



# **MID – YEAR FISCAL POSITION REPORT – 2020**

Issued under Section 10 of the  
Fiscal Management (Responsibility) Act, No. 3 of 2003

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**Hon. Minister of Finance, Economic and Policy  
Development**

30<sup>th</sup> June 2020



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**Hon. Minister of Finance, Economic and Policy Development**

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In terms of Section 10 of the Fiscal Management (Responsibility) Act, No. 3 of 2003, the Minister of Finance is required to present the Mid-Year Fiscal Position Report to the public by the last day of June of the year and thereafter lay before Parliament.

The purpose of this report is to provide updated information on the government's fiscal performance as per the fiscal strategy of the government.

The report contains the performance of government revenue, expenditure, cash flow operations and borrowings during the first four months of the year 2020. The report also provides provisional budget outturn for the first four months of 2020, updated information, depending on the availability of information, relating to macroeconomic performance, price developments, foreign financing, government debt and official reserves as well as the performance of state owned business enterprises.



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## Key Economic Indicators

Indicator	Period	Unit	Value	
			2019	2020 (Provisional)
<b>REAL SECTOR</b>				
Economic Growth	First Quarter	%	3.7	n.a
Agriculture	First Quarter	%	5.5	n.a
Industry	First Quarter	%	3.0	n.a
Services	First Quarter	%	4.1	n.a
Inflation (Point to Point)	End May	%	3.5	5.2
Inflation (Average)	End May	%	2.0	5.2
Unemployment Rate	Annual	%	4.8	n.a
Labour Force Participation Rate	Annual	%	52.3	n.a
<b>FISCAL SECTOR</b>				
Budget Deficit	Jan-April	Rs. Mn.	-363,438	-452,175
Total Revenue	Jan-April	Rs. Mn.	598,116	476,733
Tax Revenue	Jan-April	Rs. Mn.	551,530	408,484
Non Tax Revenue	Jan-April	Rs. Mn.	46,586	68,248
Recurrent Expenditure	Jan-April	Rs. Mn.	750,535	820,685
Public Investment	Jan-April	Rs. Mn.	212,899	118,928
Government Debt	End Dec	Rs. Bn.	13,031	n.a
<b>EXTERNAL SECTOR</b>				
Exports	Jan-April	US\$ Mn.	3,954.2	2,932.0
o/w Agriculture Exports	Jan-April	US\$ Mn.	824.7	626.8
Industrial Exports	Jan-April	US\$ Mn.	3,111.9	2,294.9
Textile and Garments	Jan-April	US\$ Mn.	1,831.8	1,320.1
Other	Jan-April	US\$ Mn.	1,280.1	974.8
Imports	Jan-April	US\$ Mn.	6,412.5	5,625.3
Consumer Goods	Jan-April	US\$ Mn.	1,220.4	1,268.6
Intermediate Goods	Jan-April	US\$ Mn.	3,656.8	3,115.7
o/w Petroleum Products	Jan-April	US\$ Mn.	1,313.6	1,070.1
Investment Goods	Jan-April	US\$ Mn.	1,532.9	1,233.4
Trade Balance	Jan-April	US\$ Mn.	2,458.2	2,693.3
Tourist Arrivals	Jan-April	No.	907,575	507,311
Earnings From Tourism	Jan-April	US\$ Mn.	1,782 <sup>(a)</sup>	956 <sup>(b)</sup>
Workers' Remittances	Jan-April	US\$ Mn.	2,171	1,975
Portfolio Investments – Equity (Net)	Jan-April	US\$ Mn.	-24	-28
Overall Balance of Payments (BOP)	Jan-April	US\$ Mn.	285	-292
Gross Official Reserves	End April	US\$ Mn.	7,214	7,210
Exchange Rate (End Month)	End May	Rs. Per US\$	176.41	186.29
Exchange Rate (Monthly Average)	End May	Rs. Per US\$	176.44	187.87
<b>MONETARY SECTOR</b>				
Standing Deposit Facility Rate (SDFR)	End May	%	7.5	5.5
Standing Lending Facility Rate (SLFR)	End May	%	8.5	6.5
Statutory Reserve Requirement (SRR)	End May	%	5.0	4.0
Commercial Bank Average Weighted Prime Lending Rate (AWPLR)	End May	%	11.93	9.3
Commercial Bank Average Weighted Lending Rate (AWLR)	End April	%	14.5	13.1
Sri Lanka Inter Bank Offer Rate (SLIBOR) (1 Month)	End May	%	9.0	6.4
W.A. Yield Rate of Treasury Bills (91 Days)	End May	%	8.5	6.7
W.A. Yield Rate of Treasury Bills (364 Days)	End May	%	8.9	6.9
Growth in Money Supply (M <sub>2b</sub> )	Apr 2020/Apr 2019	%	9.0	13.2
Growth in Credit to the Private Sector	Apr 2020/Apr 2019	%	9.8	7.6

(a) Revised based on survey results of SLTDA on average stay period and average spending per day estimates for 2019

(b) This provisional estimate may be revised once the SLTDA releases its survey results for 2020

### Sri Lanka: Selected Indicators

Indicator	Period	Unit	Value
<b>Electricity</b>			
Electrification Level	2019	%	99.0
<b>Water</b>			
Access to Safe Drinking Water	2019	% of Population	91.9
Access to Pipe borne Water	2019	% of Population	51.8
<b>Roads</b>			
Road Density	2019	km <sup>2</sup>	n.a
Total Road Length	2019	km	12,438
<b>Communication</b>			
Telephone Density including Cellular Phones	2019	Per 100 persons	161.4
Access to Internet	2019	Per 100 persons	61.5
<b>Education</b>			
<b>General Education</b>			
Primary Net Enrolment Ratio	2018	%	91.9
Student/Teacher Ratio (Government Schools)	2018	Number	17
Literacy Rate (Average)	2019	%	92.5
Computer Literacy Rate (First 06 months)	2019	%	30.1
<b>University Education</b>			
Student/Teacher Ratio	2019	Number	17.7
Age Specific Enrolment Ratio (Age 19-23 yrs) <sup>(a)</sup>	2019	%	7.5
<b>Health</b>			
Hospitals (Practicing Western Medicine) <sup>(b)</sup>	2019	Number	603
Beds <sup>(b)</sup>	2019	Number	77,964
Hospital Beds	2019	Per 1,000 persons	3.6
Persons per Doctor	2019	Number	1,203
<b>Population</b>			
Population Density	2019	Persons per sq. km	348
Population Growth	2019	%	0.6
Life Expectancy at Birth	2017	Years	75.5
Infant Mortality Rate	2017	Per 1,000 live births	8.5
Maternal Mortality Rate	2013	Per 1,000 live births	26.8
Crude Birth Rate	2019	Per 1,000 persons	14.6
Crude Death Rate	2019	Per 1,000 persons	6.6
Dependency Ratio	2019	%	49.4
<b>Poverty</b>			
Poverty Head Count Index	2016	%	4.1
Gini Coefficient of Household Income	2016	Coefficient	0.45
Poverty Gap Index	2016	%	0.6
Average Daily Calorie Intake	2016	Kilocalories	2,095
<b>International Rankings</b>			
Human Development Index	2019	Rank out of 189 Countries	71
Doing Business Index	2019	Rank out of 190 Countries	99
Global Competiveness Index	2019	Rank out of 140 Countries	84
Economic Freedom Index	2019	Rank out of 180 Countries	112
Global Peace Index	2019	Rank out of 163 Countries	72
e-Government Development Index	2018	Rank out of 193 Countries	94

(a) Only includes internal enrolment of students

(b) Government



# CHAPTER 1

## Economic Perspectives

### Overview

At the time the report is being published, the country is in the process of successfully normalizing its activities since the decision taken to impose a lockdown of its borders due to the COVID-19 pandemic. Although the number of patients has reached almost 10 million globally, with almost 64 deaths per 1 million, in Sri Lanka's case due to the strict monitoring imposed together with the extensive awareness programmes conducted has ensured that the total number of patients have remained at around 2,042. With all new cases found since April 30, being from those who have travelled into the country and already in quarantine centres.

While the COVID-19 pandemic created havoc globally with severe disruptions to value chains challenging the economic and social activities and relationships, the country was able to ensure that since the lockdown imposed on March 13, 2020, alternative logistical arrangements were in place ensuring that the people had access to basic amenities such as foods, medicines etc. Although the country went into lockdown mode, the government ensured that essential services provided by both public and private sector were provided unimpeded. In this regard, the decision to impose work from home measures specially for the public sector also ensured that the country did not come to a full standstill but operated using alternative methods. In that, the automation of the Colombo Tea Auction, coupled with the opening of the BOI's Free Trade Zones by April, 2020 which has now resulted in more than 95 percent of the factories being open for business indicates that the economy did not come to a complete standstill. The apparel industry which employs almost 350,000 directly and almost 400,000 indirectly has been able to reengineer their business models to produce protective gears and allied garments to meet the growing demand for such equipment.

However, it needs to be noted that during the first quarter of 2020, although the lockdown

occurred only around two weeks to the end of the quarter, improved private sector credit growth and government revenue collections at around Rs. 476.7 billion which is almost Rs. 598.1 billion of 2019, on the back of the stimulus package introduced by the government in December 2019 indicate that the economy was poised for a take off. While the lockdown has affected the country's April 2020 exports to be only around US\$ 295 million, it has improved to almost US\$ 695 million by May 2020 a significant improvement over the previous month indicating that the economy has now repositioned itself to generate value into the system.

The fiscal and monetary stimulus measures have been implemented to support individuals and families in addition to the support provided for, in particular, Micro, Medium and Small Enterprises (MMSEs) affected by the COVID-19. Despite the outbreak of the COVID-19, headline inflation as measured by the year-on-year change both in the National Consumer Price Index (NCPI, 2013=100) and the Colombo Consumer Price Index (CCPI, 2013=100) declined to 5.2 percent and 4.0 percent, respectively in May 2020 to a mid-single digit level driven by the decline in food and non-food categories. The country's reverse position was US\$ 7.2 billion as at end April 2020.

### Inflation

The headline inflation as measured by the National Consumer Price Index (NCPI, 2013=100) on year-on-year basis demonstrated a declining trend from January to May 2020 and it decelerated to 5.2 percent in May 2020 from 7.6 percent in January 2019. This was due to the decline in prices both food and non-food items during the period. In the same vein, the Colombo Consumer Price Index (CCPI) on year-on-year basis declined to 4.0 percent in May 2020 from 5.7 percent in January 2020 benefiting from the decline in prices both in food and non-food items. The overall inflation rate is expected

to remain mid-single digit level during the year with the supply side improvements. The core inflation, which reflects the underlying

inflation of the country as measured by the year-on-year change in the NCPI and CCPI decelerated from January to May 2020.

**TABLE 1.1 : Movements in Inflation (%)**

Year	Month	CCPI (2013=100)				NCPI (2013=100)			
		Headline Inflation		Core * Inflation		Headline Inflation		Core * Inflation	
		Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average	Point to Point	Annual Average
2019	January	3.7	4.1	5.5	3.7	1.2	1.8	5.1	2.7
	February	4.0	4.1	5.4	3.8	2.4	1.7	5.5	3.0
	March	4.3	4.1	5.6	4.0	2.9	1.7	5.8	3.3
	April	4.5	4.1	5.5	4.2	3.6	1.9	6.3	3.7
	May	5.0	4.2	6.2	4.4	3.5	2.0	6.3	4.0
	June	3.8	4.2	5.8	4.7	2.1	2.0	6.1	4.4
	July	3.3	4.0	5.7	4.8	2.2	1.9	6.1	4.7
	August	3.4	3.8	5.6	5.0	3.4	2.0	5.9	5.0
	September	5.0	3.9	5.6	5.1	5.0	2.3	5.6	5.2
	October	5.4	4.0	5.5	5.3	5.6	2.8	5.6	5.4
	November	4.4	4.1	5.1	5.4	4.1	3.0	5.5	5.6
	December	4.8	4.3	4.8	5.5	6.2	3.5	5.2	5.7
2020	January	5.7	4.5	3.0	5.3	7.6	4.1	3.9	5.6
	February	6.2	4.6	3.2	5.1	8.1	4.5	3.4	5.5
	March	5.4	4.7	2.9	4.9	7.0	4.9	3.2	5.2
	April	5.2	4.8	3.1	4.7	5.9	5.1	3.2	5.0
	May	4.0	4.7	2.9	4.4	5.2	5.2	3.7	4.8

Source : Department of Census and Statistics

\*CCPI Core Inflation – Excluding Volatile Food, Energy and Transport

## Money and Credit

Monetary sector indicators showed improved performance in the first four months of 2020. Reserve money, broad money ( $M_{2b}$ ) and the private sector credit growth improved during the period. Accordingly, reserve money increased by 10.5 percent, on year-on-year basis, while the growth of broad money ( $M_{2b}$ ) increased by 13.2 percent on a year-on-year basis. The private sector credit increased by 7.6 percent to Rs. 5,957.6 billion as at end April 2020. The Central Bank of Sri Lanka (CBSL) implemented an accommodative monetary policy stance by reducing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 50 basis points to 6.50 percent and 7.50 percent, respectively by end January 2020. The SDFR and the SLFR have been further reduced by 25 basis points to 6.25 percent and 7.25 percent, respectively with effect from March 17, 2020, to support the revival

of economic activity. To provide further relief to businesses and individuals affected by the outbreak of the COVID-19 pandemic, the SDFR and the SLFR have been reduced by 25 basis points to 6.00 percent and 7.00 percent, respectively in April 2020. The Bank Rate, which is an administratively determined rate that could be used in periods of emergency, has been reduced by 500 basis points from 15.00 percent to 10.00 percent with effect from April 16, 2020. The SDFR and the SLFR reduced by 50 basis points to 5.50 percent and 6.50 percent, respectively effective from May 06, 2020. Policy interest rates have been reduced by 150 basis points from January to June 2020. The Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of Licensed Commercial Banks (LCBs) reduced by 200 basis points to 2.00 percent with effect from June 16, 2020 with the injection of additional liquidity around Rs. 115 billion to the domestic money market. The Central Bank has reduced the SRR by a total of 300 basis points from January to June 2020.

### **BOX 1.1 : Key Policy Responses to COVID-19**

#### **Fiscal Sector**

- Establishment of COVID-19 Healthcare and Social Security Fund with an allocation of Rs. 100 million from the President Fund.
- Granting tax exemptions on the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical and dental instruments, apparatus, accessories and parts thereof, hospital/medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID-19 pandemic.
- Granting tax exemptions on the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health and Indigenous Medical Services, Department of Health Services, Tri-Forces, Sri Lanka Police and COVID Centre.
- Granting tax exemption on the importation of raw materials and packing materials by pharmaceutical manufacturers for manufacture of pharmaceuticals.
- Removal of the Teledrama Levy imposed on imported foreign films and teledramas.
- Establishment of the Fuel Price Stabilization Fund (FPSF) with an initial capital of Rs. 50 billion. Surcharge on Customs Duty collected on fuel imports will be credited to the FPSF.
- Provisions of Rs. 5,000 cash allowance to senior citizens, differently-abled persons, kidney patients and farmers and displaced daily worker for the month of April and May.
- Allocation of Rs. 1.2 billion for preventive measures.
- Payment of an interest-free advance of Rs. 10,000 to Samurdhi beneficiaries through all Samurdhi Banks.
- Implementation of a debt moratorium facilitated through banks complemented by guarantees from the Central Bank.
- Introduction of the one-month grace period to the general public for the payments of utility bills and monthly credit card bills less than Rs. 50,000.
- Doubling the Agrahara insurance benefits for health workers engaged in Corona prevention activities, Police, Tri-forces personnel and other government employees.
- Suspension of the loan payment deductions from salaries of all public sector employees drawn from advance accounts until further notice.
- Extending the payment deadlines for Withholding tax and Value Added Tax.
- Imposition of Maximum Retail Price (MRP) for face masks.
- Suspension of the Tea Promotion Levy (TPL) for a period of six months.
- Directions issued to exempt penalty payments of all taxes during the COVID-19 lockdown period and to commence penalty provisions for late payments from July 2020.
- Relief measures for SMEs such as waivering of income tax arrears on assessments issued up to the Year of Assessment 2018/19, non-issuance of additional assessments for the year 2019/20, granting grace period to settle taxes in arrears/default, extension on seizure notices, and extension of the dates for the payment of taxes and filling tax returns.

## **BOX 1.1 : Key Policy Responses to COVID-19 Contd. ....**

### **External Sector**

- Suspension of foreign currency outflows in relation to any investments by local persons, outward remittances and repatriation of funds by emigrants for three months.
- Suspension of Letters of Credit (LCs) facilities on the importation of selected motor vehicles and on the Importation of selected non-essential goods under LCs, documents against acceptance and advance payments for a period of three months.
- Imposition of restrictions on all non-essential imports with certain conditions.
- Issuing of directions to Authorized Dealers to issue foreign currency notes up to a maximum of US\$ 5,000 (or its equivalent in other foreign currency) as travel allowance to persons resident in Sri Lanka travelling abroad for any purpose, from the previously permitted travel allowance of US\$ 10,000.
- Sell-Buy Forex SWAP Auctions for LCBs to provide foreign currency liquidity on term basis without depleting the foreign reserves.
- Obtaining approval to enter into a Bilateral Currency Swap Agreement with the Reserve Bank of India for US\$ 400 million. All necessary prerequisites for signing the Swap Agreement have been fulfilled by the Ministry of Finance and the Central Bank.
- Curtailing of Net Open Positions (NOP) of LCBs on a selective basis to prevent speculative activity in the foreign exchange market.
- Obtaining approval to initiate a Repo Facility for US\$ 1,000 million from the Federal Reserve Bank New York, to meet the contingent liquidity needs of the government.

### **Monetary Sector**

- Suspension of the leasing loan repayment for a period of six months for 1.5 million self-employed persons, including owners of three-wheelers, trucks, school buses and vans and self-employed motorists.
- Injection of liquidity amounting to Rs. 150 billion into the banking system by reducing the Statutory Reserve Ratio (SRR) to 2.00 in order to facilitate economic activity.
- Introduction of the Rs. 50 billion re-financing facility to support business and the economy.
- Introduction of a "Special Deposit Account" to support the national efforts to manage the challenges faced due to the COVID-19.
- Reduction of the Standing Deposit Facility Rate (SDFR) and Standard Lending Facility Rate (SLFR) by 150 basis points from January to May 2020 to reduce market lending rates.
- Reduction of the interest rate for credit card domestic transactions to 15% upto Rs. 50,000 and reduce the minimum daily reserve requirement limit from 90 percent to 20 percent for Licensed Commercial Banks 50% in minimum monthly charges.
- Opening of all bank branches during non-curfew hours providing maximum service to customers.
- Issuance of the guidelines to licensed banks for them to maintain uninterrupted credit flows by cutting down on discretionary payments and other non-essential expenditures.

**BOX 1.1 : Key Policy Responses to COVID-19 Contd. ....**

- Implementation of three new Credit Schemes to support the revival of economic activity to support lending to business segments affected by the COVID-19 (construction and other needy sectors) at the concessional rate of 4.00 percent per annum.

**Administrative Operations**

- Establishment of the National Operations Centre for Prevention of COVID-19 and appointment of Presidential Task Forces on COVID-19 Health Care, Education, Economic Revival and Poverty Alleviation and a high-level coordination council to manage health risks and economy easing strategies.
- Conversion of National Institute of Infectious Diseases and seven other major hospitals into the COVID-19 treatment centres and establishing around 34 Quarantine Centers island wide.
- Increase the Daily PCR testing to over 1,500 tests.
- Delivery of Thripasha, "PoshanaMalla" and medicines directly to the targeted beneficiaries.
- Payment of the pensions to 645,179 pensioners through Divisional Secretariats and Postal Services.
- Implementation of the "Saubhagya Home Garden" programme to ensure the food security of the country.
- Provisions of fertilizer, seeds and plantation material for "Samurdhi" beneficiaries to encourage farming.
- Encourage of domestic manufacturers and inventors to produce requested equipment such as hospital beds, disinfection chambers and sanitizers.
- Relaxing of the restrictions such as curfew on all agricultural activities to meet local and export demand.
- Contribution of US\$ 5 million to the SAARC COVID-19 Emergency Fund.
- Arrangement of Sri Lankan Airline flights to bring back Sri Lankans stranded due to the COVID-19 in India, UK, China and other countries.
- Issuance of Guidelines to carry out "work from home" activities especially for public sector.

**TABLE 1.2 : Money and Private Sector Credit**

Rs. Billion

	2019				2020				2020 April/2019 April Growth (%)
	January	February	March	April	January	February	March	April	
Reserve Money	949.1	963.0	962.9	924.2	935.6	963.3	1,013.8	1,021.6	10.5
Broad Money (M <sub>2b</sub> )	7,110.9	7,188.6	7,253.3	7,295.5	7,703.8	7,793.0	8,098.2	8,259.0	13.2
Private Sector Credit	5,549.4	5,557.0	5,580.2	5,536.6	5,798.9	5,824.2	5,944.2	5,957.6	7.6

Source : Central Bank of Sri Lanka

### Stock Market

The stock market gained its momentum in May-June 2020 amidst the record of a mixed performance in the first five months of 2020. The performance of the stock market has been adversely affected by the outbreak of the COVID-19 pandemic in a flagging global economic environment. Stock market activities have been suspended almost six weeks until May 11, 2020 due to lockdown of the country. The stock market reopened in May 2020. All Share Price Index (ASPI) contracted by 8.7 percent to 4,847 points as at end of May 2020, compared to 5,311 points recorded as at end of 2019. SL&P 20 Index

declined by 18 percent to 2,016 points as at end May 2020, compared to the same period in 2019. The daily average turnover increased by 121 percent to Rs. 1,215 million as at end May 2020 from Rs. 551 million in the same period of 2019. Market capitalization declined by 9.4 percent to Rs. 2,266 billion as at end May 2020, compared to Rs. 2,502 billion in the same period of 2019. Foreign sales increased by 66 percent to Rs. 46,382 million as at end May 2020 from Rs. 27,899 million as at end May 2019 while foreign purchases also increased by 53 percent to Rs. 34,121 million as at end May 2019, recording a net outflow of Rs. 12,260 million as at end of May 2020.

**TABLE 1.3 : Movements in the Capital Market**

Indicators	2015	2016	2017	2018	2019	End May	
						2019	2020
All Share Price Index (1985=100)	6,895	6,228	6,369	6,052	6,129	5,311	4,847
Milanka Price Index/S & P SL 20 Index	3,626	3,496	3,672	3,135	2,937	2,470	2,016
Market Capitalization (Rs. Bn.)	2,938	2,745	2,899	2,839	2,851	2,502	2,266
No. of Listed Companies in Trading	294	295	296	297	289	291	291
Daily Average Turnover (Rs.Mn.)	1,060	737	915	834	834	551	1,215
Foreign Sales (Rs. Mn.)	89,790	74,200	94,627	100,315	68,272	27,899	46,382
Foreign Purchases (Rs. Mn)	84,418	74,583	112,285	77,067	56,537	22,313	34,121
Net Purchases (Rs. Mn)	-5,372	384	17,658	-23,248	-11,735	-5,586	-12,260

Sources : Colombo Stock Exchange and Central Bank of Sri Lanka

## External Sector Developments

Sri Lanka's external sector subdued in the first four months of 2020 reflecting the contagion effects of the COVID-19 on trade, tourism, remittance and financial flows. The trade deficit widened to US\$ 2,693 million in the first four months in 2020, compared to US\$ 2,458 million in the same period of 2019. This expansion of deficit was mainly driven by the shrinkage of exports by 25.9 percent to US\$ 2,932 million in flagging global economic activities due to the outbreak of the COVID-19 pandemic across the globe, in particular, main export destinations such as the US, UK and other European countries since the beginning of 2020. However, the decline in imports by 12.3 percent to US\$ 5,625.3 million helped lessen the trade deficit in the first four months of 2020 due to the temporary suspension of import items such as vehicles and other non-essential items.

Tourism sector which was regained in aftermath of the Easter Sunday Attacks (ESA) in April 2019 was again adversely hit by the COVID-19 pandemic. Tourist arrivals dropped by 44.1 percent to 507,311 persons in the first four months of 2020, compared to

907,575 persons during the same period of 2019 due to the termination of all passenger flights since the third week of March 2020. Earnings from tourism significantly declined by 46.4 percent to US\$ 956 million in the first four months of 2020, compared to US\$ 1,782 million in the same period of 2019. Inflows from workers' remittances fell by 9.0 percent to US\$ 1,975 million in the first four months of 2020 from US\$ 2,171 million in the same period of 2019 reflecting the decline in demand for foreign employment in countries such as the Middle East.

The Colombo Stock Exchange (CSE) recorded a net outflow of US\$ 28 million in the first four months of 2020 that of US\$ 24 million in the same period in 2019. The gross inflows to the government dropped to US\$ 961 million in the first four months of 2020, compared to US\$ 3,239 million in the same period of 2019. Meanwhile, Gross Official Reserves (GOR) stood at US\$ 7.2 billion by the end of April 2020 which is equivalent to 4.5 months of imports. The government continued bold measures to stabilize the exchange rate including the restriction of imports temporarily while attracting foreign currency inflows to the country.

**TABLE 1.4 : External Trade from January to April 2020**

Category	US\$ Million		
	2019	2020 (Prov.)	% Change
<b>Exports</b>	<b>3,954.2</b>	<b>2,932.0</b>	<b>-25.9</b>
Agricultural Products	824.7	626.8	-24.0
Tea	446.2	348.4	-21.9
Primary Products (Rubber and Coconut Products)	122.6	93.5	-23.7
Other Agricultural Products	255.9	184.9	-27.7
Industrial Exports	3,111.9	2,294.9	-26.3
Textile and Garments	1,831.8	1,320.1	-27.9
Petroleum Products	166.9	192.2	15.2
Other Industrial Products	1,113.2	782.6	-29.7
Mineral	11.3	5.9	-47.8
Other	6.3	4.4	-30.2
<b>Imports</b>	<b>6,412.4</b>	<b>5,625.3</b>	<b>-12.3</b>
Consumer Goods	1,220.4	1,268.6	3.9
Food and Beverages	457.4	563.2	23.1
Other Consumer Goods	763.0	705.4	-7.5
Intermediate Goods	3,656.8	3,115.7	-14.8
Petroleum	1,313.6	1,070.1	-18.5
Fertilizer	74.6	55.0	-26.3
Textiles and Clothing	907.6	768.9	-15.3
Other Intermediate Goods	1,361.0	1,221.7	-10.2
Investment Goods	1,532.9	1,233.4	-19.5
Machinery and Equipment	848.8	685.5	-19.2
Transport Equipment	204.9	187.4	-8.5
Building Material	477.0	359.4	-24.7
Other Investment Goods	2.2	1.0	-54.5
Other	2.4	7.7	220.8
<b>Trade Balance</b>	<b>-2,458.2</b>	<b>-2,693.2</b>	<b>-9.6</b>

Source : Central Bank of Sri Lanka

## Exports

Earnings from exports declined significantly to US\$ 2,932 million in the first four months of 2020 and all exports except petroleum products contracted in 2020 in both quantity and value terms due to the mitigation measures adopted to spread of the COVID-19. Earnings from agriculture exports declined by 24.0 percent to US\$ 626.8 million in the first four months of 2020 from US\$ 824.7 million in the same period of 2019 reflecting the decline in export earnings from tea, spices, unmanufactured tobacco and seafood. Earnings from tea exports fell by 21.9 percent to US\$ 348.4 million in the first four months of 2020 due to the reduction of the quantity of tea exports by 12.7 percent amidst the increase in tea auction prices. Also, export earnings from rubber and coconut dropped by 19.4 percent to US\$ 8.8 million and by 24.2 percent to US\$ 84.7 million, respectively. However, earnings from minor agricultural products increased by 28.6 percent to US\$ 44.5 million in the first four months of 2020.

Industrial exports declined by 26.3 percent to US\$ 2,294.9 million in the first four months of 2020 mainly due to the contraction in exports of textile and garments, gems, diamond and jewellery, transport equipment, machinery and mechanical appliances and base metals and articles. However, earnings from export of petroleum products increased notably by 15.2 percent to US\$ 192.2 million in the first four months of 2020, compared to US\$ 166.9 million in the same period of 2019 benefiting from the sharp decline in crude oil prices. Meanwhile, export earnings from mineral products dropped by 47.8 percent to US\$ 5.9 million. Moreover, the major export destinations such as the United States, the United Kingdom, Italy and Germany are battling against the COVID-19 which will have a ramification effect on the exports hence, such developments will drive towards exploring market opportunities elsewhere while diversifying the exports to cater the

renewed demand for other sectors such as health protective gears and accessories.

## Imports

Expenditure on imports declined by 12.3 percent to US\$ 5,625.3 million in the first four months of 2020 with the drop of imports of investment goods and intermediate goods arising from the temporary suspension of imports of motor vehicles and non-essential goods to streamline foreign exchange rate since March 2020. However, import expenditure on consumer goods increased by 3.9 percent to US\$ 1,268.6 million mainly due to the increase in import expenditure on food and beverages by 23.1 percent to US\$ 563.2 million and vegetables by 57.3 percent to US\$ 145.6 million. Expenditure on import of non-food consumer goods declined by 7.5 percent to US\$ 705.4 million with the decline in vehicle imports by 0.3 percent to US\$ 216.8 million coupled with the drop in imports of clothing and accessories by 10.2 percent to US\$ 85.3 million and telecommunication devices by 25.2 percent to US\$ 63 million in the first four months of 2020.

Expenditure on import of intermediate goods dropped by 14.8 percent to US\$ 3,115.7 million mainly due to the decline in import expenditure on fuel by 18.5 percent to US\$ 1,070.1 million benefiting from the decline in international crude oil prices and the drop in imported volumes of refined petroleum products. Import expenditure on fertilizer, textile and textile equipment declined by 26.3 percent to US\$ 55.0 million and by 15.3 percent to US\$ 768.9 million, respectively. Meanwhile, import expenditure on investment goods dropped by 19.5 percent to US\$ 1,233.4 million with the reduction of import expenditure on building material and machinery and equipment by 24.7 percent to US\$ 359.4 million and by 19.2 percent to US\$ 685.5 million, respectively in the first four months of 2020.



## **Global Economic Perspectives**

### **COVID-19 Pandemic and Global Economy**

The COVID-19 pandemic has so far claimed more than four hundred thousand lives in 188 countries. The total global death toll due to the pandemic had exceeded 460,000 by June 20, 2020. Health crisis along with the policies put in place to contain the spread of the disease have had a detrimental effect on the world economy. It has disrupted financial markets, global trade, travel, supply chains and commodity markets. The disruption caused so far has threatened to trigger the worst recession since the World War II. The World Bank (WB) global growth forecast for the year 2020 at the beginning of the year was 2.5 percent: the forecasts for the US, China, Japan were 1.8 percent, 5.9 percent and 0.7 percent, respectively. However, amid the COVID-19 pandemic, the global growth forecast for 2020 has been downgraded by 4.9 percent at the end of June 2020. However, the IMF estimates that the global economy could lose 6.5 percent of global Gross Domestic Product (GDP) in 2021.

Social distancing measures such as curfews, closure of airports and complete lockdown of states and cities, taken by governments around the world led to complete standstill of almost all economic activities. Sectors such as tourism industry, global trade, and entertainment industry have been hard hit. Towards the end of May, though governments have started to ease such measures and allow certain economic activities to commence without much hindrance, it will be several months before economic activities return to normal levels and economies fully recover. China has already lifted its strict social distancing rules implemented in Wuhan and elsewhere in China and much of the economic activities have been recommenced. It is expected that with the Chinese economy slowly returning to normalcy and with the easing of social distancing measures in major economies in the second half of the year, the global economy would start to show signs of bouncing back at the end of the year. However, with the glooming prospect

of subsequent secondary waves of the pandemic, and the possibility of an ensuing financial crisis, the economic downturn could turn for the worse and persist even in 2021. This gloomy picture, however, could change with the development of an effective treatment or vaccine against the virus.

### **Growth**

The growth of the world economy has been slowing down in recent years from 3.3 percent in 2017 to 2.4 percent in 2019. According to the World Economic Outlook of the IMF, the global economy is expected to contract to 4.9 percent in 2020; the estimate at the beginning of the year was a contraction of 2.5 percent. In the worst scenario of the economic outlook, the world economy would contract by 8.0 percent in 2020. Advanced economies are expected to contract by 8.0 percent while emerging markets and developing economies by 3.0 percent. Low-income countries are forecast to grow by 1.0 percent. Region-wise, Latin America and Caribbean region is forecast to experience the worst impact of the recession with economies in the region contracting 9.4 percent. The Chinese economy forecast to grow by 5.9 percent at the beginning of the year is recently forecast to grow only 1.0 percent, the slowest growth in four decades in China. The economy in Eurozone is also expected to contract significantly since most of the major economies in the region such as Italy, France and Germany have been hard hit by the pandemic.

### **Global Trade**

The growth of global trade has been slowing down in recent years. Global trade has almost come to a standstill due to the COVID-19 pandemic. The global trade is expected to contract to 13.4 percent in 2020 and rebound with a growth of 5.2 percent if restrictions were to be eased in the 3<sup>rd</sup> quarter of 2020 according to the World Bank estimates. The closure of airports, ports and borders to stop the spread of the virus has stopped international travel and trade of commodities and goods. Tourism which has

**TABLE 1.5 : A Snapshot of the World – 2019**

Country	GDP Growth (Annual percent change)	Inflation (Percent)	2019		
			Unemployment (Percent)	Fiscal Balance (Percent of GDP)	Gross Debt (Percent of GDP)
Argentina	-2.2	53.5	9.8	-3.9	88.7
Australia	1.8	1.6	5.2	-3.7	45.0
Brazil	1.1	3.7	11.9	-6.0	89.5
Canada	1.6	1.9	5.7	-0.4	88.6
Chile	1.1	2.3	7.3	-2.6	27.9
China	6.1	2.9	3.6	-6.4	54.4
France	1.3	1.3	8.5	-3.0	98.5
Germany	0.6	1.3	3.2	1.4	59.8
Greece	1.9	0.5	17.3	0.4	179.2
India	4.2	4.5	...	-7.4	71.9
Indonesia	5.0	2.8	5.3	-2.2	30.4
Italy	0.3	0.6	10	-1.6	134.8
Japan	0.7	0.5	2.4	-2.8	237.4
Korea	2.0	0.4	3.8	-1.8	40.7
Malaysia	4.3	0.7	3.3	-3.2	57.2
Mexico	-0.1	3.6	3.3	-2.3	53.4
Russia	1.3	4.5	4.6	1.9	14.0
Singapore	0.7	0.6	2.3	-3.5	111.8
South Africa	0.2	4.1	-3.0	-6.3	62.2
Spain	2.0	7.0	14.1	-9.5	95.5
Sri Lanka	2.3	4.3	4.8	-6.8	86.8
Thailand	2.4	6.9	1.1	-0.8	41.1
United Kingdom	1.4	1.8	3.8	-2.1	85.4
United States	2.3	1.8	3.7	-5.8	109
Vietnam	7	2.8	2.2	-3.3	42.9
Venezuela	-35	19,906	...	-10	232.8

Sources : World Economic Outlook, IMF, April 2020, Fiscal Monitor, IMF, April 2020 and Annual Report 2019, Central Bank of Sri Lanka

...Negligible

accounted for approximately 6.0 percent of the global export of goods and services in recent years has come to a complete standstill due to restrictions imposed on international travel. Policy decisions such as restricting the import of certain goods, taken with the view of easing the pressure on local currency and slowing depletion of foreign reserves have also had a substantial negative effect on global trade and will continue have its negative impact until restrictions are lifted. The drop in consumer demand has also contributed to the drop in global trade. Most of the commodity prices fell during the first half of the year, oil prices falling by 70 percent from January to April before crawling back in the past few weeks.

### Commodity Markets

Prices of commodities including crude oil have fallen sharply as a result of declining demand. European Brent spot prices fell as much as 85 percent between late January and late April. WTI (West Texas Intermediate) even traded at negative price levels. Restrictions on travel and transport and fall in demand for other energy uses were the reasons for this freefall in oil prices. Close to 9.0 percent decline in demand for oil is in the forecast for the year by WB. Industrial metal prices have also declined by 24 percent during the first four months. However, agricultural prices have not declined significantly so far. A decline in trading of agricultural commodities could also be expected due to export bans announced by certain countries.

**TABLE 1.6 : International Commodity Prices**

Item	Unit	Actual			Projection		
		2018	2019	2020	2021	2022	2023
<b>Energy</b>							
Coal, Australia	\$/MT	107.0	77.9	65.0	68.0	67.1	66.1
Crude oil, average*	\$/bbl	68.3	61.4	35.0	42.0	44.5	47.0
Natural gas, US	\$/MMBTU	3.2	2.6	2.0	2.3	2.4	2.6
<b>Non-energy</b>							
<b>Agriculture</b>							
<b>Beverages</b>							
Cocoa	\$/kg	2.3	2.3	2.3	2.3	2.4	2.4
Coffee, robusta	\$/kg	1.9	1.6	1.5	1.5	1.6	1.6
Tea	\$/kg	2.9	2.6	2.3	2.4	2.4	2.5
<b>Food</b>							
<b>Fats and Oils</b>							
Palm oil	\$/MT	639	601	650	668	686	704
Soybean meal	\$/MT	405	347	340	348	356	365
Soybeans	\$/MT	394	369	350	363	376	390
<b>Grains</b>							
Maize	\$/MT	164	170	160	164	169	174
Rice	\$/MT	421	418	450	453	456	459
Wheat	\$/MT	210	202	195	198	202	205
<b>Other food</b>							
Sugar	\$/kg	0.3	0.3	0.3	0.3	0.3	0.3
<b>Raw Materials</b>							
Cotton	\$/kg	2.0	1.7	1.6	1.6	1.7	1.7
Rubber	\$/kg	1.6	1.6	1.6	1.6	1.7	1.7
Sawn wood	\$/cum	728	696	700	709	719	729
<b>Metals and Minerals</b>							
Aluminium	\$/MT	2,108	1,794	1,600	1,670	1,722	1,775
Copper	\$/MT	6,530	6,010	5,200	5,500	5,649	5,803
Nickel	\$/MT	13,114	13,914	11,500	12,000	12,553	13,131

Source : Adapted from the Price Forecast IMF, available at [www.worldbank.org/en/research/commoditymarkets](http://www.worldbank.org/en/research/commoditymarkets)

\* Petroleum price is average of spot prices for UK< brent, Dubai and West Texas Intermediate

## Monetary and Financial Sector

Central Banks around the world have eased monetary policy and lowered their policy rates in response to the recession caused by the pandemic. Provision of liquidity has kept finance systems in most economies functional thus far. However, an ensuing financial crisis become probable if economic activities have to be further curtailed substantially.

## Fiscal Sector

Governments have introduced substantial fiscal measures to fight the pandemic and the ensuing recession. The fiscal measures

pledged by the US Treasury for the COVID-19 response amounts to US\$ 3 trillion, this exceeds the measures taken for the financial crisis in 2009 by the US Treasury. Expenditure on improving and scaling up health care facilities have increased. Governments also had to take fiscal measures to widen social safety nets. Unemployment benefits and targeted cash transfer programs have been implemented and widened in almost all parts of the world. This rise in government expenditure alone with a drop in revenue is certain to expand fiscal deficit in almost all economies.

## **South Asia**

Growth in the region is projected to contract by 2.7 percent in 2020. The COVID-19 pandemic has severely damaged the tourist industry and other service sectors in the region. Countries in the region will have to experience the devastating blow of economic downturn in the developed economies as the demand for exports and remittances from migrant workers decline. India is forecast to experience an economic contraction of 3.2 percent in 20/21 fiscal year while Bangladesh a growth of 1.0 percent by the WB. The unprecedented decline in tourism will have a major impact on the Economy of Maldives. Maldives is forecast to experience a contraction of 13.0 percent in the calendar year 2020.

## **Unemployment**

Unemployment in most parts of the world has skyrocketed to unprecedented levels. The unemployment in the US, the worst-hit economy so far, had reached 14.7 percent in April this year and weekly unemployment claims have exceeded that of during 2009 financial crisis. However, unemployment

in the US had declined by 1.4 percentage points to 13.3 percent by the end of May 2020 with easing of social distancing measures amid the pandemic. It is estimated that global unemployment level would reach close to 8.0 percent this year. However, the situation could be worse than the estimates and figures suggest as employment in the informal sector is substantial in developing economies. Job loss for migrant workers in developed economies and the Middle East will also have a substantial impact on Middle and Low Income countries as remittances account for the bulk of foreign earning of these countries.

## **Inflation**

Inflation has caused little trouble so far in 2020 with the help of dropping in consumer demand and plummeting fuel prices. The average world inflation rate has been close to 3.0 percent in 2020 at the end of April and had dropped to 2.5 percent by the end of April. However, the inflation rate has been over 10.0 percent in Sub Saharan African and certain other developing economies in the world.

## CHAPTER 2

### Fiscal Developments

#### Overview

Tight fiscal and monetary policy undertakings witnessed over the last few years were relaxed with the introduction of a simple, transparent and efficient tax system. The stimulus package is geared towards augmenting aggregated demand of the economy while regaining business confidence and the recovery of the economy from the saddled economic performance. As such, Economic Service Charge (ESC), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) removed for the simplification of the tax system. Personal and corporate income tax structures were revised and personal tax-free allowance increased while broadening the tax slabs. Value Added Tax (VAT) rate slashed to 8 percent from 15 percent except for the financial services and VAT registration threshold expanded.

Fiscal operations of the government showed a mixed performance during the first four months of 2020 mainly due to the decline in revenue mobilization stemming from the outbreak of the COVID-19 in the mid of March 2020 and the reduction of government expenditure. Accordingly, total government revenue declined considerably by 20.3 percent to Rs. 476.7 billion during the first four months of 2020, compared to Rs. 598.1 billion recorded in the same period of 2019. Tax revenue declined significantly by 25.9 percent to Rs. 408.5 billion in the first four months of 2020, compared to Rs. 551.5 billion in the same period of 2019. In contrast, non-tax revenue increased significantly by 46.5 percent to Rs. 68.2 billion from Rs. 46.6 billion. Meanwhile, total government expenditure fell by 3.2 percent to Rs. 930.9 billion in the first four months of 2020, compared to Rs. 961.9 billion in the same period of 2019. However, recurrent expenditure increased by 9.3 percent to Rs. 820.7 billion in the first four months of 2020, compared to Rs. 750.5 billion in the same period of 2019. Meanwhile, capital and net lending declined significantly by 47.9 percent to Rs. 110.2 billion in the first

four months of 2020, compared to Rs. 211.3 billion in the same period of 2019.

Reflecting the adverse impact of the COVID-19 on the government revenue mobilization efforts, total government revenue declined significantly, in particular, in March and April 2020 due to the closure of economic activities stemming from partial lockdown, maintaining social distancing and other COVID-control measures. Tax revenue from income taxes, taxes on goods and services as well as import-based taxes dropped in the first four months of 2020 amidst the pre-COVID improvement in revenue mobilization from income taxes, excise duties, Ports and Airports Development Levy (PAL), Customs Import Duty (CID) and Special Commodity Levy (SCL).

Revenue collection from income taxes during the first four months of 2020 declined by 21.9 percent to Rs. 81.4 billion due to the removal of certain income taxes. However, revenue generated from corporate and non-corporate taxes increased by 35.7 percent to Rs. 57.8 billion in the first four months of 2020, compared to Rs. 42.6 billion in the same period of 2019.

Revenue from domestic consumption-based taxes dropped by 37.3 percent to Rs. 121.2 billion in the first four months of 2020. Revenue from Value Added Tax (VAT) on domestic activities declined by 52.9 percent to Rs. 48.2 billion while revenue generation from excise duty on domestic activities fell by 0.9 percent to Rs. 71.5 billion in the first four months of 2020.

Revenue collection from import-based taxes such as CID, CESS levy and SCL declined by 18.7 percent to Rs. 190.1 billion in the first four months of 2020, compared to Rs. 234.0 billion in the same period of 2019. During the first four months of 2020, revenue generated from CID declined by 0.3 percent to Rs. 31.3 billion and revenue from VAT on import-related activities declined by 51.4 percent to Rs. 28.7 billion. Revenue collected from PAL

increased marginally by 0.2 percent to Rs. 37.2 billion whereas revenue generated from SCL declined by 3.0 percent to Rs. 24.1 billion in the first four months of 2020. Revenue from excise duty on import-affiliated activities dropped by 3.5 percent to Rs. 56.1 billion in the first four months of 2020, compared to Rs. 58.1 billion in 2019. This drop was mainly attributable to the decline in revenue from motor vehicles and liquor products. Also, revenue from CESS fell by 24.5 percent to Rs. 12.7 billion in the first four months of 2020 due to the removal of CESS of certain import items.

Reflecting the increased Central Bank profit transfers of Rs. 24 billion and the receipts of Rs. 8.6 billion of rent income in February 2020, revenue from non-tax increased significantly by 46.5 percent to Rs. 68.2 billion during the first four months of 2020. However, interest income, profits and transfers and sales and charges declined by 59.7 percent, 10.3 percent and 24.5 percent, respectively.

**TABLE 2.1 : Summary of the Budget from January to April 2020**

Rs. Million		
Item	2019	2020 (Provisional)
<b>Revenue and Grants</b>	<b>598,426</b>	<b>478,696</b>
<b>Revenue</b>	<b>598,116</b>	<b>476,733</b>
Tax Revenue	551,530	408,484
Non Tax Revenue	46,586	68,248
Grants	309	1,963
<b>Expenditure</b>	<b>961,864</b>	<b>930,871</b>
<b>Recurrent</b>	<b>750,535</b>	<b>820,685</b>
Interest Payments	297,060	336,216
Other	453,475	484,469
Public Investment	212,899	118,928
Other	-1,571	-8,742
<b>Revenue Surplus(+)/ Deficit(-)</b>	<b>-152,419</b>	<b>-343,953</b>
<b>Overall Budget Surplus(+)/ Deficit(-)</b>	<b>-363,438</b>	<b>-452,175</b>
<b>Financing</b>	<b>363,438</b>	<b>452,175</b>
<b>Foreign Financing</b>	<b>-7,079</b>	<b>26,299</b>
Borrowing	339,069	118,439
Repayments	-346,148	-92,139
<b>Domestic Financing</b>	<b>370,517</b>	<b>425,876</b>
Borrowing	937,426	1,030,188
Repayments	-566,909	-604,312

Source : Department of Fiscal Policy

A Vote on Account (VoA) was presented to Parliament for the first four months of 2020 due to the non-submission of the Appropriation Bill for 2020. Accordingly, the resolution for the VOA was approved by the Parliament on October 23, 2019, and the authority had been granted to spend until April 30, 2020. However, with the dissolution of Parliament on March 02, 2020, the authority had been granted by His Excellency the President to the Secretary to the Treasury under the provisions of Article 150(3) of the Constitution to incur the expenditure from the Consolidated Fund for government services and development activities from March to May 2020. Accordingly, total government expenditure declined by 3.2 percent to Rs. 930.9 billion during the first four months of 2020, compared to Rs. 961.9 billion in the same period of 2019. Meanwhile, recurrent expenditure increased by 9.3 percent to Rs. 820.7 billion whereas capital and net lending declined by 47.9 percent to Rs. 110.2 billion in the first four months of 2020. Recurrent expenditure on salaries and wages increased by 16.2 percent to Rs. 253.8 billion, pension payments increased by 7.9 percent to Rs. 79.9 billion and interest payments increased by 13.2 percent to Rs. 336.2 billion in the first four months of 2020.

**TABLE 2.2 : Estimated and Actual Revenue and Expenditure from January to April 2020**

Rs. Billion			
Item	Estimated (Annual)	Actual (Jan-Apr) (Provisional)	Achievement (%)
<b>Total Revenue</b>	<b>1,450</b>	<b>477</b>	<b>32.9</b>
Tax Revenue	1,305	408	31.3
Non - Tax Revenue	145	68	47.1
<b>Total Expenditure</b>	<b>2,799</b>	<b>931</b>	<b>33.3</b>
Recurrent Expenditure	2,362	821	34.7
Capital Expenditure and Net Lending	437	110	25.2

Sources : Department of National Budget, Department of Treasury Operations and Department of Fiscal Policy

### Government Revenue

Total government revenue declined by 20.3 percent to Rs. 476.7 billion during the first four months of 2020, compared to Rs. 598.1

billion in the same period of 2019 mainly due to the decline in tax revenue by 25.9 percent to Rs. 408.5 billion.

**TABLE 2.3 : Annual Estimate and Actual Tax Revenue from January to April 2020**

Rs. Billion		
Item	Annual Estimate	Actual (Jan-Apr)
<b>Department of Inland Revenue</b>		
Tax on Income and Profit	314.0	81.4
VAT – Domestic	176.0	48.2
NBT – Domestic	-	1.4
IRD Other	3.7	8.0
<b>Sub Total</b>	<b>493.7</b>	<b>139.0</b>
<b>Department of Sri Lanka Customs</b>		
Import Duty	96.0	31.3
VAT – Imports	96.0	28.7
NBT – Imports	-	0.1
Ports and Airports Development Levy	120.0	37.2
Import/Export CESS	42.0	12.7
Special Commodity Levy	65.0	24.1
ESC	-	0.0
Excise Special Provisions	260.0	91.8
Cigarettes	80.0	33.9
Petroleum	80.0	22.5
Motor Vehicles & Other	100.0	35.4
Other	2.1	0.5
<b>Sub Total</b>	<b>681.1</b>	<b>226.4</b>
<b>Department of Excise</b>		
Liquor/Tobacco	98.0	35.8
<b>Sub Total</b>	<b>98.0</b>	<b>35.8</b>
<b>Other</b>		
Telecommunication Levy	18.0	4.4
License Tax & Other	14.1	3.0
<b>Sub Total</b>	<b>32.1</b>	<b>7.3</b>
<b>Total Tax Revenue</b>	<b>1,305.0</b>	<b>408.5</b>

Source : Department of Fiscal Policy

Tax revenue declined by 25.9 percent to Rs. 408.5 billion during the first four months of 2020, compared Rs. 551.5 billion in the same period of 2019. This was mainly due to the lower revenue collection from income taxes, Value Added Tax (VAT), Nation Building Tax (NBT), excise duty on motor vehicles and liquor, CESS levy, Special Commodity Levy (SCL) and Telecommunication Levy. However, non-tax revenue recorded a significant

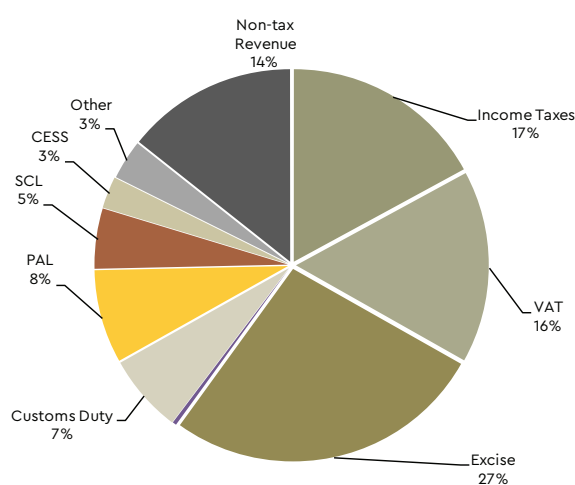
increase of 46.5 percent to Rs. 68.2 billion with the increase in receipts from Central Bank profit transfers and rent income.

**TABLE 2.4 : Summary of Performance of Government Revenue from January to April 2020**

Rs. Million			
Item	2019	2020 (Provisional)	Growth %
<b>Tax Revenue</b>	<b>551,530</b>	<b>408,484</b>	<b>-25.9</b>
Income Tax	104,255	81,372	-21.9
Domestic Consumption Based Tax	193,146	121,156	-37.3
VAT	102,237	48,199	-52.9
Excise Duty	72,164	71,526	-0.9
Nation Building Tax	18,745	1,432	-92.4
Import Based Tax	233,959	190,121	-18.7
Customs Duty	31,354	31,267	-0.3
VAT	59,104	28,740	-51.4
Nation Building Tax	6,672	101	-98.5
PAL	37,086	37,165	0.2
SCL	24,830	24,092	-3.0
Excise Duty	58,110	56,065	-3.5
CESS	16,803	12,692	-24.5
License Taxes and Others	20,170	15,835	-21.5
<b>Non Tax Revenue</b>	<b>46,586</b>	<b>68,248</b>	<b>46.5</b>
<b>Total Revenue</b>	<b>598,116</b>	<b>476,733</b>	<b>-20.3</b>

Source : Department of Fiscal Policy

**FIGURE 2.1 : Composition of Government Revenue from January to April 2020**



Source : Department of Fiscal Policy

## Tax Revenue

Tax revenue, which accounted for 85.7 percent to the total revenue, declined significantly by Rs. 143.0 billion to Rs. 408.5 billion during the first four months of 2020, reflecting the contagion effect of the COVID-19 pandemic. Revenue from indirect taxes being the single largest contributor to the government tax revenue accounted for 80.1 percent of total tax revenue in the first four months of 2020. Revenue generated from direct taxes, which accounts for 19.9 percent of total tax revenue declined by Rs. 22.9 billion to Rs. 81.4 billion during the first four months of 2020.

## Income Taxes

Revenue from income taxes declined by 21.9 percent to Rs. 81.4 billion in the first four months of 2020, compared to Rs. 104.2 billion in the same period of 2019. Meanwhile, corporate tax structure has been revised by reducing the standard corporate tax rate to 24 percent from 28 percent and granting of concessionary tax rates of 18 percent for manufacturing sector along with the concessionary rate of 14 percent for the construction industry with effect from January 01, 2020. In addition, expansion of tax-free allowance on personal income tax expanded to Rs. 3,000,000 per annum from Rs. 500,000 per annum with a revision of applied progressive tax structure effective from January 01, 2020. Taxes on Economic Service Charge (ESC), Pay-As-You-Earn (PAYE) tax and Withholding Tax of selected sources with effect from January 01, 2020, removed. Revenue from corporate and non-corporate income taxes increased significantly by 35.7 percent to Rs. 57.8 billion during the first four months of 2020, compared to Rs. 42.6 billion recorded in the same period of 2019.

**TABLE 2.5 : Performance of Income Tax Revenue from January to April 2020**

Rs. Million			
Tax Base	2019	2020 (Provisional)	Change %
Corporate and Non Corporate	42,572	57,788	35.7
PAYE	17,535	5,556	-68.3
Tax on Interest Income	17,093	4,924	-71.2
Economic Service Charge	27,056	13,044	-51.8
Capital Gain Tax	-	59	-
<b>Total</b>	<b>104,255</b>	<b>81,372</b>	<b>-21.9</b>

Source : Department of Fiscal Policy

## Value Added Tax (VAT)

Revenue collection from VAT declined considerably by 52.3 percent to Rs. 76.9 billion in the first four months of 2020 from Rs. 161.3 billion in the same period of 2019 reflecting the reduction of the applicable VAT rate to 8 percent from 15 percent effective from December 01, 2019, the upward revision of annual VAT registration threshold to Rs. 300 million per annum from Rs. 12 million per annum together with the adverse impact of the COVID-19 on economic activities. Revenue from VAT on domestic economic activities declined notably by 52.9 percent to Rs. 48.2 billion during the first four months of 2020, compared to Rs. 102.2 billion in the same period of 2019 while revenue from VAT on import related activities declined sharply by 51.4 percent to Rs. 28.7 billion during this period, compared to Rs. 59.1 billion in the same period of 2019.

**TABLE 2.6 : Performance of Revenue of VAT from January to April 2020**

Rs. Million			
Tax Base	2019	2020 (Provisional)	Growth %
<b>Gross Revenue</b>	<b>161,533</b>	<b>77,130</b>	<b>-52.3</b>
Domestic	102,275	48,237	-52.8
Imports	59,258	28,893	-51.2
Refunds	193	191	-1.1
<b>Net Revenue</b>	<b>161,340</b>	<b>76,938</b>	<b>-52.3</b>
<b>Refunds as % of Gross Revenue</b>	<b>0.1</b>	<b>0.2</b>	

Source : Department of Fiscal Policy



## Excise Duty

During the first four months of 2020, revenue from excise duty declined slightly by 2.1 percent to Rs. 127.6 billion, compared to Rs. 130.3 billion in the same period of 2019 due to the decline in revenue from excise duty on motor vehicles and liquor outpaced the gains in revenue from cigarettes, petroleum products and other products. Revenue from excise duty accounted for 31.2 percent of the tax revenue during this period, achieving 35.6 percent of the annual estimate.

**TABLE 2.7 : Performance of Excise Duty from January to April 2020**

Rs. Million			
Tax Base	2019	2020 (Provisional)	Growth %
Liquor	41,575	35,778	-13.9
Cigarettes	29,184	33,867	16.0
Motor Vehicles	39,675	33,551	-15.4
Petroleum	18,435	22,514	22.1
Other	1,405	1,880	33.8
<b>Total</b>	<b>130,275</b>	<b>127,591</b>	<b>-2.1</b>

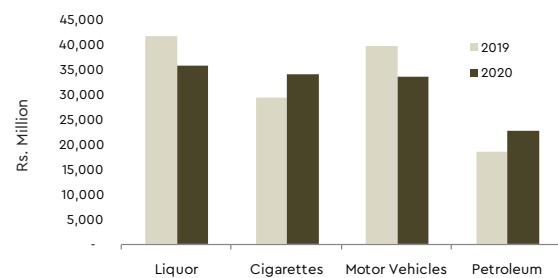
Source : Department of Fiscal Policy

Revenue from motor vehicles declined considerably by 15.4 percent to Rs. 33.6 billion in the first four months of 2020, compared to Rs. 39.7 billion in the same period of 2019 reflecting the policy measures taken to curtail the imports of motor vehicles including the suspension of the establishment of Letters of Credit and restrictions introduced by the Department of Imports and Exports Control.

Revenue from liquor declined by 13.9 percent to Rs. 35.8 billion in the first four months of 2020 mainly due to the decline in liquor production and liquor sales within the concerned COVID-19 pandemic period amidst duty hike of liquor products with effect from December 03, 2020. Accordingly, revenue from hard liquor declined significantly by 31.4 percent to Rs. 20.3 billion from January to April 2020, compared to Rs. 29.6 billion in the same period of 2019. Similarly, revenue collection from malt liquor declined substantially by 35.7 percent to

Rs 7.0 billion, compared to Rs 10.9 billion in the same period of 2019. However, revenue from cigarettes increased by 16.0 percent to Rs. 33.9 billion during the first four months of 2020, compared to Rs. 29.2 billion in the same period of 2019 benefitting from the excise duty revision in line with the Budget 2019 and to recoup the revenue loss on the reduction of VAT rate and the removal of NBT effective from December 01, 2020. Meanwhile, revenue from petroleum products increased significantly by 22.1 percent to Rs. 22.5 billion in the first four months of 2020, compared to Rs. 18.4 billion in the same period of 2019. Revenue from other products increased considerably by 33.8 percent to Rs. 1.9 billion in the first four months of 2020, compared to Rs. 1.4 billion in the same period of 2019.

**FIGURE 2.2 : Performance of Excise Duty from January to April 2019 and 2020**



Source : Department of Fiscal Policy

## Other Taxes

During the first four months of 2020, revenue collection from PAL increased slightly while revenue from CID, CESS levy, SCL and Telecommunication Levy declined compared to the same period of 2019. Reduction of revenue from the above import-based taxes was mainly due to the contraction of import related activities driven by the import curtailed policy measures to face the COVID-19 pandemic and the reduction of tax rates on certain items.

Revenue from PAL increased slightly by 0.2 percent to Rs. 37.2 billion in the first four months of 2020 from Rs. 37.1 billion in the same period of 2019 benefitting from the

increase of standard PAL rate to 10.0 percent from 7.5 percent with effect from December 06, 2019. Meanwhile, revenue generation from CID declined marginally by 0.3 percent to Rs. 31.3 billion during the first four months of 2020, compared to Rs. 31.4 billion in the same period of 2019 supported by the removal of Customs Duty waiver applicable on the importation of auto diesel and petrol (Octane 92) and upward revision of CID on the importation of selected items including petroleum products.

Total revenue collection from SCL declined marginally by 3.0 percent to Rs. 24.1 billion during the first four months of 2020, compared to Rs. 24.8 billion in the same period of 2019 mainly due to the contraction of import related activities and the downward revision of SCL rates on major commodities. Revenue from CESS levy declined significantly by 24.5 percent to Rs. 12.7 billion during the first four months of 2020 from Rs. 16.8 billion in the same period

of 2019. Revenue from CESS Levy on imports fell sharply by 24.1 percent to Rs. 12.2 billion during the first four months of 2020 from Rs. 16.0 billion in the same period of 2019 while revenue from CESS levy on exports declined significantly by 32.1 percent to Rs. 0.5 billion in the first four months of 2020 from Rs. 0.7 billion in the same period of 2019.

Revenue collection from Telecommunication Levy declined substantially by 32.3 percent to Rs. 4.3 billion during the first four months of 2020, compared to Rs. 6.4 billion in the same period of 2019 mainly due to the removal of Telecommunication Levy applied on internet services and to reduce the rate of Telecommunication Levy on voice communication to 11.25 percent from 15 percent effective from December 01, 2019. Reflecting the removal of NBT with effect from December 01, 2019, revenue generation from NBT declined substantially by 94.0 percent to Rs. 1.5 billion in the first four months of 2020.

**TABLE 2.8 : Revenue Transferred to Provincial Councils from January to April 2020**

Rs. Million

	NBT			Stamp Duty	Total
	Inland Revenue Department	Customs	Motor Vehicle Registration Fees		
January	473	3	166	1,709	2,350
February	209	3	153	247	611
March	31	44	72	124	271
April	3	-	-	693	696
<b>Total</b>	<b>716</b>	<b>49</b>	<b>390</b>	<b>2,772</b>	<b>3,928</b>

Source : Department of Fiscal policy

### Non-tax Revenue

Non-tax revenue increased significantly by 46.5 percent to Rs. 68.2 billion in the first four months of 2020 from Rs. 46.6 billion in the same period of 2019 benefitting from the Central Bank profit transfers and rent income. Revenue generation from the Central Bank profit transfers was Rs. 24 billion. In addition, rent income increased significantly to Rs. 8.6 billion during the first four months of 2020 from Rs. 1.1 billion in the same period of 2019. Meanwhile, revenue from social security contributions increased slightly by 2.1 percent to Rs. 8.9 billion in the first four

months of 2020, compared to Rs. 8.7 billion in the same period of 2019. However, revenue collected from interest income, profits and dividends transfers from SOBEs, fees and charges and other sources declined. Revenue from interest income declined significantly by 59.7 percent to Rs. 1.9 billion in the first four months of 2020, compared to Rs. 4.6 billion in the same period of 2019. Revenue from fees and charges fell by 24.5 percent to Rs. 20.9 billion in the first four months of 2020 from Rs. 27.7 billion in the same period of 2019. In addition, profit and dividends transfers from SOBEs dropped moderately by 10.3 percent to Rs. 2.9 billion in the first four months of 2020 from Rs. 3.2 billion in the same period of 2019.

**TABLE 2.9 : Variance Analysis of Government Revenue from January to April 2020**

Item	Rs. Billion			Reason
	2019	2020	2020 Annual Est.	
Income Taxes	104.3	81.4	314.0	Revenue from income taxes declined considerably by 21.9 percent during the first four months of 2020, compared to the same period of the previous year, realizing 25.9 percent of the annual estimate. This was mainly due to the slowdown of economic activities resulting in the outbreak of the COVID-19 pandemic coupled with the removal of Economic Services Charge (ESC) and Withholding Tax (WHT) with effect from January 01, 2020. Moreover, increased personal income tax-free allowance to Rs. 3 million per annum from Rs. 500,000 per annum and rationalization of Corporate Income Tax (CIT) structure effective from January 01, 2020, also affected for this performance. However, revenue from corporate and non-corporate income taxes increased by 35.7 percent to Rs. 57.9 billion during the period under review.
Value Added Tax (VAT)	161.3	76.9	272.0	VAT revenue declined significantly by 52.3 percent to Rs. 76.9 billion in the first four months of 2020, compared to the same period of 2019 and the realized VAT revenue stood at 28.3 percent of the annual estimate. This was mainly due to the slowdown of economic activities due to the COVID-19 pandemic coupled with the reduction of the VAT rate to 8 percent from 15 percent while increasing the VAT registration threshold to Rs. 300 million per annum from Rs. 12 million effective from December 01, 2019, and January 01, 2020, respectively. During the period under review, VAT on domestic economic activities declined by 52.9 percent to Rs. 48.2 billion and VAT on imports also reduced by 51.4 percent to Rs. 28.7 billion.
Excise Duty	130.3	127.6	358.0	Revenue from excise duty declined marginally by 2.1 percent to Rs. 127.6 billion during the first four months of 2020, compared to the same period of the previous year and it was 35.6 percent of the annual estimate of 2020. The reduction of excise duty collection from motor vehicles resulted in the decline of motor vehicle imports by 15.7 percent with the restriction of motor vehicle imports. Revenue collection from liquor declined by 13.9 percent to Rs. 35.8 billion due to the decline in production of liquor and the drop in sales during the lockdown period of the COVID-19 pandemic. However, revenue collection from cigarettes increased by 16.0 percent to Rs. 33.9 billion resulting in the upward revision of duty rates and revenue collection from petroleum products also increased by 22.1 percent to Rs. 22.5 billion due to the enhanced petroleum imports which helped to narrow the deviation. Further, the increase in tax rate and reduction of tax exemption of quantum of added sugar on beverages further facilitated to enhance excise duty revenue on other products during the first four months of 2020.

**TABLE 2.9 : Variance Analysis of Government Revenue from January to April 2020 Contd. ....**

Item	Rs. Billion		2020 Annual Est.	Reason
	2019	2020		
Customs Import Duty (CID)	31.3	31.3	96.0	Revenue from Customs Import Duty declined slightly by 0.3 percent during the first four months of 2020, compared to the corresponding period of the previous year, realizing 32.6 percent of the annual estimate. This was mainly due to the decline in imports and implementation of import restricted policies on selected items, particularly consumer goods.
Ports and Airports Development Levy (PAL)	37.1	37.2	120.0	Revenue from PAL showed a marginal increase by 0.2 percent during this period, collecting around 31.0 percent from annual estimate 2020, largely benefiting the upward revision of standard PAL rate to 10.0 percent from 7.5 percent with effect from December 06, 2019.
Other Taxes	87.2	54.1	145.0	Revenue from other taxes declined by 14.9 percent during the first four months of 2020, realizing 36.3 percent of the annual estimate. The shrinkage of imports and related activities, reduction of Telecommunication Levy on voice communication to 11.25 percent from 15 percent effective from December 01, 2019, reduction of SCL rates on major revenue items and the removal of Debt Repayment Levy from January 01, 2020 affected this performance. Accordingly, revenue collection from SCL declined by 3.0 percent to Rs. 24.1 billion and revenue from CESS levy also declined by 24.5 percent to Rs. 12.7 billion. Moreover, revenue generation from Telecommunication Levy declined by 32.3 percent to Rs. 4.3 billion.
Non -Tax Revenue	46.6	68.2	145.0	Non-tax revenue increased significantly by 46.5 percent during the first four months of 2020, compared to the same period the last year and it was a realization of 47.1 percent of the annual estimate. The receipts from the Central Bank profit transfers and rent income along with revenue from social security contributions positively contributed to this performance. However, revenue collected from profits and dividends from SOEs, interest income and fees and charges helped to expand the deviation.
<b>Total</b>	<b>598.1</b>	<b>476.7</b>	<b>1,450.0</b>	

Compiled by the Department of Fiscal Policy

**BOX 2.1 : Major Fiscal Measures from January to May 2020**

Effective Date	Measures										
	<b>Income Tax – Inland Revenue Act, No. 24 of 2017</b>										
	<b>Corporate Income Tax</b>										
01.01.2020	<table border="0"> <thead> <tr> <th align="left">Category</th> <th align="left">Rate</th> </tr> </thead> <tbody> <tr> <td>Standard income tax rate</td> <td>24%</td> </tr> <tr> <td>Income tax rate applicable for manufacturing industry</td> <td>18%</td> </tr> <tr> <td>Income tax rate applicable for exports, tourism, education, healthcare, construction and agro-processing</td> <td>14%</td> </tr> <tr> <td>Income tax rate applicable for betting and gaming, liquor and tobacco</td> <td>40%</td> </tr> </tbody> </table>	Category	Rate	Standard income tax rate	24%	Income tax rate applicable for manufacturing industry	18%	Income tax rate applicable for exports, tourism, education, healthcare, construction and agro-processing	14%	Income tax rate applicable for betting and gaming, liquor and tobacco	40%
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Income tax rate applicable for betting and gaming, liquor and tobacco	40%										
01.01.2020	<b>Personal Income Tax</b>										
	<table border="0"> <thead> <tr> <th align="left">Category</th> <th align="left">Rate</th> </tr> </thead> <tbody> <tr> <td>First Rs. 3,000,000</td> <td>Exempted</td> </tr> <tr> <td>Rs. 3,000,000 – Rs. 6,000,000</td> <td>6%</td> </tr> <tr> <td>Rs. 6,000,000 – Rs. 9,000,000</td> <td>12%</td> </tr> <tr> <td>Exceeding Rs. 9,000,000</td> <td>18%</td> </tr> </tbody> </table>	Category	Rate	First Rs. 3,000,000	Exempted	Rs. 3,000,000 – Rs. 6,000,000	6%	Rs. 6,000,000 – Rs. 9,000,000	12%	Exceeding Rs. 9,000,000	18%
Category	Rate										
First Rs. 3,000,000	Exempted										
Rs. 3,000,000 – Rs. 6,000,000	6%										
Rs. 6,000,000 – Rs. 9,000,000	12%										
Exceeding Rs. 9,000,000	18%										
01.01.2020	<b>Terminal Benefits</b>										
	<table border="0"> <thead> <tr> <th align="left">Income from Terminal Benefits</th> <th align="left">Rate</th> </tr> </thead> <tbody> <tr> <td>First Rs. 10,000,000</td> <td>Exempted</td> </tr> <tr> <td>Next Rs. 10,000,000</td> <td>6%</td> </tr> <tr> <td>Balance</td> <td>12%</td> </tr> </tbody> </table>	Income from Terminal Benefits	Rate	First Rs. 10,000,000	Exempted	Next Rs. 10,000,000	6%	Balance	12%		
Income from Terminal Benefits	Rate										
First Rs. 10,000,000	Exempted										
Next Rs. 10,000,000	6%										
Balance	12%										
01.01.2020	<b>Pay-As-You Earn Tax (PAYE)</b>										
	- To remove PAYE on any employment receipts to any resident or non-resident person and to introduce Advance Personal Income Tax deductible at the source, subject to the consent of the employee.										
01.01.2020	<b>Withholding Tax (WHT)</b>										
	- To remove WHT on any payments made to any resident person except the following;										
	- WHT on the amounts paid as winning from lottery, reward, betting or gambling – 14%										
	- WHT on sale of any gem at an auction conducted by the National Gem and Jewellery Authority – 2.5%										
	- WHT on payments made to any non-resident person – 14%										
01.01.2020	<b>Income Tax Exemptions</b>										
	- Profits and income earned from Information Technology (IT) and enabling services.										
	- Profits and income earned from services rendered to persons outside Sri Lanka, including income earned from foreign sources, in the event the payments for such services are received in foreign currency through a bank.										
	- Interest income earned on Non-Resident Foreign Currency (NRFC) and Resident Foreign Currency (RFC) accounts.										
	- Dividends paid by a resident company to any non-resident.										
	- Dividends distributed by commercial hub operators.										
	- Amounts derived by any non-resident person from laboratory services or standard certification services.										
	- Amounts received by any religious institutions by way of grants and donations.										
01.04.2019	- Profits and income earned from farming including agriculture, fish and livestock farming.										

**BOX 2.1 : Major Fiscal Measures from January to May 2020 Contd. ....**

Effective Date	Measures
01.04.2018	<ul style="list-style-type: none"> <li>- Interest paid on loans obtained from any person outside Sri Lanka.</li> <li>- Any income earned by any non-resident person on any Sovereign Bond denominated in foreign or local currency.</li> <li>- Interest or discount paid or allowed to any person on Sovereign Bonds denominated in foreign currency.</li> <li>- Funds received by any Public Corporation out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the government.</li> </ul> <p><b>Economic Service Charge (ESC) – Economic Service Charge Act, No. 13 of 2006</b></p>
01.01.2020	<ul style="list-style-type: none"> <li>- To remove ESC.</li> </ul>
01.01.2020	<p><b>Value Added Tax (VAT) – Value Added Tax Act, No. 14 of 2002</b></p> <ul style="list-style-type: none"> <li>- To increase the threshold for registration of VAT to Rs. 300 million per annum from Rs. 12 million per annum.</li> <li>- To exempt Information Technology (IT) and enabling services from VAT.</li> </ul>
06.03.2020	<p><b>Excise (Special Provisions) Duty – Excise (Special Provisions) Act, No. 13 of 1989</b></p> <p>Gazette Notification No. 2165/60 of 06.03.2020</p> <ul style="list-style-type: none"> <li>- To amend the Schedule II of the Extraordinary Gazette Notification No. 2113/9 of 05.03.2019.</li> </ul>
01.03.2020	<p><b>Excise (Ordinance) Duty – Excise Ordinance (Chapter 52)</b></p> <p>Excise Notification No. 01/2020 (Gazette Notification No. 2164/72 of 01.03.2020)</p> <ul style="list-style-type: none"> <li>- To amend rules in the Excise Notification No. 04/2019.</li> </ul>
30.04.2020	<p>Excise Notification No. 02/2020 (Gazette Notification No. 2173/11 of 30.04.2020)</p> <ul style="list-style-type: none"> <li>- To amend the Schedule in the Excise Notification No. 988.</li> </ul>
25.02.2020	<p><b>Ports and Airports Development Levy (PAL) – Ports and Airports Development Levy Act, No. 18 of 2011</b></p> <p>Gazette Notification No. 2164/8 of 24.02.2020</p> <ul style="list-style-type: none"> <li>- To grant concessionary rate of 7.5 percent on the importation of clinker.</li> </ul>
16.04.2020	<p>Gazette Notification No. 2171/6 of 16.04.2020</p> <ul style="list-style-type: none"> <li>- To exempt the payment of PAL: On the importation of medical equipment and hospital furniture consigned to the Secretary, Ministry of Health &amp; Indigenous Medical Services as a donation.</li> </ul>
23.04.2020	<p>Gazette Notification No. 2171/10 of 22.04.2020</p> <ul style="list-style-type: none"> <li>- To grant concessionary rate of 5.0 percent on the importation of steel industry related raw materials.</li> </ul>

**BOX 2.1 : Major Fiscal Measures from January to May 2020 Contd. ....**

Effective Date	Measures
19.05.2020	<p>Gazette Notification No. 2176/10 of 19.05.2020</p> <ul style="list-style-type: none"> <li>- To exempt the payment of PAL: On the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health &amp; Indigenous Medical Services, Department of Health Services, Tri Forces, Sri Lanka Police and COVID Centre (National Operation Centre for Prevention of COVID-19 Outbreak).</li> <li>On the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/ medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID 19 Pandemic.</li> </ul>
26.05.2020	<p>Gazette Notification No. 2177/4 of 26.05.2020</p> <ul style="list-style-type: none"> <li>- To exempt the payment of PAL: On the importation of raw materials and packing materials by pharmaceutical manufacturers for manufacture of pharmaceuticals.</li> </ul>
14.01.2020	<p><b>CESS Levy – Sri Lanka Export Development Act, No. 40 of 1979</b></p> <p>Gazette Notification No. 2158/1 of 13.01.2020</p> <ul style="list-style-type: none"> <li>- To remove CESS levy on the importation of wheat flour.</li> </ul>
20.05.2020	<p>Gazette Notification No. 2176/13 of 20.05.2020</p> <ul style="list-style-type: none"> <li>- To exempt the payment of CESS: On the supply or donation of health protective equipment and similar products by export-oriented BOI enterprises to the Ministry of Health &amp; Indigenous Medical Services, Department of Health Services, Tri Forces, Sri Lanka Police and COVID Centre (National Operation Centre for Prevention of COVID-19 Outbreak).</li> <li>On the importation or importation and supply or importation and donation of machinery and equipment including medical, surgical, and dental instruments, apparatus, accessories and parts thereof, hospital/ medical furniture and drugs, chemicals and similar items, required for the provision of health services to address the COVID 19 Pandemic.</li> </ul>
08.03.2020	<p><b>Customs Import Duty (CID) – Revenue Protection Act, No. 19 of 1962</b></p> <p>Revenue Protection Order No. 01/2020 (Gazette Notification No. 2165/72 of 07.03.2020)</p> <ul style="list-style-type: none"> <li>- To create new HS Code for Black Gram.</li> </ul>
10.04.2020	<p>Revenue Protection Order No. 02/2020 (Gazette Notification No.2170/6 of 09.04.2020)</p> <ul style="list-style-type: none"> <li>- To revise CID on the importation of lubricants.</li> </ul>
17.04.2020	<p>Revenue Protection Order No. 03/2020 (Gazette Notification No.2174/4 of 16.04.2020)</p> <ul style="list-style-type: none"> <li>- To revise CID on the importation of selected items.</li> </ul>
23.04.2020	<p>Revenue Protection Order No. 04/2020 (Gazette Notification No.2172/6 of 22.04.2020)</p> <ul style="list-style-type: none"> <li>- To revise CID on the importation of petrol and diesel.</li> </ul>

**BOX 2.1 : Major Fiscal Measures from January to May 2020 Contd. ....**

Effective Date	Measures
	<b>Surcharge on Customs Duty – Customs Ordinance (Chapter 232)</b>
14.03.2020	Gazette Notification No. 2166/35 of 13.03.2020 - To introduce surcharge on Customs Duty on the importation of petrol and diesel.
23.04.2020	Gazette Notification No. 2172/7 of 22.04.2020 - To increase surcharge on Customs Duty on the importation of petrol and diesel.
	<b>Customs Import Duty (CID) Waiver – Customs Ordinance (Chapter 232)</b>
14.01.2020	- To introduce CID waiver of Rs. 13 per kg on the importation wheat flour.
14.03.2020	- To remove CID waiver of Rs. 3 per litre on the importation of auto diesel. - To reduce CID waiver on the importation of petrol (Octane 92) to Rs. 5 per litre from Rs. 17 per litre.
23.04.2020	- To remove CID waiver of Rs. 5 per litre on the importation of petrol (Octane 92).
	<b>Special Commodity Levy (SCL) – Special Commodity Levy Act, No. 48 of 2007</b>
25.01.2020	Gazette Notification No. 2159/41 of 24.01.2020 - To extend the validity period of SCL on the importation of Potatoes for a period of 31 days.
02.02.2020	Gazette Notification No. 2160/63 of 01.02.2020 - To extend the validity period of SCL on the importation of B'onions, Chickpeas, Red Lentils (whole and split), Yellow Lentils (whole and split), Dates (fresh and dried), Oranges (fresh), Apples (fresh), Maize, Vegetable Oils, Beet and Cane Sugar, White Crystalline Cane Sugar and White Crystalline Beat Sugar for a period of six months.
07.02.2020	Gazette Notification No. 2161/34 of 06.02.2020 - To decrease SCL on the importation of Fish (fresh, chilled or frozen) to Rs. 25 per kg for a period of three months.
25.02.2020	Gazette Notification No. 2164/10 of 24.02.2020 - To extend the validity period of SCL on the importation of Potatoes for a period of 31 days.
04.03.2020	Gazette Notification No. 2165/12 of 03.03.2020 - To increase SCL on the importation of Fish (fresh, chilled or frozen) to Rs. 150 per kg for a period of six months.
08.03.2020	Gazette Notification No. 2165/73 of 07.03.2020 - To extend the validity period of SCL on the importation of Mackerel, Black Gram, Cowpeas and Kurakkan for a period of six months.
13.03.2020	Gazette Notification No. 2166/34 of 13.03.2020 - To remove retrospective effect of the Order on the importation of Fish Bait issued in Gazette Notification No. 2165/12 of 03.03.2020.
18.03.2020	Gazette Notification No. 2167/10 of 18.03.2020 - To remove retrospective effect of the Order on the importation of Fish (fresh, chilled or frozen) issued in Gazette Notification No. 2165/12 of 03.03.2020.
19.03.2020	Gazette Notification No. 2167/11 of 18.03.2020 - To impose SCL of Rs. 1 per kg on the importation of Disinfectants and Face Masks for a period of two months.



**BOX 2.1 : Major Fiscal Measures from January to May 2020 Contd. ....**

Effective Date	Measures
27.03.2020	Gazette Notification No. 2168/7 of 26.03.2020 - To extend the validity period of SCL on the importation of Potatoes for a period of three months.
10.04.2020	Gazette Notification No. 2170/5 of 09.04.2020 - To revise SCL on the importation of Vegetable Oils for a period of three months.
17.04.2020	Gazette Notification No. 2171/2 of 16.04.2020 - To revise SCL on the importation of fruits including Oranges (fresh), Grapes (fresh and dried) and Apples for a period of two months.
17.04.2020	Gazette Notification No. 2171/3 of 16.04.2020 - To waive SCL on the importation of Vegetable Oils for a period of three months.
01.05.2020	Gazette Notification No. 2173/12 of 30.04.2020 - To increase SCL on the importation of B'onions to Rs. 15 per kg from Rs. 1 per kg for a period of three months.
08.05.2020	Gazette Notification No. 2174/7 of 07.05.2020 - To extend the validity period of SCL on the importation of Sprats, Dried Fish, Green Gram, Mangoosteens(dried/fresh) and Kiwifruit for a period of three months.
22.05.2020	Gazette Notification No. 2176/18 of 21.05.2020 - To revise and extend the validity period of SCL on the importation of Yogurt, Potatoes, Red Onions, Garlic, Peas (whole and split), Chickpeas(whole and split), Red Lentils (whole and split), Yellow Lentils (whole and split), Dates (fresh and dried), Oranges (fresh), Lemon (fresh and dried), Grapes (fresh and dried), Apples (fresh), Quinces, Chillies (dried), Seeds of Cumin, Seeds of Fennel, Maize, Ground Nuts (shelled), Vegetable Oils, Fish, Beet and Cane Sugar, White Crystalline Cane Sugar and White Crystalline Beat Sugar for a period of six months.
22.05.2020	Gazette Notification No. 2176/20 of 21.05.2020 - To waive-off balance amount after collecting Rs. 6 per kg from the applied SCL of 10% or Rs. 150 per kg whichever is higher on the importation of Jack and Horse Mackerel (Trachurus spp. classified under the HS Code 0303.55) under HS Heading 03.03 for a period of three months.
	<b>Finance Act, No. 35 of 2018</b> <b>Luxury Tax on Motor Vehicles</b>
20.02.2020	Gazette Notification No. 2163/26 of 20.02.2020 - To amend the Gazette Notification No. 2147/72 of 31.10.2019.
26.05.2020	Gazette Notification No. 2177/2 of 26.05.2020 - To amend the Gazette Notification No. 2147/72 of 31.10.2019.
	<b>Debt Repayment Levy (DRL)</b>
01.01.2020	- To remove Debt Repayment Levy.
	<b>Finance Act, No. 11 of 2006</b> <b>Levy on Tele-dramas, Films and Television Commercials</b>
27.03.2020	Gazette Notification No. 2168/9 of 27.03.2020 To amend the Gazette Notification No. 2044/21 of 07.11.2017.

## Government Expenditure

The Cabinet of Ministers on October 01, 2019 approved to incur the government expenditure through a Vote on Account (VOA) for the first four months of 2020, until the Appropriation Bill for the year 2020 to be presented and approved by Parliament. Accordingly, the resolution for the VOA was approved by Parliament on October 23, 2019, and the authority has been granted to spend until April 30, 2020.

However, Parliament had been dissolved on March 02, 2020, with the power vested on His Excellency the President. The authority was granted to the Secretary to the Treasury by His Excellency the President under the provisions of Article 150(3) of the Constitution to incur the expenditure from the Consolidated Fund for the continuation of the government services and development activities from March to May 2020.

Meanwhile, the COVID-19 pandemic started to spread across the country in the early March 2020 and the government compelled to implement various measures to control the spread of the COVID-19 virus including health care and welfare facilities of the people which has led to zero-report of the COVID-19 patients in the community.

The expenditure during the first four months of 2020 amounted to Rs. 930.9 billion compared to Rs 961.7 billion in the same period of 2019. Out of the total expenditure, Rs. 820.7 billion was recurrent expenditure and the remainder of Rs. 110.2 billion was capital expenditure and net lending. Reflecting the increased expenditure on the control of the COVID-19 and affiliated healthcare expenditure, welfare payments to the needy people coupled with increased interest payments, the recurrent expenditure increased by 9.4 percent during the first four months of 2020. However, the total capital expenditure and net lending was streamlined in the backdrop of large unpaid bills stemming from 2019. Also, with the Vote on Account in place that the COVID-19 breakdown in mid March 2020, no new capital projects were implemented.

**TABLE 2.10 : Performance of Government Expenditure from January to April 2020**

Item	Rs. Million	
	2019 Jan-April	2020 Jan-April (Provisional)
<b>Recurrent Expenditure</b>	<b>750,535</b>	<b>820,685</b>
Salaries	218,442	253,810
Pension	74,019	79,878
Interest Payment	297,060	336,216
Other	161,014	150,781
<b>Capital Expenditure and Net Lending</b>	<b>211,328</b>	<b>110,186</b>
<b>Total</b>	<b>961,864</b>	<b>930,871</b>

Source : Department of Fiscal Policy.

## Salaries and Pensions

The expenditure on salaries and wages of public servants including Provincial Councils increased by 16.2 percent to Rs. 253.8 billion in the first four months of 2020, compared to Rs. 218.4 billion in the same period of 2019. Meanwhile, the expenditure on pension payment increased by 7.9 percent to Rs. 79.9 billion in the first four months of 2020, compared to Rs. 74.0 billion in the same period of 2019.

## Interest Payments

The expenditure on interest payments increased by 13.2 percent to Rs. 336.2 billion during the first four months of 2020, compared to Rs. 297.1 billion in the same period of 2019. The interest payments for foreign and domestic debt stood at Rs. 232.1 billion and Rs. 104.1 billion, respectively in the first four months of 2020.

## Welfare Expenditure

The government has incurred Rs. 42,749 million on welfare payments and subsidies including *Samurdhi* relief, elder's allowance, assistance to differently-abled soldiers, food package for pregnant mothers, differently-abled allowance and special grant for Kidney patients during the first four months of 2020.

*Samurdhi* cash grant increased considerably by 35.2 percent to Rs. 17,581 million in the first four months of 2020, compared to Rs. 13,003 million in the same period of 2019 mainly due to the payment of *Samurdhi* in April 2020 to around 731,975 families in the waiting list. Compensation for differently-abled soldiers amounted to Rs. 12,264 million during the first four months of 2020, compared to Rs. 10,575 million in the same period of 2019. The cost

of welfare programs such as free text books, uniforms, season tickets for the benefit of school children was Rs. 4,271 million.

Priority has been given by the government to provide free medicine to all while continuing nutrition programmes such as *Triposha* Programme, *Poshanamalla*, fresh milk programme and school nutritional programme spending Rs. 2,801 million in the first four months of 2020.

**TABLE 2.11 : Major Welfare Expenditure from January to April 2020**

Programme	Rs. Million
	2020 Jan-April (Provisional)
<b>Social Welfare</b>	
Pension	79,992
<i>Samurdhi</i> relief	17,581
Support for low-income differently-abled persons	1,610
Financial support for elderly	5,252
Financial support for kidney patients	554
"Ranaviru Mapiya Rakawarana " allowance	170
Flood & drought relief	26
Allowance for pre-school teachers	2
Social security for differently-abled soldiers	12,264
<b>Health &amp; Nutrition</b>	
<i>Thriposha</i> programme	384
Nutritional food package for expectant mothers	1,425
School nutritional food program	966
Fresh milk programme – school children	162
Health insurance for school children	391
Morning meal for pre-school children	44
Medical supplies for government hospitals	13,763
<b>Education</b>	
School textbooks	1,200
School uniforms	2,022
Shoes for students in difficult and very difficult School	491
Scholarships – Grade 5 students	200
<i>Mahapola</i> and bursaries	525
Interest subsidy for laptops and Wifi facilities of university students	49
Loan scheme for the students who are unable to get into the state universities	35
School and higher education season tickets	1,050
<i>Dhamma</i> school textbook for student	28
Uniforms for <i>Dhamma</i> school teachers	3
<b>Subsidies</b>	
Fertilizer and crop subsidy	12,456
<b>Other Subsidies</b>	
Sri Lanka Transport Board unremunerated routes subsidy	3,100

Source : Department of National Budget

With the spread of the COVID-19 virus in early March 2020, the government took various measures for the continuous delivery of essential public services to the people. Accordingly, required provisions were allocated to supply and to distribute essential foods in the country at divisional and rural level with the involvement of District and Divisional Secretaries. A cash allowance of Rs. 5,000 was provided to people whose livelihoods had been directly or indirectly lost and the wait-listed beneficiaries such as elders, disabled persons and kidney patients for April and May 2020. Furthermore, measures were taken to provide essential food items at concessionary prices to vulnerable and low-income families. These activities were carried out in addition to the regular welfare programmes. also, necessary provisions were provided to Tri-Forces and Sri Lanka Police to continue the activities of the quarantine process and to renovate buildings for the use of quarantine purposes and to provide required facilities and services such as sanitation, transport, foods and drinking water, medicines. Accordingly, Rs. 3,992 million was spent in addition to

the provision provided to the Ministries on a regular basis.

## Public Investment Expenditure

### School Education

During the first four months of 2020, the total expenditure incurred by the central government for school education was Rs. 78,834 million of which Rs. 73,660 million for recurrent expenditure and Rs. 5,174 million for capital expenditure. The expenditure on educational welfare programs were Rs. 5,432 million which is Rs. 1,012 million less than that is for the first four months of 2019. This reduction was mainly due to the increased expenditure in 2019 as three welfare programs that had to be completed in 2018 had been completed in 2019. (i). Providing school uniforms; (ii). Providing shoes for difficult and very difficult schools; and (iii). Selecting a service provider for the health insurance scheme in 2019. Meanwhile, expenditure on the "Nearest School is the Best School" (NSBS) programme was Rs. 3,246 million as at end of April 2020.

**TABLE 2.12 : Expenditure on Major Activities of School Education from January to April 2020**

Description	Rs. Million	
	2019 Jan-April	2020 Jan-April (Provisional)
<b>Recurrent Expenditure</b>		
Personnel emoluments for school teachers and other staff	47,407	60,080
<i>National</i>	10,799	13,867
<i>Provincial</i>	36,608	46,213
Welfare Programs	6,444	5,432
Evaluation of examination	1,406	1,165
<b>Capital Expenditure</b>		
Primary school development	62	27
Secondary school development	412	316
Special education development	57	55
Teacher development	301	327
General education development projects	5,575	3,786
Provincial education	1,958	584

Source : Department of National Budget

## Higher Education

In the first four months of 2020, government expenditure on the development of higher education was Rs. 19,912 million of which recurrent and capital expenditure were Rs. 16,515 million and Rs. 3,397 million, respectively.

Rs. 250 million was incurred for the construction of new building complexes for

the establishment of technology faculties in 10 universities as at end of April 2020. During the first four months of 2020, 168 university students benefitted through the loan for purchasing laptops and paid Rs. 49 million to the People's Bank to bear the interest cost.

The total expenditure for the skills development and vocational training was Rs. 1,429 million of which Rs. 411 million for capital projects in the first four months of 2020.

**TABLE 2.13 : Expenditure on Major Activities of Higher Education from January to April 2020**

Description	Rs. Million	
	2019 Jan-April	2020 Jan-April (Provisional)
<b>Recurrent Expenditure</b>		
Personnel emoluments of universities & other higher educational institutions	12,437	14,677
<i>Mahapola</i> and bursary payment	553	525
<b>Capital Expenditure</b>		
Development of universities & other higher educational institutions	3,326	1,157
Establishment of the state medical faculties at Wayamba University	200	100
Establishment of technology faculty of the universities	665	250
Loan interest for laptops (university students)	19	49
Accelerating higher education expansion & development project (World Bank)	131	290
Building complex for the Faculty of Health Care Science, Eastern University (GOSL - Kuwait)	24	325
Science & technology human resource development project (GOSL - ADB)	113	80

Source : Department of National Budget

**TABLE 2.14 : Expenditure on Major Activities of Skill Development from January to April 2020**

Description	Rs. Million	
	2019 Jan-April	2020 Jan-April (Provisional)
Skills sector development programme	375	46
Establishment of Colombo Vocational Training Center and Gampaha Technical College	382	157
Construction of building for Anamaduwa Technical College	38	37
Upgrading of Katunayake Engineering Technology Institute	382	206

Source : Department of National Budget

## Health

The total government expenditure on health care including Western and indigenous medicine increased by 7.5 percent to Rs. 73,480 million during the first four months

of 2020, compared to the same period of 2019 covering both provincial and central government health expenditure. Out of the total health expenditure, the recurrent expenditure was Rs. 68,421 million and the capital expenditure was Rs. 5,059 million.

**Table 2.15 : Expenditure on Major Activities of Health Sector from January to April 2020**

Description	Rs. Million	
	2019 Jan-April	2020 Jan-April (Provisional)
<b>Recurrent Expenditure</b>	<b>59,991</b>	<b>68,421</b>
Service delivery expenditure	32,106	38,501
of which salaries of medical personnel and support staff	26,296	31,915
Provision of medicine	15,085	13,763
Provincial health	13,779	16,158
<b>Capital Expenditure</b>	<b>8,382</b>	<b>5,059</b>
Medical equipment	912	1,283
Improvement of ETU – Facilities under line ministry hospitals	235	67
Development of Ambulatory Care Centre (OPD) of NHSL (GSOL – China)	102	110
Construction of National Nephrology Hospital in Polonnaruwa (GOSL – China)	78	139
Construction of Nursing Faculty/Hostel	233	177
Development of District Hospital – Polonnaruwa	23	-
Development of estate sector hospitals	1	-
Provision of high quality radiotherapy for cancer patients in Sri Lanka with high energy radiation	46	88
Other capital investments	5,773	2,048
Provincial health investment	979	1,147

Source : Department of National Budget

### Irrigation and Water Resources Management

Total investment in irrigation and water resources management in the first four months of 2020 was Rs. 7,010 million of which Rs. 4,536 million was spent for the development and improvement of irrigation schemes in the Mahaweli areas. The major portion of the investment has been made for Moragahakanda-Kaluganga project, Uma Oya Diversion Project and Mahaweli Water Security Investment programme. The balance, Rs. 2,474 million was spent on the projects implemented by the Department of Irrigation. Out of the total investment made under the Department of Irrigation, Rs. 1,238 million was spent on Yan Oya project.

### Agriculture

The total expenditure on the agriculture sector including livestock, fisheries and land development sub sectors in the first four

months of 2020 was Rs. 1,548 million of which Rs. 385 million spent on crop agriculture, Rs. 728 million on fisheries development, Rs. 277 million on land development and the balance for livestock development to develop infrastructure and provide required facilities for beneficiaries.

### Water Supply and Sanitation

With a view of ensuring access to safe drinking water and quality sanitation services, the government continued its investment on water supply and sanitation during the period January–April 2020. Accordingly, the cumulative government expenditure in the first four months of 2020 was Rs. 5,077 million on water supply and sanitation services including the loan repayments of the National Water Supply and Drainage Board (NWS & DB) to meet the cost financing of loans obtained from both domestic and foreign banks.

**TABLE 2.16 : Highlights of Water Supply and Sewerage Project Expenditure from January to April 2020**

Project	Rs. Million	
	2020	2020
	Jan-April	(Provisional)
Prevention of water-borne diseases in Chronic Kidney Disease affected areas		31.8
Water supply and sanitation improvement project (GOSL - WB)		1,476.3
Greater Colombo water and waste water management improvement investment programme-Project 1 (GOSL/ADB)		114.8
Ambathale water supply system improvement & energy saving project (GOSL/France)		131.6
Kelani right bank water supply project-Phase II (GOSL - France)		152.5
Kandy city wastewater management project (GOSL - JICA)		609.1
"Praja Jala Abhiman" water supply scheme		207.1
<b>Total</b>		<b>2,723.2</b>

Source : Department of National Budget

## Highways and Bridges

During the first four months of 2020, the expenditure on roads and bridges amounted to Rs. 37,154 million which was spent on national roads and expressway developments and construction of bridges. Expenditure on expressways and highways development was Rs. 8,183 million and Rs. 9,607 million, respectively. Expenditure on widening and improvement of roads stood at Rs. 795 million while expenditure related to the construction of bridges and rural road

development were Rs. 3,329 million and Rs. 74 million, respectively.

Integrated road development programme (iRoad) and the construction of new Kelani Bridge will improve connectivity roads and rural roads while easing the traffic congestion at Peliyagoda, which is one of the key entry points to Colombo city. The government incurred Rs. 12,137 million for interest and capital repayment for local bank funded projects in the first four months of 2020.

**TABLE 2.17 : Expenditure on Roads and Bridges from January to April 2020**

+ Project/Programme	Rs. Million	
	2019	2020
	Jan-April	Jan-April (Provisional)
<b>1 Expressways Development</b>	<b>31,790</b>	<b>8,183</b>
Outer circular highways project - phase III	8,798	13
Central expressway project	1,876	107
Extension of Southern expressway	21,038	5,817
Others	78	2,246
<b>2 Highways Development</b>	<b>9,440</b>	<b>9,607</b>
Maintenance of roads	2,197	928
Priority road projects - III	1,913	1,013
Colombo District road development project	547	128
Southern road connectivity project	655	460
Integrated road investment programme (iRoad)	2,969	5,186
Others	1,159	1,892
<b>3 Widening and Improvement of Roads</b>	<b>2,779</b>	<b>795</b>
<b>4 Construction of Bridges and Flyovers</b>	<b>1,323</b>	<b>3,329</b>
UK steel bridge project	25	11
Reconstruction of damaged/weak bridges on national highways	202	54
Major bridge construction project	133	54
Construction of rural bridges using old bridge components	68	29
Second new kelani bridge construction project	731	2,894
Others (Including 3 Flyovers)	163.5	287
<b>5 Natural Disaster Affected Road Rehabilitation</b>	<b>689</b>	<b>485</b>
<b>6 Maganeguma Rural Road Development Programme</b>	<b>607</b>	<b>74</b>
<b>7 Transfers to RDA</b>	<b>2,166</b>	<b>2,465</b>
<b>8 Lands &amp; Land Improvements (Other projects excluding priority projects)</b>	<b>202</b>	<b>79</b>
<b>9 Gap Financing of the Road Development Authority's Commitments</b>	<b>16,564</b>	<b>12,137</b>
<b>Total</b>	<b>65,560</b>	<b>37,154</b>

Source : Department of National Budget

## Transport

The government spent Rs. 16,321 million in transport sector during the first four months of 2020 to generate an effective and easily access public transport system for the commuters. Rs. 11,002 million was spent for the continuation of construction projects including Matara – Beliatta – Kataragama new rail line, Colombo suburban railway project, rehabilitation of railway track and installation of signalling from Maho to Omantei, major and minor repairing of rolling stocks and procurement of rolling stocks to strengthen the railway fleet.

Out of the total expenditure in the transport sector, Rs. 4,540 million incurred for school and higher education season tickets, bus operating on unremunerated routes and

contribution of socially obligatory bus service by the Sri Lanka Central Transport Board (SLCTB).

During the first months of 2020, Rs. 416 million was spent by the Department of Motor Traffic for the registration of number plates for vehicles and printing of driving license.

## Urban Development

The government continued spending on urban development sector which is one of the prominent sectors to achieve sustainable urban development. Cumulative government expenditure recorded in the first four months of 2020 for the development of urban facilities amounted to Rs. 5,671 million.

**TABLE 2.18 : Large Scale Urban Development Project Expenditure from January to April 2020**

Project	Rs. Million
	2020 Jan-April (Provisional)
Metro Colombo urban development project (GOSL – WB)	1,713.9
Metro Colombo solid waste management project	670.4
Greater Colombo urban transport development project – Phase I	26.3
Urban regeneration programme	306.4
Development strategic cities – Kandy & Galle (GOSL – WB)	577.6
Relocation of Manning market to Peliyagoda project	268.9
Port City development project	13.2
Town development projects in nine provinces	737.4
Weras Ganga storm water drainage & environment improvement project	396.5
Improving bus service to promote public transport	43.6
Projects implemented by the Sri Lanka Land Reclamation & Development Corporation	340.0
Development of townships in lagging regions	40.4

Source : Department of National Budget

## Housing Development

Facilitation of housing is another key priority sector of government expenditure. Housing development under the theme of "Obata Geyak-Ratata Hetak" is undertaken and supplemented further through grants from the year 2020. The cumulative expenditure for the facilitation of housing needs for the period from January-April was Rs. 656.6 million and 102 houses were constructed out of 1,143 houses being constructed. Out of the cumulative actual expenditure above, Rs. 515 million was incurred by the Ministry of Urban Development, Water Supply and Housing Facilities for the construction of new houses

for low income families including rural, urban, "Virus Sumithuru" programme which targets providing housing for members of armed forces and people affected by Chronic Kidney Disease (CKD). Further, Rs. 306.4 million was invested under the urban regeneration programme to accommodate housing facilities for low-income families of Colombo suburbs under the urban development programme. In addition, the Ministry of Community Empowerment and Estate Infrastructure Development and Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments have also been engaged in providing housing facilities for the poor.



**TABLE 2.19 : Expenditure for Housing Development from January to April 2020 by the Different Ministries**

Ministry	Rs. Million
	2020 Jan-April (Provisional)
Ministry of Urban Development, Water Supply and Housing Facilities	963.0
Ministry of Community Empowerment and Estate Infrastructure Development.	189.5
Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments	36.05

Source : Department of National Budget

### Performance of the Cash Flow of the General Treasury

During the first four months of 2020, cash inflows to the General Treasury by way of revenue and other receipts amounted to Rs. 457.7 billion as against the estimate of Rs. 755.0 billion which was a decline of 34.3 percent, compared to Rs. 696.8 billion in the same period of 2019. This was mainly due to the lag effect of revision of taxes to the economy with the outbreak of the COVID-19 pandemic in the Mid-March of 2020. The cash outflows including both recurrent and public investment amounted to Rs. 897.9 billion in the first four months of 2020 as against the

estimate of Rs. 1,126.0 billion which was a 6.8 percent decline, compared to Rs. 963.5 billion in the same period of 2019.

Total cash deficit as at end April 2020 expanded by 65.1 percent to Rs. 440.2 billion, compared to Rs. 266.7 billion as at end of April 2019 mainly due to the combined effect of the decline in cash inflows to the General Treasury by 34.3 percent and the increase in operational expenditure by 10.6 percent from Rs. 723.7 billion to Rs. 800.2 billion resulting in the expansion of closing negative cash and bank balance to Rs. 304.4 billion as at end of April 2020, compared to Rs. 130.2 billion as at end April 2019.

**TABLE 2.20 : Government Treasury Cash Flow Operations from January to April 2020**

Item	Rs. Billion		
	January - April		
	2019 Actual	2020 Estimate	2020 Actual
Opening Cash balance	-274.2	-274.3	-274.3
Total cash inflow from revenue and other receipts	696.8	755.0	457.7
Total cash outflow for recurrent payments	-723.7	-856.0	-800.2
Total cash outflow for capital payments*	-239.8	-270.0	-97.7
Net cash surplus/(deficit)	-266.7	-371.0	-440.2
Gross borrowing *	944.2	721.0	629.9
Debt repayment	-536.8	-350.0	-270.0
Net borrowing	407.4	371.0	359.9
Balance proceeds of ISB previous year	-	-	51.4
Adjustment account balance (TEB, net deposits, etc.)	3.3	-	-1.2
Closing Cash balance	-130.2	-274.3	-304.4

Source : Department of Treasury Operations

\*Includes project/programme loans accounted by Department of Treasury Operations as at April 30, 2020.

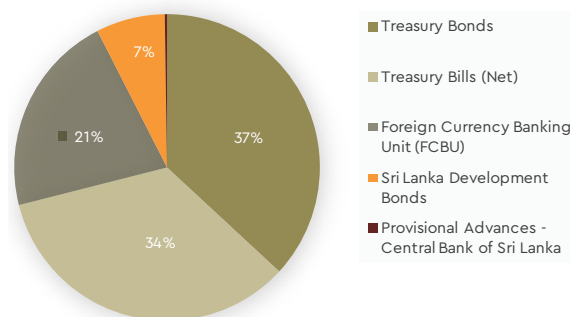
### Management of Government Debt

The total borrowing limit approved by the Vote on Account for the first four months of 2020 amounted to Rs. 721.0 billion, within which the utilization of government borrowings for the period from January 01 to April 30, 2020 was Rs. 629.9 billion.

Total domestic and foreign borrowing limits to finance cash flow operations and development projects during the period amounted to Rs. 509.9 billion and Rs. 120.0 billion, respectively. Approximately 80.9 per cent of domestic borrowings consisted of short-term borrowings in the first four months of 2020. Treasury Bonds, Treasury Bills and

FCBU were the main sources of domestic borrowings of the government. Accordingly, around 37 percent of the total domestic borrowings were raised by way of Treasury Bonds, while the remainder 34 percent and 21 percent were raised by Treasury Bills and Foreign Currency Banking Units (FCBU) in the first four months of 2020. Further, the proceeds from the Syndicate Loan issued during the first four months of 2020 were utilized to finance the foreign currency debt service payments. The net borrowings as at end April 2020 stood at Rs. 359.9 billion.

**FIGURE 2.3 : Gross Domestic Borrowings from January to April 2020**



Source : Department of Treasury Operations

**TABLE 2.21 : Gross Domestic Borrowings from January to April 2020**

Instrument	Rs. Billion
Treasury Bonds	188.2
Treasury Bills (Net)	174.0
Foreign Currency Banking Unit (FCBU)	109.5
Sri Lanka Development Bonds	37.0
Provisional Advances – Central Bank of Sri Lanka	1.2
<b>Total</b>	<b>509.9</b>

Source : Department of Treasury Operations

### Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Treasury Guarantees issued and remained valid as at end April 2020 was Rs. 1,263 billion which were within the limit applicable limit as per the Section 2 of the Fiscal Management (Responsibility) (Amendment) Act, No. 13 of 2016. The list of Treasury Guarantees issued by the General Treasury as at end April 2020, is detailed in TABLE 2.22.

**TABLE 2.22 : List of Treasury Gurantees Issued by the General Treasury up to April 30, 2020**

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
1	People's Bank	Ceylon Electricity Board	19,988.52	251,678.66
		Ceylon Petroleum Corporation	177,750.71	
		Ceylon Shipping Corporation Ltd	14,081.51	
		Lanka Coal Company (Pvt) Ltd	11,000.00	
		National Water Supply & Drainage Board	3,319.70	
		Paddy Marketing Board	2,846.71	
		Road Development Authority	17,935.60	
		State Printing Corporation	1,350.00	
		Sri Lankan Airlines Limited	2,405.91	
Lanka Sathosa Limited	1,000.00			

**TABLE 2.22 : List of Treasury Gurantees Issued by the General Treasury up to April 30, 2020 Contd. ....**

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
2	Bank of Ceylon	Building Materials Corporation Ltd	500.00	
		Ceylon Electricity Board	5,000.00	
		Ceylon Fisheries Corporation	100.00	
		Ceylon Petroleum Corporation	176,238.00	
		Elkaduwa Plantation Ltd	-	
		General Sir John Kotelawala Defence University	835.00	
		Janatha Estates Development Board	-	
		National Scools of Business Management Limited	8,600.00	
		National Water Supply & Drainage Board	50,361.23	
		Northsea Limited	50.00	
		Paddy Marketing Board	8,572.95	
		Road Development Authority	91,480.30	
		Sri Lankan Airlines Limited	-	
		State Development and Construction Corporation	1,000.00	
State Engineering Corperation	2,300.00	345,037.48		
3	National Savings Bank	Ceylon Electricity Board	5,000.00	
		General Sir John Kotelawala Defence University	36,223.73	
		Lakdhanavi Ltd.	2,992.00	
		National Water Supply & Drainage Board	1,239.48	
		Road Development Authority	68,621.43	
		Sri Lanka Land Reclamation & Development Corporation	3,500.00	
Urban Development Authority	2,770.00	120,346.64		
4	Commercial Bank	National Water Supply & Drainage Board	1,929.61	
		Road Development Authority	5,948.81	7,878.42
5	DFCC Bank	National Water Supply & Drainage Board	6,026.24	
		Road Development Authority	6,105.85	12,132.09
6	Employees' Trust Fund Board	Lakdhanavi Ltd.	2,992.00	2,992.00
7	Exim Bank of China	Telecommunications Regulatary Commission of Sri Lanka	17,360.42	17,360.42
8	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Limited	4,000.00	
		National Water Supply & Drainage Board	22,295.07	
		Road Development Authority	23,943.54	50,238.61
9	Hongkong & Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) Limited	8,643.09	
		West Coast Power (Pvt) Ltd.	28,832.84	37,475.93
10	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	13,653.28	13,653.28
11	Japan International Cooperation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Limited	137,470.78	137,470.78

**TABLE 2.22 : List of Treasury Gurantees Issued by the General Treasury up to April 30, 2020 Contd. ....**

S. No	Name of the Bank or Institution	Name of Institution	Rs. Million	Total
12	National Development Bank	National Water Supply & Drainage Board	17,380.43	
		Road Development Authority	7,745.36	25,125.79
13	Exim Bank of India	National Water Supply & Drainage Board	50,266.99	50,266.99
14	China Development Bank	National Water Supply & Drainage Board	12,232.23	12,232.23
15	Asian Development Bank	Ceylon Electricity Board	91,056.30	91,056.30
16	Sampath Bank PLC	Road Development Authority	14,500.00	14,500.00
17	UniCredit Bank Austria AG	National Water Supply & Drainage Board	10,819.80	10,819.80
18	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	17,737.60	17,737.60
19	Sri Lanka Insurance Corporation	Sri Lanka Insurance Corporation	2,349.84	2,349.84
20	China National Chemical Engineering No. 14 Construction Co. Ltd	Ceylon Petroleum Corporation	8,572.02	8,572.02
21	DB Trustees (Hong Kong) Limited	Sri Lankan Airlines Limited	34,268.50	34,268.50
<b>Total</b>			<b>1,263,193.38</b>	<b>1,263,193.38</b>

Source : Department of Treasury Operations

## Chapter 3

### Performance of State Owned Enterprises

#### Overview

The government has taken several reform initiatives during the first four months of 2020 to turnaround the State Owned Enterprises (SOEs) including the appointment of industry leaders and professionals to the board of management and advise them to formulate proper strategic plans. To improve the strategic performance of SOEs, the government has already initiated key policy priorities such as mergers and acquisitions, enhancement of governance framework, continuous capacity development and research and development.

During the social distancing and lockdown measures implemented in response to mitigate the spread of the COVID-19, the SOEs in key sectors including health, water, electricity, retail, transport, banking & insurance, petroleum and aviation made a notable contribution to maintain essential services in the country demonstrating the importance of having a state presence in such services. Nonetheless, contraction economy emerged due to the restricted global supply chain during the period had a greater impact on the performance of the SOE sector. The SOEs should come up with proper strategic moves to convert the global pandemic situation into an opportunity in the medium term.

A Fuel Price Stabilization Fund (FPSF) has been established to facilitate the most stable retail price of petrol and diesel while the benefits of low oil prices are distributed in a more economically viable and equitable manner. As such, it is expected to maintain stable retail price in main petroleum products during 2020 and it will benefit in particular, industry, transport, electricity and aviation sectors.

During the first four months of 2020, the key 52 SOEs reported a significant loss of Rs. 35,310 million. Also, the collection of levy and dividend from the SOEs has limited

to Rs. 2,862 million in the first four months of 2020, compared to Rs. 3,193 million in the same period of 2019. The government made a significant additional financial support through budgetary transfers and issuing Treasury guarantees to the SOEs including SriLankan Airlines, Ceylon Electricity Board, Lanka Salusala, Lanka Sathosa, State Engineering Corporation, Janatha Estates Development Board etc., to continue their business operations under a difficult economic condition. State banks have assisted to the local businesses and individuals through the provision of debt moratoriums, debt restructuring and concessionary funding amidst the negative impact on credit growth and overall credit quality of the banks' portfolios.

#### Review of the Ten Major SOBEs

##### Bank of Ceylon (BOC)

The asset base of the BOC increased by 8.4 percent to Rs. 2,617 billion as at end April of 2020 from Rs. 2,415 billion as at end 2019. During the first four months of 2020, the deposit base of the bank increased by 5.5 percent to Rs. 2,116 billion, compared to Rs. 2,005 billion as at end 2019. Gross non-performing loan ratio of the bank has deteriorated slightly to 5.1 percent as at end April of 2020, compared to 4.8 percent as at end 2019. The foreign exchange income of Rs. 4.8 billion recorded in the first four months of 2020 in comparison to the foreign exchange loss of Rs. 1.4 billion during the same period of 2019, has resulted in the bank to record an increase in profit before tax by 49 percent to Rs. 10.9 billion, over the first four months period in 2019.

##### People's Bank (PB)

PB's asset base increased by 6.6 percent to Rs. 1,997 billion as at end April 2020 from

Rs. 1,873 billion as at end 2019. The deposit base of the bank increased marginally to Rs. 1,563 billion as at end April 2020 from Rs. 1,491 billion as at end 2019. Loans and advances increased by 10.9 percent to Rs. 1,535 billion in the first four months of 2020. Non-performing loan (NPL) ratio of the bank has increased marginally to 3.4 percent in the first four months of 2020. PB recorded a profit before tax of Rs. 6.8 billion in the first four months of 2020, compared to Rs. 6.6 billion in the same period of 2019.

### **National Savings Bank (NSB)**

NSB's asset base recorded a 5.0 percent increase to Rs. 1,216 billion as at end April 2020 from Rs. 1,158 billion as at end 2019. The deposit base of the bank increased by 6.7 percent to Rs. 1,084 billion by end April 2020 from Rs. 1,016 billion as at end 2019. Loans and advances increased marginally to Rs. 467 billion in the first four months of 2020. NSB recorded a profit before tax of Rs. 3.9 billion in the first four months of 2020, compared to Rs. 2.7 billion in the same period of 2019.

### **Sri Lanka Insurance Corporation Limited (SLIC)**

SLIC recorded a profit before tax of Rs. 2,913 million in the first four months of 2020. SLIC reported total revenue of Rs. 13.0 billion during first four months of 2020, a decrease of 12 percent, compared to Rs. 15.4 billion in the same period of 2019. Recently, Fitch Rating Services has upgraded SLIC's national Insurer Financial Strength (IFS) rating to 'AAA (lka)' from 'AA+ (lka)' with a Stable Outlook.

### **Ceylon Electricity Board (CEB)**

The electricity demand has declined by 15 percent to 4,016 Gwh in the first four months of 2020, compared to the 4,712 Gwh in the same period of 2019 mainly due to the decrease in demand for the industry, general-purpose and hotel sector stemming from the impact of the COVID-19 pandemic. As a result, revenue from the sale of electricity has declined by 14 percent to Rs. 67,213 million

in the first four months of 2020, compared to Rs. 78,254 million in the same period of 2019. Accordingly, CEB has recorded an operating loss of Rs. 25,905 million in the first four months of 2020, compared to Rs. 23,115 million in the same period of 2019. Cost per unit has slightly increased to Rs. 23.79 per kWh in the first four months of 2020 as against Rs. 22.05 per KWh recorded in 2019 due to the changes in the electricity generation mix.

The collection of revenue was disturbed from mid of March 2020 which has resulted to increase the outstanding obligations to the state banks to Rs. 107,902 million as at end April 2020 from Rs. 89,420 million at the end of 2019. However, the total outstanding obligations of CEB to Ceylon Petroleum Corporation (CPC) and to Independent Power Producers (IPP) declined to Rs. 100,904 million as at end April 2020 with the government's initiation to channel Rs. 48,000 million to CEB through FPSF to enhance liquidity position of the CEB as well as the CPC, Bank of Ceylon and People's Bank.

The thermal power generation cost was significantly declined due to the reduction of heavy fuel prices to Rs. 70/1 from Rs. 92/1 since March 2020.

### **Ceylon Petroleum Corporation (CPC)**

The operational profit of Rs. 1,494 million recorded by the CPC in the first four months of 2020 has converted to an overall loss of Rs. 45,142 million due to the foreign exchange loss of Rs. 43,890 million. Further, CPC was in difficulty in reaping optimal benefits over the historically lower global oil price due to the reduction of demand of the petroleum products around by 18 percent to 1,790 million litres in first four months of 2020, compared to the demand of 2,117 million litres in the same period of 2019. The government has introduced the FPSF in March 2020 to maintain stable fuel prices in the country.

The CPC's cash flow constraints are further deteriorated as total receivables from CEB, West Coast and Srilankan Airlines enhanced

to Rs. 119,773 million at the end of April 2020. The accumulated loss and the working capital requirements of the CPC have been mainly financed through loans obtained from two state banks which has resulted in the total banking sector exposure to CPC reached to Rs. 592,730 million as at end of April 2020 creating more pressure on debt servicing on CPC's balance sheet. CPC plans to install a new refinery with a capacity of 45,000 barrels per day which will fulfil the total domestic demand.

### **Sri Lanka Ports Authority (SLPA)**

SLPA currently operates the ports of Colombo, Galle, Trincomalee, Kankasanthurai, Olivil and Point Pedro. SLPA has recorded a profit of Rs. 4,675 million in the first four months of 2020, a 55 percent decline compared to the profit of Rs. 10,505 million recorded in the same period of 2019. The foreign and local debt of the SLPA reached to Rs. 60,594 million and Rs. 10,645 million, respectively at the end of April 2020.

The government has identified the need for expansion of Colombo port to cater to the increasing demand for services in the international shipping industry. Therefore, SLPA expects to expedite the development and operations of the East Container Terminal (ECT) to expand the productive capacity of the port of Colombo and to maintain its competitiveness within the region while exploiting emerging market opportunities. As per the master plan of the Colombo port expansion project, the ECT will have 1,200 metres long quay wall with 18 metres water depth and a yard capacity of 2.4 million TEUs. The SLPA has already developed a 440 metres long quay wall, adjacent yard area and connected facilities of the ECT.

Accordingly, a "Memorandum of Cooperation" between the Governments of Sri Lanka, Japan and India was signed in May 2019. The operations at the ECT under a public-private partnership are scheduled to be commenced in 2020. However, it was delayed due to the COVID-19 outbreak of the country. It is expected that the ECT will be opened for novel megacarriers enhancing the annual container throughput of the port of Colombo

to become a top 20 container port in the world.

### **National Water Supply and Drainage Board (NWS & DB)**

NWS & DB continued working toward achieving the goals set for the year 2020. As such, the safe drinking water supply coverage, piped borne water coverage, piped sewerage coverage stood as 92.0 percent, 51.90 percent and 3.3 percent, respectively at end April 2020 through adding one million new water connections. The General Treasury also continued to provide financial support to the NWS & DB by equity transfer of Rs. 2,020 million in the first four months of 2020.

Even though the revenue of the NWS & DB for the first four months of 2020 increased by 14 percent to Rs. 8,950 million as against the revenue of Rs. 7,851 million for 2019, the NWS&DB has incurred a loss of Rs. 281 million for the first four months of 2020, compared to the loss of Rs. 204 million in the same period of 2019 mainly due to the increase in the administrative cost by 15 percent.

Water production and water sales in the first four months has increased marginally to 5 percent and 4.6 percent, respectively compared to 2019. However, Non-Revenue Water showed a negative trend over the previous year whereas 24.8 percent has increased to 25.3 percent. NWS & DB is required to take prudent measures to invest only in priority projects to overcome the current liquidity constraints due to the additional challenges imposed by the COVID-19 .

### **Airport and Aviation Services (Sri Lanka) Ltd (AASL)**

AASL operates five International Airports i.e. Bandaranaike International Airport (BIA), Mattala Rajapaksa International Airport (MRIA), Colombo Airport Ratmalana (RMA), Jaffna International Airport and Batticaloa Airport. Travel and the aviation industry has been hard hit by the COVID-19 pandemic. With the revenue losses emanated from

the travel restrictions and closing borders, airport operators around the world have taken stringent measures to control the cost, optimize liquidity while facilitating cargo and repatriation flights at their maximum capacity.

With the outbreak of the COVID-19, the International Air Transport Association (IATA) has estimated that airline passenger revenue will decline by US\$ 314 billion in 2020, compared to that of 2019. Also, Airports Council International (ACI) anticipated that two-fifth of air passenger traffic will be lost due to the COVID-19.

Shutdown prevailed had a significant adverse impact on passenger traffic at BIA during the first and second quarters in 2020 due to reduced flight numbers caused by the suspension of air services by regulatory authorities in Sri Lanka and around the world. Drafted profit before tax of AASL up to April 30, 2020 is Rs. 1,415 million which is a 76 percent reduction compared with a profit of Rs. 5,940 million recorded in the period of 2019.

### SriLankan Airlines (SLA)

Having considered the strategic importance, the government has now deviated from divesting shares of SLA and decided on implementing internal development strategy

in line with related industries including the tourism industry.

The financial situation of SLA was unhealthy even before the the COVID-19. Accordingly, SLA management was expected to reduce SLA operational costs including lease payment renegotiation, rescheduling of the route network, collective agreement renegotiations to remove unfavorable conditions such as reduction of the number of crew members in a flight, right-sizing the workforce by introducing voluntary retirement scheme (VRS) and to take measurements to improve efficiency. Further, SLA was expected to introduce product developments and service quality improvements including identification of new destinations and new business lines.

Only during April and May 2020, SLA recorded US\$ 27.1 million total traffic revenue while incurring a loss of US\$ 48.7 million. Meanwhile, SLA is expected a most likely loss of US\$ 185.3 million for 2020/21 accounting period due to the adverse impact on the aviation industry. Even though the SLA's operational performance was disturbed on the pandemic, the contribution of SLA in this difficult time cannot be undermined as it operated several mercy and charter flights without considering the financial impact as its social responsibility being a key SOE.

**TABLE 3.1 : Reform/Key Initiatives for Major SOEs**

Institution	Reform/Key Initiatives
State Banks (BOC, PB & NSB)	<ul style="list-style-type: none"> <li>* Enhance credit quality and improving monitoring and collections.</li> <li>* Strengthen the risk management framework.</li> <li>* Develop technological capabilities to meet the customer expectations and reduce operational cost.</li> <li>* Develop new products to assist the existing customers and attract new customers.</li> </ul>
SLIC	<ul style="list-style-type: none"> <li>* Sri Lanka Insurance Corporation Limited launched a new insurance scheme providing a free financial cover for the families of the state sector employees who are actively involved in combatting the COVID-19.</li> </ul>
CEB	<ul style="list-style-type: none"> <li>* Initiatives have taken to construction of one unit of 300MW as an extension to the existing 3 × 300MW Lakvijaya coal power plant at Norochcholai.</li> <li>* Initiatives have taken to establishment of a floating Storage Regasification Unit (FSRU) around in Kerawalapitiya in order to introduce LNG to power sector of Sri Lanka and for other purposes such as industries, transportation and domestic use.</li> </ul>



**TABLE 3.1 : Reform/Key Initiatives for Major SOEs Contd. ....**

Institution	Reform/Key Initiatives
CPC	* The government introduced Fuel Price Stabilization Fund in March 2020 as a mechanism on channeling the benefits on lower world oil price to entire economy.
SLPA	* The Cabinet of Ministers granted the approvals; - Proposal to develop Colombo South Port by amending original Memorandum of Cooperation. - To develop Colombo West Container Terminal as PPP. - To implement CCTV camera solution to Colombo port. * Instruct SLPA to include Hambantota loan in the books of SLPA.
NWS&DB	* Measures taken for revenue enhancement via immediate improvement projects like treatment plant rehabilitation and distribution improvement. * Sectorial Master Plan finalization. * Measures to reduce Non-Revenue water.
AASL	* The Cabinet of Ministers granted the approvals; - To develop access road to Bandaranaike International Airport. - To sign MOU with Government of India for upgrading Jaffna International Airport - To recommence international schedule flight services at MRIA and commence regional schedule flight services at Colombo International Airport, a package of promotional activities including waive off of embarkation levy percentage and land and parking charges was introduced. - To divest 200 acres belong to AASL to establish airbase at MRIA. - To establish and operate International pilot training academy at Colombo International Airport and MRIA.
SLA	* The Cabinet of Ministers granted the approvals; - To obtain government support for SLA including provide US\$ 75 million Treasury guarantee to be granted to BOC and PB to explore option of funding, provide Sovereign guarantee of US\$ 5 million to International Bank to enable SLA to release cash security to an aircraft lessor to release cash deposit, restructure current loans of BOC and PB to long term loans and exemption of tax, interest and charges by direct government and government institutions. - To promote SLA and tourism sector together * Proposal given to the Procurement Commission to approve SLA's own procurement manual

Sources : SOEs and Department of Public Enterprises

**TABLE 3.2 : Profitability of key 52 State Owned Enterprises**

Enterprise	Profit/(Loss)		Rs. Million
	2018	2019*	As at 30.04.2020 (Provisional)
1 Bank of Ceylon	33,416	29,685	10,932
2 People's Bank	24,406	19,666	6,857
3 National Savings Bank	7,941	10,462	3,886
4 State Mortgage & Investment Bank	480	465	63
5 HDFC Bank	629	774	437
6 Pradeshiya Sanwardhana Bank (PSB)	2,103	1,344	-841
7 Employee's Trust Fund Board	18,292	20,570	10,408
8 Sri Lanka Insurance Corporation	13,399	18,976	2,913
9 National Insurance Trust Fund	3,289	3,009	2,566
10 Sri Lanka Export Credit Insurance Corporation	419	277	93

**TABLE 3.2 : Profitability of key 52 State Owned Enterprises Contd. ....**

Rs. Million

Enterprise	Profit/(Loss)		As at 30.04.2020 (Provisional)
	2018	2019*	
11 Agriculture and Agrarian Insurance Board	612	411	226
12 Ceylon Electricity Board	-30,458	-85,411	-25,905
13 Ceylon Petroleum Corporation	-106,143	-11,835	-45,142
14 Sri Lanka Ports Authority	7,534	15,777	4,675
15 National Water Supply and Drainage Board	-517	-1,177	-281
16 Airport and Aviation Services (SL) Ltd	10,458	15,234	1,415
17 SriLankan Airlines Ltd	-17,214	-44,023	-8,916
18 Sri Lanka Transport Board	1,295	1,555	-223
19 State Engineering Corporation	-1,337	-954	-588
20 Central Engineering Consultancy Bureau	531	340	-14
21 State Development and Construction Corp.	18	11	-53
22 Milco (Pvt) Ltd	-606	-619	N/A
23 National Livestock Development Board	-589	-510	N/A
24 Sri Lanka State Plantations Corporation	-76	-239	-62
25 Janatha Estates Development Board	-320	-452	-115
26 Kurunegala Plantations Ltd	211	120	40
27 Chilaw Plantations Ltd	-35	89	43
28 Kalubovitiyana Tea Factory Ltd	-7	-53	6
29 Sri Lanka Cashew Corporation	18	43	-1
30 Lanka Mineral Sands Ltd <sup>(a)</sup>	621	2,271	2,277
31 Lanka Phosphate Ltd <sup>(a)</sup>	16	28	20
32 Kahatagaha Graphite Lanka Ltd	24	31	17
33 Development Lotteries Board	2,735	2,897	810
34 National Lotteries Board	1,038	1,323	N/A
35 State Pharmaceuticals Manufacturing Corp.	251	592	393
36 Sri Lanka Ayurvedic Drugs Corporation	35	3	2
37 State Pharmaceuticals Corporation	1,685	2,176	41
38 Sri Jayawardenapura General hospital	123	-94	27
39 Independent Television Network Ltd	-627	-587	-214
40 Sri Lanka Rupavahini Corporation	188	-501	-159
41 Sri Lanka Broadcasting Corporation	-43	-105	-28
42 Sri Lanka Handicraft Board	22	123	-46
43 State Timber Corporation	422	317	-145
44 STC General Trading Company	88	-31	N/A
45 Lanka Sathosa Ltd	-2,250	-2,982	-197
46 State Printing Corporation	-406	-169	-47
47 Ceylon Fisheries Corporation <sup>(a)</sup>	17	-28	-2
48 Ceylon Fishery Harbour Corporation	3	20	-50
49 Ceylon Fertilizer Company Ltd	39	120	22
50 Colombo Commercial Fertilizer Company Ltd	290	306	66
51 Hotel Developers Lanka PLC	-126	-361	-163
52 Lanka Sugar Company Ltd	144	-1,308	-353
<b>Total</b>	<b>-27,961</b>	<b>-2,424</b>	<b>-35,310</b>

Sources : SOEs and Department of Public Enterprises

(a) Ceylon Fisheries Corporation, Lanka Mineral Sands Ltd and Lanka Phosphate Ltd profitability as at 31.03.2020

\* Draft

**TABLE 3.3 : Levy/Dividend Income from SOEs**

	2015	2016	2017	2018	2019	Rs. Million Draft -As at 30.04.2020
					(a)	
<b>Levy</b>	<b>26,118</b>	<b>92,338</b>	<b>50,447</b>	<b>37,230</b>	<b>22,634</b>	<b>2,500</b>
National Savings Bank	2,800	12,026	3,865	500	2,000	1,000
Bank of Ceylon	5,000	18,000	12,000	4,500	-	-
People's Bank	3,000	8,000	5,000	3,200	2,200	1,500
Telecommunication Regulatory Commission of Sri Lanka	10,000	28,000	22,800	21,850	8,950	-
Ceylon Petroleum Corporation	-	10,000	-	-	-	-
State Mortgage & Investments Bank	10	10	25	-	-	-
Pradeshiya Sanwardhana Bank (PSB)	87	88	-	-	169	-
State Timber Corporation	50	175	100	100	50	-
State Pharmaceuticals Manufacturing Corporation	30	65	45	50	-	-
National Insurance Trust Fund	3,000	2,500	2,100	2,750	3,268	-
Geological Survey and Mines Bureau	850	900	1,500	1,700	2,300	-
National Gem and Jewellery Authority	75	175	100	25	25	-
Ceylon Electricity Board	-	8,000	-	-	-	-
Board of Investment of Sri Lanka	141	115	220	250	250	-
National Lotteries Board	50	550	-	-	-	-
Securities and Exchange Commission of Sri Lanka	-	-	-	-	53	-
Sri Lanka Export Credit Insurance Corporation	-	25	-	15	15	-
Central Engineering Consultancy Bureau	25	25	25	25	25	-
Sri Lanka Tourism Development Authority	-	-	-	-	200	-
Sri Lanka Tourism Promotion Bureau	500	1,500	1,000	1,000	500	-
Civil Aviation Authority of Sri Lanka	400	768	800	800	800	-
State Pharmaceutical Corporation	100	216	222	-	-	-
National Transport Medical Institute	-	200	160	165	200	-
Sri Lanka Bureau of Foreign Employment	-	1,000	185	200	650	-
National Transport Commission	-	-	300	100	50	-
Sri Lanka Land Reclamation and Development Corporation	-	-	-	-	29	-
Sri Lanka Ports Authority	-	-	-	-	900	-
<b>Dividends</b>	<b>3,678</b>	<b>15,821</b>	<b>3,550</b>	<b>4,598</b>	<b>5,025</b>	<b>362</b>
National Savings Bank	60	60	60	60	60	30
Bank of Ceylon	346	346	346	346	346	173
People's Bank	316	316	316	316	316	158
Lankaputhra Development Bank	36	36	41	41	-	-
National Development Bank	5	2	2	1	0.8	1
Sri Lanka Savings Bank	-	-	-	86	-	-
Sri Lanka Insurance Corporation Ltd	1,003	11,857	503	1,856	1,720	-
Airport and Aviation Services (SL) Ltd	497	1,500	850	300	500	-
Lanka Mineral Sands Ltd	14	-	-	35	130	-
Lanka Phosphate Ltd	30	-	8	5	7	-
Independence Television Network Ltd	84	-	10	12	-	-
Lanka Leyland Ltd	54	34	35	45	13	-
Rakna Arakshaka Lanka Ltd	93	-	-	40	37	-
Ceylon Fertilizer Ltd	54	116	90	21	15	-
Colombo Commercial Fertilizer Ltd	10	25	12	20	10	-
Paranthan Chemicals Company Ltd	5	-	8	11	-	-
STC General Trading Company	-	5	-	-	-	-
Sri Lanka Telecom PLC	795	795	795	795	947	-
De La Rue Lanka Ltd	61	62	79	106	133	-
Lanka Electricity Company Ltd	87	152	218	305	501	-
Lanka Industrial Estates Ltd	55	47	55	78	82	-
Skills Development Fund	2	-	-	-	-	-
Ceylon Agro Industries	6	12	12	19	23	-
Lanka Logistics Limited	2	5	-	1	-	-
Ceylon Petroleum Storage Terminals Ltd	-	438	-	-	-	-
Plantation Companies	62	10	103	95	172	-
Others	1	3	7	4	12	0.107
<b>Total</b>	<b>29,796</b>	<b>108,159</b>	<b>53,997</b>	<b>41,828</b>	<b>27,659</b>	<b>2,862</b>

Sources : SOEs and Department of Public Enterprises  
(a) Provisional



## CHAPTER 4

### Foreign Financing

#### Overview

The government has placed high priority to implement strategic development initiatives identified in the "Vistas of Prosperity and Splendour" policy framework over the medium term. The external financing will represent a significant share of the public investment as domestic financial resources are hardly adequate to meet the resource requirement of the country. Over the years, the foreign financing portfolio of the country has become very diverse. The volume, composition and the form of foreign financing has changed with the increased demand for foreign financing requirements of the country. While the share of outright grants and concessional financing in the foreign financing basket has been reduced, the proportion of the mix credit and the credit provided through export-credit arrangements of the bilateral and multilateral sources as well as financial markets has taken prominence over the years.

#### Foreign Financing Commitments

The government has made arrangements to mobilize foreign financing of US\$ 628.6 million by entering into three agreements with foreign development partners and lending agencies from January 01 to April 30, 2020 to support the Public Investment Programme (PIP). This included US\$ 500.0 million of Foreign Currency Term Financing

Facility (FCTFF) extended by the China Development Bank for budget support and US\$ 128.6 million extended by the World Bank to be utilized for the COVID-19 Emergency Response and Health Systems Preparedness Project. The performance of mobilizing foreign financing during the first quarter was greatly affected by the COVID-19 pandemic.

#### Foreign Financing Disbursements and Utilization

Total foreign financing disbursements made during the period from January 01 to April, 30, 2020 amounted to US\$ 869.8 million of which US\$ 869.7 million was disbursed as loans while US\$ 0.1 million was disbursed by way of grants.

The majority of the disbursements were from the loan agreements signed with China, which is almost 65 percent, followed by Asian Development Bank (11 percent), World Bank (9 percent) and Japan (8 percent).

Other than the US\$ 500 million obtained as budget support loan, the majority of the disbursements were in lieu of the projects implemented under the roads and bridges sector accounting for almost 14 percent of the total disbursements followed by the water supply and sanitation sector (8 percent), ground transport sector (7 percent), power and energy sector (3 percent) and disaster management (3 percent).

**TABLE 4.1 : Foreign Financing Commitments with Terms from January 01 to April 30, 2020**

Development Partner/Lending Agency	Instrument Type	Agreement Date (MM/DD/YYYY)	Project/Program/Instrument Name	Amount Committed (million)			Financial Terms			Other Terms			
				Currency	In Instrument Currency	Rupees	US\$	Type	Interest Annual Rate (%)	Margin (100 basis points)	Other Charges	Grace Period (Years)	Maturity/Availability Period from the Date of Signing (Years)
<b>Bilateral</b>													
China Development Bank	Loan	3/18/2020	Foreign Currency Term Facility 2020	US\$	500.0	92,542.7	500.0	Variable	LIBOR for US\$	2.51	Upfront fee 1.25%	3	10
<b>Multilateral</b>													
International Bank for Reconstruction & Development	Loan	4/3/2020	COVID 19 Emergency Response & Health Systems Preparedness	US\$	35.0	6,685.0	35.0	Variable	LIBOR for US\$	0	Commitment Fee 0.25%, Front-end Fee 0.25%	5	30
International Development Association	Loan	4/3/2020	COVID 19 Emergency Response & Health Systems Preparedness	US\$	93.6	17,877.6	93.6	Variable	LIBOR for US\$	0	Front-end fee 0.25% Commitment fee 0.25%	5	30
<b>Total</b>							<b>117,105.30</b>	<b>628.6</b>					

Source : Department of External Resources

Note : LIBOR = London Interbank Offer Rate, Financial values committed in difference currencies have been converted into US\$ and LKR as per the prevailing exchange rates of each agreement date

**TABLE 4.2 : Disbursements of Foreign Loans and Grants from January to April 2020**

Development Partner	Disbursements* (US\$ million)		
	Loan	Grant	Total
<b>Bilateral</b>	<b>694.7</b>	<b>0.1</b>	<b>694.8</b>
China**	568.4	-	568.4
Japan	66.4	-	66.4
France	27.7	0.1	27.8
India	11.4	-	11.4
United Kingdom	8.2	-	8.2
Netherlands	7.9	-	7.9
Austria	2.3	-	2.3
Kuwait	1.1	-	1.1
Spain	0.9	-	0.9
Germany	0.5	-	0.5
<b>Multilateral</b>	<b>175.0</b>	<b>-</b>	<b>175.0</b>
Asian Development Bank	94.9	-	94.9
World Bank	77.5	-	77.5
OPEC Fund	2.6	-	2.6
<b>Total</b>	<b>869.7</b>	<b>0.1</b>	<b>869.8</b>

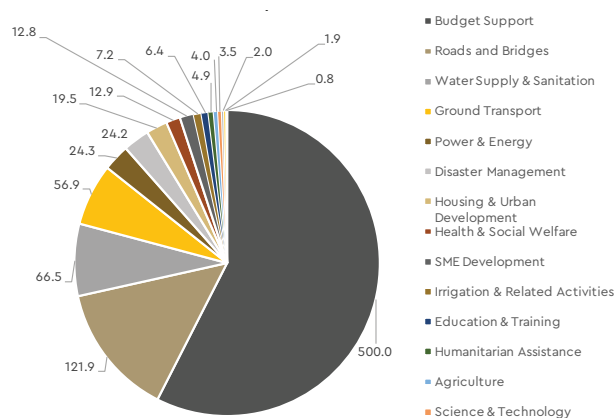
Source : Department of External Resources

Note : For conversion of disbursements made in different currencies into US\$ and Rupees, the exchange rates as at April 30, 2020 have been used

\* Provisional

\*\* Includes Foreign Currency Term Loan facility of US\$ 500 million extended by the China Development Bank

**FIGURE 4.1 : Disbursements Made for Each Sector from January to April 2020 (US\$ million)**



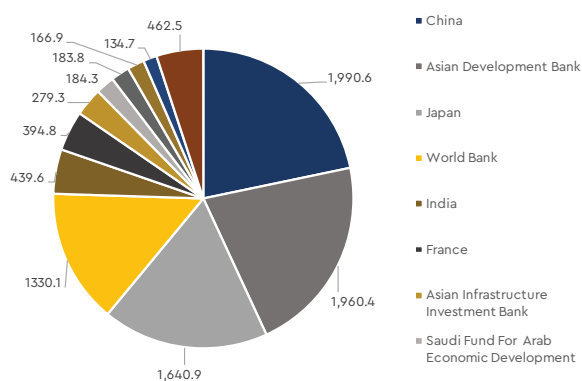
Source : Department of External Resources

## Committed Undisbursed Balance (CUB)

As at April 30, 2020, the total undisbursed balance of foreign financing available from already committed loans that are to be utilized in the next 3-5 years, was US\$ 9,168 million. China has the majority of the balance to be disbursed followed by the Asian Development Bank, Japan and the World Bank, respectively.

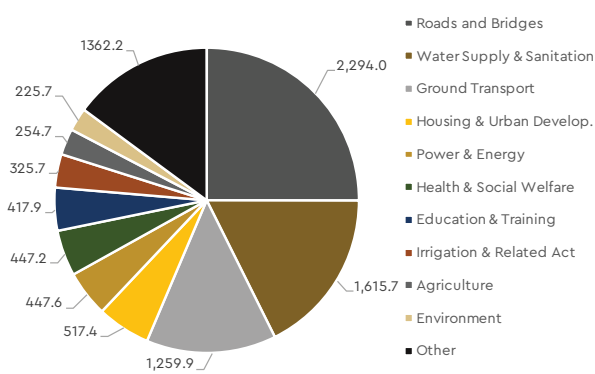
Almost 25 percent of the CUB to be utilized in roads and bridges sector whereas 18 percent is for water supply and sanitation and 14 percent for the ground transport sector.

**FIGURE 4.2 : CUB of Development Projects and Programs as of April 30, 2020 (US\$ million)**



Source : Department of External Resources

**FIGURE 4.3 : Sector-wise CUB of Development Projects and Programs as of April 30, 2020 (US\$ million)**

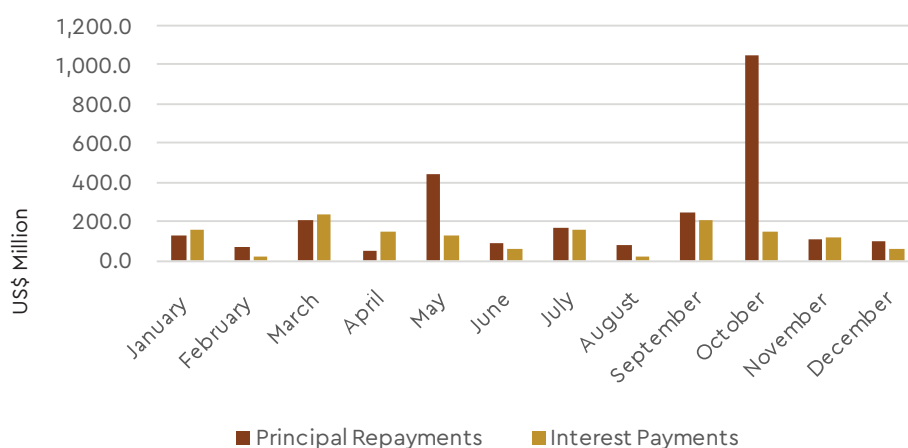


Source : Department of External Resources

## External Debt Stock and External Debt Service Payments

As at end April 2020, total outstanding external debt of the government was US\$ 35.1<sup>1</sup> billion. Total debt service<sup>2</sup> payments from January 01 to April 30, 2020 amounted to US\$ 1,114.0 million. Of which, US\$ 543.1 million was in lieu of principal repayments and the balance US\$ 570.9 million for the payment of interest.

**FIGURE 4.4 : Debt Service Payments from January to April 2020 and Forecast for Remaining Period of 2020**



Source : Department of External Resources

1 Non-residential holdings of Treasury Bills/Bonds and outstanding debt of State Owned Enterprises (SOEs) are not included

2 Debt Service = Principal Payments + Interest Payments, Debt Service Payment of SOEs are not included