

Sri Lanka: Selected Issues and Statistical Appendix

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SRI LANKA

Selected Issues and Statistical Appendix

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Approved by the Asia and Pacific Department

February 19, 2004

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I. THE TRANSMISSION MECHANISM OF MONETARY POLICY IN SRI LANKA¹

A. Introduction

1. **A good understanding of the transmission mechanism of monetary policy in Sri Lanka has become more important since the adoption by the Central Bank of Sri Lanka (CBSL) of the goal to reduce inflation in the context of a flexible exchange rate regime.** Moreover, with fiscal policy constrained by high public debt, monetary policy is the main countercyclical policy. This chapter explores how monetary policy affects other macroeconomic variables, mainly output and inflation. The first section provides an overview of the framework for implementing monetary policy while the following section discusses the transmission mechanism itself. Empirical estimates indicate that changes in policy interest rates have a significant effect on output but a small impact on inflation. Credit, however, does not respond strongly to changes in policy rates. The dominance of state-owned banks, weak capital bases in some banks, and the high level of non-performing loans (NPLs) constrain this channel of transmission.

B. Framework for Monetary Policy

2. **The CBSL has increasingly focused on price stability.** While attention continues to be placed on economic growth, the current balance represents a clear shift from past practices. In the 1980's, emphasis was placed on developmental objectives—providing subsidized credit to priority sectors—and, until the introduction of the flexible exchange rate regime in January 2001, the CBSL aimed at preserving exchange rate stability. In line with this change in emphasis, the CBSL is considering whether to establish price stability as the single primary objective of the CBSL in the new Central Bank law that is expected to replace the Monetary Law Act (MLA) by end-2004.

3. **The decision-making process of monetary policy has also become more transparent.** Recent steps taken in this direction include the creation of the Monetary Policy Committee, which makes recommendations on which the Monetary Board acts, and the publication of the annual monetary program and monthly reviews analyzing its execution. Increased transparency, which has enhanced the credibility and predictability of the CBSL, is especially important while the CBSL remains not fully independent from the government (the Secretary of the Treasury is a member of the Monetary Board and the MLA allows the Minister of Finance to direct the CBSL to adopt certain policies).

4. **To achieve its objectives, the CBSL monetary program targets the rate of growth of reserve money.** In particular, the CBSL has aimed, indirectly, at a rate of expansion of broad money in line with expected growth in nominal GDP. As the money multiplier has remained broadly unchanged in recent years (after accounting for changes in reserve requirements), this has translated into a similar target for reserve money growth.

¹ Prepared by Enric Fernandez.

5. **Open market operations are the CBSL's main tool to maintain reserve money on its targeted path.** These consist of (i) standing overnight repo and reverse repo facilities (repo rates constitute the main signal of the stance of monetary policy); (ii) since March 2003, daily auctions of repo or reverse repos at amounts determined by the CBSL; and (iii) outright sales and purchases of government or CBSL securities. Other instruments at the CBSL's disposal to influence monetary conditions are statutory reserve requirements on commercial bank deposit liabilities, foreign exchange operations, and moral suasion. Reserve requirements, however, are not used in practice for active liquidity management—they were gradually lowered until they reached 10 percent on rupee deposits in 2001 and have remained unchanged since then—and, currently, forex interventions are restricted to building up the stock of reserves and to limiting excessive volatility.

6. **Overall, the institutional framework for monetary policy in Sri Lanka seems appropriate for the pursuit of low inflation.** Reserve money functions as a nominal anchor that the CBSL can effectively target with the instruments available. Recent steps to increase the transparency of monetary policy decisions have strengthened the credibility and predictability of the CBSL. Further steps in this direction could include establishing price stability as the single primary objective in the new Central Bank law and strengthening the independence of the CBSL.

C. Transmission Mechanism

7. **The CBSL relies mostly on the interest rate and credit channels for the transmission of monetary policy to prices and output.** Thus, a drop in policy rates is expected to lead to a decline in market-determined interest rates and to an increase in lending that would in turn have a positive effect on economic activity while putting upward pressure on inflation. Alternatively, one can put this story in terms of money: if the CBSL engineers an (unexpected) expansion of the money supply, activity and prices will tend to rise. The following sections explore to what extent such a mechanism is operational in Sri Lanka.

The Broad Picture

8. **The table below contains some descriptive statistics for the variables of interest for the observation period (Q1-1995 to Q2-2003).**

- On average, quarter-on-quarter, real GDP expanded by 1 percent, inflation was about 2.3 percent, and broad money increased by 3.4 percent—entirely consistent with the quantity theory and a very small decline in the velocity of money. (These growth rates have not been annualized.)
- Inflation has been extremely volatile—the 95 percent confidence interval for the unconditional expectation of (quarterly) inflation extends from -0.7 percent to 5.2 percent.

- Reserve money has grown on average by less than broad money as reserve requirements have declined gradually.
- The exchange rate depreciated on average by 2 percent a quarter, which was consistent with a broadly constant real effective exchange rate.
- Overall credit expanded faster and was more volatile than credit to the private sector, on account of occasional accelerations in credit to government and public corporations.

Descriptive Statistics of Selected Variables, Q1-1995 to Q2-2003					
	Mean	Median	Maximum	Minimum	Standard Deviation
Repo rate	11.9	11.5	19.3	8.5	2.8
3-month t-bill rate	13.4	12.5	19.5	8.6	3.0
12-month t-bill rate	14.0	13.3	20.5	8.6	3.0
Prime rate	15.9	15.1	22.5	10.9	2.8
Δ Colombo CPI	2.3	2.3	6.5	-1.3	1.8
ΔGDP	1.0	1.1	2.4	-2.1	1.0
Δ reserve money	2.0	2.1	6.0	-4.0	2.0
Δ broad money	3.4	3.3	6.3	0.3	1.2
Δ overall credit	3.6	3.5	9.0	-1.4	2.2
Δ private credit	3.1	2.9	8.1	-2.4	1.8

Sources: Sri Lankan authorities; and Fund staff estimates.

Note: Δ denotes the quarter-on-quarter difference in the logarithm of the variable (seasonally adjusted). The sample covers Q1-1995 to Q2-2003 (quarterly GDP for 1995 was interpolated).

9. **Changes in policy rates appear to translate into changes in market-determined interest rates.** Simple regressions (ordinary least squares) provide evidence that changes are transmitted quickly throughout all maturities, with shorter maturity rates responding the fastest.² One cannot reject the hypothesis that the coefficient estimates in each of the regressions add up to one. In the case of the 3-month T-bill rate, one cannot even reject the hypothesis of full pass through within the same quarter.

$$\begin{aligned} \Delta tbill3 &= \underset{(0.09)}{0.89} \Delta repo + \underset{(0.09)}{0.10} \Delta repo(-1) \\ \Delta tbill12 &= \underset{(0.09)}{0.73} \Delta repo + \underset{(0.09)}{0.14} \Delta repo(-1) \\ \Delta prime &= \underset{(0.08)}{0.66} \Delta repo + \underset{(0.08)}{0.22} \Delta repo(-1) \end{aligned}$$

² Δ stands for the change in the corresponding interest rate, with *repo* referring to the overnight repo rate; *tbill3* and *tbill12* are the 3-month and 12-month treasury bill rates; and *prime* is the prime lending rate. The standard deviations of the coefficient estimates are shown in parentheses.

10. Simple correlations of interest rates and money with lags and leads of output and prices also have the expected sign, consistent with a transmission mechanism at work.

- Three to five quarters after a rise in repo rates inflation tends to decline. Contemporaneously, however, inflation is higher, which is consistent with either causality from high inflation leading the CBSL to raise rates or with the so called “price puzzle” (a stylized fact that some have explained because of a short term increase in the cost of working capital caused by higher interest rates).
- A rise in repo rates is associated with lower output in the following year, with the strongest correlation two to three quarters after the policy change.
- Changes to repo rates are negatively correlated with the supply of money, with a rise in rates leading the fall in the money supply by one quarter.

Cross-Correlations of Changes in the Repo Rate with Selected Variables									
	t-4	t-3	t-2	t-1	t	t+1	t+2	t+3	t+4
Δ CCPI	-0.31	-0.38	-0.02	0.15	0.22	0.08	-0.08	-0.01	-0.11
Δ GDP	0.17	0.27	0.29	0.20	-0.07	-0.27	-0.53	-0.43	-0.12
Δ broad money	-0.10	-0.04	0.09	0.01	-0.12	-0.29	-0.18	-0.12	0.06

Sources: Sri Lankan authorities; and Fund staff estimates.

Note: Δ denotes the quarter-on-quarter difference in the logarithm of the variable (seasonally adjusted). The sample covers Q1-1995 to Q2-2003 (quarterly GDP for 1995 was interpolated).

- When the money supply is expanding at a relatively high pace, inflation tends to rise in the following two quarters.
- An expansion in the money supply appears also related with higher output four and five quarters thereafter.

Cross-Correlations of Changes in Broad Money with Selected Variables									
	t-4	t-3	t-2	t-1	t	t+1	t+2	t+3	t+4
Δ CCPI	0.13	0.08	-0.20	-0.20	0.02	0.31	0.53	0.14	-0.20
Δ GDP	-0.12	-0.16	-0.06	0.23	-0.04	-0.07	-0.17	0.02	0.21

Sources: Sri Lankan authorities; and Fund staff estimates.

Note: Δ denotes the quarter-on-quarter difference in the logarithm of the variable (seasonally adjusted). The sample covers Q1-1995 to Q2-2003 (quarterly GDP for 1995 was interpolated).

More Details: A VAR with Output, Prices, Money and Interest Rates

11. **To better explore the monetary transmission mechanism, a vector autoregression model (VAR) was estimated.** The regression includes four lags of GDP, prices, broad money, the repo rate and a constant term. The VAR impulses are orthogonalized by using the standard Choleski decomposition by imposing the following ordering: GDP is assumed not to react to contemporary shocks to other variables; the price level responds to past shocks of all variables but only contemporary shocks to output; broad money comes next; and finally repo rates, which react to contemporary shocks of all variables.³ The results are illustrated through impulse response functions (Figure II.1).

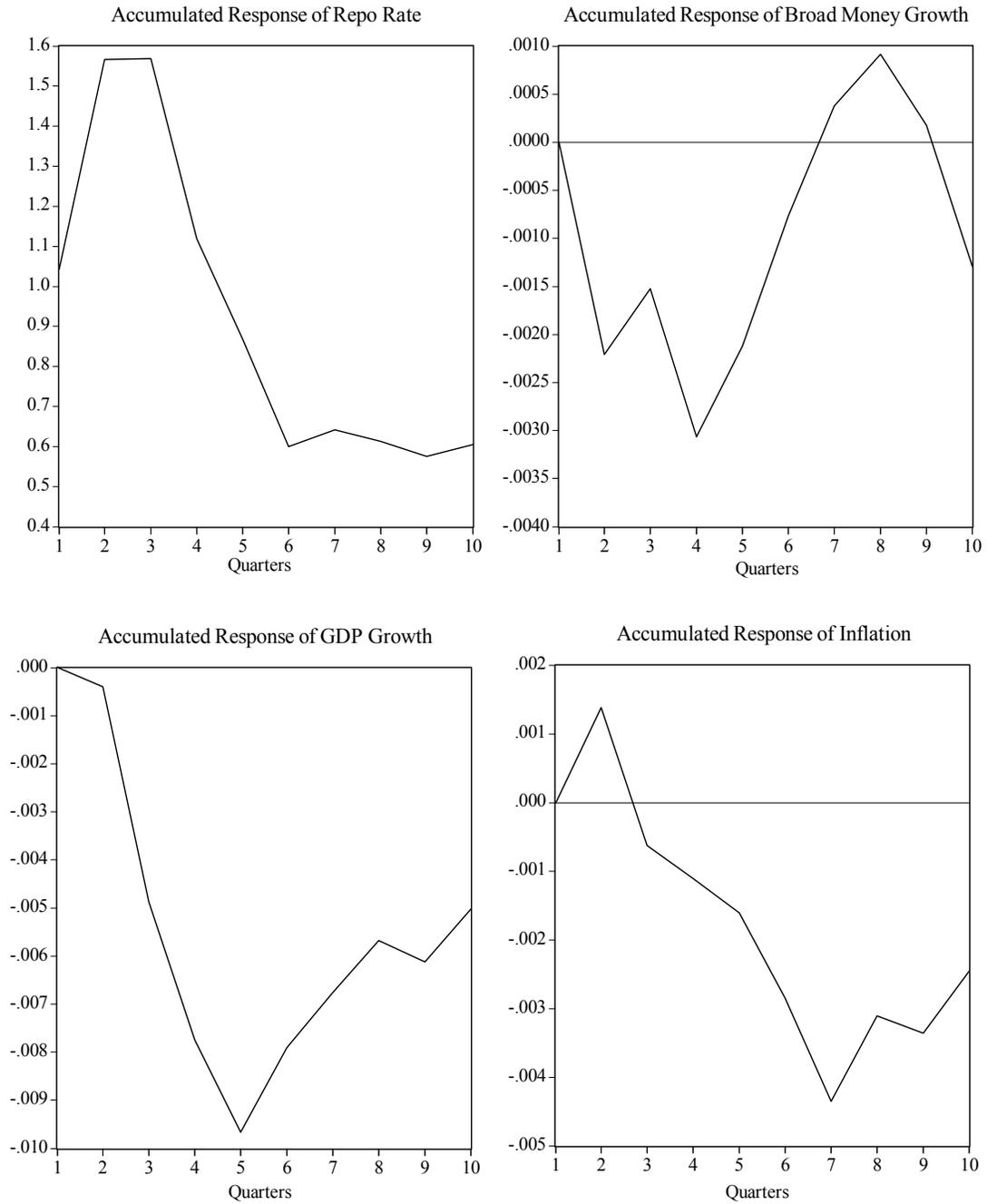
12. **An unexpected increase in the repo rate by 100 basis points (equivalent to one standard error of the innovations) is followed by a further 50 basis points increase in rates the following quarter, which suggests that changes in the policy stance come about somewhat gradually.** Eventually, about a year after the initial innovation, the policy move is partially reversed as the central bank reacts to the impact of its actions on money, output, and inflation.

13. **The tightening of the monetary stance slows the growth rate of broad money gradually**—by about $\frac{1}{3}$ percent a year after the rise in repo rates by 100 basis points. The impact on economic activity is relatively large and fast: GDP declines by $\frac{1}{2}$ percent in the second quarter after the innovation (this is relative to the level it would have been in the absence of a monetary policy shock) and by about 1 percent one year after. That is, if the economy was cruising at a growth rate of 5 percent a year and repo rates rise unexpectedly by 100 basis points, one would expect GDP growth to decline to about 4 percent one year after the event. The results of the variance decomposition for GDP indicate that monetary shocks account for less than 20 percent of its variability at any frequency.

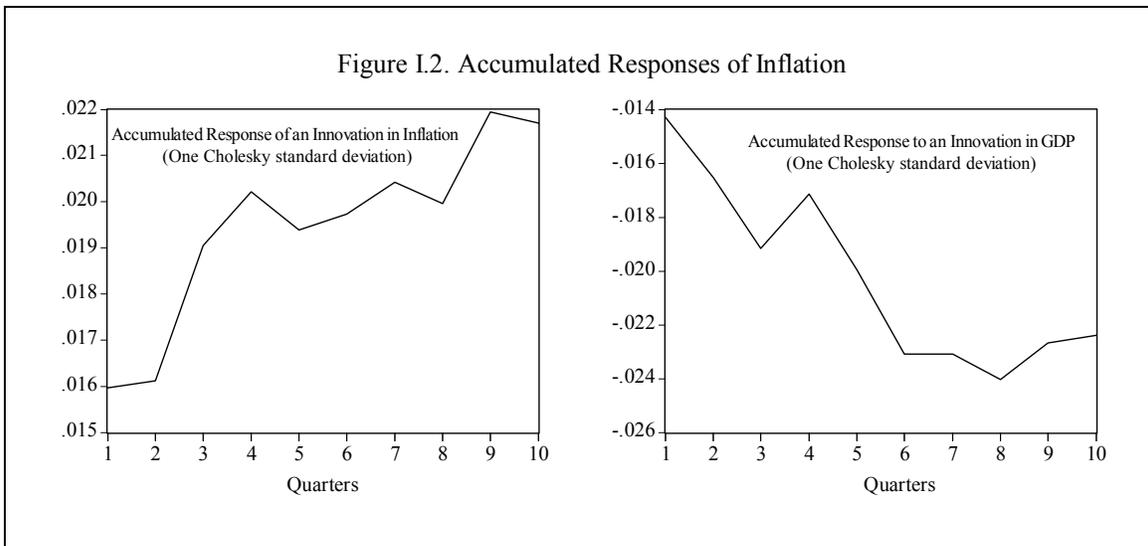
14. **The effect on prices, however, is largely muted as inflation declines by less than $\frac{1}{2}$ percent even six quarters after the monetary tightening.** The large weight of food prices in the price index is responsible for this result. Replacing GDP by agricultural GDP in the VAR above confirms that most of the contraction in GDP that follows a monetary tightening is due to a contraction in nonagricultural GDP. As a result, food prices do not change substantially as supply is not affected and demand is relatively inelastic. Since the weight of food in the price index is about $\frac{2}{3}$, it is not surprising that the link between monetary policy shocks and inflation is weak. Consistent with this result, the variance decomposition for inflation indicates that shocks to output and inflation (roughly in equal proportion) explain most of its variability, rather than monetary shocks.

³ While the CBSL does not observe GDP contemporaneously (within a quarter) when deciding on interest rates, they do observe variables strongly correlated with it—such as rainfall, government revenue, exports, or industrial production; data on prices and reserve money, which is strongly correlated with broad money, are available with a very short lag.

Figure I.1. Accumulated Response to an Increase in the Repo Rate
(One Cholesky standard deviation)



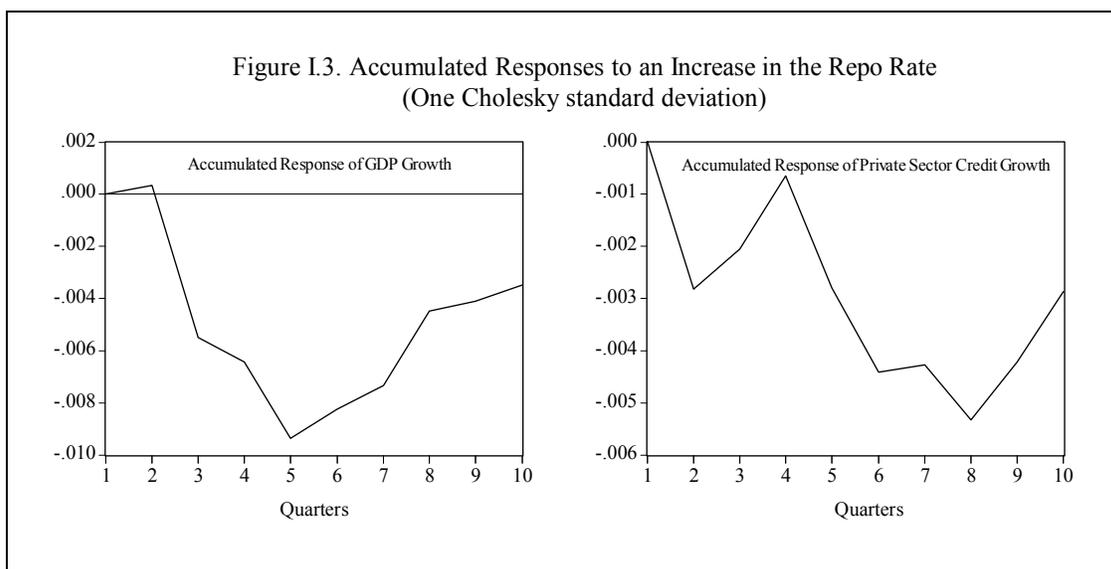
15. **Two more results merit attention (Figure II.2).** First, a positive shock to GDP translates into a large decline in inflation (the effect is smaller, however, if the shock is confined to nonagricultural GDP). Second, **evidence of substantial inflation inertia**—a shock to inflation generates a substantial further increase in prices for more than two years. Wage formation in the government sector, which in the past has been strongly backward looking, coupled with a central bank that has been willing to accommodate high inflation expectations are a probable cause for inflation inertia. This points toward the need to strengthen some institutions: wage negotiations, especially in the public sector, need to be forward looking while the central bank needs to make clear that it will be less willing to validate inflationary expectations (for instance, by credibly committing to make price stability its sole primary objective).



Exploring the Credit Channel

16. **To explore the role of the credit channel in the transmission of monetary policy, a VAR model including GDP, prices, bank credit to the private sector, the prime lending rate, and the repo rate is estimated** (using four lags and the Choleski decomposition with this ordering of variables).

17. **Private sector credit is estimated to decline only modestly after an innovation in the repo rate (Figure II.3).** Thus, an initial increase in the repo rate of about 100 basis points, which eventually brings about a further cumulative increase in the repo rate of about 150 basis points, decreases private sector credit by about $\frac{1}{4}$ percent during the first year. Two years after the rise in the repo rate, private sector credit has declined by about $\frac{1}{2}$ percent. Since the impact on GDP is relatively larger and faster—GDP is estimated to decline by almost 1 percent five quarters after the rise in the repo rate—the estimates suggest a weak role for the credit channel in the transmission of monetary policy. Prime rates do respond to changes in the repo rate but change only by about half as much.



18. **The dominance of state-owned banks in the banking system, low capital bases, and the high level of nonperforming loans (NPLs) constrain the monetary transmission mechanism.** First, state-owned banks (which currently provide about one third of total credit to the private sector) are less likely than private banks to base their lending decisions on strictly commercial criteria and, more generally, have weaker incentives to behave in a profit maximizing fashion—which weakens the link between interest rates and the provision of credit. Second, a high level of nonperforming loans may influence interest rate and credit decisions. For instance, as the repo rate declines banks with weak balance sheets may resist or be slow to revise down their lending rates and extend new credit—in this way, they improve their profitability while not risking higher NPLs. This is more likely to occur when the NPL problem is widespread, which it is in Sri Lanka—affecting mostly state-owned banks but also some private banks. In addition, the limited supply of “bankable” lending opportunities can also make private credit fairly inelastic to the interest rate.

19. **The weak recovery of private sector credit by state-owned banks since the recession of 2001 also underscores their need for restructuring.** Overall credit to the private sector increased by almost 18 percent from December of 2001 to June of 2003, but most of the increase was accounted for by the operations of private banks—state-owned banks increased their lending by less than 10 percent during the same period. In addition to the reasons outlined above, this was also due to the inability of state-owned banks lacking risk management skills to adjust to a situation of receding demand for credit by the public sector.

20. **The lack of depth and maturity of the nonbank sector may also impede the smooth transition of monetary policy impulses.** In Sri Lanka, the nonbank sector is dominated by the public pension funds (primarily, EPF), which invest almost exclusively in government securities. A diversification of EPF’s investments away from treasury securities

would contribute to deepening capital markets. This might also entail outsourcing portfolio management to competing private managers.

An Exploration of the Exchange Rate Channel

21. **To explore the role of the exchange rate in the transmission of monetary policy, a VAR model including GDP, prices, the exchange rate, and the repo rate is estimated (using again the Choleski decomposition with this ordering of variables).**⁴ The results are generally inconclusive but point to a very weak role for the exchange rate, which was not market determined for most of the sample period, in the transmission of monetary policy.

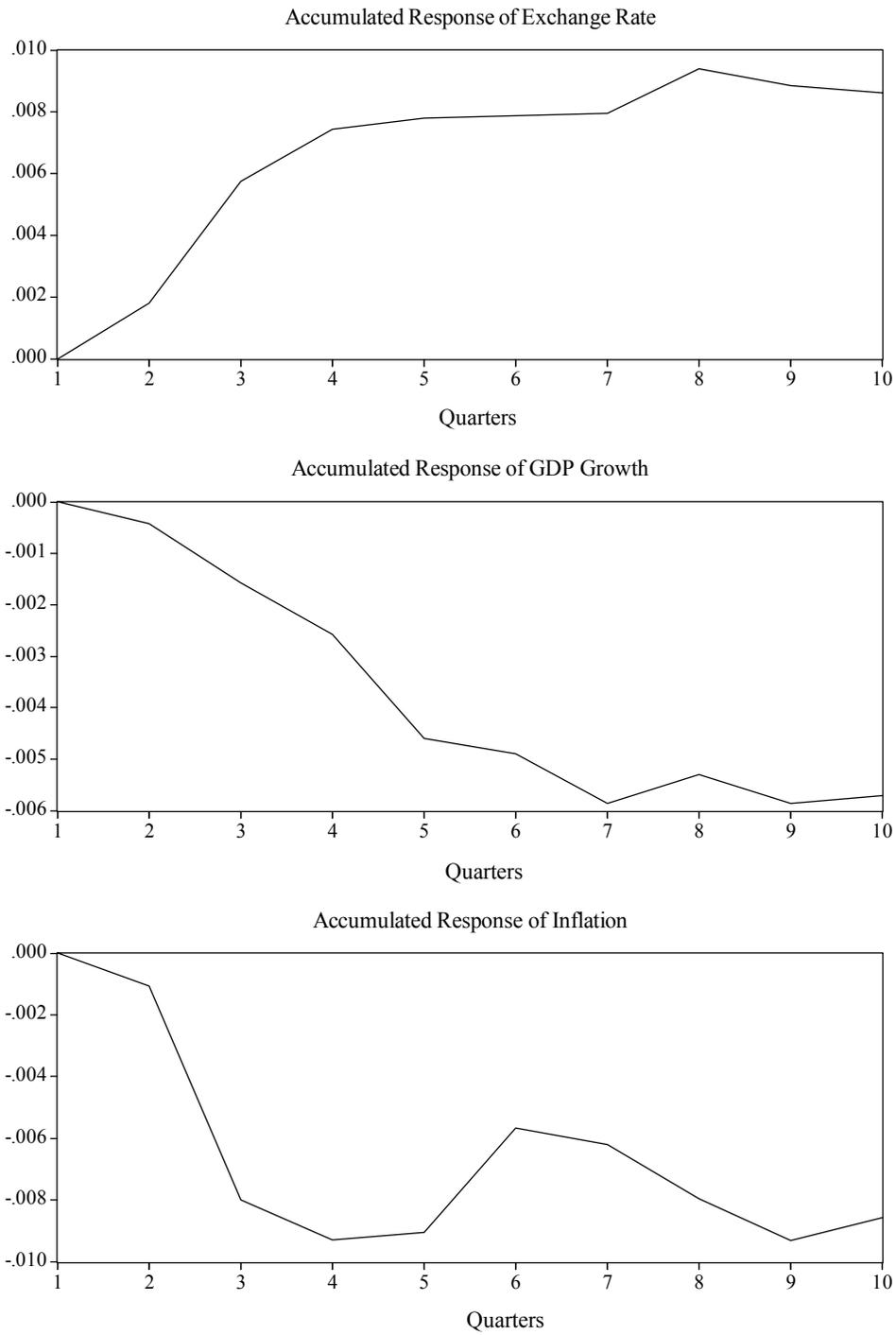
22. **The estimated impulse responses produce the counterintuitive result that a rise in the repo rate is followed by a depreciation of the exchange rate—but this appears to be influenced by developments since late 2000** (Figure II.4). In 2000 and 2001, faced with a rapid expansion in public sector credit and pressures on the balance of payments, the CBSL tightened interest rates and allowed a faster depreciation of the exchange rate—including by introducing a floating regime. Subsequently, steps toward fiscal consolidation allowed the CBSL to lower interest rates while the rate of depreciation of the exchange rate declined. Before 2000, the exchange rate exhibited a steady depreciation with low variability from quarter to quarter. When the VAR is re-estimated for the sub-sample from 1995:1 to 2000:2, a tightening of interest rates still appears associated with an exchange rate depreciation but the effect is quantitatively trivial (perhaps also in part because of the reduced sample size). These results can also be explained by the relative closed nature of the financial account.

23. **An unexpected depreciation (of less than 2 percent), in turn, is associated with a significant decline in output (by more than 1½ percent), which suggests that such an innovation may be a proxy for some underlying macroeconomic weakness.** As in the previous section, interest rate innovations are estimated to affect output—in this case, a rise in repo rates by 100 basis points reduces both by more than ½ percent one year later. The pass-through of the exchange rate to prices is also significant (about two-thirds after three quarters).

24. **Of course, if loosening monetary policy is not estimated to lead to a depreciation of the exchange rate, lower policy interest rates can not stimulate the export sector through a depreciation of the currency—i.e., the exchange rate channel has not been a significant one for the transmission of monetary policy.** In the future, however, given the importance of the export sector in the Sri Lankan economy, the gradual liberalization of the financial account and with a floating exchange rate and macroeconomic stability, the exchange rate channel is bound to gain importance in the transmission of monetary policy.

⁴ Four lags were used in the estimation. The exchange rate is the rupee/US\$ rate. The results were very similar when a measure of the nominal effective exchange rate was used instead.

Figure I.4. Accumulated Responses to an Increase in the Repo Rate
(One Cholesky standard deviation)



D. Conclusions

25. **Empirical estimates indicate that changes in policy interest rates have a significant effect on output but a small impact on inflation.** In particular, an unexpected increase in the repo rate by 100 basis points lowers the growth rate of GDP by about ½ percentage point after six months and by about 1 percentage point after a year. Inflation in Sri Lanka is very volatile and the effect of monetary shocks is dwarfed by supply-side shocks, in particular to agricultural production given the large weight of food in the CPI. There is evidence of substantial inflation inertia, caused in part by backward looking wage settlements in the public sector (which influence wage formation in the private sector). In the future, the focus of wage negotiations should be placed on productivity rather than on past inflation.

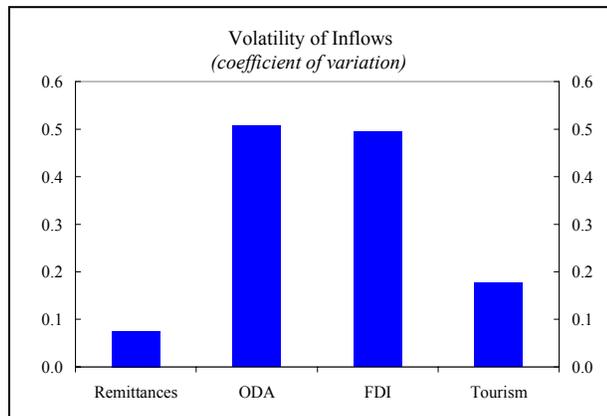
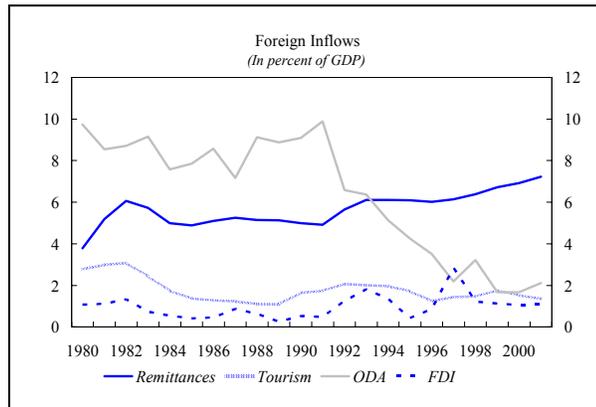
26. **The credit channel plays a weak role in the transmission of monetary policy.** Credit does not respond strongly to changes in policy interest rates—despite market interest rates closely following changes in policy rates. The dominance of state-owned banks, weak capital positions in some banks, and the high level of NPLs constrain this channel of transmission. **To strengthen it, it is necessary to:**

- **Move decisively with the restructuring of state-owned banks**, in the case of People's Bank urgently given its precarious position. Privatization remains the best option to place relations between the government and the state banks at arm's length. The government is planning to divest People's Bank. Bank of Ceylon, which is solvent, is meeting most of its restructuring targets, including on loan recovery and return on assets.
- **Strengthen the capital base of both state and private banks.** The CBSL should take prompt action if a bank falls short of capital requirements.
- **Address the high level of NPLs**, which requires banks to write-off long-standing delinquent loans, increase their provisions, and step up their risk management capabilities. At the same time, debt recovery laws need to be strengthened and recent constitutional doubts over the bank's powers for *parate* execution (i.e., their ability to recover collateral without having to obtain a court judgment) need to be resolved. In this area, the AMC law may facilitate recovery from NPLs.
- **More generally, increase the efficiency of financial intermediation.** The banking sector is likely to witness increased consolidation in the near future and, as a result, increase its efficiency. The new Asset Management Company Law will help banks restructure their balance sheets, while amendments to the banking laws (which were tabled in Parliament in November) apart from enhancing the CBSL's supervisory powers, will also facilitate the merger of banks.

II. WORKERS' REMITTANCES AND TOURISM IN THE SRI LANKAN ECONOMY⁵

A. Introduction

27. **Workers' remittances and tourism play important roles in the Sri Lankan economy.**⁶ This chapter investigates the economic effects of remittances and tourism, and the government's role in these areas. Workers' remittances and tourism receipts have averaged 7 percent of GDP per annum over the last two decades, with remittances particularly important as a steady and growing source of much needed foreign exchange (especially when contrasted with other, more volatile sources). While the two-decade long civil conflict adversely affected tourism, looking ahead this sector appears to be poised for strong expansion, particularly if lasting peace is achieved. The government places great value on the economic contribution of these sectors, and has thus implemented various policies to encourage their development. Remittances, which so far have primarily supported consumption, could enhance Sri Lanka's domestic growth potential if used to finance investment. This would be more likely if the environment for business, particularly for small-scale entrepreneurs, was made friendlier. Tourism has significant potential for growth if the peace process succeeds. Given the sector's low capacity utilization, it is well placed to accommodate growing demand. The development of tourism in the longer-run would require significant investment, particularly to alleviate infrastructure and transportation bottlenecks.



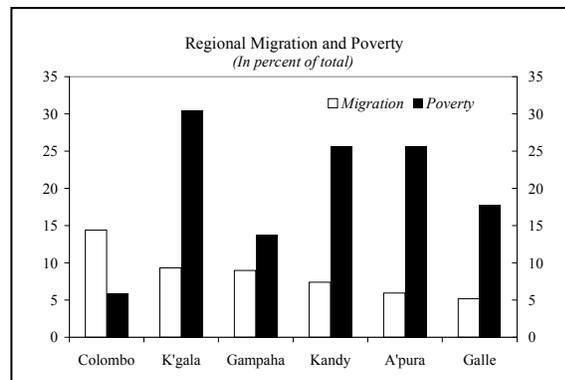
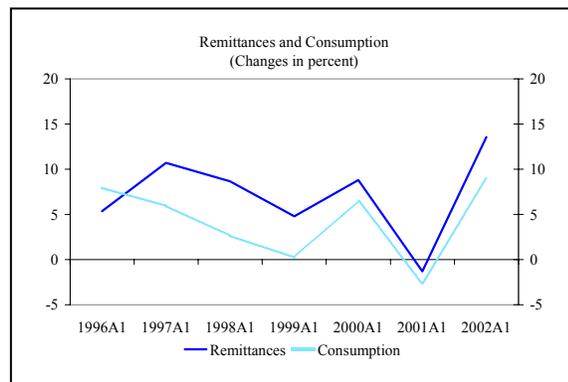
⁵ Prepared by Natalia Koliadina.

⁶ Remittances comprise net inflows of workers' earnings and migrants' net capital transfers.

B. Workers' Remittances

28. Data on remittances over the last two decades reveal the following features:

- *Remittances have averaged around 5½ percent of GDP per annum, and an annual growth rate of around 10 percent.* Since 1982, remittances have totaled \$11½ billion, compared to \$10¾ billion and \$2 billion in donor assistance and FDI, respectively. Importantly, remittances have been substantially less volatile than other inflows.
- *This has made remittances an important source of financing for the balance of payments.* Remittances were on average sufficient to finance almost half of trade deficits, or more than 85 percent of debt service payments.
- *Remittances are highly correlated with private consumption.* Investment funding out of remittances is largely limited to housing and education.
- *Remittances have been a major factor in poverty alleviation.* Roughly 15 percent of the total population benefit from remittances.⁷ About half of all emigrants come from poor areas.⁸ The income-augmenting role of remittances has been particularly



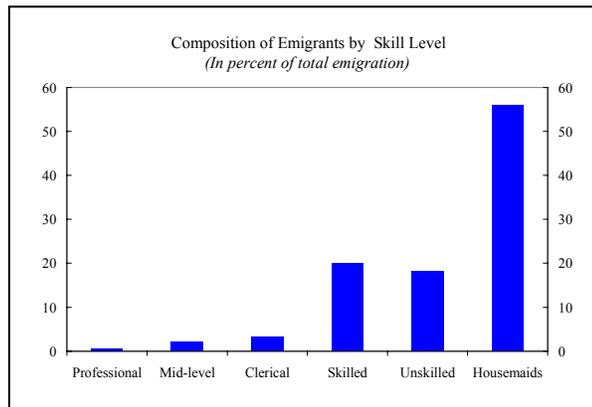
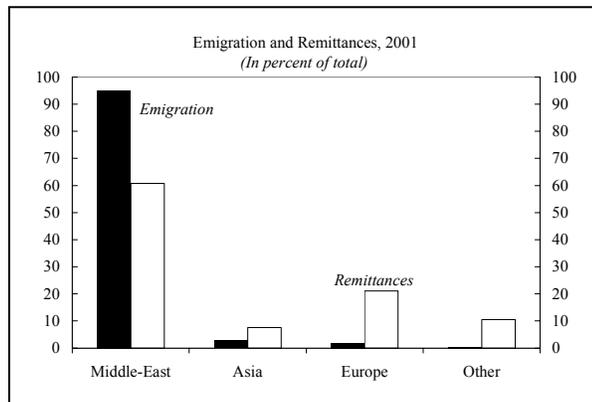
⁷ "The Migration-Development Nexus: Sri Lanka Case Study" by Dhananjayan Sriskandarajah, 2002, Oxford, United Kingdom.

⁸ "Sri Lanka Case Study on Good Practices to Prevent Women Migrant Workers From Going Into Exploitative Forms of Labor," Malsiri Dias and Ramani Jayasundere, June 2001.

important in the North and East.⁹ The government's PRSP, "*Regaining Sri Lanka*," also stresses the poverty alleviation role played by income transfers of migrant workers. Taken together with the close relationship between consumption and remittances discussed earlier, this suggests that the poor are particularly vulnerable to external developments that reduce remittances.

Some of the determinants of remittances have been:

- *In terms of demand for Sri Lankan workers, economic conditions in Middle Eastern oil-producing countries are a major factor.* The majority of Sri Lankan emigrants have gone to the Middle East, with emigration to Saudi Arabia, Kuwait, and the United Arab Emirates accounting for 95 percent of total outflows in recent years. Emigration to Asia and Europe is small with the corresponding outflows of 3½ percent and 2 percent of total emigration. In terms of the flow of remittances, the share from the Middle East is only 60 percent of the total, compared with just over 20 percent from Europe, which reflects the higher average earnings of emigrants to Europe (most likely due to their higher skill level). Thus, one of the major factors affecting the flow of migrant earnings has been oil price volatility.¹⁰
- *On the supply side, the lack of employment opportunities at home has motivated Sri Lankans to seek jobs overseas.* The civil conflict, the demographic structure, and low economic growth in rural areas



⁹ "*The Migration-Development Nexus: Sri Lanka Case Study*" by Dhananjayan Sriskandarajah, 2002, Oxford, United Kingdom.

¹⁰ *Annual Report 2002*, Central Bank of Sri Lanka. p. 214.

resulted in relatively high levels of unemployment. Reports suggest that the earnings of temporary unskilled workers in the Middle East could be 8 times higher than wages of similarly qualified workers in Sri Lanka.¹¹

- *The temporary nature of Sri Lanka's emigration and the skill and gender composition of emigrants ensure a steady flow of remittances.* The academic literature in this area suggests that the propensity to remit is higher when emigration is temporary, and when the worker's skill level is lower. Most Sri Lankans work on 2–3 year contracts with a possibility of renewal, returning home after the expiration of the contract. Almost three-quarters of emigration are of low-skilled workers, with housemaids making up more than half of the total. Professionals and skilled workers represent much smaller shares, of ½ percent and 20 percent of annual emigration, respectively. Women comprise more than two-thirds of Sri Lankan emigrants. The majority of women emigrants are from rural areas, a reversal from the 1980s when emigration was predominantly an urban phenomenon. The majority of migrants are people under 40 years of age with families. Thus, the welfare of the household is one of the most important factors affecting Sri Lankans' decision to migrate.¹²
- *The growth of remittances has also been aided by regulatory and policy changes.* Regulations on travel and foreign exchange convertibility were relaxed in the late 1970s. Transfers through the banking system—covering an estimated 85 percent of all remittances—have become less expensive and more convenient over time. In this regard, the possibility of keeping remittances in domestic or foreign currency has been helpful. The Sri Lanka Bureau of Foreign Employment (SLBFE) has been providing migrants with consulate services, training and insurance coverage.¹³ The government has prepared a national employment strategy (May 2002) that focuses on overseas employment and envisages policy and institutional changes to (i) upgrade migrant worker skills; (ii) revamp training programs to meet foreign employment requirements; and (iii) provide information, as well as legal and financial assistance to potential and returning migrants. The strategy envisages setting up a network for monitoring employment opportunities abroad.¹⁴

¹¹ See Sriskandarajah (2002).

¹² *Ibid.* p. 7.

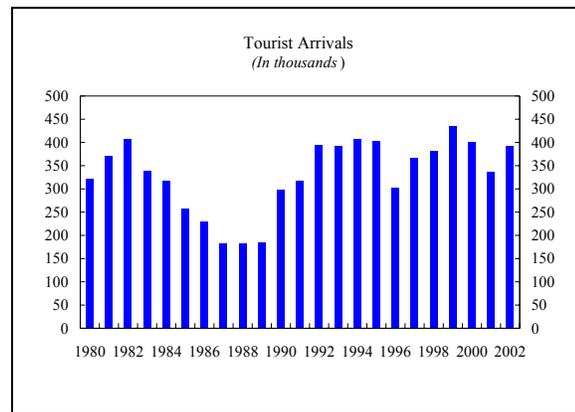
¹³ The SLBFE is a public corporation established in 1985 to promote employment abroad, regulate operations of licensed foreign employment agents, and provide welfare services to migrant workers and their families.

¹⁴ “*National Employment Policy for Sri Lanka*,” Ministry of Employment and Labor (2002).

- *In addition, foreign employment opportunities have increased through improved access to foreign labor markets.* In addition to visa-free travel to Middle Eastern countries, Malaysia recently agreed to provide at least 50,000 jobs to Sri Lankans beginning in 2004, while Italy and Korea have extended employment quotas for 800 and 1,000 workers from Sri Lanka, respectively. Negotiations are ongoing on visa-free travel within the region. Sri Lanka has bilateral agreements with Jordan, Lebanon, and Qatar regulating the rights of Sri Lankan workers in these countries.

29. **While the welfare benefits of remittances have been substantial, foreign employment and earnings of migrant workers are susceptible to exogenous shocks, especially because the majority of overseas workers are unskilled.** The share of skilled workers in Sri Lanka's emigrants has been rising only gradually. In addition, Sri Lankan migrants face stiff competition from similar workers from Indonesia, India, Pakistan, Bangladesh, and the Philippines.

However, even temporary foreign employment can help migrant workers to obtain and upgrade skills. Moreover, such workers often set up small businesses upon their return to Sri Lanka, thus creating jobs. In this regard, improvement in the business environment and facilities for small businesses are important areas where government policies can help to maximize the domestic economic potential of workers who have returned to Sri Lanka.



C. Tourism

30. **Tourism has been adversely affected by the civil conflict, as security concerns have deterred tourists from visiting Sri Lanka.** This in turn has depressed investment in the sector. Tourist arrivals had been growing at an average rate of 22 percent during 1975-1982, but the trend was reversed in 1983 when the conflict broke out. It then took 16 years to return to the levels of early 1980s. The attack on the Colombo airport in July 2001 further dampened tourism, with arrivals dropping by 15 percent that year. A sharp decline in tourism generally coincided with intensification of the conflict. During the conflict period, tourism contributed only modestly to foreign exchange flows, and receipts were quite volatile.

31. **However, since the ceasefire agreement in early 2002, the sector's performance has improved markedly.** Tourist arrivals rose by 17 percent in 2002 and tourism receipts reached 2 percent of GDP (against 1½ percent of GDP the previous year). The trend continued in 2003 as tourist arrivals rose by 25 percent in the first six months, compared to a year earlier. However, even with the recovery, hotel occupancy—at 43 percent in 2002—was

still below its 1998 level of 58 percent. More recent reports suggest that this situation has improved considerably.

32. **Tourism has a significant upside potential in Sri Lanka.** The tourism industry aims to increase arrivals to 1 million by 2010. However, several hurdles need to be overcome:

- *On the supply side, lasting peace is clearly the most important factor for this sector's expansion as evidenced by the strong recovery in the last two years.*
- *Investment in infrastructure and hotels is needed.* Poor roads have been a major constraint on the sector's expansion, but expressways to major tourist destinations are currently projected for completion by 2007, thus easing transportation bottlenecks. Other requirements for the sector's expansion include adequate and affordable supply of electricity, water supply, and solid waste removal. The authorities have identified priority areas for tourism development, primarily in the South and West, and are working with donors to increase their financing of infrastructure rehabilitation in these areas.
- *The expansion of tourism requires an increase in the number of flights to Sri Lanka.* The country's "open-sky" regime is expected to attract more carriers.
- *Tourism remains highly dependent on an improved global economic outlook, especially in the EU.* Tourists from the EU account for almost 50 percent of total arrivals. Economic conditions in India, which accounts for 20 percent of tourists to Sri Lanka, are also important.
- *Sri Lanka needs to improve its international image as a tourist destination.* The Sri Lanka Tourist Board is taking a number of initiatives in this regard. These include the expansion of the visa-free entry regime (now available to citizens of 73 countries), and efforts to diversify tourism away from budget travelers, and toward cultural, nature, sports, religious, and eco-tourism.

III. SRI LANKA'S TAX INCENTIVES REGIME¹⁵

33. **Sri Lanka has a wide-ranging tax incentives regime.** Although most incentives offered have been directed towards encouraging foreign direct investment (FDI), it is unclear to what extent these incentives have been a decisive factor in influencing investment flows. What is clear, however, is that the incentives regime has cost the country substantially in lost tax revenue. In addition, it has made the tax system more complex, less transparent, and more prone to abuse and corruption, thereby eroding the tax base. Following a summary of the most common tax incentives, this chapter provides an assessment of Sri Lanka's tax incentives regime in a regional context, both in terms of FDI and corporate tax performance. Policy recommendations are presented in the concluding remarks, stressing that given its uncertain benefits and large costs, Sri Lanka's tax incentives regime should be scaled back.

A. Pros and Cons of Common Tax Incentives

34. **Tax incentives can be granted in a variety of ways**, including tax holidays, investment tax credits, and accelerated depreciation.¹⁶ Accelerated depreciation is generally considered the best in terms of minimizing revenue losses, distortions in investment decisions, and tax abuse, while tax holidays are considered the worst in this regard.

- *Corporate income tax (CIT) holidays* fully exempt qualified projects from the CIT. They can be quite costly: they entail a deadweight tax loss (as the investment might have occurred without the incentive), and tax avoidance may result from transfer pricing. They also result in reduced transparency and accountability, as tax-exempt companies are rarely required to file proper tax returns. However, they are popular because they reduce tax administration, allow investors to avoid onerous tax regulations and corrupt tax officials, and are neutral in their impact on the capital/labor mix of qualified projects. *Preferential CIT rates* are a form of partial tax holiday, with lower revenue costs and greater transparency as investors remain in the tax net.
- *Investment tax allowances/credits* are cost-recovery incentives aimed primarily at investment in plant and equipment in targeted industries. They are generally better-targeted instruments than CIT holidays, and their revenue costs are more transparent and easier to control. *Investment allowances* typically stipulate that a certain percentage of the initial cost of the investment can be deducted as an expense in the current period in addition to contributing to depreciation allowances in future periods. *Investment credits* allow a share of the investment to be deducted from tax

¹⁵ Prepared by Ravi Balakrishnan, in collaboration with Ana Corbacho.

¹⁶ This section is based on Zee, Stotsky and Ley (2002), "Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries," *World Development*, Vol. 30, No. 9, pp 1497-1516.

liabilities. However, they tend to distort investment in favor of short-lived assets, since a further credit or allowance becomes available when the asset is replaced. The incentives can also be abused by qualified enterprises that claim multiple allowances through the sale and purchase of the same asset, or who act as a purchasing agent for unqualified enterprises.

- *Accelerated depreciation* entails lower revenue costs and fewer incentives for abuse. Since accelerating the depreciation of an asset does not affect the total depreciation of the asset, little distortion in favor of short-lived assets is generated. There is also little incentive for enterprises to engage in the kind of tax abuse connected with investment credits/allowances.

B. Main Features of Sri Lanka's Tax Incentives Regime

35. **As part of its export promotion strategy, Sri Lanka introduced a tax incentives regime in the late 1970s.** This regime was administered through the Board of Investment (BOI).¹⁷ BOI-registered companies were typically located within export processing zones (EPZs), and were exempt from certain provisions of the Inland Revenue Act, Customs Ordinance, and exchange control regulations. In addition, these companies had the right to employ expatriates, to borrow abroad, and to repatriate capital from their investments. In 1982, the BOI also took over the customs functions within the zones, allowing BOI-registered companies to circumvent the perceived inefficiencies of the Customs Department.

36. **At the beginning of the 1990s, tax incentives offered under the BOI Act were extended well beyond the export-oriented sector,** to offer a wide range of incentives aimed at general investment promotion.¹⁸ These currently include tax holidays, concessionary corporate income tax rates, generous depreciation allowances, and import duty and excise exemptions.

37. **In addition to incentives provided under the BOI Act, Sri Lanka also offers tax incentives under the Inland Revenue Act.** While originally these incentives were focused on areas not covered by the BOI Act, there has been significant overlap in recent years. Tax incentives under the Inland Revenue Act cover the following areas: the manufacture and export of goods deemed nontraditional exports; agriculture, fisheries and agro-processing (other than tea and prawn culture); industrial tools and machinery; small- and large-scale infrastructure projects; the rehabilitation of under-performing industries; and companies engaged in R&D. The incentives usually take the form of tax holidays of 2-12 years' duration, depending on the sector, and a period of lower corporate tax rates once the tax

¹⁷ The BOI was originally called the Greater Colombo Economic Commission.

¹⁸ In 1992, the BOI was made responsible for approving all foreign investment in Sri Lanka.

holidays have expired. Sri Lanka also offers significant accelerated depreciation allowances, and import duty exemptions on raw materials and capital goods.

38. **Some modest restrictions on Sri Lanka's tax incentives regime have been imposed recently.** In late 2002, the BOI was brought under the auspices of the Inland Revenue Act, thereby eliminating its ability to modify provisions of the Act.¹⁹ In addition, the government announced in late 2003 that the extension of certain tax holidays beyond their expiration date will be curtailed beyond 2004, and all registered companies, including those registered with the BOI, will be required to file tax returns from 2004 onwards.

C. Tax Incentives and FDI in a Regional Context

39. **Data limitations constrain a rigorous analysis of the actual effect of tax incentives on attracting FDI to Sri Lanka.** In the absence of detailed data, a brief assessment of the relationship between tax incentives and FDI flows is undertaken for a selected group of countries in Asia.

40. **The use of tax incentives, especially to attract FDI, remains widespread in Asia.**²⁰ Special economic zones (SEZs) and EPZs are quite common, as are tax holidays, although there is considerable variation in their length and coverage. More detailed information on the incentives regimes of a selected group of Asian countries is given below.

- **India** offers a wide range of exemptions and incentives. Export-oriented undertakings qualify for tax holidays of up to 10 years provided they are located in an economic zone/park. Tax incentives are also granted for infrastructure projects, for developing industrial parks and special economic zones, and for the generation and transmission of power. Industrial undertakings in under-developed states, telecommunication services, and scientific R&D companies qualify for tax holidays of up to five years.
- **Indonesia** offers tax holidays of 3–8 years for new enterprises in specific sectors. Incentives are awarded by a ministerial committee with nontransparent criteria. Capital goods are both duty and VAT exempt. Indonesia also has numerous SEZs.
- **Malaysia** offers narrowly available tax holidays and widely available allowances for investments in manufacturing, agriculture, hotels and tourism, research and development, and training activities. Companies granted pioneer status can receive an income tax holiday of 70 percent. Certain other companies, such as those in the high tech sector, can still qualify for significant investment and accelerated depreciation allowances. Malaysia has also established numerous SEZs.

¹⁹ The law still needs to be signed by the Speaker of the House to become operational.

²⁰ This runs somewhat counter to the global trend (since the 1980s) toward broadening tax bases by narrowing incentives and exemptions.

- **Thailand** has increased the number and generosity of tax incentives since the Asian financial crisis. For the most part, Thailand’s incentives policy is geared towards regional development. Tax holidays range from 3 years for export industries in the most developed regions, to 8 years plus a 50 percent reduction in corporate tax for the following five years, for companies that locate in the least developed region of the country. An investment allowance of 25 percent for infrastructure spending is also available. Incentives are awarded largely on a discretionary basis following an assessment by the Thai Board of Investment. Thailand also has numerous EPZs.

41. **Countries that offer a larger set of incentives, in particular tax holidays, have not enjoyed higher FDI.** India and Sri Lanka, which offer the widest-ranging tax holidays, have significantly lower FDI than Malaysia, which offers a narrow range of tax holidays combined with significant investment allowances.

Comparison of FDI Performance in Sri Lanka with Selected Countries, 1996-2000		
	FDI Inflows Per Capita (in U.S. dollar)	FDI Inflows (as a percent of gross fixed capital formation)
India	2.7	2.9
Bangladesh	1.2	1.7
Malaysia	227.1	16.9
Pakistan	4.5	6.5
Sri Lanka	12.4	5.9
Thailand	56.9	11.0
Vietnam	23.4	25.1

Source: UNCTAD (2003).

42. **Countries with a weaker macroeconomic and socio-political environment seem to offer more generous tax incentives.** As noted by Chalk (2002),²¹ the Philippines and Indonesia, whose business climate is less attractive compared to most of its regional competitors, offer the most generous. The same seems to apply for Sri Lanka, with its severe labor market rigidities, a tax administration perceived to be inefficient and corrupt, and its long civil conflict. Indeed, the generosity of Sri Lanka’s tax incentives regime increased since the mid-1990s, when the civil conflict intensified.²²

43. **The effectiveness of tax incentives in Asian countries may depend less on the characteristics of the incentives themselves and more on the characteristics of the countries in which they are used.** In countries with strong civil service institutions, the detrimental aspects of tax incentives may be more limited than in other countries. An OECD report (1994) concurs with this view, concluding that although tax incentives were important promotional tools in some Asian countries, they did not play an overriding role in

²¹ Chalk (2000), “Tax Incentives in the Philippines: A Regional Perspective,” IMF WP/01/181 (Washington, DC: International Monetary Fund).

²² In 2001, at the peak of the conflict, FDI inflows hit an all-time low of \$80 million.

promoting FDI.²³ Investors tended to place greater value on the fundamental conditions for their investments such as infrastructure, general business environment, human resources, the legal system, and other supporting services.

D. Tax Incentives and Corporate Income Tax Performance

44. **Following the expansion of its tax incentives regime during the 1990s, Sri Lanka's corporate tax performance has become one of the worst in the region,** in terms of both overall CIT revenue and the efficiency of the corporate tax.²⁴ Other countries that offer wide-ranging tax holidays have also exhibited weak CIT performance. India and Indonesia performed poorly, with Singapore and Malaysia performing the best. This in part reflects the type of tax incentives these countries offer. As noted in Zee et al. (2002), wide-ranging tax holidays, compared to investment cost-recovery incentives such as accelerated depreciation allowances, have the greatest detrimental effect on revenue, due to deadweight losses and high levels of tax abuse.²⁵

Comparison of Corporate Tax Rates, Revenues and Efficiency Ratios, 2001 1/			
	Rate	Revenue to GDP	Efficiency Ratio
India	35	1.6	4.6
Indonesia	10,15,30	1.6	5.3
Malaysia	28	6.2	22.1
Phillipines	32	2.7	8.4
Singapore	25.5	6.2	24.3
Sri Lanka	35	1.3	3.7
Thailand	30	2.9	9.7
Vietnam	32	5.6	17.5

Sources: Price Waterhouse Coopers (2001); and Fund staff estimates.
 1/ Defined as revenue to GDP divided by the standard tax rate, expressed in percent.
 In the case of India, the domestic rate is used and for Indonesia the top CIT rate is taken.

45. **Rationalizing corporate tax incentives could entail considerable revenue gains.** The authorities' tax expenditure study suggests that the direct cost of corporate income tax concessions amounts to 0.4 percent of GDP.²⁶

Revenue Loss from Tax Incentives (In percent of GDP; unless otherwise indicated)	
Corporate income tax concessions	0.4
Preferential rates	0.1
Zero rates	0.3
Customs duty exemptions	0.5

Source: Authorities' Tax Expenditure Study, November 2003; and staff estimates.

²³ OECD (1994), *Taxation and Investment Flows: An Exchange of Experiences between the OECD and the Dynamic Asian Economies*, (Paris: OECD).

²⁴ The tax revenue-to-GDP ratio has fallen by 5 percentage points since 1990, to 14 percent of GDP in 2002, due in large part to a decline in revenue from international trade taxes.

²⁵ This assumes that investment would have taken place in the absence of the incentives.

²⁶ This is in line with estimates provided in Silvani et al. (2001), "Sri Lanka: Tax System at a Critical Juncture," IMF Technical Assistance Report (Washington, DC: International Monetary Fund).

About 75 percent of this cost arises from companies enjoying a zero corporate tax rate, mostly under the auspices of the BOI. Revenue losses from customs duty exemptions granted to BOI companies are estimated at around of 0.5 percent of GDP. The total cost (including tax evasion) is likely to be significantly higher.

E. Concluding Remarks

46. **Given the considerable erosion in revenue that has occurred in recent years, Sri Lanka can ill afford its current tax incentives regime.** Moreover, now that a ceasefire is in place, one of the principal justifications previously given for offering tax incentives—to compensate for a poor political and business environment—is less valid. Indeed, FDI has rebounded since the ceasefire, with flows in the first half of 2003 increasing to \$170 million, compared with \$55 million during the same period in 2002. Looking ahead, the following recommendations can be made:

- **Tax incentives, especially tax holidays, should be rationalized.**²⁷ Given the weakness of Sri Lanka's institutions, the cost of the tax incentives—including lower revenue and distorted investment decisions—are far greater than the possible benefit from higher FDI. Since depreciation allowances are already high, the government should consider compensating for the reduction in these incentives by introducing a single low CIT rate.
- **To improve tax administration, an effective revenue authority that streamlines and improves customs clearance and tax collections should be set up.** This will help sustain a policy of rationalizing tax incentives. (One of the key reasons why the policy efforts to reduce tax incentives were not sustained during the 1990s was the perception that customs administration was weak and that companies wanted to bypass it.)

²⁷ In 1990, a Tax Commission Report had recommended against the use of tax incentives. However, reforms so far have been limited, despite the government's declared intention at the time to limit concessions and establish low tax rates.

Table 1. Sri Lanka: Gross Domestic Product and Expenditure Components, 1998–2002

	1998	1999	2000	2001	2002 Prov.
(In billions of Sri Lanka rupees at current market prices)					
Consumption	823.3	890.2	1,038.4	1,185.5	1,353.4
Private	723.5	790.4	906.2	1,041.0	1,214.1
Public	99.7	99.9	132.2	144.4	139.3
Gross investment	255.9	301.8	352.7	309.7	337.8
Private 1/	221.9	266.6	311.5	267.3	305.9
Fixed investment	221.8	266.5	311.5	267.3	301.7
Change in stocks	0.1	0.1	0.0	0.0	4.2
Public	34.0	35.2	41.2	42.4	31.9
Fixed investment	34.0	35.2	41.1	42.3	31.8
Change in stocks	0.1	0.0	0.0	0.0	0.1
Domestic demand	1,079.1	1,192.1	1,391.1	1,495.2	1,691.2
Exports of goods and nonfactor services	369.0	392.4	490.7	525.4	573.1
Aggregate demand	1,448.1	1,584.5	1,881.7	2,020.6	2,264.3
Imports of goods and nonfactor services	430.1	478.5	624.0	613.2	679.4
Expenditure on gross domestic product	1,018.0	1,106.0	1,257.7	1,407.4	1,584.9
Net factor income from abroad	-11.6	-17.8	-23.1	-23.8	-24.1
Gross national income 2/	1,006.4	1,088.1	1,234.6	1,383.6	1,560.8
Net current transfers from abroad	54.8	62.4	73.8	87.9	104.9
National disposable income	1,061.2	1,150.6	1,308.4	1,471.5	1,665.8
(In percent of GDP)					
Consumption	80.9	80.5	82.6	84.2	85.4
Gross fixed investment	25.1	27.3	28.0	22.0	21.0
Private	21.8	24.1	24.8	19.0	19.0
Public	3.3	3.2	3.3	3.0	2.0
Exports	36.2	35.5	39.0	37.3	36.2
Imports	42.3	43.3	49.6	43.6	42.9
(In billions of Sri Lanka rupees at constant 1996 prices)					
Consumption	745.6	785.2	824.8	826.5	888.7
Gross investment	222.5	236.7	260.2	214.7	221.4
Domestic demand	968.1	1,021.9	1,084.9	1,041.3	1,110.1
Exports of goods and nonfactor services	302.9	315.0	371.7	352.1	371.6
Aggregate demand	1,271.0	1,336.9	1,456.6	1,393.3	1,481.7
Imports of goods and nonfactor services	415.3	444.4	510.6	461.9	513.6
Resource gap	-112.4	-129.4	-138.9	-109.9	-142.0
Expenditure on gross domestic product	855.7	892.5	946.0	931.4	968.1
Gross domestic product at factor cost	774.8	808.3	857.0	843.8	877.2
(Annual percent change, constant prices)					
Consumption	7.0	5.3	5.0	0.2	7.5
Gross investment	15.2	6.4	9.9	-17.5	3.1
Domestic demand	8.8	5.6	6.2	-4.0	6.6
Exports of goods and nonfactor services	1.0	4.0	18.0	-5.3	5.5
Aggregate demand	6.8	5.2	9.0	-4.3	6.3
Imports of goods and nonfactor services	11.5	7.0	14.9	-9.5	11.2
Gross domestic product	4.7	4.3	6.0	-1.5	3.9
Memorandum items:					
Population (midyear, in millions)	18.8	19.0	19.4	18.7	19.0
Gross national income per capita, in rupees (thousands)	53.6	57.1	63.8	73.9	82.1
Gross national income per capita, in SDRs	613	592	628	649	663

Sources: Data provided by the Sri Lankan authorities.

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

2/ Including statistical discrepancy.

Table 2. Sri Lanka: Saving, Investment, and Current Account, 1998-2002

	1998	1999	2000	2001	2002 Prov.
(In billions of Sri Lanka rupees at current prices)					
Gross investment	255.9	301.8	352.7	309.7	337.8
External current account balance	-17.9	-41.5	-82.6	-23.7	-25.5
National saving	238.0	260.3	270.0	286.0	312.3
Net factor income from abroad	-11.6	-17.8	-23.1	-23.8	-24.1
Net private transfers	54.8	62.4	73.8	87.9	104.9
Domestic saving	194.7	215.7	219.3	221.9	231.4
Private	219.4	227.1	262.3	290.9	300.4
Public	-24.6	-11.4	-43.0	-69.0	-69.0
(In percent of GDP)					
Domestic saving	19.1	19.5	17.4	15.8	14.6
Private	21.5	20.5	20.9	20.7	19.0
Public 1/	-2.4	-1.0	-3.4	-4.9	-4.4
Gross investment	25.1	27.3	28.0	22.0	21.3
Private 2/	21.8	24.1	24.8	19.0	19.3
Public	3.3	3.2	3.3	3.0	2.0
National saving	23.4	23.5	21.5	20.3	19.7
<i>Of which</i> : Private 3/	25.8	24.6	24.9	25.2	24.1
External current account balance	-1.8	-3.8	-6.6	-1.7	-1.6
Private sector saving minus investment	4.0	0.5	0.1	6.2	4.8
Public sector saving minus investment	-5.8	-4.2	-6.7	-7.9	-6.4

Sources: Data provided by the Sri Lankan authorities.

1/ Total revenue minus current expenditure.

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

3/ Includes net factor income and transfers from abroad.

Table 3. Sri Lanka: Gross Domestic Product by Industrial Origin at Current Prices, 1998–2002

	1998	1999	2000	2001	2002 Prov.
(In billions of Sri Lanka rupees at current factor costs)					
Agriculture, forestry, and fishing	192.7	205.6	218.4	249.8	281.9
Plantation crops 1/	32.5	32.2	31.3	31.6	40.8
Paddy	26.8	30.2	26.5	34.7	41.1
Fishing	23.7	25.8	29.4	31.1	34.3
Other	109.7	117.3	131.2	152.3	165.7
Mining and quarrying	17.4	18.3	21.5	24.0	25.8
Manufacturing	151.0	163.1	189.3	198.7	222.3
Plantation crop processing	23.2	24.8	28.2	28.6	35.1
Other	127.8	138.3	161.1	170.2	187.3
Construction	69.3	75.5	82.7	95.1	100.6
Services	482.4	532.2	613.3	678.2	771.3
Gross domestic product	912.8	994.7	1,125.3	1,245.7	1,402.0
Net factor income from abroad	-11.6	-17.8	-23.1	-23.8	-24.1
Gross national product	901.3	976.9	1,102.2	1,221.9	1,377.9
(In percent of GDP)					
Agriculture, forestry, and fishing	21.1	20.7	19.4	20.1	20.1
Plantation crops 1/	3.6	3.2	2.8	2.5	2.9
Paddy	2.9	3.0	2.4	2.8	2.9
Fishing	2.6	2.6	2.6	2.5	2.4
Other	12.0	11.8	11.7	12.2	11.8
Mining and quarrying	1.9	1.8	1.9	1.9	1.8
Manufacturing	16.5	16.4	16.8	16.0	15.9
Plantation crop processing	2.5	2.5	2.5	2.3	2.5
Other	14.0	13.9	14.3	13.7	13.4
Construction	7.6	7.6	7.3	7.6	7.2
Services	52.8	53.5	54.5	54.4	55.0
Gross domestic product	100.0	100.0	100.0	100.0	100.0
(Annual percentage change)					
Memorandum items:					
GDP deflator	8.4	4.4	6.7	12.4	8.3
CPI (Colombo)	9.4	4.7	6.2	14.2	9.6

Sources: Data provided by the Sri Lankan authorities.

1/ Tea, rubber, and coconuts.

Table 4. Sri Lanka: Gross Domestic Product by Industrial Origin at Constant Prices, 1998–2002

	1998	1999	2000	2001	2002 Prov.
(In billions of Sri Lanka rupees at 1996 factor costs)					
Agriculture, forestry, and fishing	164.8	172.2	175.3	169.4	173.6
Plantation crops 1/	27.5	28.8	30.5	28.0	26.9
Paddy	26.2	27.9	27.8	26.2	27.8
Fishing	21.3	23.0	23.5	22.6	24.0
Other	89.8	92.6	93.5	92.5	94.9
Mining and quarrying	13.7	14.2	14.9	15.0	14.9
Manufacturing	130.7	136.5	149.1	142.9	146.1
Plantation crop processing	16.6	17.2	17.9	16.7	16.6
Other	114.1	119.3	131.2	126.2	129.5
Construction	54.5	57.1	59.8	61.3	60.8
Services	411.2	428.3	457.9	455.2	481.8
<i>Of which :</i>					
Public administration and defense	38.2	39.8	41.4	41.9	41.9
Wholesale and retail trade	172.5	174.2	189.4	176.8	186.5
Gross domestic product	774.8	808.3	857.0	843.8	877.2
Net factor income from abroad	-9.9	-14.0	-16.8	-14.7	-13.9
Gross national product	764.9	794.3	840.2	829.1	863.3
(Annual percentage change)					
Agriculture, forestry, and fishing	2.5	4.5	1.8	-3.4	2.5
Plantation crops 1/	-2.3	4.9	5.8	-8.2	-3.7
Paddy	18.3	6.6	-0.3	-5.7	6.0
Fishing	8.3	7.6	2.5	-3.9	5.8
Other	-1.1	3.0	1.0	-1.0	2.5
Mining and quarrying	-5.4	4.1	4.8	0.7	-1.1
Manufacturing	6.3	4.4	9.2	-4.2	2.2
Plantation crop processing	-1.2	3.8	4.2	-6.6	-1.0
Other	7.5	4.5	10.0	-3.8	2.6
Construction	7.1	4.8	4.8	2.5	-0.8
Services	5.2	4.2	6.9	-0.6	5.9
<i>Of which :</i>					
Public administration and defense	3.0	4.2	4.2	1.0	0.0
Wholesale and retail trade	4.5	1.0	8.7	-6.7	5.5
Gross domestic product	4.7	4.3	6.0	-1.5	4.0

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

1/ Tea, rubber, and coconuts.

Table 5. Sri Lanka: Trends in Principal Agricultural Crops, 1998-2002

Category	Unit	1998	1999	2000	2001	2002 Prov.
Tea						
Production	kg mn	280.1	283.7	305.8	295.1	310.0
Registered extent under tea	hectares	194,736	179,761	180,025	180,170	180,730
Fertiliser used	mt '000	181.7	164.1	200.2	186.9	181.2
Cost of Production	Rs/kg	100.71	101.29	110.64	121.43	125.05
Average price						
Colombo (net)	Rs/kg	134.35	115.31	135.53	143.96	149.30
Export (f.o.b.)	Rs/kg	184.94	162.39	184.73	208.89	216.26
Replanted annual	hectares	1,234	1,376	1,094	1,018	1,014
Replanted cumulative	hectares	62,970	64,346	65,440	66,458	67,472
Rubber						
Production	kg mn	95.7	96.6	87.6	86.2	90.5
Total extent under rubber	hectares '000	158,140	159,097	157,031	157,100	157,200
Area under tapping	hectares	124,608	127,707	128,300	131,970	125,106
Fertiliser used	mt '000	15.6	9.9	13.8	8.8	6.7
Yield	kg/hectare	768	755	683	653	724
Cost of Production	Rs/kg	42.00	43.50	44.50	48.00	48.50
Average price						
Colombo (RSS 1)	Rs/kg	49.76	45.33	54.78	54.70	68.76
Export (f.o.b.)	Rs/kg	67.72	53.90	66.95	66.35	69.53
Replanted annual	hectares	1,288	643	793	557	712
Coconut						
Production	nuts mn	2,552	2,828	3,096	2,796	2,392
Fertiliser used	mt '000	36.1	39.1	33.9	30.1	37.4
Cost of production	Rs/nut	2.40	2.75	3.27	3.65	3.85
Average export price (f.o.b.) 1/	Rs/nut	8.31	9.95	7.35	7.05	12.06
Paddy						
Production 2/	mt '000	2,692	2,857	2,860	2,695	2,859
Area sown 2/	hectares '000	848	896	878	798	852
Harvested 2/	hectares '000	829	874	832	765	820
Fertiliser used 2/	mt '000	352	321	262	279	349
Yield 2/	kg/hectare	3,634	3,672	3,856	3,954	3,895
Guaranteed price 3/	Rs/bushel	155	155	155	155	155

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

1/ Three major coconut kernel products only.

2/ On a cultivation year basis.

3/ 20.9 kg. of paddy = 1 bushel of paddy.

Table 6. Sri Lanka: Consumption and Prices of Petroleum and Electricity, 1998–2002

	1998	1999	2000	2001	2002 Prov.
Gross consumption of selected Petroleum products ('000 MT)					
Kerosene	236	243	229	228	229
Gasoline	204	213	220	244	278
Auto diesel	1,224	1,377	1,715	1,675	1,752
Furnace oil	706	676	785	811	780
Consumption of electricity 1/	4,521	4,809	5,259	5,238	5,502
(In percent of total)					
Composition of electricity generation					
Hydro power (CEB)	68.8	67.1	46.1	45.9	37.2
Thermal power (CEB)	21.9	22.6	32.2	28.6	28.1
Private power	7.3	8.5	19.3	23.8	31.1
Self generation	2.0	1.7	2.3	1.6	3.7
(Rupees per liter)					
Prices of petroleum products 2/ 3/					
Kerosene	10.4	10.4	18.4	17.4	24.0
Gasoline	50.0	50.0	50.0	50.0	49.0
Auto diesel	13.2	13.2	24.5	26.5	30.0
Fuel oil	7.2	7.2	14.6	16.5	21.2
Cost price of petroleum products 4/ 5/					
Kerosene	9.8	15.0	23.7	20.2	22.4
Gasoline	28.4	33.8	35.8	29.4	22.8
Auto diesel	11.5	14.7	25.3	24.8	23.9
Fuel oil	6.6	10.8	17.3	15.2	17.7
Crude oil (c.i.f., in US\$ per barrel)	13.5	18.9	28.8	24.5	25.1
Price of electricity 2/ 6/ 7/	4.5	4.5	4.7	4.7	10.7
Price of electricity for domestic units >150 Kwh 2/ 6/ 8/	5.0	5.0	5.5	5.5	15.8

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

1/ Including use for electricity generation.

2/ End of period.

3/ Price includes taxes.

4/ Period average.

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

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

7/ Basic rate on household consumption of electricity between 91 and 180 units in 2002.

8/ More than 180 units.

Table 7. Sri Lanka: Price Indicators, 1998–2003

(Annual percentage change)

	Weights	1998	1999	2000	2001	2002	2003
GDP deflator 1/	100.0	9.2	4.2	7.3	13.7	8.3	...
Colombo consumer price index	100.0	9.4	4.7	6.2	14.2	9.6	6.3
Food	61.9	10.9	4.0	4.5	15.2	10.6	5.8
<i>Of which:</i> Rice	6.4	-0.9	19.6	-4.5	5.1	...	...
<i>Of which:</i> Bread, wheat flour	9.4	8.0	5.9	-7.6	9.0	...	...
Clothing	9.4	1.0	1.3	1.1	4.2	4.5	2.5
Fuel and light	4.3	3.2	1.5	18.6	14.3	8.8	15.2
<i>Of which:</i> Kerosene	4.0	0.0	0.0	45.5	24.7	...	...
Rent 2/	5.7	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	18.7	7.5	10.3	9.6	11.7	6.3	5.1
Colombo district consumer price index	100.0	7.3	3.6	3.6	10.3	6.8	2.1
Food and drinks	58.7	8.9	2.4	1.7	11.8	9.1	1.3
Housing	13.3	3.3	4.3	2.6	0.9	0.2	0.1
Fuel and light	4.9	13.8	0.6	15.8	16.1	5.6	8.3
Clothing and foot wear	6.2	2.4	1.9	1.6	5.2	3.2	3.5
Liquor tobacco and betel and arecanuts	4.4	7.6	22.0	12.4	10.1	2.2	4.3
Personal care and health	3.8	5.8	4.1	4.1	9.8	6.4	4.7
Transport	3.7	0.2	3.6	14.3	17.5	1.6	1.2
Recreation and education	2.8	1.2	1.9	2.2	14.5	10.4	4.1
Miscellaneous	2.3	9.5	7.1	-0.9	8.0	13.7	-0.3
Sri Lanka consumer price index	100.0	...	4.0	1.5	12.1	10.2	2.6
Food, beverages, and tobacco	71.2	...	4.2	-0.7	12.1	10.1	1.0
Clothing and footwear	4.0	...	3.5	1.1	3.7	9.6	8.0
Housing, water, electricity, gas, & other fuels	13.1	...	1.6	9.1	11.5	7.7	6.4
Furnishing, household equipment, & routine house maintenance	2.1	...	4.5	-13.6	15.4	12.3	2.8
Health	2.4	...	5.9	18.2	12.4	23.5	8.1
Transport	2.9	...	3.4	18.0	19.9	3.7	8.1
Leisure, entertainment & culture	0.8	...	10.2	2.8	4.2	4.8	0.0
Education	1.3	...	7.9	8.8	8.5	11.0	4.1
Miscellaneous	2.1	...	5.3	3.3	19.2	14.5	8.0
Wholesale price index 3/	100.0	6.1	-0.3	1.7	11.7	10.7	3.4
Domestic goods	50.3	5.0	2.9	2.8	11.0	5.2	3.9
Imports	27.2	0.1	-0.1	12.0	17.1	1.8	12.0
Exports	22.5	10.9	-4.0	-5.3	9.2	24.4	-2.0
Memorandum items:							
Colombo consumer price index (end-period)		3.7	4.0	10.8	10.8	11.3	5.0
Wholesale price index (end-period)		1.0	-0.5	4.8	14.7	7.9	...
Sri Lanka consumer price index (end-period)		...	0.6	8.1	13.4	6.6	1.0

Source: Data provided by the Sri Lanka authorities.

1/ Based on market prices.

2/ Low-income housing is under rent control.

3/ Data for 2003 are through November.

Table 8. Sri Lanka: Selected Wage and Employment Developments, 1998–2002

	1998	1999	2000	2001	2002 Prov.
	(Index, December 1978 = 100)				
Nominal wages					
Minimum wage 1/	953.3	977.6	1,000.4	1,049.3	1,126.5
Agriculture	1,097.7	1,116.0	1,142.7	1,176.4	1,269.6
Industry and commerce	807.7	829.2	857.2	919.7	986.5
Services	506.4	559.7	559.7	657.6	678.0
Government employees 2/	1,001.4	1,001.4	1,084.7	1,310.8	1,525.0
Real wages					
Minimum wage	99.9	97.8	94.0	86.6	84.9
Agriculture	115.0	111.7	107.7	97.1	95.6
Industry and commerce	84.6	83.0	80.8	75.9	74.4
Services	53.0	56.0	52.8	54.3	51.1
Government employees	104.9	100.2	102.1	108.1	115.0
	(Annual average percentage change)				
Real wages					
Minimum wage	2.7	-2.1	-3.9	-7.9	-2.0
Agriculture	3.2	-2.9	-3.6	-9.8	-1.5
Industry and commerce	3.9	-1.9	-2.7	-6.1	-2.0
Services	-5.2	5.7	-5.7	2.8	-5.9
Government employees	0.9	-4.5	1.9	5.9	6.4
	(In thousands of persons)				
Employment in the public sector					
Central government 3/	1,091	1,120	1,156	1,165	1,090
Quasi-governmental institutions 4/	790	822	857	864	826
301	298	300	301	264	
Employment in formal private sector					
Board of Investment (BOI) companies	4,945	5,017	5,153	5,037	...
Other 5/	294	327	368	391	416
4,651	4,690	4,785	4,646	...	

Source: Data provided by the Sri Lanka authorities.

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

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

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

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

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

Table 9. Sri Lanka: Labor Force, Employment, and Unemployment, 1998–2002 1/

	1998	1999	2000	2001	2002 Prov.
(In millions of persons)					
Total labor force	6.63	6.67	6.83	6.77	7.14
Male	4.26	4.40	4.50	4.53	4.70
Female	2.37	2.27	2.33	2.24	2.44
Urban	0.84	0.88	0.83	0.95	0.83
Rural	5.73	5.79	6.00	5.91	6.31
Total employed	6.01	6.08	6.31	6.24	6.52
Male	3.98	4.11	4.24	4.25	4.39
Female	2.03	1.97	2.07	1.99	2.13
Urban	0.76	0.80	0.76	0.87	0.75
Rural	5.19	5.28	5.55	5.42	5.76
Total unemployed	0.63	0.59	0.52	0.54	0.62
Male	0.28	0.30	0.26	0.28	0.31
Female	0.35	0.30	0.26	0.26	0.31
Urban	0.08	0.08	0.07	0.08	0.07
Rural	0.54	0.51	0.45	0.48	0.56
(In percent of labor force)					
Unemployment rate	9.5	8.9	7.6	7.9	8.6
Male	6.6	6.7	5.8	6.2	6.6
Female	14.6	13.0	11.1	11.4	13.0
Urban	9.5	9.1	8.4	8.4	8.4
Rural	9.4	8.8	7.5	8.1	8.8
(In percent of unemployed)					
Male	44.9	49.9	50.3	52.4	49.0
Female	55.1	50.1	49.7	47.6	51.0
Urban	12.7	13.5	13.5	14.9	11.2
Rural	85.9	86.3	87.0	89.4	86.8
Age 24 years or younger	60.9	64.3	63.8	66.7	67.0
Less than 9 years of schooling 2/	48.0	39.9	49.9	44.3	45.8

Source: Department of Census and Statistics, *Quarterly Labour Force Survey*.

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

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

Table 10. Sri Lanka: Employment by Economic Sectors, 1998–2002

	1998	1999	2000	2001	2002 Prov.
(In millions of persons)					
Total employed	6.01	6.08	6.31	6.24	6.67
By economic sector:					
Agriculture	2.44	2.21	2.27	2.03	2.36
Mining and quarrying	0.07	0.08	0.07	0.11	...
Manufacturing	0.86	0.90	1.05	1.06	1.08
Construction	0.30	0.32	0.35	0.32	0.30
Services	2.34	2.58	2.55	2.71	2.92
Trade and hotels	0.71	0.74	0.80	0.82	0.94
Transportation, communications, storage	0.28	0.31	0.30	0.35	0.30
Insurance and real estate	0.12	0.10	0.13	0.16	0.17
Personal services and other	1.32	1.42	1.43	1.47	1.51
(In percent of total employment)					
Agriculture	40.6	36.3	36.0	32.6	34.5
Mining and quarrying	1.2	1.2	1.1	1.8	...
Manufacturing	14.3	14.8	16.6	16.9	16.5
Construction	4.9	5.3	5.5	5.2	4.5
Services	39.0	42.4	40.3	43.5	44.7
Trade and hotels	11.8	12.2	12.7	13.1	14.7
Transportation, communications, storage	4.7	5.1	4.8	5.6	4.7
Insurance and real estate	2.0	1.6	2.1	2.6	2.5
Personal services	22.0	23.3	22.7	23.6	22.6
Other	3.3	4.9	5.2	5.6	...

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

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

Table 11. Sri Lanka: Summary of Central Government Operations, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lanka rupees)							
Total revenue	175,032	195,906	211,282	234,296	278,202	261,264	303,933
Tax	147,368	166,029	182,392	205,839	237,149	221,786	264,771
Nontax	27,664	29,877	28,890	28,457	41,053	39,478	39,162
Total expenditure and net lending	268,180	279,158	335,823	386,518	413,627	402,366	438,370
Current expenditure	199,648	207,270	254,279	303,362	332,565	330,267	344,611
Capital expenditure	54,161	60,340	67,769	67,902	70,632	58,595	81,612
Net lending	14,371	11,548	13,775	15,254	10,430	13,504	12,147
Overall deficit (before grants)	93,148	83,252	124,541	152,222	135,425	141,102	134,437
Grants	7,200	6,761	5,145	5,500	7,500	7,079	9,000
Net foreign borrowing	10,197	1,484	495	14,538	18,952	1,979	24,678
Net domestic borrowing	71,363	74,873	118,500	123,595	87,973	126,351	87,259
<i>Of which</i> : Banking system	18,954	27,292	56,528	48,554	-19,525	-4,836	14,000
Assets sales 1/	4,389	134	401	8,589	21,000	5,693	13,500
(In percent of GDP)							
Total revenue	17.2	17.7	16.8	16.6	17.5	16.5	16.9
Tax	14.5	15.0	14.5	14.6	15.0	14.0	14.7
Nontax	2.7	2.7	2.3	2.0	2.6	2.5	2.2
Total expenditure and net lending	26.3	25.2	26.7	27.5	26.1	25.4	24.4
Current expenditure	19.6	18.7	20.2	21.6	21.0	20.9	19.2
Capital expenditure	5.3	5.5	5.4	4.8	4.5	3.7	4.5
Net lending	1.4	1.0	1.1	1.1	0.7	0.9	0.7
Current account balance	-2.4	-1.0	-3.4	-4.9	-3.4	-4.4	-2.3
Overall deficit (before grants)	9.2	7.5	9.9	10.8	8.5	8.9	7.5
Grants	0.7	0.6	0.4	0.4	0.5	0.4	0.5
Net foreign borrowing	1.0	0.1	0.0	1.0	1.2	0.1	1.4
Net domestic borrowing	7.0	6.8	9.4	8.8	5.5	8.0	4.9
<i>Of which</i> : Banking system	1.9	2.5	4.5	3.4	-1.2	-0.3	-0.8
Asset sales 1/	0.4	0.0	0.0	0.6	1.3	0.4	0.8
Memorandum item:							
Nominal GDP (In billions of Rs)	1,018	1,106	1,258	1,407	1,586	1,583	1,799

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

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

Table 12. Sri Lanka: Summary of Central Government Revenue by Component, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lankan rupees)							
Tax revenue	147,368	166,029	182,392	205,839	237,149	221,786	264,771
Income tax	20,429	28,228	27,457	34,636	38,992	37,619	48,483
Personal	8,099	9,169	10,820	12,203	13,837	12,172	14,646
Corporate	11,788	18,362	15,757	18,673	22,905	13,934	19,937
Save the nation contribution	542	697	880	1,027	0	0	0
Tax on interest	0	0	0	2,733	2,250	11,513	13,900
Stamp duty and taxes on property	7,079	7,690	8,163	8,415	5,707	3,823	4,100
Stamp duty	7,079	7,690	8,163	8,415	3,407	2,511	0
Debit tax	0	0	0	0	2,300	1,312	4,100
Tax on central bank holdings of treasury bills	0	0	0	0	0	0	0
Taxes on goods and services	91,706	102,391	122,801	136,392	158,475	148,540	172,675
Turnover tax/ GST	39,343	37,339	45,600	46,779	88,383	67,191	120,435
Excises	30,293	35,928	42,655	44,978	52,321	52,099	49,405
<i>Of which</i> : Liquor	7,665	8,745	9,531	9,795	10,300	10,228	10,940
Tobacco	15,051	17,205	19,268	19,475	21,204	20,578	20,713
License fees	991	997	1,007	1,570	560	555	2,835
National security levy	21,079	28,127	33,539	43,065	17,211	28,695	0
Taxes on international trade	28,154	27,720	23,970	26,156	33,975	31,804	39,512
Imports	28,154	27,720	23,970	26,156	29,775	28,307	33,446
Port and airport development levy	0	0	0	0	4,200	3,497	6,066
Nontax revenue	27,664	29,877	28,890	28,457	41,053	39,478	39,162
Property income	18,462	18,988	18,842	17,406	28,584	25,808	24,259
Fees and charges	2,890	3,375	3,589	3,811	4,764	4,370	4,590
Other	6,312	7,514	6,459	7,240	7,705	9,300	10,313
Total revenue	175,032	195,906	211,282	234,296	278,202	261,264	303,933
(In percent of total expenditure)							
Tax revenue	55.0	59.5	54.3	53.3	57.3	55.1	60.4
Income tax	7.6	10.1	8.2	9.0	9.4	9.3	11.1
Taxes on property	2.6	2.8	2.4	2.2	1.4	1.0	0.9
Taxes on goods and services	34.2	36.7	36.6	35.3	38.3	36.9	39.4
Taxes on international trade	10.5	9.9	7.1	6.8	8.2	7.9	9.0
Nontax revenue	10.3	10.7	8.6	7.4	9.9	9.8	8.9
Total revenue	65.3	70.2	62.9	60.6	67.3	64.9	69.3

Source: Data provided by the Ministry of Finance.

Table 13. Sri Lanka: Economic Classification of Expenditure, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lanka rupees)							
Current expenditure	199,648	207,270	254,279	303,362	332,565	330,267	344,911
Expenditure on goods and services	97,767	98,222	130,765	143,747	142,127	138,919	137,820
Salaries and wages	53,879	58,532	68,544	78,056	89,931	88,804	91,617
Other goods and services	43,888	39,690	62,221	65,691	52,196	50,115	46,203
Interest payments	54,898	62,123	71,200	94,307	117,184	116,514	130,378
Foreign	7,300	8,752	9,515	10,552	11,389	10,617	14,680
Domestic	47,598	53,371	61,685	83,755	105,795	105,897	115,698
Subsidies and current transfers	46,983	46,925	52,314	65,308	73,255	74,834	76,713
To public corporations	2,967	3,277	3,370	4,376	4,495	8,393	5412
To public institutions	4,319	4,834	5,705	6,919	12,574	12,091	12464
To other levels of government	1,977	1,629	1,424	694	715	392	2,129
To households and other sectors	37,720	37,185	41,815	53,319	55,471	53,958	56,708
Capital expenditure	54,161	60,340	67,769	67,902	70,632	58,595	81,312
Acquisition of capital assets	32,246	32,933	32,934	36,115	43,716	26,501	51,102
Capital transfers	21,915	27,407	34,835	31,787	26,916	32,094	30,210
To public corporations	6,801	9,075	12,048	6,973	6,294	11,459	7,179
To public institutions	13,285	15,968	14,522	18,351	14,884	15,118	17,558
To other levels of government	1,764	2,297	8,218	6,251	5,531	5,421	5,000
To abroad/other	65	67	47	212	207	96	473
Lending minus repayments	14,371	11,548	13,775	15,254	10,430	13,504	12,147
Total expenditure and net lending	268,180	279,158	335,823	386,518	413,627	402,366	438,370
(In percent of GDP)							
Current expenditure	19.6	18.7	20.2	21.6	21.0	20.9	19.2
Subsidies and current transfers	4.6	4.2	4.2	4.6	4.6	4.7	4.3
<i>Of which</i> : To public corporations	0.3	0.3	0.3	0.3	0.3	...	...
Capital expenditure	5.3	5.5	5.4	4.8	4.5	3.7	4.5
Net lending	1.4	1.0	1.1	1.1	0.7	0.9	0.7
Total expenditure and net lending	26.3	25.2	26.7	27.5	26.1	25.4	24.4
Current expenditure	74.4	74.2	75.7	78.5	80.4	82.1	78.7
Subsidies and current transfers	17.5	16.8	15.6	16.9	17.7	18.6	17.5
Capital expenditure	20.2	21.6	20.2	17.6	17.1	14.6	18.5
Net lending	5.4	4.1	4.1	3.9	2.5	3.4	2.8
Memorandum item:							
Security expenditure (In millions of Rs)	50,962	48,707	70,774	68,290	64,050	64,135	64,740
(In percent of GDP)	5.0	4.4	5.6	4.9	4.0	4.1	3.6

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

Table 14. Sri Lanka: Functional Classification of Expenditure, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lanka rupees)							
General public services	72,401	69,565	89,800	88,712	87,226	85,684	91,845
Civil administration	21,439	20,858	19,026	20,422	23,176	21,549	27,105
Security-related	42,496	40,071	56,915	54,242	48,802	49,163	49,721
Public order and safety	8,466	8,636	13,859	14,048	15,248	14,972	15,019
Social services	79,121	83,813	93,631	102,527	132,868	121,785	134,837
Education	26,694	29,294	30,929	28,286	43,722	37,210	42,045
Health	14,419	15,671	20,696	18,772	27,721	24,946	27,230
Welfare	32,439	31,539	36,101	45,087	48,774	47,714	53,571
Housing	1,314	1,647	2,061	3,270	3,081	3,505	3,560
Community services	4,255	5,662	3,844	7,112	9,570	8,410	8,431
Economic Services	55,225	55,016	66,754	70,742	69,577	69,262	76,286
Agriculture and irrigation	11,462	11,223	12,614	14,001	15,047	14,571	16,590
Fisheries	737	874	1,237	1,013	2,144	1,178	1,927
Manufacturing and mining	2,516	1,228	1,490	743	2,352	1,599	716
Energy and water supply	9,561	11,586	13,756	15,323	14,099	18,117	12,121
Transport and communication	21,842	19,662	28,469	26,814	25,726	26,060	23,009
Trade and commerce	397	469	433	606	735	500	622
Other	8,710	9,974	8,755	12,246	9,474	7,237	21,301
Other	61,178	70,314	85,052	123,868	127,803	125,714	136,622
<i>Of which</i> : Interest	54,897	62,123	71,200	94,307	117,184	116,515	130,178
Total expenditure and net lending ^{1/}	267,925	278,708	335,237	385,853	417,474	402,445	439,590
(In percent of GDP)							
General public service	7.1	6.3	7.1	6.3	5.5	5.4	5.1
<i>Of which</i> : Security	4.2	3.6	4.5	3.9	3.1	3.1	2.8
Social services	7.8	7.6	7.4	7.3	8.4	7.7	7.5
<i>Of which</i> : Education	2.6	2.6	2.5	2.0	2.8	2.4	2.3
Health	1.4	1.4	1.6	1.3	1.7	1.6	1.5
Economic services	5.4	5.0	5.3	5.0	4.4	4.4	4.2
Interest	5.4	5.6	5.7	6.7	7.4	7.4	7.2
(In percent of total expenditure)							
General public service	27.0	25.0	26.8	23.0	20.9	21.3	20.9
<i>Of which</i> : Security	15.9	14.4	17.0	14.1	11.7	12.2	11.3
Social services	29.5	30.1	27.9	26.6	31.8	30.3	30.7
<i>Of which</i> : Education	10.0	10.5	9.2	7.3	10.5	9.2	9.6
Health	5.4	5.6	6.2	4.9	6.6	6.2	6.2
Economic services	20.6	19.7	19.9	18.3	16.7	17.2	17.4
Interest	20.5	22.3	21.2	24.4	28.1	29.0	29.6

Source: Data provided by the Ministry of Finance.

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

Table 15. Sri Lanka: Current and Capital Transfers to Public Corporations and Public Institutions, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lanka rupees)							
Total	27,372	33,154	35,645	36,619	38,247	47,061	42,613
Public corporations	9,768	12,352	15,418	11,349	10,789	19,852	12,591
Public institutions	17,604	20,802	20,227	25,270	27,458	27,209	30,022
Current transfers	7,286	8,111	9,075	11,295	17,069	20,484	17,876
Public corporations	2,967	3,277	3,370	4,376	4,495	8,393	5,412
Public institutions	4,319	4,834	5,705	6,919	12,574	12,091	12,464
Capital transfers	20,086	25,043	26,570	25,324	21,178	26,577	24,737
Public corporations	6,801	9,075	12,048	6,973	6,294	11,459	7,179
Public institutions	13,285	15,968	14,522	18,351	14,884	15,118	17,558
Total transfers to selected corporation and institutions							
Cooperative Wholesale Establishment	...	...	...	...	...	...	...
Shipping corporation	...	...	...	...	...	...	...
Mahaweli Authority	2,042	2,163	2,532	3,020	3,550	3,496	3,679
Plantation Corporations	...	...	...	...	...	...	...
Ceylon Electricity Board	1,036	1,665	1,840	1,904	1,177	1,118	1,539
Transport Board	1,166	1,440	3,246	1,340	1,942	2,643	774
Housing Development Authority	867	1,032	1,328	739	302	230	100
Water Supply and Drainage Board	2,460	4,840	4,789	3,667	3,910	9,066	3,969
Road Development Authority	7,730	7,178	7,371	10,860	8,607	9,877	9,981
(In percent of GDP)							
Total transfers	2.7	3.0	2.8	2.6	2.4	3.0	2.4
Current	0.7	0.7	0.7	0.8	1.1	1.3	1.0
Capital	2.0	2.3	2.1	1.8	1.3	1.7	1.4
Public corporations	1.0	1.1	1.2	0.8	0.7	1.3	0.7
Public institutions	1.7	1.9	1.6	1.8	1.7	1.7	1.7
Total, excluding Mahaweli	2.5	2.8	2.6	2.4	2.2	2.8	2.2

Source: Data provided by the Ministry of Finance.

Table 16. Sri Lanka: Transfer and Subsidy Payments to Households, 1998–2003

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
(In millions of Sri Lanka rupees)							
Total	37,075	36,302	41,513	51,318	54,700	53,254	56,708
<i>Of which</i> : Excluding pensions	17,598	17,246	19,911	24,825	22,837	22,131	23,155
Pensions	19,477	19,056	21,602	26,493	31,863	31,123	33,553
Payments to disabled soldiers	1,202	1,291	1,992	2,721	3,300	3,235	3,449
Food and kerosene stamps	0	0	0	0	0	0	0
Fertilizer subsidy	2,152	1,390	1,733	3,650	2,000	2,448	2,000
Samurdhi	8,652	8,020	9,661	12,574	9,950	9,910	9,000
Nutrition program	0	62	92	85	47	30	245
School uniform	1,000	892	997	900	1,000	799	600
Refugee	2,307	2,667	2,800	2,563	2,270	2,444	2,296
Other	2,285	2,924	2,636	2,332	4,270	3,265	5,565
(In percent of GDP)							
Total	3.6	3.3	3.3	3.6	3.4	3.4	3.2
Pensions	1.9	1.7	1.7	1.9	2.0	2.0	1.9
Other transfers and subsidies	1.7	1.6	1.6	1.8	1.4	1.4	1.3

Source: Data provided by the Ministry of Finance.

Table 17. Sri Lanka: Deficit Financing (Economic Classification), 1998–2003

(In millions of Sri Lanka rupees)

	1998	1999	2000	2001	2002		2003 Budget
					Budget	Prov.	
Total financing	93,148	83,252	124,541	152,222	135,425	141,102	134,437
Foreign grants	7,200	6,761	5,145	5,500	7,500	7,079	9,000
Net foreign borrowing	10,197	1,484	495	14,538	18,952	1,979	24,678
Gross foreign borrowing	28,548	22,924	23,777	42,459	57,900	39,036	60,003
Repayments	-18,351	-21,440	-23,282	-27,921	-38,948	-37,057	-35,325
Net domestic financing	71,363	74,873	118,500	123,595	87,973	126,351	87,259
Nonbank borrowing	53,338	48,426	58,797	74,294	107,498	132,003	101,259
Bank financing	18,954	27,292	56,528	48,554	-19,525	-4,836	-14,000
Central bank	5,608	20,808	44,840	-6,434	...	-13,266	...
Commercial banks	13,346	6,484	11,688	54,988	-19,525	8,430	-14,000
Other borrowing	-930	-845	3,175	747	0	-816	0
Asset sales	4,389	134	401	8,589	21,000	5,693	13,500

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

Table 18. Sri Lanka: Outstanding Central Government Debt, 1998–2002

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

	1998	1999	2000	2001	2002 Prov.
Total domestic debt	463,426	543,465	676,661	815,965	948,386
Rupee securities	250,570	262,056	263,888	292,813	287,701
Treasury bills	119,996	124,996	134,996	170,995	210,995
Treasury bonds	48,915	104,867	204,124	229,174	347,128
Treasury CDs	12	11	12	11	10
Provisional advances	20,192	22,969	27,169	30,127	31,033
Other	23,741	28,566	46,472	92,845	71,519
Import bills held by commercial banks	17,545	18,869	14,940	12,480	12,801
Other liabilities to banking sector net of deposits 3/	242	4,616	23,011	56,649	-3,247
Other short and medium term liabilities	5,954	5,081	8,521	23,716	61,965
Banking system	113,054	139,671	199,030	256,808	248,243
Central Bank					
By debt instrument	27,179	48,867	97,778	92,871	76,342
Treasury bills	9,508	27,322	42,238	64,842	44,923
Treasury bonds	0	452	30,936	1,616	0
Advances	20,192	22,969	27,169	30,127	31,033
Other	-2,521	-1,876	-2,565	-3,714	386
Commercial banks					
By debt instrument	85,875	90,804	101,252	163,937	171,901
Rupee loans	44,321	44,068	44,068	44,068	43,981
Treasury bills	14,850	12,833	8,368	11,092	28,895
Treasury bonds	5,808	7,953	7,712	20,598	35,523
Other	20,896	25,950	41,104	88,179	63,502
By institution	85,875	90,804	101,252	163,937	171,901
Bank of Ceylon and People's Bank	77,565	83,915	94,093	140,263	134,655
Other	8,310	6,889	7,159	23,674	37,246
Sinking Fund	100	100	100	100	100
Nonbank sector					
By debt instrument	350,272	403,694	477,530	559,057	700,043
Rupee loans	206,149	217,888	219,720	248,645	243,620
Treasury bills	95,638	84,841	84,390	95,061	137,177
Treasury bonds	43,107	96,462	165,476	206,960	311,605
Treasury certificates	12	11	11	11	11
Other	5,366	4,492	7,933	8,380	7,630
By institution	350,272	403,694	477,530	559,057	700,043
National Savings Bank	67,260	79,555	87,263	95,976	116,632
Other savings institutions	83,552	96,313	124,368	150,839	228,447
Employees' Provident Fund	157,711	181,581	211,742	245,028	283,655
Insurance companies	13,052	16,935	18,969	21,449	26,853
Finance companies	7,060	5,580	2,621	3,124	4,194
Other	30,026	23,730	32,593	42,742	40,262
Foreign administrative borrowings	5,360	4,487	7,927	8,374	7,623
Departments, Official Funds and other	24,666	19,243	24,666	34,368	32,639
Total foreign debt	461,273	507,866	542,040	636,741	720,898
Project loans	400,284	444,423	477,845	542,942	639,949
Nonproject loans	60,989	63,443	64,195	93,799	80,949
Commodity	59,626	62,182	63,009	67,563	68,073
Other	1,363	1,261	1,186	26,236	12,876
Concessional loans	446,331	497,672	535,129	603,572	699,311
Multilateral	213,749	228,294	249,740	288,876	340,512
Bilateral	232,582	269,378	285,389	314,696	358,799
Non-Concessional	14,942	10,194	6,911	33,169	21,587
Multilateral	544	442	356	535	394
Bilateral	1,618	1,489	0	0	0
Commercial	12,780	8,263	6,555	32,634	21,193
External suppliers' credits	575	530	217	269	...
Total outstanding debt	924,699	1,051,331	1,218,701	1,452,706	1,669,284

Source: Data provided by the Ministry of Finance.

Table 19. Sri Lanka: Monetary Survey, 1998-2003 1/

	1998	1999	2000	2001	2002	2003	2002				2003			
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
(In billions of Sri Lankan rupees, end of period)														
Net foreign assets	105.6	102.1	69.5	77.1	110.6	167.1	81.7	90.3	100.6	110.6	115.5	133.0	148.1	167.1
Monetary authorities 2/	101.7	89.3	57.9	87.3	117.4	164.6	86.0	103.7	107.1	117.4	124.2	137.9	161.7	164.6
Commercial banks	3.9	12.8	11.6	-10.2	-6.7	2.5	-6.3	-9.7	-6.5	-6.7	-8.7	-4.9	-13.6	2.5
Net domestic assets	272.1	326.2	413.9	472.1	511.9	550.8	490.6	490.3	500.9	511.9	527.5	522.0	530.8	550.8
Domestic credit	369.5	432.9	549.9	639.0	680.4	731.9	640.3	655.7	667.7	680.4	685.1	686.6	694.2	731.9
Public sector	75.5	107.0	185.6	242.3	236.0	212.4	235.1	243.1	243.2	236.0	234.1	218.8	206.3	212.4
Claims on government (net) 3/	64.6	93.9	147.3	201.4	193.0	176.2	196.3	203.8	200.4	193.0	191.2	179.8	166.5	176.2
Monetary authorities	25.9	46.7	91.6	84.7	70.9	42.1	75.4	68.9	71.7	70.9	63.0	52.7	34.6	42.1
Commercial banks	38.7	47.2	55.7	116.8	122.1	134.1	120.9	135.0	128.7	122.1	128.2	127.1	131.9	134.1
Claims on public corp. 4/	10.8	15.8	38.3	40.8	43.0	36.2	38.8	39.3	42.9	43.0	43.0	39.1	39.9	36.2
Claims on private sector 4/	294.1	325.9	364.4	396.8	444.4	519.4	405.3	412.6	424.4	444.4	450.9	467.8	487.9	519.4
Other items (net)	-97.4	-106.7	-136.0	-166.9	-168.5	-181.1	-149.8	-165.4	-166.8	-168.5	-157.6	-164.6	-163.4	-181.1
Broad money	377.7	428.3	483.4	549.1	622.5	717.9	570.2	584.3	601.5	622.5	643.1	655.0	678.9	717.9
Narrow money	96.3	108.6	118.5	122.2	139.4	161.6	125.7	125.5	129.4	139.4	141.2	142.2	155.7	161.6
Currency	51.8	58.5	62.6	65.5	75.3	85.6	70.6	69.0	70.6	75.3	76.9	75.3	78.3	85.6
Demand deposits	44.5	50.1	55.8	56.7	64.1	76.0	55.1	56.5	58.8	64.1	64.3	66.9	77.4	76.0
Quasi-money	281.5	319.8	364.9	426.9	483.1	556.2	444.6	458.8	472.0	483.1	501.9	512.8	523.2	556.2
(In annual percent change)														
Net foreign assets	16.7	-3.4	-31.9	10.9	43.5	51.0	4.6	25.1	31.7	43.5	41.4	47.3	47.2	51.0
Monetary authorities 2/	13.1	-12.2	-35.1	50.6	34.5	40.2	37.6	59.3	43.3	34.5	44.5	32.9	51.0	40.2
Commercial banks	591.0	228.0	-9.6	-188.2	-34.1	-137.1	-140.2	-238.6	-899.9	-34.1	38.2	-49.5	109.4	-137.1
Net domestic assets	11.9	19.9	26.9	14.1	8.4	7.6	18.1	15.7	13.7	8.4	7.5	6.5	6.0	7.6
Domestic credit	14.4	17.2	27.0	16.2	6.5	7.6	12.4	11.6	11.3	6.5	7.0	4.7	4.0	7.6
Public sector	25.9	41.8	73.5	30.6	-2.6	-10.0	22.2	20.8	13.1	-2.6	-0.4	-10.0	-15.2	-10.0
Claims on government (net) 3/	42.8	45.3	56.8	36.8	-4.2	-8.7	27.0	31.8	16.6	-4.2	-2.6	-11.8	-16.9	-8.7
Monetary authorities	27.6	80.3	96.0	-7.5	-16.2	-40.6	-15.3	-23.0	-18.5	-16.2	-16.5	-23.5	-51.7	-40.6
Commercial banks	55.1	21.9	18.1	109.5	4.5	9.9	84.2	106.8	53.4	4.5	6.0	-5.8	2.5	9.9
Claims on public corp. 4/	-26.1	46.0	141.9	6.7	5.4	-15.9	2.6	-9.9	-0.7	5.4	10.9	-0.5	-6.9	-15.9
Claims on private sector 4/	11.8	10.8	11.8	8.9	12.0	16.9	7.4	6.9	10.4	12.0	11.3	13.4	15.0	16.9
Other items (net)	22.0	9.5	27.5	22.7	1.0	7.4	-2.9	1.0	4.7	1.0	5.2	-0.5	-2.0	7.4
Broad money	13.2	13.4	12.9	13.6	13.4	15.3	15.5	17.9	16.6	13.4	12.8	12.1	12.9	15.3
Narrow money	12.1	12.8	9.1	3.2	14.0	16.0	10.3	15.6	15.5	14.0	12.3	13.3	20.3	16.0
Currency	13.3	13.0	7.1	4.6	14.9	13.7	13.0	15.8	15.7	14.9	8.9	9.1	10.9	13.7
Demand deposits	10.8	12.5	11.5	1.5	13.0	18.7	7.1	15.4	15.2	13.0	16.7	18.4	31.6	18.7
Quasi-money	13.5	13.6	14.1	17.0	13.2	15.1	17.1	18.5	16.9	13.2	12.9	11.8	10.8	15.1
(Percent contribution to broad money growth 12 months ago)														
Net foreign assets	4.5	-0.9	-7.6	1.6	6.1	9.1	0.7	3.7	4.7	6.1	5.9	7.3	7.9	9.1
Net domestic assets	8.7	14.3	20.5	12.0	7.2	6.3	15.2	13.5	11.7	7.2	6.5	5.4	5.0	6.3
Domestic credit	13.9	16.8	27.3	18.4	7.5	8.3	14.3	13.8	13.2	7.5	7.8	5.3	4.4	8.3
Public sector 4/	4.7	8.3	18.3	11.7	-1.1	-3.8	8.6	8.4	5.5	-1.1	-0.2	-4.2	-6.1	-3.8
Private sector 4/	9.3	8.4	9.0	6.7	8.7	12.1	5.6	5.3	7.7	8.7	8.0	9.4	10.6	12.1
Other assets (net)	-5.3	-2.4	-6.9	-6.4	-0.3	-2.0	0.9	-0.3	-1.5	-0.3	-1.4	0.1	0.6	-2.0
Memorandum items:														
Money multiplier (BM/RM)	4.07	4.26	4.60	4.88	4.92	5.08	4.88	4.92	4.94	4.92	4.88	5.01	5.04	4.86
Velocity (GDP/geom. avg. BM)	2.89	2.76	2.80	2.77	2.70	...	...	...	...	2.70	...	...	...	...

Source: Central Bank of Sri Lanka.

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

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

3/ In December 2003, this item includes the government assumption of CWE's bank debt. This differs from CBSL presentation, which shows an increase in other assets of the banking system.

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

Table 20. Sri Lanka: Balance Sheet of the Monetary Authorities, 1998-2003

	1998	1999	2000	2001	2002	2003	2002				2003			
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
(In billions of Sri Lankan rupees; end of period)														
Net foreign assets	101.7	89.3	57.9	87.3	117.4	164.6	86.0	103.7	107.1	117.4	124.2	137.9	161.7	164.6
Central Bank (net)	94.0	74.1	41.7	63.9	117.4	164.6	64.6	76.2	107.1	117.4	124.2	137.8	161.7	164.6
Assets	132.6	112.1	77.2	111.9	208.6	278.4	106.8	129.8	188.6	208.6	211.9	238.2	258.1	278.4
Cash and balances abroad 1/	59.4	20.8	23.4	40.3	63.0	84.6	34.5	31.9	59.0	63.0	59.8	60.1	54.4	84.6
Foreign securities	67.7	87.3	53.7	71.4	90.4	134.3	72.3	96.8	78.2	90.4	96.2	121.0	146.3	134.3
Other	5.5	3.9	0.0	0.2	55.1	59.6	0.0	1.2	51.4	55.1	55.9	57.1	57.4	59.6
Liabilities	38.5	38.0	35.5	48.0	91.2	113.9	42.2	53.6	81.5	91.2	87.7	100.4	96.5	113.9
Government (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Treasury IMF account (net)	9.1	15.2	16.2	23.3	0.0	0.0	23.3	23.7	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	-8.9	11.2	47.2	25.2	9.0	-23.2	28.9	18.7	14.7	9.0	7.6	-7.1	-27.1	-23.2
Net claims on government	25.9	46.7	91.6	84.7	70.9	42.1	75.7	69.2	71.7	70.9	63.0	52.7	34.6	42.1
Claims on government	29.0	49.2	94.7	89.0	71.1	42.7	80.6	73.0	71.8	71.1	63.1	52.9	34.9	42.7
Advances	20.8	23.6	27.8	30.7	31.0	31.2	30.5	31.7	31.3	31.0	32.8	32.2	32.8	31.2
Treasury bills & bonds	8.2	25.6	67.0	58.3	40.1	11.5	50.1	41.3	40.5	40.1	30.3	20.7	2.1	11.5
Cash items in collection	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government deposits	-3.1	-2.5	-3.2	-4.3	-0.2	-0.6	-4.9	-3.8	-0.1	-0.2	-0.2	-0.2	-0.3	-0.6
Claims on commercial banks	1.1	0.7	0.5	0.2	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Medium- and long-term	1.1	0.7	0.5	0.2	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets (net)	-35.9	-36.3	-44.9	-59.6	-61.9	-65.3	-46.9	-50.6	-57.1	-61.9	-55.4	-59.8	-61.7	-65.3
Reserve money	92.9	100.4	105.2	112.5	126.4	141.4	117.0	118.7	121.7	126.4	131.8	130.7	134.6	141.4
Currency in circulation	60.1	70.2	73.3	76.6	88.3	98.8	82.4	81.0	83.5	88.3	91.5	89.3	91.6	98.8
Commercial banks deposits	32.7	30.2	31.8	36.0	38.1	42.6	34.5	37.7	38.2	38.1	40.3	41.4	43.0	42.6
Deposits of government agencies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In annual percent change)														
Net foreign assets	13.1	-12.2	-35.1	50.6	34.5	40.2	37.6	59.3	43.3	34.5	44.5	32.9	51.0	40.2
Net domestic assets	43.3	-225.7	323.1	-46.6	-64.2	-356.2	-34.0	-51.1	-54.5	-64.2	-73.7	-138.0	-284.9	-356.2
Net claims on government	27.6	80.3	96.0	-7.5	-16.2	-40.6	-14.9	-22.6	-18.5	-16.2	-16.8	-23.9	-51.7	-40.6
Claims on commercial banks	-33.7	-33.3	-30.5	-71.2	-80.0	0.0	-74.6	-77.0	-76.9	-80.0	-82.7	-83.3	-86.0	0.0
Medium- and long-term	-33.7	-32.9	-29.4	-71.2	-80.0	0.0	-74.6	-77.0	-76.9	-80.0	-82.7	-83.3	-86.0	0.0
Short-term	-34.3	-52.2	...	...	...	...	...	...	...	...	...	...	...	...
Reserve money	10.9	8.2	4.7	7.0	12.3	11.9	10.0	14.7	13.8	12.3	12.7	10.1	10.6	11.9
(Percent contribution to reserve money 12 months ago)														
Net foreign assets	14.1	-13.4	-31.2	27.9	26.7	37.4	22.1	37.3	30.3	26.7	32.7	28.8	44.9	37.4
Net domestic assets	-3.2	21.6	35.9	-20.9	-14.4	-25.5	-14.0	-18.9	-16.4	-14.4	-18.3	-21.8	-34.3	-25.5
Net claims on government	6.7	22.4	44.6	-6.5	-12.2	-22.8	-12.5	-19.5	-15.2	-12.2	-10.9	-14.0	-30.5	-22.8
Claims on commercial banks	-0.7	-0.4	-0.2	-0.4	-0.1	0.0	-0.4	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	0.0
Other assets (net)	-9.2	-0.4	-8.5	-14.0	-2.1	-2.7	-1.2	0.9	-0.9	-2.1	-7.3	-7.8	-3.8	-2.7

Source: Central Bank of Sri Lanka.

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

Table 21. Sri Lanka: Balance Sheet of Commercial Banks, 1998–2003 ^{1/}

	1998	1999	2000	2001	2002	2003	2002				2003			
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sep	Dec
(In billions of Sri Lankan rupees; end of period)														
Foreign assets	30.1	36.3	52.4	44.6	45.1	45.0	47.6	43.7	41.2	45.1	39.7	39.1	28.7	45.0
Banks abroad	22.8	29.3	42.3	34.9	35.7	34.0	38.1	35.3	31.4	35.7	31.5	29.2	19.2	34.0
Other	7.4	7.0	10.0	9.6	9.4	11.1	9.5	8.5	9.8	9.4	8.2	9.9	9.5	11.1
Cash and deposits	80.4	94.7	118.1	127.7	135.1	130.9	125.1	128.7	135.9	135.1	151.6	154.6	164.7	130.9
Cash in till	8.3	11.7	10.7	11.0	13.0	13.2	11.8	12.0	12.9	13.0	14.6	14.0	13.2	13.2
Deposits with CBSL	31.3	28.4	28.9	38.7	40.2	37.9	32.9	35.8	36.5	40.2	45.3	40.0	46.6	37.9
FCBUs 2/	28.9	40.0	45.5	63.3	65.7	64.5	65.7	66.8	67.7	65.7	77.0	79.3	83.2	64.5
Due from other banks	11.8	14.6	33.1	14.6	16.2	15.3	14.7	14.1	18.8	16.2	14.6	21.3	21.6	15.3
Claims on government	44.3	51.8	56.1	103.4	96.7	117.7	111.4	105.8	105.2	96.7	97.6	96.6	105.0	117.7
Treasury bills	13.6	11.6	7.4	9.7	25.9	41.6	17.8	34.8	23.3	25.9	29.3	33.3	37.0	41.6
Two-year treasury notes	5.0	7.5	7.2	19.1	32.9	57.6	19.6	26.1	35.1	32.9	34.1	35.0	46.4	57.6
Sri Lanks Development bonds	...	0.0	0.0	4.3	13.6	5.5	4.3	9.3	13.9	13.6	9.5	10.0	9.8	5.5
Other government securities	0.3	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other 3/	25.8	32.7	41.4	70.3	24.3	13.0	69.6	35.6	33.0	24.3	24.7	18.3	11.7	13.0
Claims on public corp.	8.7	12.7	27.0	22.9	28.0	28.9	21.9	25.6	27.0	28.0	26.2	25.5	26.3	28.9
Claims on private sector	244.4	275.5	307.6	328.8	367.4	430.6	335.7	341.8	349.2	367.4	374.1	386.9	409.8	430.6
Other assets	93.8	99.8	116.5	113.8	115.7	132.0	115.3	114.4	120.3	115.7	121.2	130.0	135.1	132.0
Assets = Liabilities	501.7	570.9	677.7	741.2	788.0	885.1	756.9	760.1	778.7	788.0	810.4	832.6	869.5	885.1
Foreign liabilities	29.0	33.1	40.7	45.7	51.7	56.8	46.8	47.2	48.8	51.7	51.0	53.9	58.1	56.8
Banks abroad	4.3	5.0	6.3	5.4	4.6	5.6	5.4	3.8	4.6	4.6	3.6	4.9	6.6	5.6
FCBUs 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NRFC 4/	20.4	23.6	29.2	33.8	40.4	43.4	35.2	37.7	38.5	40.4	40.0	41.4	41.5	43.4
RNNFC 5/	3.3	3.3	3.9	4.9	5.6	5.8	4.8	4.5	4.7	5.6	6.1	6.2	6.2	5.8
Other	1.1	1.1	1.3	1.5	1.1	2.0	1.3	1.2	1.0	1.1	1.2	1.5	3.9	2.0
Demand deposits	44.5	50.1	55.8	56.7	64.1	76.0	55.1	56.5	58.8	64.1	64.3	66.9	77.3	76.0
Domestic NRFC deposits	38.1	48.6	55.6	66.6	74.7	87.8	70.9	72.7	74.7	74.7	78.9	81.0	82.0	87.8
Time and savings deposits	219.9	249.5	286.2	328.5	371.0	419.1	340.4	350.8	359.5	371.0	383.5	390.6	400.1	419.1
Government deposits	11.6	12.7	13.2	26.3	14.5	16.4	26.7	10.8	11.6	14.5	13.1	13.0	15.4	16.4
Demand	10.4	11.6	12.4	25.0	12.8	14.8	25.4	9.2	10.0	12.8	11.5	11.2	13.9	14.8
Time and savings	1.2	1.1	0.8	1.3	1.7	1.6	1.3	1.6	1.6	1.7	1.6	1.8	1.5	1.6
Due to CBSL	4.8	5.2	5.9	4.8	4.9	6.6	4.9	4.8	5.0	4.9	6.4	6.3	6.3	6.6
Due to banks	11.8	15.6	36.2	20.8	14.5	9.1	13.3	13.0	16.3	14.5	11.3	11.9	17.3	9.1
Due to OFIs	11.8	12.2	24.7	32.2	21.6	20.5	33.7	35.3	30.3	21.6	19.8	20.9	18.3	20.5
Capital	50.2	51.6	51.8	44.5	51.8	75.2	47.0	47.7	50.5	51.8	54.3	60.9	66.9	75.2
Other liabilities	80.0	92.4	107.6	115.1	119.3	117.5	118.1	121.3	123.3	119.3	127.7	127.3	127.8	117.5

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/ In December 2003, it includes the debt issued by the government in exchange for debt that was owed by CWE.

4/ Non-Resident foreign currency accounts.

5/ Resident non-national foreign currency accounts.

Table 22. Sri Lanka: Advances by Purpose and According to Maturity, 1998-2003 1/

	1998	1999	2000	2001	2002				2003	
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June
(In billions of Sri Lankan rupees; end of period)										
By Category										
Commercial	102.9	109.7	134.9	132.2	138.5	137.4	140.1	141.8	145.1	148.9
Financial	11.3	12.0	14.7	10.3	9.9	10.2	10.5	12.4	11.4	12.6
Agriculture	13.1	16.7	15.2	15.4	15.6	16.2	16.5	17.7	17.6	18.2
Industrial 2/	27.6	33.3	35.3	34.3	32.2	35.9	37.0	43.7	40.8	40.8
Tourism	4.1	4.5	4.1	4.3	4.2	4.4	4.7	5.1	5.0	5.3
Housing 3/	31.2	35.7	41.3	45.8	46.9	47.6	51.3	52.8	55.0	56.0
Consumption	23.3	29.0	32.6	37.7	38.7	40.3	43.8	47.0	51.6	53.9
Other loans	27.8	34.2	39.3	46.4	54.4	55.6	54.3	55.3	53.2	54.3
Total	241.3	275.1	317.4	326.4	340.4	347.6	358.2	375.7	379.7	390.0
(In percent annual growth)										
Commercial	3.7	6.6	23.0	-2.1	4.9	0.2	3.6	7.3	4.8	8.4
Financial	48.7	6.2	22.5	-30.0	-36.4	-19.4	-9.0	20.1	14.9	23.1
Agriculture	11.0	27.5	-8.9	1.4	-7.2	2.4	6.7	14.6	13.2	12.5
Industrial 2/	9.1	20.7	6.1	-2.9	-6.7	4.8	11.1	27.4	26.8	13.6
Tourism	24.2	9.8	-9.5	5.8	0.3	4.2	6.3	17.7	19.7	21.1
Housing 3/	24.3	14.4	15.6	10.9	5.3	6.7	13.6	15.4	17.3	17.7
Consumption	19.5	24.5	12.6	15.6	1.3	12.9	15.7	24.6	33.3	33.7
Other loans	11.6	23.0	14.8	18.1	18.8	14.7	12.7	19.2	-2.3	-2.4
Total	11.4	14.0	15.4	2.8	2.7	4.4	8.1	15.1	11.6	12.2
(In percent of total)										
Commercial	42.6	39.9	42.5	40.5	40.7	39.5	39.1	37.7	38.2	38.2
Financial	4.7	4.4	4.6	3.2	2.9	2.9	2.9	3.3	3.0	3.2
Agriculture	5.4	6.1	4.8	4.7	4.6	4.7	4.6	4.7	4.6	4.7
Industrial 2/	11.4	12.1	11.1	10.5	9.5	10.3	10.3	11.6	10.8	10.5
Tourism	1.7	1.6	1.3	1.3	1.2	1.3	1.3	1.4	1.3	1.4
Housing 3/	12.9	13.0	13.0	14.0	13.8	13.7	14.3	14.1	14.5	14.4
Consumption	9.7	10.5	10.3	11.6	11.4	11.6	12.2	12.5	13.6	13.8
Other loans	11.5	12.4	12.4	14.2	16.0	16.0	15.1	14.7	14.0	13.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
By Maturity										
Short term	63.7	63.0	62.1	60.8	60.5	60.8	61.1	62.0	63.1	63.6
Medium term	23.7	22.8	22.3	21.5	21.6	21.3	21.9	21.1	21.3	21.6
Long term	12.6	14.1	15.6	17.7	17.9	17.9	17.0	16.9	15.6	14.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Sri Lanka.

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 23. Sri Lanka: Selected Interest Rates, 1998–2003

(In percent; end-of-period)

		CBSL Rates		Money Market Rates			Bank Rates		Memorandum
		Repos	Reverse Repos	Interbank Call Rate 1/	Treasury Bills		Prime Lending 1/	Time and Savings 1/	CPI Inflation Annual Rate
					3 Months	12 Months			
1998		11.3	15.0	13.9	12.0	12.6	14.5	10.5	3.7
1999		9.3	13.5	11.3	11.8	12.3	15.1	9.1	4.0
2000		17.0	20.0	25.9	17.8	18.2	21.5	9.9	10.8
2001		12.0	14.0	12.7	12.9	13.7	14.3	10.8	10.8
2002		9.8	11.8	10.4	9.9	9.9	12.1	7.5	11.3
2003		7.0	8.5	7.6	7.4	7.2	9.3	5.3	5.0
2002	January	12.0	14.0	12.2	12.9	13.7	13.9	10.5	8.9
	February	12.0	14.0	12.0	12.7	13.6	13.3	10.4	8.5
	March	11.5	13.7	12.4	12.8	13.6	13.6	10.1	11.4
	April	11.5	13.9	11.8	12.8	13.5	14.0	10.0	8.3
	May	11.5	13.9	12.8	13.2	14.0	13.7	9.8	10.0
	June	11.5	13.8	12.2	13.0	13.7	14.0	9.6	10.7
	July	10.5	12.8	10.8	12.0	13.0	13.5	9.5	10.8
	August	10.5	12.8	10.7	11.0	11.4	12.6	9.2	10.1
	September	10.5	12.8	10.6	10.9	11.3	12.6	8.2	7.4
	October	10.5	12.8	10.7	10.8	11.3	12.5	8.0	8.2
	November	9.8	11.8	10.6	10.2	10.6	12.0	7.8	9.1
	December	9.8	11.8	10.4	9.9	9.9	12.1	7.5	11.3
2003	January	9.0	11.0	9.5	8.7	8.9	11.3	7.2	13.6
	February	9.0	11.0	9.4	9.1	9.1	11.2	6.9	11.0
	March	9.0	11.0	9.4	9.1	9.2	11.8	6.5	7.9
	April	9.0	11.0	9.6	8.8	8.8	11.8	6.3	8.3
	May	8.3	10.3	8.7	8.6	8.6	10.5	6.1	6.0
	June	8.3	10.3	8.6	8.4	8.5	10.4	6.0	4.5
	July	8.3	10.3	8.7	8.0	8.0	10.4	5.8	3.4
	August	7.5	9.5	7.9	7.7	7.5	9.7	5.7	3.7
	September	7.5	9.5	7.8	7.3	7.1	9.3	5.5	4.8
	October	7.0	8.5	7.5	7.1	7.0	9.1	5.4	3.9
	November	7.0	8.5	7.6	7.3	7.2	9.0	5.4	4.5
	December	7.0	8.5	7.6	7.4	7.2	9.3	5.3	5.0

Sources: Central Bank of Sri Lanka; and CEIC.

1/ Weighted average.

Table 24. Sri Lanka: Reserve Position of Commercial Banks, 1998-2003

(In billions of Sri Lankan rupees)

	Deposits			Required Reserves				Actual Reserves					Excess Reserves		
	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	(12)-(7)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
1998	54.1	222.5	32.3	6.5	26.7	3.9	37.1	32.7	0.3	0.0	2.9	35.9	5.4	-1.1	
1999	60.4	253.6	34.0	6.6	27.9	3.7	38.3	30.2	0.3	0.0	5.7	36.2	6.1	-2.1	
2000	60.8	269.5	43.7	6.7	29.6	-	36.3	31.8	0.3	0.0	5.1	37.2	5.5	0.9	
2001	62.6	331.0	78.2	6.3	33.1	0.0	39.4	36.0	0.0	0.0	5.0	41.0	6.0	1.6	
2002	70.6	378.0	99.1	7.1	37.8	0.0	44.9	38.1	0.0	0.0	5.2	43.3	7.8	-1.6	
2001	January	61.2	291.4	61.5	6.7	32.0	0.0	38.8	32.0	0.3	0.0	4.8	37.2	7.3	-1.6
	February	60.1	295.0	57.6	6.6	32.5	0.0	39.1	29.9	0.3	0.0	5.4	35.6	6.6	-3.5
	March	58.8	296.6	56.9	6.5	32.6	0.0	39.1	31.9	0.3	0.0	5.4	37.6	6.6	-1.5
	April	60.4	298.6	64.3	6.6	32.9	0.0	39.5	32.2	0.3	0.0	6.0	38.4	6.2	-1.0
	May	58.0	300.0	70.8	6.4	33.0	0.0	39.4	32.9	0.3	0.0	5.5	38.7	5.6	-0.7
	June	57.1	303.0	69.3	6.3	33.3	0.0	39.6	34.0	0.3	0.0	4.8	39.0	5.1	-0.6
	July	56.5	307.0	68.0	6.2	33.8	0.0	40.0	34.1	0.3	0.0	4.0	38.4	6.9	-1.6
	August	58.3	309.7	58.5	6.4	34.1	0.0	40.5	34.8	0.3	0.0	4.7	39.8	5.2	-0.7
	September	57.7	314.0	61.1	6.3	34.5	0.0	40.9	36.4	0.3	0.0	3.9	40.6	5.5	-0.3
	October	58.9	320.6	69.8	5.9	32.1	0.0	38.0	33.6	0.0	0.0	4.9	38.5	6.0	0.5
	November	59.5	324.9	74.2	6.0	32.5	0.0	38.4	32.9	0.0	0.0	4.6	37.5	5.5	-1.0
	December	62.6	331.0	78.2	6.3	33.1	0.0	39.4	36.0	0.0	0.0	5.0	41.0	6.0	1.6
2002	January	61.3	335.5	79.2	6.1	33.5	0.0	39.7	36.2	0.0	0.0	4.4	40.6	6.7	0.9
	February	61.0	338.5	80.3	6.1	33.8	0.0	40.0	32.0	0.0	0.0	5.3	37.3	5.6	-2.6
	March	60.6	346.5	80.5	6.1	34.6	0.0	40.7	34.5	0.0	0.0	5.0	39.5	6.8	-1.2
	April	62.4	346.9	81.6	6.2	34.7	0.0	40.9	34.2	0.0	0.0	6.8	41.0	8.6	0.0
	May	63.9	355.5	83.9	6.4	35.6	0.0	41.9	35.3	0.0	0.0	6.3	41.6	6.5	-0.4
	June	64.4	355.3	83.9	6.4	35.5	0.0	42.0	37.7	0.0	0.0	5.3	43.0	6.7	1.0
	July	66.5	358.2	93.8	6.7	35.8	0.0	42.5	37.4	0.0	0.0	5.3	42.6	8.6	0.2
	August	68.0	362.7	96.0	6.8	36.3	0.0	43.1	38.3	0.0	0.0	5.3	43.5	6.3	0.5
	September	65.7	363.8	93.0	6.6	36.4	0.0	43.0	38.2	0.0	0.0	4.6	42.8	8.3	-0.2
	October	64.5	371.5	100.7	6.4	37.1	0.0	43.6	38.3	0.0	0.0	5.8	44.1	6.2	0.5
	November	68.6	376.2	102.0	6.9	37.6	0.0	44.5	39.5	0.0	0.0	5.2	44.7	6.8	0.2
	December	70.6	378.0	99.1	7.1	37.8	0.0	44.9	38.1	0.0	0.0	5.2	43.3	7.8	-1.6
2003	January	72.7	384.5	0.0	7.3	38.4	0.0	45.7	37.5	0.0	0.0	5.2	42.7	7.0	-3.0
	February	70.3	391.4	0.0	7.0	39.1	0.0	46.2	40.1	0.0	0.0	4.6	44.7	6.9	-1.5
	March	70.8	393.0	0.0	7.1	39.3	0.0	46.4	40.3	0.0	0.0	5.2	45.5	9.4	-0.9
	April	71.7	394.0	0.0	7.2	39.4	0.0	46.6	37.3	0.0	0.0	7.7	44.9	6.4	-1.6
	May	76.5	396.2	0.0	7.6	39.6	0.0	47.3	41.9	0.0	0.0	5.8	47.7	7.8	0.4
	June	76.5	398.4	0.0	7.7	39.8	0.0	47.5	41.4	0.0	0.0	5.2	46.6	8.8	-0.9
	July	80.0	401.6	0.0	8.0	40.2	0.0	48.2	41.8	0.0	0.0	4.7	46.5	8.1	-1.7
	August	81.3	404.5	0.0	8.1	40.4	0.0	48.6	44.2	0.0	0.0	5.1	49.2	7.0	0.7
	September	80.4	406.8	0.0	8.0	40.7	0.0	48.7	43.0	0.0	0.0	4.8	47.8	8.4	-0.9

Source: Central Bank of Sri Lanka.

Table 25. Sri Lanka: Balance of Payments, 1998–2002

	1998	1999	2000	2001	2002
	(In millions of U.S. dollars)				
Trade balance	-1,092	-1,369	-1,798	-1,157	-1,406
Exports	4,798	4,610	5,522	4,817	4,699
Imports	5,890	5,979	7,320	5,974	6,106
Services, net	144	147	38	175	271
Receipts	914	968	953	1,355	1,270
Payments	770	820	915	1,180	999
Income, net	-180	-254	-304	-267	-260
Receipts	214	167	152	108	74
Payments	394	421	456	375	334
<i>Of which</i> : Interest	289	297	331	251	217
Private transfers, net	848	887	974	984	1,097
Current account (excluding grants)	-279	-588	-1,089	-266	-298
Official transfers	52	26	24	22	26
Current account (including grants)	-227	-563	-1,065	-244	-272
Capital and financial account	414	373	443	514	509
Capital account (net)	80	80	50	198	55
Financial account	334	293	393	316.2	454
Long-term:	398	435	305	165	351
Direct investment	193	177	176	172	235
Foreign direct investment, net	137	177	173	82	230
Privatization proceeds	56	0	3	90	5
Private, long-term (net)	2	196	82	-257	4
Disbursements	146	361	298	45	141
Amortization	145	165	216	302	137
Government, long-term (net)	203	62	47	249	112
Disbursements	493	381	355	575	492
Amortization	290	319	308	326	380
Short-term, net	-64	-142	88	151	103
Portfolio investment, net (CSE)	-24	-13	-45	-11	25
Private short-term, net	8	-9	100	-42	68
Commercial banks (net)	-48	-120	33	254	-40
Government short-term, net	0	0	0	-50	50
Errors and omissions	-151	-73	101	-51	7
Valuation adjustments	0	0	0	0	94
Overall balance	37	-263	-521	220	338
Net international reserves	-37	263	521	-220	-338
Increase in gross official reserves (-)	45	340	619	-270	-415
Central bank borrowing, net	0	21	0	-3	0
Central bank liabilities	...	...	...	...	...
(valuation)	...	...	...	...	...
Use of Fund credit, net	-83	-99	-97	53	76
	(In percent of GDP)				
Memorandum items:					
Current account (excl. official transfers)	-1.8	-3.7	-6.6	-1.7	-1.8
Current account (incl. official transfers)	-1.4	-3.6	-6.4	-1.5	-1.6
Overall balance	0.2	-1.7	-3.1	1.4	2.0
Total debt 1/	61.0	63.2	60.8	61.8	60.0
Total debt service (percent of exports of goods and services)	13.3	15.2	14.7	13.3	13.2
Gross official reserves (in millions of U.S. dollars) 2/	1,911	1,530	911	1,183	1,565
(In months of imports)	3.4	2.7	1.3	2.0	2.6
Net official reserves	1,543	1,272	750	970	1,277
GDP (in millions of U.S. dollars)	15,760	15,711	16,597	15,749	16,544

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

1/ Includes banking sector liabilities.

2/ Less ACU balances.

Table 26. Sri Lanka: Exports by Commodity, 1998–2002

	1998	1999	2000	2001	2002
	(In millions of U.S. dollars)				
Total	4,798	4,610	5,522	4,817	4,699
Agricultural products	1,087	948	1,007	932	937
Tea					
Value	778	621	701	689	660
Volume (million kg)	271.9	269.3	288.0	295.0	292.0
Unit value (US\$)	2.86	2.31	2.43	2.34	2.26
Rubber					
Value	43	33	29	24	27
Volume (million kg)	41.5	42.8	33.0	32.0	37.0
Unit value (US\$/kg)	1.05	0.77	0.87	0.74	0.72
Coconuts products					
Value	95	130	121	82	84
Volume (million nuts)	437	600	787	516	328
Unit value (US\$/nut)	0.22	0.22	0.15	0.08	0.13
Other agricultural products					
Value	171	165	156	136	167
Volume (million kg)	58.0	58.9	49.8	51.8	63
Unit price (US\$/kg)	2.94	2.80	3.12	2.63	2.66
Industrial products	3,615	3,559	4,301	3,712	3,634
Gems (value)	177	223	273	247	277
<i>Of which:</i> Processed diamonds (value)	121	161	179	166	192
Garments					
Value	2,204	2,205	2,723	2,335	2,246
Volume (million pieces)	319.1	350.5	468.4	432.1	422.9
Unit value (US\$/piece)	6.91	6.29	5.81	5.40	5.31
Other industrial products (value)	955	893	1,029	934	944
Petroleum products					
Value	72	74	98	68	73
Volume ('000 metric tons)	473.5	413.0	352.4	280.9	306.1
Unit value (US\$/ton)	152.4	179.2	277.6	241.1	239.2
Miscellaneous exports	23	29	117	106	54
	(In percent of total exports)				
Traditional exports 1/ <i>Of which:</i> Tea	19.1 16.2	17.0 13.5	15.4 12.7	16.5 14.3	16.4 14.0
Nontraditional exports	80.9	83.0	84.6	83.5	83.6
Other agricultural products	3.6	3.6	2.8	2.8	3.6
Garments and textiles	45.9	47.8	49.3	48.5	47.8
Gems (incl. diamonds)	3.7	4.8	4.9	5.1	5.9
Other industrial products	19.9	19.4	18.6	19.4	20.1
Petroleum products	1.5	1.6	1.8	1.4	1.6
Other	6.3	5.8	7.1	6.3	4.7
Total	100.0	100.0	100.0	100.0	100.0

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

1/ Consists of tea, rubber, and coconut products.

Table 27. Sri Lanka: Imports by Commodity, 1998–2002

	1998	1999	2000	2001	2002
	(In millions of U.S. dollars)				
Total	5,890	5,979	7,320	5,974	6,106
Consumer goods	1,255	1,242	1,388	1,236	1,319
Food and drink	722	661	693	656	695
Rice					
Value	42	46	4	11	18
Volume ('000 metric tons)	168	214	15	52	95
Unit value (US\$/ton)	251	215	262	204	189
Wheat					
Value	127	111	127	110	130
Volume ('000 metric tons)	880	859	922	760	993
Unit value (US\$/ton)	144	129	138	144	131
Sugar					
Value	129	106	141	115	132
Volume ('000 metric tons)	444	479	562	420	554
Unit value (US\$/ton)	290	221	252	274	238
Other food	424	398	421	421	415
Other consumer goods	533	581	695	580	624
Intermediate goods	2,982	3,056	3,789	3,321	3,492
Petroleum	345	500	901	731	789
Crude petroleum					
Value	216	257	497	352	422
Volume (million barrels)	16	14	17	14	17
Unit value (US\$/barrel)	14	19	29	25	25
Refined petroleum	129	243	404	379	367
Fertilizer					
Value	62	66	80	67	76
Volume ('000 metric tons)	440	539	559	460	537
Unit value (US\$/ton)	141	122	143	146	142
Textiles	1,397	1,320	1,471	1,320	1,321
Other intermediate goods	1,178	1,170	1,337	1,203	1,306
Investment goods	1,477	1,565	1,737	1,081	1,170
<i>Of which:</i> Machinery and equipment	786	678	787	610	640
Transport equipment	264	523	529	129	151
Building materials	303	260	305	249	271
Unclassified	176	116	406	336	125
	(In percent of total imports)				
Food	12.3	11.1	9.5	11.0	11.4
Petroleum	5.9	8.4	12.3	12.2	12.9
Textiles	23.7	22.1	20.1	22.1	21.6
Other intermediate goods	21.1	20.7	19.4	21.3	22.6
Investment goods	25.1	26.2	23.7	18.1	19.2
Other	12.0	11.7	15.0	15.3	12.3
Total	100	100	100	100	100

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

Table 28. Sri Lanka: Direction of Trade, 1998–2002 1/

(In percent)

	1998	1999	2000	2001	2002 Prov.	1998	1999	2000	2001	2002 Prov.
European Union	27.3	29.3	27.9	26.6	29.5	17.6	16.0	15.1	15.7	14.9
<i>Of which:</i>										
France	2.1	2.2	2.1	2.3	2.0	1.3	1.5	1.3	1.5	1.3
Germany	4.9	4.8	4.2	4.2	4.2	3.5	2.5	2.5	2.5	2.0
Netherlands	2.2	2.4	1.9	1.8	1.6	1.7	1.6	1.3	1.4	0.8
United Kingdom	11.2	13.3	13.5	12.2	12.5	5.3	4.7	4.9	4.1	4.3
United States	39.9	39.6	40.3	40.8	37.3	4.0	4.0	4.0	4.9	3.6
Japan	4.1	3.5	4.2	3.9	3.0	9.7	10.4	10.3	6.2	5.9
Middle East	8.9	8.0	8.0	9.2	8.0	6.5	6.5	9.6	9.4	14.6
<i>Of which:</i>										
Egypt	3.0	0.6	0.6	0.3	0.2	0.1	0.2	0.1	0.1	0.1
Iran, Islamic Republic of	0.4	0.6	0.6	0.6	0.7	2.0	1.5	3.2	4.3	3.0
Iraq	0.3	0.3	0.3	0.4	0.5	--	--	--	--	--
Saudi Arabia	0.9	0.8	0.8	0.7	0.6	1.7	0.8	2.1	0.7	2.6
Asia 2/	7.3	8.4	8.7	8.0	10.4	52.0	54.5	52.9	55.7	53.3
<i>Of which:</i>										
China	0.3	0.1	0.1	0.1	0.3	4.0	3.0	4.0	4.1	4.3
Hong Kong SAR	1.1	1.4	1.3	1.1	1.2	7.2	8.5	8.2	9.2	8.1
India	0.8	1.1	1.1	1.5	3.6	9.4	9.5	9.5	11.1	13.8
Pakistan	0.6	0.7	0.5	0.5	0.6	1.6	1.8	1.1	1.4	1.1
Singapore	0.9	1.0	1.1	1.2	1.5	5.4	8.4	7.9	7.6	7.2
Taiwan, POC	0.3	0.3	0.2	0.3	0.3	6.6	6.5	6.2	6.0	4.8
Former Soviet Union	3.1	2.4	2.6	3.5	3.6	0.3	0.2	0.1	0.1	0.1
Other countries	9.3	8.8	8.3	8.0	8.1	9.8	8.3	8.0	8.0	7.6
All countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

1/ Based on unadjusted data.

2/ Excluding Japan.

Table 29. Sri Lanka: Indicators of Trade Performance, 1998–2002

	1998	1999	2000	2001	2002
	(In percent of GDP)				
Exports	30.5	29.4	33.4	30.6	28.4
Imports	37.3	38.1	44.1	37.9	36.9
Consumption	7.2	7.2	7.6	7.1	7.2
Food	3.8	3.5	3.4	3.5	3.4
Other	3.4	3.7	4.2	3.7	3.8
Intermediate 1/	19.7	20.2	23.6	21.8	21.9
Petroleum	2.2	3.2	5.4	4.6	4.8
Other	17.5	17.0	18.2	17.1	17.1
Investment 2/	9.4	10.0	10.4	6.8	7.1
Other	1.1	0.7	2.4	2.1	0.8
Trade balance	-6.9	-8.7	-10.7	-7.3	-8.5
	(Annual percentage change)				
Export volume	-1.6	5.0	18.3	-8.1	1.9
Export unit value (US\$ terms)	4.9	-8.5	1.5	-5.5	-4.2
Import volume 2/	8.5	0.2	13.0	-10.3	11.0
Import unit value (US\$ terms)	-7.5	-3.6	8.1	-4.2	-7.7
Terms of trade	13.4	-5.1	-6.1	-1.3	3.8
Real effective exchange rate 3/	-11.0	0.4	2.3	1.2	-0.9

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

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

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

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

Table 30. Sri Lanka: Services and Income, 1998–2002

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002 Prov.
Total services 1/	144	147	38	175	271
Receipts	914	968	953	1,355	1,270
Payments	770	820	915	1,180	999
Transportation	139	122	69	77	184
Receipts	402	405	406	384	514
Payments	263	283	337	307	330
Travel	28	55	8	-37	100
Receipts	230	274	252	213	363
Payments	202	219	244	250	263
Telecommunications	...	...	-2	34	61
Receipts	...	...	46	40	69
Payments	...	...	48	6	8
Computer and information	...	...	...	66	50
Receipts	...	...	...	66	50
Payments	...	...	...	0	0
Construction	...	...	...	3	2
Receipts	...	...	...	41	34
Payments	...	...	...	38	32
Insurance services	16	17	19	106	18
Receipts	34	37	41	423	45
Payments	18	20	22	317	27
Other business services	-29	-47	-50	-79	-134
Receipts	224	227	184	168	172
Payments	253	274	234	247	306
Government expenditure n.i.e.	-9	0	-6	7	-10
Receipts	25	25	24	22	22
Payments	34	25	30	15	32
Total income	-180	-254	-304	-267	-260
Receipts	214	167	152	108	74
Compensation of employees	12	12	12	14	9
Direct Investment (profits and dividends)	2	2	2	3	2
Other (interest)	200	153	138	91	63
Payments	394	421	456	375	334
Compensation of employees	13	14	14	17	13
Direct investment (profits and dividends)	91	111	110	104	100
Other (interest)	289	297	331	251	217
Memorandum items:					
Exports of goods and nonfactor services	5,712	5,578	6,475	6,172	5,969
(In percent of GDP)	36.2	35.5	39.0	39.2	36.1
Imports of goods and nonfactor services	6,660	6,800	8,235	7,154	7,104
(In percent of GDP)	42.3	43.3	49.6	45.4	42.9

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

1/ Includes telecommunications services.

Table 31. Sri Lanka: Financial Account, 1998–2002

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002 1/
Total, net	334	293	393	316	454
Central government, net	203	62	47	249	112
Concessional medium- and long-term	314	178	153	215	273
Disbursements	471	351	353	423	486
Amortization	158	174	200	208	213
Nonconcessional medium- and long-term	-110	-116	-106	33	-111
Disbursements	22	29	2	152	55
Amortization	132	145	108	119	166
Private sector medium- and long-term 2/	2	196	82	-257	4
Disbursements	146	361	298	45	141
Amortization 3/	145	165	216	302	137
Direct investment, net 4/	193	177	176	172	235
Short-term, net 5/	-64	-142	88	151	103
Memorandum items:					
Total aid disbursements	620	485	423	638	616
Loans	493	382	355	575	542
Project loans 6/	471	351	353	423	486
Commodity and program loans	22	30	2	152	56
Grants	127	103	68	62	74
Project grants	74	77	44	40	48
Commodity and technical assistance grants	53	26	24	22	26

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

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

2/ Consists of public corporations and private companies.

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

4/ Includes foreign direct investment, and privatization proceeds.

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

6/ Includes nonconcessional project loans.

Table 32. Sri Lanka: External Debt-Service Payments, 1998–2002

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002 Prov.
Interest	289	297	331	251	217
Government	129	134	129	123	121
Concessional	100	112	115	116	116
Multilateral	25	27	23	28	30
Bilateral	75	85	93	88	87
Nonconcessional	29	22	14	7	4
Private	68	71	88	67	51
Public corporations and private sector 1/	50	53	68	57	43
Other public corporations and private sector 2/	18	19	19	10	8
Fund	6	5	5	5	4
Short-term debt 3/	85	87	109	57	42
Amortization	517	584	621	707	572
Government	290	319	308	327	379
Concessional	158	174	200	208	213
Multilateral	32	35	41	52	59
Bilateral	126	139	159	156	154
Nonconcessional	132	145	108	119	166
Private	145	165	216	302	137
Public corporations and private sector 1/	74	98	174	97	92
Other public corporations and private sector 2/	71	68	42	205	45
Fund repurchases	83	100	97	78	56
Memorandum items:					
Total debt-service ratio 4/	13.3	15.2	14.7	13.3	13.2
<i>Of which:</i> Interest payments	5.1	5.3	5.1	4.1	3.6
Medium- and long-term official debt-service ratio 5/	8.9	10.0	8.3	8.7	7.6
Interest payments/total outstanding debt	3.3	3.3	3.7	2.9	2.3
Average interest rate on concessional debt	1.6	1.6	1.5	1.4	1.4
Average interest rate on non-concessional debt	3.9	4.7	3.1	3.0	3.0

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

1/ With government guarantee.

2/ Without government guarantee.

3/ Includes interest payments on trade credits, central bank and commercial bank liabilities, CPC, and foreign currency deposits of nonresidents.

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

5/ Including Fund credit.

Table 33. Sri Lanka: External Debt Outstanding, 1998–2002

(In millions of U.S. dollars)

	1998	1999	2000	2001	2002 Prov.
Total medium- and long-term 1/	7,952	8,355	8,261	7,801	8,403
Government	6,956	7,125	6,963	6,809	7,442
Concessional	6,642	6,910	6,660	6,347	7,315
Multilateral	3,123	3,156	3,027	3,098	3,633
IDA	1,654	1,650	1,555	1,576	1,751
AsDB	1,395	1,444	1,406	1,461	1,695
Other	74	62	66	61	187
Bilateral	3,519	3,754	3,633	3,249	3,682
Japan	1,953	2,286	2,159	1,987	2,245
United States	676	655	643	623	618
Germany	445	380	321	345	414
Other	446	433	510	294	405
Commercial	314	215	303	462	127
Multilateral	8	6	4	7	4
Bilateral	24	18	13	2	0
Financial markets	186	147	69	184	33
Supplier credits	96	44	217	269	90
Public corporations and private sector 2/	718	944	1,017	744	689
Other public corporations and private sector 3/	277	286	281	249	272
Short-term debt 4/	484	475	575	533	601
IMF	367	258	160	214	304
Total debt 5/	8,803	9,088	8,996	8,548	9,308
Memorandum items:					
Total debt					
(In percent of GDP) 5/	55.9	57.8	54.2	54.3	56.3
(In percent of exports of goods and nonfactor services)	154.1	162.9	138.9	138.5	155.9

Source: Data provided by the Sri Lankan authorities.

1/ Excluding IMF.

2/ With government guarantee.

3/ Without government guarantee.

4/ Includes acceptance credits of Ceylon Petroleum Corporation, trade credits and short-term borrowings from FCBUs. Excludes nonresident foreign currency deposits.

5/ Excludes banking sector liabilities.

Table 34. Sri Lanka: Net International Reserves, 1998–2002

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

	1998	1999	2000	2001	2002
I. Central Bank, net	1,843	1,433	826	1,092	1,458
a. Assets	1,935	1,554	964	1,201	1,594
Gold	4	4	4	3	74
SDR holdings	1	1	0	1	2
Liquid balances abroad	872	285	289	429	578
Bilateral credit balances	0	0	0	0	0
Foreign securities	999	1,211	671	767	934
ACU credit balance 1/	0	0	0	2	6
Statutory reserves on foreign deposits of commercial banks	59	53	0	0	0
b. Liabilities	93	121	138	109	136
Nonresident deposits	0	0	0	2	1
Borrowings from abroad	0	0	0	0	0
ACU debit balance 1/	92	121	137	107	135
II. Government, net	-300	-162	-76	-122	-181
a. Assets	67	96	84	87	106
Reserve position in IMF	29	65	62	59	60
Investment	0	0	0	0	0
Other 2/	39	31	22	28	46
b. Liabilities 2/	367	258	161	209	287
Use of Fund credit	367	258	161	209	287
III. Commercial banks, net	58	178	145	-110	-70
a. Assets	923	942	1,083	900	795
Liquid balances	344	414	544	393	390
Export bills	101	90	110	85	76
FCBU assets	479	439	429	422	330
b. Liabilities	866	765	938	1,009	865
Foreign bank borrowings	54	61	74	53	29
Foreign bank deposits	9	9	5	6	19
Non-bank demand deposits 3/	13	13	13	15	10
Non-bank time deposits 3/	352	376	417	417	477
FCBUs liabilities with nonresidents	438	306	429	519	330
IV. Net international reserves (I+II+III)	1,600	1,449	895	861	1,207
Memorandum items:					
Gross official reserves (Ia+IIa)	2,003	1,650	1,049	1,288	1,700
Gross official reserves (excl. ACU balances)	1,911	1,530	911	1,183	1,565
(in months of next year's imports)	3.4	2.2	1.5	2.0	2.6
Net official reserves (I+II)	1,543	1,272	750	970	1,277
Exchange rate (Rs/U.S. dollar, end-of-period)	68.30	72.17	82.58	93.16	96.73

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

1/ Asian Clearing Union.

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

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