past policy of granting duty waivers on imports has also been gradually reduced, limiting it to very essential items in the national interest. As a result, the average duty rate, declined from 7½ percent in 1998 to 7 percent in 1999, reflecting decreases in duty rates and dutiable imports. The impact of lower duty rates effective throughout 1999 was also reflected in all categories of investment and intermediate goods. A two-band tariff system was introduced with the 2000 Budget, and the maximum rate reduced from 35 percent to 25 percent.²⁷ The simple average tariff was lowered from 16 to 12 percent in the 2000 Budget although the introduction of the import surcharge in 2001 raised the simple average tariff back to 15 percent. The authorities have eliminated licensing requirements on maize, wheat, and wheat flour and are in the process of liberalizing petroleum products.

Box 4: Sri Lanka's Participation in Bilateral and Regional Trading Arrangements

Sri Lanka entered into several trading arrangements in 1999 and 2000. The Indo-Lanka Free Trade Agreement (ILFTA) was signed in 1999, and unilateral tariff reductions were implemented following the 2000 Budget in February. The ILFTA allows duty free imports of raw materials and machinery from India, helping to reduce the cost of production of the manufacturing sector. The ILFTA also provides market access to Sri Lanka products in the Indian market. Under this agreement, India will gradually remove its customs tariff over a period of three years, subject to a negative list, which contains about 429 items. In return, Sri Lanka will remove tariffs on imports from India over a period of 8 years, subject to a negative list containing 1,880 items. The agreement also includes different percentage reductions in tariffs on different products from both countries. In terms of Sri Lanka's imports from India, only 6 percent of the tariff lines are subject to complete tariff removal whereas another 25 percent receive no reduction as they are on the negative list. Items subject to a phased out tariff removal face a minimum 35 percent tariff removal in the first three years and elimination by the eighth year. Among India's commitments under the ILFTA is the 50 percent removal of tariffs on Sri Lankan tea and garments exports (but subject to a quota).

The European Union (EU) and Sri Lanka also signed a Memorandum of Understanding in trade in textiles and clothing products on December 5, 2000, which suspends all quantitative restrictions on Sri Lanka's textile and garment exports from January 2001. In return, Sri Lanka agreed to tariff bindings on various imports. The agreement provides a major boost to Sri Lanka textile and garment industry as around 25 percent of garment exports to the EU are under quota, including the items which are in highest demand. The agreement on Trade, Economic and Technical Cooperation signed with Ukraine will grant a 50 percent reduction of import tariff on Sri Lanka's tea exports to Ukraine. Moreover, an agreement was signed with the Czech Republic to strengthen trade relations. Sri Lanka also had discussions with Norway on trade relations and continued negotiations at the Sri Lanka European Commission (EC) Joint Commission which resulted in receiving tariff concessions on imports of garments and fabrics manufactured with yarn imported from EC.

²⁷ Some agricultural products were kept at the 35 percent rate, and a few products (tobacco, liquor, crude oil, and some motor vehicles) remain outside this tariff structure.

III. STRUCTURAL AND SOCIAL ISSUES

A. Public Administration Reform

101. **Sri Lanka's move to an open and market oriented economy has to some extent not been accompanied by similar transformation in public administration.** Sri Lanka's public sector remains large—about 12 percent of the labor force is employed by the government (17 percent if quasi-government sector is included), and the country has one of the largest bureaucracies per capita in Asia. There has been a proliferation of government institutions over the years. The number of central ministries is very high—45 in 2000. Sri Lanka also has 150 statutory boards and public corporations employing about 170,000 people.

102. **However, the large privatization program of recent years (especially in the plantation sector) has helped to reduce the number of semi-government employees.** The government has also taken steps to address some of the problems in an oversize of the public sector. These include (i) the establishment of the Department of Management Services (DMS) to manage the cadre of official positions in the public sector, (ii) establishment of the National Administrative Reform Council (NARC) to provide political leadership and commitment for administrative reform, and (iii) some retrenchment in public corporations. Financial controls and administrative accountability has been weakened over time. However, there has been some strengthening of expenditure control and monitoring over recent years. The other additional weakness in financial control and public accountability is the area of public sector procurement. The Asian Development Bank (AsDB) is assisting in the establishment of the Procurement Support Bureau, which is expected to speed up government contracting and strengthen the capacity of the Tender Boards and Tender Evaluation Committees to efficiently carry out their tasks.

103. **The government has also established the Public Management Development Authority (PSMDA) for reviewing procedures of ministries and department.** The PSMDA has already commenced work. The plans and programs for Administration Reforms undertaken by the Ministry of Public Administration, Home Affairs and Administration Reform focus on two issues: (i) establishing a satisfactory service delivery to the public by state institutions and (ii) ensuring efficient public service to implement government development programs effectively.

104. **The government and the public enterprise reform commission (PERC) have announced their intention to continue their divestiture program in respect of hotels, Bogala graphite and agricultural and livestock farms.** While retaining ownership, the government plans to undertake the restructuring of the operations of the Ceylon Electricity Board, the Ports Authority and the Airport and Aviation Authority, as well as state banks. Preparation are already underway for the sale of another 30–40 percent government stake in Sri Lanka Telecom, which was listed in the Colombo Stock Exchange and is also on the list of foreign stock exchanges.

B. Pension System Reform

105. **Notwithstanding Sri Lanka's rapidly ageing population, the long-delayed pension reform plan by the government made little headway during 1999–2000.**²⁸

However, in August 2000, the President appointed a Committee to look into pension matters. The terms of references of this Committee included the following:

- Examine pension policies and various pension/superannuation benefit schemes in neighboring countries with special reference to those with similar economic and social conditions of Sri Lanka so as to develop an appropriate pension policy and pension structure for civil servants;
- Explore the possibilities of the amalgamation and simplification of the various pension schemes;
- Study proposal for the establishment of a sustainable pension scheme and which would ensure reasonable retirement benefits for pensioners;
- Examine and make recommendations of various ways to improve on the anomalies in the existing system of method of calculating pensions and eliminate irregularities in payment of such benefits;
- Examine supplementary social security schemes to reduce vulnerability and isolating of retirees by providing medical insurance schemes, dwelling and recreational facilities.

The recommendations of the Committee are expected to be submitted to the President during the first quarter of 2001.

C. Labor Market Reforms

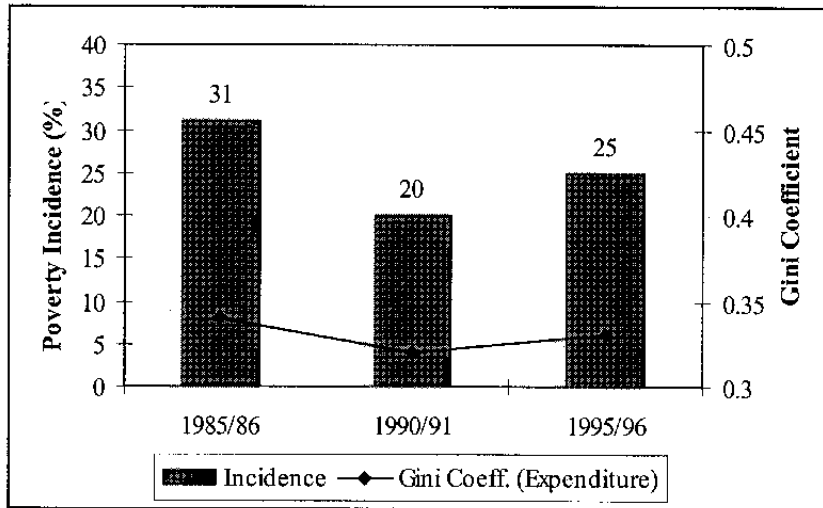
106. **Sri Lanka has nearly 50 labor statutes, of which only 10–15 are operational. The regulations in the labor market remain a critical constraint on private sector development and timely public sector reform.** Under the Termination of Employment and Workmen Act (TEWA), termination of employment is possible only with prior written consent of the employee or the Commissioner of Labor. An additional constraint is the development of several small and often adversarial trade unions due to outdated trade union legislature dating to 1935. Serious shortcomings also remain in the procedures for the resolution of disputes, including arbitration procedures and the implementation of these procedures by the Labor Tribunals and Commissioner of Labor. These restrictions and administrative regulations have created distortions in the labor market, inhibited job creation and led to the development of short-term jobs, as evidenced by the large increase in casual,

²⁸ Sri Lanka has one of the highest life expectancies among developing countries.

Box 5: Trends in Consumption Poverty ¹

Analysis of the three available household data sets indicates a declining trend in the incidence of poverty since the mid-1980s, but a likely slowdown in poverty reduction during the early 1990s. An analogous pattern occurs in the levels of inequality.

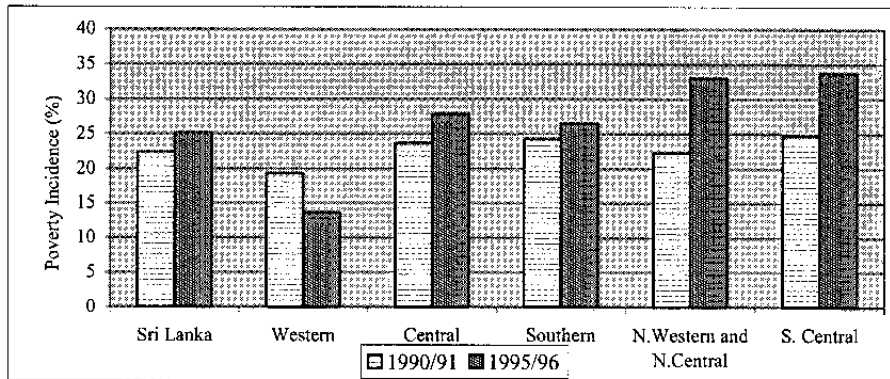
Incidence of Poverty and Consumption Inequality



Sources: 1985/86-190/91: Datt and Gunewardena, 1997; 1995/96: World Bank, 2000

This slowdown in poverty reduction is puzzling because at the aggregate level, Sri Lanka's economic performance since the mid-1980s has been judged to be generally satisfactory with overall growth at around 5 percent (or 4 percent per capita) a year between 1985 and 1999. A deeper analysis of growth and poverty indicators suggests that aggregate indicators hide a complex and changing landscape of development in poverty dynamics. Specifically, a disaggregated analysis to the regional and sector levels gives a more revealing story. Preliminary evidence based on the work cited here points towards a widening of disparities in poverty incidence across regions and sectors.

Incidence of Poverty by Region



Sources: 1990/91: Datt and Gunewardena, 1997; 1995/96: World Bank, 2000

Notes: Sri Lanka excludes North East. S. Central region includes Uva and Sabaragamuwa Provinces.

¹Prepared by World Bank Staff.

temporary employment. Due to these labor market restrictions, Sri Lanka's growth performance over the last two decades has fallen well short of its potential.

D. Poverty ²⁹

107. **International evidence show that the pattern and distribution of growth are important in determining whether economic growth translates into equivalent reductions in poverty.** In Sri Lanka's case, since the majority of the poor live in rural areas, agricultural growth can lead to significant poverty reduction. The 1995/96 HEIS data confirmed that the incidence of poverty is highest among households deriving their income primarily from agriculture (32 percent). Consequently, insufficient per capita growth in agriculture is said to have been a major contributing factor to the slow progress in poverty reduction between 1990-96.

Table 3. Poverty and Welfare Indicators by Province

	Poverty indicators (1995/96)			Adult Illiteracy	No access to safe water	Children not fully immunized	Births not in institutions	No access to electricity	No access to safe sanitation
	Incidence	Depth	Severity						
Western	14	2.6	0.8	6	18	14	3	35	11
Central	28	6.2	2.1	15	26	14	21	65	24
Southern	26	5.6	1.9	11	35	10	9	59	20
N. Western	34	7.0	2.2	8	35	4	13	69	30
N. Central	31	6.3	1.8	10	48	2	20	72	32
Uva	37	9.5	3.5	17	45	12	36	73	34
Sabaragamuwa	32	6.8	2.1	11	32	12	17	74	23

Sources: Poverty indicators-World Bank, Others-UNDP, Sri Lanka National Human Development Report, 1998.

108. **The economic and social costs of the war have had a serious impact on both the level and regional impact of poverty in Sri Lanka.** A study conducted by the Institute of Policy Studies (IPS) estimate the present value cost of the conflict during 1984-96 at nearly 170 percent of Sri Lanka's total GDP in 1996. The Central Bank of Sri Lanka, in its 1999 Annual Report, estimate that the conflict had reduced Sri Lanka's economic growth by about 2 to 3 percentage points a year. The immediate direct cost is evident on the level of security-related expenditures (including police), which increased from 1¼ percent of GDP in 1980 to 5½ percent of GDP in 2000.

109. **In terms of regional disparity, growth has been slowest in the three poorest provinces of Uva, North Western, and the North.** In contrast, the Western province, with its large concentration of industrial and high level of service sector activities, achieved impressive growth and lowest incidence of poverty. It was the only province that experienced a decline in poverty between 1990 and 1996. Both the North Central and North Western

²⁹ This section on poverty (including the Charts and Tables) draws heavily from World Bank Country Report (2000)—“Sri Lanka Recapturing Missed Opportunities”.

provinces suffered the worst from the drought, while the areas bordering the North were affected by the conflict. As a result, poverty rates more than doubled in these two provinces during the period.

110. **Regional disparities exist in the provision of publicly-provided goods such as electricity and drinking water.** This may be partly a reflection of administrative and financial structures poorly prepared to deliver services at the local level (Table 3). The current system of decentralization in Sri Lanka dates from 1987, when legislative and executive powers for some expenditure items were devolved to eight Provincial Councils. Devolution also provided for central support services to be given to the Councils through a Finance Commission and a Ministry of Provincial Councils. However, Provincial Councils have few resources (financial and human) and have been unable to take up this new role.

TAX AND NONTAX REVENUE STRUCTURES IN SRI LANKA—2001

I. TAX STRUCTURE

A. Income Tax

1. **Legislation.** Inland Revenue Act No.38 of 2000 with effect from January 4, 2000.
2. **Implementing agency.** Department of Inland Revenue.

a. *Personal income tax*

Legislation

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

Residence rule

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

Rate structure

- Tax free threshold - Rs 144,000 for residents
- Tax unit - Individual
- Tax Rates

Taxable income	Rate
First Rs 100,000	10 percent
Next Rs 100,000	15 percent
Next Rs 100,000	25 percent
Balance	35 percent
- Noncitizen employees - 15 percent

Terminal benefits on retirement

First Rs 500,000	Exempt
Next Rs 150,000	5 percent
Next Rs 150,000	10 percent
Balance	15 percent

- b. *Corporate tax.* A Company means any company incorporated or registered under any law in force in Sri Lanka or elsewhere and includes a public corporation.

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

Rate structure.

Category	Tax rate
Resident and nonresident companies	35 percent
Export, agriculture, tourism, and construction	15 percent
Provident funds and charities	10 percent

A 20 percent surcharge on corporate income tax was imposed under the 2001 budget for a period of one year commencing 4/1/01.

Capital gains

Period of ownership of Property

Years	Rate (percent)	Years	Rate (percent)
Over 25	0		
20-25	5	05-15	17.5
15-20	12.5	02-05	25
Less than 2 years	normal rates		

Capital gain on sale of Quoted Company shares is fully exempt

Rates of depreciation

Type of asset

Plant, machinery and fixtures, computer software	50 percent
Motor vehicles and office furniture	25 percent
Qualified buildings	6 $\frac{2}{3}$ percent
Motor coach used for employee transport	100 percent

B. Save the Nation Contribution

1. **Legislation.** Save The Nation Contribution Act of 1996, as amended from time to time.
2. **Implementing agency.** Department of Inland Revenue.
3. **Tax liability.** All employees including self employed persons and pensioners excluding the members of armed forces and police.
4. **Applicable rates**
 - Emoluments: Rs 15,000 to Rs 30,000 per month 2 percent.¹
 - Emoluments: Rs 30,000 and above per month 3 percent.¹

C. Customs Duty

1. **Legislation.** Customs Ordinance No.17 of 1869, as amended from time to time.
2. **Implementing agency.** Department of Customs
3. **Tax liability.** Customs duty is levied on all goods, wares, and merchandise imported into Sri Lanka.
4. **Duty structure**
 - Zero duty. Wheat, lentils, dried fish, fertilizer, seeds, pharmaceuticals, yarn, textiles, tractors, lorries, timber computers, sports equipment.
 - Standard rate bands
 - 5 percent - raw materials
 - 10 percent - intermediate goods
 - 25 percent - finished products
 - Special rate band - 35 percent - agricultural products, rice, big onion, red onion, chillies

¹ Emoluments—total income, excluding arrears.

Specific duties - Tobacco, cigarettes, liquor, sugar, and potatoes

A 40 percent surcharge was imposed on customs duty rates, effective 2/21/01 until 12/31/01, with the following exemptions: milk and cream, potatoes, edible oils, sugars, infants' milk foods, infant's foods, textiles.

5. **Date of payments.** At the point of import.
6. **Computation of duty.** Duty rate is applied on Cost, Insurance and Freight (CIF) value.

D. Goods and Services Tax (GST)

1. **Legislation.** Goods and Services Tax Act No. 34 of 1996, amendment Act No. 11 of 1998, and amendment Act No. 26 of 2000.
2. **Implementing agency.** Department of Inland Revenue.
3. **Tax liability.** Domestic supply or imports of goods and services.
4. **GST threshold.** Turnover in excess of Rs 500, 000 in any quarter or in excess of Rs 1,800,000 in four successive quarters.

5. **Applicable rates**

Exempt

- Essential food items i.e., rice, flour, sugar, milk and milk powder, bread
- Pharmaceuticals
- Petroleum products, fertilizer, water
- Financial services

Zero rate

- Export of goods
- International transportation (including transshipment) of goods and passengers
- Services directly connected with any movable or immovable property outside Sri Lanka

Standard rate of 12.5 per cent on domestic supply or imports.

Refunds

- GST on inputs for zero rated and taxable goods and services are recoverable.

6. **Computation of duty**

On manufacturing: Wholesale price (WSP), excluding GST and National Security Levy (NSL), multiplied by the GST rate.

On services: Final consumer price, excluding GST and NSL multiplied by the GST rate.

On imports: CIF with all fiscal levies, excluding GST and NSL multiplied by the GST rate.

Date of payment. Monthly return if the value of taxable supplies exceeds Rs 30 million per annum, otherwise quarterly.

E. Excise (Special Provisions) Duty

1. **Legislation.** Excise (Special Provisions) Act No. 13 of 1989 and Amendments Act No. 40 of 1990 and Act No. 8 of 1994.
2. **Implementing agency.** Excise (Special Provisions) unit of Department of Customs.
3. **Tax liability.** On the following articles manufactured locally or imported:

• Cigarettes			
> 60 mm in length	Rs 2,249 per 1000 sticks	• Pipe tobacco	Rs 250/- per Kg
60 mm – 67 mm	Rs 3,142 per 1000 sticks	• Malt Liquor	10 percent
67 mm – 72 mm	Rs 4,503 per 1000 sticks	• Hard Liquor	30 percent
72 mm – 84 mm	Rs 4,640 per 1000 sticks	• Motor vehicles	
84 mm <	Rs 5,156 per 1000 sticks	Petrol cars	15 percent
		Diesel cars	65 percent
		Vans	35 percent
		• Petrol	35 percent
		Diesel	35 percent
		Kerosene	35 percent

4. **Computation of duty**

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

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

5. **Date of payment**

Cigarettes and Petroleum products – monthly payment

Liquor – quarterly payment

Motor vehicles – at the point of import

F. Excise (Ordinance) duty

1. **Legislation.** Excise Ordinance No. 8 of 1912 and subsequent amendments.

2. **Implementing agency.** Department of Excise

3. **Liability.** Domestically produced hard and soft liquor only.

4. **Duty structure**

• Coconut and processed arrack	Rs 213 per proof liter ²
• Country made foreign liquor	Rs 247 per proof liter ²
• Molasses and palmyrah arrack	Rs 197 per proof liter ²
• Malt liquor above 5 percent in strength	Rs 25 per liter ²
• Malt liquor less than 5 percent in strength	Rs 15 per liter ²

5. **Date of payment.** Monthly

G. National Security Levy

6. **Legislation.** NSL is imposed under the National Security Levy Act No.52 of 1991 as amended from time to time.

7. **Implementing agency.** Department of Inland Revenue

² Standard proof is 57.1 percent in alcohol.

8. **Liability.** Manufacture and imports and selected services such as insurance, banking, finance and telecommunication and other specified services excluding electricity, medical services, water, transport, educational services, construction contractors, etc.
9. **Exempted.** Exports, re-exports.
10. **Duty structure.**
- | | |
|--|-------------|
| Standard rate | 7.5 percent |
| Concessionary rate for plant and machinery | 0.5 percent |
11. **Computation of duty**
- Domestic:**
Wholesale price (WSP) excluding Excise (Special Provisions) duty, multiplied by the NSL rate.
12. **Imports:** The aggregate of CIF, Customs Duty (CD), 25 percent mark-up of CIF and CD to be multiplied by the NSL rate. $[(CIF + CD) 1.25] \times NSL \text{ Rate}$.
13. **Date of payment.** Monthly payment if the turnover exceeds Rs 5m per month, otherwise quarterly.

H. Turnover Tax

1. **Legislation.** Turnover Tax Act No. 69 of 1981 as amended from time to time.
2. **Implementing agency.** Department of Inland Revenue
3. **Tax liability.** TT is applicable to banking and financial services which are not liable to GST.
- Tax rate is 1 percent, except on pawnbroking, which is 2 percent.

I. Stamp Duty

4. **Legislation.** Stamp Duty Act No. 43 of 1982 as amended from time to time.
5. **Liability.** Section 2 of the Stamp Duty Act imposes the duty to be paid and specifies the documents and instruments in respect of which the duty is chargeable.

Following are the main instruments liable for Stamp Duty:

- (a) Debt acknowledgments.
 - (b) Letters of credit, bills of exchange, promissory notes.
 - (c) Bonds, pledges, mortgages, share certificates, bank guarantees.
 - (d) Deed or instruments for the exchange of any property, lease or hire agreements.
 - (e) Documents filed in civil proceedings and other court documents affidavits, affirmations.
6. **Rates.** Rates of duty as fixed by Regulations made under Section 69 of this Act.
- Stamp duty of 2 percent on every import invoice.
 - Stamp duty of 0.5 percent on export documents.

J. Motor Vehicle Tax

1. **Legislation.** The motor vehicle levy was introduced in Sri Lanka by the Finance Act No. 16 of 1995 and implemented from April 1, 1995.
2. **Implementing agency.** Department of Motor Traffic
3. **Tax liability.** An annual levy of Rs 5,000 is levied on diesel motor vehicles.

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

Vehicle	Type / Capacity	Levy in the first year
Luxury	Diesel - exceeding 2,500cc	Rs 50,000/-
	Petrol - exceeding 2,000cc	
Semi luxury	Diesel - 2,200cc-2,500cc	Rs 25,000/-
	Petrol - 1,800cc-2,000cc	
Semi luxury dual purpose Excluding vans	Diesel - exceeding 2500 cc	Rs 10,000/-
	Petrol - exceeding 2000 cc	

II. NONTAX STRUCTURE

A. Railway

1. **Legislation.** Railway Ordinance No. 9 of 1902
2. **Basis of liability**

Passengers and freight

- Passenger fares per km

1st Class:	0.984 cts
2nd Class:	0.564 cts
3rd Class:	0.204 cts

- Freight fares per tonne kilometer

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

B. Postal

1. **Legislation.** Ceylon Post Office Ordinance No. 11 of 1908
2. **Basis of liability**

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

C. Rent

- **Government quarters**

A fixed rate of Rs 1,000 per month for summit flats

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

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

Base

Government officers quarters	Married	- 12½ percent of basic salary
	Unmarried	- 7½ percent of basic salary
Circuit bungalows:	Nuwara Eliya and Diyatalawa	- Rs 50.00 per day
	Diyatalawa and Bandarawela	- Rs 35.00 per day

Rent for office space depends on the floor area

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

Revenue Base for Lease Rental -

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

D. Interest

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

E. Profits and Dividends

- Profit received from public enterprises
- Dividend received on the Government share of public companies
- Levies imposed

F. Sales and Charges

1. **Legislation.** Under Relevant Legislation

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

G. Social Security Contribution

1. **Legislation.** Widows and Orphans Ordinance No. 1 of 1898.

2. **Base**

- On salary
 - up to Rs 45,600 per annum — 4 percent
 - Rs 45,601 - 70,260 per annum — 6 percent
 - Rs 70,261 and above per annum — 7 percent
- The W and OP scheme for female officers who joined the public service prior to 1983 was optional.

- The following officers serving in the police and armed services are exempt.
 - * Police — Home Guards
Policy Security Assistants
 - * Army, Navy, Air Force — Volunteers and all female staff

H. Central Bank Profit Transfers

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

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

I. Capital Revenue

- **Divestiture proceeds**
Public Enterprises Reform Commission Act No. 1 of 1996. All divestiture proceeds are to be credited to the Consolidated Fund.
- **Repayment of loans**
Principal amount received by the Government on lending to commercial enterprises.

Tax Incentives under Inland Revenue Act

Category	Incentives
Agriculture and animal husbandry	<ul style="list-style-type: none"> ▪ Tax holidays (10 years). ▪ Exemption of dividends. ▪ Exemption of certain subsidy or grant. ▪ Deduction of certain expenses (e.g., agricultural research expenses, expenses incurred in opening up land). ▪ 15 percent concessionary tax rate
Fishing	<ul style="list-style-type: none"> ▪ Tax holidays (5 years). ▪ Exemption of dividends. ▪ Exemption of certain subsidy or grant. ▪ Deduction of certain expenses (e.g., research expenses, purchase of equipment for fishing, purchase of fish for rearing).
Tourism and construction	<ul style="list-style-type: none"> ▪ 15 percent concessionary tax rate
Exports	<ul style="list-style-type: none"> ▪ Profits sourced from export of nontraditional goods are subject to 15 percent concessionary tax rate for 20 years. ▪ Dividends out of qualified export profits are subject to 15 percent tax rate. ▪ Companies that supply to export operations also benefit from 15 percent tax rate for 20 years. Dividends are also taxed at 15 percent. ▪ Zero rated for GST.
Housing	<p>Tax Exemptions:</p> <ul style="list-style-type: none"> ▪ Net annual value of owned house is exempt from income tax; ▪ Rent is exempt from income tax for 7 year period including the year when construction is completed; ▪ Capital gains arising from change of ownership are exempt or taxable at reduced rates (5-25 percent); ▪ 75 percent of profits from construction and sale of houses is exempt from income tax; ▪ Dividends paid by a company for construction and sale of houses are exempt from income tax. <p>Relief for Investment</p> <p>Following expenses are deductible from income as 'qualifying payments':</p> <ul style="list-style-type: none"> ▪ investment on a construction/sales company; ▪ repayment of housing loans; ▪ amount spent by individual in construction of a house; ▪ amount spent by individual on certain lease of residence.
Gem and jewelry trade	<ul style="list-style-type: none"> ▪ Companies that export gems and jewelry receive an open-ended exemption from income tax. ▪ Exemption of dividends.

Note: New tax holidays were introduced in the 2001 budget, encompassing: exporters of handicrafts; IT enabling services; non-export oriented software development; firms that locate in regional industrial estates; and infrastructure projects which are already available under the BOI laws.

Tax Incentives under Section 17 of BOI Law

Category	Incentives
<p>Thrust Industries (electronics, ceramic, rubber, engineering, pioneering):</p> <p>1. New and existing BOI companies</p> <ul style="list-style-type: none"> ▪ Minimum investment of Rs 50 million. ▪ Exporting at least 90 percent of output. ▪ Employing minimum 50 persons (existing companies only). <p>2. Existing non-BOI companies</p>	<ul style="list-style-type: none"> ▪ Tax holidays (10-20 years, depending on investment scale). ▪ Concessionary tax at 15 percent after tax holidays and up to cumulative period of 20 years. ▪ Import duty exemption. <ul style="list-style-type: none"> ▪ 5-year tax holidays (if company reaches a 50 percent export level within 5 years). ▪ 10-year tax holiday (if company reaches a 90 percent export level within 10 years). ▪ Concessionary tax at 15 percent after tax holiday and up to cumulative period of 20 years. ▪ Import duty exemption.
<p>Nontraditional export oriented manufacturing:</p> <ul style="list-style-type: none"> ▪ Minimum investment of Rs 12.5 million; ▪ Exporting at least 90 percent of output. 	<ul style="list-style-type: none"> ▪ Concessionary tax at 15 percent (20 years). ▪ Import duty exemption. ▪ Excise duty exemption.
<p>Export-oriented services:</p> <ul style="list-style-type: none"> ▪ Minimum indirect export of 70 percent of output. 	<ul style="list-style-type: none"> ▪ Concessionary tax at 15 percent (20 years) ▪ Import duty exemption. ▪ Excise duty exemption.
<p>Large-scale projects:</p> <ul style="list-style-type: none"> ▪ Total project cost is not less than Rs 500 million; ▪ Exporting at least 90 percent of output; ▪ Employing minimum 100 persons. 	<ul style="list-style-type: none"> ▪ Tax holidays (10-20 years). ▪ Concessionary tax at 15 percent after tax holidays and up to cumulative period of 20 years. ▪ Import duty exemption. ▪ Excise duty exemption.
<p>Projects locating in designated industrial zones:</p> <ul style="list-style-type: none"> ▪ Exporting at least 50 percent of its output (in the cast of apparel, the criterion is 90 percent). ▪ Employing minimum 150 persons. 	<ul style="list-style-type: none"> ▪ Tax holidays (5, 8 years, depending on zones). ▪ Concessionary tax rate of 15 percent after tax holidays and up to cumulative period of 20 years.

Note: There are more tax incentive under BOI Law, which apply to: (i) exports of textiles, software, gems, and jewelry, and agricultural products; (ii) export trading, regional operating headquarters; (iii) expansion of existing and new companies outside Colombo district; (iv) nonexport-oriented projects (tourism, housing, and small-scale infrastructure); (v) existing enterprises undertaking large-scale investments; and (vi) training institutions, worker transport.

Table 1. Sri Lanka: Gross Domestic Product and Expenditure Components, 1995–2000 1/

	1995	1996	1997	1998	1999	2000
(In billions of Sri Lanka rupees at current prices)						
Consumption	565.7	650.4	736.0	823.3	890.2	1,039.5
Private	489.1	569.4	643.8	723.5	790.4	912.0
Public	76.6	81.0	92.2	99.7	99.9	127.5
Gross investment	171.8	186.3	217.1	255.9	301.5	368.1
Private 2/	148.2	162.8	187.2	221.9	266.6	287.5
Public 3/	23.6	23.5	30.0	34.0	34.9	80.6
Domestic demand	737.5	836.7	953.1	1,079.1	1,191.8	1,407.6
Exports of goods and nonfactor services	237.7	268.6	325.3	369.0	391.7	483.6
Aggregate demand	975.2	1,105.3	1,278.4	1,448.1	1,583.5	1,891.2
Imports of goods and nonfactor services	307.4	337.2	388.2	430.1	472.8	627.8
Expenditure on gross domestic product	667.8	768.1	890.3	1,018.0	1,110.7	1,263.4
Net factor income from abroad	-7.0	-11.3	-9.4	-11.6	-17.8	-22.2
Gross national income 4/	660.8	756.9	880.9	1,006.4	1,092.4	1,241.2
Net current transfers from abroad	34.8	39.2	46.4	54.8	62.4	72.8
National disposable income	695.6	796.1	927.3	1,061.2	1,154.9	1,313.9
(In percent of GDP)						
Consumption	84.7	84.7	82.7	80.9	80.2	82.3
Gross fixed investment	25.6	23.9	24.4	25.1	27.1	29.1
Private 2/	18.2	18.2	18.7	18.4	20.7	22.6
Public 3/	7.4	5.6	5.7	6.7	6.4	6.5
(In billions of Sri Lanka rupees at constant 1996 prices) 5/						
Consumption	...	650.4	696.8	745.6	785.2	848.0
Gross investment	...	186.3	193.1	222.5	236.7	253.4
Domestic demand	...	836.7	889.9	968.1	1,021.9	1,101.4
Exports of goods and nonfactor services	...	268.6	299.9	302.9	315.0	354.3
Aggregate demand	...	1,105.3	1,189.7	1,271.0	1,336.9	1,455.7
Imports of goods and nonfactor services	...	337.2	372.5	415.3	444.4	509.6
Resource gap	...	-68.6	-72.6	-112.4	-129.4	-155.3
Expenditure on gross domestic product	...	768.1	817.3	855.7	892.5	946.1
Gross domestic product at factor cost	...	695.9	739.8	774.8	808.3	856.8
(Annual percentage change, constant prices) 6/						
Consumption	5.4	3.4	7.1	7.0	5.3	8.0
Gross investment	0.5	2.8	3.6	15.3	6.4	7.1
Domestic demand	4.3	3.3	6.4	8.8	5.6	7.8
Exports of goods and nonfactor services	2.9	3.2	11.6	1.0	4.0	12.5
Aggregate demand	4.0	3.2	7.6	6.8	5.2	8.9
Imports of goods and nonfactor services	1.0	2.1	10.5	11.5	7.0	14.7
Gross domestic product	5.5	3.8	6.4	4.7	4.3	6.0
<i>Memorandum items:</i>						
Population (midyear, in millions)	18.1	18.3	18.5	18.8	19.0	19.3
Gross national income per capita, in rupees (thousand)	36.5	41.4	47.6	53.5	57.5	64.3
Gross national income per capita, in SDRs	470	515	587	611	597	644

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

1/ At market prices.

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

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

4/ Including statistical discrepancy.

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

6/ 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 the Current Account, 1995–2000

	1995	1996	1997	1998	1999	2000
(In billions of Sri Lanka rupees at current prices)						
Gross investment	171.8	186.3	217.1	255.9	301.5	368.1
Current account balance	-43.4	-40.2	-25.8	-17.9	-42.3	-87.1
National saving	130.0	145.7	191.3	238.0	265.0	274.5
Net factor income from abroad	-7.0	-11.3	-9.4	-11.6	-17.8	-22.2
Net private transfers	34.8	39.2	46.5	54.8	62.4	72.8
Domestic saving	102.1	117.7	154.2	194.7	220.4	223.9
Private	120.0	146.6	174.0	219.4	231.8	266.3
Public	-17.9	-28.9	-19.7	-24.6	-11.4	-42.4
(In percent of GDP)						
Domestic saving	15.3	15.3	17.3	19.1	19.8	17.7
Private	18.0	19.1	19.5	21.5	20.9	21.1
Public 1/	-2.7	-3.8	-2.2	-2.4	-1.0	-3.4
Gross investment	25.7	24.2	24.4	25.1	27.1	29.1
Private 2/	18.4	18.6	18.7	18.4	20.7	22.7
Public 3/	7.4	5.6	5.7	6.7	6.4	6.5
National saving	19.5	19.0	21.5	23.4	23.9	21.7
<i>Of which</i> : Private 4/	22.1	22.7	23.7	25.8	24.9	25.1
Balance of payments current account	-6.5	-5.2	-2.9	-1.8	-3.8	-6.9
Private sector saving minus investment	3.8	4.1	5.0	7.4	4.2	2.4
Public sector saving minus investment	-10.1	-9.4	-7.9	-9.1	-7.5	-9.8

Sources: Data provided by the Sri Lanka authorities.

1/ Current revenue minus current expenditure.

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

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

4/ Includes net factor income and transfers from abroad.

Table 3. Sri Lanka: Gross Domestic Product by Industrial Origin at Current Prices, 1995–2000

	1995	1996	1997	1998	1999	2000 Prov.
(In billions of Sri Lanka rupees at current prices)						
Agriculture 1/	137.7	156.1	175.8	192.7	205.6	222.1
Plantation crops 2/	20.6	27.2	30.8	32.5	32.2	35.0
Paddy	21.6	19.9	24.5	26.8	30.2	31.0
Fishing	16.6	18.8	21.4	23.7	25.8	29.6
Other	78.9	90.3	99.1	109.7	117.4	126.5
Mining and quarrying	11.5	13.9	16.6	17.4	18.3	21.7
Manufacturing	94.1	112.7	131.9	151.0	163.1	188.2
Plantation crop processing	11.9	16.2	19.5	23.2	24.8	27.9
Other	82.2	96.5	112.4	127.8	138.3	160.3
Construction	44.5	48.2	56.4	69.3	75.5	80.8
Services	310.6	364.9	423.0	482.4	532.2	612.3
Gross domestic product	598.3	695.9	803.7	912.8	994.7	1,125.1
Net factor income from abroad	-7.0	-11.3	-9.4	-11.5	-17.8	-22.1
Gross national product	591.4	684.7	794.3	901.3	976.9	1,103.0
(In percent of GDP)						
Agriculture 1/	23.0	22.4	21.9	21.1	20.7	19.7
Plantation crops 2/	3.4	3.9	3.8	3.6	3.2	3.1
Paddy	3.6	2.9	3.0	2.9	3.0	2.8
Fishing	2.8	2.7	2.7	2.6	2.6	2.6
Other	13.2	13.0	12.3	12.0	11.8	11.2
Mining and quarrying	1.9	2.0	2.1	1.9	1.8	1.9
Manufacturing	15.7	16.2	16.4	16.5	16.4	16.7
Plantation crop processing	2.0	2.3	2.4	2.5	2.5	2.5
Other	13.7	13.9	14.0	14.0	13.9	14.2
Construction	7.4	6.9	7.0	7.6	7.6	7.2
Services	51.9	52.4	52.6	52.8	53.5	54.4
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0
<i>Memorandum items:</i>						
Annual percentage increase						
in implicit GDP deflator 3/	8.4	12.1	8.5	8.4	4.4	6.7
CPI inflation	7.7	15.9	9.6	9.4	4.7	6.2

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

1/ Including forestry and fishing.

2/ Tea, rubber, and coconuts.

3/ Based on factor costs.

Table 4. Sri Lanka: Gross Domestic Product by Industrial Origin
at Constant Prices, 1995–2000 1/

	1995	1996	1997	1998	1999	2000 Prov.
	(In billions of Sri Lanka rupees at 1996 factor costs)					
Agriculture 2/	...	156.1	160.8	164.8	172.2	174.3
Plantation crops 3/	...	27.2	28.1	27.5	28.8	30.1
Paddy	...	19.9	22.1	26.2	27.9	27.2
Fishing	...	18.8	19.7	21.3	23.0	22.3
Other	...	90.3	90.8	89.8	92.6	94.7
Mining and quarrying	...	13.9	14.5	13.7	14.2	15.0
Manufacturing	...	112.7	122.9	130.7	136.5	149.7
Plantation crop processing	...	16.2	16.8	16.6	17.2	17.7
Other	...	96.5	106.2	114.1	119.3	132.0
Construction	...	48.2	50.8	54.5	57.1	59.9
Services	...	364.9	390.8	411.2	428.3	457.9
<i>Of which:</i>	...					
Public administration and defense	...	35.2	37.1	38.2	39.8	40.8
Wholesale and retail trade	...	155.3	165.1	172.5	174.2	189.5
Gross domestic product	...	695.9	739.8	774.8	808.3	856.8
Net factor income from abroad	...	-11.3	-8.8	-9.9	-14.0	-16.2
Gross national product	...	684.7	730.9	764.9	794.4	840.6
	(Annual percentage change)					
Agriculture 2/	3.3	-4.6	3.0	2.5	4.5	1.2
Plantation crops 3/	3.2	-0.9	3.5	-2.3	4.9	4.5
Paddy	4.7	-26.7	11.2	18.3	6.6	-2.6
Fishing	4.9	-3.9	5.0	8.3	7.6	-2.9
Other	2.4	3.2	0.6	-1.1	3.0	2.3
Mining and quarrying	3.4	8.9	3.8	-5.4	4.1	5.5
Manufacturing	9.2	6.5	9.1	6.3	4.4	9.7
Plantation crop processing	4.4	1.0	3.5	-1.2	3.8	3.1
Other	9.8	7.2	10.0	7.5	4.5	10.7
Construction	4.9	3.4	5.4	7.1	4.8	4.9
Services	5.1	5.8	7.1	5.2	4.2	6.9
<i>Of which:</i>						
Public administration and defense	...	...	5.2	3.0	4.2	2.5
Wholesale and retail trade	3.6	5.2	6.3	4.5	1.0	8.8
Gross domestic product	5.5	3.8	6.3	4.7	4.3	6.0

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

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: Basic Data on the Tea Sector, 1995–2000

	1995	1996	1997	1998	1999	2000 1/
	(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield and exports						
Planted area	189	189	194	195	195	195
Production	246	258	277	280	284	302
By type:						
High grown	74	72	84	76	81	...
Medium grown	51	48	57	54	54	...
Low grown	122	138	136	150	149	...
Exports	241	244	269	272	268	...
Yield per hectare	1,302	1,365	1,428	1,436	1,456	1,549
Replanting area	1.21	0.94	0.93	1.23	1.36	...
	(In Sri Lanka rupees per kilogram)					
Prices and costs						
Average f.o.b. export price	102.31	139.56	158.39	184.94	162.39	182.62
Average Colombo auction price (net)	72.21	103.88	119.40	134.35	115.31	135.53
Cost of production 2/	76.74	87.04	90.26	100.71	95.36	...
Producer's margin 3/	-4.53	16.84	29.14	33.64	19.95	...

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

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

3/ Average Colombo auction price minus cost of production.

Table 6. Sri Lanka: Basic Data on the Rubber Sector, 1995–2000

	1995	1996	1997	1998	1999	2000 1/
	(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield, and exports						
Area under cultivation	162	162	163	158	159	159
Area under tapping	124	122	129	125	128	128
Production	106	113	106	96	97	87
Exports	68	72	62	41	43	33
Domestic use	37	40	44	54	54	54
Yield (kg/ha)	853	927	823	768	755	680
Fertilizer use (in '000 metric tons)	15	17	12	16	11	...
Replanting area	3.24	3.44	1.17	1.20	0.60	...
	(In Sri Lanka rupees per kilogram)					
Prices and costs						
Average f.o.b. export price 2/	83.69	79.78	75.42	67.72	53.90	...
Average Colombo auction price 2/	72.04	67.85	56.62	49.76	45.33	54.98
Cost of production	33.37	36.70	40.37	42.00	43.50	...
Producer's margin 3/	38.67	31.15	16.25	7.76	1.83	...

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ For RSS No.1 category of rubber.

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

Table 7. Sri Lanka: Basic Data on the Coconut Sector, 1995-2000

	1995	1996	1997	1998	1999	2000 1/
	(Area in thousands of hectares and volume in millions of kilograms)					
Production, yield, and exports						
Planted area	416	417	417	439	439	439
Production	2,755	2,546	2,631	2,552	2,808	3,000
By type:						
Desiccated coconut 2/	465	425	524	362	541	713
Coconut oil 2/	516	328	289	334	309	354
Copra 2/	50	39	42	44	62	77
Fresh nut exports	27	17	18	17	21	24
Domestic nut consumption 3/	1,716	1,720	1,744	1,779	1,799	1,832
By sector:						
Yield (nuts/ha)	6,623	6,106	6,309	5,813	6,396	6,834
Exports	579	475	505	435	600	...
Fertilizer use (in '000 metric tons)	34	39	34	38	42	...
Replanting area	0.99	0.58	1.22	0.60	0.70	...
Replanting subsidy (in SL Rs per ha)	25,000	38,750	38,750	38,750	38,750	38,750
	(In Sri Lanka rupees per thousand nuts)					
Prices and costs						
Average f.o.b. export price	6,080	9,420	9,630	8,310	9,950	...
Average Colombo market price (fresh nuts)	5,450	9,410	11,850	11,150	11,950	9,235
Cost of production (private sector)	2,020	2,180	2,260	2,400	2,680	...
Producer margin 4/	3,430	7,230	9,590	8,750	9,270	...

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

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

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

4/ Average Colombo market price minus cost of production.

Table 8. Sri Lanka: Paddy and Other Agricultural Production, 1995–2000
(Volume in thousands of metric tons, area in thousands of hectares and yield in kilograms per hectare)

	1995	1996	1997	1998	1999	2000 1/
Paddy production	2,810	2,061	2,239	2,692	2,868	2,793
Gross area sown	915	749	730	848	896	849
Net area harvested	795	587	619	740	781	739
Yield on net area harvested	3,535	3,513	3,603	3,634	3,672	3,779
Fertilizer use (in '000 metric tons)	257	238	224	252	315	...
<i>Of which: Maha 2/</i>						
Production	1,761	1,331	1,457	1,781	1,748	1,781
Net area harvested	489	377	397	501	483	467
Yield on net area harvested	3,603	3,534	3,670	3,555	3,618	3,798
<i>Of which: Yala 3/</i>						
Production	1,049	730	782	910	1120	1012
Net area harvested	306	210	222	239	298	272
Yield on net area harvested	3,427	3,477	3,529	3,802	3,760	3,721
Memorandum items:						
Paddy wholesale (market) price 4/	163	213	231	217	258	222
Guaranteed price scheme 4/	155	155	155	155	155	155
Rice imports (in '000 metric tons)	9	341	306	168	214	15
Other agricultural products:						
Sugarcane	858	862	773	729	745	...
Tobacco 5/	11	11	11	11	11	...
Fish	238	229	240	270	280	272

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ October-April season.

3/ April-October season.

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

5/ Includes beedi/cigar tobacco and cigarette tobacco.

Table 9. Sri Lanka: Consumption and Prices of Petroleum and Electricity, 1995–2000

	1995	1996	1997	1998	1999	2000 Prov.
Gross consumption of selected petroleum products ('000 MT)						
Kerosene	222	228	225	240	243	228
Gasoline	190	198	194	215	213	224
Auto diesel	789	1,045	1,295	1,460	1,372	1,728
Furnace oil	241	341	371	614	558	737
Consumption of electricity 1/ (In '000 metric tons oil equivalent)						
	3,932	3,740	4,039	4,521	4,809	...
	979	899	1,051	1,163	...	...
(In percent)						
Composition of electricity generation						
Hydro power	94.0	71.7	67.5	68.9	67.1	46.4
Thermal power	5.6	21.5	20.6	22.0	22.6	32.5
Private power	...	3.4	8.1	7.2	8.6	19.4
Self generation	0.4	3.4	4.6	1.9	1.7	1.7
(In Sri Lanka rupees per liter)						
Prices of petroleum products 2/ 3/						
Kerosene	9.5	10.4	10.4	10.4	10.4	18.4
Gasoline	40.0	50.0	50.0	50.0	50.0	50.0
Auto diesel	12.4	13.2	13.2	13.2	13.2	24.5
Fuel oil	6.5	7.2	7.2	7.2	7.2	14.6
Cost price of petroleum products 4/ 5/						
Kerosene	11.7	12.5	13.0	9.8	15.0	23.7
Gasoline	25.8	32.2	30.3	28.4	33.8	35.8
Auto diesel	13.1	14.0	14.5	11.5	14.7	25.3
Fuel oil	7.0	7.5	8.8	6.6	10.8	17.3
Crude oil (c.i.f., in US\$ per barrel) 6/	17.6	20.2	19.4	13.5	19.1	28.5
Price of electricity 2/ 7/						
	3.7	4.0	4.2	4.5	4.5	4.7
Price of electricity for domestic units >150 Kwh 2/ 7/						
	3.0	3.5	3.6	5.0	5.0	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/ For 2000, price is average for January-November

7/ 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 10. Sri Lanka: Price Indicators, 1995–2000

	1995	1996	1997	1998	1999	2000
	(Annual average percentage change)					
GDP deflator 1/	9.3	10.8	8.9	9.2	4.6	7.3
Colombo consumer price index	7.7	15.9	9.6	9.4	4.7	6.2
<i>Of which:</i>						
Food (61.9 percent) 2/	0.9	19.2	10.9	10.9	4.0	4.5
Rice (6.4 percent)	2.1	25.8	7.7	-0.9	19.6	-4.5
Bread, wheat flour (9.4 percent)	20.4	59.7	30.5	8.0	5.9	-7.6
Clothing (9.4 percent)	1.0	2.2	2.7	1.0	1.3	1.1
Fuel and light (4.3 percent)	6.1	8.1	4.5	3.2	1.5	18.6
Kerosene (4.0 percent)	15.4	2.4	6.9	0.0	0.0	45.5
Rent (5.7 percent) 3/	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous (18.7 percent)	14.1	10.8	8.2	7.5	10.3	9.6
Wholesale price index 4/	8.8	20.5	6.9	6.1	-0.3	-1.3
Domestic goods	6.8	11.7	6.5	5.0	2.9	1.6
Imports	10.1	11.6	8.2	0.1	-0.1	10.9
Exports	11.0	40.4	6.7	10.9	-4.0	-4.4
	(Annual percentage change)					
Colombo consumer price index (end-period)	11.5	16.8	10.7	3.7	4.0	10.8
Wholesale price index 4/	16.2	18.1	6.6	0.9	-0.5	2.3

Source: Data provided by the Sri Lanka authorities.

1/ Based on market prices.

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

3/ Low-income housing is under rent control.

4/ WPI data for 2000 is for January-October.

Table 11. Sri Lanka: Selected Wage and Employment Developments, 1995–2000

	1995	1996	1997	1998	1999	2000
(Index, December 1978 = 100)						
Nominal wages						
Minimum wage 1/	740.3	801.7	849.1	953.3	977.6	996.1
Agriculture	830.9	907.9	971.8	1,097.7	1,116.0	1,137.4
Industry and commerce	651.6	682.8	710.8	807.7	829.2	852.7
Services	456.7	487.2	487.2	506.2	559.7	559.7
Government employees 2/	792.5	818.2	906.5	1,001.4	1,001.4	1,084.7
Real wages						
Minimum wage	107.7	100.7	97.3	99.9	97.8	94.6
Agriculture	121.1	113.9	111.4	115.0	111.7	108.0
Industry and commerce	94.8	85.9	81.4	84.6	83.0	81.0
Services	66.5	61.3	55.9	53.0	56.0	53.2
Government employees	115.4	103.0	104.0	104.9	100.2	102.1
(Annual average percentage change)						
Real wages						
Minimum wage	-3.6	-6.6	-3.4	2.7	-2.1	-3.3
Agriculture	-6.0	-5.9	-2.2	3.2	-2.9	-3.3
Industry and commerce	7.9	-9.4	-5.2	3.9	-1.9	-2.4
Services	-1.6	-7.8	-8.8	-5.2	5.7	-5.0
Government employees	-	-10.7	1.0	0.9	-4.5	1.9
(In thousands of persons)						
Employment in the public sector 3/						
Central government 4/	1,307	1,161	1,072	1,091	1,120	...
Quasi-governmental institutions 5/	738	752	762	790	822	...
Quasi-governmental institutions 5/	569	409	310	301	298	...
Employment in formal private sector						
Board of Investment (BOI) companies	4,126	4,374	4,519	4,945	5,017	...
Other 6/	233	242	258	294	327	...
Other 6/	3,893	4,132	4,261	4,651	4,690	...

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 12. Sri Lanka: Labor Force, Employment, and Unemployment, 1995–2000 1/

	1995	1996	1997	1998	1999	2000Q1	2000Q2
	(In millions of persons)						
Total labor force	6.11	6.24	6.27	6.66	6.67	6.85	7.04
Male	4.11	4.19	4.17	4.30	4.40	4.54	4.60
Female	1.95	2.03	2.06	2.27	2.27	2.31	2.44
Urban	1.20	0.80	0.90	0.84	0.88	0.86	0.81
Rural	4.86	5.41	5.33	5.73	5.79	5.99	6.23
Total employed	5.36	5.54	5.58	5.95	6.08	6.31	6.55
Male	3.75	3.85	3.87	4.02	4.11	4.26	4.35
Female	1.59	1.65	1.72	1.93	1.97	2.05	2.19
Urban	1.04	0.71	0.80	0.76	0.80	0.79	0.74
Rural	4.30	4.79	4.79	5.19	5.28	5.52	5.81
Total unemployed	0.75	0.71	0.65	0.62	0.59	0.55	0.49
Male	0.36	0.34	0.30	0.28	0.29	0.29	0.24
Female	0.36	0.38	0.34	0.34	0.30	0.26	0.25
Urban	0.16	0.09	0.09	0.08	0.08	0.08	0.07
Rural	0.56	0.62	0.54	0.54	0.51	0.47	0.42
	(In percent of labor force)						
Unemployment rate	12.3	11.3	10.4	9.5	8.8	8.0	7.0
Male	8.8	8.5	7.6	6.6	6.7	6.4	5.3
Female	18.8	18.0	16.2	14.9	13.0	11.1	10.1
Urban	13.7	11.7	10.4	9.7	9.5	9.1	8.4
Rural	11.5	11.5	10.2	9.5	8.8	7.8	6.8
	(In percent of unemployed)						
Male	50.3	46.9	47.3	45.7	50.0	53.2	49.8
Female	49.7	53.1	52.7	54.3	50.0	46.8	50.2
Urban	22.8	13.1	14.6	13.0	14.1	14.4	13.7
Rural	77.2	86.9	85.4	87.0	85.9	85.6	86.3
Age 24 years or younger	61.6	64.5	60.8	60.9	64.5	62.5	63.5
Less than 9 years of schooling 2/	49.7	54.5	51.9	47.4	46.3	48.9	49.2

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 13. Sri Lanka: Employment by Economic Sectors, 1995–2000

	1995	1996	1997	1998	1999	2000
	(In millions of persons)					
Total employed	5.36	5.54	5.58	5.95	6.08	6.43
By economic sector:						
Agriculture	1.97	2.07	2.07	2.21	2.21	2.37
Mining and quarrying	0.09	0.09	0.08	0.08	0.08	0.06
Manufacturing	0.79	0.81	0.87	0.93	0.90	1.00
Utilities	0.02	0.03	0.03	0.04	0.03	0.03
Construction	0.29	0.30	0.30	0.30	0.32	0.32
Trade and hotels	0.65	0.66	0.72	0.71	0.74	0.81
Transportation, communications, storage	0.25	0.27	0.27	0.28	0.31	0.29
Insurance and real estate	0.08	0.11	0.09	0.12	0.10	0.12
Personal services	0.95	1.00	1.00	1.12	1.12	1.19
Other	0.27	0.20	0.15	0.16	0.27	0.23
	(In percent of total employment)					
Agriculture	36.8	37.4	37.1	37.1	36.3	36.8
Mining and quarrying	1.7	1.6	1.4	1.3	1.3	1.0
Manufacturing	14.7	14.6	15.6	15.6	14.8	15.6
Utilities	0.4	0.5	0.5	0.7	0.5	0.4
Construction	5.4	5.4	5.4	5.0	5.3	5.0
Trade and hotels	12.1	11.9	12.9	11.9	12.1	12.5
Transportation, communications, storage	4.7	4.9	4.8	4.7	5.1	4.5
Insurance and real estate	1.5	2.0	1.6	2.0	1.6	1.9
Personal services	17.7	18.1	17.9	18.8	18.4	18.5
Other	5.0	3.6	2.7	2.7	4.5	3.6

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

Table 14. Sri Lanka: Summary of Central Government Operations, 1995–2000

	1995	1996	1997	1998	1999	2000	
						Budget	Outturn
(In millions of Sri Lanka rupees)							
Total revenue	136,258	146,279	164,869	175,032	195,905	233,974	211,278
Tax	118,543	130,202	143,509	147,368	166,028	201,765	182,389
Nontax	17,715	16,077	21,360	27,664	29,878	32,209	28,889
Total expenditure and net lending	203,483	218,660	234,900	268,182	279,160	329,831	335,621
Current expenditure	157,050	175,148	185,625	199,650	207,272	226,751	253,678
Capital expenditure	39,327	37,639	44,167	54,161	60,340	82,406	67,005
Net lending	7,106	5,874	5,984	14,371	11,548	20,672	14,938
Overall deficit (before grants)	-67,225	-72,381	-70,031	-93,150	-83,255	-95,857	-124,343
Grants	9,028	7,739	7,500	7,200	6,761	8,000	5,300
Net foreign borrowing	21,224	10,160	9,722	16,924	1,484	14,165	11,846
Net domestic borrowing	33,972	49,755	30,275	64,634	74,875	43,691	106,994
<i>Of which: Banking system</i>	7,065	13,090	-2,172	12,226	25,996	0	53,388
Assets sales ^{1/}	3,001	4,728	22,535	4,389	134	30,000	201
(In percent of GDP)							
Total revenue	20.4	19.0	18.5	17.3	17.6	18.6	16.7
Tax	17.8	16.9	16.1	14.5	14.9	16.1	14.4
Nontax	2.7	2.1	2.4	2.7	2.7	2.6	2.3
Total expenditure and net lending	30.5	28.4	26.4	26.4	25.1	26.2	26.6
Current expenditure	23.5	22.8	20.9	19.7	18.6	18.0	20.1
Capital expenditure	5.9	4.9	5.0	5.3	5.4	6.6	5.3
Net lending	1.1	0.8	0.7	1.4	1.0	1.6	1.2
Current account balance	-3.1	-3.8	-2.3	-2.4	-1.0	0.6	-3.4
Overall deficit (before grants)	-10.1	-9.4	-7.9	-9.2	-7.5	-7.6	-9.8
Grants	1.4	1.0	0.8	0.7	0.6	0.6	0.4
Net foreign borrowing	3.2	1.3	1.1	1.7	0.1	1.1	0.9
Net domestic borrowing	5.1	6.5	3.4	6.4	6.7	3.5	8.5
<i>Of which: Banking system</i>	1.1	1.7	-0.2	1.2	2.3	0.0	4.2
Asset Sales ^{1/}	0.4	0.6	2.5	0.4	0.0	2.4	0.0
<i>Memorandum item:</i>							
Nominal GDP (In billions of Rs)	668	769	890	1,015	1,113	1,257	1,263

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

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

Table 15. Sri Lanka: Summary of Central Government Revenue by Component, 1995-2000

	1995	1996	1997	1998	1999	2000	
						Budget	Outturn 1/
(In millions of Sri Lanka rupees)							
Tax revenue	118,543	130,202	143,509	147,368	166,028	201,765	182,389
Income tax	17,148	20,751	20,845	20,429	28,228	29,229	27,457
Personal	7,358	7,315	7,958	8,099	9,169	11,438	10,820
Corporate	9,790	13,311	12,562	11,788	18,362	16,945	15,757
Stamp duty and taxes on property	5,162	5,279	6,392	7,079	7,690	9,325	8,163
Tax on Central Bank holdings of treasury bills	1,050	1,604	1,080	0	0	0	0
Taxes on goods and services	70,810	77,105	88,201	91,706	102,391	136,337	122,799
Turnover tax/ GST	36,429	37,631	43,259	39,343	37,339	53,295	45,600
Excises	19,406	22,067	26,550	30,293	35,928	46,552	42,655
<i>Of which</i> : Liquor	6,184	5,839	6,187	7,665	8,745	10,700	9,531
Tobacco	9,492	12,833	14,804	15,051	17,205	18,802	19,268
License fees	567	966	1,118	991	997	1,150	1,007
National security levy	14,408	16,441	17,274	21,079	28,127	35,340	33,539
Taxes on international trade	24,373	25,463	26,991	28,154	27,719	26,874	23,970
<i>Of which</i> : Imports	24,365	25,458	26,991	28,154	27,719	26,874	23,970
Nontax revenue	17,715	16,077	21,360	27,664	29,878	32,209	28,889
Property income	13,073	10,059	14,300	18,046	19,063	20,750	18,135
Fees and charges	1,751	2,827	2,748	2,890	3,375	4,361	3,589
Other	2,891	3,191	4,312	6,728	7,440	7,088	7,165
Total revenue	136,258	146,279	164,869	175,032	195,906	233,974	211,278
(In percent of GDP)							
Tax revenue	18.1	16.8	16.1	14.5	14.9	16.1	14.4
Income tax	2.6	2.7	2.3	2.0	2.5	2.3	2.2
Taxes on property	0.8	0.7	0.7	0.7	0.7	0.7	0.6
Taxes on goods and services	10.8	9.9	9.9	9.0	9.2	10.8	9.7
Taxes on international trade	3.7	3.3	3.0	2.8	2.5	2.1	1.9
Nontax revenue	2.7	2.1	2.4	2.7	2.7	2.6	2.3
Total revenue	20.8	18.9	18.5	17.3	17.6	18.6	16.7

Source: Data provided by the Ministry of Finance.

1/ Provisional.

Table 16. Sri Lanka: Economic Classification of Expenditure, 1995-2000

	1995	1996	1997	1998	1999	2000	
						Budget 1/	Outturn
(In millions of Sri Lanka rupees)							
Current expenditure	157,050	175,148	184,749	199,650	207,271	226,751	253,678
Expenditure on goods and services	75,447	80,002	83,831	97,768	98,221	108,130	130,159
Salaries and wages	34,909	38,332	44,677	53,880	58,531	62,949	68,543
Other goods and services	40,538	41,670	39,154	43,888	39,690	45,181	61,615
Interest payments	41,116	48,923	55,246	54,898	62,123	69,048	71,200
Foreign	6,162	6,739	6,692	7,300	8,752	9,812	9,515
Domestic	34,954	42,184	48,554	47,598	53,371	59,236	61,685
Subsidies and current transfers	40,487	46,223	45,672	46,984	46,927	49,573	52,320
To public corporations	7,841	8,232	2,693	2,967	3,277	2,721	2,471
To public institutions	2,182	2,284	2,657	4,320	4,834	6,222	6,251
To other levels of government	1,157	1,592	1,941	1,977	1,629	1,625	1,424
To households	29,144	32,122	37,059	37,075	36,302	38,730	41,921
To private institutions and abroad	163	1,993	1,322	645	885	275	253
Capital expenditure	39,327	37,639	44,167	54,161	60,046	82,406	67,005
Acquisition of capital assets	22,588	20,938	25,652	32,246	32,639	39,249	31,418
Capital transfers	16,739	16,701	18,515	21,915	27,407	43,159	35,587
To public corporations	5,219	6,017	5,880	6,801	9,075	12,077	8,722
To public institutions	10,446	9,603	11,041	13,285	15,968	20,489	18,511
To other levels of government	1,057	1,042	1,511	1,764	2,297	10,477	8,241
To abroad/other	17	39	83	65	67	116	113
Lending minus repayments	7,106	5,873	5,984	14,371	11,548	20,672	14,938
Total expenditure and net lending	203,483	218,660	234,900	268,182	278,865	329,831	335,621
(In percent of GDP)							
Current expenditure	23.5	22.8	20.8	19.7	18.6	18.0	20.1
Subsidies and current transfers	6.1	6.0	5.1	4.6	4.2	3.9	4.1
Of which: To public corporations	11.3	10.4	9.4	9.6	8.8	8.6	10.3
Capital expenditure	5.9	4.9	5.0	5.3	5.4	6.6	5.3
Net lending	1.1	0.8	0.7	1.4	1.0	1.6	1.2
Total expenditure and net lending	30.5	28.4	26.4	26.4	25.1	26.2	26.6
(In percent of total expenditure)							
Current expenditure	77.2	80.1	78.7	74.4	74.3	68.7	75.6
Subsidies and current transfers	19.9	21.1	19.4	17.5	16.8	15.0	15.6
Capital expenditure	19.3	17.2	18.8	20.2	21.5	25.0	20.0
Net lending	3.5	2.7	2.5	5.4	4.1	6.3	4.5
<i>Memorandum item:</i>							
Security expenditure (Millions of Rs)	42,460	44,933	44,972	53,995	48,707	48,866	70,773
(In percent of GDP)	6.4	5.8	5.1	5.3	4.4	3.9	5.6

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

1/ Budget projections include unallocated expenditure as a contingency of Rs 1,027 million in 2000.

Table 17. Sri Lanka: Functional Classification of Expenditure, 1995–2000

SFAS	1995	1996	1997	1998	1999	2000 Budget
(In millions of Sri Lanka rupees)						
General Public Services	53,664	57,076	62,553	72,401	69,565	78,996
Civil Administration	10,524	12,142	17,583	21,439	20,858	27,848
Security-related	35,186	38,117	37,062	42,496	40,071	38,442
Public Order and Safety	7,954	6,817	7,908	8,466	8,636	12,706
Social Services	67,504	69,616	71,295	79,121	83,812	93,824
Education	18,908	20,402	22,349	26,694	29,294	31,183
Health	10,952	11,798	12,135	14,419	15,671	22,242
Welfare	33,796	33,692	32,002	32,439	31,539	34,405
Housing	1,610	1,174	792	1,314	1,647	2,029
Community services	2,238	2,550	4,017	4,255	5,662	3,966
Economic Services	44,184	40,216	39,900	55,225	55,015	90,836
Agriculture and irrigation	9,886	8,612	7,503	11,462	11,223	16,497
Fisheries	466	459	636	737	874	1,665
Manufacturing and mining	502	638	2,041	2,516	1,228	1,329
Energy and water supply	5,993	6,625	7,302	9,561	11,586	16,720
Transport and communication	20,902	15,059	14,620	21,842	19,662	38,424
Trade and commerce	192	996	341	397	469	1,672
Other	6,243	7,827	7,457	8,710	9,974	14,538
Other	41,620	54,213	62,646	61,177	70,022	65,355
<i>Of which</i> : Interest	38,687	48,923	55,246	54,897	62,123	69,048
Total expenditure and net lending 1/	206,972	221,121	236,394	267,924	278,413	329,012
(In percent of GDP)						
General Public Service	8.0	7.4	7.0	7.1	6.3	6.3
<i>Of which</i> : Security	5.3	5.0	4.2	4.2	3.6	3.1
Social Services	10.1	9.1	8.0	7.8	7.5	7.5
<i>Of which</i> : Education	2.8	2.7	2.5	2.6	2.6	2.5
Health	1.6	1.5	1.4	1.4	1.4	1.8
Economic Services	6.6	5.2	4.5	5.4	5.0	7.3
Interest	5.8	6.4	6.2	5.4	5.6	5.5
(In percent of total expenditure)						
General Public Service	25.9	25.8	26.5	27.0	25.0	24.0
<i>Of which</i> : Security	17.0	17.2	15.7	15.9	14.4	11.7
Social Services	32.6	31.5	30.2	29.5	30.1	28.5
<i>Of which</i> : Education	9.1	9.2	9.5	10.0	10.5	9.5
Health	5.3	5.3	5.1	5.4	5.6	6.8
Economic Services	21.3	18.2	16.9	20.6	19.8	27.6
Interest	18.7	22.1	23.4	20.5	22.3	21.0

Source: Data provided by the Ministry of Finance.

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

Table 18. Sri Lanka: Current and Capital Transfers to Public Corporations and Public Institutions, 1995–2000

	1995	1996	1997	1998	1999	2000	
						Budget	Outturn
(In millions of Sri Lanka rupees)							
Total	28,083	26,136	22,271	27,373	33,154	41,509	35,955
Public corporations	15,455	14,249	8,573	9,768	12,352	14,798	11,193
Public institutions	12,628	11,887	13,698	17,605	20,802	26,711	24,762
Current transfers	10,023	10,516	5,350	7,287	8,111	8,943	8,722
Public corporations	7,841	8,232	2,693	2,967	3,277	2,721	2,471
Public institutions	2,182	2,284	2,657	4,320	4,834	6,222	6,251
Capital transfers	18,060	15,620	16,921	20,086	25,043	32,566	27,233
Public corporations 1/	7,614	6,017	5,880	6,801	9,075	12,077	8,722
Public institutions	10,446	9,603	11,041	13,285	15,968	20,489	18,511
Total transfers to selected corporation and institutions							
Cooperative Wholesale Establishment	5,000	5,500	1,000	...	...	...	...
Shipping Corporation	2,395	...	213	...	...	...	...
Mahaweli Authority	3,090	1,940	1,626	2,042	2,163	3,825	...
Plantation Corporations	118	82	...	...	...	...	...
Ceylon Electricity Board	1,240	504	1,139	1,036	1,665	2,137	...
Transport Board	524	518	248	1,166	1,440	3,191	...
Housing Development Authority	495	223	454	867	1,032	1,499	...
Water Supply and Drainage Board	3,236	3,392	2,601	2,460	4,840	5,043	...
Road Development Authority	5,131	4,648	6,102	7,730	7,178	9,705	...
(In percent of GDP)							
Total transfers	4.2	3.4	2.5	2.7	3.0	3.3	2.8
Current	1.5	1.4	0.6	0.7	0.7	0.7	0.7
Capital	2.7	2.0	1.9	2.0	2.2	2.6	2.2
Public corporations	2.3	1.9	1.0	1.0	1.1	1.2	0.9
Public institutions	1.9	1.5	1.5	1.7	1.9	2.1	2.0
Total, excluding Mahaweli	3.7	3.1	2.3	2.5	2.8	3.0	...

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 19. Sri Lanka: Transfer and Subsidy Payments to Households, 1995–2000

	1995	1996	1997	1998	1999	2000	
						Budget	Outturn
(In millions of Sri Lanka rupees)							
Total	29,144	32,122	37,059	37,075	36,302	38,730	41,921
<i>Of which:</i> Excluding pensions	15,070	16,657	18,267	17,800	17,246	17,502	20,319
Pensions	14,074	15,465	18,792	19,275	19,056	21,228	21,602
Payments to disabled soldiers	...	763	940	1,202	1,291	1,430	1,992
Food and kerosene stamps	1,799	506	0	0	0	0	0
Fertilizer subsidy	1,345	1,500	1,895	2,152	1,390	1,500	1,733
Samurdhi	6,216	7,340	8,718	8,652	8,020	8,000	9,973
School meal/Janasaviya	1,778	1,251	0	0	62	300	92
School uniform	...	1,167	899	1,000	892	1,000	1,000
Refugee	...	2,270	3,357	2,307	2,667	3,049	2,800
Other	3,932	1,860	2,458	2,487	2,924	2,223	2,730
(In percent of GDP)							
Total	4.4	4.2	4.2	3.7	3.3	3.1	3.3
Pensions	2.1	2.0	2.1	1.9	1.7	1.7	1.7
Other transfers and subsidies	2.3	2.2	2.1	1.8	1.5	1.4	1.6

Source: Data provided by the Ministry of Finance.

Table 20. Sri Lanka: Deficit Financing (Economic Classification), 1995–2000

(In millions of Sri Lanka rupees)

	1995	1996	1997	1998	1999	2000	
						Budget	Outturn
Total financing	67,225	72,381	70,031	93,150	83,255	95,857	124,343
Foreign grants	9,028	7,739	7,500	7,200	6,761	8,000	5,300
Net foreign borrowing	21,224	10,160	9,722	16,924	1,484	14,165	11,846
Gross foreign borrowing	29,702	20,651	22,973	35,275	22,914	35,800	37,654
Repayments	-8,478	-10,491	-13,251	-18,351	-21,430	-21,634	-25,809
Net domestic financing	33,972	49,755	30,275	64,634	74,875	43,691	106,994
Nonbank borrowing	26,908	36,665	32,447	52,408	48,880	43,691	53,606
Bank financing	7,065	13,090	-2,172	12,226	25,996	0	53,388
Central Bank	7,662	9,873	-13,991	5,609	20,807	0	44,480
Commercial banks	-597	3,217	11,819	6,617	5,189	0	8,908
Asset Sales	3,001	4,728	22,535	4,389	134	30,000	201

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

Table 21. Sri Lanka: Outstanding Central Government Debt, 1995-2000 1/

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

	1995	1996	1997	1998	1999	2000
Total domestic debt	289,410	356,703	387,740	463,426	543,465	676,660
Rupee securities 2/	157,928	205,975	239,475	250,570	262,056	263,888
Treasury bills	113,771	124,996	114,996	119,996	124,996	134,996
Treasury bonds	--	--	10,000	48,915	104,867	204,124
Treasury CDs	200	212	83	12	11	11
Provisional advances	13,700	17,693	18,307	20,192	22,969	27,169
Other	3,811	7,827	4,879	23,741	28,566	46,472
Import bills held by commercial banks	4,579	6,210	7,653	17,545	18,869	14,940
Other liabilities to banking sector net of deposits :	-7,497	-8,586	-9,670	242	4,616	23,011
Other short and medium term liabilities	6,729	10,203	6,896	5,954	5,081	8,521
Banking system	111,024	101,764	100,536	113,054	139,671	199,030
Central Bank						
By debt instrument	26,878	34,303	19,770	27,179	48,867	97,778
Rupee loans	--	--	--	--	--	--
Treasury bills	14,984	17,114	6,692	9,508	27,322	42,238
Treasury bonds	--	--	--	--	452	30,936
Advances	13,700	17,693	18,307	20,192	22,969	27,169
Other	-1,807	-504	-5,229	-2,521	-1,876	-2,565
Commercial banks						
By debt instrument	84,147	67,461	80,766	85,875	90,804	101,252
Rupee loans	24,928	44,321	44,321	44,321	44,068	44,068
Treasury bills	59,742	24,424	30,857	14,850	12,833	8,368
Treasury bonds	--	--	1,788	5,808	7,953	7,712
Other 3/	-523	-1,284	3,800	20,896	25,950	41,104
By institution	84,147	67,461	80,766	85,875	90,804	101,252
Bank of Ceylon 3/	42,298	37,224	43,658			
People's Bank	17,802	15,953	18,711	77,565	83,915	94,093
Other	24,571	15,569	14,598	8,310	6,889	7,159
Sinking Fund	100	100	100	100	100	100
Nonbank sector 4/						
By debt instrument	178,286	254,839	287,104	350,272	403,694	477,530
Rupee loans	132,900	161,554	195,054	206,149	217,888	219,720
Treasury bills	39,045	83,458	77,447	95,638	84,841	84,390
Treasury bonds	--	--	8,212	43,107	96,462	165,476
Treasury certificates	200	212	83	12	11	11
Other	6,142	9,615	6,308	5,366	4,492	7,933
By institution	178,286	254,839	287,104	350,272	403,694	477,530
National Savings Bank	48,406	47,794	62,498	67,260	79,555	87,263
Other savings institutions	19,349	44,416	40,201	83,552	96,313	124,368
Employees' Provident Fund	95,000	113,236	134,867	157,711	181,581	211,742
Insurance companies	303	9,000	9,292	13,052	16,935	18,969
Finance companies	8,420	8,117	8,967	7,060	5,580	2,621
Other	6,808	32,276	31,279	21,637	23,730	32,567
Foreign Administrative Borrowings	6,135	9,609	6,302	7,901	4,487	7,901
Departments, Official Funds and other	673	22,667	24,977	24,666	19,243	24,666
Total foreign debt	346,286	359,685	376,331	461,273	507,866	541,936
Project loans	286,848	302,960	320,867	400,284	444,423	477,741
Nonproject loans	59,438	56,725	55,464	60,989	63,443	64,195
Commodity loans	57,730	55,243	53,816	59,626	62,182	63,009
Other	1,708	1,481	8,178	1,363	1,261	1,186
Concessional loans	336,795	350,319	362,435	446,331	497,672	535,025
Multilateral	145,900	161,490	175,315	213,749	228,294	249,671
Bilateral	190,895	188,829	187,120	232,582	269,378	285,354
Non-Concessional	9,491	9,366	13,896	14,942	10,194	6,911
Multilateral	723	656	598	544	442	356
Bilateral	168	162	7,834	1618	1,489	--
Commercial	8,600	8,548	5,464	12780	8,263	6,555
External suppliers' credits	1,020	923	499	575	530	n.a.
Total outstanding debt	635,696	716,388	764,071	924,699	1,051,331	1,218,596

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 FCBUs: 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 22. Sri Lanka: Monetary Survey, 1996-2000 1/

	1996	1997	1998	1999				2000			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
(In billions of Sri Lanka rupees; end of period)											
Net foreign assets	63.1	90.5	105.6	108.9	100.9	101.1	102.1	99.1	87.0	87.7	69.5
Monetary authorities 2/	73.5	89.9	101.7	98.8	95.4	93.1	89.3	90.4	80.5	71.4	57.9
Commercial banks	-10.5	0.6	3.9	10.1	5.5	8.1	12.8	8.7	6.5	16.3	11.6
Net domestic assets	225.6	243.2	272.1	282.1	296.7	307.2	326.2	342.8	355.8	369.9	413.9
Domestic credit	292.4	323.0	369.5	378.2	393.6	405.2	432.9	444.5	475.5	494.3	549.9
Public sector	62.6	59.9	74.6	75.4	85.0	86.6	107.0	111.6	129.5	144.7	185.6
Claims on government (net)	47.1	45.3	64.6	68.2	77.0	79.2	93.9	95.3	106.9	116.0	147.3
Monetary authorities	34.3	20.3	25.9	32.0	33.2	35.6	46.7	47.1	61.1	69.3	91.6
Commercial banks	12.8	25.0	38.7	36.2	43.7	43.6	47.2	48.2	45.8	46.7	55.7
Claims on public corp. 3/	15.5	14.7	10.0	7.2	8.0	7.4	13.0	16.3	22.6	28.6	38.3
Claims on private sector 3/	229.8	263.1	294.9	302.8	308.6	318.5	325.9	332.8	346.0	349.6	364.4
Other items (net)	-66.8	-79.9	-97.4	-96.1	-96.9	-97.9	-106.7	-101.7	-119.7	-124.4	-136.0
Broad money	288.7	333.7	377.7	391.0	397.6	408.3	428.3	441.8	442.8	457.6	483.4
Narrow money	78.2	85.9	96.3	102.6	99.9	102.1	108.6	109.8	108.8	111.7	118.5
Currency	42.6	45.7	51.8	55.5	52.1	52.9	58.5	58.6	56.8	59.5	62.6
Demand deposits	35.6	40.2	44.5	47.1	47.8	49.1	50.1	51.1	52.0	52.2	55.8
Quasi-money	210.5	247.8	281.5	288.4	297.7	306.3	319.8	332.1	334.1	345.9	364.9
(Annual percentage change)											
Net foreign assets	-2.6	43.5	16.7	15.5	15.3	-3.2	-3.4	-9.0	-13.8	-13.3	-31.9
Monetary authorities	-0.2	22.3	13.1	10.4	6.4	0.2	-12.2	-8.5	-15.6	-23.3	-35.1
Commercial banks	17.4	-105.4	591.1	111.6	-352.0	-30.6	228.0	-13.7	17.6	101.7	-9.6
Net domestic assets	15.9	7.8	11.9	13.1	13.6	22.3	19.9	21.5	19.9	20.4	26.9
Domestic credit	11.3	10.5	14.4	14.7	15.1	17.0	17.2	17.5	20.8	22.0	27.0
Public sector	21.0	-4.3	24.6	22.8	31.3	32.5	43.3	48.1	52.4	67.0	73.5
Claims on government (net)	22.6	-4.0	42.8	40.5	49.3	43.6	45.3	39.7	38.9	46.6	56.8
Monetary authorities	40.4	-40.8	27.6	27.3	40.2	17.7	80.3	47.1	83.8	94.7	96.0
Commercial banks	-8.4	94.3	55.1	54.8	57.1	75.2	21.9	33.2	4.7	7.2	18.1
Claims on public corp. 3/	16.4	-5.4	-31.6	-44.2	-39.3	-27.6	30.1	127.6	182.6	285.0	193.2
Claims on private sector 3/	8.9	14.5	12.1	12.8	11.3	13.4	10.5	9.9	12.1	9.8	11.8
Other items (net)	-1.7	19.6	22.0	19.5	19.7	2.9	9.5	5.9	23.5	27.0	27.5
Broad money	11.3	15.6	13.2	13.8	14.1	14.8	13.4	13.0	11.4	12.1	12.9
Narrow money	4.0	9.8	12.1	11.3	10.8	9.2	12.8	7.0	8.9	9.4	9.1
Currency	0.9	7.3	13.3	13.6	9.3	8.0	13.0	5.6	9.0	12.5	7.1
Demand deposits	7.9	12.7	10.8	8.7	12.6	10.6	12.5	8.6	8.7	6.1	11.5
Quasi-money	14.2	17.8	13.6	14.7	15.2	16.8	13.6	15.1	12.2	12.9	14.1
(Percent contribution to broad money growth 12 months ago)											
Net foreign assets	-0.6	9.5	4.5	4.3	3.8	-1.0	-0.9	-2.5	-3.5	-3.3	-7.6
Net domestic assets	11.9	6.1	8.7	9.5	10.2	15.8	14.3	15.5	14.9	15.4	20.5
Domestic credit	11.5	10.6	13.9	14.1	14.8	16.5	16.8	17.0	20.6	21.8	27.3
Public sector 3/	4.2	-0.9	4.4	4.1	5.8	6.0	8.6	9.3	11.2	14.2	18.3
Private sector 3/	7.3	11.6	9.5	10.0	9.0	10.6	8.2	7.7	9.4	7.6	9.0
Other assets (net)	0.4	-4.5	-5.3	-4.6	-4.6	-0.8	-2.4	-1.4	-5.7	-6.4	-6.9
<i>Memorandum items:</i>											
Money multiplier (BM/RM)	3.38	3.98	4.07	3.99	4.25	4.39	4.26	4.29	4.36	4.53	4.60
Velocity (GDP/geom. avg. BM)	2.80	2.90	2.88	2.88	2.88	2.87	2.78	2.778	2.796	2.807	2.812

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 FCUBUs.

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

Table 23. Sri Lanka: Balance Sheet of the Monetary Authorities, 1996-2000

	1996	1997	1998	1999				2000			
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
(In billions of Sri Lanka rupees; end of period)											
Net foreign assets	73.5	89.9	101.7	98.8	95.4	93.1	89.3	90.4	80.5	71.4	57.9
Central Bank (net)	66.5	82.4	92.6	87.3	80.2	77.8	74.1	75.1	64.3	55.1	41.7
Assets	106.7	121.5	131.2	121.4	118.3	113.0	112.1	108.3	100.9	86.3	77.2
Cash and balances abroad 1/	34.8	51.9	59.4	27.0	20.1	18.2	20.8	20.6	18.7	18.7	23.4
Foreign securities	67.9	67.1	67.7	90.1	94.3	91.2	87.3	83.4	77.3	67.3	53.7
Other	3.9	2.5	4.1	4.2	4.0	3.6	3.9	4.3	4.8	0.3	0.0
Liabilities	40.2	39.1	38.5	34.1	38.2	35.2	38.0	33.1	36.6	31.2	35.5
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)	7.1	7.5	9.1	11.5	15.2	15.2	15.2	15.2	16.2	16.2	16.2
Net domestic assets	12.0	-6.2	-8.9	-0.7	-1.9	0.0	11.2	12.6	21.0	29.5	47.2
Net claims on government	34.3	20.3	25.9	32.0	33.2	35.6	46.7	47.1	61.1	69.3	91.6
Claims on government	37.8	26.8	29.0	35.4	36.4	38.9	49.2	51.1	63.9	73.3	94.7
Advances	18.3	18.9	20.8	23.8	23.6	23.7	23.6	28.0	27.8	27.9	27.8
Treasury bills	17.1	7.2	8.2	11.6	12.8	15.1	25.2	22.6	26.7	36.4	37.9
Cash items in collection	2.4	0.7	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Government deposits	-3.5	-6.5	-3.1	-3.4	-3.2	-3.3	-2.5	-4.0	-2.8	-4.0	-3.2
Claims on commercial banks	2.3	1.7	1.1	1.1	1.0	1.0	0.7	0.7	0.7	0.7	0.5
Medium- and long-term	2.2	1.7	1.1	1.1	1.0	1.0	0.7	0.7	0.7	0.7	0.5
Short-term	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets (net)	-24.6	-28.2	-35.9	-33.8	-36.2	-36.6	-36.3	-35.2	-40.8	-40.5	-44.9
Reserve money	85.5	83.7	92.9	98.1	93.4	93.1	100.4	102.9	101.5	100.9	105.2
Currency in circulation	49.5	53.1	60.1	65.5	61.6	61.9	70.2	68.9	66.8	69.2	73.3
Commercial banks deposits	35.9	30.5	32.7	32.6	31.9	31.1	30.2	34.0	34.7	31.7	31.8
Deposits of government agencies	0.1	0.1	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	-0.2	22.3	13.1	10.4	6.4	0.2	-12.2	-8.5	-15.6	-23.3	-35.1
Net domestic assets	143.0	-151.8	43.3	-17.9	-55.7	-99.9	-225.7	1,900.0	1,179.4	...	323.2
Net claims on government	40.4	-40.8	27.6	27.3	40.2	17.7	80.3	47.2	83.8	94.7	96.0
Claims on commercial banks	-19.6	-25.1	-33.7	-32.6	-33.5	-33.4	-33.3	-35.1	-28.3	-28.3	-30.5
Medium- and long-term	-19.7	-25.0	-33.7	-32.7	-33.3	-33.2	-32.9	-34.5	-27.6	-27.5	-29.4
Short-term	-14.8	-32.7	-34.3	-28.1	-41.4	-46.2	-52.2	-65.2	-64.7	-78.6	-100.0
Reserve money	8.8	-2.1	10.9	10.7	9.6	3.7	8.2	5.0	8.6	8.5	4.7
(Percent contribution to reserve money 12 months ago)											
Net foreign assets	-0.2	19.2	14.1	10.5	6.7	0.2	-13.4	-8.6	-15.9	-23.3	-31.2
Net domestic assets	9.0	-21.2	-3.2	0.2	2.9	3.5	21.6	13.5	24.5	31.8	35.9
Net claims on government	12.6	-16.4	6.7	7.8	11.2	6.0	22.4	15.3	29.8	36.2	44.6
Claims on commercial banks	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.4	-0.4	-0.3	-0.3	-0.2
Other assets (net)	-2.9	-4.2	-9.2	-7.0	-7.7	-1.9	-0.4	-1.4	-5.0	-4.2	-8.5

Source: Central Bank of Sri Lanka.

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

Table 24. Sri Lanka: Balance Sheet of Commercial Banks, 1996–2000 1/

	1996	1997	1998	1999				2000				
	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	
	(In billions of Sri Lanka rupees; end of period)											
Foreign assets	15.6	25.8	30.1	32.7	31.9	34.7	36.3	39.7	41.4	47.8	52.4	
Banks abroad	8.7	18.3	22.8	25.5	25.1	26.9	29.3	32.0	33.5	38.3	42.3	
Other	6.9	7.5	7.4	7.2	6.7	7.7	7.0	7.7	7.9	9.5	10.0	
Cash and deposits	61.2	65.8	80.4	81.7	81.9	85.1	94.7	98.8	100.2	93.8	118.1	
Cash in fill	6.9	7.5	8.3	9.9	9.5	9.0	11.7	10.2	10.0	9.6	10.7	
Deposits with CBSL	34.3	29.0	31.3	30.6	28.8	27.6	28.4	33.0	34.7	33.3	28.9	
FCBUs 2/	12.9	22.8	28.9	32.4	32.8	34.2	40.0	43.4	41.3	36.2	45.5	
Due from other banks	7.1	6.5	11.8	8.8	10.9	14.3	14.6	12.3	14.2	14.6	33.1	
Claims on government	27.1	39.8	44.3	38.2	46.0	45.5	51.8	50.3	48.8	50.1	56.1	
Treasury bills	15.5	20.5	13.6	8.8	7.7	8.2	11.6	8.0	6.8	5.9	7.4	
Two-year Treasury notes	0.0	1.8	5.0	4.5	8.9	8.7	7.5	7.7	15.1	13.2	7.2	
Other government securities	0.8	0.8	0.3	0.3	0.3	0.1	0.1	0.1	0.1	0.1	0.1	
Other	10.8	16.7	25.4	24.6	29.1	28.5	32.6	34.6	26.9	30.9	41.4	
Claims on public corp.	9.9	10.3	8.7	7.2	8.0	7.4	12.7	13.1	19.4	20.2	27.0	
Claims on private sector	193.8	216.0	244.4	253.1	257.7	266.6	275.5	280.8	285.9	292.8	307.6	
Other assets	82.1	85.0	93.8	98.1	102.5	103.1	99.8	105.0	108.8	105.6	116.5	
Assets = Liabilities	389.8	442.8	501.7	510.9	528.0	542.4	570.8	587.8	604.6	610.2	677.7	
Foreign liabilities	19.8	23.7	29.0	32.3	36.0	37.2	33.1	37.0	37.3	35.8	40.7	
Banks abroad	2.9	4.0	4.3	7.0	10.6	10.8	5.0	7.6	5.9	4.4	6.3	
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/	14.0	16.3	20.4	20.9	21.8	22.0	23.6	24.0	25.4	26.5	29.2	
RNNFC 4/	1.2	2.0	3.3	3.4	2.5	3.4	3.3	3.8	4.6	3.5	3.9	
Other	1.6	1.4	1.1	1.0	1.1	1.1	1.1	1.6	1.3	1.5	1.3	
Demand deposits	35.5	40.1	44.5	47.1	47.8	49.1	50.1	51.1	52.0	52.1	55.8	
Domestic NRFC deposits	20.7	25.6	38.1	41.9	44.5	44.9	48.6	51.5	48.7	49.8	55.6	
Time and savings deposits	175.0	202.4	219.9	222.0	227.8	235.5	249.5	256.5	261.9	271.9	286.2	
Government deposits	12.9	13.7	11.6	10.1	10.5	10.1	12.7	10.0	9.7	9.9	13.2	
Demand	10.9	9.8	10.4	8.8	9.2	8.9	11.6	9.4	9.1	9.3	12.4	
Time and savings	2.0	3.9	1.2	1.2	1.3	1.3	1.1	0.6	0.6	0.6	0.8	
Due to CBSL	4.1	4.8	4.8	4.9	4.8	5.0	5.2	5.0	5.6	5.6	5.9	
Due to banks	21.0	8.7	11.8	8.9	8.9	12.9	15.6	11.4	14.4	16.0	36.2	
Due to OFIs	1.1	10.7	11.8	11.1	12.0	12.0	12.2	12.4	20.2	19.8	24.7	
Capital	39.2	44.4	50.2	47.5	48.4	49.2	51.6	53.3	52.8	52.6	51.8	
Other liabilities	60.5	68.8	80.0	85.1	87.3	86.5	92.4	99.7	102.2	96.7	107.6	

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 25. Sri Lanka: Advances by Purpose and According to Maturity, 1997-2000 1/

	96Q4	97Q1	97Q2	97Q3	97Q4	98Q4	99Q1	99Q2	99Q3	99Q4	00Q1	00Q2	00Q3
(In billions of Sri Lanka rupees; end of period)													
By Category													
Commercial	89.1	92.7	92.2	93.0	99.2	102.9	106.3	107.1	107.6	109.7	117.1	122.2	127.5
Financial	8.3	7.3	7.1	7.6	7.6	11.3	11.6	11.8	12.6	12.0	12.9	14.3	13.0
Agriculture	10.6	11.0	12.0	10.8	11.8	13.1	13.1	13.3	14.2	16.7	15.9	15.8	15.3
Industrial 2/	26.0	25.4	25.6	25.4	25.3	27.6	27.4	27.2	28.7	33.3	32.7	34.6	34.4
Tourism	3.4	3.3	3.3	3.3	3.3	4.1	4.1	4.3	4.2	4.5	4.2	4.5	4.1
Housing 3/	24.0	24.2	24.2	25.7	25.1	31.2	31.8	32.5	33.5	35.7	37.0	38.5	40.1
Consumption	16.4	17.5	17.6	18.3	19.5	23.3	25.5	25.8	29.2	29.0	30.4	31.4	31.9
Other loans	19.3	21.8	21.1	22.4	25.0	27.8	28.3	29.7	30.1	34.2	30.3	30.0	35.1
Total	197.1	203.1	203.1	206.4	216.7	241.3	248.1	251.7	260.1	275.1	280.5	291.3	301.4
(In percent annual growth)													
Commercial	10.6	11.0	10.4	4.8	11.3	3.7	9.9	7.6	7.8	6.6	10.2	14.1	18.5
Financial	5.0	-3.6	-16.3	-11.0	-8.3	48.7	50.6	40.5	44.8	6.2	11.2	21.2	3.2
Agriculture	-8.8	-1.3	7.9	-1.1	10.9	11.0	12.0	6.4	16.4	27.5	21.4	18.8	7.7
Industrial 2/	8.5	0.6	-8.2	-8.5	-2.6	9.1	5.8	3.8	7.5	20.7	19.3	27.2	19.9
Tourism	19.5	9.5	15.1	2.0	-2.4	24.2	10.8	-30.6	7.7	9.8	2.4	4.7	-2.4
Housing 3/	8.2	1.5	-0.7	-0.5	4.6	24.3	10.0	14.8	8.4	14.4	16.4	18.5	19.7
Consumption	18.4	18.6	22.2	20.1	18.8	19.5	23.8	20.6	25.3	24.5	19.2	21.7	9.2
Other loans	-8.3	0.0	4.9	0.5	29.3	11.6	9.3	18.3	16.7	23.0	7.1	1.0	16.5
Total	7.1	6.5	5.4	2.0	10.0	11.4	12.2	10.6	12.5	14.0	13.1	15.7	15.9
(In percent of total)													
Commercial	45.2	45.6	45.4	45.1	45.8	42.6	42.8	42.6	41.4	39.9	41.7	41.9	42.3
Financial	4.2	3.6	3.5	3.7	3.5	4.7	4.7	4.7	4.8	4.4	4.6	4.9	4.3
Agriculture	5.4	5.4	5.9	5.2	5.4	5.4	5.3	5.3	5.5	6.1	5.7	5.4	5.1
Industrial 2/	13.2	12.5	12.6	12.3	11.7	11.4	11.0	10.8	11.0	12.1	11.7	11.9	11.4
Tourism	1.7	1.6	1.6	1.6	1.5	1.7	1.7	1.7	1.6	1.6	1.5	1.5	1.4
Housing 3/	12.2	11.9	11.9	12.4	11.6	12.9	12.8	12.9	12.9	13.0	13.2	13.2	13.3
Consumption	8.3	8.6	8.6	8.8	9.0	9.7	10.3	10.3	11.2	10.5	10.8	10.8	10.6
Other loans	9.8	10.7	10.4	10.9	11.5	11.5	11.4	11.8	11.6	12.4	10.8	10.3	11.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
By Maturity													
Short term	66.0	65.9	66.1	65.2	63.9	63.7	64.1	63.8	64.0	63.0	62.5	63.0	62.7
Medium term	21.7	21.7	21.9	22.7	23.9	23.7	23.3	23.3	22.8	22.8	23.0	22.4	22.6
Long term	12.3	12.5	12.0	12.1	12.2	12.6	12.6	12.9	13.3	14.1	14.5	14.7	14.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	42.3	21.5	54.5	80.4	70.5	62.6	100.0

Source: Central Bank of Sri Lanka.

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

2/ Includes advances granted to the Engineering and Building Trade, Mining and Fishing.

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

Table 26. Sri Lanka: Selected Interest Rates, 1995–2000
(In percent; end-of-period)

		CBSL Rates		Money Market Rates			Bank Rates		Memorandum
		Repos	Reverse Repos	Interbank Call Rate /	Treasury Bills 3 Months 12 Months		Prime Lending /	Time and Savings /	CPI Inflation Annual Rate
1995		16.5	...	...	19.3	19.0	19.9	12.4	11.5
1996		12.8	...	15.0	17.5	17.4	18.4	12.3	16.8
1997		11.0	...	11.2	10.0	10.2	14.2	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
1998	Q1	11.8	n.a.	12.6	11.3	11.4	15.5	9.8	11.4
	Q2	12.1	n.a.	12.4	11.8	12.1	14.4	9.6	14.1
	Q3	12.0	n.a.	16.6	12.4	13.0	15.9	9.6	5.9
	Q4	11.3	15.0	13.9	12.0	12.6	14.9	9.2	3.7
1999	January	11.0	14.6	11.6	11.7	12.5	14.3	9.2	3.8
	February	11.0	14.6	11.5	11.7	12.5	14.3	9.2	5.0
	March	10.5	14.2	15.8	11.8	12.5	15.4	9.2	5.0
	April	10.5	14.2	12.5	11.8	12.6	14.9	9.1	7.8
	May	10.5	14.1	12.1	11.7	12.6	15.1	9.1	6.6
	June	10.0	14.2	11.6	11.8	12.7	14.2	9.1	3.4
	July	9.5	14.2	10.9	11.8	12.7	14.7	9.1	1.6
	August	9.5	13.7	12.9	11.4	12.3	14.1	9.1	4.7
	September	9.5	13.8	13.3	11.4	12.4	14.5	9.1	5.4
	October	9.5	13.8	12.5	11.4	12.5	15.5	9.1	5.0
	November	9.3	13.6	9.8	11.5	12.5	13.2	9.1	4.2
	December	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	20.0	20.0	22.7	...	16.6

Source: Central Bank of Sri Lanka.

1/ Weighted average.

Table 27. Sri Lanka : Reserve Position of Commercial Banks 1995-2000
(In billions of Sri Lanka rupees)

	Deposits			Required Reserves				Actual Reserves					Excess	
	Demand	Time and Savings	Foreign Currency	Demand	Time and Savings	Foreign Currency	Total (4)+(5)+(6)	Deposits with CBSL	DFCC bonds	Govt. Securities	Till Cash	Total (8)+(9)+(10)+(11)	Balance Till Cash	Reserves (12)-(7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1995	39.0	151.5	32.1	5.8	22.7	3.4	32.0	31.9	0.3	0.0	1.3	33.5	3.2	1.5
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	-1.2
1999														
January	51.7	229.0	33.9	6.2	27.5	4.1	37.7	32.7	0.3	0.0	3.6	36.6	4.2	-1.1
February	54.6	230.7	33.7	6.6	27.7	4.0	38.3	34.7	0.3	0.0	3.4	38.5	2.8	0.2
March	53.8	230.2	34.8	6.5	27.6	4.2	38.3	32.6	0.3	0.0	3.6	36.5	6.3	-1.8
April	55.2	234.2	34.1	6.6	28.1	4.1	38.8	33.8	0.3	0.0	4.5	38.6	4.6	-0.2
May	56.0	233.5	32.9	6.7	28.0	4.0	38.7	34.5	0.3	0.0	4.0	38.8	4.2	0.1
June	56.6	236.2	32.8	6.8	28.3	3.9	39.1	31.9	0.3	0.0	4.1	36.4	5.3	-2.7
July	57.6	237.8	32.3	6.9	28.5	3.9	39.3	32.4	0.3	0.0	3.6	36.4	4.8	-2.9
August	56.0	239.8	31.6	6.2	26.4	3.5	38.0	32.5	0.3	0.0	3.1	36.0	6.6	-2.0
September	57.0	241.1	31.9	6.3	26.5	3.5	36.3	31.1	0.3	0.0	3.8	35.3	5.1	-1.0
October	57.8	248.0	29.5	6.4	27.3	3.2	36.9	32.8	0.3	0.0	3.5	36.5	4.8	-0.4
November	56.9	250.9	30.8	6.3	27.6	3.4	37.2	31.5	0.3	0.0	3.9	35.7	5.9	-1.5
December	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	0.0
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	-1.8
May	59.1	266.2	40.6	6.5	29.3	4.5	40.3	33.4	0.3	0.0	5.3	39.0	6.3	-1.3
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	-0.7
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

Source: Central Bank of Sri Lanka

Table 28. Sri Lanka: Balance of Payments, 1995–2000

	1995	1996	1997	1998	1999	2000 Prel.
	(In millions of U.S. dollars)					
Trade balance	-1,504	-1,344	-1,225	-1,091	-1,381	-1,828
Exports	3,807	4,095	4,639	4,798	4,600	5,522
Imports	5,311	5,439	5,864	5,889	5,981	7,350
Services, net	152	105	159	145	147	28
Receipts	821	765	876	914	966	963
Payments	669	660	716	770	819	935
Income, net	-170	-198	-159	-180	-254	-293
Receipts	226	185	234	214	167	156
Payments	396	383	393	394	421	449
<i>Of which: Interest</i>	312	307	303	289	296	326
Private transfers, net	675	710	788	848	887	961
Current account (excluding grants)	-847	-727	-437	-278	-601	-1,132
Official transfers	61	49	44	53	24	23
Current account (including grants)	-786	-678	-392	-225	-577	-1,108
Capital and financial account	704	459	601	414	358	657
Capital account (net)	117	96	87	80	75	48
Financial account	581	363	515	334	282	609
Long-term:	502	381	716	398	425	498
Direct investment	53	119	430	193	177	202
Foreign direct investment, net	16	86	129	137	177	202
Privatization proceeds	37	33	301	56	0	0
Private, long-term (net)	91	1	47	2	188	136
Disbursements	194	156	149	147	353	302
Amortization	103	155	102	145	165	166
Government, long-term (net)	359	259	238	203	60	160
Disbursements	674	497	500	493	379	495
Amortization	315	238	262	290	319	335
Short-term, net	80	-18	-201	-64	-143	110
Portfolio investment, net (CSE)	-2	7	13	-24	-13	-45
Private short-term, net	33	-44	-20	8	-10	135
Commercial banks (net) 1/	49	19	-194	-48	-120	20
Errors and omissions 2/	139	150	-45	-152	-45	-64
Overall balance	51	-68	163	37	-263	-516
Net international reserves	-51	68	-163	-37	264	516
Increase in gross official reserves (-)	-41	126	-92	45	344	613
Central bank borrowing, net 2/	32	-13	-5	0	19	0
Use of Fund credit, net	-42	-45	-66	-82	-99	-97
	(In percent of GDP)					
<i>Memorandum items:</i>						
Current account (excl. official transfers)	-6.5	-5.2	-2.9	-1.8	-3.8	-6.9
Current account (incl. official transfers)	-6.0	-4.9	-2.6	-1.4	-3.7	-6.8
Overall balance	0.4	-0.5	1.1	0.2	-1.7	-3.1
Total debt	75.0	68.6	62.3	61.0	63.0	63.9
Total debt service (percent of exports of goods and service)	16.5	15.3	13.3	13.3	15.2	14.2
Gross official reserves (in millions of U.S. dollars) 3/	1,989	1,855	1,922	1,892	1,519	906
(In months of imports)	3.9	3.4	3.5	3.3	2.2	1.3
Net official reserves	1,393	1,325	1,488	1,524	1,260	744
GDP (in millions of U.S. dollars)	13,030	13,898	15,092	15,761	15,779	16,413

Sources: Data provided by the Central Bank of Sri Lanka; and 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/ Less ACU balances

Table 29. Sri Lanka: Exports by Commodity, 1995–2000

	1995	1996	1997	1998	1999	1999 January–November	2000 1/
	(Value in millions of U.S. dollars)						
Total	3,807	4,095	4,639	4,798	4,600	4,155	4,886
Agricultural products	829	961	1,060	1,088	947	870	916
Tea							
Value	481	615	719	780	620	569	635
Volume (million kg)	240.8	244.1	268.5	271.9	269.3	248.7	262.7
Unit value (US\$)	2.00	2.52	2.68	2.87	2.30	2.29	2.42
Rubber							
Value	111	104	79	44	33	30	27
Volume (million kg)	68.3	72.2	61.5	41.5	42.8	40.0	30.0
Unit value (US\$/kg)	1.64	1.44	1.28	1.06	0.77	0.76	0.89
Coconuts							
Value	69	81	82	56	84	77	72
Volume (million nuts)	579	475	505	437	600	543	730
Unit value (US\$/nut)	0.12	0.17	0.16	0.13	0.14	0.14	0.10
Coconut products (value)	34	29	35	38	45	41	41
Other agricultural products							
Value	133	132	145	170	165	153	142
Volume (million kg)	92.4	54.6	58.0	58.0	58.9	55.0	46.0
Unit price (US\$/kg)	1.44	2.42	2.50	2.93	2.80	2.76	3.11
Industrial products	2,870	2,990	3,422	3,590	3,531	3,177	3,765
Gems (value)	240	243	208	177	214	194	229
<i>Of which:</i> Processed diamond	163.4	156.3	125.0	121.0	152.6	136.6	142.0
Garments and textiles							
Value	1,853	1,902	2,274	2,460	2,425	2,173	2,630
Volume (million pieces)	593.1	324.7	360.4	371.3	370.7	330.4	385.0
Unit value (US\$/piece)	3.1	5.9	6.3	6.6	6.5	6.6	6.8
Other industrial products (value)	767	845	940	953	892	810	907
Petroleum products							
Value	85	104	97	73	74	64	87
Volume ('000 metric tons)	616.1	660.9	538.1	473.5	412.1	372.0	313.0
Unit value (US\$/ton)	138.1	157.4	180.3	154.2	178.6	172.0	276.8
Miscellaneous exports	37	41	59	47	49	43	118
	(In percent of total exports)						
Traditional exports 2/	18.3	20.2	19.7	19.1	17.0	17.3	15.8
<i>Of which:</i> Tea	12.6	15.0	15.5	16.3	13.5	13.7	13.0
Nontraditional exports	81.7	79.8	80.3	80.9	83.0	82.7	84.2
Other agricultural products	3.5	3.2	3.1	3.5	3.6	3.7	2.9
Garments and textiles	48.7	46.4	49.0	51.3	52.7	52.3	53.8
Gems	6.3	5.9	4.5	3.7	4.7	4.7	4.7
Other industrial products	20.2	20.6	20.3	19.9	19.4	19.5	18.6
Petroleum products	2.2	2.5	2.1	1.5	1.6	1.5	1.8
Other	0.8	1.0	1.3	1.0	1.1	1.0	0.0
Total	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.

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

Table 30. Sri Lanka: Imports by Commodity, 1995–2000

	1995	1996	1997	1998	1999	1999 January–November	2000 1/
	(Value in millions of U.S. dollars)						
Total	5,311	5,439	5,864	5,889	5,981	5,293	6,526
Consumer goods	1,180	1,234	1,223	1,254	1,242	1,117	1,254
Rice							
Value	2	91	73	42	46	29	4
Volume ('000 metric tons)	10	341	306	168	214	128	15
Unit value (US\$/ton)	253	267	238	251	216	228	259
Wheat							
Value	198	204	139	127	111	100	112
Volume ('000 metric tons)	1,058	913	789	880	859	779	817
Unit value (US\$/ton)	187	223	176	144	129	129	137
Sugar							
Value	170	145	184	129	106	102	121
Volume ('000 metric tons)	418	381	545	444	479	461	496
Unit value (US\$/ton)	407	380	337	290	222	222	244
Other food	349	361	385	424	398	362	383
Other consumer goods	461	433	442	532	581	523	635
Intermediate goods	2,702	2,767	3,096	2,982	3,058	2,706	3,427
Crude petroleum							
Value	240	304	263	216	257	224	465
Volume (million barrels)	14	15	14	16	14	12	16
Unit value (US\$/barrel)	18	20	19	14	19	18	29
Refined petroleum	146	175	276	129	245	222	354
Fertilizer							
Value	86	76	66	62	66	55	73
Volume ('000 metric tons)	452	361	333	440	539	448	511
Unit value (US\$/ton)	190	211	199	141	123	123	142
Textiles	1,159	1,168	1,386	1,397	1,320	1,204	1,362
Other intermediate goods	1,071	1,044	1,105	1,178	1,170	1,001	1,174
Investment goods	1,189	1,204	1,325	1,477	1,565	1,369	1,631
<i>Of which</i> : Machinery and equipment	503	649	742	786	678	627	728
Transport equipment	304	179	208	264	523	407	517
Building materials	272	263	272	303	260	238	283
Unclassified 2/	240	234	220	176	115	102	213
	(In percent of total imports)						
Food	13.5	14.7	13.3	12.3	11.1	11.2	9.5
Petroleum	7.3	8.8	9.2	5.9	8.4	8.4	12.5
Textiles	21.8	21.5	23.6	23.7	22.1	22.7	20.9
Other intermediate goods 3/	21.8	20.6	20.0	21.1	20.7	19.9	19.1
Investment goods	22.4	22.1	22.6	25.1	26.2	25.9	25.0
Other 4/	13.2	12.3	11.3	12.0	11.6	11.8	13.0
Total	100	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 31. Sri Lanka: Minor Nontraditional Industrial Exports, 1995–2000
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999 January-November	2000 1/
Food, beverages, and tobacco	98.3	95.5	90.5	117.5	86.4	77.0	137.6
Fruits and vegetable juices	0.8	0.4	0.5	0.6	0.6	0.5	0.7
Fish, fresh and frozen	8.8	8.6	11.6	13.5	20.2	18.0	44.7
Fish, salted	3.9	3.0	3.9	2.8	3.0	2.8	4.3
Crustaceans and mollusks	53.8	57.0	50.7	78.6	40.7	35.2	67.0
Manufactured tobacco	12.6	5.3	5.9	3.0	1.9	1.9	1.6
Other	18.3	21.2	17.9	19.0	20.0	18.6	19.3
Chemical products	28.1	25.1	25.1	27.9	25.1	23.0	27.5
Glycerol, glycerine	3.8	0.0	0.6	1.9	2.6	2.4	2.9
Soap	0.6	0.7	0.2	0.2	0.2	0.2	0.3
Activated carbon	17.3	16.7	19.4	19.1	15.8	14.4	16.2
Other	35.4	7.7	5.0	6.6	6.5	6.0	8.1
Leather, rubber, paper, wood, and ceramics	384.6	412.8	476.6	501.6	464.6	421.2	423.5
Footwear	44.4	50.5	70.0	64.9	68.1	59.3	47.4
Rubber tires	62.4	68.0	73.0	84.7	77.7	67.9	88.4
Other rubber products	90.8	101.0	104.5	93.3	83.2	76.0	82.7
Wood products	26.3	13.5	10.9	8.8	8.1	7.2	8.8
Wall tiles	9.3	9.8	11.1	11.0	8.6	7.8	8.8
Domestic items	17.3	48.0	52.3	49.8	44.1	40.8	35.4
Other	115.8	122.0	154.8	189.0	174.8	162.2	152.0
Mining and quarrying	9.3	9.3	6.3	4.4	3.1	2.7	3.2
Natural graphite	1.9	2.7	2.8	2.9	1.9	1.9	2.3
Ilmenite	2.5	1.1	1.8	0.0	0.3	0.0	...
Ores and iron, pyrites	1.7	3.8	0.1	0.0	0.1	0.1	0.4
Other	3.1	1.7	1.6	1.5	0.8	0.8	0.5
Machinery, mechanical and electrical appliances	123.9	154.4	204.1	182.1	200.7	183.4	214.2
Total	644.1	697.1	802.6	833.6	779.9	707.4	805.9
(As percent of total exports)	16.9	15.0	16.7	18.1	17.0	17.0	16.5
<i>Memorandum items :</i>							
Garments and textiles	1,852.5	1,902.0	2,274.0	2,460.0	2,425.0	2,173.0	2,630.1
Gems and jewelry	273.1	279.0	225.0	186.0	224.0	203.0	240.0

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

1/ Preliminary estimates.

Table 32. Sri Lanka: Minor Agricultural Exports, 1995–2000

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999 January-November	2000 1/
Fruits and vegetables	9.7	9.9	8.3	7.3	9.7	9.2	7.2
Coffee	2.5	1.0	1.5	2.2	1.1	1.0	0.1
Cinnamon	33.6	34.8	46.7	50.6	50.2	45.9	42.1
Cloves	1.3	1.6	2.2	2.2	5.9	5.8	3.9
Peppers	7.0	7.1	13.7	26.6	18.5	17.2	20.9
Other spices	1.2	1.3	1.6	1.9	4.4	4.3	5.1
Cashew nuts	2.2	1.9	3.1	2.3	1.0	0.9	0.6
Sesame and other oilseeds	0.2	0.0	0.5	0.5	...	...	0.1
Essential oils	5.2	3.3	3.9	5.3	3.9	3.7	3.5
Unmanufactured tobacco	35.7	42.4	34.4	41.0	37.0	33.9	32.7
Betel leaves	1.2	1.3	0.9	0.8	1.9	1.8	1.6
Other	34.1	27.1	28.3	30.2	31.2	29.0	24.5
Total	133.8	131.7	145.1	170.7	164.8	152.6	142.3
(As percent of total exports)	3.5	2.8	3.0	3.7	3.6	3.7	2.9

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

1/ Preliminary estimates.

Table 33. Sri Lanka: Direction of Trade, 1995–2000

(In percent)

	Exports							Imports						
	1995	1996	1997	1998	1999	1999	2000	1995	1996	1997	1998	1999	1999	2000
	January-November							January-November						
European Union	31.8	29.7	30.1	27.3	29.3	28.5	27.4	17.9	17.7	16.9	17.6	16.1	16.5	15.0
<i>Of which:</i>														
France	2.3	2.7	2.2	2.2	2.2	2.2	1.9	1.2	1.0	0.9	1.3	1.5	1.5	1.3
Germany	6.8	6.0	5.0	4.9	4.8	4.8	4.0	3.5	3.1	3.3	3.6	2.5	2.6	2.5
Netherlands	3.7	3.1	3.0	2.2	2.4	2.4	1.9	1.8	1.6	1.4	1.7	1.6	1.7	1.3
United Kingdom	9.2	9.7	11.5	11.3	13.3	13.2	13.6	5.1	5.0	5.0	5.3	4.7	4.8	4.9
United States	36.1	34.7	36.4	40.3	39.6	39.2	39.6	3.6	3.9	3.3	4.0	4.0	2.8	4.1
Japan	5.3	6.4	5.1	4.2	3.5	3.4	4.0	10.5	9.9	8.5	9.7	10.4	10.7	10.3
Middle East	7.2	7.6	7.4	9.0	8.0	8.0	8.0	7.3	8.3	9.4	6.5	6.5	6.8	8.8
<i>Of which:</i>														
Egypt	0.9	0.6	0.9	3.1	0.6	0.6	0.6	0.6	0.3	0.3	0.1	0.2	0.2	0.1
Iran, Islamic Republic of	0.7	0.9	0.5	0.4	0.6	0.6	0.6	1.8	3.0	1.8	2.0	1.5	1.7	3.1
Iraq	0.0	0.0	0.1	0.3	0.3	0.3	0.3	--	--	--	0.0	--	--	--
Saudi Arabia	0.5	0.8	0.8	1.0	0.8	0.8	0.8	1.7	2.3	3.2	1.7	0.8	0.9	2.3
Asia 2/	9.4	8.7	8.4	7.3	8.4	8.3	7.4	50.0	49.8	50.3	52.1	54.5	54.9	52.8
<i>Of which:</i>														
China	0.1	0.3	0.2	0.3	0.1	0.1	0.1	3.4	2.9	3.0	4.0	3.0	3.0	4.0
India	0.9	1.1	1.0	0.8	1.1	1.1	1.0	9.8	11.2	9.9	9.5	9.5	9.7	9.5
Pakistan	1.2	0.9	0.8	0.6	0.7	0.7	0.6	1.1	1.4	1.5	1.6	1.8	1.6	1.2
Singapore	2.0	1.5	1.3	0.9	1.0	0.9	1.0	5.2	5.1	5.1	5.4	8.4	8.5	7.8
Former Soviet Union	2.4	3.1	3.7	3.1	2.4	2.0	2.2	0.2	0.4	0.3	0.3	0.2	0.3	0.1
Other countries	7.8	9.8	8.9	8.8	8.8	10.6	11.4	10.5	9.8	11.7	9.8	8.3	8.0	8.9
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	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 34. Sri Lanka: Indicators of Trade Performance, 1995–2000

	1995	1996	1997	1998	1999	2000 Prov.
	(In percent of GDP)					
Exports	29.2	29.5	30.7	30.4	29.2	33.6
Imports	40.8	39.1	38.9	37.4	37.9	44.8
Consumption	7.5	7.4	7.2	7.2	7.2	7.8
Food	4.0	4.3	4.3	3.8	3.5	3.6
Other	3.5	3.1	2.9	3.4	3.7	4.2
Intermediate 1/	22.3	21.4	21.4	19.7	20.1	23.7
Petroleum	3.0	3.4	3.6	2.2	3.2	5.5
Other	19.3	17.9	17.9	17.5	16.9	18.2
Investment	9.1	8.7	8.8	9.4	9.9	10.8
Other	1.8	1.7	1.5	1.1	0.7	2.5
Trade balance	-11.5	-9.7	-8.1	-6.9	-8.8	-11.1
	(Annual percentage change)					
Export volume	7.1	3.2	10.6	-1.5	6.1	...
Export unit value (U.S. dollar terms)	10.7	4.2	2.4	5.0	-9.6	...
Import volume	2.7	2.2	12.4	8.5	-1.4	...
Import unit value (U.S. dollar terms)	8.5	0.3	-4.0	-7.4	3.0	...
Terms of trade 2/	-0.9	4.0	6.7	13.4	-12.2	-3.0
Real effective exchange rate 3/	-1.1	10.4	13.4	-10.5	-1.2	1.4

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

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

2/ Staff estimates.

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

Table 35. Sri Lanka: Services and Income, 1995–2000

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999 January-September	2000 1/
Total services	152	105	159	145	147	97	42
Receipts	821	765	876	914	966	709	721
Payments	669	660	716	770	819	613	679
Transportation	135	138	156	139	122	93	57
Receipts	336	339	389	402	403	291	304
Payments	201	201	233	263	281	198	247
Travel	40	-10	29	28	55	30	10
Receipts	226	166	209	230	274	201	191
Payments	186	176	180	202	219	170	181
Insurance services	17	10	10	16	17	13	15
Receipts	27	28	30	34	37	28	32
Payments	10	18	20	18	20	15	17
Other business services	-28	-27	-29	-29	-47	-41	-37
Receipts	213	208	223	224	227	171	175
Payments	240	235	252	253	274	212	213
Government Expenditure n.i.e.	-11	-7	-6	-9	-	2	-4
Receipts	19	24	25	25	25	19	18
Payments	31	31	31	34	25	17	22
Total income	-170	-198	-159	-180	-253	-210	-239
Receipts	226	185	234	214	167	103	103
Compensation of Employees	11	11	12	12	12	9	9
Direct Investment (Profits and dividends)	1	1	2	2	2	2	2
Other (interest)	214	173	220	200	153	92	92
Payments	396	383	393	394	420	313	341
Compensation of employees	13	12	13	13	14	11	11
Direct investment (profits and dividends)	71	64	77	91	111	83	83
Other (interest)	312	307	303	289	296	220	247
<i>Memorandum items :</i>							
Exports of goods and nonfactor services	4,628	4,860	5,515	5,712	5,565	4,045	4,760
(In percent of GDP)	35.5	35.0	36.5	36.2	35.3	43.4	51.0
Imports of goods and nonfactor services	5,980	6,099	6,580	6,659	6,800	4,670	6,043
(In percent of GDP)	45.9	43.9	43.6	42.2	43.1	50.1	64.8

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

1/ Provisional.

Table 36. Sri Lanka: Financial Account, 1995–2000

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999 January-September	2000 1/
Total, net	581.4	363.2	515.1	333.8	282.4	8.1	327.9
Central government, net	358.3	259.2	238.6	203.1	59.9	-6.3	82.0
Concessional medium- and long-term	306.1	284.0	183.6	313.6	176.2	115.4	116.6
Disbursements	446.8	424.3	332.5	471.2	349.8	227.7	246.9
Amortization	140.8	140.3	148.9	157.6	173.5	112.3	130.3
Nonconcessional medium- and long-term	52.2	-24.8	55.0	-110.5	-116.3	-121.7	-34.6
Disbursements	227.0	72.9	167.8	21.8	29.1	0.1	2.0
Amortization	174.7	97.7	112.8	132.2	145.4	121.8	36.5
Private sector medium- and long-term 2/	90.7	1.6	47.4	1.7	188.3	-24.1	163.2
Disbursements	193.9	156.1	149.7	146.5	353.0	80.5	291.0
Amortization 3/	103.2	154.5	102.3	144.8	164.7	104.6	127.8
Direct investment, net 4/	53.1	119.9	429.8	193.0	176.9	119.4	137.0
Short-term, net 5/	79.6	-17.6	-200.7	-64.0	-142.4	-80.9	-54.3
Memorandum items:							
Total aid disbursements	847.4	637.6	627.4	619.6	474.9	300.3	314.1
Loans	673.8	497.2	500.3	492.9	378.8	227.8	248.9
Project loans 6/	446.8	424.3	332.5	471.2	349.8	227.7	246.9
Commodity and program loans	227.0	72.9	167.8	21.8	29.1	0.1	2.0
Grants	173.6	140.4	127.1	126.7	96.1	72.5	65.2
Project grants	112.8	91.3	82.5	74.2	72.1	54.4	48.9
Commodity and technical assistance grants	60.8	49.1	44.5	52.5	24.0	18.1	16.3

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

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

2/ Consists of public corporations and private companies.

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

4/ Includes foreign direct investment, and privatization proceeds.

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

6/ Includes nonconcessional project loans.

Table 37. Sri Lanka: External Debt-Service Payments, 1995–2000 1/
(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999–2000 2/ January–October	
						1999	2000
Interest	223.5	243.5	229.4	225.2	234.3	199.6	215.6
Government	130.4	123.5	117.1	118.0	123.4	110.7	108.5
Concessional	116.6	109.7	103.9	105.7	113.2	94.1	101.7
Multilateral	24.5	24.7	25.0	25.1	27.0	33.5	22.5
Bilateral	92.0	85.0	78.8	80.5	86.2	60.6	79.2
Nonconcessional	13.8	13.8	13.3	12.4	10.2	16.6	6.8
Private	55.3	74.2	71.9	68.4	70.9	61.0	75.4
Public corporations and private sector 3/	37.0	55.6	50.7	50.5	52.5	46.0	60.7
Other public corporations and private sector 4/	18.3	18.6	21.2	17.9	18.4	15.0	14.7
Fund	7.7	6.6	6.1	6.9	0.4	2.9	2.6
Short-term debt 5/	30.2	39.3	34.3	31.9	34.7	25.0	29.1
Amortization	433.3	422.1	413.8	512.3	587.6	488.1	397.3
Government	315.4	238.4	262.4	301.4	327.7	271.1	192.2
Concessional	140.7	151.2	160.7	169.2	182.3	141.6	163.5
Multilateral	20.2	23.8	34.5	31.7	34.2	59.6	34.0
Bilateral	120.5	127.4	126.2	137.5	148.2	82.0	129.5
Nonconcessional	174.7	97.7	112.8	132.2	145.4	129.5	28.6
Private	84.7	137.0	85.4	128.2	160.3	125.0	127.2
Public corporations and private sector 3/	39.1	79.0	59.3	105.1	126.2	96.0	95.8
Other public corporations and private sector 4/	45.6	58.0	26.1	23.1	34.1	29.0	31.4
Fund repurchases	33.2	46.8	66.1	82.7	99.6	92.0	77.9
Memorandum items:							
Total debt-service ratio 6/	16.5	15.3	13.3	13.3	15.2	15.2	12.9
Of which: Interest payments	6.7	6.3	5.5	5.1	5.3	4.4	4.5
Medium- and long-term official debt-service ratio 7/	12.0	11.4	10.3	11.5	13.1	13.6	11.2
Interest payments/total outstanding debt	2.6	2.9	2.8	2.6	2.6	2.3	2.4
Average interest rate on concessional debt	1.9	1.8	1.7	1.6	1.6	1.4	1.5
Average interest rate on non-concessional debt	3.4	3.7	3.1	3.9	4.7	7.8	3.1

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

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

2/ Provisional.

3/ With government guarantee.

4/ Without government guarantee.

5/ Includes interest payments on trade credits, Central Bank and commercial bank liabilities, CPC, and foreign currency deposits of nonresidents

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

7/ Including Fund credit.

Table 38. Sri Lanka: External Debt Outstanding, 1995–2000

(In millions of U.S. dollars)

	1995	1996	1997	1998	1999	1999 October	2000 1/ October
Total medium and long term	7,556	7,458	7,345	7,947	8,377	8,103	8,242
Government	6,637	6,554	6,406	6,956	7,145	7,032	6,855
Concessional	6,237	6,180	5,975	6,642	6,930	6,820	6,638
Multilateral	2,662	2,819	2,820	3,123	3,175	3,157	3,053
IDA	1,464	1,517	1,509	1,654	1,657	1,650	1,583
AsDB	1,124	1,231	1,243	1,395	1,449	1,428	1,402
Other	74	71	68	74	69	79	68
Bilateral	3,575	3,361	3,095	3,519	3,755	3,663	3,586
Japan	1,879	1,761	1,611	1,953	2,286	2,243	2,250
United States	699	692	684	676	655	745	643
Germany	539	482	420	445	380	391	321
Other	458	426	380	446	433	284	372
Commercial	400	374	431	314	215	212	217
Multilateral	13	12	10	8	6	7	4
Bilateral	3	3	17	24	18	32	13
Financial markets	159	151	200	186	147	128	184
Supplier credits	225	209	204	96	44	46	15
Public corporations and private sector 2/ 3/	640	637	670	714	945	790	1,108
Other public corporations and private sector 3	279	267	270	277	288	281	279
Short-term debt 3/ 5/	542	498	478	484	475	460	493
IMF	596	530	433	367	258	268	188
Total debt	8,694	8,486	8,257	8,799	9,110	8,831	8,923
<i>Memorandum items:</i>							
Total medium- and long-term debt 6/	8,152	7,988	7,778	8,314	8,635	8,370	8,430
(In percent of GDP) 7/	63	57	52	53	55	...	...
(In percent of exports of goods and nonfactor services)	176	164	141	146	155	185	177

Source: Data provided by the Sri Lanka authorities.

1/ Provisional.

2/ With government guarantee.

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

4/ Without government guarantee.

5/ Includes acceptance credits of Ceylon Petroleum Corporation, trade credits and short-term borrowings from FCBU's. Excludes nonresident foreign currency deposits.

6/ Including use of Fund credit.

7/ Excludes banking sector liabilities.

Table 39. Sri Lanka: Net International Reserves, 1995–2000

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

	1995	1996	1997	1998	1999	2000 Nov.
I. Central Bank, net	1,941	1,803	1,874	1,843	1,433	843
a. Assets	2,015	1,886	1,982	1,935	1,554	903
Gold	5	5	5	4	4	4
SDR holdings	1	2	0	1	1	2
Liquid balances abroad	729	614	842	872	285	215
Bilateral credit balances	0	0	0	0	0	0
Foreign securities	1,220	1,197	1,094	999	1,211	683
ACU credit balance 1/	5	3	1	0	0	0
Statutory reserves on foreign deposits of commercial banks	56	65	40	59	53	0
b. Liabilities	75	83	108	93	121	60
Nonresident deposits	1	1	1	0	0	0
Borrowings from abroad	0	0	0	0	0	0
ACU debit balance 1/	74	82	107	92	121	59
II. Government, net	-548	-478	-387	-319	-173	-90
a. Assets	48	52	47	49	85	75
Reserve position in IMF	30	29	27	29	65	61
Investment	0	0	0	0	0	0
Other 2/	17	23	20	20	20	14
b. Liabilities	596	530	433	367	258	165
Use of Fund credit	596	530	433	367	258	165
III. Commercial banks, net	-165	-185	9	57	178	147
a. Assets	839	780	1,103	923	942	1,094
Liquid balances	162	166	307	344	414	543
Export bills	104	109	114	101	90	113
b. Liabilities	1,004	964	1,094	866	765	947
Foreign bank borrowings	52	35	53	54	61	81
Foreign bank deposits	5	17	12	9	9	7
Non-bank demand deposits 3/	11	15	15	13	13	13
Non-bank time deposits 3/	255	282	307	352	376	400
FCBUs Liabilities with Nonresidents	682	615	707	438	306	447
IV. Net international reserves (I+II+III)	1,228	1,140	1,497	1,582	1,439	900
<i>Memorandum items :</i>						
Gross official reserves (Ia+IIa)	2,063	1,938	2,029	1,984	1,639	978
(in months of current year imports)	5	4	4	4	3	2
Net official reserves (I+II)	1,393	1,325	1,488	1,524	1,260	753
Exchange rate (SL Rs/U.S. dollar, end-of-period)	54.1	56.7	61.3	67.8	72.1	77.5

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

1/ Asian Clearing Union.

2/ Includes special disbursement accounts and revolving credit balances.

3/ Includes NRFC and RNNFC deposits.

Table 40. Sri Lanka: Vulnerability Indicators, 1995-2000

(In percent of GDP, unless otherwise indicated)

	1995	1996	1997	1998	1999	2000
Official risk indicators 1/						
Share of nonperforming loans (as percent of total loans)						
State-owned commercial banks	16.2	18.9	20.2	19.5	18.3	18.6
Domestic private banks	9.2	12.0	12.4	13.4	15.9	15.8
Risk-based capital asset ratio (capital over risk-weighted assets) 2/						
State-owned commercial banks	...	10.7	9.2	8.2	8.4	7.9
Domestic private banks	...	11.8	10.9	12.3	12.2	11.2
Foreign banks	...	13.8	13.9	13.9	12.4	13.7
Financial sector risk indicators						
Public sector debt	95.2	93.3	85.8	90.8	94.7	96.4
Broad money (percent change, 12-month basis) 3/	21.1	11.3	15.6	13.2	13.4	12.9
Private sector credit (percent change, 12 month basis) 3/	28.8	8.9	14.5	11.8	9.9	12.8
Share of deposits in broad money 3/	83.7	85.3	86.3	86.3	86.3	87.3
Share of foreign currency deposits in total deposits 3/	14.3	14.6	15.2	18.9	20.4	21.1
Share of foreign exchange loans in total loans 3/	19.0	19.0	19.0	20.0	17.0	19.0
Share of private credit collateralized by immovable property, plant, and machinery 4/	24.7	26.9	25.7	26.6	26.9	...
Share of housing and property development in private credit 4/	12.1	12.3	11.6	12.9	13.0	...
Market assessment indicators						
Stock market index (1985=100)	740	618	698	597	573	448
Share price index of financial institutions (1985=100)	2,003	1,728	1,772	1,356	1,214	828
External indicators						
Exports (percent change, 12-month basis in US\$)	18.6	7.6	13.3	2.1	-4.1	19.8
Imports (percent change, 12-month basis in US\$)	11.4	2.4	7.8	0.4	1.6	22.9
Current account balance (excluding official transfers)	-6.3	-5.2	-2.9	-1.8	-3.8	-6.9
Capital and financial account balance	6.4	3.3	4.0	2.6	2.3	4.0
<i>Of which</i> : Inward portfolio investment	0.0	0.0	0.1	-0.2	-0.1	-0.3
Medium- and long-term inflows, net.	3.9	2.7	4.7	2.5	2.7	3.0
Foreign direct investment	0.2	0.6	0.9	0.9	1.1	1.2
Gross official reserves excl. ACU balances (in millions of US\$)	1,989	1,855	1,922	1,892	1,519	906
Central Bank short-term foreign liabilities (in millions of US\$)	74	82	107	92	0	0
Central Bank foreign currency exposure (in millions of US\$)	--	--	--	--	--	--
Short-term foreign assets of commercial banks (in millions of US\$) 5/	730	709	974	832	850	1,001
Short-term foreign liabilities of commercial banks (in millions of US\$) 5/	957	903	1,023	817	722	880
Foreign currency exposure of commercial banks 3/ 6/	103	107	96	103	...	...
Gross official international reserves (as percent of imports of goods & services)	33.3	30.4	29.2	28.4	22.3	10.9
Gross official international reserves (as percent of broad money)	41.4	36.4	35.3	33.9	25.6	15.6
Short-term debt 7/	12.4	11.1	11.1	9.1	8.6	9.8
Gross official international reserves (as percent of short-term debt)	127.2	125.3	120.7	137.6	120.5	64.9
Total external debt	75.0	68.6	62.3	61.0	63.0	63.9
External interest payments (as percent of exports goods & services)	6.7	6.3	5.5	5.1	5.3	5.0
Debt service (as percent of exports of goods & services)	16.5	15.3	13.3	13.3	15.2	14.2
Exchange rate (Rupee per US\$, period average)	51.3	55.3	59.0	64.6	70.4	77.0

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

1/ Excluding foreign currency banking units (FCBUs). 2000 data are as of September.

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.