2020

PRE-ELECTION BUDGETARY POSITION REPORT

Issued under Section 16 of the Fiscal Management (Responsibility) Act, No. 3 of 2003

Secretary
Ministry of Finance, Economic and Policy Development

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23rd March 2020

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1. Introduction

This report is issued in terms of Section 16 of the Fiscal Management (Responsibility) Act, No. 3 of 2003, which requires the Secretary to the Ministry of Finance to present to the public, within three weeks of the publication of Proclamation or Order requiring the holding of a general election for the election of members of Parliament, a Pre-election Budgetary Position Report containing information on the fiscal position of the economy.[1]

Accordingly, this report contains provisional figures of Government revenue, expenditure and borrowings in 2019 and a broad fiscal outlook for 2020[2], based on legal arrangements pertaining to collection of revenue and commitments for public expenditure. The estimates of Government revenue, expenditure and borrowings for related to the Vote on Account is also reported. The key macroeconomic developments in 2019 and the first two months of 2020 are also provided to facilitate the understanding of the overall economic situation within which fiscal operations have been conducted.[3]

This Report also refers to the basis of information on economic and other assumptions used in the preparation of estimates, risks, and such other information that may have a material effect on the fiscal performance, so as to reflect the financial position of the country.

1 His Excellency the President made a proclamation to dissolve Parliament on 02nd March 2020 by Gazette Notification No. 2165/8.

2 Fiscal Outlook for 2020 will eventually depend on the Budget to be presented by the new Government.

3 Statistics are being collected for 2019 by relevant authorities and are expected to be finalized by end March 2020. Hence, this Report is based on provisional figures available as at end February 2020 and is subject to change once all accounts are finalized. However, such changes are not expected to make a material impact to the overall contents in this report.

2. Overview

At the time this report is compiled 186 countries in the world is affected by the COVID-19 virus. World economy is paralyzed and the markets have been volatile. Sri Lanka being integrated with the global economy has also not been spared the effects of the global paralysis, given its requirement for procuring raw materials for its major export industries, sourcing for tourism and inward remittances. This has had a contagion impact on major employment generating activities and supply chains. The country's initiatives on social distancing programme have reduced the scale of operations and has displaced a large number of people from the work places. The policy initiatives by developed economies inthe North America, Europe, Japan and Australia, with Central Banks and Governments infusing liquidity to the system also have had contagion effects on commodity and financial markets with stress on fiscal and monetary policy conduct.

Policy conduct necessitated similar relief to the domestic economy, on top of the large fiscal overhangs with unpaid claims stemming from 2019 fiscal performance. The major such unpaid claims as at 31 December 2019 are as follows:

i. Unsettled claims on 2019 Presidential Elections Rs. 1.8 billion

ii. Fertilizer Rs. 23.9 billion

iii. Pharmaceutical drugs Rs. 25.7 billion

iv. Interests subsidy for senior citizens with the banking system Rs. 45.8 billion

v. Road construction contractors Rs. 18.4 billion

vi. Gamperaliya rural work, Rs. 7.1 billion

vii. Urban development work Rs. 6.9 billion

viii. School development Rs. 2.8 billion

ix. Foreign funds used but not accounted for as there was no budgetary provisions in the approved Appropriation Act Rs. 212 billion

The commitments made under the IMF supported 3 year Extended Fund Facility (EFF) has not been fulfilled. The envisaged reserve targets, fiscal performance has not been achieved. In the meantime, there was no Appropriation Act as approved by the Parliament for 2020. Instead, in the wake of the 2019 Presidential elections, Vote on Account for 4 months commencing from January 2020, has been approved. The Vote on Account had did not have adequate provisions to meet all such unpaid bills and it has been a challenge to maintain a smooth supply of fertilizer and pharmaceutical products even in the first two months of 2020.

Hon Prime Minister updating the fiscal position in the country, sought an approval from the Parliament to enabling the Treasury to honour, such payments, and bring such expenditure along with unaccounted foreign loans expenditure into the government accounts. However, this was not realized.

The Parliament was dissolved on the 2 March 2020, by His Excellency the President and a Vote on Account under Section 150 (c) was approved to facilitate the announced Parliamentary elections and honour the above mentioned claims to get the supplies reactivated.

The Government announced a budget deficit of 4.4 per cent of GDP in 2019, however, by the end of 2019 the deficit stood at 6.5 per cent of GDP excluding the above mentioned unpaid bills. It needs to be noted, Rs. 367 billion of expenditure including Rs. 212 billion of disbursements pertaining to foreign currency development projects and Rs. 155 billion of expenditure incurred remains unpaid and unrecorded, of which some have been incurred, without adhering to accepted financial procedures in the country. As such, the actual budget deficit for 2019 should have been over 8 per cent of GDP in 2019.

The unsettled dues from government to the private sector has created multiple issues in the economy. The main factors being a slowdown in the economy due to the lack of consumption and investment as has been reflected in the Banks recording their highest non-performing loan portfolio in almost a decade, at around 4-5 per cent, (of which almost 25 per cent is due to the SME sector), supply interruptions of fertilizer, pharmaceuticals, closure of businesses specially Small and Medium-sized Enterprises (SMEs), loss of employment and lack of employment creation and most importantly a significant decline in the quality of life of the people.

At the same time, the realized government revenues in 2019, at Rs. 1,899 billion was almost 20 per cent (Rs. 456 billion) less than the estimated revenue of Rs. 2,357 billion. This was driven mainly by a 20-25 percent short in revenues from taxes on goods and services i.e Value Added Tax (VAT) and taxes on external trade driven by the decline in the imports of intermediate goods and almost a 50 per cent decline in the import of motor vehicles. As such, the government missed the announced budget deficit of 4.4 per cent in 2019.

The new government which took office in November 2019, in line with the policy document “Vistas of prosperity” announced a comprehensive set of new policies and strategies. The reforms in the tax policy is central, based on a simple, targeted and transparent tax system, easily manageable with online payment systems, coupled with simplifications of over regulated economic and business arrangements.This also includes professionalizing corporate management structures of State Owned Enterprises (SOE), breaking market monopolistic manipulations, and promote entrepreneurial initiatives and knowledge based economy.

In this regard the new tax policy includes measures to reduce the VAT to 8 per cent from 15 per cent, removal of Nation Building Tax (NBT) and Withholding (WHT) type taxes such as Pay–As–you–Earn (PAYE). Corporate tax rate (standard) were also reduced to 24 per cent from 28 per cent to encourage business expansions. All taxes on foreign currency inflows have been removed largely to create a professional service economy. Boosting emerging industries such as Information Technology (IT) and agriculture, all corporate taxes as applicable has been removed. These measures, will simplify the tax system and reduce the administrative cost of tax collections, while encouraging better self-compliance. The financial VAT will remain at 15 per cent accounting for almost 15 per cent of the total VAT revenue. The applicable VAT rate on liquor and tobacco (which accounted for almost 10 per cent of the VAT revenue) has been incorporated to excise taxes to maintain revenue neutrality of such reforms. As such, the government revenue from VAT of almost 25 percent remains well protected and the immediate loss is confined only to the real sector. However, that is also neutralized to a large extent as government operational and procurement cost is also expected reduce.

The corporate income tax on liquor, tobacco, cigarettes and entertainment remain at 40 percent. Personal income tax free consolidated threshold is fixed at Rs. 250,000 per month and personnel income tax collection system to apply for those drawing from any income source above that threshold, unless such sources are exempted. The removal of multiple taxes such as NBT, ESC Debit tax etc to make the real economy work on easily complied, single rate VAT system.

Effective Date	Summary of Fiscal Stimulus
Nation Building Tax (NBT)	
01.12.2019	- Removal of NBT
Economic Service Charge (ESC)	
01.01.2020	- Removal of ESC
Debt Repayment Levy (DRL)	
01.01.2020	- Removal of DRL
Value Added Tax (VAT)	
01.12.2019	- Reduction of VAT rate (other than financial services) from 15% to 8%.
01.01.2020	- Increase of threshold for the registration for VAT, from Rs. 3 million per quarter or Rs. 12 million per annum to Rs. 75 million per quarter or Rs. 300 million per annum.
01.12.2019	- Exemption of the sale of condominium housing units from VAT.
01.12.2019	- Reduction of VAT rate applicable on the supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if 60% of the total value of the inputs are sourced from local supplies/sources to zero (0%) per centum.
01.01.2020	- Exemption of information technology and enabling services.
Telecommunication Levy (TL)	
01.12.2019	- Reduction of TL from 15% to 11.25%.
Ports and Airports Development Levy (PAL)	
06.12.2019	- Increase of PAL rate from 7.5% to 10%.
Withholding Tax (WHT)	
01.01.2020	- Exemption of interest, specified fees, dividend, charge, natural resource payment, rent, royalty, and premium or retirement payments made to residents.
Income Tax (IT)	
01.01.2019	- Exemption of profits and income earned by any person from farming including agriculture, fish and livestock farming.
01.01.2020	- Exemption of profits and income earned from providing Information Technology and enabling services.
01.01.2020	- Exemption of profits and income earned from services rendered to persons outside Sri Lanka, including the income earned from foreign sources if the payments for such services are received in foreign currency, through a bank.
01.01.2020	- Exemption of interest income earned on NRFC and RFC accounts.
01.01.2020	- Exemption of dividends paid by a resident company to any non-resident tax.
01.01.2020	- Exemption of dividends distributed by commercial hub enterprises.
01.01.2020	- Exemption of amounts derived by any non-resident person from laboratory services or standards certification services.

Effective Date	Summary of Fiscal Stimulus
01.01.2020	- Exemption of amounts received by any religious institution by way of grants and donations.
01.01.2020	**Income Tax Rate Changes** • The progressive rate applicable on personal income is revised to 6%, 12% and 18% and the tax-free limit and the tax slab is revised to Rs. 3 million per annum. • Income tax rate applicable on the terminal benefits is revised as follows; First Rs. 10 Million - Exempt Next Rs. 10 Million - 6% Balance - 12% • Payments to non-residents where such payments have a source in Sri Lanka are treated as final withholding payments subjected to tax as follows; Interest payments - 5% Any other payment - 14%
01.01.2020	**Corporate Income Tax Rate Changes** • Exports, Tourism, Education, Healthcare, Construction and Agro-processing- 14% • Manufacturing - 18% • Trading, Banking, Finance, Insurance, etc (standard Rate) - 24% • Liquor, Tobacco, Betting and Gaming - 40%
Compiled by the Department of Fiscal Policy	

The introduction of a SME recovery plan with a debt moratorium implemented through the Banks, complemented by guarantees from the Central Bank of Sri Lanka (CBSL) has already commenced and so far facilities on the debt capital moratorium in excess of Rs. 25 billion have been provided to more than 1,000 SME's. This package which was only for LKR denominated loans will now be extended to cover the foreign currency-denominated loans as well, so as to support specially SME exporters and in particular, those in the tourism sector effected by the COVID-19 pandemic and the Easter Sunday Terrorist attacks of 2019.

It is encouraging to note that with the bumper harvest in paddy coupled with the state led paddy purchasing programme, more than Rs. 130 billion has been especially into the rural agriculture based economy. This programme will continue to ensure that the country is focused on food security.

The government is also committed tostreamlining the governance framework for external trade based on national security, environment, and health. It is in this background that the government introduced restrictions with effect from December 2019 on the import and re-export of nine crops *i.e.* pepper, nutmeg, tamarind, mace, cinnamon, areca-nut, cardamom, clove and ginger. Also, measures have been taken to ban the importation of garbage or waste materials which are recycled and re-exported. However, local recycling industries are not restricted under the above policy measures. Further, the import of lanterns, kites and incense sticks are restricted.

2020 Fiscal Operations

The Parliament has not approved an Appropriation Act for 2020. The government operates on a Vote on Account and has been able to raise Rs 303 billion of revenue during the first two months of 2020. Expenditures have remained broadly at around Rs. 428 billion, and includes the payments made on the outstanding dues of 2019 as well. With the Vote on Account authorized by HE the President, funds have been released to settle including Rs.10 billion of pharmaceutical bills, Rs.3 billion of fertilizer bills, Rs.5 billion to construction contractors with priority being given to SME contractors and Rs.3 billion to suppliers of items such as text books, rations etc

Cost of debt financing of both domestic and foreign debt is estimated to be around Rs 9,000 billion in 2020. The foreign debt servicing in 2020, alone amounts to USD 4.5 billion and of which USD 2. 8 billion is required for the first half of 2020. The government raised almost Rs. 311 billion through Treasury Bills, Bonds, SLDB's and FCBU loans during this period in 2020. The Foreign Currency Term Financing Facility 2018 with China Development Bank (CDB) has been upsized at more favorable terms to USD 1,000 million including the extension of the tenure to 10 years in 2020 from 8 years in 2018 with a 3 year grace period, and a decrease in the margins over 6 month USD LIBOR. The first tranche of USD 500 million has already been drawn down.

Table 1: Cash Flow Operations January - February 2019-2020

Rs. Million

Item	2019		2020	
	January	February	January	February
Total Revenue and Grants	**143,342**	**146,700**	**132,494**	**170,941**
Total Revenue	**143,335**	**146,701**	**132,489**	**170,915**
Tax Revenue	136,625	139,173	125,765	137,271
Non-Tax Revenue	6,710	7,528	6,725	33,644
Grants	7	-	5	26
Total Expenditure	**233,717**	**200,458**	**250,818**	**176,833**
Recurrent Expenditure	**215,185**	**155,704**	**220,722**	**161,127**
Salary	62,662	62,103	71,485	71,045
Interest	112,863	41,862	98,238	45,912
Pension	16,440	18,219	21,097	20,696
Samurdhi	3,254	3,252	4,403	4,396
Other	19,966	30,268	25,500	19,079
Capital Expenditure	**18,532**	**44,754**	**30,096**	**15,706**

Source: Department of Treasury Operations

The new government has undertaken a significant expenditure rationalization programme with emphasis placed on non-priority expenditures. As such, at the outset itself, the government decided not to purchase new vehicles for elected officials, while also curtailing the rent or purchasing of buildings, equipment. The Treasury has issued clear instructions to spending agencies including Ministries, and Departments, where these agencies are required to submit an expenditure rationalization plan that will be monitored by the Department of Management Audit of the Treasury. It is expected that with the expenditure controls in place, coupled with the savings from the tax reductions[4] in government service delivery could lead to almost a saving of 0.6-0.7 percent of GDP in government expenditure.

The debt stock, which was at 71.3 per cent of GDP at the end of 2014 or Rs. 7,391 billion has increased to 82.9 per cent of GDP by end 2019 or Rs. 13,031 billion. However, the cause for concern is that the foreign currency debt which was only 41.6 per cent of the total debt stock in 2014 has now increased to almost 50 percent,

4 Budgetary allocations provided to Departments, Ministries and other spending agencies include allocations for taxes as well. As such, with the reduction in for eg VAT, the budgetary allocation provided will also be reduced.

as floating of international sovereign bonds since 2015 has been frequent. Of the total foreign currency debt stock of USD 35 billion, International Sovereign Bonds (ISB) accounts for almost 50 per cent or USD 15 billion of which USD 12 billion was raised during the period 2015-2019.

As such, given that the debt financed project pipeline is already about USD 10 billion, the government has taken a decision to reassess and prioritize its public investments initially confining to high impact projects that has significant economic and financial benefits to the country while ensuring prudent fiscal management. The government policy of public investments will be driven with the objective of achieving the following:

- National security
- Food security,
- Energy security
- Creating new industrial initiatives.
- Public Health
- Education, skills development and knowledge based economy

Public Investment programme and regular current and capital expenditures will be lined up on the basis ofthe above 6 considerations. This will further increase the capacity for the private sector to leverage on the public investment to create more value to increase exports and import replacements particularly in food and agriculture sectors. At the same time, the financing decisions will be driven by the type of currency i.e domestic vis-a-vis foreign currency, assets, liability and maturity compatibilities in response to a sustainable debt management strategy.

It is expected that public investment in 2020, will be around Rs. 300-400 billion excluding the recording of the capital expenditure that have been in arrears from 2019 amounting to Rs. 307 billion[5] which includes Rs. 212 billion of foreign funded project expenditure.

5 The recording of the capital projects spillovers from 2019 will not increase the borrowings given that these projects have already been financed and is already being serviced given that it is recorded in the stock of debt. However, these expenditures have not been recorded in 2019.

The National Programme for Eradication of Poverty is a multi-pronged approach, giving priority to eradicating poverty alleviation and youth unemployment. A Poverty Alleviation Task Force has been appointed. Under this programme, 100,000 persons from amongst the poorest of the poor and least educated will be provided employment anda further 50,000 unemployed graduates will also be recruited, ensuring a sustainable livelihood with a steady stream of income, ensuring food security, housing and connectivity. In this regard, low income families will be provided with a package of essential food items, which includes sugar, tea, rice, flour, dhal, dried fish, chilies, onion potatoes and milk powder as subsidized prices and a food security card (FSC) will also be introduced to all beneficiaries under this programme. They will be further supported through a programme that will give them easy access to credit with priority being given to the development of SMEs, self-employment and household level livelihood development initiatives. These families will also be supported with housing,[6] access to better quality roads which will benefit approximately 1,000,000 households through 100,000 Km of the rural road development programme, and provision of 150,000 water connections to households in plantation, semi-urban and rural areas. T

The "*Sapiri Gamak*" initiative that has been launched also complements the initiative of the government to improve the quality of life of its citizens, by improving the small infrastructure facilities in the 14,021 Grama Niladari divisions (GN), with each GN division being allocated Rs. 2 million and at present 37,862 projects have commenced in almost all the GN divisions. The activities undertaken include rehabilitation of access roads, drainage systems, improving facilities for village fairs (*Sathi Pola*) etc.

The Government having realized that public sector systems and processes have become inimical in the development drive of the country has been requested to revamp these systems so that a better and more efficient delivery of services could be made availed to the citizens. In this regard, the Treasury has undertaken a revamping of the public finance related regulations and circulars. The Integrated Treasury Management Information System (ITMIS) will be rolled out commencing from May 2020 and will support better Treasury cash management which will subsequently be linked to all spending agencies. In line with modern practices, E-procurement has been developed and will be fully implemented during 2020, improving transparency, and reducing the lead time to purchase goods and services. E-documentation of the Customs will also be introduced in due course, supporting trade facilitation. The Information and Communication Technology Agency (ICTA)has been assigned the task of formulating and implementation of

6 All ongoing island wide housing programmes to be completed on an accelerated basis

IT based systems in all government agencies thus eliminating duplication and even triplication.

SOEs remains central, in the government's economic policy framework and in this regard, the government introduced a new procedure to choose members of the Boards of SOEs. This resulted in professionals and corporate leaders getting appointed to lead specially the key SOEs. These boards of management, have been informed to undertake a preliminary assessment of the operations of the entities and take appropriate action to simplify systems, improve its financial and operational outlook and revitalize their corporate business models.

The government has already initiated this process at the Ceylon Electricity Board (CEB) which has not been able to expand its generation capacity beyond the 4,000 MW since 2013. While the lack of capacity is supplemented by emergency power purchases, it is done so at a significant cost. It is in this background the government is in the process of undertaking several initiatives including the expansion of the capacity of the coal powered power plant by a further 300 MW, the conversion of almost 700 MW of generation capacity operated by fuel to LNG. This is expected to reduce operational costs by almost 25 percent. Renewable energy is encouraged both at household and commercial levels to exploit the full potential of wind and solar power resources.

Ceylon Petroleum Corporation (CPC) incurred a loss of Rs. 11.9 billion in 2019. The CEB and Sri Lankan Airlines (SLA) outstanding bills to CPC stands at around Rs. 84.5 billion and Rs 45 billion, respectively and this together with the losses of the CPC due to many factors including operational inefficiencies, imprudent pricing mechanism followed specially in early 2015 when oil prices were low but with no thought to any possible impact to the Balance of Payments (BoP) including the exchange rate volatilities, impact on the transport and traffic systems and the environment, has resulted in the CPC owning to both Bank of Ceylon and Peoples Bank in excess of Rs. 600 billion. Further, CPC demands investments in expanding its storage capacities, pipelines and refinery capacities.

The government has established anenergy price Stabilization Fund, into which a portion of the taxes on import of fuel products will be credited.

Inflation has increased to 6.2 percent in February 2020, driven by the increase in food items that was experienced in early February 2020. The country's reserve position stood at USD 7.6 billion at the end of 2019 and is at present around USD 7.8 billion. The BOP has recorded a surplus in 2019 amounting to USD 377 million.

The Board of Investment (BOI) is being revamped in terms of its both operational and legal framework. The prevalence of political stability, coupled with the new tax regime, resulted in the finalization of the Foreign Direct Investment (FDI) of USD 240 million during December 2019, with Shangri –La. More foreign investments are lined up and will be finalized in due course. Preliminary work has already commenced to establishing a fabric park in Eravur. This will facilitate the local garment manufacturer's better value addition and save on the imports. Work on the Colombo Port City is also nearing completion and the government is now in the process of finalizing the legal and operational framework for the city.

The Colombo Stock Exchange's (CSE) all share price index (ASPI) which closed at 6129 in November 2019, has however, since the advent of the Covid-19 fears,plunged by almost 25 percent in less than three months. This is in the background of even the major stock exchanges such the New York, London and emerging stock exchanges like Indonesia all experiencing a similar phenomenon. In line with the investors fleeing emerging markets to safe haven economies such as US , the secondary markets of emerging international bonds have seen a widening in their spreads and an increase in yields. This is also being reflected in the Sri Lanka ISB secondary market yields too shooting to unprecedented levels, which indicates that although global interest rates have plunged to fairly low levels, investors would demand a higher premium to be paid for emerging market paper.

Vote on Account March-May 2020

His Excellency, the President proclaimed to dissolve Parliament on March 02, 2020 by Extraordinary Gazette Notification No. 2165/8. Accordingly, as per the Article 150 (3) of the Constitution of Sri Lanka, His Excellency the President may "*... authorize the issue from the Consolidated Fund and the expenditure of such sums as he may consider necessary for the public services until the expiry of a period of three months from the date on which the new Parliament is summoned to meet*.". As such, Vote on Account for three months commencing from March 06, 2020 has been prepared. The total provision of Rs. 1,229 billion has been provided for the government expenditure comprising Rs. 715 billion for recurrent expenditure and Rs. 150 billion for capital expenditure which includes the spillover expenditure from 2019. Rs. 360 billion has been allocated for the loan repayment. The estimated government expenditure for the respected period is Rs. 420 billion.

Table 2 : Vote on Account March-May -2020

	Rs. Bn
Total Revenue	**420**
Total Expenditure	**1,229**
Recurrent	**715**
o/w Interest	268
Capital Expenditure	**150**
Loan Repayment	**360**
Advance Accounts	**4**

Source: Department of National Budget

The Way Forward Amidst Risks

At the time of this report being published, the country is battling the COVID -19 virus which has swept the globe. At present there are over 80 identified COVID -19 infected patients around the country. More than 5000 are in government quarantine centers with even more in self quarantine. In this background the HE the President announced measures to support the economy that is effected by the COVID -19 virus. These measures include, supporting specially those daily wage and low income earners to be able to have a decent meal, whereby the prices of dhal was reduced to Rs. 65/kg and the price of a canned Fish was reduced to Rs.100. To support the businesses the government has requested the Banks and other financial institutions to provide these businesses with a 6 month debt moratorium and also working capital to be made available at 4 percent. Further support also includes flexible working hours and adjustment of work processes.

The new government since it took office in November 2019, has announced key policies to stimulate the economy including the new tax policy, the credit relief package and also an energy price stabilization fund to reap the benefits of the downward trend in oil prices.

It is noted that oil prices are plunging to almost all time lows and it is now trading at less than USD 25/bbl. However, the government has announced that the fuel prices will be retained without any downward adjustment, while the benefits that will accrue from low cost of imports in fuel will be transferred through adjustments in the price of essential food items and credit support to businesses as has been announced, creating a better multiplier effect in the economy. In fact, in 2015 with the slashing in the fuel prices, the country saw an influx of motor cars which created multiple issues ranging from BOP issues to road congestion and environmental issues.

At the same time, while oil prices seem to be on a declining trend, the eventuality of a pickup in oil prices also needs to be factored in and remains a risk factor. The Energy Price Stabilization Fund is expected to cushion the country from significant variations in the oil prices.

The weather remains a serious concern given its impact on agriculture and also power generation. Weather related natural disasters too need to be factored in. Hence, it is in this background that the government is keen to introduce new technology for agriculture focusing specially on water management and better irrigational practices. Concurrently, the expansion of the electricity generation capacity with the addition of almost 1,000-1,700 MW of LNG is also designed to support to withstand any impact of dry weather conditions which will result in low levels of hydro generated electricity.

Given the global action to contain the COVID-19 has included the closure of borders, specially in the US and Europe, this will impact not only tourism but also the movement of goods and thereby effect on exports, specially primary goods is a cause for concern.

It is noted that the country at present has good stocks of rice and vegetable supply has improved with prices declining gradually. Essential food stocks are available and measures have been taken to ensure an uninterrupted supply of certain food items. There are no shortages in medicines and fuel as well. The country has foreign reserves up to almost 4 months of imports.

The spread of the COVID-19 has effected almost every country in the world. The impact is unprecedented with challenges being presented range from ensuring that the people of the country remain healthy, to ensuring that markets from the primary goods and services markets to the financial markets are managed well. As such, it is acknowledged that this demands an improved coordination between fiscal and monetary policies and the government has been proactive in this regard.

3. Government Fiscal Operations 2019

A summary of the overall revenue, expenditure and debt of the Government is presented in Table 3.

Table 3 : Summary of Government Fiscal Operations

Rs. Million

Item	*2018*	2019	
	Actual	Estimate	Actual
Total Revenue and Grants	**1,932,459**	**2,357,000**	**1,898,808**
Total Revenue	**1,919,974**	**2,344,000**	**1,890,899**
Tax Revenue	1,712,318	2,077,000	1,734,925
Non Tax Revenue	207,656	267,000	155,974
Grants	12,485	13,000	7,909
Total Expenditure	**2,693,228**	**3,042,000**	**2,915,290**
Recurrent	**2,089,714**	**2,308,000**	**2,301,155**
Capital and Net Lending	**603,514**	**734,000**	**614,136**
Public Investment	624,969	756,000	631,235
Revenue Deficit (-)/Surplus (+)	**(169,740)**	**36,000**	**(410,256)**
Overall Budget Deficit (-)/Surplus (+)	**(760,769)**	**(685,000)**	**(1,016,482)**
Total Financing	**760,769**	**685,000**	**1,016,482**
Foreign Financing (Net)	464,593	55,000	362,763
Domestic Financing (Net)	296,176	630,000	653,719
Revenue and Grants	13.4	15.1	12.2
Revenue	**13.3**	**15.0**	**12.2**
Tax	11.9	13.3	11.2
Non Tax	1.4	1.7	1.0
Grants	0.1	0.1	0.1
Expenditure	**18.6**	**19.5**	**18.7**
Current Expenditure	14.5	14.8	14.8
Capital Expenditure	4.2	4.7	3.9
Public Investment	4.3	4.8	4.1
Revenue Deficit (-)/Surplus (+)	**(1.2)**	**0.2**	**(2.6)**
Budget Deficit	**(5.3)**	**(4.4)**	**(6.5)**
Foreign Financing (Net)	3.2	0.4	2.3
Domestic Financing (Net)	2.0	4.0	4.2

Source: Department of Fiscal Policy

Government Revenue

Total Government revenue declined by Rs. 29.1 billion or 1.5 per cent to Rs. 1,891 billion in 2019 from Rs. 1,920 billion in 2018 with the slowdown of economic activities and the shrinking of imports which provide a strong tax base in a nominal economic environment. Total Government revenue collection declined to 12.2 per cent of GDP in 2019 from 13.3 per cent of GDP in 2018. Tax revenuemoderately increased by 1.3 per cent to Rs. 1,734.9 billion in 2019 from Rs. 1,712.3 billion in 2018. However, non-tax revenue significantly declined by 24.9 per cent to Rs. 155.9 billion from Rs. 207.6 billion.

Table 4: Summary of Government Fiscal Operations

Rs. Million

Item	2018	2019	
	Actual	Estimate	Actual
Tax Revenue	**1,712,318**	**2,077,000**	**1,734,925**
Income Tax	310,450	385,000	427,699
Taxes on Goods & Services	945,892	1,122,000	843,355
VAT	461,650	529,000	443,877
Excise Tax	484,241	593,000	399,478
Other Taxes and Levies	229,810	286,000	244,376
Tax on External Trade	226,166	284,000	219,494
Non Tax Revenue	**207,656**	**267,000**	**155,974**
Total Revenue	**1,919,974**	**2,344,000**	**1,890,899**

Source: Department of Fiscal Policy

3.1 Income Tax

Revenue generated from income taxes increased Rs. 427.7 billion mainly due to the rise in revenue collection from corporate and non-corporate income taxes, PAYE tax, ESC and WHT on interest income. Revenue from income taxes increased to 2.8 per cent of GDP in 2019 from 2.1 per cent in 2018 with an increase of 0.7 percentage points. Revenue from corporate and personal income taxes increased significantly by 60.8 per cent to Rs. 272.6 billion in 2019 from Rs. 169.6 billion in 2018 while PAYE tax revenue rose by 19.5 per cent to Rs. 49.4 billion in 2019. Moreover, revenue from ESC and WHT on interest income increased by 4.4 per cent and 8.5 per cent to Rs. 55.3 billion and Rs. 50.3 billion respectively.

3.2 Value Added Tax (VAT)

Revenue from VAT declined by 3.8 per cent to Rs. 443.9 billion in 2019 from Rs. 461.6 billion in 2018. Revenue from VAT on domestic economic activities decreased by 3.0 per cent to Rs. 274.0 billion in 2019 from Rs. 282.5 billion in 2018 due to weakening of domestic economic activities. Revenue from VAT on import related activities also deteriorated by 5.2 per cent to Rs. 170.0 billion in 2019 from Rs. 179.2 billion in 2018 due to the erosion of the import tax base. Revenue from VAT as a percentage of GDP declined to 2.9 per centof GDP in 2019 from 3.2 per cent in 2018.

3.3 Nation Building Tax (NBT)

Revenue from NBT declined by 1.0 per cent to Rs. 70.7 billion in 2019 from Rs. 71.3 billion in 2018 due mainly to the deterioration of import related activities. Revenue from domestic activities increased slightly by 2.4 per cent to Rs. 52.4 billion in 2019 from Rs. 51.2 billion whereas revenue from import related activities decreased by 9.6 per cent to Rs. 18.2 billion from Rs. 20.2 billion in 2018. However, revenue from NBT as a percentage of GDP remained unchanged at 0.5 per cent.

3.4 Excise Taxes

Excise duties from the cigarettes, liquor, motor vehicles, petroleum and selected items declined significantly by 17.5 per cent to Rs. 399.5 billion in 2019 from Rs. 484.2 billion in 2018 due to the decline in revenue from motor vehicles, petroleum products and cigarettes amidst the increase in revenue collection from liquor. Revenue collected from excise duties as a percentage of GDP declined to 2.6 per cent in 2019 from 3.4 per centin 2018.

Revenue generated from motor vehicles declined significantly by 36.1 per cent to Rs. 130.4 billion in 2019 from Rs. 204.1 billion in 2018 as a result of upward revision of duty on motor vehicles of an engine capacity less than 2,000 cm^3 and the imposition of luxury tax on motor vehicles as proposed in the Budget 2019. Meanwhile, revenue from petroleum products also declined by 6.9 per cent to Rs. 61.7 billion in 2019 from Rs. 66.3 billion in 2018 mainly due to the reduction of excise duty on auto diesel with effect from November 2018. Excise duty revenue from cigarettes declined by 5.2 per cent to Rs. 87.4 billion in 2019 from Rs. 92.2 billion in 2018 reflecting the impact of upward revision of duty on cigarettes coupled with the drop in production by 16.8 per cent in 2019. However, revenue from liquor increased marginally by 1.4 to Rs. 115.4 billion in 2019 from Rs. 113.9 billion in 2018.

3.5 Customs Import Duty (CID)

Revenue from import duty marginally increased by 1.5 per cent to Rs. 98.4 billion in 2019 from Rs. 97.0 billion in 2018 reflecting the decline in imports. Thein crease in Customs Import Duty (CID) by 10 per cent for 261 identified goods with effect from March 06, 2019, duty hikes on the importation of undenatured ethyl alcohol, petrol (Octane 92) and super diesel with effect from March 06, 2019, and July 12, 2019, respectively were contributed for this marginal increase. However, revenue from CID as a percentage of GDP declined slightly to 0.6 per cent in 2019 from 0.7 per cent in 2018.

3.6 Other Taxes

Revenue collected from Special Commodity Levy (SCL), which was a composite tax introduced in 2007 to safeguard producers and consumers declined by 7.2 per cent to Rs. 70.4 billion in 2019 from Rs. 75.8 billion in 2018 reflecting the reduction in SCL rates applicable on several commodities including B' onion, fish and maize.

Revenue from PAL declined by 1.6 per cent to Rs. 112.2 billion in 2019 from Rs. 113.9 billion in 2018 reflecting the contraction of imports in 2019 together with a rate reduction in selected machinery and equipment. Revenue generation from PAL is expected to enhance in 2020 mainly due to the increase of standard PAL rate from 7.5 per cent to 10.0 per cent under expanded import related activities.

Revenue from CESS levy declined by 5.0 per cent to Rs. 50.7 billion in 2019 to Rs. 53.4 billion in 2018 due mainly to the deceleration of import related activities. Revenue from Telecommunication Levy decreased by 35.5 per cent to Rs. 18.3 billion in 2019 from Rs. 28.3 billion in 2018 mainly due to the removal of Telecommunication Levy applied on internet services combined with the rate reduction of Telecommunication Levy on voice communication from 25 per cent to 11.5 per cent in December 2019.

3.7 Non-tax Revenue

Non-tax revenue declined by 24.9 per cent to Rs. 155.9 billion in 2019 from Rs. 207.6 billion in 2018 mainly due to the non-availability of distributable profits from the Central Bank and the drop in profits and dividends transfers from SOEs together with the slump in revenue collection of fees and charges. Non-tax revenue as a percentage of GDP dropped to 1.0 per cent in 2019 from 1.4 per cent in 2018. Profits and dividends transfers from SOEs declined by 33.4 per cent to Rs. 27.8 billion in 2019 from Rs. 41.8 billion in 2018.

4. Government Expenditure

The total Government expenditure increased by 8.2 per cent to Rs. 2,915 billion in 2019 according to the provisional data of which recurrent expenditure was Rs. 2,301 billion while capital expenditure was Rs. 619 billion. The recurrent expenditure increased by 10.1 per cent reflecting the increased interest payments, salaries and wages and pension payments and other welfare programmes such as free medicine, fertilizer and *Samurdhi*. The public investment was directed towards the completion of ongoing development projects initiated under the Government's development programmes. Accordingly, public investment to GDP ratio declined to 4.1 per cent in 2019 from 4.3 per cent in 2018.

Table 5: Government Expenditure - Economic Classification

Item	*2018*	2019	
	Actual	Estimate	Actual
Recurrent Expenditure	**2,089,714**	**2,308,000**	**2,301,155**
Salaries and Wages	626,045	690,000	686,452
Good & Services	138,855	159,000	161,826
Interest Payment	852,190	913,000	901,352
Subsidies and Transfers	472,624	546,000	551,524
Capital and Net Lending	**603,514**	**734,000**	**614,136**
Public Investments	624,969	756,000	631,235
Other	(21,455)	(22,000)	(17,099)
Total Expenditure	**2,693,228**	**3,042,000**	**2,915,291**

Source: Department of Fiscal Policy

4. 1 Salaries and Pension Cost

Expenditure on salaries and wages for public servants including those attached to security forces/police and Provincial Councils increased by 9.6 per cent to Rs. 686,452 million in 2019 from Rs. 626,045 million. The increase in salaries was mainly attributable to the provision of an interim allowance of Rs. 2,500 per month effective from July 2019, salary increments given to public servants as per the Circular 03/2016 and new recruitments to the public service. Total pension payments increased by 17.1per cent to Rs. 227,670 million in 2019 from Rs. 194,488 million in 2018.

4.2 Interest Cost

Interest payment on foreign and domestic debt was Rs. 913,352 million, an increase of 5.8 per cent. Interest payments for foreign debt significantly increased by 26.8 per cent to Rs. 233,970 million partly due to exchange rate impact while interest payments on domestic debt increased to Rs. 667,383 million. The reduction of the interest rate of Government securities is likely to moderate interest payments on Government debt in 2020.

4.3 Welfare and Subsidy Payments

Total payments for welfare and subsidy programmes excluding pension payments amounted to Rs. 228,571 million in 2019 which is a 9.9 per cent of total recurrent expenditure. Expenditure on health and nutrition programmes including free medicine amounted to Rs. 69,378 million in 2019 while expenditure on welfare payments for the education sector including the provision of free textbooks, uniforms and season tickets amounted to Rs. 18,197 million in 2019. Social welfare expenditure which constituted *Samurdhi* and social security for differently-abled soldiers and other welfare for the elders and Kidney patients was Rs. 91,804 million in 2019. Fertilizer subsidy, paddy purchasing and subsidies for commercial crops amounted to Rs. 38,923 million.

4.4 Public Investment

The public investment on development projects in the areas of roads and bridges, agriculture, irrigation, education, health, water supply, environment and human resource development amounted to Rs. 631,235 million, a 1.0 per cent decline in 2019.

5. Foreign Financing

Access to concessional financing has been limited with the increased per-capita income level due to the developments in domestic and foreign market conditions. To accommodate the financing needs of the Government, capital market have been attracted while maintaining the traditional source of financing such as Official Development Assistance (ODA) in addition to access of new lenders such as Asian Infrastructure Investment Bank (AIIB).

5.1 Foreign Financing Commitments - 2019

The Government has made arrangements to mobilize foreign financing of US$ 3,378.8 million by entering into 41 agreements with foreign development partners and lending agencies from 1st January to 31st December 2019, to support the public investment program. This constituted US $ 3,312.5 million in the form of loans obtained as ODA and US$ 66.3 million by way of ODA grants and technical assistance.

Table 6 : Lender-wise Foreign Financing ODA Commitments 2019

Development Partner	Commitment (US$ million)
Bilateral	**1,871**
China	1,062
Japan	282
United Kingdom	144
Netherlands	128
France	85
Hungary	58
Saudi Fund	50
European Community	44
Austria	10
Korea	6
Germany	2
Multilateral	**1,507**
Asian Development Bank	765
World bank	422
Asian Infrastructure Investment Bank	280
OPEC Fund	40
UN Agencies	0.6
Total	**3,378**

Source: *Department of External Resources*

In addition to the funds raised from ODA development partners, US$ 4,400 million was raised through International Sovereign Bonds (ISB) from the international capital market during the period under review. Of which, US$ 1,000 million was raised at a fixed interest rate of 6.85 per cent with a 5-year tenure while another US$ 1,400 million was raised at a fixed interest rate of 7.85 per cent with 10-year tenure during the first quarter of the year. Another US$ 500 was raised in the second quarter at a fixed interest rate of 6.35 with a 5 year tenure and a balance of US$ 1,500 was raised at a fixed rate of 7.55 with 10-year tenure.

5.2 Foreign Financing Disbursements and Utilization - 2019

Total foreign financing disbursements made for development projects and programmes during the period from 1st January to 31st December 2019 amounted to US$ 1,632.6 million. Of which, US$ 1,607.3 million was disbursed as loans while US$ 25.3 million was disbursed by way of grants.

The majority of the disbursements were from the loan agreements signed with the China, which is almost 40 per cent, followed by Asian Development Bank (17 per cent), World Bank (11 per cent), and Japan (11 per cent).

The majority of the disbursements was in lieu of the projects implemented under the Roads and Bridges sector accounting for almost 52 per cent or US$ 875 million, followed by the Water Supply and Sanitation sector at 12 per cent or US$ 200 million, Power and Energy at 7.0per cent or US$ 111 million and Ground Transport sector at 5 per cent or US$ 91 million.

5.3 Committed Undisbursed Balance (CUB)

As at 31st December 2019, the total undisbursed balance of foreign financing available from the already committed loans that are to be utilized in the next 3-5 years, was US$ 9,688.9 million. The majority of the CUB remains with the recent projects funded by the Asian Development Bank (23 per cent or US$ 2,116 million), followed mainly by China (22 per cent or US$ 2,093 million), Japan (19 per cent or US$ 1,813 million) and the World Bank (13 per cent or US$ 1,286 million). Almost 24 per cent of the foreign financing to be disbursed during next 2-5 years is for Road and Bridges sector while the considerable amount to be disbursed mainly for the sectors such as Water supply and Sanitation and Transport.

Table 7: Disbursements of Foreign Loans and Grants from 1st January to 31st December 2019

Development Partner	Disbursements (USD million)*		
	Loan	Grant	Total
Bilateral	**1,120**	**21**	**1,140**
China**	648	-	648
Japan	178	10	188
France	73	0.2	73
Netherlands	70	-	70
United Kingdom	45	-	45
India	39	-	39
Austria	21	-	21
Saudi Arabia	16	-	16
Korea	12	-	12
USA	-	11	11
Kuwait	9	-	9
Germany	3	-	3.5
Denmark (HSBC, Guarantee with Denmark)	2	-	2.4
Spain	0.9	-	0.9
Pakistan	0.7	-	0.7
Multilateral	**487**	**5**	**492**
Asian Development Bank	279	0.01	279
World Bank	178	0.02	178
OPEC Fund	18	-	18
International Fund for Agriculture Development	11	-	11
United Nations Agencies	-	5	5
Asian Infrastructure Investment Bank (AIIB)	0.7	-	0.7
Total	**1,607**	**25**	**1,632**

Source: Department of External Resources

Note: For conversion of disbursements made in different currencies into US$ and Rupees, the average of the exchange rates of 31st December 2019 have been used

* *Provisional*

** *Disbursements made to SOEs are not included*

US$ 4,400 million International Sovereign Bonds issued in 2019 are not included

Table 8: Committed Undisbursed Balance as at 31st December 2019

Economic Sector	CUB (US$ million)
Roads and Bridges	2,310
Water Supply & Sanitation	1,712
Ground Transport	1,343
Housing & Urban Development	540
Power & Energy	493
Health & Social Welfare	461
Education & Training	435
Irrigation & Related Activities	340
Agriculture	261
Environment	229
Rural Development	178
Ports & Shipping	174
Other	1,062
Total	**9,539**

Source: *Department of External Resources*

5.4 External Debt Stock and External Debt Service Payments

By the end of 2019, total outstanding external debt of the Government was US$ 34.7 billion, an increase of 6 per cent or US$ 2.1 billion compared to the debt stock at 31st December 2018. Total debt service payments from 1st January to 31st December 2019 amounted to US$ 4,247.8 million. Of which, US$ 3,159.6 million was in lieu of principal repayments and the balance US$ 1,288.1 million for the payment of interest.

Table 9: Debt Service Forecast for the Year 2020-2025*

US$ Million

Type	2019	Forecast					
	Actual	2020	2021	2022	2023	2024	2025
Principal	3,159	2,768	2,634	3,227	3,036	3,299	3,427
Interest	1,288	1,440	1,396	1,319	1,188	1,074	963
Total	**4,447**	**4,208**	**4,030**	**4,546**	**4,224**	**4,374**	**4,391**

Source: *Department of External Resources*

*US$ estimations are based on the average exchange rates as at 31st December 2019, Forecast was made based on existing portfolio only, (i.e. debt stock to be accumulated due to new commitments are not included)

6. Treasury Operations

Performance of the Government Treasury Cash Flow

Treasury cash inflows from revenue and other receipts in 2019 were Rs. 1,936.1 billion while total cash outflows for the recurrent and capital payments were recorded as Rs. 2,778.4 billion resulting in a net cash deficit of Rs. 842.3 billion. Accordingly, net cash deficit increased by Rs.117.8 billion in 2019 due mainly to the increase in cash outflows for the recurrent expenditure by 11.1 per cent which has resulted in overall negative cash/bank balance as at 31st December 2019 up to Rs. 274.3 billion.

Management of Government Debt

The Government total gross borrowing amounted to Rs. 1,959.5 billion in 2019 by way of Treasury bonds, Treasury bills, Sri Lanka Development Bonds (SLDB) and Foreign Currency Banking Unit (FCBU) and International Sovereign Bonds. The repayment of Government debt both domestic and foreign amounted to Rs. 1,129.6 billion thus limiting the net borrowing to Rs. 829.9 billion.

Disclosure of Contingent Liabilities on Treasury Guarantees

The value of Treasury Guarantees issued and remained valid as at December 31st 2019, was Rs. 1,155.5 billion which were within the limit applicable 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 31st December 2019, is given in Annexure 1.

Table 10 : Statement on Government Treasury Cash Flow Operations

Rs . Billion

Item	2018	2019		2020	
	Actual	Estimate	Actual	Jan	Feb
Opening Cash Balance	(186.2)	(274.2)	(274.2)	(274.3)	(289.9)
Total Cash Inflow from Revenue and Other Receipts	1,870.2	2,236.4	1,936.1	134.0	171.8
Total Cash Outflow for Recurrent Payments	(2,000.7)	(2,302.1)	(2,221.9)	(220.7)	(161.1)
Total Cash Outflow for Capital Payments*	(594.0)	(465.5)	(556.5)	(31.6)	(16.4)
Net Cash Surplus / (Deficit)	(724.5)	(531.2)	(842.3)	118.3	(6)
Gross Borrowing *	1,853.9	1,831.2	1,959.5	159.2	56.6
Debt Repayment	(1,232.3)	(1,300.0)	(1,129.6)	(55.7)	(12.8)
Net Borrowing	621.6	531.2	829.9	103.5	43.8
Adjustment Account Balance (TEB, net deposits, etc.)	14.9	-	12.3	0.8	2.5
Closing Cash Balance	(274.2)	(274.2)	(274.3)	(289.9)	(254.3)

Source: Department of Treasury Operations

**Includes project / programme loans received by the government*

7. Government Debt

The total debt of the Government amounted to Rs. 13,031 billion at end 2019 in comparison to Rs. 12,030 billion in 2018. The increase in total debt exceeded the nominal growth in GDP. The total debt constituted Rs. 6,629 billion of domestic debt and Rs. 6,402 billion of foreign debt. Total foreign debt exposure to the total debt in 2019 was 49.1 per cent.

Table 11: Outstanding Government Debt (Rs. Bn)

Item	2017	2018	2019
Total Domestic Debt	**5,664**	**6,071**	**6,629**
Short Term	1,031	1,135	1,270
Medium & Long term	4,633	4,936	5,359
Total Foreign Debt	**4,719**	**5,959**	**6,402**
Concessional Loans	2,130	2,706	2,767
Multilateral	955	1,393	1,357
Bilateral	1,176	1,313	1,410
Non - Concessional Loans	560	269	312
Multilateral	243	59	113
Bilateral	317	210	199
Commercial Loans	2,028	2,985	3,323
Total Debt	**10,383**	**12,030**	**13,031**

Source: Central Bank of Sri Lanka

Government Debt Service Payments

Total government debt service payments amounted to Rs. 2,005.8 billion of which domestic debt service payments were Rs. 1,199.4 billion while the remaining Rs. 806.3 billion was foreign debt service payments. Total amortization payments was to Rs. 1,117 billion while interest payments were Rs. 889 billion.

Table 12: Government Debt Service Payments	
	Rs. Billion
Item	**2019**
Debt Service Payments	**2,006**
Domestic	1,199
Foreign	806
Amortization Payments	**1,117**
Domestic	545
Foreign	572
Interest Payment	**889**
Domestic	655
Short Term	105
Medium and Long Term	549
Foreign	234

Source: Department of Treasury Operations

8. External Finance and Trade

The external finance has suffered a setback in 2019 particularly due to the increased net outflow of foreign investment of US$ 334 million and a net outflow of US$ 35 million from the Colombo Stock Exchange (CSE) including primary and secondary market transactions.Contained trade deficit and increased inflows to the Government helped the improvement of the Balance of Payments (BOP) in 2019 with a surplus of US$ 377 million at end 2019, compared to a deficit of US$ 1,103 million at end 2018. Gross official reserves improved to US$ 7.6 billion at end 2019, compared to US$ 6.9 billion at end 2018. Earnings from tourism declined to US$ 3,592 million from US$ 4,381 million due to the drop in tourist arrivals by 18 per cent following the Easter Sunday attacks. However, the tourism sector rebounded in December 2019 with the improved security condition of the country and debt relief and social support provided for the sector. Workers' remittances declined by 4.3 per cent from US$ 7,015 million in 2018 to US$ 6,717 million in 2019.

Trade deficit contracted to US$ 7,997 million at end 2019 from US$ 10,343 million in 2018 reflecting the negative growth of imports and the marginal growth in exports. Earnings from exports marginally increased by 0.4 per cent from US$ 11,890 million in 2018 to US$ 11,940 million in 2019 due to the combined effect of the increase in textiles and garment exports by 5.2 per centand the drop in tea exports by 5.7 per cent. In contrast, total expenditure on imports in 2019 stood at US$ 19,937 million, a decline of 10.3 per cent compared to US$ 22,233 million in 2018 reflecting the decline in imports of food and beverages by 11.2 per cent, personal motor vehicles by 48.2 per cent, fuel by 6.3 per cent and investment goods by 1.9 per cent.

Table 13 : External Trade

US$ Million

Category	2017	2018	2019
Exports	**11,360.4**	**11,889.6**	**11,940.0**
Agricultural Products	**2,767.1**	**2,579.3**	**2,461.9**
Tea	1,529.8	1,428.5	1,346.4
Other Agricultural Products	1,237.4	1,150.8	1,115.5
Industrial Products	**8,541.9**	**9,258.2**	**9,426.3**
Textile and Garments	5,031.9	5,317.7	5,596.5
Rubber Products	835.4	875.3	866.1
Machinery and Equipment	370.8	434.8	400.0
Gem, Diamond and Jewellery	257.5	278.0	305.7
Food , Beverages and Tobacco	392.7	462.3	447.0
Petroleum Products	434.3	622.1	521.1
Other Industrial Products	1,219.3	1,268.0	1,289.9
Mineral	**34.5**	**34.4**	**33.9**
Other	**16.9**	**17.8**	**17.9**
Imports	**20,979.8**	**22,232.7**	**19,937.1**
Consumer Goods	**4,502.5**	**4,979.7**	**3,956.6**
Food and Drinks	1,841.1	1,606.1	1,426.9
Other Consumer Goods	2,661.4	3,373.6	2,529.7
Intermediate Goods	**11,435.8**	**12,488.0**	**11,369.6**
Petroleum	2,462.5	2,937.2	2,706.4
Fertilizer	102.8	261.6	221.4
Textiles and Clothing	2,724.2	2,858.5	2,909.4
Wheat and Maize	356.6	373.5	346.4
Other Intermediate Goods	5,789.7	6,057.2	5,186.0
Investment Goods	**4,894.7**	**4,690.4**	**4,602.6**
Machinery and Equipment	2,620.6	2,491.6	2,489.7
Transport Equipment	674.9	668.1	596.6
Building Material	1,591.4	1,524.5	1,508.7
Other Investment Goods	7.8	6.2	7.6
Other	**146.8**	**74.6**	**8.3**
Trade Balance	**(9,619.4)**	**(10,343.1)**	**(7,997.1)**

Sources: Department of Customs and Central Bank of Sri Lanka

9. Monetary Developments

An accommodative monetary policy stance was adopted by the Central Bank in 2019. The Statutory Reserve Ratio (SRR) applicable on all rupee deposit liabilities of commercial banks reduced by 1.00 percentage point to 5.00 per cent from 6.00 per cent in March 2019 to improve domestic money market liquidity. The Standing Deposit Facility rate (SDFR) and the Standing Lending Facility Rate (SLFR) also reduced by 50 basis points to 7.50 per cent and 8.50 per cent, respectively in May 2019. The SDFR and the SLFR rates reduced by 50 basis points to 7.00 per cent and 8.00 per cent, respectively in August 2019. However, market lending rates did not move downwards compared to market deposit rates which has promoted the Central Bank to impose temporary caps on lending rates in September 2019 while removing deposit rate caps on licensed banks. The SDFR and the SLFR further reduced by 50 basis points to 6.50 per cent and 7.50 per cent, respectively in January 2020.

Broad money increased (M^2b) by 7.0 per cent to Rs. 7,624 billion. Credit to public corporations increased by 8.3 per cent to Rs. 818 billion due to the weaker performance of such corporations. Credit to the private sector increased by 4.3 per cent to Rs. 5,798 billion in 2019, compared to Rs. 5,559 billion in 2018.

10. Capital Market Activities

The capital market continued to show a subdued performance in 2019. All Share Price Index (ASPI) marginally increased by 1.27 per cent to 6,129 points as at end 2019 from 6,052 points in 2018. However, AS&P SL 20 Index, which is the most liquid stocks, has moved down by 6.3 per cent to 2,937 points. Market capitalization increased marginally by 0.4 per cent to 2,851 points. The daily market turnover has averaged Rs. 711 million in 2019 from Rs. 834 million in 2018. Foreign sales significantly declined by 43.6 per cent to Rs. 56,537 million while foreign purchases declined by 12.7 per cent to Rs. 77,067 million.

Table 14: Share Market Indicators

Indicators	2017	2018	2019
All Share Price Index (1985=100)	6,369	6,052	6,129
S&P SL 20 Index*	3,672	3,135	2,937
Market Capitalization (Rs. Bn.)	2,899	2,839	2,851
No. of Listed Companies in Trading	296	297	289
Average Daily Turnover (Rs.Mn.)	915	834	711
Foreign Sales (Rs. Mn.)	94,627	100,315	56,537
Foreign Purchases (Rs. Mn)	112,285	77,067	68,272

Sources: Colombo Stock Exchange and Central Bank of Sri Lanka

11. Real Economy

Sri Lankan Economy grew at a rate of 2.7 per cent in the third quarter of 2019 compared to 3.5 per cent growth recorded in the same period of 2018 with a weaker performance in Agriculture, Industry and Services sectors. Agriculture, Industry and Services sector registered slower growth rates of 0.4 per cent, 3.3 per cent and 2.8 per cent, respectively in the third quarter of 2019. Tourism activities were adversely affected due to the Easter Sunday attacks. Industrial sector moderately expanded by the manufacturing of foods, beverages and tobacco, manufacturing of textiles and apparels and mining and quarrying. The Services sector remained the highest contributor to GDP with 60 per cent share in the third quarter of 2019 supported by the performance of wholesale, retail sale, transport services, financial services and real estate sub-sectors. Industry and Agriculture sectors contributed to GDP with shares of 26.8 per cent and 6.9 per cent, respectively.

12. Inflation

Inflation, as measured by the Colombo Consumer Price Index (CCPI) (2013=100) continued to remain single-digit levels in 2019. Headline inflation, as measured by the year-on-year change in the CCPI increased to 4.8 per cent in December 2019 from 2.8 per cent in December 2018. The inflation in April and May slightly increased and settled thereafter except September and October 2019. The headline inflation, as measured by the year-on-year change in the CCPI showed an uptick in January and February 2020 mainly due to the increased in food inflation driven by unfavourable weather condition prevailed during November- December 2019. However, core inflation based on both CCPI and NCPI remains below 4 per cent reflecting the subdued aggregate demand conditions. With the improvement of supply-side, vegetable prices declined sharply at the end of February. It is expected to anchor inflation expectations in mid-single digit levels in 2020.

13. Unemployment

The unemployment rate increased to 5.1 per cent in the third quarter of 2019, compared to 4.1 per cent in the same quarter of 2018 partly due to the weaker economic activities and declining external demand. The unemployment among females increased significantly to 8.5 per cent in the third quarter of 2019 from 6.6 per cent in comparison to 2018. Also, the male-unemployment rate increased to 3.3 per cent in the third quarter of 2019 from 2.8 per cent in the same period of 2018. The unemployment rate among the age group of 20-24 recorded a high rate of 23.1 per cent. It is anticipated to generate more employment opportunities in the medium term with the expansion of economic activities.

14. Vote on Account 2020

The Vote on Account (VoA) approved by Parliament on 23rd October 2019 has provided a total provision of Rs. 1,105 billion for the government expenditure of the first four months of 2020. The total allocated for the recurrent expenditure is Rs. 850 billion while Rs. 255 billion has been allocated for capital expenditure. The allocation for recurrent expenditure consists of Rs. 250 billion for salaries and wages and Rs. 360 billion for interest payment of loans. The total allocated for subsidies and transfers is Rs. 182.4 billion. The estimated total government revenue including grants for the four months is Rs. 745 billion which consists of an estimated tax revenue of Rs. 681 billion and non-tax revenue of Rs. 62 billion.

15. 2020 Budget Outlook

On the assumption that the economy is projected to grow at a rate of 4.0 percent in 2020, the pressure on the Budget deficit is expected to ease. However, with the inclusion of unpaid bills amounting to over 2 per cent of GDP which carried forward from 2019, the Budget deficit would rise to 7.5 per cent of GDP.

15.1 Revenue

The total revenue for the year 2020 as a whole is projected to be close to Rs. 1,775 billion with tax revenue of Rs. 1,565 billion and non-tax revenue of Rs. 200 billion. These revenue estimates are based on the assumptions that the economy would grow 4.0 per cent in 2020. It is expected that all three sub sectors of the economy would record growth rates close to 3.5 per cent. The expansion of cultivated land with the government initiative to cultivate abandoned paddy lands coupled with the guaranteed prices for most of the agricultural commodities, the agriculture sector is expected to rebound around 3.5 per cent in 2020. The expected bumper harvest of 2019/2020 Maha Paddy production, increased production in food crops such as maize, green gram, vegetables and fruits and the expansion in fisheries and livestock sectors are expected to boost agricultural production securing food availability of the country. With the revival of both domestic and external demand and improvements in the investor confidence due to the stable political environment, the manufacturing sector is expected to record a growth of around 3.5 - 4.5 per cent in 2020.

It is also expected that the relatively favourable interest rate structure and improved infrastructure facilities are conducive for investments. Though there is a marginal contraction at present, the revival in tourism and the associated demand for capital expenditure in the hotel sector by the private sector and public investment in road and water supply projects, the construction industry is expected to expand rapidly. Imports and exports are expected to revive with improvements expected in domestic trade and banking and finance, it is envisaged that the services sector will grow around 4.0 - 5.0 per cent in 2020. When the global economy recovering from the impact of COVID-19 Pandemic in the second half of 2020, it will give an impetus to port, aviation and insurance activities which will have a positive impact on the services sector.

When the global economy recover and the domestic demand and international commodity prices recover, it is expected that inflation measured by GDP deflator would be around 4.5 per cent. The road map already announced by the Central Bank of Sri Lanka to conduct monetary policy will help manage the targetted inflationary expectations. It is also expected that the price of crude oil to be below US$ 50 per barrel for the most of 2020. On this basis, government revenue is expected to be around 10.6 per cent of GDP in 2020 in comparison to 12.2 per cent in 2019.

15.2 Expenditure Estimates

Expenditure estimates have been prepared taking into consideration the approved expenditures in the Vote on Account, salaries for public servants, expenditure on existing subsidy and welfare programs, accumulation of unpaid bills, existing debt stock and interest rate structure and expenditures on ongoing and earmarked capital projects for 2020. The total expenditure for 2020 is estimated to be close to Rs. 3,030 billion which constitutes Rs. 2,420 billion of recurrent expenditure and Rs. 625 billion of public investment. Salaries and wages are estimated to be around Rs. 750 billion while the pension bill would be Rs. 245 billion. Considering that prevailing interest rates and exchange rates will not deviate significantly, the interest cost for 2020 is estimated at Rs. 960 billion. Transfers to Postal and Railway Department and other public corporations to cover their operational losses are estimated to be Rs. 48 billion, although part of these losses could be recouped through operational efficiency improvements.

Based on the existing commitments, it is assumed that foreign funds available for capital projects would be around US$ 1,250 million or about Rs. 227,043 billion. It is also envisaged that around Rs. 24,774 billion would be used as domestic funds to provide counterpart funds necessary for the foreign funded projects and domestically funded projects mainly covering the rural sector and rural regions including North and East.

15.3 Borrowings

It is expected that borrowings for 2020 on a net basis would be in the region of Rs. 1,257 billion. The total foreign borrowing on net basis would be Rs. 523 billion, while the balance will be barrowed domestically.

With these developments, it is expected that revenue deficit would expand to 3.8 per cent of GDP and the Budget deficit to around 7.5 per cent of GDP in 2020. Improvements in tax administration and public enterprise performance could improve this outlook further as actions or measures that may be taken in the 2020 Budget Outlook based on the current scenario which reflects no pressures on security related expenditure, stability in interest rates, improvements in the tax base, reflecting a favorable outlook, is given in Table 15.

Table 15 : Summary of Government Fiscal Operations

Rs. Billion

Item	2020 Estimate
Total Revenue and Grants	**1,775**
Total Revenue	**1,765**
Tax Revenue	1,565
Non Tax Revenue	200
Grants	10
Total Expenditure	**3,030**
Recurrent	**2,420**
Capital and Net Lending	**610**
Public Investment	625
Revenue Deficit (-)/Surplus (+)	**(655)**
Overall Budget Deficit (-)/Surplus (+)	**(1,255)**
As a % of GDP	
Revenue and Grants	10.6
Revenue	**10.6**
Tax	9.4
Non Tax	1.2
Grants	0.1
Expenditure	**18.1**
Current Expenditure	14.5
Capital Expenditure	5.7
Public Investment	3.7
Revenue Deficit (-)/Surplus (+)	**(3.9)**
Budget Deficit	**(7.5)**

Source: Department of Fiscal Policy

15.4 Statement of Risks

The risks affecting the performance of fiscal position in 2020 are categorized into:

- Potential policy decisions pertaining to the effect of revenue and expenditure.
- Risks associated with external factors as, international oil prices and commodity prices may change depending on the speed of the recovery of the global economy. If the declining international prices of tea and rubber continue, that may adversely affect the Balance of Payments and the real economy outlook for the remainder of 2020. Considering the world's geopolitical situation, it is expected that the oil prices will not push to a higher level.
- The weather condition in the country would have an effect on the production of agriculture and the generation of electricity that will impact on the food and electricity prices.
- Risks associated with future natural disasters.
- Risks related to the global economic growth particularly, in China, India and advanced economies such as the United States and the Euro economies.
- the risk to the world economy due to worsening COVID 19 pandemic and other possible health related issues.

The combined effect of these factors could slow down the economic growth and adversely impact on the interest rates, exchange rate, fiscal deficit and the level of government borrowings.

Fiscal Management (Responsibility) Act, No. 3 of 2003

Statement in terms of Section 19 (a)

I, Mahinda Rajapaksa, Prime Minister, as the Minister of Finance, do hereby state, that I have complied with the requirements of Section 18 of the Fiscal Management (Responsibility) Act, No. 3 of 2003, by disclosing to the Secretary-Ministry of Finance, Economic and Policy Development, the information required to be disclosed under that section for the purpose of preparation of the Pre-election Budgetary Position Report.

Mahinda Rajapaksa
Prime Minister as the Minister of Finance
Colombo, 20th March, 2020

Fiscal Management (Responsibility) Act, No. 3 of 2003

Statement in terms of Section 19 (b)

I, Sajith Ruchika Attygalle, Secretary – Ministry of Finance, Economic and Policy Development, in terms of the requirement imposed on me by Section 19 (b) of the Fiscal Management (Responsibility) Act, No. 3 of 2003 do hereby state that information contained in this Pre-election Budgetary Position Report to the fullest extent possible;

(i) Reflects the best professional judgment of the officers of the Ministry of Finance, Economic and Policy Development;

(ii) Takes into account all economic and fiscal information available to the Ministry of Finance, Economic and Policy Development;

(iii) Incorporates the fiscal implications of the Government decisions and circumstances disclosed to me by the Minister of Finance, Economic and Policy Development in terms of Section 18 of the said Act.

Sajith Ruchika Attygalle
Secretary, Ministry of Finance, Economic and Policy Development
Secretary to the Treasury
Colombo, 20th March, 2020

Annexure I: The list of Treasury Guarantees Issued by the General Treasury up to 31.012.2019

S. No	Name of the Bank or Institution	Name of Institution	Rs. Mn	Total
1	People's Bank	Ceylon Electricity Board	9,936.06	210,520.27
		Ceylon Petroleum Corporation	148,080.22	
		Ceylon Shipping Corporation Ltd	13,183.35	
		Lanka Coal Company (Pvt) Ltd	11,000.00	
		National Water Supply & Drainage Board	4,408.07	
		Paddy Marketing Board	2,846.71	
		Road Development Authority	17,377.17	
		State Printing Corporation	1,350.00	
		Sri Lanka Airlines Limited	2,338.68	
2	Bank of Ceylon	Building Materials Corporation Ltd	500.00	307,879.57
		Ceylon Petroleum Corporation	146,664.00	
		General Sir John KotelawalaDefence University	835.00	
		National School of Business Management Limited	8,600.00	
		National Water Supply & Drainage Board	47,877.32	
		Northsea Limited	50.00	
		Paddy Marketing Board	8,572.95	
		Road Development Authority	91,480.30	
		State Development and Construction Corporation	1,000.00	
		State EngineeringCorporation	2,300.00	

S. No	Name of the Bank or Institution	Name of Institution	Rs. Mn	Total
3	National Savings Bank	Ceylon Electricity Board	5,000.00	119,160.09
		General Sir John KotelawalaDefence University	35,037.18	
		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	
4	Commercial bank	National Water Supply & Drainage Board	1,929.61	7,878.42
		Road Development Authority	5,948.81	
5	DFCC Bank	National Water Supply & Drainage Board	6,026.24	12,132.09
		Road Development Authority	6,105.85	
6	Employees' Trust Fund Board	Lakdhanavi Ltd.	2,992.00	2,992.00
7	Exim Bank of China	Telecommunications Regulatory Commission of Sri Lanka	16,253.12	16,253.12
8	Hatton National Bank	Airport & Aviation Services (Sri Lanka) Limited	4,000.00	49,985.11
		National Water Supply & Drainage Board	22,041.57	
		Road Development Authority	23,943.54	
9	Hongkong& Shanghai Banking Co.Ltd.	Airport & Aviation Services (Sri Lanka) Limited	8,091.81	35,987.51
		West Coast Power(Pvt)Ltd.	27,895.70	
10	Industrial And Commercial Bank of China Limited	Ceylon Electricity Board	12,782.43	12,782.43

S. No	Name of the Bank or Institution	Name of Institution	Rs. Mn	Total
11	Japan International Coorporation Agency (JICA)	Airport & Aviation Services (Sri Lanka) Limited	126,564.18	126,564.18
12	National Development Bank	National Water Supply & Drainage Board	17,380.43	25,125.79
		Road Development Authority	7,745.36	
13	Exim Bank of India	National Water Supply & Drainage Board	47,060.81	47,060.81
14	China Development Bank	National Water Supply & Drainage Board	11,452.02	11,452.02
15	Asian Development Bank	Ceylon Electricity Board	85,248.45	85,248.45
16	Sampath Bank PLC	Road Development Authority	14,500.00	14,500.00
17	UniCredit Bank Austria AG	National Water Supply & Drainage Board	10,468.13	10,468.13
18	ING Bank, NV of Netherlands	National Water Supply & Drainage Board	17,161.09	17,161.09
19	Sri Lanka Insurance Corporation	Sri Lanka Insurance Corporation	2,199.96	2,199.96
20	China National chemical Engineering No 14 construction Co. Ltd	Ceylon Petroleum Corporation	8,025.27	8,025.27
21	DB Trustees (Hong Kong) Limited	Sri Lankan Airlines Limited	32,082.75	32,082.75
		Total	**1,155,459.05**	**1,155,459.05**